5. LOCAL GOVERNMENT AND NCP REFORMS

5.1 GENERAL

In June 1996, the Tasmanian Government published a policy statement, entitled *Application of the National Competition Policy to Local Government,* on the application of the CPA principles to particular local government activities and functions. This statement was developed in close consultation with local government and there is ongoing consultation with local government regarding its implementation.

The application of the principles to local government has been pursued in terms of the timetable outlined in the Application Statement in relation to competitive neutrality, legislation review and monopoly prices oversight.

Progress in relation to the application of competitive neutrality, legislation review and monopoly prices oversight since the last NCP Progress Report is outlined below.

5.2 COMPETITIVE NEUTRALITY

As outlined in the previous NCP Progress Report, progress has been made in relation to the implementation of the competitive neutrality principles to local government. Specifically, all councils were required to identify by 31 December 1996, their significant business activities to which full cost attribution would apply.

As part of this process, it became apparent that local government was embracing the competitive neutrality principles at a much quicker pace than was envisaged when the policy statement was originally developed. This change in priorities arose as councils began to realise the advantages that competitive neutrality could deliver in increasing the efficiency of council operations. This was demonstrated by the fact that 18 of the 29 councils decided to apply full cost attribution to all of their business activities (rather than just those regarded as "significant"). The majority of the remaining councils chose to apply full cost attribution to their public trading enterprises (water and sewerage services) and road maintenance.

The second stage of implementation required the lists of significant business activities to be reviewed by a "peer group" (established by the Local Government Association of Tasmania (LGAT) in conjunction with the Department of Treasury and Finance), in order to recommend to the former Minister for Finance, by 31 March 1997, whether the lists should be accepted or amended. An information package containing the recommendations from the peer group on the significant business activities of Tasmanian councils was provided to the former Minister for Finance on 11 April 1997 by the LGAT.

This exercise highlighted the advantages that competitive neutrality can deliver in increasing the efficiency of council operations and has established the framework for the application of competitive neutrality principles to the new councils.

However, given the impact of the local government amalgamation program proposed in the former Government's *Directions Statement*, it was necessary to temporarily suspend the current timetable for applying the competitive neutrality principles to local government in May 1997. It was recognised that there was little benefit to local government in proceeding with the timetable until the new structure for Tasmanian councils was finalised, given that many of the NCP issues would be different following the amalgamation exercise.

The NCC was advised that the amalgamation of local government on the scale proposed was expected to result in more significant microeconomic reform than would have been achieved by the continued implementation of the competitive neutrality principles to smaller local government bodies. The NCC was also advised that the amalgamations would result in fewer, but larger, local government bodies and presented the opportunity for the wider application of the NCP competitive neutrality, legislation review and structural reform principles.

Notwithstanding these above issues, the NCC deferred consideration of the 1998-99 component of Tasmania's first tranche assessment, pending greater evidence that Tasmania is on target with the application of the competitive neutrality principles to local government. In particular, the Council noted that the process of local government amalgamations had delayed the implementation of competitive neutrality reform in the short term.

In May 1998, Tasmania reported to the NCC that it would negotiate with local government to seek the agreement of the new councils to reinvigorate the application of NCP to local government. Based on this commitment, the NCC recommended to the Commonwealth Treasurer that Tasmania receive the 1998-99 component of the first tranche assessment (worth approximately $20 million). The Commonwealth Treasurer advised the former Premier, the Hon Tony Rundle MHA on 19 August 1998 that the Commonwealth would provide NCP payments in accordance with the recommendations made by the NCC. However, the Council has noted that progress in line with the timetable Tasmania has set itself will be important for the second tranche assessment.

In view of the NCC's concerns in relation to the application of NCP to local government, the Department of Treasury and Finance has been negotiating with the Local Government Association of Tasmania (LGAT) in relation to a revised timetable for the application of the competitive neutrality principles to local government. However, these negotiations have stalled due to a ruling by the Supreme Court in early August 1998 that the proposed local government elections scheduled to be held in late August would have been unlawful.

It is also proposed to obtain a commitment from local government to reform financial relationships between the State and local government. These reforms will address the removal of taxation, rate and charging exemptions, subsidies, concessions and levies. The aim of the reforms is not to lower the cost of services (although this may arise), nor to re-assign taxing powers. The aim is to generate greater transparency in financial relations and promote more efficient resource

allocation, consistent with the micro-economic reform principles which underpin NCP.

In pursuit of further micro-economic reform at the national level, the Commonwealth and States are in the process of negotiating reciprocal taxation arrangements. This will involve a national income taxation equivalent regime and full reciprocal taxing between the Commonwealth and the States for indirect taxes. The Commonwealth has already held discussions with the Australian Local Government Association (ALGA) concerning the extension of these arrangements to local government. Reform of financial relations between the State and local government constitute an obvious element of a national reciprocal taxation regime.

