



ICRC

INDEPENDENT COMPETITION AND REGULATORY COMMISSION



**INDEPENDENT COMPETITION AND REGULATORY
COMMISSION**

ANNUAL REPORT

1 JULY 2000 to 30 JUNE 2001

September 2001

The Independent Competition and Regulatory Commission

The Commission is established by the *Independent Competition and Regulatory Commission Act 1997* to determine prices for regulated industries, approve access arrangements and arbitrate disputes on access to infrastructure. The Commission also provides advice on competitive neutrality complaints and on government regulated activities.

The Commission also has responsibilities under the *Utilities Act 2000*. Under the Act the Commission licences utility services in the Territory. It also ensures compliance with the legislation, Codes and licence conditions, approves industry codes of practice and the form of standard customer contracts.

The Commission has three standing commissioners.

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TRANSMITTAL LETTER



ICRC

INDEPENDENT COMPETITION AND REGULATORY COMMISSION

Mr Gary Humphries MLA
Treasurer
ACT Legislative Assembly
London Circuit
CANBERRA ACT 2601

Dear Treasurer

I am pleased to submit to you the Annual Report of the Independent Competition and Regulatory Commission for the year ending 30 June 2001.

I certify that this Report is a fair and honest account of the operations of the Commission in the reporting period. This Report has been prepared in response to section 9 of the *Independent Competition and Regulatory Commission Act 1997*, which requires the Commission to report in accord with section 8(5)(a) of the *Annual Reports (Government Agencies) Act 1995*. The Report conforms to the requirements in the Chief Minister's Annual Report Directions.

Section 14 of the *Annual Reports (Government Agencies) Act 1995* requires that a copy of the Annual Report is laid before the Legislative Assembly within six sitting days of receiving the Report

Yours sincerely

Paul Baxter
Senior Commissioner



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1 OVERVIEW AND MAJOR ACHIEVEMENTS

1.1 *Organisational profile*

1.1.1 Objectives

The Commission's objectives are defined in the *Independent Competition and Regulatory Commission Act 1997* and the *Utilities Act 2000*. The objectives set out in the Independent Competition and Regulatory Commission Act 1997 relate to industry pricing and access to infrastructure, competitive neutrality and government regulated activities. The objectives in section 7 of the Act are to:

- (a) promote effective competition in the interests of consumers;
- (b) facilitate an appropriate balance between efficiency and environmental and social conditions;
- (c) ensure non-discriminatory access to monopoly and near-monopoly infrastructure.

In section 3 of the Utilities Act those concerns are reflected and others added, as follows:

- (a) to encourage the provision of safe, reliable, efficient and high quality utility services at reasonable prices;
- (b) to minimise the potential for misuse of monopoly power in the provision of utility services;
- (c) to promote competition in the provision of utility services;
- (d) to encourage long-term investment, growth and employment in utility services;
- (e) to promote ecologically sustainable development in the provision of utility services;
- (f) to protect the interests of consumers;
- (g) to ensure that advice given to ICRC by the council, or the chief executive under Part 5 (Technical Regulation), is properly considered;
- (h) to ensure the Government's programs about the provision of utility services are properly addressed;
- (i) to give effect to directions of the Minister under section 19 [section 19 directions may only be given to ensure the achievement of the objects set out in the subsections (a) to (h) above].

1.1.2 Legislative framework and operational environment

The principal Acts under which the Commission operates are the *Independent Competition and Regulatory Commission Act 1997* and the *Utilities Act 2000*. The Acts provide for:

- the provision of price directions;
- provision of recommendations about price regulation;
- provision of advice to the Minister about proposed access regimes;
- arbitration of disputes about access to services under access regimes;
- maintenance of a register of access agreements;
- investigation and reporting in matters referred by the Minister and other referring authorities;
- investigating and reporting on competitive neutrality complaints;
- investigating and reporting on government-regulated activities;
- issuing licences for the provision of utility services;
- determining licence conditions;
- ensuring compliance with the licence conditions; and
- approving and reviewing standard customer contracts and industry codes for utility services.

1.2 Highlights

Financial year 2000-2001 was a significant year for the Commission. It the first year in which the Commission operated with a permanent secretariat and its objectives were significantly increased as a result of the enacting of the Utilities Act 2000, and two additional standing commissioners were appointed. The highlights are described in greater detail in the following commentary.

1.2.1 Senior Commissioner's summary

In the past year the Commission continued to experience significant change. Since its inception in 1996 the Commission has experienced rapid and continuous change. With the passage of the *Independent Pricing and Regulatory Commission Act 1997*, the Commission ceased to be an entity established under regulation and became a statutory authority. In March 2000, as reported in last year's annual report, the Commission's name was changed to reflect additional and broader responsibilities. Not only was the Commission to be responsible for price determinations and access to infrastructure matters but also to examine competitive neutrality complaints and referred government regulated activities. At the same time, the Commission began to appoint a permanent secretariat. Later in 2000, the passage of the *Utilities Act 2000* gave the Commission responsibility for licensing utility services and regulating compliance with licence conditions and the obligations contained in utility industry codes.

At the beginning of 2000-2001, the Commission had new offices, new staff, an independent budget and a strategic plan for the year that had several major milestones. By 30 June 2001 those milestones in the strategic plan had been met.

In achieving those objectives a number of important developments were made to the structure of the Commission. These have enhanced its productivity and its ability to increase its efficiency and effectiveness in the future. In retrospect, the progress has been a source of satisfaction to the Commission and builds confidence in the Commission's capacity to develop further in the next year.

The Chief Minister officially opened the Commission's offices on 22 June 2000. This symbolically represented a change in the status of the Commission. Up to that time the Commission was a financial entity within the Treasury. Although part of the Treasury accounting environment, the Commission remained an independent legal and operational entity. From 1 July 2001, the Commission became an independent financial entity as well as being independent in an operational sense. Thus, the Legislative Assembly's intention to have a structurally and financially independent institution operating free from government influence was fully realised.

The structural changes brought about since July 2000 include the appointment of two new standing commissioners and the addition of new skilled and experienced staff. During the year staff numbers increased with the addition of permanent officers at the Senior Officer Grade C (SOG C) and Administrative Service Officer 6 (ASO 6) levels.

The Commission has relied on additional part time staff resources to augment existing skills and experience. In the 2001-2002 financial year the Commission will focus its recruitment on the acquisition of full time in-house legal advice, the acquisition of further resources in the administration area, and additional resources in the area of general policy and analytical skills.

The Commission has also commenced negotiation of its AWA arrangements including job sizing for all its senior positions. The Chief Executive Officer position will be assessed in 2001-2002 for reclassification to Senior Executive level to better reflect the scope of the position's responsibilities.

The amendments to the ICRC Act in March 2000 increased the number of standing commissioners from one to three. Accordingly, the government appointed two new standing commissioners to the Commission in June 2001. The new appointees, Ms Robin Creyke and Mr Peter McGhie bring significant experience and skills in administrative law, commerce and economics to the Commission. Robin Creyke is an Associate Professor in law at the Australian National University, part-time member of the Administrative Review Council and a consultant to Phillips Fox Solicitors. Peter McGhie was economic adviser and Chief Manager of Westpac Bank in the ACT, a former Deputy Chancellor of Canberra University, a former member of the Board of the Snowy Mountains Authority and is financial adviser to Agrecon Ltd, a company partly owned by Canberra University.

Reflecting its additional powers and responsibilities under the ICRC and Utilities Acts, the Commission has seen an increase in its activities in 2000-2001. During the year, the Commission:

- determined ACTION fares for the period 2001-2002 to 2002-2003;
- determined taxi prices for 2001-2002;
- completed the approval of the access arrangements for the gas network and determined the network price for gas;
- determined gas retail prices;
- substantially completed an inquiry into motor vehicle fuel prices in the ACT;
- substantially completed the competitive neutrality complaint (horse agistment);
- developed and issued licences to electricity, gas, water and sewerage utilities;
- approved standard customer contracts for electricity distribution and supply, gas distribution and supply, and water and sewerage services; and
- approved new Capital Contributions Codes for gas and electricity networks.

