



Annual Report

1998/99

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Chairperson's Introduction

The Authority is pleased to present its report for the year ended 30 June 1999 in the belief that it has clearly met its statutory responsibilities over the year and, in so doing, has helped to further progress the implementation of competition reform within Queensland.

During the year under review – its second year of operation – the Authority has been involved in matters across the whole range of its statutory responsibilities. These are reported in appropriate detail later in this report. In bare outline, however, the following received attention:

- ◆ *Queensland Rail's Draft Access Undertaking*
- ◆ *Local Government's Implementation of Competition Reform*
- ◆ *Assessment of Ports' Business Activities for Compliance with Monopoly Criteria*
- ◆ *Water Pricing Principles*
- ◆ *Electricity and Gas Industry Regulation*
- ◆ *Competitive Neutrality*

At the same time, the Authority advanced its administrative procedures, adherence to which will ensure compliance with Queensland Government administrative standards and currently accepted best practice. Appropriate attention has been paid to Year 2000 computer issues.

Financially, operations were conducted within budget. There were some external delays in being able to commence or advance some projects so that all the envisaged consulting services were not employed during the year. They will be needed later as those matters proceed, so that the expenditure has only been delayed.

The statement that the Authority has met its responsibilities effectively is a clear acknowledgment of the high standard of work performed by the Chief Executive and his staff. A diverse range of very complex issues has been handled in a timely and highly professional way and the Authority members acknowledge the performance of the staff during a busy year.

During the year, Mr Ian White resigned as a member of the Authority due to his employment transfer overseas. He had made a substantial contribution to the deliberations of the Authority with objective consideration of issues based on his wide business experience. The Authority has been pleased to welcome Professor John Quiggin as Mr White's replacement. Professor Quiggin's expertise as a professional economist has been most relevant and constructive in the Authority's decision making. The conscientious and competent involvement of the other members of the Authority, Dr Darryl McDonough and Ms Jan Taylor, is also acknowledged.



R. M. Wylie
Chairperson
7 October 1999

The Authority

Goals and Functions

The Queensland Competition Authority (the Authority) was established by the *Queensland Competition Authority Act 1997* (the QCA Act).

The creation of the Authority arose out of a series of Council of Australian Governments agreements, which aimed to forge a national approach to the implementation of competition policy.

The Authority is an independent statutory authority consisting of members appointed by the Governor in Council. While the Authority is subject to the written direction of the Premier and the Treasurer (the Ministers) in performing its functions, it is not subject to direction by the Ministers in relation to the conduct of investigations, reports or decisions on access to services.

The Authority seeks to provide a recognised avenue whereby both government and third parties can rely on an independent, objective appraisal of the issues subject to its review. It also seeks to produce sensible, forward-looking solutions and recommendations which are capable of practical implementation and which facilitate compliance within Queensland with the principles of national competition policy.

Responsibilities

The Authority's main responsibilities are:

Monopoly Prices Oversight

"Government owned monopolies should not abuse their market power"

Monopoly prices oversight is a mechanism that seeks to ensure that government monopolies or near monopolies do not charge excessive prices for their products or services. Such monopolies may have the ability to charge excessively because they are not constrained by competitors, either because none exist or those that do are not effective.

Through the prices oversight process, the Authority either investigates the pricing practices of government monopolies or simply monitors the prices charged by them. Which of these particular functions is performed depends on the referral the Authority receives from the Ministers, as the Authority only performs these functions on request from the Ministers.

Competitive Neutrality

“Significant government business activities which compete with the private sector should do so fairly”

Simply stated, the principle of competitive neutrality requires that public sector business activities, which are in competition with the private sector, should not have competitive advantages or disadvantages by virtue of their government ownership or control.

The need for competitive neutrality is reinforced by the growth in competition between the public sector and the private sector resulting, in part, from the commercialisation and corporatisation of public sector activities.

The principle of competitive neutrality does not extend to competitive advantages or disadvantages arising from factors such as business size, skills, location or customer loyalty.

Third Party Access

“Essential infrastructure should be accessible to all potential users”

Third party access supports competition by enabling competitors (ie “third parties”) to access essential infrastructure which cannot be economically duplicated. Infrastructure which may meet this criteria includes electricity distribution grids, rail tracks and port channels.

In some markets, competition cannot occur until competitors have this type of access.

Third party access enables competitors to use essential infrastructure on commercial terms so that they can compete in related markets (such as electricity retailing and rail transport).

Other

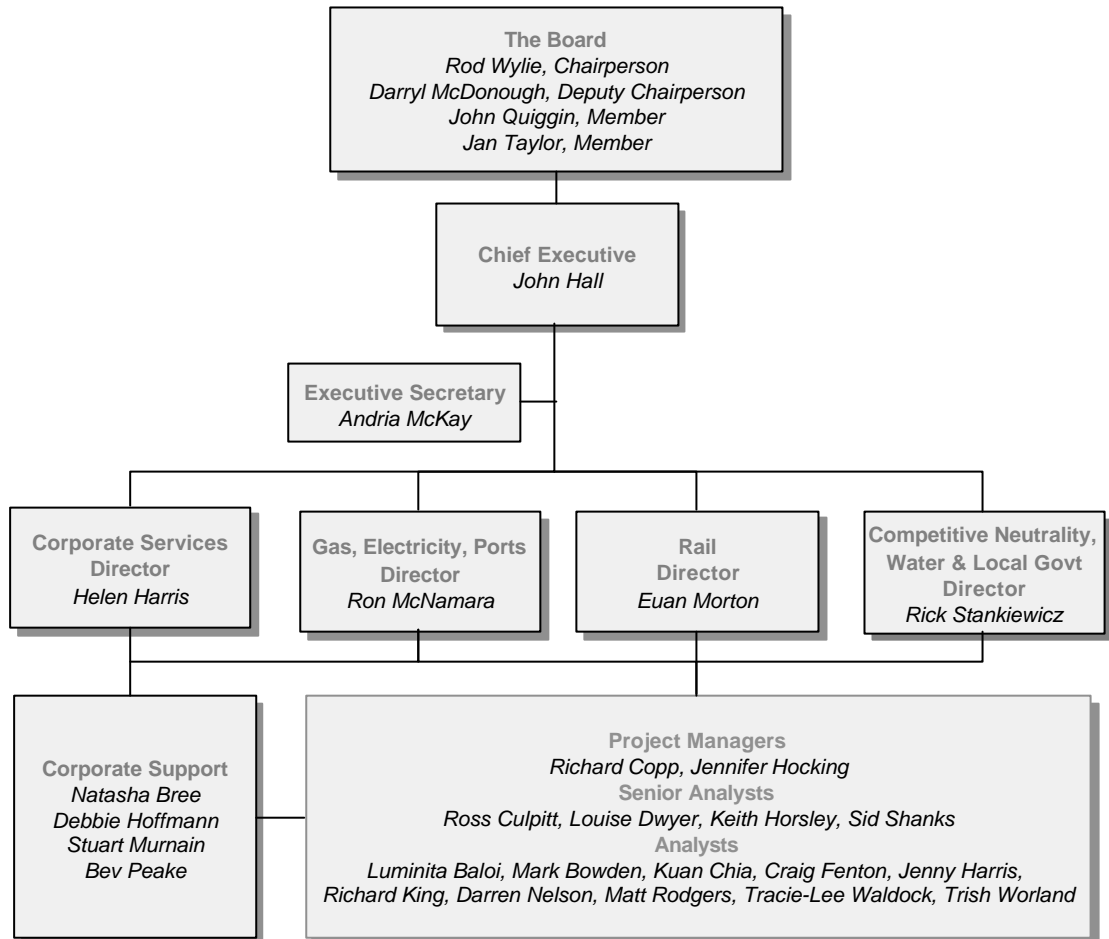
Under section 10(e) of the QCA Act, the Authority can be directed by the Ministers to examine and report to them on any matter relevant to the implementation of competition policy. In particular, the Authority has been charged with recommending levels of payments to councils under the Local Government Financial Incentive Payments Scheme.