The National Taxation Equivalent Regime (NTER) is planned to commence on 1 July 1999, with full reciprocal taxation expected to be in effect the following year. As part of the negotiations with the LGAT in relation to the re-invigoration of the application of NCP to local government, it is proposed to also obtain a commitment from local government that the implementation of State-local financial relations would occur within the first year of the NTER. The reform of existing State-local financial relationships is a significant one, both in terms of progress that has already been made in relation to the NCP principles, in terms of the central thrust of the former Premier's *Directions Statement* and in terms of the national move towards reciprocal taxation arrangements.

Despite the suspension of the timetable for the application of NCP to local government, there is evidence of continuing progress toward the implementation of the competitive neutrality principles. As reported in the *National Competition Policy Progress Report: April 1995 to 31 July 1997,* some councils have commenced corporatisation in some areas, most notably the Hobart City Council, which has recently taken steps to corporatise its entire workforce (now called Civic Solutions). Also Hobart City Council has adopted full cost attribution for virtually all of its other activities, as have Burnie and Glenorchy City Councils. Clarence and Launceston are also close to adopting full cost attribution for their business activities. There are also some examples where service providers have been separated from service purchasers, competitive tendering is being utilised and corporate business structures are being established. A number of businesses such as the Hobart Aquatic Centre, the Derwent Entertainment Centre, the Tasmanian Travel Centre recently acquired by the Burnie City Council, and a number of other smaller operations, such as the Killafaddy Sale Yards and Launceston's four pools, are run as separate businesses units on a commercial basis.

More importantly, the Hobart Regional Water Authority (HRWA) and the Esk Water Authority (EWA) have recently been transferred from State Government to local government and established under the *Local Government Act 1993* as joint local government authorities. Both these authorities are subject to full taxation equivalent, dividend and guarantee fee regimes. Legislation has been passed to enable the North West Regional Water Authority (NWRWA) to be transferred to local government during 1998-99. Similarly, the Dulverton Regional Waste

Management Authority, with its four participating owner councils, has taken steps to implement provisions for taxation equivalents and dividend returns on capital invested.

5.3 *PRICES OVERSIGHT*

The Government's local government application statement indicated that local government monopoly providers were to be brought under the prices oversight jurisdiction of GPOC.

As outlined earlier, the *Government Prices Oversight Amendment Act 1997,* which came into effect in early September 1997, extends the coverage of the *Government Prices Oversight Act 1995* to include local government monopoly services.

In this respect, and as indicated in section 4.2.2, GPOC has been requested to undertake an investigation into the pricing policies associated with the provision of bulk water by the HRWA, the NWRWA and the EWA.

5.4 *TREATMENT OF LOCAL GOVERNMENT BY-LAWS UNDER THE LRP*

As outlined in the previous Progress Report, all by-laws made under the former *Local Government Act 1962* remain in force under the new *Local Government Act 1993* (to the extent that they are consistent with the new Act) for a period of 5 years, expiring on 17 January 1999. As there is no provision to amend these existing by-laws, changes to by-laws made under the old Act can only be made by making new by-laws under the current Local Government Act.

The Local Government Office (LGO) of the Department of Premier and Cabinet has implemented procedures for the review of all proposed or existing by-laws to ensure that any restrictions on competition are fully justified in the public benefit. The *By-Law Making Procedures Manual* was released in August 1997 and represents the by-law section of the LRP program. All by-laws proposed since that date have been required to comply with the new procedures.

A number of councils have been progressively reviewing their by-laws, several of which have subsequently been repealed. As a result there has been a continued decline in the overall number of by-laws.

Tasmanian councils have also been encouraged to pursue the repeal of their obsolete by-laws and replace them, where appropriate, with governance orientated by-laws which comply with NCP principles. To this end, a repeal by-law was gazetted in May 1998 which repealed 38 Hobart City Council by-laws (including the repealing by-law itself).

In addition, any reduction in the number of local government authorities would provide a unique opportunity to reduce significantly the number of local government by-laws. Section 151 of the Local Government Act requires a new council created by restructuring to adopt, within 14 days, those existing by-laws

which it requires for its ongoing administrative purposes, while all other by-laws will automatically cease to have effect, obviating the need for their review.

It was proposed to obtain local government's agreement to not adopt any by-laws made under the old *Local Government Act 1962*. This agreement would also have required the review of all by-laws proposed to be adopted by the amalgamated councils to ensure that they comply with the NCP Legislation Review requirements. It is expected that this would have resulted in a reduction in by-laws from approximately 760 at present to about 100.

6. SECTOR SPECIFIC REFORMS

6.1 ELECTRICITY INDUSTRY REFORMS

The electricity supply industry has undergone significant reform since August 1997. In implementing these reforms, the Tasmanian Government has worked to ensure that it has complied with all the relevant NCP requirements, recognising that compliance with these requirements is critical if Tasmania is to fully participate in the NEM.