In addition, as in former years, the Commission also approved the reset of electricity, water and sewerage, and gas network prices, and participated in accountability forums such as the Estimates Committee. In addition, in 2000-2001, the Commission fully participated in the reporting and accountability processes common to other authorities, for example:

- monthly reporting on financial performance to the ACT Treasury;
- reporting on financial issues for the Commonwealth Grants Commission process;
- entering into a purchase agreement with the ACT Treasury, linked to the obligations in the Commission's Statement of Intent for 2000-2001.

Although adequate for existing operational needs, further development of the Commission's administrative arrangements will be undertaken in the next financial year. These changes are, in part, to support the new standing commissioners and the decision-making processes they will require.

The Commission has met its obligations in its legislation, particularly to promote the competitiveness of utility and other markets for the benefit of consumers. It has delivered measurable benefits to consumers in electricity, water and sewerage in the year under review and has laid the foundation in 2000-2001 for additional benefits to flow to consumers as a result of its gas price decisions. In the implementation of the Utilities Act, the Commission has established a solid foundation for fair and competitive markets able to deliver reliable, quality utility services at prices that will equate well with those in other jurisdictions.

The focus of the Commission's annual reports has frequently been on major inquiries, and to some extent that will remain the same this year. However, the activities undertaken during the year in relation to the Commission's participation in the Utility Regulators' Forum and the opening of the

electricity market to full retail contestability is of significant strategic value to both the Commission and the ACT community.

1.3 Operations

1.3.1 Price inquiries

1.3.1.1 ACTION Fares

The Commission received a reference from the Minister for Urban Services in September 2000 to inquire into the prices for ACTION services for the period commencing 1 July 2001. The reference required the Commission to:

- consider a medium term price path over a preferred three year period from 1 July 2001 to 30 June 2004;
- issue a draft report by 14 February 2001;
- consider current and projected patronage and other trends flowing from the previous determination in 2000 including the adequacy of fare box recovery;
- examine and provide advice on the current CSO funding model; and
- report to the Minister by 18 May 2001 to facilitate the application of the new fares from 1 July 2001.

As required by the ICRC Act the Commission published a notice in the *Canberra Times* that the Commission had received a reference for an inquiry. The notice invited submissions on ACTION prices for the Commission to consider. The Commission issued a draft report in February 2000, as a basis for a public consultation, and received oral submissions at a public hearing on 2 April 2001. In the research phase of the inquiry process the Commission received a total of ten written submissions. The final report on the inquiry was delivered by the due date.

In the final report the Commission determined that:

- the price path should be two years rather than three;
- the average fare prices for 2001-2002 should not exceed CPI plus 2%;
- the average fare increase in 2002-2003 should not exceed CPI;
- the allowable increase in fares should be from reduced discounts rather than increased fares, with discounts on periodical tickets not exceeding 15% of the cash fare;
- concessions should be set at 50% and student concessions at 35% consistent with the government's policy.

The effect of the determination was to cap fare increases in 2001-2002 to 5.94%. The Commission also drew attention to some potential benefits of a government decision to create ACTION as a statutory authority. Particularly, the Commission referred to the imposition of greater commercial discipline upon ACTION, and that this would entail a need to make the financial transactions between the authority and the Department of Urban Services transparent.

1.3.1.2 Taxi Fares

In November 2000, the Minister for Urban Services issued a reference for an inquiry into the pricing of taxi services in the ACT. The reference required the Commission to consider the prices appropriate to the industry over the next year or, if possible, several years and a revised methodology for the calculation of fares.

The Commission issued a draft report on 2 April 2001 and a final report on 30 May, as required by the reference.

The Commission invited submissions from the public and stakeholders in its public notice of the inquiry. Public hearings were not conducted as part of this inquiry although meetings were held with parties who had made submissions on the issue. In its draft report the Commission proposed a revision to the previous methodology for determining taxi fare adjustments. The Commission examined, as part of its process, a building block approach that included all the relevant costs and revenues from the operation of a taxi in the ACT. A building blocks approach if used in the taxi industry would be consistent with the approach used in relation to electricity and gas. This approach not only allows for recognition of variations in the costs of inputs used in the provision of the service (including adjustments in actual prices and adjustments for inflation) but also the application of a rate of return on investment and assets. Importantly, and for the first time in the taxi industry in the Territory, the suggested approach had the potential to provide an incentive for increasing operational efficiency that could be passed on to consumers as a productivity dividend.

Following consideration of the arguments advanced by interested parties in response to the draft report, the Commission in its final report determined that:

- a modified price index be used for future price setting purposes;
- the average maximum taxi fare be increased by 5.5% from 1 July 2001; and
- the existing fare structure be maintained.

The Commission also noted that:

- service quality indicators in the Memorandum of Understanding (MoU) needed to be reviewed, with particular attention being paid to tightening peak period waiting times requirements;
- improved monitoring of WAT service standards is required, with appropriate sanctions imposed where licence conditions are not met;
- Canberra Cabs administrative obligations in the MoU should be properly enforced and/or reviewed;
- maximum fare regulation be initially maintained when and if licence quotas restrictions are removed; and
- if licence quota restrictions are removed, industry's response should be monitored to determine whether there is a need for continuing maximum fare regulation.

The Commission also gave encouragement for the establishment of an additional taxi network provider in the ACT.

1.3.1.3 Gas Retail Prices

The final approval for the gas access arrangements proposed by ActewAGL (then AGL ACT) in 1998 took effect from February 2001. The approved arrangements included reductions in gas network revenues that the Commission considered ought to flow on to consumers through reductions in gas retail prices. However, no retail prices for gas were determined at that time. The Minister for Urban Services issued a reference for an inquiry into gas retail prices in March 2001, with a requirement that the final report of the inquiry be available by 31 May 2001.

The Commission issued a draft report on 20 April 2001 and the public consultation period closed on 21 May 2001. The final report was issued on 31 May 2001. The determination achieved the Commission's objective of returning the benefits of reduced network revenues to the consumer in the form of lower prices. The retail price path was set over three years, the prices in 2001-2002

providing real reductions to most customers in the order of 3% to 5%. In the following two years prices are to be adjusted in most cases by CPI less 1%. In the first year prices were less than those proposed by ActewAGL, but in the following two years the Commission agreed to the adjustments proposed by ActewAGL.

The determination acknowledges that, in principle, the retail market for gas in the ACT will not be regulated after 1 July 2001, when all gas customers are declared non-franchise. However, while theoretically a fully contestable market exists there have been and remain physical constraints on emerging competition. These constraints have primarily been:

- there has been no spare capacity in the existing transmission pipeline to support additional demand from new entrants;
- the systems to enable customer transfers and settlements between the old and new retailers are not sufficiently developed; and
- metering arrangements are inappropriate to a fully contestable market.

Additional capacity will become available when supply to the ACT network from the East Coast Pipeline commences. Systems for settlements and transfers will be completed and operational from 1 January 2002. Metering issues are being addressed in the process of developing appropriate market accounting systems. The Commission will cease to determine gas retail prices when the market is effective, although there will be a longer term need for the Commission to set a safety net price.

1.3.1.4 Resetting Electricity, Water and Sewerage Prices

In 1999 the Commission determined network prices for electricity, water and sewerage services in the ACT to apply for a five year period to 30 June 2004. The revenue from services provided was determined under a price path which is adjusted each year by an amount that reflects changes in the CPI and the application of a factor representing an efficiency dividend for consumers. The Commission approves the annual price adjustments provided they are consistent with the 1999 determination, by considering a reset proposal brought forward by ActewAGL. The approval process ensures that the proposed price schedules result in network revenues that are within the determined parameters. In the reset process in 2000-2001, the Commission considered a number of issues including the appropriate GST adjusted CPI figure to be applied and a number of changes to miscellaneous charges. ActewAGL proposed a range of miscellaneous charges that are consistent across electricity, gas and water services, and provide consistency for the utility and greater clarity and certainty for consumers. The changes are revenue neutral, ie within the regulated revenue cap. The new charges are allowed because they offset revenue raised from new charges by reductions in some existing charges.