Application

In undertaking its roles, the Authority currently is working within the following industries:

- ◆ Rail
- ◆ Local Government
- ◆ Ports
- ◆ Water
- ◆ Gas
- ◆ Electricity

Organisation Chart as at 30 June 1999



Members of the Authority

Under the QCA Act, the Authority is to consist of at least three members, each of whom may be appointed for a term not exceeding five years. In appointing a member, regard must be had to the desirability of the members collectively having knowledge and understanding of commerce, economics, the interests of consumers and the interests of the Government in government agencies that carry on business activities. There are currently four members, each of whom is appointed until 7 August 2001.

Mr Rod Wylie, OBE BComm BA FCA FAICD

Chairperson – Formerly senior partner of the Queensland practice of Peat Marwick Mitchell & Co Chartered Accountants, Mr Wylie is Chairman of Thiess Contractors Proprietary Limited, Deputy Chairman of Leighton Holdings Limited and a Director of AMP Limited. Mr Wylie was Chairman of Pauls Limited for approximately 20 years prior to its takeover. He is also a former Chairman of the Queensland Branch Council and former member of the National Council of both the Institute of Chartered Accountants in Australia and the Institute of Directors in Australia.

Dr Darryl McDonough, BBus LLB(Hons) SJD FCPA FAICD

Deputy Chairperson - Dr McDonough is a Brisbane partner of national law firm Clayton Utz, specialising in corporate matters. He is a Director of the Bank of Queensland Limited, a Director of Bond University Limited, a Trustee of the Brisbane Cricket Ground Trust and immediate past State President of the Australian Institute of Company Directors.

Professor John Quiggin, BA BEc MEc PhD FASSA

Member - Professor John Quiggin joined the Board in December 1998. He is an Australian Research Council Senior Research Fellow in Economics, currently based at James Cook University in Townsville. Prior to taking up this appointment, he worked at the Australian National University, the University of Maryland, the University of Sydney and the Australian Bureau of Agricultural and Resource Economics. Professor Quiggin is prominent both as a research economist and as a commentator on Australian economic policy.

Ms Jan Taylor, BA LLB

Member - Formerly Queensland's Commissioner for Consumer Affairs, Ms Taylor now manages a consultancy firm providing organisational and community consultation services to government and industry. She is currently on the board of the RACQ, Building Services Authority, Queensland Dairy Authority, Ports Corporation of Queensland and Wyatt Gallagher Bassett, and chairs the Australian Council of Businesswomen and Epilepsy Queensland Inc. Ms Taylor is also a member of the Y2K National Steering Committee.

Mr Ian White, BEcon (Hons) CPA FAICD

Member - Mr White resigned as a member in December 1998 upon his transfer to the USA. During his time as a member, Mr White was Chief Operating Officer for Australia of Queensland Cotton Corporation Limited. He had previously held chief executive level positions with Defiance Mills Limited and Grainco Cooperative Queensland Limited.

Senior Staff

Mr E John Hall, BCom BEcon AAUQ

Chief Executive - Mr Hall has substantial experience at chief executive level in both the public and private sectors, particularly in the areas of management, finance and public policy development and implementation.

From 1970 to 1990, he held a variety of senior positions in the Queensland Treasury, including that of Under Treasurer (Chief Executive) from 1988 to 1990. Subsequent to this, and until his appointment to the Authority, he was firstly Executive Director of major Queensland law firm Feez Ruthning and, upon its merger with national law firm Allen Allen and Hemsley, Queensland Practice Director of the merged firm.

He is a member of the board of Consolidated Rutile Limited and has held board positions with a variety of Queensland statutory bodies, including Suncorp Insurance and Finance, the Queensland Industry Development Corporation (Deputy Chairman), the Queensland Tourist and Travel Corporation, Queensland Events Corporation (Deputy Chairman), the North Queensland Enterprise Zone and the Workers' Compensation Board.

Ms Helen Harris, BComm GradDiplLegStud

Director, Corporate Services - Ms Harris has considerable experience in the finance, information technology, administration, personnel and legal fields. Across four different institutions within the university sector, she has held management roles in the areas of genome research, central administration and policy, supercomputer research, international marketing, law and distance education. Prior to this, Ms Harris spent some time in the banking sector.

Dr Ronald McNamara, BA (Economics) BA (Ecology) MA (Economics) PhD (Economics)

Director - Dr McNamara was previously with the Electricity Market Company Limited (New Zealand) where he was primarily responsible for the ongoing development of the wholesale and retail electricity markets. Between 1979 and 1995, Dr McNamara acted as a private consultant and lecturer in the areas of micro-economics, industrial organisation and regulatory economics at universities in the United States and New Zealand. [Dr McNamara ceased employment with the Authority in September 1999].

Mr Euan Morton, BCom LLB (Hons) BEcon (Hons)

Director – Mr Morton has substantial experience in competition reform, having been Principal Advisor - Regulation with the Queensland Electricity Reform Unit where he focused on developing the regulatory environment for the Queensland electricity supply industry in the deregulated market. Between 1992 and 1997, Mr Morton was with the Queensland Treasury where he managed the corporatisation process for Queensland Rail and the commercialisation process for DPI Forestry. During this time he also led the implementation of third party access and prices oversight reform in Queensland.

