

25 June 2004

NCP Inquiry  
Productivity Commission  
PO Box 80  
**BELCONNEN ACT 2616**

Dear Chairman

## **REVIEW OF NATIONAL COMPETITION POLICY**

Thank you for the opportunity to make this submission to the review of National Competition Policy (NCP). We apologise for having missed the closing date, but we unfortunately overlooked your initial invitation for submissions.

Beginning in 1969 as the Building Owners & Managers Association (BOMA), the Property Council of Australia (PCA) has established itself as Australia's most respected and influential property industry group – a feature recognised by successive Federal, State and Local Governments.

Members have been investors in Tasmania for many years. They have taken an active interest in the implementation of NCP in the State and its impact on business.

### **Our Concerns**

Primarily, the PCA is concerned that local governments have immunity from important competition requirements which allow them to operate under favourable terms in markets where there are private-sector competitors.

PCA grievances centre on activities such as building approval services, parking, waste management and recreational facilities which are owned and operated by councils; however, they compete in the same market as private-sector operators. Whereas councils may disclose the full cost of providing these services, they do not have an obligation to adopt market-based pricing.

Apart from the above activities, PCA also has concerns at water and sewerage pricing and these are the focus of this submission.

### **Bulk Water Supplies**

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In Tasmania, there are three bulk water suppliers: Esk, Cradle Coast and Hobart water authorities. These authorities are regulated in their pricing by the Government Prices Oversight Commission (GPOC).

The bulk water supplies are owned by the local councils they supply water to. The governance arrangements are that the councils have established joint authorities (upon which all owners are represented) to oversight the management of the bulk authorities. The joint authorities provide strategic direction and appoint expert boards to manage the bulk authorities.

PCA holds serious doubts whether these governance arrangements are in the interests of rate paying consumers because the councils are retailers of water as well as owning the bulk supplies. The governance structure for bulk and retail water supplies does not allow the retailers to operate independently of bulk suppliers.

This issue is especially important because there is not a clear separation of councils as water retailers and also owners of bulk water supplies, notwithstanding the existence of joint authorities which sit in between. Joint authority members are also members of councils and bulk water board officials regularly attend meetings of the authorities.

For example, there are situations where a joint water authority adopts summertime water restriction policies to be implemented by council retailers, not on the basis of insufficient water from the bulk supply, but instead to reduce the amount of water individual councils purchase in the interests of reducing water purchases.

### **Retail Water Supplies**

Councils each independently retail water and sewage services. The regulator does not regulate the retail price of these services. The “Gate Keeper” is ineffective unlike what occurs in most other States where the regulator actually regulates the retail price for water and sewerage.

In the Southern Tasmania, water usage is almost twice the amount of other urban areas in Australia. Whilst several of the smaller councils meter their water supplies, the four major metropolitan councils in Hobart do not: that is, apart from non residential properties which are high consumers of water. These councils primarily charge for water and sewerage services on the basis of the AAV of property.

AAV stands for assessed annual value which is the rating system used by councils in Tasmania. A broad definition of AAV is that it is the amount a property owner could



expect to receive from rental for a year. AAV bears no relationship to the quantity of water properties consume.

In a number of instances, councils do not even meter their own water usage or account for the water they consume in providing community services. In effect, councils treat the consumption of water as a free commodity. This practice, in itself, is justification for institutional reform.

### **Regulation of Bulk Water Pricing**

The Tasmanian GPOC recently released a draft report into its investigations of pricing by the bulk water authorities in the State.

If there is one remarkable thing about this draft report, it is that the water authorities have ignored a number of the Commission's past recommendations on pricing and related matters.

The Commission, when it last reviewed water pricing in 2001, made a number of findings on the future pricing of water and made the observation that its final report should be regarded as a prudent guideline for determining future pricing policies. Its 2004 review has revealed that the water authorities have not followed those past recommendations.

The reluctance by the authorities to take GPOC deliberations seriously calls into question the merits of price regulation and investigations in relation thereto. Regrettably the current situation sends a signal to the water authorities that GPOC reviews are irrelevant – that is not a good outcome.

PCA has suggested to GPOC that the final report should, in the most forceful terms possible, highlight the unwillingness of the water authorities to take heed of GPOC previous findings. Moreover, we believe that it would be appropriate for GPOC to report to the Minister that it is apparent Government intervention will be necessary for the authorities to implement pricing reforms.

It is PCA's unequivocal belief that there are significant efficiencies to be gained in the provision of water services, but whilst there is not an effective regulatory regime over pricing, these reforms will be difficult to achieve.

### **Future Water Reform**

In 1995 a study was commissioned by the Tasmanian Roles and Functions Review Committee for *London Economics* to review the provision of water and sewage services in Tasmania. This report recommended institutional reform of the retailing

of water and sewerage businesses along with bulk water suppliers, but this advice was not supported by either State or local governments.

The recommendations which provided for the vertical and horizontal integration of water and sewerage services within the three geographic regions of the State would have resulted in significant savings to ratepayers.

Local government resisted these reforms because they would lose control. Arguably instead of acting in the best interest of ratepayers or Tasmania they acted in self interest.

Important resources such as water need to be regulated on a regional basis. Effective regulations and pricing is essential to ensure proper future investment in infrastructure.

### **Local Government NCP Obligations**

Local government contends that it has made satisfactory progress in meeting its obligations under NCP and is therefore entitled to share in NCP payments by the Commonwealth to the State Government. These contentions are not soundly based: local government has a long way to go in implementing NCP reforms, especially in the areas of water, sewerage, parking, waste management and recreational facilities.

Proper pricing for services and metering of all water supplies is the only way Tasmanians will become more water conscious. The current methods are ineffective with no likelihood of change while bulk water authorities can ignore GPOC findings and councils can avoid universal water metering along with implementation of two part pricing.

PCA believes that in the long term, to deal with water and sewerage issues successfully there has to be institutional reform. Local government should not be involved in water or sewerage services. It should all be merged into three regionally based water authorities along with existing bulk water authorities. These authorities would then be regulated through GPOC. The Commonwealth could regulate material water issues more effectively, if this structure was in the place.

The fragmented nature of the industry in Tasmania and the competing political issues at the local government level means that at present water and water industry is not well protected. The Commonwealth needs to take a more active role in protecting water and the environment.



PCA hopes this submission is of some value. PCA representatives would be only too pleased to meet with the Commission to further discuss its concerns,

Yours sincerely

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