1.3.2 Access arrangements

1.3.2.1 ActewAGL Access Approval

The Gas Code, adopted by all governments across Australia as part of the competition policy reform process and applying to the gas supply system linking New South Wales, Victoria, South Australia and the ACT, requires that all gas distribution networks be subject to an access arrangement approved by the jurisdictional regulator. Under the Code the jurisdictional regulator for the ACT is the Commission. Consistent with the requirements of the Code, AGL ACT submitted an access arrangement for approval in 1998. The Commission issued the final report in November 2000 requiring ActewAGL to make a number of amendments to the proposed arrangements and return with a revised submission to the Commission. Final approval was issued in January 2001, to be effective from February of that year.

1.3.3 Licensing utilities

The ACT Legislative Assembly enacted the *Utilities Act 2000* in December 2000. The Act makes the Commission the primary regulatory authority for utilities in the ACT, including electricity, gas, water and sewerage. The Act came into force on 1 January 2001, although in view of the short time between the enactment and the onset of the Act, existing licence and authorisation holders were exempted from the application of the licensing provisions of the Act for the six months ending 30 June 2001. In that transitional period the Commission was required to establish a process for licence applications, assessment of applicant's claims and the issuing of licences. In addition, the Commission needed to receive proposals for standard customer contracts for electricity and gas networks and retail services and capital contribution codes for electricity and gas networks.

By 30 June 2001 the Commission had approved the codes submitted, the standard customer contracts, issued instructions to intending applicants for utility licences and assessed and issued 19 licences. Licences were issued to the following utility service providers in the ACT, to be effective from 1 July 2001:

Electricity distribution and connection services

- ActewAGL Distribution

Electricity supply services

- ActewAGL Retail
- CitiPower Pty
- Country Energy
- ENERGEX Retail Pty Ltd
- EnergyAustralia
- Ergon Energy Pty Ltd
- Ferrier Hodgson Electricity Pty Ltd
- Integral Energy Australia
- Origin Energy Electricity Ltd
- Pulse Energy Pty Ltd
- TXU Electricity Limited
- Yallourn Energy Ltd (trading as "AusPower")

Gas transmission services

- East Australian Pipeline Limited

Gas distribution and connection services

ActewAGL Distribution

Gas supply services

- ActewAGL Retail
- ENERGEX Retail Pty Ltd

Water supply services

- ACTEW Corporation

Sewerage services

- ACTEW Corporation

1.3.4 Full Retail Contestability

As part of a national trend to open utility markets to free and fair competition the ACT government opened the gas market from July 2000. The electricity market is due to open from 1 January 2002. The arrangements in the ACT are proceeding in line with the market opening in NSW. The development of Full Retail Contestability policy rests with the Department of Urban Services. However, the Commission will assume responsibility for the contestable market from 1 January 2001.

The Commission has been part of the policy development process over the past twelve months and has recognised the process in the licensing and regulatory arrangements being implemented under the *Utilities Act 2000*. The Legislative Assembly is currently inquiring into some aspects of full retail contestability to ensure that it will deliver benefits to all consumers. The outcome of that process will have a bearing on the final opening date for the market and whether any parts of the market are shielded from competition. The Standing Committee report is expected later in 2001.

1.4 Corporate overview

1.4.1 Human resource management

The Commission began the year with two permanent staff and ended the year with four permanent staff and two contract part time staff. The Commission anticipated at the beginning of the financial year that the core staff numbers would expand to about six or seven plus the three standing commissioners. The Commission remains on track to reach that operational objective. It is expected that core staff numbers will not increase beyond six to seven in the future as the Commission will employ contract staff and consultants to increase the resources available as they are needed. The arrangements provide maximum flexibility and resource efficiency without impairing effectiveness. Indeed, effectiveness should increase as temporary staff can be selected for expertise in the specific subject matter of their role whereas full time staff need a wide variety of skills because of the Commission's wide-ranging role. Not only is the Commission aware of the constraints imposed by a small organisation with few permanent staff but is also careful in its allocation of scarce resources, both human and financial.

While the current arrangements are both effective and efficient for the Commission, there are some limits imposed by the small core staff numbers. Importantly the operating model is likely, over time, to produce relatively high staff turnover as staff seek alternative experience and opportunities for advancement that are unavailable within the Commission. To some extent the Commission may be able to offer a range of exposures that would not be available in other public sector agencies, such as opportunities to work on consulting projects external to the ACT. However, these opportunities are unlikely in the long run to be adequate substitutes for a defined career path in the Commission.

As the career path in the Commission for senior policy officers is limited by the Commission's size, the Commission needs to plan how it will retain key staff for the longer term. One potential strategy is to build a network with other regulatory bodies that might facilitate some interchange between officers. Short transfers within the community of regulators nationally would broaden staff experience of different organisational approaches and different jurisdictional issues. The Utility Regulators' Forum also provides opportunities.

The appointment of the new commissioners will offer opportunities in the 2001-2002 year for skill transfer and broadening of interests and knowledge. The way that the staff and the Commissioners

interact and inform one another will also have a defining effect on the Commission in the next twelve months.

1.4.2 Training and development activity

There were few opportunities during the year to invest in training and development activity. Staff are encouraged to attend relevant industry and regulatory conferences and events, and the Commission will continue to fund attendance where there is a definite organisational and personal developmental advantage. In addition, the Commission encourages staff to continue education by supporting the StudyBank Program. One staff member is currently in that program.

As far as possible staff are allocated to issues that interest them and will have a beneficial effect on their productivity and development. Staff are encouraged to contribute to the Commission's activities in a range of ways, to maximise the benefits to the Commission and to provide variety and stimulation to the individuals.

1.4.3 Salaries reviews and agreements

In 2000-01 the Australian Workplace Agreements (AWAs) entered into by the two senior officers have ceased and are currently being renegotiated. In 2001-2002 it is expected that the AWAs will cover the three senior staff, and any additional appointees at the ASO6 level and above. The Commission has approved the offer made to staff in the Chief Minister's Department and the Treasury being made to Commission staff. The outcome of the negotiation on the AWAs will be determined by the end of August 2001.

1.4.4 Organisational change

The major changes to the organisation have been the establishment of the permanent secretariat and the appointment of two standing commissioners. The operating approach adopted by the Commission, relying on a small secretariat supplemented by external expert assistance, has been effective and demonstrably reduced costs.

The Commission has become responsible for a wider range of activities over the last twelve months, particularly with the enactment of the Utilities Act. There is no anticipated structural change arising from that process but there will be relationship changes as the Commission, the Department of Urban Services and the Essential Services Consumer Council (ESCC) work out how they will work together to deliver the outcomes expected by the Government.

There may be some further organisational changes later in 2001-2002. The Commission intends to review, or have an appropriate role in the review of, both the ICRC and the Utilities Acts. While the Commission's objectives in such a review are to bring greater clarity to the arrangements, that process may also involve some tuning of the structure of the Commission or amendments to the Commission's organisational policies.

1.4.5 Commitment to Occupational Health and Safety

The Commission has adopted the occupational health and safety policies common to government agencies in the ACT. The Commission is acutely aware of the value of ensuring that the workplace is a safe and healthy environment. It was for that reason that the Commission raised questions about security in FAI House and installed alarms in the offices. Occupational health and safety issues are standing items on the agenda for staff meetings and the Commissioners' monthly meeting. There have been no incidents of injuries or lost time from OH&S matters during the year.

1.4.6 Equal Employment Opportunity (EEO) and diversity issues

The Commissioners are conscious of the importance of both EEO and diversity in determining the organisational health of the Commission. The Commission is an equal opportunity employer. The Commission has effectively addressed diversity in employing staff; there is a good balance of gender and age in the Commission's staffing profile. With such a small number of core staff the Commission does find difficulty in introducing proactive programs for the employment of persons in the various defined disability groups. The emphasis has been on appointments according to merit and attracting people with an appropriate balance of skills and experience. While that has resulted in a balance of gender and age, there is not diversity of ethnicity or physical or mental disability. The absence of an active policy of recruitment from those groups is not indicative of a policy of exclusion. The Commission would not exclude any potential appointee on the basis of any disability, providing that they would be able to deliver the outputs for which the Commission is responsible and accountable.