Mr Rick Stankiewicz, BEcon MEcon Studs

Director – Mr Stankiewicz has considerable experience in micro-economic reform. Previously a Director (micro-economics) with Queensland Treasury, Mr Stankiewicz was also an advisor to the Queensland Commission of Audit and, subsequently, a Director of the Audit Commission Implementation Office responsible for the economic portfolios. Mr Stankiewicz has also held various other roles involving structural reform and implementation.

The Year in Review

Rail

Late in 1998, Queensland Rail (QR) submitted a draft access undertaking to the Authority for its consideration. QR subsequently provided an amended version of this undertaking in January 1999, which was accompanied by an explanatory guide. QR's submission of the draft undertaking followed declaration of its rail transport infrastructure under Part 5 of the QCA Act (which deals with third party access).

Under the QCA Act, the Authority is required to assess the undertaking and decide whether or not to approve it. As part of the assessment process, the Authority has adopted a consultative approach which has now advanced with publication of the following documents:

- ◆ a Request for Comments paper which raised a number of issues relating to all aspects of the undertaking; and
- ◆ an Issues Paper on Asset Valuation, Depreciation and Rate of Return for QR.

The latter paper deals principally with issues relevant to the development of reference tariffs for the use of QR's rail transportation infrastructure for coal haulage, one of the significant issues to be addressed as part of the undertaking.

A number of high quality submissions have been received from a variety of respondents in response to these papers. The Authority is appreciative of the efforts of the interested parties who have made these submissions.

Local Government

Local Government Incentive Payments Scheme

In July 1998, the Authority was directed under s10(e) of the QCA Act to examine and report on the implementation of competition policy reforms by local governments, and to recommend to the Ministers levels of payment under the Local Government Financial Incentive Payments Scheme (the Scheme) over a five year period.

Under the Scheme, the State Government has allocated a total of \$141.5 million of the competition payments anticipated from the Commonwealth Government to local government, subject to the recommendations of the Authority.

The Scheme Guidelines, the *Local Government Act 1993* and the *Local Government Finance Standard 1994* outline the appropriate reforms for those local governments that choose to participate. The Authority's assessment process addresses both the legislative obligations and the underlying principles of competition reform.

As part of its initial assessment, the Authority:

- ◆ prepared and distributed Information Returns to all councils;
- ◆ arranged regional workshops, providing more than 30 councils with the opportunity to discuss the Authority's assessment process; and
- ◆ visited the 17 largest councils to discuss the particular requirements for large business activities.

The Authority submitted its first report to the Ministers on 30 November 1998.

Review of Local Government Public Benefit Assessment Reports

As part of its responsibilities for the Scheme, the Authority was required to review the Public Benefit Assessment (PBA) reports undertaken by local governments in respect of significant business activities where the relevant council proposed to implement less than the "benchmark" of commercialisation.

The PBAs reviewed included:

- ◆ Brisbane City Council waste management;
- ◆ Cairns City Council waste management;
- ◆ Cairns City Council water and sewerage;
- ◆ Maroochy Shire Council waste management;
- ◆ Noosa Shire Council water and sewerage; and
- ◆ Pine Rivers Shire Council water and sewerage.

The Authority forwarded its report to Ministers on 17 June 1999.

Ports

In late January 1999, the Authority was directed under s10(e) of the QCA Act to report on whether any activities conducted by the Port of Brisbane Corporation, the Townsville Port Authority, the Gladstone Port Authority, the Bundaberg Port Authority, the Rockhampton Port Authority, or the Ports Corporation of Queensland met the government monopoly business activity criteria developed by the Authority. According to the criteria, a government monopoly business activity is one:

- ◆ where there is the provision or supply of a product or service;
- ◆ the product or service is provided or supplied to external clients; and
- ◆ there is either an absence of vigorous rivalry and barriers to entry or there is evidence that the activity is exercising substantial market power which may include that it is earning an excessive return or would be earning an excessive return were it not operating inefficiently or is cross subsidising.

The reports on the Port of Brisbane Corporation, the Townsville Port Authority and the Gladstone Port Authority were delivered in March 1999. Those for Rockhampton and Bundaberg were delivered in May 1999. The report on the Ports Corporation of Queensland was due in July 1999.

Water

On 6 September 1998, the Ministers directed the Authority under s10(e) of the QCA Act to report by the end of September 1998 on the general pricing principles the Authority may adopt regarding monopoly prices oversight in the water sector.

The Authority's response to this direction was forwarded to the Ministers on 30 September 1998.

On 14 April 1999, the Ministers directed the Authority to:

- ◆ update, where necessary, its initial report on water pricing principles and address in the report water pricing issues for local governments; and
- ◆ conduct a consultation process to communicate and refine, where necessary, the principles and methodologies in the report.

The Authority commenced preliminary consultations in 1998/99 with key State Government agencies and the Local Government Association of Queensland. Preparation for the necessary work programme was also progressed.

Gas

The *Gas Pipelines Access (Queensland) Act 1998* confers upon the Authority the responsibility for approving third party access arrangements with respect to gas distribution networks in Queensland. While the Act was passed on 13 May 1998, it is to commence operation from a date yet to be proclaimed.

In anticipation of the Act becoming operational, the Authority established a Gas Access Working Group composed of representatives of the distribution networks and retailers as well as large and small users. The Group met several times in 1999 and discussed some of the important issues – including service definition, asset valuation, depreciation and cost allocation – that underlie the development of an access arrangement. As part of this work programme, the Authority released a Discussion Paper in May seeking public comment on Asset Valuation in Gas Distribution.

Electricity

The Authority's responsibilities with respect to electricity are set out in two separate sets of legislation:

First, the *Electricity – National Scheme (Queensland) Act 1997*, which commenced on 22 May 1997, gives effect to the National Electricity Code. The Code provides for the Authority to regulate distribution prices from 19 December 2000, to prepare ring-fencing guidelines and to undertake several other roles eg. with respect to network connection.

Second, the *Electricity Act 1994* provides that the Authority may prepare and enforce conduct rules, and requires the Authority to monitor standards of service quality if issued by the Minister for Mines and Energy.

The past year saw the Authority initiate its work programme in electricity focusing on the preparation of ring-fencing guidelines and preliminary work on the distribution price review.

Competitive Neutrality

Complaints

Both the QCA Act and the *Local Government Act 1993* provide for complaints to be made about government entities which are alleged not to comply with the principle of competitive neutrality.

During the year, the Authority received 23 enquiries relating to competitive neutrality issues. None of these enquiries resulted in formal complaint investigations.

For the Authority to be able to investigate a potential breach by a State government agency, the complaint must be directed against an activity which has been "declared" to be a significant business activity by gazette notice. Appendix 1 contains a list of declared significant business activities as at 30 June 1999.