Specifically:

- the decision to proceed with the implementation of Basslink and thereby join the NEM requires the Government to ensure that the State complies with the NCP requirements for entry into the NEM; and
- the decision to withdraw substantial equity in the Hydro-Electric Corporation (HEC) by the former Government through the sale or lease of the transmission, distribution and retail businesses required the Government to have regard to the structural reform principles contained within the NCP Agreements.

It should be noted that the NCC has confirmed that, while Tasmania remains not interconnected with the national grid, it is not regarded as a "relevant jurisdiction" for the purposes of the COAG and NCP Agreements regarding the development of the NEM.

6.1.1 *Entry to the NEM via Basslink*

Participation in the NEM is subject to compliance with the COAG Agreements on electricity reform.

A major requirement is the need to structurally separate the generation and transmission elements of the HEC. The NCC has indicated that, at a minimum, there must be complete separation of generation and transmission, as well as ring-fencing and separate accounting for the retail and network businesses within distribution.

This requirement has been met by the disaggregation of the HEC. In April 1998, the Tasmanian Parliament approved, under the *Electricity Companies Act 1997*, the establishment of a single distribution/retail company (Aurora Energy Pty Ltd) and a single transmission company (Transend Networks Pty Ltd), with the Hydro-Electric Corporation responsible for electricity generation activities and system control (ring-fenced). The two new companies have been established as publicly-owned entities that operate under Corporations Law. The HEC remains a GBE under the GBE Act.

This disaggregation was complete by 1 July 1998. A set of inter-entity contracts (between the HEC, Transend and Aurora) has been developed to cover network and connection agreements and energy sales. Amendments to the *Electricity Supply Industry Act 1995* provide that a generator with substantial market power (in generation) is not permitted to hold a retail licence. This prevents the HEC from acting as a retailer in Tasmania. All retail contracts, including those of the major industrial customers such as the smelters, have been allocated to Aurora.

6.1.2 Separation of the HEC distribution and retail businesses

The Government commissioned a NCP structural review of the HEC's distribution and retail businesses in October 1997. This was required because at that time the Government had the intention of pursuing the sale or lease of the HEC's transmission and distribution/retail businesses.

The Review was undertaken by a Committee consisting of Mr Andrew Reeves (Government Prices Oversight Commissioner) and Mr Paul Breslin (Director, ACIL Economics). The Committee's report, submitted in December 1997, contained recommendations relating to:

- the form of separation of distribution and retail businesses (including recommendations regarding ring-fencing);
- the nature of pricing and third-party access regulation required for the distribution business;
- the powers of the pricing regulator;
- the consolidation of regulatory functions relating to the Tasmanian ESI;
- the regulation of retail prices; and
- the payment of Community Service Obligations.

The Government accepted the majority of the recommendations of the Review, particularly in relation to establishing appropriate regulatory arrangements for disaggregation. The Government tabled in Parliament a paper that provides a broad overview of the regulatory arrangements that have been developed to apply in the Tasmanian electricity supply industry following the HEC disaggregation.

A key feature of the Government's new regulatory arrangements is that the price and non-price regulatory functions relating to the Tasmanian electricity supply

industry have been consolidated with the Regulator under the *Electricity Supply Industry Act 1995* (ESI Act), with the Government Prices Oversight Commissioner being appointed as the Regulator. The Regulator is independent of Government and is responsible for administering all pricing and access issues related to the electricity industry in Tasmania (prior to the State joining the NEM).

The detailed regulatory arrangements are contained in the TEC. The TEC is largely based on the National Electricity Code, and contains several additional chapters, particularly in relation to regulatory arrangements for retail pricing. Consideration is being given to submitting the TEC to the ACCC for authorisation under Part VII of the TPA.

In relation to structural issues, the Review concluded that, prior to the introduction of a fully competitive electricity market in Tasmania, the distribution business could be conducted as a ring-fenced business within an integrated distribution/retail business. The Review further recommended that, following the introduction of competition, distribution and retail should be carried out by separate legal entities.

After careful consideration, the Government decided not to accept the latter recommendation and, as noted above, established Aurora Energy Pty Ltd as a single distribution/retail business. The Government formed the view that, on balance, it was not necessary to require the distribution and retail businesses to be legally separated once competition is introduced.

The Government made this decision for the following reasons.

- The separation of distribution and retail businesses is not consistent with the structure in other States. New South Wales, Victoria and South Australia, the major foundation members of the NEM, have not required such separation.
- Separation would result in the initial individual distribution and retail businesses in Tasmania being comparatively small relative to the mainland firms against which they would have to compete in a national market. This is likely to leave these businesses at a competitive disadvantage and therefore subject to possible early take-over by mainland or international firms.
- Even if the distribution and retail businesses were disaggregated, there would be nothing to stop the distribution business, in the longer term, from seeking a retail licence in another NEM jurisdiction and then operating that retail business in Tasmania in conjunction with its distribution business.
- The recommended separation will impose additional costs, which could be expected to lead to a lower sale price for the distribution and retail businesses.
- The current NEC requirements relating to the ring-fencing of the distribution and retail activities within a single electricity business are considered sufficient to ensure that electricity consumers are not disadvantaged.

