

CHAPTER 5

SOCIO ECONOMIC CONSEQUENCES OF NATIONAL COMPETITION POLICY

“market forces are global, but the social fallout that policy makers have to manage are local”¹

Introduction

5.1 Rural and regional Australia is continuing to change in line with wider economic and social currents. Urban concentration has been challenged throughout history by specific infrastructure investment (eg. The Snowy Mountains Scheme), by the emergence of agricultural industry and the discovery of various mineral deposits.

5.2 Townships which developed as supply depots and service centres for agricultural and mining areas have waxed and waned in tandem with the domestic and international competitiveness of the industries they served. Changing circumstances in agricultural commodity values combined with infrastructure development is causing significant population movement. Development of financial markets is seeing pressure on investment performance and movement of capital ownership to the cities. These changes are not confined to agricultural-based towns - Whyalla, Port Augusta and Newcastle and Wollongong are examples of manufacturing and heavy industry based towns facing significant structural change. As transport, communications and roads improve over time, the smaller depot towns are disappearing in favour of larger rural centres supported by financial and economic infrastructure such as banks, hospitals, schools, rail stations, government departments etc. These townships have continued despite the changing fortunes of agricultural, mining and manufacturing products in world markets because of their critical mass of social, economic and other infrastructure.

5.3 Further developments and changes in transport and communications and changes in world demand for mining and agricultural products will ensure further evolution in rural and regional areas of Australia. This change may be gradual but it will be inevitable. The challenge for policy makers is to recognise the potential for changes to occur and to ensure that all members of the community are prepared for them, adapt to them, and prosper.

1 Western Australian Parliamentary Standing Committee on Uniform Legislation and Intergovernmental Agreements, Competition Policy and Reforms in the Public Utility Sector, Twenty-Fourth Report, Legislative Assembly, Perth, 1999, p xvii

5.4 Where governments once strove to support and protect rural communities from the adjustment shocks of global trends, governments in the eighties and nineties reduced subsidy and tariff support and assessed regulations which provided a competitive advantage to those industries. Governments have also commenced a drive to address the cost of the provision of infrastructure such as water services through user-pays systems - all with the aim of ensuring an open, internationally competitive economy cognisant of the costs of resource use and environmental impact.

Successive Australian governments in the last quarter century, notwithstanding their differences on other aspects of economic policy, have agreed on the need to dismantle the policies of financial regulation and trade protectionism which had previously been distinctive characteristics of the Australian economic policy regime. This is a change in policy stance which has been fuelled by the acceptance of particular economic ideologies stressing the beneficial effects of competitive markets and free trade.²

5.5 National Competition Policy has emerged as a policy in the nineties in an attempt to open areas of the economy to competitive challenge. But NCP is only one of many economic challenges that have emerged in recent years. These changes have had a profound effect on many communities, including many in rural and regional Australia.

5.6 Taken as a whole, these changes have formed a pervasive web of change, which the Committee has found has left rural and regional Australia feeling angry and disenfranchised. Rural communities see themselves as that forgotten part of Australia, contributing a major proportion of wealth to the Australian community without recognition of their hardships. Many of the services metropolitan Australians have come to consider as 'everyday' such as mobile telephones or banking are not as available to people in remote areas.

5.7 The story of the negative impact of micro-economic reform policies is not just a rural and regional one. Whilst the impacts appear more severe in rural areas, the negative impacts are also being felt in larger regional and metropolitan centres. Bank branches are closing in suburban city areas and government departments are centralising their operations, causing even city dwellers to have to travel further for services. People in some suburban areas of the major cities are also suffering very significant effects from structural adjustment. Government departments are increasingly moving to electronic provision of services, eg. Information kiosks without ensuring all the customers are IT proficient.