The *Local Government Act 1993* provides that each council must establish a process for handling competitive neutrality complaints where its business activities are subject to competitive neutrality reforms. The Authority may be involved if a council has appointed it as referee in this process, or if a complainant seeks to appeal against the decision of a local government in respect of a complaint.

Throughout the year, a further eight councils appointed the Authority as referee for a total of 11 business activities. Therefore, as at 30 June 1999, 26 councils have appointed the Authority as their competitive neutrality complaints referee. The appointments cover 35 separate business activities, including roads, water and sewerage, and waste.

A complete list of local government nominations to act as competitive neutrality referee is contained in Appendix 2.

Accreditations

The QCA Act and the *Local Government Act 1993* provide for accreditation of certain government and local government business activities by the Authority for the purposes of removing doubt about whether the activity is conducted in accordance with competitive neutrality principles.

During the year, no applications for accreditation were received, although a number of preliminary enquiries were handled.

Corporate Matters

Corporate Governance

The Authority ascribes to the principles embodied in the concept of corporate governance. The Authority has implemented an administrative framework that supports sound cost effective business practices in:

- ◆ management structure and operations;
- ◆ management standards;
- ◆ control, monitoring and reporting;
- ◆ external accountability and compliance; and
- ◆ risk management.

Much of this framework is supported by separate internal policy documents and statements which are overseen by the Members of the Authority.

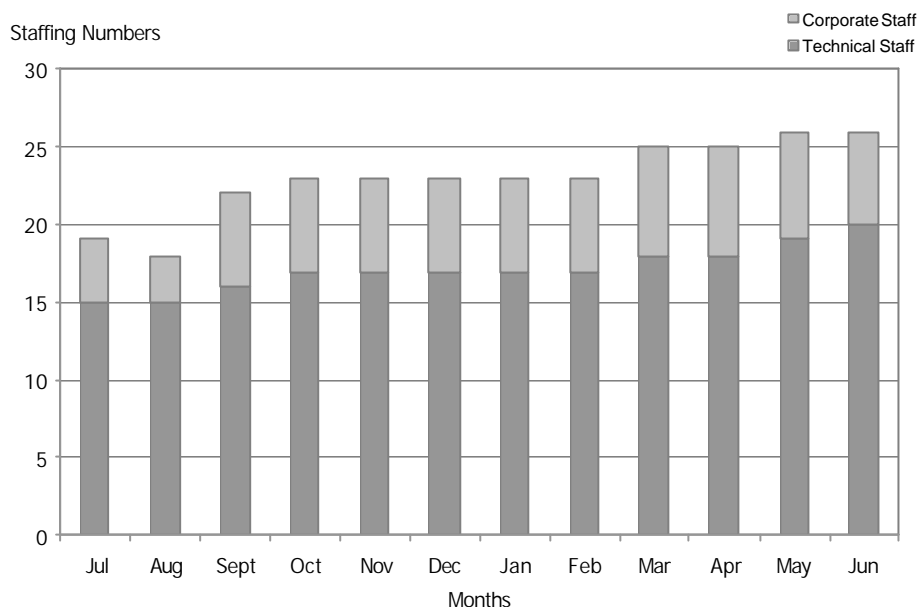
Information and knowledge are regarded as some of the Authority's most valuable assets and, accordingly, emphasis has been placed on protection of this information, as well as the maintenance of confidentiality where appropriate.

Staff are expected to behave in accordance with a strict code of conduct and the highest ethical standards are expected.

Staffing Levels

The number of permanent staff employed by the Authority as at 1 July 1998 was 19. As the workload of the Authority has increased, staff numbers have increased to meet this demand. Specialist services or additional staffing needs faced during times of peak activity have been filled through the use of temporary staff and consultants.

In addition, the corporate services function was further developed during this year in order to provide a more comprehensive support function for the technical activities of the Authority. A graph showing staff levels throughout the year is contained below.



Equal Employment Opportunities

The Authority strongly supports the principles behind equal employment opportunities and actively ensures that these principles are adhered to in the Authority's work environment. To the extent possible, the Authority supports part-time work, flexible working hours and the ability to work from home.

Staff Statistics as at 30 June 1999

	Total Staff	Male	Female	NESB ^(a)
Chief Executive	1	1	-	-
Directors	4	3	1	1
Project Managers	2	1	1	-
Senior Analysts	4	3	1	-
Analysts	10	6	4	1
IT Officer	1	1	-	-
Accounts Officer	1	-	1	-
Administrative & Secretarial Support	3	-	3	-
Total	26	15	11	2
Full-time Staff	22	15	7	2
Part-time Staff	4	-	4	-
Age				
15-24	0	-	-	-
25-34	13	7	6	1
35-44	8	5	3	-
45 +	5	3	2	1

^(a) Non English Speaking Background

Year 2000 Compliance Issues

A Year 2000 risk analysis has been prepared and implemented and the Authority is currently reviewing systems and suppliers for Year 2000 compliance. No significant issues have been encountered and all critical and important systems are fully compliant. Contingency plans are being developed in the event of a failure of critical systems, and will be finalised by 30 October 1999.

Freedom of Information

The Queensland Competition Authority is required to adhere to, and indeed supports, Freedom of Information (FOI) legislation.

One request for access to information under the *Freedom of Information Act 1992* was received on 19 August 1998 and this request was granted on 1 September 1998.

The Year Ahead

Rail

The Authority will continue its consultative assessment of QR's undertaking in order to release a draft determination. The timing of the draft determination will depend in part upon QR's submission of supplementary documentation in relation to the undertaking, including ring-fencing guidelines, scheduling and train control protocols and cost allocation arrangements.

The publication of the draft determination will provide interested parties with a further opportunity for comment. This feedback will be considered by the Authority in its preparation of a final determination, which is scheduled for release in the first half of 2000.

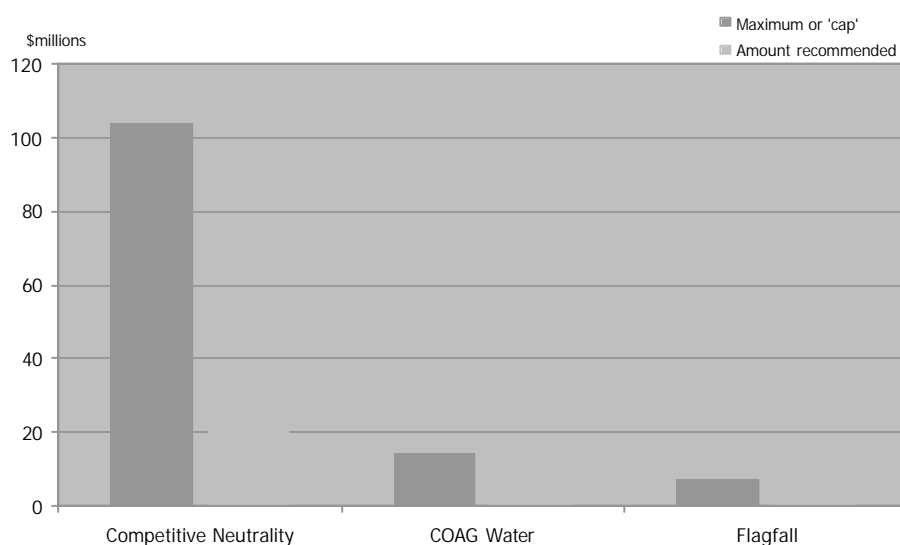
Local Government

The Authority will continue the assessment of councils' implementation of competition reforms under the Local Government Financial Incentive Payments Scheme (the Scheme).

