

The Inquiry is assessing the economic and social effects of the National Competition Policy (NCP) on rural and regional Australia relative to those living in metropolitan areas.

Obviously we cannot comment objectively on the impact on metropolitan residents. We expect the Commission to provide that judgement after its research in both geographic areas.

We will however comment on where we feel the NCP has negative impacts on us or is not achieving its stated objectives.

We note the objective of the NCP is that greater competition will create incentives for improved economic performance - higher productivity, lower prices, improved quality - thereby resulting in rising incomes, employment and living standards.

As a major value adding and exporting region with a relatively small population we cannot afford inefficiencies and so we support the NCP objectives. The problems we face are caused by indiscriminately extending NCP to industries in which the benefit is less than the cost, and in the uncoordinated or selective implementation of policy.

The State Governments will receive \$16 Billion from taxpayers via the Federal Government for implementing these reforms, but we have no evidence that those most affected by the policies will receive any of those funds. In many cases it will be political pressure and not real need which determines each State's funding recipients.

A NCP representative (a) has acknowledged that water reform is likely to be one of the largest reform areas with regard to the size of tranche payments.

This fact would have been well known to the NSW Government when in August 1997 it announced its Water Reform package costing \$117 Million over five years and then sheeted home most of the cost directly to water users. One of the few positive decisions of the NSW Independent Pricing and Regulatory Tribunal was to push that cost back to government.

Rural industries are generally price takers, not price makers. They are big users of fuel and transport services and in our region, water. Prices are not falling in those service industries at the same rate as costs are rising for agriculture and yet all are supposedly subject to the same reform process.

Some examples are:

Farmers storing and drying their grain on farm must now pay industrial electricity rates rather than the cheaper domestic rates applying pre NCP. Yet when they are finally able to negotiate tariffs for electricity, benefits will be marginal because distribution, and not the electricity, forms the bulk of their bill, and distribution costs are not negotiable.

The major cost component in transport remains taxation and fuel and competition in the fuel market here is non existent in our part of the country.

(a) Ed Willet. Paper to the Australian Water Conference. Melbourne June 1998.

The most absurd though is rural bulk water reform which was agreed to by the Council of Australian Governments (COAG) accepting the recommendations of its Working Group on Water Resource Policy.

The total bulk water charge in Murrumbidgee Valley in 1989 was \$1,538,000. By 1995/96 the NSW Department of Land and Water Conservation had doubled the cost to \$3,249,000 by including a host of extra programs it felt water users should pay for. In 1998/99 under NCP's full cost recovery the regional budget has skyrocketed to \$13,654,000 of which water users pay \$7,100,000. (The DLWC claimed water users should pay \$9,500,000 but the Independent Pricing and Regulatory Tribunal ruled otherwise by excluding some government initiated programs.)

This 787% increase has not been caused by an increase in service levels - just a massive increase in programs that government believe are necessary, and an equally massive shift in responsibility for payment from government to water user.

The COAG call for charges to be based on efficient costs has been ignored and irrigators have been denied access to the ongoing water reform process by the various state bureaucracies which have apparently been deliberately misleading the National Competition Council (NCC) staff who are auditing implementation. On June 23, 1998 the NCC's Ed Willett told the Australian Water Conference "the rural water sector has operated, and continues to operate, at levels below full cost recovery."

So much for impartiality by the referee. To our knowledge Mr. Willett has never visited this irrigation area, nor spoken to any of our representatives. His speech only makes mention of efficient business costs as a footnote.

According to Mr. Willett, NCC does not believe that the regulator and service provider should be responsible to the same Minister and that separation is required no later than 1998. This policy is one we strongly endorse, but have had no success in getting the NSW Government and the DLWC to accept. While a separate business unit - State Water - has been established, it remains within the department, has no separate accounting system and has resource management services provided by the same staff who then audit its performance. Such action lacks accountability and transparency and deliberately limits the input of customers who could drive commercial practice and an efficient business culture.