NCP and its Overall Economic Effect

5.8 The Committee is concerned at the difficulty of ascertaining the positive value of NCP to the economy. The evidence before the Committee clearly demonstrates

2 Frank Stilwell, Globalization and Cities: An Australian Perspective, in *The Review of Radical Political Economics*, Volume 30, Number 4, December 1998, p 146.

significant localised costs, hardships and community uncertainty. The Committee considers it is highly desirable that the Australian community can be told with some certainty what the value of the policy is, but is concerned that to date that has not been able to be done. The Australian community should also be able to be provided with a numerical assessment of the costs of the policy, including but not limited to the social and environmental costs.

5.9 The Committee accepts that NCP, like the earlier tariff reductions for example, and other subsequent micro-economic reform initiatives, have been intended to contribute to a more robust and flexible economy, better able overall to withstand global shocks and perform in the international marketplace.

5.10 The Committee believes that close monitoring of individual initiatives under NCP, as well as the economy as a whole, needs to be undertaken for future policy development.

5.11 The Productivity Commission has, in its recent study, *Impact of Competition Policy Reforms on Rural and Regional Australia*, forecast an overall benefit from the introduction of NCP of a rise in real GDP of 2.5% a year above what it would otherwise be. It found that there were net benefits for Australia as a whole but that to date greater benefits have accrued to larger businesses.

The overall conclusion we reached was that Australia as a whole is likely to benefit from NCP, although there is more variation in the incidence of benefits and costs amongst the regions. **To date, the reforms implemented have provided greater benefits to large businesses and people in metropolitan areas, as intended, because that is where the markets were opened up first--in infrastructure service areas.** {emphasis added}³

5.12 The Senate Committee did not seek to duplicate the work done by the Productivity Commission. However, evidence to the Committee supports the Commission's finding that overall NCP has brought benefits to the community. However, those benefits have not been distributed equitably across the country. It is a significant concern of the Committee that the benefits that flow from NCP were found by the Commission to primarily flow to larger businesses and to those people resident in metropolitan areas (or at least larger provincial areas) whereas the greatest costs appear to be generally borne by smaller businesses and those resident in small towns.

5.13 The representative from Anglicare noted to the Committee, during a discussion about the Productivity Commission's findings in relation to regional benefits from NCP reforms (Map p 303 of Commission's Report - see Appendix 5):

The evaluation....from the Productivity Commission in terms of its impact on the economic infrastructure is exactly the opposite to the social infrastructure. Where the benefits lie are where there are relatively few

3 Mr Plunkett, Productivity Commission, Committee Hansard, Melbourne, Monday 1 November 1999.

people, and yet where you have picked the red areas is where many of the social problems are highest. It seems to me there is almost the opposite correlation between where the benefits lie and where the perceptions are of social problems in this country. I would have thought that in many of those vast areas of green, people would not have seen their social services improve over the period of national competition policy...

5.14 The Commission has predicted from its modelling exercise that there would be quite varied results across regions with the greatest variations in impact occurring in country areas. However, the Commission also predicted greater overall benefit to country areas. This finding is what is at odds with the views of the report from Anglicare. The Committee doubts that the benefits of NCP will ever be able to be satisfactorily measured. The Commissions' attempts are praiseworthy but they are estimates subject to variation. What the Committee is concerned to ensure, is that the impacts of the policy are monitored in a rigorous fashion and the results of such monitoring are reported to policy-making authorities.

Impact on Employment and Working Conditions

5.15 Social commentators have noted that the changes are contributing to higher levels of insecurity in the community.

Structural change has also left a growing group of so-called 'battlers' in comparatively low-paid jobs, poorly organised and reliant on a relatively stagnant minimum award wage structure. As these people slip behind the rest of the population (including fellow workers able to benefit from enterprise bargaining), they feel insecure and as bitter and resentful of people on welfare as they are of the 'tall poppies'....⁴

5.16 There is evidence to suggest that the significant losers with respect to NCP implementation and other microeconomic reform measures are employees.⁵ The following issues have been raised:

- high levels of retrenchment resulting in significant short and medium term unemployment;
- changes in working conditions, particularly affecting women and non-English speaking peoples;
- movement from full time to part-time, temporary and contract work;
- structural unemployment not addressed by retraining programs;
- poverty traps and increasing welfare dependency;

4 Mr Fred Argy, Australia at the Crossroads, Radical free market or a progressive liberalism? Allen & Unwin, Sydney, 1998, p 220-221.