Regional visits, to assist councils to better understand the requirements of competition reforms to be addressed under the Scheme and assist in the verification process, will be increased.

It is anticipated that there will be a far greater response from smaller councils in the 1999/2000 year than in the previous year.

Comparison of Five Year Maximum Allocation (\$millions) with the First Year's Payment Recommendations



Ports

Work will continue on the section 10(e) referral outlined in the Year in Review, with the report on the Ports Corporation of Queensland due in July 1999.

Water

Following the Ministerial Direction received in April 1999, the Authority anticipates that a draft report for the urban water sector, in the form of a draft Statement of Regulatory Pricing Principles, will be released for public and industry consultation in late 1999, with a final report to Ministers in early 2000.

Following this, the Authority will commence work on regulatory pricing principles for the rural water sector. A final report on pricing principles for the rural water sector is anticipated to be completed by June 2000.

Gas

The *Gas Pipelines Access (Queensland) Act 1998* is expected to be proclaimed in late 1999, triggering the commencement of an intense nine month work programme for the Authority. The four owners of covered pipeline networks (Dalby Town Council, Energex, Envestra and Roma Town Council) will have 90 days to submit their access arrangements to the Authority, which will then have six months to issue draft determinations and develop the final arrangements.

Electricity

The Authority has several regulatory responsibilities with respect to electricity that it will be addressing over the forthcoming year. The *Electricity Act 1994* provides for the Authority to prepare and enforce conduct rules, and to monitor standards of service quality if set by the Minister for Mines and Energy. The Authority intends to commence a review of the need for conduct rules early in 2000, and will also implement measures to monitor service standards should these be introduced.

The National Electricity Code provides for the Authority to regulate distribution prices from 19 December 2000, and requires the Authority to prepare ring-fencing guidelines for distribution entities. The Authority is already well advanced in its preparation of ring-fencing guidelines. The Authority will commence detailed work with respect to the distribution pricing review early in the year with a view to having a draft determination released around June 2000.

Competitive Neutrality

Complaints

The Authority has no influence on the number and timing of complaints it receives.

Referees

It is anticipated that the Authority will be appointed by a number of additional councils as the referee for significant water and sewerage, and waste business activities.

Accreditations

It is expected that some of the applications initially anticipated in 1998/99 will be lodged in 1999/2000. Additional applications are also likely, as the implementation of competition reforms becomes a catalyst for State and local government business activities seeking quality assurance for their compliance.

Corporate Matters

In 1999/2000, corporate services will continue to further develop systems, procedures and facilities that will contribute to organisational efficiency. The key objective of the corporate services team in the coming year will be to provide the best possible environment for staff to undertake the core business activities of the Authority.

Financial Statements

Operating Statement

for year ended 30 June 1999

	Notes	1999 \$	1998 \$
OPERATING REVENUE			
Government Grant		3,500,000	2,300,000
Interest & Miscellaneous Income		95,744	33,779
Total Operating Revenue		3,595,744	2,333,779
OPERATING EXPENSES			
Members' Fees	3	141,215	125,616
Staff and Related Costs	4	2,125,913	1,037,251
Other Operating Costs	5	921,531	438,225
Total Operating Expenses		3,188,659	1,601,092
OPERATING SURPLUS		407,085	732,687

Statement of Financial Position

as at 30 June 1999

	Notes	1999 \$	1998 \$
CURRENT ASSETS			
Cash	6	1,085	29,141
Investments	6	1,999,367	1,381,734
Receivables	7	0	21,640
Prepayments		32,753	30,852
Total current assets		2,033,205	1,463,367
NON CURRENT ASSETS			
Prepayments		5,650	7,757
Property, Plant & Equipment	8	962,584	930,408
Total non current assets		968,234	938,165
Total Assets		3,001,439	2,401,532
CURRENT LIABILITIES			
Creditors	9	110,177	62,115
Provisions	10	108,821	53,272
Total current liabilities		218,998	115,387
NON CURRENT LIABILITIES			
Provisions	10	162,890	73,679
Total non current liabilities		162,890	73,679
Total Liabilities		381,888	189,066
NET ASSETS		2,619,551	2,212,466
EQUITY			
Capital	11	1,579,027	1,579,027
Accumulated Result from Operations	12	1,040,524	633,439
Total Equity		2,619,551	2,212,466

Statement of Cash Flows

for year ended 30 June 1999

	Notes	1999 \$	1998 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Operating Grant		3,500,000	2,300,000
Interest & Miscellaneous Income		95,744	33,779
		3,595,744	2,333,779
Outflows:			
Members' Fees		(140,340)	(125,616)
Staff Related Expenses		(1,965,326)	(1,013,704)
Other Operating Costs		(704,428)	(383,701)
		(2,810,094)	(1,523,021)
Net cash used in operating activities	<i>13(a)</i>	785,650	810,758
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows:			
Property, Plant & Equipment		(196,073)	(958,883)
Net cash used in investing activities	<i>13(b)</i>	(196,073)	(958,883)
CASH FLOWS FROM FINANCING ACTIVITIES			
Inflows:			
Capital Grant		0	1,559,000
Net cash provided in financing activities		0	1,559,000
Net increase in cash held		589,577	1,410,875
Cash at beginning of reporting period		1,410,875	Nil
Cash & Investments at end of reporting period		2,000,452	1,410,875

Notes to and Forming Part of the Financial Statements

for the year ended 30 June 1999

Note 1: Objective

The Queensland Competition Authority (the "Authority") is a statutory body established under the *Queensland Competition Authority Act 1997*. Its aim is to perform specified services associated with national competition policy in Queensland. Broadly, the Authority is responsible for:

- subject to reference or declaration by the Ministers (the Premier and the Treasurer), undertaking prices oversight of monopoly or near monopoly Government business activities;
- receiving and investigating competitive neutrality complaints against significant government and local government business activities;
- accrediting significant government and local government business activities as complying with the principle of competitive neutrality;
- overseeing and arbitrating third party access to infrastructure;
- undertaking such other activities relating to national competition policy as the Ministers may direct.