1.4.7 Review of the Commission's activities in reports

The Commission was mentioned in the Auditor-General's report on annual reports for the year ending 30 June 2000. The Auditor criticised most agencies, including the Commission, for failing to address all the matters raised in the Chief Minister's Annual Reporting Instructions. In common with most agencies the Commission understood the instructions to mean that reports were to be made in respect to any issues that were material to the agency, rather than reporting formally on all matters listed in the instructions whether there was information to be made available or not. The Commission responded to the Auditor-General's report as part of the whole of government response.

The Commission has also been available for scrutiny by the Committees of the Legislative Assembly. However, the Commission has not been called to the Standing or Select Committees of the Assembly in the reporting period, except for the Estimates Committee in relation to the Budget Estimates for the financial year 2001-2002. In that instance, the Committee was satisfied that the Commission's estimates were satisfactory and its operations appropriately conducted.

1.4.8 Internal reviews and internal control activities

The Commission is small and less than twelve months old in its current form. There have been no management reviews and the internal controls are based on appropriate segregation of activities, separation of powers and authorisations. Management is direct and 'hands on'; the risk of fraud is very low. The low risk assessment is strengthened by the low number of financial transactions in a year, the level of accountability and transparency and limited access to financial instruments. There are two signatories to the Commission's accounts and only two officers hold credit cards for the Commission's accounts. To a degree, internal controls restrain not only the risk of fraud but also operational flexibility. The Commission has to date erred on the side of lowering operational risk.

The Commission has few and limited assets, other than financial ones, to protect with its internal controls. The current physical assets consist of furniture and fittings and leased equipment. Daily management is exercised over their use and maintenance.

1.5 Links with financial reporting

The Commission relies on appropriation and earned income for its funding in any year. In 2000-2001 the Commission has exercised careful management over its financial resources, ending the year with an increased level of equity. The Commission is conscious of the potential for future development that capital adequacy provides, insuring against financial shocks and instability and

providing a resource that might support greater diversity of activity, consistent with the duties and obligations of the Commission as set out in the relevant legislation.

The Commissioners are satisfied with the financial performance to date and look to developing the Commission's financial strength over future years. Strength in equity will mean less likelihood of reliance on the financial strength of the budget to undertake work that the Legislative Assembly or the Executive may require in future.

2 WHOLE OF GOVERNMENT ISSUES

2.1 *Key issues*

2.1.1 Customer service statement

The Commission's responsibilities under both the Independent Competition and Regulatory Commission Act 1997 and the Utilities Act 2000 direct the Commission to consider consumers' interests as paramount. Consequently the Commission is required to publish all proceedings of investigations and processes associated with the granting and oversight of licences for the provision of utility services. Public notices inviting public contributions to the Commission's processes are provided for all reviews or other activities of the Commission. All reports and advice arising from the activities of the Commission are publicly available, both in hard copy and on the Commission's website.

The ICRC Act mandates that all investigations address matters of social, economic and environmental concern. The Commission's commitment to customer service is implicit in the nature of its activities and responsibilities.

2.1.2 Royal Commission into Aboriginal Deaths in Custody

The Commission is not obliged to undertake any actions in relation to the findings of the Royal Commission. The issues raised in the Royal Commission Report into Aboriginal Deaths in Custody have no application to the responsibilities of the Commission in either of the Acts relevant to it.

2.1.3 Fraud prevention

The Commission has low fraud risks. The largest risk is in relation to the operation of the Commission's accounts. Access to the IT system and to financial records are confined to authorised officers and subject to password security. The Commission's bank accounts are accessible only to the signatories, who must jointly authorise instruments. The Commission has two issued credit cards that are subject to the control of the Senior Commissioner and the Chief Executive Officer. The accounting records of the Commission include reconciliations of accounts and cheques and other instruments issued. The Commission also maintains records of unissued cheques.

For administrative processes, such as registry and banking, there are separations and checks by third parties but no formal structural separations. Oversight and control is achievable in the small office environment adequate to the Commission's needs. There have been no incidents of fraud detected or reported in the financial year.

The risk of fraud associated with release of commercially sensitive information is recognised and controlled by the direct oversight of the Senior Commissioner and the Chief Executive Officer.

While the office remained small a formalised fraud control plan was unnecessary as immediate management supervision of transactions was a sufficient control. However, with the increased number of commissioners and staff, a fraud risk assessment and planning process will be undertaken in 2001-2002.

2.1.4 Equity and diversity

The Commission is committed to the Government's policies on equity and diversity. The Commission is currently composed of three standing commissioners. All the commissioners have been appointed by the Executive on the basis of their merit in respect to the qualifications and experience set out in the Independent Competition and Regulatory Commission Act 1997.

The Commission is staffed by officers of mixed age and gender. No employees have claimed membership of an identified group for the purposes of the Discrimination Act or legislation providing for equity or disability in employment. While staff have been employed by the Commission on the basis of the merit of their qualifications and skills, the Commission is committed to providing employment opportunities for those in identified disability classes.

Table 1: EEO and Equity composition of the ICRC at 30 June 2001

level	number	Gender	ATSI	Disability	ESL
Commissioners	3	1F/2M	nil	nil	nil
SOG A	1	M	nil	nil	nil
SOG C	3	2F/1M	nil	nil	1
ASO 6	1	M	nil	nil	nil
ASO 4	1	F	nil	nil	nil

[The table includes full time permanent and part-time contract staff]

2.2 Resource issues

2.2.1 Ownership agreement

The Commission's services are purchased subject to an annual Statement of Intent tabled in the Legislative Assembly in the Budget process. The objectives of the statement are referred to elsewhere in this report

2.2.2 Certified agreements

The Commission had one staff member under a Certified Agreement in 2000-2001. There were no reporting commitments associated with the agreement for the Commission.

2.2.3 Staffing profile

The Commission's staff profile has changed during the year both in numbers, from two staff to six, and in mix of gender and part and full time staff. At the beginning of the year the staff consisted of a Senior Officer Grade A (Head of Secretariat) and an Administrative Assistant Officer Grade 4 (Personal Assistant). At the end of the year the staff had increased with the addition of a part time permanent Senior Officer Grade C officer, a full time temporary officer at the Senior Officer Grade C level, a part time temporary officer at the Senior Officer Grade C level, and a permanent full time Administrative Service Officer Grade 6.

The gender mix remains balanced with three male and three female staff members, and one female and two male commissioners. None of the staff or commissioners has claimed membership of any disability group identified in the relevant legislation. There are no members of staff of Aboriginal descent.

The senior staff are tertiary qualified and the two officers managing the Commission's finances are members of the Australian Society of Certified Practising Accountants. The ASO 4 is currently enrolled in Post Graduate Certificate level training.

At the end of the year the Commission was seeking appointment of a permanent SOG C and ASO 3 to assist with policy advice and administrative tasks respectively.

In addition the number of commissioners increased from one part time commissioner at the beginning of the financial year to three part time commissioners at the end of the year.

2.2.4 Workers compensation

There were no workers compensation claims during the financial year. The Commission is part of the government's workers compensation insurance arrangements. The Commission maintains workers compensation matters as a standing item on the agenda for the meetings of commissioners and staff.

2.2.5 Training and staff development

The Commission has provided training for staff during the year by supporting attendance at relevant conferences. Also the Commission has supported, through the StudyBank Scheme, staff in the acquisition of skills that will ultimately be beneficial to the Commission. In the second half of the financial year the Commission agreed to one StudyBank application, agreeing to support 65% of the course cost for one staff member.

The Commission also supports other staff members undertaking study, with flexible hours where that is needed.

2.2.6 Consultancy and contractor services

Table 2 shows the involvement of consultants and contractors in the financial year. The Commission continues to use expert consultants to assist with the conduct of inquiries and other processes. The approach adopted by the Commission is one that provides low cost access to bodies of significant relevant expertise otherwise unavailable to the Commission. The approach, in the Commission's case, provides for a flexible and highly skilled workforce at an efficient cost. The skill base of the Commission is in a practical sense wider than it would otherwise be able to afford, and provides opportunities for core staff to expand their skills and experience with skills transfer.

