

16 December 2004

Enquiries: Peter Scott  
Direct Phone: (07) 5420 0115  
Direct Fax: (07) 5420 0111  
Our Ref: 210/1/P-06  
Your Ref:

Review of NCP Reforms  
Productivity Commission  
P O Box 80  
**BELCONNEN ACT 2616**

Dear Sir/Madam

**Re: Submission on the Discussion Draft for the review of NCP reforms**

I write to provide commentary on the above draft in regards to its operation within the Local Authority environment.

**Progress in implementing the NCP**

***Water***

Institutional reforms

Whilst it is acknowledged that much work and reform has been undertaken in this sector, an emphasis needs to be given to the level of rigour with respect to the clear dichotomy between the investing and financing activities. It is considered that sometimes too much of an emphasis is given to one over the other, often without considering the negative externalities that decisions can have in isolation. This is particularly evident with respect to the environment and pricing.

Pricing reforms

This area of reform does not appear to have achieved the desired level of commitment from Local Authorities to provide a commercial rate of return (ROR) that the private sector is required to do to maintain the highest possible return to shareholders. For example, I am aware that there are a number of Local Authorities with commercialised business activities that do not achieve reasonable market returns (WACC). This creates a problem when residents compare pricing for water and sewerage rates between Local Authorities and can (and often do) draw the incorrect conclusion that the higher priced authority is inefficient operationally when this may not be the case. Furthermore, this lack of adequate pricing fails to place sufficient emphasis on the relativities between pricing and the demand side of utilising water that is priced incorrectly.

Covers the scope of activities for:  
• CabWater  
• Works

### Investment reforms

If more time and effort was spent factoring in all of the costs (externalities) of projects when making investing decisions, other projects that appear on face value to be less financially attractive may prove not to be so. For example, the use of wastewater reuse schemes might be viable if the same level of public funding (State subsidies) was provided as is for the augmentation of dams.

### Allocation and trading reforms

The level of reform to date has focused on the urban sector and it is felt that the speed of reform for the use of bulk water for urban consumers and rural water users requires more priority to ensure that the full cost pricing of this scarce resource is achieved as soon as possible. This is particularly evident in South-East Queensland.

### Competition payments

It is considered that the report falls short of emphasising the importance that NCP payments have had at the micro level for Local Authorities, particularly in the States such as Queensland which has passed on some funding to the Local Authority. If payments (carrot not stick) are not continued in some form it is felt that the Local Authority reforms may slip away and all of the hard work could be wasted. A major step forward has been taken, particularly for those Councils which have commercialised, and the fruits of such labour should be financially recognised.

### ***Prices, service quality and GBE performance***

#### Price impacts of NCP

As indicated above, it appears there is much inconsistency with respect to the rates of return (ROR) sought by commercialised activities across Local Authorities, with the contrary effect being lower pricing. Understandably not all commercialised businesses across the sector will have the same ROR however, they still should be within a reasonable margin (as is the case in the private sector) or they would not survive as going entities for any extended period. As indicated in the report (p 54) average household water prices increased by 6 per cent between 1990-91 and 2002-03. If inflation and growth was removed from these percentages then the increases may not adequately reflect the true economic cost of water, thus failing to achieve the desired economic and environmental outcomes.

### ***Social, regional and environmental impacts***

Unfortunately it would appear that the levels of reform in some rural and regional local authority areas has not been helped by the anecdotally negative campaign that some have run against the NCP reform agenda. The report could provide much more evidence to substantiate the value of the reforms in these communities and if there are proven costs then adverse impacts should be mitigated in the public interest.

***The importance of continuing reform***

As indicated previously, it is considered that the Federal Government should provide adequate ongoing funding to avoid backsliding that will invariable happen when the pool for incentive payments is exhausted. By tying ongoing financial assistance to ongoing reform and with a genuine commercial focus, then it is felt that much more can be achieved across the Local Authority sector.

Your consideration on the above comments would be appreciated.

Yours sincerely

**WAYNE WALLIS**  
**GENERAL MANAGER CORPORATE SERVICES**