Note 2: Summary of Significant Accounting Policies

a) Basis of Preparation:

The financial statements have been prepared in accordance with the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997*.

As a statutory body under the *Financial Administration and Audit Act 1977*, the Authority is required to prepare general purpose financial statements in accordance with professional Statements of Accounting Concepts, Urgent Issues Group Abstracts and Australian Accounting Standards. Unless otherwise stated, the accounting policies have been consistently applied.

b) Revenue and Expenses

The accrual basis of accounting has been used, i.e. revenues are recognised when earned and expenses recognised when incurred.

Salary and related staff costs include salaries, entitlements, recruitment costs, staff training and other costs.

These are recognised on an accrual basis and include relevant oncosts.

c) Leasing

Operating leases are those where the risk of ownership is retained by the lessor.

Operating lease costs are charged to the Operating Statement in the periods in which they are incurred. The Authority also leases motor vehicles which are part of employees' remuneration packages and therefore lease expenses for those vehicles are included with Employee Expenses. The Authority does not have any finance leases.

d) Property, Plant & Equipment

Property, plant & equipment is included in the financial statements at cost less depreciation to date. Where assets are acquired, they are valued at their cost of acquisition, including all expenses incidental to the purchase and necessary to have the asset ready for use.

Items or components which form an integral part of an asset are recognised as a single asset.

In accordance with Queensland State Government's policy titled *The Recording and Valuation of Non-Current Physical Assets in the Queensland Public Sector*, the deprival value basis of accounting has been employed in preparing these financial statements. The revaluation threshold has been set at \$250,000.

Depreciation of property, plant and equipment is calculated on a straight line basis based on estimated useful life. The following depreciation rates have been used:

Office Equipment:	20% to 33%
Computer Equipment:	33%
Furniture & Fixtures:	10% to 33%

Notes to and Forming Part of the Financial Statements (cont'd)

for the year ended 30 June 1999

e) Employee Entitlements:

Liabilities for annual leave are based on current rates including related oncosts.

Liabilities for long service leave are recognised, and are measured, by the use of the shorthand method determined by the Queensland State Actuary in accordance with *Accounting Policy Guideline No. 14* issued by the Queensland Treasury Department.

No liabilities are recorded for non-vesting sick leave, as it is expected that the sick leave taken in future reporting periods will not be greater than entitlements which are expected to accrue in those periods. The Authority has no vesting sick leave.

f) Taxation:

The Authority is exempt from the payment of income tax under section 24AQ of the *Income Tax Assessment Act 1936* and sales tax under Item 126A in Schedule 1 to the *Sales Tax (Exemptions & Classifications) Act 1992*.

g) Superannuation:

Contributions to superannuation meet the minimum requirements of the *Superannuation Guarantee (Administration) Act 1992*.

h) Comparative Figures:

Some comparatives have been re-cast to maintain consistency in presentation but remain essentially the same as were stated in last year's financial statements.

Note 3: Members' Fees

Members' fees are determined by the Governor in Council.

Note 4: Staff and Related Costs

	1999	1998
	\$	\$
Salaries & related costs	1,855,680	800,225
Provision for employee entitlements accrued at QCA	72,860	27,703
Provision for employee entitlements assumed from prior service	71,900	0
Staff recruitment costs	52,170	172,066
Staff training costs	68,743	21,221
Other staff costs	4,560	16,036
Total	2,125,913	1,037,251

Note 5: Other Operating Costs

	1999	1998
	\$	\$
Occupancy costs (including operating lease rentals)	235,106	135,930
Consultancy fees	70,505	103,375
Depreciation	163,896	54,461
Information technology costs	107,170	41,496
Travel & accommodation costs	60,025	12,746
Auditors remuneration	5,250	3,750
Other costs	279,579	86,467
Total	921,531	438,225

Notes to and Forming Part of the Financial Statements (cont'd)

for the year ended 30 June 1999

Note 6: Cash & Investments

Cash at bank and investments with Queensland Treasury Corporation (QTC) are deposited at call and can be redeemed at short notice at their face value.

Effective rates of interest as at 30 June:	1999	1998
Cash at bank	3.5%	3.75%
Investment	4.81%	5.24%

Note 7: Receivables

These amounts are recorded at face value and have a short maturity. The Authority is not exposed to any known credit risk.

Note 8: Property, Plant & Equipment

	1999	1998
	\$	\$
Office equipment	122,714	92,685
Less: Accumulated depreciation	(33,436)	(10,422)
	89,278	82,263
Computer equipment	226,102	73,164
Less: Accumulated depreciation	(67,381)	(14,222)
	158,721	58,942
Furniture & fittings	832,126	819,020
Less: Accumulated depreciation	(117,541)	(29,817)
	714,585	789,203
Total	962,584	930,408

Note 9: Creditors

	1999	1998
	\$	\$
Audit fees payable	4,500	3,750
Trade creditors	74,510	45,550
Accrued expenses	31,167	12,815
Total	110,177	62,115

The creditors have short maturity and are recorded at their face value. No security has been given in support of them.

Note 10: Provisions

	1999	1998
	\$	\$
<i>Current</i>		
Employee entitlements accrued at the Authority	77,581	25,494
Employee entitlements related to prior public service employment	31,240	27,778
Total	108,821	53,272
<i>Non-Current</i>		
Employee entitlements accrued at the Authority	22,982	2,208
Employee entitlements related to prior public service employment	139,908	71,471
Total	162,890	73,679

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 1999

Note 11: Capital	1999	1998
	\$	\$
Establishment grant	1,559,000	1,559,000
Contributed assets	20,027	20,027
Total	1,579,027	1,579,027

Note 12: Accumulated result carried forward	1999	1998
	\$	\$
Accumulated operating surplus at beginning of reporting period	633,439	0
Operating surplus for current reporting period	407,085	732,687
Accumulated operating surplus at end of reporting period	1,040,524	732,687
Employee entitlements assumed	0	(99,248)
Total	1,040,524	633,439

Note 13: Notes to the Statement of Cash Flows	1999	1998
	\$	\$
a) <i>Reconciliation of operating surplus to net cash provided by operating activities</i>		
Operating surplus	407,085	732,687
Add depreciation	163,896	54,461
<i>Changes in assets and liabilities</i>		
Decrease/(increase) in receivables	21,640	(21,640)
Decrease/(increase) in prepaid expenses	206	(38,609)
Increase in employee entitlements	144,761	27,703
Increase in creditors and accruals	48,062	56,156
Net cash provided by operating activities	785,650	810,758

b) <i>Reconciliation of increase in property, plant & equipment to net cash used in investing activities</i>		
Property, plant & equipment (net) as at 30/6/99	32,177	930,408
Add depreciation	163,896	54,461
<i>Changes in assets and Liabilities</i>		
Equipment creditor at 30/6/99	0	(5,959)
Contributed assets	0	(20,027)
Net cash used in investing activities	196,073	958,883

c) For the purposes of this statement, cash includes cash at bank and investments. Cash at the end of the year as shown in the cash flows equals the cash and investments as disclosed in the balance sheet.

d) The Authority has no unused credit, standby credit or loan facilities.