Table 2: Contractor and Consultant services in 2000-2001

Consultant/Contractor ⁺	Service	Value (\$)*
Hays Accountancy Placements	Contract accounting staff	18,165.20
Careers Unlimited	Contract staff	2,511.30
Booz-Allen & Hamilton	ACTION pricing inquiry	118,245.00
Court Reporting Service PL	Action public hearing records	1,079.87
Corrs Chambers Westgarth	Legal advice, Gas access inquiry	13,955.70
KPMG	Gas access inquiry	13,117.50
KPMG	Review of utility licence fees	6,479.99
Independent Pricing and Regulatory Tribunal (NSW)	Gas access inquiry	89,625.80
Centre for International Economics	Motor Vehicle Fuel Prices inquiry	5,445.00
Professor Stephen King	Gas access inquiry	2,904.00
NUS Consulting	Motor Vehicle Fuel Prices inquiry	4,950.00
PricewaterhouseCoopers	Gas Retail price inquiry	51,975.00
Independent Pricing and Regulatory Tribunal (NSW)	Taxi fares inquiry	1,650.00
Independent Pricing and Regulatory Tribunal (NSW)	Gas access inquiry	16,232.10

⁺ Only contractors and consultants external to the ACT Government are included

* All figures are GST exclusive

2.2.7 Capital works management

The Commission had no capital works undertaken in the period under review. Minor capital works expected in 2000-2001, refurbishment of additional office accommodation, have been deferred until 2001-2002.

2.2.8 Asset management strategy

The Commission has no capital assets other than furniture and fittings and short term cash assets. The Commission requires no strategy for those classes of assets. The cash assets managed are operational funds provided quarterly and attract interest at the bank determined rate. There is little capacity to invest funds over the medium or longer term at this stage, although in future if cash reserves are built up an investments strategy will become appropriate. The development of a strategic asset base and a strategy for its management is an issue for the Commissioners to consider in future.

2.3 Statutory requirements

2.3.1 Occupational Health and Safety

The Commission has adopted the occupational health and safety policies applying in the ACT public sector and is advised on OH&S issues by the Corporate Services Branch of the Chief Minister's Department under a service level agreement with the Commission.

In addition, the Commission is aware of the need for ongoing OH&S risk management. OH&S issues are a standing item for both staff meetings and meetings of the Commissioners. The Commission has a fully trained and certified first aid officer and participates in the fire safety and

evacuation practices for FAI House tenants. The Commission has a fire warden in the office and regularly practices fire drills.

There were no OH&S complaints or injuries during the financial year.

2.3.2 Commissioner for the Environment

The Commission has made no reports to, nor received requests for information from, the Commissioner for the Environment

2.3.3 Public interest disclosure

There were no incidents requiring disclosure during the financial year.

2.3.4 Government Contractual Debts (Interest) Act 1994

In the financial year 2000-2001, the Commission did not pay any interest under the provisions of this legislation. In general it is the Commission's policy to pay accounts in the 28 day period provided in the Act.

2.3.5 Freedom of Information Act 1990

The Commission has received no requests for information disclosure under the terms of the Freedom of Information Act 1990.

The ICRC Act and the Utilities Act both require the Commission to make public all decisions, submissions to inquiries, reports and draft reports and the reasons for the Commission's decisions. The Commission's final reports on investigations on all issues relating to prices, access disputes, access arrangement proposals, and the issue and revocation of utility licences, and application of conditions to utility licences are all publicly available. The Commission makes information available through published reports, the Commission website and for public scrutiny at the Commission's offices.

2.3.6 Ecologically Sustainable Development

See Appendix 3.7

3 APPENDED INFORMATION

3.1 Reports by the Auditor-General and Inquiries by the Legislative Assembly

The following reports refer to the operations of the Commission in the 2000-2001 financial year:

- Auditor-General of the ACT Report on Annual Reports for the period ending 30 June 2000
- Legislative Assembly of the ACT. Estimates Committee Report 2000-01 Budget

3.2 Legislation

The Commission has responsibilities under the following legislation:

- *Independent Competition and Regulatory Commission Act 1997*
- *Utilities Act 2000*

3.3 Regulatory activities advisory and consultative boards and committees

Not applicable.

3.4 Service purchasing arrangements/community grants

Not applicable.

3.5 Community consultation

The Commission consults and advises the community on all inquiries referred to it. Public notices are published for all references received for price and regulatory inquiries. Many issues raised in the granting of utility licences and approval of industry codes and standards require public notification and gazettal of decisions.

Where public hearings are held members of the public are invited to make oral submissions. In 2000-2001 a public hearing was held in relation to the ACTION price inquiry, to which a number of parties made oral submissions.

3.6 Requirements of Independent Competition and Regulatory Commission Act 1997

Section 9 of the Independent Competition and Regulatory Commission Act 1997 requires the Commission to report under the *Annual Reports (Government Agencies) Act 1995* and mandates reporting on the following:

- investigations;
- final reports and special reports;
- price directions;
- advice about proposed access agreements;
- the number of access agreements notified;
- arbitration disputes;
- determinations of arbitration disputes;
- the number of notices issued under section 41;

- the general use made by the commission of information and documents obtained as a result of notices issued under section 41; and
- any other functions of the commission.

The text of the annual report provides information on the investigations, price directions and reports relating to any investigation. The table below summarises the information relating to the remaining items to be reported on.

3.7 *Ecologically Sustainable Development*

Item	Description	Environmental/Economic/Social Outcome
Office Based Activities		
1. Energy	Utility use policies reducing reliance on electric lighting	Reduction of energy consumption and reducing greenhouse emissions
2. Consumables	Use of recycled paper and other consumables (paper, toner)	Improvement of recycling, thereby reducing and greenhouse gas emissions
3. Disposables	Recycling	Reducing impact on landfill, and consequent reductions in greenhouse gases
Capital Works		
Nil	Nil	Nil
Service Delivery		
Inquiries	Legislative requirement to consider social and environmental impacts, including the application of the precautionary principle	Promote sustainability and reflect real economic costs and the impact on social costs of market activity
Price setting	Consideration of social and environmental costs	Service pricing for regulated industries that reflects full costs including environmental costs and the social impact of prices

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5 GLOSSARY

Term	Definition
ACT	Australian Capital Territory
ACTION	Australian Capital Territory Internal Omnibus Network, the ACT's public bus service
ASO 1 to 6	Administrative Service Officer Class 1 to Class 6
ATSI	Aboriginal and Torres Strait Islander
AWA	Australian Workplace Agreement
CSO	Community Service Obligation
EEO	Equal Employment Opportunity
ESL	English as a Second Language
GST	goods and services tax
ICRC	Independent Competition and Regulatory Commission
IPARC	Independent Pricing and Regulatory Commission
NSW	New South Wales
OH&S	Occupational Health and Safety
SOG A to C	Senior Officer Grade A to Grade C
WAT	Wheelchair Accessible Taxi

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7 FINANCIAL AND PERFORMANCE STATEMENTS

7.1 Auditor's report on the ICRC's Financial Statements for the year ended 30 June 2001



AUDITOR-GENERAL

Australian Capital Territory



A01/55

Mr Paul Baxter
Senior Commissioner
Independent Pricing and Regulatory Commission
GPO Box 975
Civic Square ACT 2601

Dear Mr Baxter


Audit Report on the Independent Competition & Regulatory Commission's Financial Statements for the Year Ended 30 June 2001

The audit of the financial statements of the Independent Competition & Regulatory Commission for the year ended 30 June 2001 has been completed.

Attached are the audited financial statements together with an unqualified audit report. A copy of these financial statements together with an unqualified report has been provided to the Chief Minister.

No matters of significant concern were noted during the audit.

Yours sincerely


John A. Parkinson FCPA

27 July 2001

cc Michael Lai, Audit Manager, ACT Auditor-General's Office
Kirsten Thompson, Manager Budget Strategy and Co-ordination, Department of Treasury



AUDITOR-GENERAL

Australian Capital Territory



INDEPENDENT AUDIT REPORT

INDEPENDENT COMPETITION AND REGULATORY COMMISSION

**To Members of the Legislative Assembly for the Australian Capital
Territory**

GENERAL

I have audited the financial statements of the Independent Competition and Regulatory Commission for the year ending 30 June 2001. The financial statements which were forwarded to me by the Senior Commissioner for the Independent Competition and Regulatory Commission consists of the following financial statements together with the notes thereto:

- Statement of Financial Performance;
- Statement of Financial Position;
- Statement of Cash Flows; and
- Statement of Performance.