5 See Productivity Commission, Impact of Competition Policy Reforms on Rural and Regional Australia, Inquiry Report, No 8, September 1999 and Case Study Latrobe Valley Chapter 4.

- erosion of equal opportunity principles; and
- regional employment disparities.

5.17 Mr Fred Argy points out some of the more ‘subtle’ effects in his book, *Australia at the Crossroads*:

Where costs are being driven down under competition policy, the effects within the community services sector upon the predominantly female labour force is also having another potentially damaging social effect – that of driving down further the earning capacity of an already low-waged sector. As has already been indicated by studies in Australia and in Britain, community service organisations are increasingly opting for part-time, casual and less qualified staff, thus keeping costs to a minimum in order to win contracts and stay in business. Australian research shows that contracting out does lead to fewer staff being employed by service organisations. On the face of it, this may indicate greater efficiency, but it also has the effect of reducing employment opportunities within the sector. In the area of child care, in particular, there is concern that the significant numbers of children being shifted from long day care to family day care, is having the effect of forcing out more qualified long day care staff in favour of cheaper family day care employment.

There have been concerns of long standing about low levels of appropriate training among non-government organisations, and although overall training and skills development remains low, under reforms across the sector in recent years, there has been increasing professionalisation of the work force, and with that, commitment to quality training. There is concern, however, that rather than a commitment to increased training and skills development in the current environment, price-conscious service contracting is leading increasingly to the exclusion of training costs and hence to the de-skilling of service providers. In a sense, this de-skilling is a depreciation of human infrastructure akin to the running down of investment in capital infrastructure, which is ultimately likely to result in a loss in service quality.

...

The impact upon volunteers under contracting out is difficult to determine because there are profound pressures upon voluntarism at the very same time as the nature of service delivery is changing...evidence would seem to suggest the need for sensitivity on the part of organisations recruiting volunteers to ensure they are not exploiting the good nature of women.

There are other potential occasions for the exploitation of vulnerable volunteers, for example service organisations (for example in the Industry Commission Report into Charitable Organisations in Australia). Volunteers enable such organisations to deliver community services on a cheaper basis than government-delivered services. While the industrial relations issue of work substitution has been overlooked to date in favour of this expedient, it

may be set to change as more and more 'for-profit' service providers enter the market and demand a fair basis for competition.⁶

5.18 The recent findings of the Productivity Commission indicate that regional differences in levels of unemployment appear to be deepening as the imbalance in industry employment opportunities change. Whilst not all of these changes are as a result of NCP or indeed micro-economic reform generally, there is potential there for the NCP to worsen the impact of rural downturn, industrial changes, globalisation etc.

5.19 The Committee has received numerous submissions that claim that NCP has been the stated reason for job shedding in local government areas and in a number of industries. The extent to which NCP is the cause of job shedding is not clear. The Committee received evidence that much is attributable to other policies and government practices such as compulsory competitive tendering (CCT), contracting-out and contract amalgamation. In his submission to the Committee Professor Quiggin states:

Unemployment is the most important single violation of the competitive market assumptions. In the standard competitive model, the fact that firms may go bankrupt and employees lose their jobs as a result of the competitive process is not a cause for concern, since it is assumed that workers will immediately find new jobs elsewhere and firms' capital will be transferred into more productive uses. In reality, this is not the case. Workers displaced by competition may experience prolonged periods of unemployment. Although it is often asserted that the losses experienced as a result of higher unemployment will be offset by gains in other sectors of the economy, there is no theoretical basis for the supposition that the two effects will cancel each other out⁷.

5.20 A number of local councils have cited the problem of contracting-out services to the lowest bidder as having a profound effect on employment in the town.