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 1999

Note 14: Operating Lease Commitments

The offices occupied by the Authority are subject to an operating lease which commenced on February 16, 1998 and expires on February 15, 2003.

Future operating lease rentals not provided for in the financial statements are payable as follows:	1999 \$	1998 \$
Not later than one year	202,770	202,770
Later than one year but not later than two years	212,075	202,770
Later than two years but not later than five years	372,486	573,459
Later than five years	0	0
Total commitments	787,331	978,999
Rental expense included in the determination of the operating result	203,395	100,145

Note 15: Year 2000 Compliance

The Authority established a Year 2000 Project to facilitate and coordinate the Year 2000 activities including modification of existing computer programs and the development of contingency plans to ensure continuity of critical operating systems. All systems, to the best of the Authority's knowledge, are Year 2000 compliant.

Contingency plans are currently being finalised and all necessary testing of the contingency plans is expected to be completed by 30 October 1999.

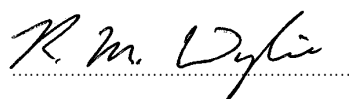
Claims relating to year 2000 problems are excluded from the Authority's insurance policies.

Note 16: The Authority has no known Contingent Liabilities not disclosed elsewhere in the Notes.

Certificate of the Queensland Competition Authority

The foregoing financial statements have been prepared pursuant to the *Financial Administration and Audit Act 1977* and other prescribed requirements. We certify that -

- (a) the statements together with the other information and notes to and forming part thereof are in the form required by the Treasurer and are in agreement with the accounts of the Authority; and
- (b) in our opinion -
 - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) statements have been drawn up so as to present a true and fair view of the transactions and cash flows of the Authority for the period 1 July 1998 to 30 June 1999, and of the financial position as at 30 June 1999.



RM Wylie
Chairman
7 October 1999



EJ Hall
Chief Executive
7 October 1999

Independent Audit Report

Chairman and Members of the Authority

Scope

I have audited the financial statements of Queensland Competition Authority for the year ended 30 June 1999. The financial statements comprise the Operating Statement, Statement of Financial Position, Statement of Cash Flows, Notes to and forming part of the financial statements and certificates given by the Chairperson and person responsible for financial administration as required by the *Financial Administration and Audit Act 1977*.

The Authority is responsible for the preparation and the form of presentation of the financial statements and the information they contain. I have audited the financial statements in order to express an opinion on them.

The audit has been conducted in accordance with *QAO Auditing Standards* which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included the examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with prescribed requirements which include Australian Accounting Standards so as to present a view which is consistent with my understanding of the entity's financial position and the results of its operations and its cash flows.


The year 2000 issue has been addressed only in the context of my existing audit responsibility under Australian Accounting Standards to express an opinion on the financial statements. Plans and associated actions to address the year 2000 issue have been reviewed for action taken to date, but the adequacy of those plans has not been assessed. Accordingly, the audit of the financial statements does not provide specific assurance, nor is a specific opinion expressed that the systems of Queensland Competition Authority or other systems such as those of suppliers, vendors, service providers, customers, associates, joint venture parties or third parties are year 2000 compliant.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In accordance with the provisions of the *Financial Administration and Audit Act*, I certify that I have received all the information and explanations I have required and, in my opinion:

- the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
- the statements have been drawn up so as to present a true and fair view in accordance with prescribed accounting standards and other prescribed requirements of the transactions of Queensland Competition Authority for the financial year ended 30 June 1999 and of the financial position as at the end of that year.



M R Hyman
Director of Audit
(as Delegate of the Auditor-General)



Queensland Audit Office
Brisbane

Appendices

1. List of Declared Significant Business Activities

For the Authority to be able to investigate a potential breach of the principle of competitive neutrality by a State government agency, a complaint must be directed against a government activity which has been “declared” to be a significant business activity by gazette notice. Below is a list of declared significant business activities. The list is current at 30 June 1999.

Significant Business Activity	Relevant Government Agency	Date of Declaration
All the business activities of Queensland Generation Corporation	Queensland Generation Corporation	1 July 1997
All the business activities of AUSTA Energy Corporation	AUSTA Energy Corporation	1 July 1997
All the business activities of Stanwell Corporation	Stanwell Corporation	1 July 1997
All the business activities of Tarong Energy Corporation	Tarong Energy Corporation	1 July 1997
All the business activities of C S Energy	C S Energy	1 July 1997
All the business activities of Queensland Transitional Power Trading Corporation	Queensland Transmission and Supply Corporation	1 July 1997
All the business activities of Capricornia Electricity Corporation	Capricornia Electricity Corporation	1 July 1997
All the business activities of Far North Queensland Electricity Corporation	Far North Queensland Electricity Corporation	1 July 1997
All the business activities of Mackay Electricity Corporation	Mackay Electricity Corporation	1 July 1997
All the business activities of Queensland Electricity Transmission Corporation	Queensland Electricity Transmission Corporation	1 July 1997
All the business activities of South East Queensland Electricity Corporation	South East Queensland Electricity Corporation	1 July 1997
All the business activities of South West Queensland Electricity Corporation	South West Queensland Electricity Corporation	1 July 1997
All the business activities of Wide Bay - Burnett Electricity Corporation	Wide Bay - Burnett Electricity Corporation	1 July 1997
All the business activities of Southern Electricity Retail Corporation	Southern Electricity Retail Corporation	1 July 1997
All the business activities of Northern Electricity Retail Corporation	Northern Electricity Retail Corporation	1 July 1997
All the business activities of Central Electricity Retail Corporation	Central Electricity Retail Corporation	1 July 1997
All the business activities of DPI Forestry	Department of Primary Industries	1 July 1997
All the business activities of State Water Projects	Department of Natural Resources	1 July 1997
All the business activities of CITEC	Department of Public Works and Housing	1 July 1997
All the business activities of GOPRINT	Department of Public Works and Housing	1 July 1997
All the business activities of Queensland Property Management (QPM)	Department of Public Works and Housing	1 July 1997
All the business activities of Project Services	Department of Public Works and Housing	1 July 1997
All the business activities of Sales and Distribution	Department of Public Works and Housing	1 July 1997
All the business activities of Cairns Port Authority	Cairns Port Authority	1 July 1997
All the business activities of Gladstone Port Authority	Gladstone Port Authority	1 July 1997
All the business activities of Mackay Port Authority	Mackay Port Authority	1 July 1997
All the business activities of Port of Brisbane Corporation	Port of Brisbane Corporation	1 July 1997
All the business activities of Ports Corporation of Queensland	Ports Corporation of Queensland	1 July 1997
All the business activities of Rockhampton Port Authority	Rockhampton Port Authority	1 July 1997
All the business activities of Townsville Port Authority	Townsville Port Authority	1 July 1997
All the business activities of Queensland Rail	Queensland Rail	1 July 1997
All the business activities of Road Transport Construction Service	Department of Main Roads	1 July 1997
All the business activities of Plant Hire Service	Department of Main Roads	1 July 1997
All the business activities of Queensland Investment Corporation	Queensland Investment Corporation	1 July 1997
All the business activities of North Queensland Electricity Corporation Limited	North Queensland Electricity Corporation Limited	19 Sept 1997
All the business activities of Bundaberg Port Authority	Bundaberg Port Authority	19 Sept 1997
All the business activities of Golden Casket Lottery Corporation Limited	Golden Casket Lottery Corporation Limited	19 Sept 1997