As rural water supply is a monopoly, competitiveness can be very subjective. To date customers have experienced none of the claimed benefits of NCP - higher productivity, lower prices, or improved quality. Nor is there any indication of when or how this could flow through given that the huge increase in costs to date has us starting well behind square one.

The following comments demonstrate how selectively the COAG principles (in italics) are being implemented.

- * *Water be used to maximise its contribution to national income and welfare, within the social, physical and ecological constraints of catchments.*

In this valley the community believes it is fortunate to have a balanced and sustainable catchment. Water users have campaigned for many years to prevent the government from selling more allocation and overcommitting the resource. By intensive value adding we maximise regional wealth from almost all rural production. We have looked after our river infrastructure, improved its efficiency and voluntarily reduced our water reliability to ensure the river environment was looked after. Our farmers are leaders in best management practices and water use efficiency. We are unimpressed by the forceful imposition of outsiders with no practical experience and their own agendas onto a community committee determining the instream requirements of our river. We refute the use of the precautionary principle of environmental management as an alternative to well balanced scientific objectives and are disappointed that environmental spokespeople refuse to be unaccountable for their actions.

Water trading is enthusiastically encouraged by COAG, but trading has not shifted water to high value use away from less valuable uses. Trading has provided an unintentional benefit to those underusers at the expense of those who have developed up their property, many actively encouraged by government. The latter now have to pay for the water that was previously re-allocated to them.

- * *A comprehensive system of water allocations be formally determined, including allocations for the environment, backed by separation of water property rights from land title and clear specifications re ownership, volume, reliability, transferability and quality.*

Since 1995 our irrigators have had their water access restricted, without compensation. This is the first season that a formal environmental allocation has been imposed. It was based on unsound data and has been badly managed. Government has stated that the environmental property right will take five years to determine after which irrigators will only have a restricted property right for 10 years.

Property Rights is an area which COAG got horribly wrong but the NCC and governments refuse to acknowledge this. Where is the equity in taking water for the environment from those people who have paid for it in the capital value of their properties or in the money they have spent developing their properties to efficiently use the water? No compensation has been offered. No share of the \$16 Billion. No closer to defined property rights.

- * *Charges fully recover the costs of supplying water to users by 2001 and funds be set aside for future asset refurbishment. Removal of cross subsidies, or where they continue, they be transparent.*

This has been over achieved, as earlier proven. Efficiency improvements set for the DLWC are far less than privatised areas have proven achievable effectively ignoring the NCC. The asset refurbishment funds are not protected or accounted separately. Customers have no idea what costs are being recovered as the DLWC has yet to provide IPART with satisfactory cost breakdowns. Cost sharing has been subjective and there is evidence that where government has been told to pay a higher share of programs than it submitted it should, it is simply reducing its financial input. Works once considered essential will now be discretionary yet customers have not been given any opportunity to prioritise their service levels.

To the common man the National Competition Policy is all about shifting responsibility for national and state infrastructure from government to the individual by shifting ownership. Having reduced potential outgoings, government then taxes the earnings of annuity reserves being built up to look after those assets which government failed to set aside funds for. If individuals, as customers of a privatised government enterprise, take future responsibility for government assets it is clearly inequitable for government to benefit twice. Government also needs to look closer at the link between depreciation and annuities given that it is the future replacement/refurbishment cost and not the current value of an asset which determines prudent set asides if there is to be inter generational equity.

- * *The roles of water resource management, standard setting and regulatory enforcement and service provision be separated institutionally.*

This is ambiguous and the NCC has taken the option of protecting the bureaucracy by interpreting it as a two way split ie. service provider from the rest, rather than a four way split which would be more acceptable for competition. The Council believes there should be independent regulators and that where regulation and service provision are contained within government there should be separate ministers.

Firstly this perpetuates the myth that the bureaucracy knows best and does best. It enables the customer to be kept at arms length with his level of input determined by bureaucrats. It fails the whole premise on which competition is based because it continues to give artificial protection to a monopoly. The rate of reform is determined by bureaucracy and not the market. Prices increase well before costs reduce. Customer input is restricted to only part of the service provider's operations, not enough to force change. Resource management is outside customer control. The same staff employed to provide resource management also determine how well that function is being performed. As this is the growth area of the next decade it must be subject to strict discipline. Is the job necessary? Over what time period? What are the deliverables? Who shares the cost? Who is the most cost effective service provider? None of these questions are currently being answered.