The central issue with respect to the Review's recommendation that the distribution and retail businesses be legally separated once competition is introduced relates to the controls that are required to ensure that the existence of an integrated distribution/retail business does not inhibit the establishment of new retailers in Tasmania. In this respect, the Government's view is that this objective can be achieved by requiring the appropriate ring-fencing of the distribution business within the integrated entity. The Government has conveyed the reasons for its decisions in this area to the NCC.

In this context, there has been some preliminary consideration of the contestability arrangements that would be needed as Tasmania transitions to the NEM. The Government is confident that the overall electricity reform package will ultimately provide a comprehensive framework for the development of effective competition in electricity retailing within Tasmania, once Tasmania is part of the NEM.

It should be noted that, in developing the detailed regulatory arrangements for the Tasmanian electricity industry, the GPOC Commissioner has been involved in developing the ring-fencing arrangements that will apply to the distribution/retail business. Naturally, the Government will maintain a watching brief on the efficacy of the enhanced regulatory regime that it proposes to establish and will act if evidence does come to light that indicates that the ring-fencing arrangements do not result in efficient outcomes for Tasmanian electricity users.

Nevertheless, the Government recognises that it is possible, between now and when Tasmania joins the NEM, that a change could be made to the NEC that would require the legal separation of the distribution and retail businesses, similar to the requirements in the natural gas industry under COAG's gas reforms. If this were the case, the Government would need to ensure that Aurora Energy is restructured to comply with such a requirement when Tasmania joins the NEM.

6.1.2 Separation of the HEC transmission business

As noted above, in June 1998, the Tasmanian Parliament approved the transfer of the HEC's transmission assets to a single transmission company, called Transend. The TEC provides for the regulation of this monopoly business in the same manner as occurs in other mainland States under NEM arrangements. That is, the network pricing arrangements that will apply to Transend will be fully consistent with the regulatory model for transmission contained in the NEC.

In this regard, in establishing a separate transmission company that is a natural monopoly, Tasmania has followed well established national precedents that are fully consistent with NEM requirements and NCP principles. Consequently, the Government did not consider that it was necessary to undertake a NCP structural review of transmission prior to either the sale of the HEC's transmission business or Tasmania's entry into the NEM. It is widely agreed in the national market context that the controls relating to transmission businesses embodied in the NEC are sufficient (regardless of whether it is privately or publicly owned) to ensure that its natural monopoly powers are not misused.

The Government has consulted with the NCC on this matter. The NCC agreed with the Government's view that a structural review of the HEC's transmission business was not necessary, given the intention to adopt NEM-based structural and regulatory arrangements for this business.

6.2 *GAS INDUSTRY REFORMS*

Under the NCP gas reform arrangements, relevant jurisdictions are required to establish a national framework for free and fair trade in natural gas. In particular, the gas reforms required the establishment of third party access arrangements that apply to specified gas pipelines.

The National Third Party Access Code for Natural Gas Pipelines was finalised in late 1997. Tasmania signed the Natural Gas Pipeline Access Agreement along with all other jurisdictions at the COAG meeting held on 7 November 1997.

As the only party to the Intergovernmental Agreement without an established natural gas industry and therefore no gas infrastructure to which third party access can be provided, Tasmania has been treated as a special case. In particular, Tasmania is exempt from having to comply with the obligations of the Agreement until approval for a natural gas pipeline in the State is granted or before the commencement of a competitive tendering process for a natural gas pipeline in the State.

The NCC has acknowledged Tasmania's unique position under the Agreement and has indicated that it does not intend to assess Tasmania's implementation of gas reform arrangements for the purposes of competition payments until the advent of a natural gas industry in the State.

The Tasmanian Government intends to implement new gas access legislation and repeal a number of existing gas Acts which are no longer relevant or that potentially conflict with the national gas reform initiatives. This legislation consists of the following Acts:

- *Gas Franchises Act 1973;*
- *Hobart Town Gas Company Acts 1854* and *1857*;
- *Hobart Gas Company Act 1977*;
- *Launceston Gas Company Act 1982*; and
- *Launceston Gas Company Loan Guarantee and Subsidy Act 1976.*

The Government considers that these arrangements will create an appropriate investment climate for potential investors in a future Tasmanian gas industry, as well as removing the requirement to review a number of pieces of anti-competitive legislation from the Government's Legislation Review Program.

6.3 *WATER INDUSTRY REFORMS*

The Tasmanian Government is committed to implementing efficient and sustainable water industry reforms, which were agreed at the February 1994 COAG meeting and subsequently included in the package of NCP and related reforms agreed at the April 1995 meeting of COAG.

