

TOOWOOMBA CITY COUNCIL

SUBMISSION TO PRODUCTIVITY COMMISSION

Public Hearing in Toowoomba 12 July 1999.

1. Need for a Comprehensive Study

The National Competition Policy is founded on the Competition Principles Agreement which covers –

- Prices oversight of government business enterprises;
- Competitive neutrality;
- Structural reform of public monopolies;
- Legislation review; and,
- Access to significant infrastructure facilities.

These reforms will have some implications for every business in Australia and for every Australian. Direct reforms in one area (eg. the electricity industry) will cause a 'ripple' effect so as to impact on everyone. In many cases the implications will be social as well as economic and what is good economic policy is not necessarily good social policy.

Many of the impacts will not be apparent to the average citizen until after the NCP change has occurred. Even organisations such as Councils which will be directly affected by some NCP changes cannot readily identify the implications NCP changes in other areas. For example, the deregulation of the dairy industry (a \$100m industry for the Darling Downs) may result in opening competition and lowering prices for dairy products but may have huge social implications for local dairy farmers who are forced to leave their farms and seek alternative lifestyles and employment. Additionally, there may be economic and social implications for Toowoomba and its residents if that deregulation adversely effects the dairy products processing plant in Toowoomba.

Cheaper freight, power and phone services can benefit industry to varying degrees, however, in regional areas the laying off of staff because the local firm cannot compete with large national and multi-national companies can result in both economic and social devastation to the local economy and its residents.

While Toowoomba City may not be affected, the prospect of the loss of main roads works to neighbouring shires will have major implications for those councils and their communities.

Council submits that a comprehensive study is necessary to identify and assess all the impacts that will arise from the NCP reforms.

2. Water and Sewerage Rates

Toowoomba City Council operates water and wastewater services for the City. Water is also supplied to surrounding areas. These activities are 'eligible or qualifying' activities under NCP and Council has undertaken the required public benefit assessment.

Part of the implementation of the reforms for our water and wastewater services requires that an economic return is obtained on the water and wastewater assets. This is calculated using the conventional WACC principle. The return required in both activities is at a level approximately 50%+ of the non NCP base. The return on the assets will be phased in over 5 years. After the phasing in period Toowoomba water and sewerage rates will have increased by an estimated 50% because of these NCP requirements.

For most ratepayers the effect of the increase in water and sewerage rates and charges caused by the addition of the return on asset values, will be offset by a reduction in general rates (because of the income into the General Fund from the Water and Sewerage Accounts). However, properties not rateable for General Rates will now incur increases in their total rate bill because of the increased water and sewerage rates and charges. Almost 300 non government properties in the City which are owned by charitable; welfare; religious; educational; and, community organisations now face increased water and sewerage rates of 50% because of the NCP reforms.

It should also be noted that reduction in General Rates at the anticipated levels (which offsets the increases in the water and sewerage rates for Toowoomba ratepayers) will only apply whilst the water and wastewater operations remain in Council's ownership/control.

Because the charges for bulk water sales to the adjoining shires will now include a 'return on asset' component, the ratepayers in these areas will also face increased water rates but will not have an offsetting reduction in their General Rates.

Council is not convinced the return on asset concept is necessary to ensure the efficiency of the delivery of the service. The annual scrutiny of any rise in the level of rates and charges is a very strong incentive to achieve the optimum in efficient operations. It is also doubted that the ratepayers who purchased the assets should be forced to pay themselves a monetary return on those assets. The system is a closed loop with the owners and the customers being the same.

3. Cost of NCP to Toowoomba City Council to Date

To date Toowoomba City Council has expended the following on NCP Issues –

• Public Benefit Assessment	\$57,824
• Full Cost Price Assessment	39,165
• Software for Full Cost Pricing Model	1,000
• Review of Two Part water tariff	<u>2,900</u>
	<u>\$100,889</u>

In addition Council has undertaken –

- Review of possible anti-competitive provisions of Local Laws;
- Management of public benefits assessment;
- Management of full cost pricing exercise;
- Monitoring and implementing NCP legislation,

which is estimated to have cost \$50,000.

The State Government will pay Council up to \$1.6m for its compliance with the NCP legislative reforms. **Notwithstanding this, it is public money (from ratepayers or taxpayers) that is being spent on the NCP assessments and on the implementation of the NCP legislation and there is no demonstrated return from this expenditure.**