5.21 Where contracts go to larger city companies, which bring their own workers for the duration of the job, local operators must lay-off their workers. Of particular concern in WA, is the growing practice of 'fly-in-fly-out' services, where a large city-based contractor flies in workers to remote areas to fulfil contract work. This work can even extend to relatively unskilled services such as cleaning. These operators are able, due their size, to undercut the local contractors. Their workers, however, do not live in the towns, neither do they spend their wages there, nor send their children to school there or in any way contribute more than temporarily to the economic and social fabric

6 Department of the Parliamentary Library, Information and Research Services, Will Privatisation and Contracting Out Deliver Community Services? Research Paper, No 15, 1997-98, p23-24

7 Professor John Quiggin, Australian Research Council Senior Research Fellow, James Cook University, Submission No 91, 25 September 1998, p15.

of the town.⁸ Another reported impact of CCT is job shifting from public to private sector, often with reduced pay and conditions.

5.22 Workers, particularly those in rural and regional areas, who lose their jobs as a result of National Competition Policy or related micro-economic reforms are not always easily re-employed. Re-employment prospects are significantly affected by mobility and opportunity – in rural Australia there is little opportunity and the degree of mobility is questionable given relocation costs and skill levels. There is certainly a strong degree of criticism in submissions received by the Committee and in the literature discussing the effects of NCP, and in particular, of the estimates of labour force impacts of the implementation of NCP:

It is claimed that the employment effects of the privatisation and corporatisation of electricity services in Victoria have been considerable:

Over the last four to five years 23,000 jobs have been whittled down to less than 7,000. The brain drain and the loss of morale is apparent and the community in the La Trobe Valley has been devastated.⁹

5.23 The Australian community should be informed of the costs of the policy, particularly through clear identification of social change, hardship and environmental costs.

5.24 The Productivity Commission identified job losses by infrastructure providers in its latest report, and justified these losses in terms of improvements in efficiency. The adverse impacts of these employment losses can be compared to the impacts of the early tariff reductions on the manufacturing industries.

To improve efficiency, State governments have sought to address overstaffing in their electricity utilities. This saw total employment in the electricity supply industry decline from slightly more than 80,000 in 1985 to around 37,000 in 1997....much of this decline occurred prior to implementation of the NCP in 1995. However reductions in employment have continued since then....¹⁰

Restructuring and rationalisation of rail enterprises has resulted in railway employment declining more rapidly in country Australia than in capital cities. In 1986, more than half (49,000) of Australia's full-time railway employees were located outside Australia's capital cities, but by 1998 this proportion had declined to around one-third. Over the same period, full-

⁸ Mr D Palumbo, Committee Hansard, Monday 17 May 1999, Perth, p363-369.

⁹ Jon Greenaway, At your service, in, Eureka Street, Volume 6 Number 1, p21, January-February 1996, quoting Leigh Hubbard, Trades Hall Secretary.

¹⁰ Productivity Commission, Impact of Competition Policy Reforms on Rural and Regional Australia, Inquiry Report, No 8, September 1999, p 108.

time railway employment in capital cities declined from nearly 41,000 to around 23,000.¹¹

5.25 The Commission estimated overall employment in public sector infrastructure utilities declined by about 114,000 people, or 33 per cent, in the decade to 1997. This is a significant figure in any language. While the table below, from the early draft Productivity Commission Report is indicative of these job losses it must be noted that the restructuring in many of these industries predates NCP, but the philosophy of shedding excess labour to achieve efficiency objectives is apparent.

TABLE 10.3 JOB LOSSES BY INFRASTRUCTURE PROVIDERS¹²

Reform sector	Job Losses %	Period/Date	Areas affected
Gas	↓ 42	1992–1997	6 major gas distributors — losses mainly in cities
Electricity	↓ 38	1992–1997	Losses in cities and country regions
Rail	↓ 44	1986–1998	Capital cities
	↓ 73	1986–1998	Other Areas
Telstra	↓ 18	1987–88–1996–97	Telecom and Telstra

5.26 Evidence given to the Committee suggests that some regions are benefiting in terms of employment opportunities from NCP whilst others are not:

One prominent feature of contemporary unemployment which is relatively new is the extent to which it is concentrated in particular depressed regions.....the threat of unemployment is directly linked to where an individual worker lives. Regions like the northern suburbs of Sydney and parts of the eastern suburbs of Melbourne are doing very well, while the LaTrobe Valley, the Iron Triangle, the Illawarra and the western suburbs of Melbourne and Sydney suffer entrenched and chronic unemployment problems, once again reflecting the structural changes in the Australian economy over the last two decades. **The new jobs emerging are usually located well away from the regions where the old jobs are disappearing.**¹³{emphasis added}

5.27 The factors which appear to govern a region's employment prosperity include:

11 Productivity Commission, Impact of Competition Policy Reforms on Rural and Regional Australia, Inquiry Report, No 8, September 1999, p 174.

12 Productivity Commission, Impact of Competition Policy Reforms on Rural and Regional Australia, Draft Report, page 250. SCNPMGTE (1998)

13 Lindsay Tanner, Open Australia, Pluto Press, 1999, p 125.

- degree and type of industry dependence/exposure;
- diversity of industry;
- critical mass of social infrastructure;
- potential capacity to develop industry associated with increasing employment opportunities eg services, communications;
- physical location - Many coastal areas would seem to be more attractive; and
- presence of Government or publicly owned business and infrastructure eg hospitals, schools, post offices, government department centres.

5.28 Given the confluence of these negative factors in rural and regional Australia, the Committee concludes that micro-economic reform, globalisation and NCP, may be having adverse effects on rural and regional Australia, despite the Productivity Commission's finding that in the long-run rural and regional Australia will benefit.

5.29 Consequently, the Committee makes the following recommendations:

Recommendations

12. *That reviews and public interest tests must include Employment and Community Impact Statements.*
13. *That reviews of legislation to consider and report on transitional arrangements, including compensation or retraining. The costs of such and how these arrangements will be implemented should also be outlined and be transparent.*

Impact on Social Welfare

5.30 The Committee chose to examine this issue in two parts:

- firstly, whether or not the 'supply' - provision of social welfare services, health and related services is being affected by the introduction of NCP; and
- secondly, the need for structural adjustment assistance or transitional assistance for those adversely affected by NCP.

Impact on the provision of social welfare services, health and related services

Many people feel that this marketplace stuff has got out of hand. To some extent, in my mind, national competition policy is seen as this marketplace

ideology writ large. We want to see a benefit that has more social value for people in their lives.¹⁴

5.31 It has been suggested that some aspects of NCP and its administration would appear to be in conflict with the principles of good health, community and social welfare service provision. The impact of NCP has been the subject of a number of submissions from the Australian Medical Association Limited, the Australian Doctors' Fund, the Australian Physiotherapy Association, the Australian Dental Association, the Brotherhood of St Laurence, the Australian Association of Social Workers, the Australian Catholic Social Welfare Commission, and others. The concerns are twofold:

- the impacts of contracting-out and competitive tendering on service delivery; and
- imposition of NCP principles on the professional medical and welfare field in terms of the medical workforce, entrance to medical colleges, training, remuneration systems etc.

Competitive tendering and contracting out

5.32 NCP does not require the implementation of competitive tendering or contracting-out. These are methods which each separate jurisdiction has chosen or not chosen to implement in order to bring about competitive neutrality in government business or for other reasons of governance. The NCC and the Productivity Commission have been at pains to bring this message to the community for some time. Unfortunately, the community does not see this as so. Many in the community recognise that although the use of CCT to achieve competitive neutrality is not mandated under NCP, the competitive neutrality requirements of NCP may be met by CCT. It is also apparent that the community considers that it is not acceptable to abrogate responsibility for the implementation of contracting-out and competitive tendering by blaming NCP. Rather, there is a wish that 'someone' takes some responsibility no matter under what auspices the policies are being implemented:

The trouble with the social impact is that it is always someone else's responsibility. We heard it said here again this morning that it is always some other element of policy which should deal with the social impact of these things. We have had similar positions put to us in the whole tax reform debate.....I certainly take Mr O'Connor's point that in Victoria, compulsory competitive tendering and national competition policy are synonymous. It may not be true and it may be a very inaccurate representation, but in our minds they are synonymous.¹⁵