The water industry reforms principally require the implementation of pricing reforms, with greater emphasis on user pays and cost recovery principles, clearer definition of water entitlements (including the allocation of water for the environment) and the development of arrangements for trading in water entitlements. The benefits of these reforms will extend beyond those derived from competition policy, with significant positive impacts on community welfare and the environment expected in the longer term.

While States and Territories did not have to meet any specific requirements in relation to water reforms under NCP in order to qualify for the first tranche of NCP payments, a number of water reforms must be completed or, in some cases, be substantially progressed in order to qualify for the second and third tranche payments.

The Government is actively working to implement the major water reform requirements in Tasmania, including the review of existing water legislation and the development of policies to address the following issues:

- the fully integrated management of the State's water resources;
- the establishment of trading in water entitlements;
- the provision of water allocations for the environment;
- the introduction of cost reflective water pricing;
- the development of tariff systems for urban water service delivery;
- the devolution of irrigation scheme management; and
- formalised catchment management planning.

Two groups have been established to oversee and progress the water reforms required for receipt of the second tranche of NCP payments. These include:

- the Ministerial Water Resources Committee - comprising the Ministers for Primary Industry and Fisheries (Chair); Environment and Land Management; Local Government and Energy; and
- the Inter-departmental Water Policy Committee - comprising representatives from the Departments of Premier and Cabinet (Chair), Primary Industry and Fisheries, Environment and Land Management, Treasury and Finance, Tasmania Development and Resources, the Office of Local Government and the Office of the Minister for Energy.

Other groups have been established as necessary to progress particular reform projects and include, for example:

- the Department of Primary Industry and Fisheries' Project Team on water legislation review; and
- the Inter-Agency Working Group on Licensing of Water Entitlements - comprising representatives of the Departments of Primary Industry and Fisheries (Chair), Environment and Land Management, Mineral Resources Tasmania and the Hydro-Electric Corporation.

Following announcement in the former Premier's 1997-98 Budget Speech that the Government will introduce a Bill to replace the *Water Act 1957* and associated water management legislation in late 1998, a new "Water Management Bill" has been drafted. The Bill will provide for:

- new institutional arrangements for water management in Tasmania;
- improved equity in water pricing and allocation;
- tradeable water rights;
- formal allocations of water for the environment; and
- strategic planning for water use and development at the State and local level.

A second round of major consultation on the principles included in the new Bill was completed in May/June 1998.

The new legislation has been revised in light of information gained through the consultation program, with the objective of having a draft Bill ready for public consultation following the August 1998 State election.

6.3.1 Water Reforms Implemented Since the Last Progress Report

6.3.1.1 Institutional Arrangements

Bulk Water Supplies

As noted in the last Progress Report, ownership of the State Government's Hobart Regional and North Esk Regional-West Tamar Water Supply Schemes has been transferred to local government joint authorities established under the *Local Government Act 1993*.

In November 1997, Parliament passed the *North West Regional Water (Arrangements) Act 1997*, continuing this process of the separation of the role of the provision of water services from the State. The Act provides for the establishment of a third local government joint authority to supply bulk water to urban and industrial consumers on the north west coast. The new North West joint authority is expected to become operational during 1998-99.

The establishment of the three bulk water authorities comprising the Hobart Regional Water Authority, the Esk Water Authority and the North West Regional Water Authority, will mean that virtually all of the urban water supply, sewerage and drainage services in Tasmania are provided by local government.

Prosser River Water Supply Scheme

Operation of the Prosser Water Supply Scheme was leased to the Glamorgan-Spring Bay Council on an annual basis commencing in 1997-98. The Scheme is the last urban water supply scheme in State Government ownership. The lease was renewed for 1998-99, pending further discussions on the transfer of the scheme.

Government-owned Irrigation Schemes

The Rivers and Water Supply Commission, which is a GBE, manages the three Government-owned irrigation schemes in the State namely, the Cressy-Longford, South East and Winnaleah schemes. The Commission has contracted consultants to investigate, among other things, the relative merits of alternative management structures for the Schemes. The consultancy commenced in January 1998 and is expected to be completed by November 1998.

Once the consultancy is completed, the Commission will use the information contained in the consultant's report to set water prices and establish appropriate asset management plans for the schemes. It is expected this information will, in turn, form the basis for the future management arrangements for the scheme.

To date, the consultancy has provided:

- draft asset management plans for the schemes;
- asset consumption costs as renewals annuities for use in price setting; and
- a comparison of commercialisation, corporatisation and privatisation options for future scheme management.

Performance monitoring

Tasmania has worked closely with the SCARM Taskforce on COAG Water reform to implement appropriate performance monitoring programs for its water service providers.

Hobart Water has commenced participating in the Water Service Association of Australia's performance monitoring program for major urban water authorities. Esk Water and the North West Regional Water Authority are participating in the development of a performance monitoring system for non-major urban water authorities. The Rivers and Water Supply Commission has agreed to the participation of the three Government irrigation schemes in the national performance monitoring system currently under development.

