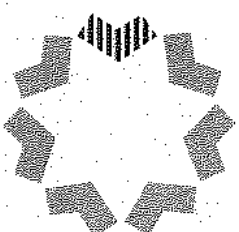


National Competition Council

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House of representatives Standing Committee on
Economics, Finance and Public Administration

Submission No: 324

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Secretary: *Sudell*

20 November 2002

Mr Trevor Rowe
Secretary
House of Representatives Standing Committee on Economics, Finance and Public
Administration
Parliament House
CANBERRA ACT 2600

Dear Mr ~~Rowe~~ *Trevor*

I refer to recent discussions between the Committee and Graeme Samuel and myself, as well as your letter of 24 October. I understand that the Committee would welcome the Council's comments on certain views about National Competition Policy (NCP) put by local governments to the Committee's Inquiry into Local Government and Cost Shifting.

I have attached a brief submission that summarises the main roles played by local government in implementing NCP and outlines the arrangements for competition payments. The submission also indicates the Council's view on the practice in some jurisdictions to share competition payments with local governments.

Thank you for the opportunity to provide this information. Please feel free to contact me if the Committee requires additional information.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Ed Willett'.

Ed Willett
Executive Director

National Competition Council submission to the House of Representatives Standing Committee Inquiry into Local Government and Cost Shifting

The role of local government in National Competition Policy

Local government has played a significant role in implementing National Competition Policy (NCP). Under Clause 7 of the Competition Principles Agreement (CPA), all jurisdictions agreed to apply the principles set out in the CPA to local governments. (Local governments were not signatories to the agreement in their own right.) The CPA reforms that require the greatest commitment from local government are the implementation of competitive neutrality, the legislation review program and reform of water management and regulation.

Competitive neutrality is essentially about ensuring that government-owned entities do not have an advantage over privately-owned competitors due to their public ownership. It requires governments to review their significant businesses to ensure that they are subject to the same taxes and regulations as their private sector competitors and that they set prices for their goods and services that take full account of all costs of production. Corporatisation may be required for larger government businesses.

Clause 5 of the CPA obliges governments to review and, where appropriate, reform all existing legislation that restricts competition. It requires governments to remove restrictions on competition unless they demonstrate that such restrictions benefit the community overall (being in the public interest) and that the benefits cannot be achieved in ways that do not restrict competition. Governments must also ensure new legislation that restricts competition meets the same tests. Assessing whether restrictions on competition are warranted — that is, taking into consideration the benefits and costs to the whole community — requires governments to establish independent reviews to consider the wide range of public interest factors including those factors in the CPA clause 1(3) (such as the likely impacts of reform on specific industry sectors and communities).

In 1994 all State and Territory Governments agreed to reform water management and regulation to ensure water is used efficiently and sustainably. The water reforms were absorbed as part of NCP in 1995. They have significant implications for local governments in Queensland, Tasmania and New South Wales where local governments have prime responsibilities for the provision of water. Water reforms (urban and rural pricing reforms, institutional reforms, vesting property rights, water trading arrangements

and environmental allocations) have placed considerable demands upon local governments.

Competition payments and local government

Under the Implementation Agreement, all parties agreed that the Commonwealth would make competition payments to the States and Territories in return for implementing the NCP reforms. These payments recognise that NCP reforms, by increasing growth and industry performance, increase Commonwealth revenues. In this context, the payments are 'dividends' paid by the Commonwealth to the States and Territories in return for their investment in reform. The amounts paid to date and estimated future payments are shown in Appendix 1.

The suite of NCP agreements recognise State sovereignty in implementing the reforms and in determining how the payments are used - including any sharing with local governments to reimburse them for the costs of implementing NCP. While the appropriate application of the NCP public interest test should ensure that reforms are of overall benefit to the community, the Council accepts that there have been circumstances where particular local governments have incurred significant reform costs without necessarily being able to accrue a proportionate share of the benefits. To date, only the Governments of Victoria, Queensland and Western Australia have elected to provide their local governments with a share of competition payments.¹

In general, the adequacy or funding for local government is a broader matter than competition payments. The total quantum of funding received by local governments (and its fungibility) is the key issue. Nevertheless, the Council sees benefits in the States and the Northern Territory² providing local government with a dedicated share of competition payments and has consistently supported this approach. In its 1997-98 Annual Report (p. 144), the Council noted that the transfer of competition payments by jurisdictions to local government provides an incentive for reform and assists with associated costs such as conducting public interest tests and reviews of businesses. In its 1998-99 Annual Report (p. 15), the Council again expressed support for those jurisdictions that make a share of competition payments available to their local governments and stated that:

To the extent that NCP makes significant demands on local government, other governments could consider introducing similar arrangements. A major benefit may be greater acceptance of NCP reform at the local government level.

¹ Western Australia has discontinued these payments.

² The ACT does not have local government.

More recently, in a media release dated 8 March 2002, the Council described the incentive payments offered by the Queensland Government to its local governments for implementing water reform and other NCP reforms as:

an innovative and practical mechanism for assisting local governments with implementing changes which ultimately bring long term benefits to the community.

In summary, the Council acknowledges the important role of local government in implementing NCP and recognises that the allocation of competition payments is a matter for State and Territory Governments to determine. That said, the Council supports Governments making part of their competition payments available to local governments both as a contribution to the costs involved in implementing reforms, and, importantly, as an incentive to continuing reform at the local government level.

Appendix 1

Annual Competition Payments (\$m), 1997-98 to 2005-06

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	(a)	(a)	(a)	(a)	(b)	(b)	(b)	(b)	(b)
NSW	126.5	138.7	209.5	155.9	242.5	248.6	254.7	260.7	267.0
Vic.	92.8	102.0	152.1	114.7	179.6	184.7	189.0	193.6	198.1
Qld	74.2	81.6	118.9	73.0	147.9	139.6	143.8	148.2	152.8
WA	38.4	42.4	61.9	45.5	71.1	73.0	75.1	77.2	79.4
SA	34.3	38.4	53.5	35.9	55.7	56.7	57.7	58.8	59.8
Tas.	12.6	13.9	18.7	11.2	17.4	17.7	18.0	18.2	18.5
ACT	6.2	7.0	10.8	7.5	11.6	11.9	12.2	12.4	12.7
NT	11.2	13.0	14.4	4.5	7.6	7.5	7.8	8.0	8.2
Total	396.2	436.9	639.8	448.0	733.3	739.8	758.2	777.1	796.5

(a) Actual from Final Budget Outcome documents.

(b) Estimate from the Commonwealth Budget 2002-2003, Budget Paper No. 3 (Federal/Financial Relations).

Note 1 Totals may not add due to rounding.

Note 2 Figures up to 1999-2000 include Financial Assistance Grants.

Note 3 Estimates based on current inflation rate and population growth rate.