5.33 The concerns relating to contracting-out were not confined to the social welfare and health sectors, but were levelled at many local government services and

14 Mr R Rollason, Anglicare, Committee Hansard, Melbourne, 1 November 1999, p872.

15 Mr R Rollason, Anglicare, Committee Hansard, Melbourne, 1 November 1999, p872.

activities where the impost of contracting-out is most prevalent. Because it is an issue of such importance to the community, the Committee is of the view that the imposition of policies such as competitive tendering and contracting-out, and changes resulting from reviews of legislation, may require a more sophisticated approach, sensitive to the needs of communities and consumers of welfare services. The evidence supports the claim that competitive tendering and contracting-out have sometimes brought benefits, but as with the whole of the implementation of the policy and related reforms, some applications of these policies have been less than beneficial. As far as the Committee is concerned, it sees a need for political decision makers to accept responsibility for the often difficult decisions about who should win and who should lose from a reform, including the extent or need for support for the losers. Senators Murray and Mackay, attempted to encapsulate the issues during questioning at the 1 November 1999 hearing in Melbourne:

Senator Murray - My question is to the participants in the panel. It is to ask them what they make of this analysis by the Productivity Commission-whether they think it has touched the problem of community, particularly country community, reaction against national competition policy and whether it provides an answer. I think both Mr Davis and Mr Nettle quite correctly said that the ball, in terms of where competition policy is to go, is now in political hands because of the reaction we are seeing, politically-voting patterns and support for different kinds of political organisations with different philosophies. If we have to deal with that in terms of our self-interest, if you like, what contribution do you think the Productivity Commission's review makes to that? Right at the heart of the criticism of competition policy are social values, not economic values and yet most of the language used is economic. I would just like to hear your reaction.....

Senator Mackay - I am curious as to the notion of flexibility [in the implementation of NCP using the public interest test] that you [Productivity Commission representatives] talked about. You used the example of local government. That may well be the case in terms of the macro policy, but in terms of the actual implementation it is not, because state jurisdictions are determining how NCP will operate in individual states.....So the flexibility may be inherently there at a macro level, but the actual jurisdictional application of that is disparate, to say the least. I am just wondering whether you looked at that and what comments you have got on it.

Mr Plunkett - What you say is true in that different jurisdictions have interpreted differently how they will meet what they undertook to do. The example was used earlier of compulsive [compulsory] competitive tendering which was seen by the Victorian government as a way of ensuring that significant business activities at local government level operated in a competitively neutral manner. That was not a requirement. [of NCP] The alternative way of meeting that was that the other states identified what they defined as significant business activities and asked the local governments to

then go through exercises to see that, when they competed with private sectors, they operated in a competitively neutral manner.

Another difference you could point to is in roads. The Queensland government and the Northern Territory government have specifically required tendering for roads to be done in small contract lots to facilitate small contractors. The Western Australian government chose to virtually outsource the whole state's road maintenance operation.¹⁶

5.34 The Committee has heard evidence with respect to the delivery of social welfare services in particular, that the paternal policies of providing “choice” of service through contracting-out and competitive tendering is not always compatible with effective or appropriate service provision. Further, the Aboriginal and Torres Strait Islander Commission noted there is a danger that budget cuts to government expenditure will drive successive levels of government to choose the lowest cost delivery service, not the best service:

...though selection on the basis of price competition alone is not a requirement of the NCP and may not be in the long term best interests of the community or overall public interest, a government entity in a climate of budgetary restraint may be persuaded to allocate business primarily on the basis of price, without giving sufficient weight to other public interest considerations.¹⁷

5.35 Indeed, even some of the cost-savings arguments associated with competitive tendering would seem to be unfounded as witnesses have attested to the waste of public funds in the preparation of tenders. Since such funds are sourced originally from Government and from voluntary and charity sources, the management of such funds, in a wasteful way, would be highly inappropriate:

I think the local area seems to be where the problems surface first and, in the old structure, we were able to try and jump on that very quickly. I am not saying that is the answer to everything-there are a lot of bloody awful services out there that should have been defunded-but I do feel that the move to competition as the answer to that is actually causing much more fragmentation. Also, from the ground, it is the most incredible waste of money I have ever seen in my life. Things that could have bought a community bus are now being spent on advertising in the Sydney Morning Herald and on legal processes to make sure that the expression of interest process has got its i's dotted and its t's crossed, whereas before, the local area was asked what it needed and that money was filtered down through that.¹⁸

16 Committee Hansard, Melbourne, 1 November 1999, p 860-861.

17 ATSIIC, Submission No 217, Attachment, p 6.

18 Ms L Margie, Macarthur Home and Community Care Forum, Hansard, Sydney, p 788.

5.36 Witnesses have confirmed that while contracting-out some welfare services have streamlined some practices in the social welfare area, it has made others more cumbersome and administratively inefficient. Valuable personnel resources are being lost, as small organisations are unable to compete with larger more commercially oriented organisations which usually win the contracts. It is considered that this commercial orientation does not necessarily result in good or effective community service and is, it is claimed, leading to loss of co-operation between services:

What we are starting to see, since our funding body, the age and disability department-and I believe it has come through the whole HACC Program-has been introducing an expression of interest process with competitive tendering, is that we are finding people are not sharing their ideas. They are not saying, 'Look, we tried this wonderful new idea at our frail aged day care centre and we are adopting a granny or having pets for therapy. Why don't you try it at yours?' It is kept secret because 'If we have to go for funding again next year, that could be a feather in our cap and we do not want it to be in yours as well.'.....

What we are noticing, as the expression of interest process progresses, is that more small community based organisations are starting to lose out. They are just going to disappear. They do not have the expertise to write flash tenders in the jargon that perhaps somebody sitting on a funding panel may think is appropriate.¹⁹

5.37 The evidence from the hearings and submissions did however, point to benefits from the introduction of competitive tendering and contracting-out. A number of organisations reported positive outcomes from the changes. The following list is illustrative:

- *“While maintaining our principles, we had expanded our services, enhanced our service delivery and strengthened our infrastructure. Importantly, the funds enabled us to establish some really creative services, including service components that received very positive support from the Aboriginal community, that met the needs of families in improved ways and others.*
- *We showed that we could be competitive even against private sector profit-making agencies and other larger, more traditional agencies. Our agency was assessed on merit as being the best agency to provide these services to young homeless and disadvantaged people and their families. I believe that this sent a strong message to other more traditional agencies and private sector providers.*
- *We partnered with a welfare organisation not traditionally seen as part of the youth sector. This partnership has been extremely beneficial in enhancing the level to which clients' needs can be met. We also partnered and colocated with an early intervention health service through the Area Health Service, again with very positive results. However, it should be noted that both of these initiatives would have occurred without an open tender process.*

19 Ms L Margie, Macarthur Home and Community Care Forum, Hansard, Sydney, p 787.

- *We obtained support from many community agencies during the tendering processes. This provided an opportunity to further discuss the impact of competition and tendering in an environment where cooperation was an essential part of achieving successful outcomes.*
- *Our agency forged a very strong link with a number of other traditional agencies that we had previously considered to be competitors or outside the relevant service sphere. By working cooperatively, we were able to enhance all our services, develop improved positive and collaborative relationships and avoided duplication in service delivery. We have sustained these valuable relationships with these agencies.*
- *A number of community agencies got together and decided that they would support the existing service provider and not tender for the service. The agencies made this decision on the grounds that the funding on offer was not new money, and that the existing service had been evaluated and assessed as providing a successful service. In addition, a meeting between a number of interested LGAs agreed to support the existing service and its proposed expansion.*
- *Throughout these tendering processes, a number of agencies and government departments offered practical support to the existing service. This support included offers of collocation, use of a vehicle and provision of data.*
- *Some positives have developed in some funded programs. These include a move to two or three year contracts once funding has been approved, some onerous and unnecessary data collection requirements have been dropped and in one program monthly funding has now improved to a two payment system over the year.”²⁰*