6.3.1.2 Water Pricing

Bulk Water Authorities

A two-part tariff system has been implemented by Hobart Regional Water Authority and the pricing policy of the other two major urban water suppliers is under review.

As outlined in section 4.2.2, bulk water pricing (prices charged by the three regional water supply authorities) is the subject of a review by GPOC which commenced in January 1998. A draft report on pricing principles was released to key stakeholders by GPOC in August 1998. GPOC organised a seminar on the Water Pricing Guidelines approved by the Agricultural Resource and Management Council of Australia and New Zealand (ARMCANZ) in February 1998. The water pricing guidelines were subsequently endorsed by the NCC as part of its assessment of jurisdictional progress on this aspect of the COAG framework. A Final Report on this investigation is due by 30 November 1998.

Rural Water

A study is underway to determine the direct costs incurred by the Department of Primary Industry and Fisheries and other Government Agencies in managing water resources. This information will be used to establish an appropriate chart of accounts so that the various components of these costs can be more readily identified and monitored.

The current pricing system for rural water outside the irrigation scheme districts is being reviewed as part of the current review of Tasmania's water legislation. The new pricing system, which is expected to be established by the new water management legislation, will be cost reflective, consistent, equitable and, where appropriate, based on water consumption.

Within the Government irrigation schemes, water prices have been progressively increased to fully meet the operating, maintenance, administration and asset consumption costs by June 2001 in accordance with the Rivers and Water Supply Commission's business plan. One of the three schemes achieved this level of cost recovery in 1996-97 and the other two scheme are expected to achieve cost recovery in 1999-2000.

6.3.1.3 Water Entitlements

Water Allocations

A new method for licensing water users in Tasmania was developed by an Inter-Agency Working Group and accepted by the Inter-Departmental Water Policy Committee in January 1998. The method provides for a unified and consistent licensing system for all water users (including groundwater users) and has formed the basis of a review of current licensing arrangements as part of the development of the new water management legislation.

A moratorium on the issue of new licences for direct water diversions during the December to April period which was implemented in 1995 is still in force. The moratorium is lifted on specific streams as policies for sustainable allocation, including environmental requirements, are established.

The *Irrigation Clauses Amendment Act 1997*, proclaimed in December 1997, provides for the separation of water rights from land titles for all irrigation schemes covered by the Act and the allocation of water rights by auction, tender or other commercial means.

Transfers of Water Entitlements

The *Irrigation Clauses Amendment Act 1997* provides for the private trading of irrigation rights in Government owned irrigation schemes, either through leasing or sale. Such trading is subject to rules established by the Scheme Management Authorities and approved by the Minister for Primary Industry and Fisheries. Legislative and administrative arrangements are in place for full trading to commence in September 1998.

Transferability of water rights for other areas of the State and in other industry sectors is a component of the new water management legislation currently under development.

Prior to formalisation of water entitlement transfers under the new legislation, temporary transfers of water entitlements have been facilitated by the Department of Primary Industry and Fisheries to assist in addressing water shortage problems during recent irrigation seasons. Around 1170 megalitres of water was transferred under these arrangements in the 1997-98 season.

Environmental Requirements

Methods for establishing the environmental flow requirements for Tasmanian rivers and streams have been developed by the Department of Primary Industry and Fisheries. These methods are currently being used to set environmental flow requirements and allocation policies for the State's major rivers and streams in consultation with catchment communities. This work involves establishing "protected environmental values" (PEVs) and "water values" in consultation with other government agencies and catchment community groups.

Work is most advanced on the Meander River, with work commencing in late 1997 for the Mersey and Great Forester Rivers. DPIF has also established a priority list of stressed water resources for continuation of this work.

A State Policy on Integrated Catchment Management (ICM) is currently being developed under the *State Policies and Projects Act 1993*. It is proposed that under the ICM Policy, all public and private natural resource managers and planning authorities will be required to meet agreed catchment management objectives for soil, water, vegetation and biodiversity.

The State Policy on Water Quality Management became effective in September 1997. The Policy will facilitate the implementation of National Water Quality Management Strategy guidelines in Tasmania. The Policy provides for the setting of PEVs in consultation with catchment communities. The PEVs will link to "water objectives" and "water values" established under the proposed ICM Policy and to the Water Management Plans to be established under the proposed new water management legislation.

In late 1997, an inter-agency committee was established to develop a Water Quality Monitoring Strategy for Tasmania to meet the requirements of the State Policy on Water Quality Management.

6.3.1.4 Preliminary Assessment by the COAG Task Force on Water Reform

In June 1998, Tasmania accepted an invitation from the SCARM Taskforce on COAG Water Reform to undergo a "mock review" of progress in implementation of the COAG Water Reform Framework. The six-member review panel included representation from the NCC.