2. List of Local Government Nominations of Authority to act as Competitive Neutrality Referee

Under the *Local Government Act 1993*, councils may resolve to appoint the Authority as their referee for the hearing of competitive neutrality complaints against specified local government business activities. Below is a list of the councils which have appointed the Authority as their competitive neutrality referee for various business activities. The list is current as at 30 June 1999.

Local Government	Business Activity
Barcaldine Shire Council	Roads
Belyando Shire Council	Roads
Blackall Shire Council	Roads
Broadsound Shire Council	Roads
Caloundra City Council	Water and Sewerage
Cambooya Shire Council	Roads
Chinchilla Shire Council	Roads
Cooloola Shire Council	Roads
Crows Nest Shire Council	Roads
Dalrymple Shire Council	Roads
Duaringa Shire Council	Roads
Gladstone City Council	Roads
Hervey Bay City Council	Roads Water and Sewerage
Livingstone Shire Council	Roads
Logan City Council	Water and Sewerage Waste
Mackay City Council	Roads Water and Sewerage
Mount Isa City Council	Roads
Murilla Shire Council	Roads
Noosa Shire Council	Water and Sewerage
Paroo Shire Council	Roads
Pine Rivers Shire Council	Water and Sewerage
Redland Shire Council	Roads Water and Sewerage Waste
Rockhampton City Council	Roads Water and Sewerage
Rosalie Shire Council	Roads
Thuringowa City Council	Roads Water and Sewerage
Townsville City Council	Roads Water and Sewerage Waste Services

3. Staff List

as at 30 June 1999

Project Managers

Richard Copp, BCom (Hons) BEcon LLB PhD (Economics)

Jennifer Hocking, BEcon (Hons)

Senior Analysts

Ross Culpitt, BEcon

Louise Dwyer, BEcon MEcon St

Keith Horsley, BEcon CPA

Sid Shanks, BEcon

Analysts

Luminita Baloi, BSc(Maths), GradDip StatOR

Kuan Chia, BCom

Mark Bowden, BEcon BSc

Craig Fenton, BEcon

Jenny Harris, BA (Econ/Polit.), MA (Econ-Hons)

Richard King, BEcon (Hons)

Darren Nelson, BEcon (Hons)

Matt Rodgers, BEcon

Tracie-Lee Waldock, BBus

Trish Worland, BA, MEcon

Administration

Natasha Bree, Receptionist

Debbie Hoffmann BBus, **Accounts Officer**

Andria McKay, Executive Secretary

Stuart Murnain, IT Officer

Bev Peake, Librarian/Office Assistant

4. Legislative Provisions

The Authority's legislative responsibilities can be found in:

- ◆ *The Queensland Competition Authority Act 1997*
- ◆ *The Local Government Act 1993*
- ◆ *The Electricity Act 1994*
- ◆ *The Electricity – National Scheme (Queensland) Act 1997*
- ◆ *The Gas Pipelines Access (Queensland) Act 1998*

5. Publications

During 1998/99 the Authority released the following publications. Printed copies of public reports are available from the Authority's office or in PDF format from the Authority's website at www.qca.org.au.

<i>Release Date</i>	<i>Title</i>
<i>Public Reports</i>	
October 1998	1997/98 Annual Report
February 1999	Guidelines for Complaints and Applications for Accreditation [Competitive Neutrality]
April 1999	Queensland Rail Draft Undertaking – Request for Comments
May 1999	Queensland Rail - Draft Undertaking Asset Valuation, Depreciation & Rate of Return [Issues Paper]
May 1999	Asset Valuation in Gas Distribution [Discussion Paper]
<i>Reports to Government</i>	
September 1998	General Principles for Monopoly Prices Oversight of Water Prices
November 1998	Local Government Competition Policy Financial Incentive Payments Scheme – Recommendations for Payments for Reforms effected during the year ended 31 July 1999
March 1999	Do Any of the Services Provided by the Port of Brisbane Corporation constitute Government Monopoly Business Activities?
March 1999	Do Any of the Services Provided by the Gladstone Port Authority constitute Government Monopoly Business Activities?
March 1999	Do Any of the Services Provided by the Townsville Port Authority constitute Government Monopoly Business Activities?
May 1999	Do Any of the Services Provided by the Bundaberg Port Authority constitute Government Monopoly Business Activities?
May 1999	Do Any of the Services Provided by the Rockhampton Port Authority constitute Government Monopoly Business Activities?
June 1999	Review of Local Government Public Benefit Assessments – Findings & Recommendations

6. Consultants

Total expenditure on consultants during 1998/99 was \$70,505. All expenditure was in the category of professional and technical consultancies. All consultancies were within budget.

Consultant Numbers by Value

	<i>No. of Consultants</i>
Less than \$10,000	5
\$10,001 - \$100,000	2
More than \$100,000	0
<i>Total</i>	7

7. Other Issues

Overseas Visits

One overseas trip was undertaken to New Zealand for industry comparison.

Meetings of the Authority

Meetings of the Authority were attended by all members during 1998/99, with the exception of the meeting on 15 June when Professor Quiggin was unable to attend as he was overseas. Meeting dates were as follows:

<i>1998</i>	<i>1999</i>
7 July	11 February
4 August	11 March
9 September	16 March*
15 October	14 April
17 November	13 May
11 December	15 June

**out of session*

Details of Annual Report Production

500 copies of this report have been printed at an average cost of \$6.24 per copy. Extra copies may be obtained from the Authority's office. A copy of this report is available in PDF format on the Authority's website at www.qca.org.au.

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