Service provision - State Water - is now a separate arm of the DLWC, but it is well short of a divorce. They still share the same bank account, the same offices and the same administrative overheads. Already there are examples of the department forcing costs onto State Water, there is no contestability of services, no third party access, and limited customer involvement is being offered in such a way as to only compromise those appointed.

Such a compromise is not commercially acceptable. And yet we are told it is our only option for at least seven years. If we are to pay full cost recovery we want to ensure ourselves that the competition policy is working equitably for us.

- * *Water services to be delivered as efficiently as possible, with service providers seeking to achieve international best practice.*

Why wasn't international best practice implemented before the price increases? Will the NCC ensure that prices reduce as efficiencies are achieved? We have seen no sign of performance indicators or benchmarks. The jargon used in budgets changes regularly making external measurement impractical.

- * *Constituents be given a greater degree of responsibility in the management of irrigation areas ie. devolution of operational responsibility.*
- * *Service delivery organisations should have a commercial focus, each jurisdiction to decide whether this is achieved by contracting out, corporatised entities or privatised bodies.*

With its aversion to any customer input, this seems highly unlikely. The DLWC has made much of separating areas and districts and this is welcomed and appreciated. However the centralist approach to river management is in serious conflict with these COAG principles and something must be done to overcome the impasse. Surely the NCC review of reform progress would have seen that nothing was being done in this area.

- * *Governments develop administrative arrangements and decision making processes to ensure an integrated approach to natural resource management.*
- * *Adopt an integrated catchment management approach to water resource management and set in place arrangements to consult with representatives of local government and the wider community in individual catchments.*

Initially NSW took the initiative with the establishment of valley based catchment management committees comprising natural resource agency staff and community representatives and a lot was achieved with very little resources. The next stage has been shelved and integrated natural resource management has now become a captive of the agencies with catchment committees being ignored and circumvented. Currently government is ignoring a major review which recommended upgrading the committees to trust status so they can collect funds and provide local control over the natural resource agencies to prevent duplication and ensure environmental sustainability. Local control is vital to avoid policy development and decision making by those outside the area with no practical knowledge or real interest in its impacts.

- * *Endorse the principle of public consultation by government agencies and service deliverers where change and or new initiatives are contemplated involving water resources.*

Consultation most often happens after the decisions have been made and most frequently it amounts to a brief whinge opportunity with bureaucracy ignoring the complaints and proceeding at will.

The failure of NSW to deliver on so many COAG principles proves the folly of denying involvement in all stages of reform to those most impacted. It is concerning that governments refuse to accept that the water reforms might be imperfect and in need of some adjustment. It must be remembered that the original water working group comprised almost exclusively bureaucrats, many without any practical experience in rural water.

Equally concerning is that water users have also been excluded from all ongoing processes of the COAG water reforms and the audits of performance.

The other by-product of the NCP is the reduction in service levels from businesses whose reaction to competitive pressure is to concentrate more on the major population centres. Mobile telecommunications, electricity and banking are examples. The number of power blackouts has increased noticeably as has the time taken to return service. The area over which analogue can be received has diminished with no replacement digital service. Analogue telephones are impossible to purchase.

The electricity reforms have also thrown up another potential problem for rural water users. Competition Policy reduced electricity prices last year and this year forcing Snowy Hydro to forgo generation which has resulted in it having above target water reserves in its storages. As a result it has only released the minimum agreed volume to Murrumbidgee water users, 1026 GL rather than the average long term release of 1200 GL normally associated with above target storage. This has reduced the normal security allocation for our irrigators this year by at least 5% keeping them at 81%, reducing farm output and therefore regional wealth creation. If the situation continues and we have a wet winter next year this water could spill and be wasted to irrigation.