The panel recognised Tasmania's progress in institutional separation of urban water service provision, its methodology for establishing environmental water allocations in consultation with catchment communities and its strong inter-agency cooperation. However, the panel also acknowledged that full achievement of the COAG Framework was greatly dependent on the implementation of the proposed new water management legislation.

6.4 TRANSPORT INDUSTRY REFORMS

The Tasmanian Government has adopted a staged approach to the implementation of the National Road Transport Commission (NRTC) reforms, which were agreed at the April 1995 COAG meeting and subsequently endorsed by Transport Ministers at the Ministerial Council for Road Transport (MCRT) at their meeting in November 1995.

The NRTC reforms are defined by two intergovernmental agreements - the Heavy Vehicles Agreement and the Light Vehicles Agreement, which are embodied as schedules in the Commonwealth's *National Road Transport Commission Act 1991*. These agreements involve the development and implementation of six national reform modules relating to:

- heavy vehicle charges;
- the road transport of dangerous goods;
- vehicle operations;
- vehicle registration;
- driver licensing; and
- compliance and enforcement.

The aim of the NRTC reforms is to introduce consistency and uniformity to the rules governing road transport in Australia. This, in turn, will facilitate the development of a competitive national market in road transport services. The NRTC reforms will provide benefits to Tasmanians through improved road safety and transport efficiency, as well as enabling the Tasmanian Government to administer road transport in a more cost effective manner.

6.4.1 Transport Reforms Implemented Since the Last Progress Report

Following the introduction of a second stage legislative package to implement various agreed NRTC reforms on 1 October 1996, considerable work has been undertaken in the development of the remaining national reform modules and implementation of the remaining reforms contained in the initial implementation package endorsed by the Transport Agency Chief Executives (TACE) (see section 6.4.2)

A package of amendments to Tasmanian legislation is currently being prepared which will allow adoption of further NRTC reforms, subject to adoption by the Australian Transport Council (ATC) and approval by the MCRT, in accordance with the timetable agreed by the MCRT in April 1998.

The reforms relate to the following:

- Driver licensing;
- Australian road rules;
- Light vehicle standards;
- Truck driving hours regulations;
- Compliance and enforcement; and
- Alternative compliance proposals.

Progress in relation to these reforms is outlined below.

Driver Licensing

Nationally agreed driver licence classifications were introduced in Tasmania on 1 June 1997. The national driver licensing package has been approved at the MCRT level and a Tasmanian *Vehicle and Traffic Bill* is currently under preparation. The Bill is expected to be submitted to Parliament in early 1999.

Vehicle Registration

The Tasmanian Vehicle and Traffic Bill which is currently being prepared will include the policy content of the Commonwealth's Road Transport Reform (Heavy Vehicles Registration) Bill and Regulations. In order to simplify administrative arrangements, the Government has decided to extend a number of heavy vehicle registration policy proposals to cover all classes of vehicles. The Vehicle and Traffic Bill is expected to be submitted to Parliament in early 1999.

Australian Road Rules

The Australian Road Rules (ARRs) are currently being developed by the NRTC. As these regulations will have a wide ranging effect on the general public, the development stage is taking longer than anticipated. It is envisaged that the NRTC will submit the ARRs to the MCRT for consideration in October 1998. Jurisdictions have agreed that it would be desirable to have a common implementation date and the NRTC has formed an Implementation Committee (with representation from Tasmania) to identify relevant issues.

Light Vehicle Standards

The development of a set of combined vehicle standards by the NRTC, incorporating the previously agreed heavy vehicle standards and the draft light vehicle standards, is currently in the final project stage prior to submission to the MCRT for consideration. Tasmania is actively participating with other jurisdictions and the NRTC in progressing this combined set of regulation reform. Most light vehicle standards are already in place by regulation or policy in Tasmania. Some minor regulation amendments will be required to finalise implementation once the combined standards are approved by the MCRT.

Truck Driving Hours Regulations

National regulations covering truck driving hours have been approved by the MCRT. The main thrust of these regulations was included in the legislative package introduced on 1 October 1996. Relevant jurisdictions will need to implement minor regulation changes to accommodate slight changes in the national policy since October 1996. The NRTC now intend to combine the Truck Driving Hours Regulations with the Bus Driving Hours Regulations. This process is expected to be completed by late 1998.

Compliance and Enforcement

The Compliance and Enforcement module currently being developed by the NRTC is seen as being essential to the ongoing administration of the final Road Transport Law Package. It is anticipated that the module will be submitted to the MCRT in mid-1999. Tasmania is actively participating with the NRTC and other jurisdictions in the development of this module.

Alternative Compliance Proposals

Alternative compliance proposals have been agreed at a national level and by the MCRT. Tasmania introduced legislation in late 1997 to formally pave the way for the implementation of alternative compliance schemes in relation to mass, maintenance and fatigue management. This legislation will be proclaimed by September 1998. A livestock-loading scheme has been introduced and a log-loading scheme is in the development stage. The Department of Transport is currently consulting with industry and national providers in relation to the adoption of voluntary alternative compliance schemes.

