

IMPACT OF NCP AND RELATED REFORMS TO DATE.

Would the strong economic outcomes evident in recent years have been possible without micro economic reform in general and NCP in particular?

How important have NCP initiatives been relative to other factors (for example technological change and education and training) in contributing to Australia's recent economic performance?

To what extent have NCP and related reforms contributed to the achievement of other policy goals (for example, social, regional, and environmental objectives)?

Other major changes in Queensland local government over the past decade would account for some of the improvements in local government performance. Particularly:

- Adoption of the new Local Government Act including requirements for integrated Corporate and Financial Planning and more open and accountable decision making processes (1993)
- Amalgamations of Councils in strategic growth corridors in Cairns and South East Queensland (1994)
- Requirement to introduce accrual accounting in all Councils by 1997.
- Integrated Planning Act requirements.

In addition, Queensland has a unique agreement to share the State's competition payments with local government on an incentive basis (The Local Government Financial Incentive Payments Scheme (LGFIPS)). A comparison of changes in economic performance and pricing practices of Queensland Local Government with the Other States could be instructive in considering the use of targeted local government incentive schemes in the future.

How large have the benefits and costs of individual NCP and related reforms been? In what form have they been manifest? Which community groups and regions have been affected most? What have been the social benefits and costs?

Are there perspectives that have not been sufficiently considered in implementing the reform program (for example, have distributional impacts and adjustment costs been adequately taken into account)?

Have significant adjustment problems been widespread or limited to a subset of NCP reforms? What are the distinguishing characteristics of those reforms where significant adjustment problems have arisen?

There has been a dichotomy in price changes due to NCP. Consumers of Water and Sewerage services would query why NCP and regulation, when applied to electricity, telecommunications and other industries, results in lower prices compared to price increases (generally) when applied to Water and Sewerage. The relationship of Qld Water and Sewerage price increases to dividend policy and prices of other council services may not be clear to consumers.

Furthermore, the requirement to apply full cost pricing to water and sewerage activities effectively establishes a rate of return based regulatory regime. For monopoly Water and Sewerage businesses this should be complemented with 'incentive' measures to promote greater efficiency. This would require some regulation or approval of dividend policy for example.

Have some NCP reforms been more successful than others in meeting their objectives and delivering benefits? If so, why?

What could have been done better and what lessons does this provide for future reform initiatives? For example, are there any areas where reviews of NCP impacts have been deficient and, if so, why? Was adequate information collected on the benefits and costs prior to the implementation of reforms? Can any lessons be drawn from overseas experience in assessing the impacts of NCP?

The Competition Policy Reform Bill stated that “many public sector organizations have both commercial and non-commercial functions, and these reforms are not designed to affect the non-commercial functions undertaken for governments”ⁱ

Commercial functions or ‘business activities’ of council’s are defined as an activity of the local government trading in goods and services to clients.

The commission should acknowledge that there have also been significant collateral benefits from the voluntary application of competitive neutrality principles to ‘non-commercial’ functions of Queensland local government. This has been encouraged through the Local Government Financial Incentive Payments Scheme (LGFIPS) scheme which allowed QLD local government to nominate a wide range of activities for reform and share in the state’s competition payments.

Collateral benefits have also been achieved through the comprehensive application of full cost pricing principles and adoption of sophisticated activity based costing systems in some councils which provide greater costing intelligence and pricing signals across the whole organisation. The costs of internal and support services have been analysed in the same way as those of the ‘business activities’.

The Council of Capital City Lord Mayors (CCCLM) issued a series of position papers in 1995/96 about the implementation of the National Competition Policy.ⁱⁱ

Particularly the Council was concerned about the application of the Tax equivalence Regime (TER) - “The CCCLM recommends that the net impacts of phasing out TERs be thoroughly investigated. The alternative of all government businesses paying full taxes (rather than TERs), including local government rates, to the relevant taxing government needs to be considered.”ⁱⁱⁱ

TERs were introduced as an interim solution until the complexities of effects on inter-governmental funding could be analysed. The position paper argued that while TERs are essential to NCP in the short term, the full benefits of competition and contestability in government businesses will only be achieved when these enterprises face the discipline of ‘Real’ taxes. It would be reasonable to re-examine the future of TERs as one of the opportunities for further reform.