In accordance with Section 60 of the Financial Management Act 1996, the preparation and presentation of the financial statements, and the information contained therein, is the responsibility of the Senior Commissioner for Independent Competition and Regulatory Commission.

My responsibility is to express an opinion on the financial statements based on my audit as required by Section 61 of the Financial Management Act 1996.

* * * *

FINANCIAL STATEMENTS OTHER THAN THE STATEMENT OF PERFORMANCE

Audit Scope

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. My procedures included 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 the Financial Management Act

1996, Australian Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view of the Independent Competition and Regulatory Commission which is consistent with my understanding of its financial position, the result of its operations and its cash flows.

The audit opinion expressed in this Report on the financial statements other than the Statement of Performance has been formed on the above basis.

Audit Opinion

In my opinion, the financial statements of the Independent Competition and Regulatory Commission for the year ending 30 June 2001 present fairly in accordance with the Financial Management Act 1996, Australian Accounting Standards and other mandatory professional reporting requirements in Australia the financial position of the Independent Competition and Regulatory Commission as at 30 June 2001 and the results of its operations and its cash flows for the year then ended.

* * * *

STATEMENT OF PERFORMANCE

Audit Scope

I have conducted my audit of the Statement of Performance in accordance with Australian Auditing Standards to form an opinion based on a reasonable level of assurance. My procedures included examination, on a test basis, of evidence supporting figures and other disclosures in the Statement of Performance and the evaluation of policies adopted in arriving at those figures and disclosures. These procedures have been undertaken to form an opinion as to whether, in all material respects, the Statement of Performance has been prepared in accordance with the Financial Management Act 1996 and fairly represents the indicated performance.

Explanations for variations between actual performance and budgeted performance are included in the Statement of Performance. Due to the essential subjectivity of some of these explanations, all explanations have been excluded from the audit scope and therefore no audit opinion has been formed or is expressed on the accuracy or reliability of the explanations.


The audit scope also did not include an assessment of the relevance or appropriateness of the reported measures for evaluating the effectiveness or efficiency of the Independent Competition and Regulatory Commission.

The audit opinion on the Statement of Performance expressed in this Report has been formed on the above basis.

Audit Opinion

In my opinion, the Statement of Performance of the Independent Competition and Regulatory Commission for the year ending 30 June 2001 is prepared in accordance with the Financial Management Act 1996 and fairly represents the indicated performance of the Independent Competition and Regulatory Commission for the year ended 30 June 2001.

* * * *



John A. Parkinson FCPA

27 July 2001

7.2 *Statement of responsibility*

INDEPENDENT COMPETITION AND REGULATORY COMMISSION FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

Statement of Responsibility

In my opinion, the accompanying financial statements of the Independent Competition and Regulatory Commission for the year ended 30 June 2001 consisting of the:

- ◆ Statement of Financial Performance;
- ◆ Statement of Financial Position;
- ◆ Statement of Cash Flows;
- ◆ Notes to and forming part of the Financial Statements; and
- ◆ Statement of Performance

show fairly the financial operations and service performance of the Independent Competition and Regulatory Commission during the year to which they relate and the financial position of the Independent Competition and Regulatory Commission at the end of the year.

I accept responsibility for the preparation of the financial statements and the judgements exercised *in preparing them*.

Paul Baxter

Senior Commissioner
Independent Competition and Regulatory Commission

Dated: 26/07/01

7.3 Financial Statements for the year ended 30 June 2001

7.3.1 Statement of Financial Performance

	Notes	Actual 2001 \$'000	Budget 2001 \$'000
REVENUES FROM ORDINARY ACTIVITIES			
User Charges – ACT Government	3.1	558	600
User Charges – Non ACT Government	3.2	228	250
Interest		3	-
Other		7	-
Total Revenues from Ordinary Activities		796	850
EXPENSES FROM ORDINARY ACTIVITIES			
Employee Expenses	4.1	244	180
Superannuation	4.2	18	30
Administrative Expenses	4.3	491	632
Depreciation and Amortisation	5.3	-	8
Total Expenses from Ordinary Activities		753	850
OPERATING SURPLUS FROM ORDINARY ACTIVITIES		43	-
Total Change in Equity Other than that Resulting from Transactions with Owners as Owners		43	-
Increase in Net Assets from Administrative Restructure	6	129	-
Total Change in Equity Including that Resulting from Transactions with Owners as Owners		172	-

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

7.3.2 Statement of Financial Position

	Notes	Actual 2001 \$'000	Budget 2001 \$'000
CURRENT ASSETS			
Cash		62	35
Receivable	5.1	229	45
Prepayment	5.2	3	-
Total Current Assets		294	80
NON-CURRENT ASSETS			
Property, Plant and Equipment	5.3	129	35
Total Non-Current Assets		129	35
Total Assets		423	115
CURRENT LIABILITIES			
Creditors	5.4	189	115
Employee Entitlements	5.5	29	-
Total Current Liabilities		218	115
NON-CURRENT LIABILITIES			
Employee Entitlements	5.5	33	-
Total Non-Current Liabilities		33	-
Total Liabilities		251	115
NET ASSETS		172	-
REPRESENTED BY:			
Accumulated Funds	6	172	-
Total Funds Employed		172	-

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

7.3.3 Statement of Cash Flows

	Actual 2001 \$'000	Budget 2001 \$'000
Note		
Cash at the Beginning of the Financial Year	-	35
CASH FLOWS FROM OPERATING ACTIVITIES		
RECEIPTS		
User Charges – ACT Government	502	842
User Charges – Non ACT Government	55	-
Interest	3	-
GST Received	10	-
Total	570	842
PAYMENTS		
Related to Employee Expenses	183	210
Related to Superannuation Expenses	17	-
Related to Administrative Expenses	305	632
GST Paid	3	-
Total	508	842
Net Cash Provided by Operating Activities	7 62	-
Net Increase in Cash Held	62	-
Cash at the End of the Financial Year	62	35

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

7.3.4 Notes to and forming part of the Financial Statements for the year ended 30 June 2001

NOTES

- 1 SUMMARY OF OBJECTIVES AND FUNCTIONS
- 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 - 2.1 Basis of Accounting
 - 2.2 Definition of Cash
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- 8 AUDITOR’S REMUNERATION
- 9 AVERAGE STAFFING LEVELS
- 10 FINANCIAL INSTRUMENTS

NOTE 1 – SUMMARY OF OBJECTIVES AND FUNCTIONS

Objectives

The Independent Competition and Regulatory Commission (ICRC) has regulatory rather than commercial objectives, which are prescribed in Section 7 of the *Independent Competition and Regulatory Commission Act 1997*. The Act provides the following objectives in relation to regulated industries, access regimes, competitive neutrality complaints and government-regulated activities:

- to promote effective competition in the interests of consumers;
- to facilitate an appropriate balance between efficiency and environmental and social considerations; and
- to ensure non-discriminatory access to monopoly or near monopoly infrastructure.

In the *Utilities Act 2000*, the ICRC has certain objectives with respect to utility services. Section 3 provides the following:

- to encourage the provision of safe, reliable, efficient and high quality utility services at reasonable prices;
- to minimise the potential for misuse of monopoly power in the provision of utility services;
- to promote competition in the provision of utility services;
- to encourage long term investment, growth and employment in utility service industries;
- to promote ecologically sustainable development in the provision of utilities services;
- to protect the interests of consumers;
- to ensure the advice given to ICRC by the council, or the Chief Executive under Part 5 (Technical Regulation), is properly considered;
- to ensure the Government's programs about the provision of utility services are properly addressed; and
- to give effect to directions of the Minister under Section 19.

Functions

Section 8 of the *Independent Competition and Regulatory Commission Act 1997* requires that the ICRC provide the following functions:

- provide price directions;
- provide recommendations about price regulation;
- provide advice to the Minister about proposed access agreements;
- maintain a register of access agreements;
- arbitrate disputes about access to services under access regimes;
- investigate and report on matters referred by the Minister and other referring authorities;
- investigate and report on competitive neutrality complaints;
- investigate and report on government-regulated activities;
- any other function conferred by this or another law of the Territory; and
- any function incidental to a function mentioned above.

