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**RE: REVIEW OF NATIONAL COMPETITION POLICY REFORMS:
DRAFT REPORT**

Northern Territory Treasury offers the following response to the Commission's draft report on the Review of National Competition Policy Reforms.

Northern Territory Treasury is generally supportive of the findings of the Commission's draft report on National Competition Policy (NCP) and considers that it provides useful input to the Council of Australian Governments' (CoAG's) review of NCP, scheduled for 2005. In particular, the following draft findings appear to have a sound basis:

- NCP has contributed to Australia's economic performance over the last decade;
- demographic and environmental factors as well as increasing global economic integration warrant further productivity-enhancing reforms if living standards are to be maintained in the future;
- the NCP framework provides useful lessons for the development of future nationally-coordinated reform programs; and
- CoAG is the appropriate forum for the consideration and development of future national reform frameworks.

Furthermore, Northern Territory Treasury:

- endorses the Commission's assertion that existing NCP commitments for energy, water and legislation review should be completed in order for the benefits of the original NCP program to be realised in full;
- advocates further reform for the energy and infrastructure services sectors – as highlighted by the Parer Review and the Commission's recent reviews of Part IIIA of the *Trade Practices Act* and the National Gas Access Regime,



maximisation of economic efficiency and reliability in the supply of energy and energy-related essential infrastructure is currently impeded to some degree by regulatory factors; and

- contends that the proposal for a comprehensive reform program for passenger and freight transport has merit – the development of a competitive, integrated national transport system is of particular interest to the Territory given its geographical isolation from Australia’s larger population and supply centres and proximity to international trading partners in south-east Asia.

The following views on the Commission’s findings regarding incentive arrangements and health are provided for information.

Reform Incentives under Nationally Coordinated Reform Frameworks

The Commission’s view that competition payments have “played a pivotal role in maintaining reform momentum within the States and Territories” (pg 140) is acknowledged. This is of particular relevance to the Territory given the comparatively high costs of reform implementation, and more limited scope for competition-related benefits to be realised at this stage of the Territory’s economic development.

As noted in the initial submission, the Territory experiences significant diseconomies of small scale in public administration due to its relatively small population. These scale-related cost disabilities have been most prevalent in undertaking the legislation review program, where the Territory had the highest per capita review burden of all jurisdictions.

While the costs of reform have been relatively high, the Territory’s commitment to NCP has been in recognition of the potential longer term benefits for the Territory community and potential national economic benefits associated with the minimisation of inter-jurisdictional distortions on competition.

The provision of competition payments has provided a degree of compensation for the costs incurred and a share of the national revenue benefits accruing to the Commonwealth through its income taxing powers. These arrangements reflect the cooperative federalism principles that underpin NCP.

Allowing the Territory to share in the national reform dividend has provided additional incentive to undertake NCP reforms. Permanent competition payments are appropriate given the ongoing nature of the benefits flowing from NCP and the need to encourage against the subsequent unwinding of reforms.

Accordingly, given the significant administrative scale effects associated with reform implementation in the Territory, commensurate transfers from the

Commonwealth is likely to be an important consideration in the Territory's commitment to broad-based, national microeconomic reform agendas in the future.

Sectors Identified for Future Reform – Health

The proposal for a CoAG sponsored comprehensive review of Australia's health system to provide a possible basis for a future reform program, has merit. Support is provided in recognition of the Territory's substantial health-related needs.

The Territory's relatively unique demographic composition, combined with the impacts of remoteness and isolation result in demand for health services and cost drivers which diverge significantly from national profiles.

With regards to the current institutional structure underpinning the national health system, the legacy of centrally administered hospital services, prior to self-government in 1978, remains prevalent in the Territory. It should be noted that the Territory still bears the costs of policy decisions of the past.

Accordingly, it is likely that commitment to a national health reform program would be contingent upon the Territory being afforded sufficient autonomy and flexibility in policy development and service delivery in a manner that meets the specific needs of Territory communities.

Yours sincerely

Tony Stubbin
Acting Under Treasurer

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