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NCP Inquiry  
Productivity Commission  
PO Box 80  
Belconnen ACT 2616

## **Review of National Competition Policy Arrangements**

Thank you for the opportunity to make a submission to the Review of National Competition Policy Arrangements (NCP).

### **Introduction**

The implementation of NCP arrangements, over the last eight years, has been a significant and costly exercise for Local Government in Tasmania.

Local Government has made a direct contribution to the reform process and is responsible for a significant proportion of the benefits accruing from the implementation of effective competition reform. It has made specific and substantial contributions in the areas of competitive neutrality, legislation review, prices oversight, in the case of bulk water authorities, and administrative change. In particular, substantial effort has been expended in implementing water industry reforms.

Indeed, the Tasmanian Government has acknowledged Local Government's contribution to Tasmania's progress in meeting its NCP obligations:

*Tasmania has made excellent progress in meeting its obligations under the Agreements. This is due, in part, to the co-operation of Local Government in implementing NCP.<sup>1</sup>*

Nevertheless, despite the contribution it has made to higher economic growth as a result of implementing these reforms, which have yielded benefits to the State in terms of NCP payments, Local Government in Tasmania is not receiving its share of the financial benefits. This is despite the fact that Local Government activities

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<sup>1</sup> Department of Treasury and Finance. **National Competition Policy: Applying the Principles to Local Government in Tasmania**. April 2004 p 1.

were specifically referenced in the agreement between the Australian Government and the States and Territories.

### **Implementation of NCP arrangements by Local Government in Tasmania**

Councils and other Local Government bodies have continued to introduce change within their administrations to meet NCP goals and have been particularly active in the areas of competitive neutrality, prices oversight, water reform, legislation review and organizational change.

Local Government has accepted the principles of competitive neutrality and undertaken a thorough assessment of its potential trading undertakings. The sector has devoted significant funding and resources to this project.

For example, considerable resources were expended in order to analyse water and sewerage activities to determine the public benefit of corporatising those functions in each municipal area. While no activities ultimately required corporatising the resources expended in undertaking the public benefit tests, which were significant, were all borne by Local Government.

Councils have also made a large contribution through the implementation of water reform, undertaking public benefit assessments of their water reticulation activities to determine whether it is appropriate to have in place infrastructure that allows for fixed and variable costs for the supply of water. They continue to apply the Water Pricing Guidelines to their water and wastewater businesses and, in accordance with the principles of competitive neutrality, they continue to regularly review their activities to determine whether any should be classed as Significant Business Activities (SBAs).

Overall, the organizational costs associated with implementing NCP have been substantial and there has been a considerable administrative burden placed on Councils. In addition to the implementation of appropriate review mechanisms Councils have been required to establish procedures to deal with any competitive neutrality complaints. They are also required to demonstrate their ongoing compliance with NCP by reporting against a range of specific criteria in their annual reports.

As a result of NCP, Tasmania embarked on a program to review all legislation deemed to restrict competition. A significant component of the program impacts on Local Government and in line with the Partnership Agreement on Communication and Consultation, Local Government is consulted on all legislation that will affect its operations and resources. While Local Government welcomes the consultation process, it has nonetheless required the expenditure of a great deal of effort, time and resources throughout the sector.

Local Government has also had to bear the direct financial impacts from reforms instituted by other spheres of government. These costs have resulted from NCP reforms to the electricity, road transport and water industries.

## **NCP Payments**

NCP payments are intended to reflect the share of additional revenue through the Commonwealth tax base as a consequence of the higher economic growth resulting from effective competition reform. Nevertheless, despite recommendations from the National Competition Council to share payments, the Tasmanian Government continues to refuse to do this.

As a consequence Tasmanian Local Government is receiving no direct compensation for the costs it has had to bear in implementing reform. While other State Governments, with the exception of Western Australia, Queensland and Victoria, have recognised Local Government contribution to the reform process and provided a share of NCP payments, the Tasmanian Government has refused to do so.

The Association respectfully suggests that the approach taken by the Tasmanian Government is not in line with the NCC's advice that suggests a proportion of the NCP payments to each State Government is intended to offset any upfront costs borne by Councils in implementing competition policy reforms that have a lasting benefit to the community and economy.

I hope these comments are helpful in informing the Inquiry's deliberations.