The *Utilities Act 2000* refers to a number of responsibilities in relation to the licensing of utility services and ensuring compliance with the Act in relation to the provision of these services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies adopted by the ICRC are set out in this Note.

2.1 Basis of Accounting

These financial statements are required by Section 59 of the *Financial Management Act 1996* and are a general purpose financial report.

The Statement of Financial Performance and Statement of Financial Position have been prepared on an accruals basis and are in accordance with historical cost convention. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets and liabilities can be reliably measured.

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

2.2 Definition of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, in banks, cash equivalents and investments readily converted to cash within two working days and are subject to an insignificant risk of changes in value.

2.3 Employee Entitlements

Wages and salaries, and annual leave

Liabilities for wages and salaries, and annual leave are recognised and are measured as the amount unpaid at the reporting date, at current pay rates, in respect of employees' services up to that date.

Long service leave

A liability for long service leave is recognised and is measured as the present value of future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wages and salary levels, past experience of employee departures and periods of service. Accordingly, a provision is recognised on a pro-rata basis for long service leave for all employees with more than 5 years of service, even though there is no legal entitlement until 7 years of service has been provided.

2.4 Taxation

ICRC activities are exempt from all forms of taxation except Fringe Benefits Tax and Goods and Services Tax.

No liability for Fringe Benefits Tax arose in the financial year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Superannuation

Superannuation Contributions

The liability for superannuation payments (other than productivity contributions), is assumed by the Commonwealth. The ACT, through the Superannuation Unit, has a liability to reimburse the Commonwealth for the emerging superannuation liability related to ACT employment. ICRC is required to make payments to the Superannuation Unit for the ICRC's share of the annual superannuation liability for staff who are members of the Public Sector Superannuation Scheme (PSS). The superannuation expense paid by ICRC to the Superannuation Unit for this financial year was \$15,250. An amount of \$583 has been accrued at year end.

The amount provided to be paid to other superannuation funds for short term contracted employees as per the Superannuation Guarantee Legislation was \$1,825.

Superannuation Guarantee Legislation

The ICRC provides a superannuation benefit for various categories of temporary and casual staff under the Superannuation Guarantee Levy provisions. For 2000-2001 the charge was 8%.

2.6 Property, Plant and Equipment

Asset Recognition Threshold

All non-current depreciable assets with a historical cost equal to or in excess of \$1,000 are capitalised in the year of acquisition and included in the financial statements. Purchases costing less than \$1,000 are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

2.7 Depreciation and Amortisation of Non-Current Assets

Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements, the unexpired period of the lease or a depreciation rate of 10%. No depreciation was charged this year as the leasehold improvements were transferred from Department of Treasury on 28 June 2001.

2.8 Transactions with the Government as Owner

Net assets received under a restructuring of administrative arrangements are designated as contributions by owners and adjusted directly against equity. Net assets relinquished are designated as distributions to owners.

2.9 Economic Dependency

The continued existence of the ICRC is dependent on continued funding provided by the ACT Government for its operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Insurance

From 1 July 2000 the ICRC was insured for any losses through the ACT Government Risk Management Fund. The insurance levy is intended to cover the full cost of all claims made and losses arising from 1 July 2000. The insurance levy paid by ICRC for this financial year was \$487.

2.11 Rounding

Amounts have been rounded to the nearest \$1,000.

NOTE 3 – REVENUES FROM ORDINARY ACTIVITIES

2001
\$'000

3.1 User Charges – ACT Government

Appropriations Received	400
Payments from the Government for Services Provided	<u>158</u>
Total User Charges – ACT Government	<u>558</u>

3.2 User Charges – Non ACT Government

Inquiries	174
Consultancies	18
Utilities Licence Fees	<u>36</u>
Total User Charges – Non ACT Government	<u>228</u>

NOTE 4 – EXPENSES FROM ORDINARY ACTIVITIES

4.1 Employee Expenses

Salaries and Wages	190
Annual Leave	21
Long Service Leave	<u>33</u>
Total Employee Expenses	<u>244</u>

4.2 Superannuation Expenses

Government Superannuation Scheme (PSS)	14
Employer Productivity Superannuation Contribution	<u>4</u>
Total Superannuation Expenses	<u>18</u>

4.3 Administrative Expenses

Property and Equipment	68
Professional Services	300
Staff Development	6
Travel and Accommodation	13
Postage and Printing	13
Fee to Commissioner	55
Advertising	14
Other Expenses	<u>22</u>
Total Administrative Expenses	<u>491</u>

NOTE 5 – ASSETS AND LIABILITIES

2001
\$'000

5.1 Receivables

Current Accrued Revenue

Internal to ACT Government	-
External to ACT Government	1

Debtors – Current (less than 30 days)

Internal to ACT Government	56
External to ACT Government	172

Total Receivables 229

5.2 Prepayments

The amount relates to the insurance premium for 2001 – 2002 3

5.3 Property, Plant and Equipment

Leasehold Improvements at Cost	129
Accumulated Depreciation	-
Total Property, Plant and Equipment	<u><u>129</u></u>

Movement Summary 2000-01 for all Property, Plant and Equipment

Leasehold Improvements

Gross Value as at 1 July 2000 -

Additions:

Assets transferred in 129

Gross Value as at 30 June 2001 129

Accumulated Depreciation/Amortisation as at 1 July 2000 -

Depreciation/Amortisation Charged -

Accumulated Depreciation/Amortisation as at 30 June 2001 -

Net Book Value as at 30 June 2001 129

NOTE 5 – ASSETS AND LIABILITIES (CONTINUED)

2001
\$'000

5.4 Creditors

Current Trade Creditors

Internal to ACT Government	42
External to ACT Government	136

Accruals and Other

Internal to ACT Government	5
External to ACT Government	6

Total Creditors 189

5.5 Employee Entitlements

Current

Salaries and Wages	7
Annual Leave	21
Superannuation	1

Total Current Employee Entitlements 29

Non-Current

Long Service Leave	33
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Total Non-Current Employee Entitlements 33

Aggregate Employee Entitlements Liability 62

NOTE 6 – ACCUMULATED FUNDS

Balance at the Beginning of the Financial Year -

Operating Surplus from Ordinary Activities	43
Increase in Net Assets from Administrative Restructure*	129

Balance at the End of the Financial Year 172

* *Increase in Net Assets from Administrative Restructure*

Increase in Assets

Transfer of leasehold improvements at cost from the Department of Treasury	<u><u>129</u></u>
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NOTE 7 – RECONCILIATION OF OPERATING SURPLUS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2001
	\$'000
Operating Surplus from Ordinary Activities	43
Changes in Assets and Liabilities	
Increase in Receivables	(229)
Increase in Prepayments	(3)
Increase in Creditors	189
Increase in Employee Entitlements	62
Net Cash Provided by Operating Activities	<u>62</u>

NOTE 8 – AUDITOR'S REMUNERATION

The estimated audit fee for this year's audit by the ACT Auditor-General was \$5,000 excluding Goods and Services Tax (GST). No other services were provided by the auditors.

NOTE 9 – AVERAGE STAFFING LEVEL

The average staffing level for the ICRC during the year was 3.

NOTE 10 – FINANCIAL INSTRUMENTS

(a) Terms, Conditions and Accounting Policies

The ICRC's accounting policies and the terms and conditions of each class of financial asset and liability are as follows:

Recognised Financial Instruments	Notes	Accounting Policies	Terms and Conditions
Financial Assets			
Cash		Cash is stated at its nominal amount. Interest is recognised in the Statement of Financial Performance when earned.	Interest is earned on this bank account at an average of 5.7%.pa.
Receivables	5.1	Receivables are recognised at the nominal amount less any provision for bad and doubtful debts.	Credit terms are 30 days.
Financial Liabilities			
Creditors	5.4	Liabilities are recognised for amounts to be paid in the future for services received, whether or not billed to the entity.	Creditors are normally settled within 30 days.

(b) Net Fair Values of Financial Instruments

Financial assets and liabilities are carried at their net fair value at balance date. The net fair value of financial assets and liabilities approximate their carrying value reported in the Statement of Financial Position because of:

- (i) the short term to maturity or realisation for *cash* and *investments*; and
- (ii) the expected short term to payment for *creditors*.

(c) Unrecognised Financial Instruments

There were no unrecognised financial assets or liabilities.