These tax changes could also help address complex issues arising from the tax status of governments such as the current proposed requirements in the Tax Preferred Entities (Asset Financing) Bill 2003 (Division 250).

OPPORTUNITIES FOR FURTHER REFORM

How important are the remaining NCP reforms compared to those already undertaken? How significant are the potential gains from completing the agenda?

Are there specific impediments to completing aspects of the current NCP agenda and how could they best be addressed? Have aspects of NCP processes (for example, the requirement for separate State and Territory legislation reviews of common issues) been inefficient and/or contributed to the time taken to complete the agenda?

No Comment



Is the current NCP framework (its legal underpinnings, processes, institutions and incentive payments) the most effective way of progressing and extending competition reform and of 'locking in' the worthwhile changes that have already been made? What modifications to the present framework would improve its operation?

Are the underlying objectives of NCP still appropriate? If not, how could they be modified?

Are there procedural issues that need to be resolved for the future? For example do current processes take appropriate account of adjustment issues? Is the current public interest test facilitating socially beneficial reform? Has it provided a means to avoid worthwhile reform in some areas? Have differences in the approach to legislation review and reform across jurisdictions had any significant impacts or outcomes? How effective have competition payment arrangements been in facilitating reform?

No Comment

Are current CoAG energy and water initiatives appropriate ways of extending reform in these areas? Are there other reform opportunities in these areas that need to be explored? What benefits and costs would they involve and what procedural arrangements would be required to implement them? What impediments are there to the timely implementation of additional reforms in the energy and Water sectors?

No Comment

Beyond water and energy what scope is there to build on the existing NCP reform agenda? What benefits might this bring? What are the particular impediments or potential costs in extending the reform agenda to these areas?

No Comment

How successful have past market-based reform initiatives been in improving the delivery of social infrastructure services, environmental outcomes, allocation of public resources etc? What have been the benefits and costs associated with their application? Were there unintended consequences? Were those consequences adequately addressed?

Has the effectiveness of these initiatives been hampered by virtue of being outside a formal NCP-type framework? For example, have the benefits and costs been properly assessed?

What opportunities are there to extend existing competition or market based initiatives in areas where they are currently applied? Could the same mechanisms be applied to other service areas? What are the main caveats on their future use?

If there are areas unsuited to competition-related reform, what alternative approaches for improving performance are there? What are the characteristics of those areas which would prevent the application of market-based initiatives?

The transparent identification of Community Service Obligations (CSOs) for some activities (eg: Cultural Activities) is seen by some as synonymous with providing subsidies for inefficiencies. Anecdotally this negative connotation results in these activities having a harder time justifying their continued existence than fee generating activities. Future programs could identify ways for these activities to develop performance plans and benchmarking programs to assist them as they battle for validity in an NCP world.

Council believes that other competition-based reforms that coincide with (but are not part of) the implementation of NCP such as the increased use of contracting out and competitive tendering should remain a management prerogative. This was identified as a principle in the 1993 Hilmer Report^{iv}.

Should addressing restrictions on competition in 'input' markets be a priority for the future? What benefits and costs would reforms in these areas involve? Can these issues be addressed adequately within an NCP-type framework or is a parallel process required?

No Comment

To what other areas might an 'all-embracing' competition reform agenda extend? What would be the benefits and costs? Could such reforms be readily accommodated within an NCP-type framework? If not, what processes should be employed?

No Comment

ⁱ MinisTERs second Reading Speech, Competition Policy Reform Bill, Page 4.

ⁱⁱ 'The National Competition Policy: A Capital City Perspective' Position Paper Number 2, p19, March 1996, Council of Capital City Lord Mayors.

ⁱⁱⁱ Ibid Page 5

^{iv} The Hilmer Report states that NCP should not be concerned with "Situations where monopolies are maintained or competition restricted through government restrictions on sourcing budget funded goods or services. Decisions in this area are commonly regarded as management prerogatives, as they are in the private sector" (page 206)