6.4.2 TACE Implementation Package

During 1994 the Committee of Transport Agency Chief Executives (TACE) proposed a package of ten road transport reform issues to be implemented prior to finalisation of the National Road Transport Reform legislative modules. This package of road transport reform issues was subsequently endorsed by the MCRT and became known as the TACE Implementation Package.

Implementation of the TACE Package was to be via the most practicable means in individual jurisdictions. To this end, most jurisdictions have opted to adopt the Package and the National Road Transport Reform legislative modules by amending existing legislation in preference to template adoption.

A substantial part of the initial "TACE Implementation Package" has been adopted in all jurisdictions. The outstanding elements of the package, notably free of charge conversion of interstate drivers licences and a general permit for oversize/overmass vehicles up to agreed limits, have recently been implemented administratively in Tasmania.

In recognition of the success of the initial reform package TACE, in conjunction with the Road Transport Forum (RTF), proposed a further package of ten priority issues for implementation by jurisdictions. This package was endorsed at the February 1997 ATC meeting.

This second ten point package related to heavy vehicle reforms and consists of the following components:

- fatigue management for truck drivers;
- management of speeding heavy vehicles;
- information on vehicle offences and driver licence status;
- implementation of the first stage of the National Exchange of Vehicle and Driver Information System;
- mass limits review;
- truck/trailer mass ratio;
- axle/mass spacing for vehicles over 42.5 tonne;
- short term registration;
- consistent on-road enforcement of roadworthiness; and
- reduction in truck noise.

It should be noted that while the two 'ten point' packages "hang off" the legislative reform modules, COAG has not endorsed that the packages form part of the assessment framework for NCP road transport reforms. Nevertheless, it is anticipated that the components contained in the second heavy vehicle reform package will be implemented by July 1999, dependent upon progress nationally in finalising policy on the various issues.

7. *CONCLUSION*

The Tasmanian Government considers that the reform principles encapsulated in the NCP Agreements are fully in line with the reform directions that Tasmania was already taking prior to the NCP Agreements being signed in April 1995. For this reason, Tasmania is using NCP and the processes that have been consequently established as a focal point for its ongoing microeconomic reform program.

While Tasmania remains strongly committed to implementing National Competition Policy reforms, the delays caused by the August 1998 State election will clearly have implications for some elements of second tranche assessments. The incoming Government will need to re-consider a wide range of issues during September and October 1998, with the result being that some three to four months will effectively be lost from the reform timetable.

Despite the difficulty that time constraints placed upon Tasmania as a result of the State election, it is considered that the State will be able to demonstrate compliance with the overall spirit of NCP. To this end, it is considered that, by the end of 1998, the new Government will have signed off on all matters necessary to comply with NCP, particularly where legislative change is required.

8. *CONTACTS AND PUBLICATIONS*

The Tasmanian Government has produced a number of policy statements, public information papers and reference manuals in relation to the implementation and operation of National Competition Policy and related reforms in Tasmania.

Policy Statements

Application of the National Competition Policy to Local Government, Government of Tasmania, June 1996.

Application of the Competitive Neutrality Principles under National Competition Policy, Government of Tasmania, June 1996.

Legislation Review Program: 1996 - 2000 - Tasmanian Timetable for the Review of Legislation that Restricts Competition, Government of Tasmania, June 1996.

Public Information Papers

National Competition Policy Progress Report, April 1995 to 31 July 1997, Government of Tasmania, August 1997.

Tasmania's Reform Obligations and the New Financial Arrangements, Department of Treasury and Finance, August 1995.

Monopoly Prices Oversight and the Tasmanian Government Prices Oversight Commission, Department of Treasury and Finance, January 1996.

Reviews of Legislation that Restrict Competition, Department of Treasury and Finance, July 1996.

Extension of Part IV of the Trade Practices Act to all Businesses in Tasmania, Department of Treasury and Finance, July 1996.

The Application of Competitive Neutrality Principles to the State Government Sector, Department of Treasury and Finance, July 1996.

Guidelines for Considering the Public Benefit Under the National Competition Policy, Department of Treasury and Finance, March 1997.

Full Cost Attribution Principles for Local Government, Department of Treasury and Finance, June 1997.

Guidelines for Implementing Full Cost Attribution Principles in Government Agencies, Department of Treasury and Finance, September 1997.

Reference Manuals

Legislation Review Program: 1996 - 2000 - Procedures and Guidelines Manual, Department of Treasury and Finance, June 1996.

Copies of these publications may be obtained by contacting:

Mr Chris Lock
Director
Economic Policy Branch
Department of Treasury & Finance
Ph: 03 6233 2646
Fax: 03 6232 2755