



**VICTORIAN WATER**  
INDUSTRY ASSOCIATION INC.

6 November 1998

Mr John Cosgrove  
Presiding Commissioner  
Impact of Competition Policy Reforms Inquiry  
Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616

FAX: Jill Irvine 02 6240 3311

Dear Mr Cosgrove,

**Impact of Competition Policy Reforms on Rural and Regional Australia**

The Victorian water industry has undergone significant change as a result of COAG water reform initiatives and National Competition Policy. There is generally a vibrant and enthusiastic approach to achieving reform targets, tempered mostly by local concerns about the impact of change upon the community.

I note that several water authorities have submitted detailed papers to you, and others have joined in discussions at regional Hearings. In particular, Victorian Water Industry Association recognises the points made by Goulburn Murray Water and adds for your consideration a brief listing of issues raised by other members.

**Need for consistency across States**

There is the potential for unfair competitive advantage where Government assistance for refurbishing infrastructure varies across States. I refer you to the Goulburn Murray paper for examples of this experience. It may be necessary for dividends and taxation equivalent regimes to incorporate a policy of returning funds to rural and regional centres to support capital works.

**Contributions to infrastructure improvements**

The impacts of change have resulted in significant strategies to achieve improved water quality, effluent disposal and service delivery programs. Some of these initiatives have generated concerns, particularly in regional and rural areas, about the capacity of householders and businesses to make the necessary financial contributions for new capital works programs to achieve the higher regulatory standards.

In supporting the benefits of removing cross-subsidies we must be mindful of possible unintended consequences of the process. There is a degree of disquiet about the potential accounting treatment of local financial contributions when calculating potential dividend and

tax equivalent payments by the water authorities. It will be very difficult to extract contributions for trade waste treatment or small town sewerage schemes if it appears that up to 65% of that contribution will find its way directly into Government revenue.

#### **Asset Valuation and Depreciation**

A dividend regime has been introduced for non-metropolitan urban authorities in Victoria, and work is under way to assess the impact of a taxation regime. Revenue determination, possibly leading to stronger regulatory role, is also under examination.

At the heart of all these matters is the need for a clearly understood asset valuation methodology. No doubt every jurisdiction is encountering the difficulty of determining depreciation rates that will enable consistent comparisons across businesses.

Asset valuation has implications for pricing, maintenance, replacement and technological advancements.

#### **Customer Attitudes**

Initial customer response to amalgamations and restructure demonstrated a perceived loss of ownership of the water entity, but authorities report that there is a growing acceptance of the benefits emerging from reform eg access to better technology and skills, improved Environment Management Strategies and higher quality standards.

In some parts of the community there remains a negative attitude about any prospect of privatisation. Competition policy and the general reform process are often viewed as forerunners to a privatised water sector.

#### **Employment**

Reform improvements have come at a cost to direct local employment by water authorities in some regions, and better incentives for contractors to engage local workers may be needed. The threat of reduction in local employment opportunities has been a barrier to obtaining community support for amalgamations and public/private sector partnerships.

Reports from water authorities suggest that there has been a significant impact on both staffing levels and staff morale because of the organisation restructuring that has taken place to meet reform targets. The social impact of the reform program needs careful monitoring.

#### **Further Consultation**

If appropriate, I would be pleased to organise a Victorian water industry forum at some stage during the preparation of the draft report to provide further input from the Boards and senior officers from the five rural and fifteen non-metropolitan urban authorities.

Yours sincerely,



**Toni McCormack**  
Chief Executive Officer