NOTE 10 – FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit Risk Exposure

The credit risk on the financial assets of the ICRC is the carrying amount of the financial assets.

2001
\$'000

Receivables 229

(e) Interest Rate Exposure

The exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below.

2001	Notes	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial Assets					
Cash		62	-	-	62
Receivables	5.1	-	-	229	229
Total		62		229	291
Weighted average interest rate		5.7%	0.00%		
Financial Liabilities					
Creditors	5.4	-	-	189	189
Total				189	189
Weighted average interest rate		0.00%	0.00%		
Net Financial Assets		62	-	40	102

Reconciliation of Net Financial Assets to Net Assets

Net financial assets as above				102
Prepayment			5.2	3
Property, Plant and Equipment			5.3	129
Employee Entitlements			5.5	(62)
Net assets as per Statement of Financial Position				172

7.3.5 Statement of Performance

Performance measures	Notes	Target	Result	Var %
<u>References for inquiries* into regulated industries (100% of references issues will be acted upon) represented by:</u> <ul style="list-style-type: none"> • ACTION fares 2001-2003 • Taxi fares 2001-2002 • Gas Access Arrangements • Gas Retail Prices 	1	100% 1 Inquiry 1 Inquiry 1 Inquiry	133% 1 Inquiry 1 Inquiry 1 Inquiry 1 Inquiry	33
<u>References for inquiries* into government regulated activities (100% of references received will be acted upon) represented by:</u> <ul style="list-style-type: none"> • Motor Vehicles Fuel Prices 	2	100% –	0% Inquiry in progress	-100
<u>References for inquiries* into Competitive Neutrality Complaints (100% of complaints received will be investigated) represented by:</u> <ul style="list-style-type: none"> ▪ Agistment 	3	100% 1 Inquiry	0% Inquiry in progress	-100

[* References for each of the inquiries in regulated industries and government regulated activities were issued by the Government. The reference for the competitive neutrality complaint was issued by a member of the public, although the cost of the inquiry is being borne by the Commission]

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

NOTES TO THE STATEMENT OF PERFORMANCE

1. The need for an inquiry to determine retail prices for gas supply for the period from 1 July 2001 to 30 June 2002 arose from the completion of the Commission's assessment and approval of the gas access arrangements proposed by ActewAGL in January 2001. The reference was not foreshadowed in the Statement of Intent at the beginning of the 2000-2001 financial year. However, the final report on the reference issued in February 2001 was published in May 2001.
2. The Statement of Intent for 2000-2001 did not include a reference for an inquiry into motor vehicle fuel prices in the ACT. The Government issued a reference for the inquiry in April 2001, subject to the terms of a motion proposed by Mr Rugendyke MLA and agreed by the Legislative Assembly. The reference required that the inquiry be completed by the end of June 2001, with the report being submitted to the Government as soon as possible after the end of June. The research and public consultation phase of the inquiry was completed by the end of June, the report is currently in draft.
3. The Commission foreshadowed one competitive neutrality complaint in 2000-2001, associated with a report at the conclusion of the inquiry. One complaint was received in December 2000: agistment of horses and the management of the government horse paddocks in the Territory. The complaint remained open at 30 June 2001, although the final report is in progress.

8 MANAGEMENT DISCUSSION AND REPORTING ANALYSIS

8.1 Executive summary

The Independent Competition and Regulatory Commission has operated as an independent body since July 2000. During its first year of operation, a number of inquiries and investigations were referred and undertaken as required, subject to the *Independent Competition and Regulatory Commission Act 1997*.

Unlike other ACT Government agencies or authorities the Independent Competition and Regulatory Commission's operating results are based upon the number of referrals for investigation or inquiry received. These referrals may come from members of the ACT Legislative Assembly, private or public corporations or members of the general public.

The Independent Competition and Regulatory Commission normally operates on a direct cost recovery basis. That is, any direct costs incurred in undertaking an investigation are recovered from the corporation or industry to which the inquiry relates. No additional amounts are charged to cover overhead, occupancy or staffing costs. These costs are covered by funds appropriated to provide for the Independent Competition and Regulatory Commission and subject to a purchase agreement with the Department of Treasury.

The Commissioners note the strong financial position of the Independent Competition and Regulatory Commission as at 30 June 2001. This positive outcome is a result of sound cash management and financial policies implemented throughout the year. Those policies and the Commission's performance have been endorsed by an Unqualified Audit Report issued by the Auditor-General for the first year of operation.

8.2 Actual results vs budget variances

As with any new venture, the expected demand for its services and the related expenses in delivering those services, are subject to a wide variety of unknown factors, without previous year's operating figures, the task of formulating the Budget for 2000 -2001 could only be based upon the level of interest in the potential role of the Independent Competition and Regulatory Commission and estimating the resources needed to perform those tasks.

8.3 Statement of Financial Performance

The original cost estimate of an inquiry was between \$125,000 to \$150,000 per inquiry. However, this estimate can vary widely due to the significant but uncertain expense of using outside consultants, a major expense of any inquiry, which is determined in turn by the nature of the investigation being undertaken. The referrals undertaken during the year actually cost less than the cost expected in the Budget. While the lower costs resulted in lower income than expected, it also reflected in the lower Administrative Expenses than budgeted for the period.

The Commission also benefited from an unexpected bonus from work done in cooperation with the ACCC and subject to the Minister's agreement.

User Charges were down 7.5% lower than budgeted. However, Interest Received and Miscellaneous Income meant that overall total revenues were only 6.3% below budget.

As mentioned, Administrative Expenses were less than budgeted – 22.3% lower- mainly attributed to lower than expected inquiry costs. Included in the Administrative Budget were Start-up Costs of

the Commission Secretariat. This cost was also less than expected, along with a number of other running and overhead costs.

Employee Expenses for the year were \$52,000 greater than expected. This was due to the transfer of employee entitlements of Long Service Leave and Accumulated Recreational Leave accumulated by a number of Commission staff from other government departments which was not foreseen. This amount was brought to account in the Commission's financial statements to reflect the Commission's real future liability for employee entitlements.

Overall, the changes in revenue and expenditure by the Commission resulted in an operating surplus to the Commission of \$43,000. The budget has shown a \$Nil surplus from operations.

8.4 Statement of Financial Position

The Independent Competition and Regulatory Commission Budget 2001 had expected a balanced Statement of Financial Position with total assets being equal to total liabilities. The end result at 30 June 2001 being that total assets were \$172,000 greater than total liabilities. This was due to a number of factors.

Cash at the bank was 77% higher than expected and monies owed to the Commission was 400% greater than budgeted, \$229,000 instead of the expected \$45,000 at 30 June 2001.

The transfer of Leasehold Improvements and Fittings costs was an unexpected addition to the Commission's assets. This amount of \$129,000 shows the true cost of capital resources the Commission uses to perform its duties and, like employee entitlements mentioned earlier, should be reflected in the Financial Statements. The Commission budget had anticipated \$35,000 of Property, Plant and Equipment, but showed \$129,000 on the books at year end.

Whilst the amount of money owed to the Commission at year end was higher than expected, the amount the Commission owed to creditors was also greater than expected. This was due to the fact that monies owed to us had not been paid and therefore, the payment to our creditors was also delayed. Subsequent to the financial year's end, most receivables had been collected and the Commission's creditors paid out by the end of July. The budget originally expected current liabilities to be greater than current assets – a negative working capital situation – but the end result was a very strong positive working capital ratio. The increase in current and non-current employee entitlements showing at year end was accounted for by the transfer in of existing liabilities as explained earlier and had not been expected.

8.5 Outlook for 2001 – 2002

The outlook for the Commission is expected to remain strong over the coming year. A large number of applications for Utility Licences have been processed and revenue resulting from those licenses will flow through during the year. This is a new source of revenue commencing this current financial year (2001-2002) hence was not shown in results to 30 June 2001. Along with this increase in revenue, there will be a need to regulate the utility licences and compliance with licence conditions. Therefore some additional staff resources may be needed. These additional resources are expected to cost less than the licensing fee revenue received. They will also assist the Commission with fulfilling its responsibilities in its other regulatory roles, which are expected to increase as its role in the Territory's regulatory framework is better understood and used.