5.38 There appears to be considerable administrative cost shifting from government across to government funded/charity funded, organisations. An unintended consequence of changes to the way social welfare services are funded, would appear to be these additional administrative costs. Further, it is evident that narrow cost/benefit analysis is not capable of examining many of the social factors involved the application of NCP in the social welfare sector. The problems are illustrated below:

“... many Departments maintained a program management style that appeared to us to be both over-zealous and controlling.”²¹

Tender documentation / Financial Viability

The tender documentation for these new projects were at best slightly more onerous than previous submission forms and at worst took several weeks to research and complete to meet the requirements satisfactorily.

Initial problems emerged with the various tender documents, which required quite onerous financial information sometimes going back several years. The agency was in effect asked to

20 Wollongong Youth Accommodation and Support Association, Submission No. 222, p. 4

21 Wollongong Youth Accommodation and Support Association, Submission No. 222, p. 5

prove its financial viability. My view is that 'proving' financial viability in the context of almost total reliance on government funding is one of the most significant issues for our sector in this type of funding system. I believe the continued focus on this element of the process will lead to an inability of Government to fund innovative small providers. The service sector will become dominated by a smaller number of big providers, presumably defeating the purpose of tendering to the community.

Contracts

In regard to the contracts, we encountered a number of problems. The contracts were developed without consultation and seemed to be very one-sided. The terms were such that there was little equality between the two parties and no apparent intention to provide protection for both purchaser and provider. Rather, the contracts appeared to be rigid legal exercises in enhancing the interests of the funding bodies and minimising the interests of the funded agency. For example, in some of the contracts penalties could be applied in cases where the agency was late in returning unspent funds. However, if the Department failed to provide funds on time, the agency had no recourse at all.

Further issues were raised by the fact that contracts were based on a set of required outcomes and in some contracts, agreed numbers of clients to be serviced. If the service failed to meet the determined number of clients or other contracted outcomes, final payments could be reduced. Under this type of arrangement, there is potential for a service to lose any forward-spent funds through financial penalties applied in the late stages of funding, regardless of the reason for not meeting outcomes. Temporary closures due to unforeseen circumstances - such as critical incidents - could easily lead to loss of funding, whether or not the funding had already been spent or committed."

Funding

In some cases, funding administration presented a number of problems to smaller organisations that were not in the position to cover funding gaps. As an example, in one contract, in the first funding round we received three payments. Two were equal amounts, with one being paid on commencement and the other after six months of operation. A final smaller payment was to be provided only after an annual audit was received by the Department. However, terms dictated that the audit had to show how all funds -including the last payment - were spent. The only way we could do this was to borrow the amount of the final payment, spend it and repay the loan after the Department paid the final payment, which was actually some five months after the end of the funded period. Many community agencies would not have the capacity to negotiate such a loan. Another example is four unequal payments, with three being provided during the funded year and one after the audit. However, payments were not made at regular periods, but after a set of specific milestones had been achieved. The cash flow problems of such a system present significant problems for community management.

The insistence that a separate bank account be held by a number of the funding bodies raised the potential for cash flow problems, particularly where payments were provided after the beginning of the funding period. Administrative processes resulted in this often being the case. As an example, in one of the contracts, while a report had to be received by the Department before a cheque could be generated, the format for the report was not sent to agencies in an adequate timeframe prior to the end of a funding period. Agencies were

therefore unable to complete and return the necessary documentation before the commencement of the next period.

Concern with the requirement of a separate bank account was compounded when we learnt that some of the larger welfare agencies had been given exemptions from this requirement.

An additional condition in some of the contracts was that organisations were to begin with a nil balance and end with a nil balance also caused difficulties, not only with the issue of cash flow, but also in making provisions for on going staff accruals if the service was continued.

The development of unit costings was immensely difficult, in that activities such as community development were not considered. In the uncertain funding environment, financial planning and matters relating to service infrastructure were severely impeded.

Project commencement requirements

Stipulations around the commencement of funded projects also created problems. In some cases, the organisations were required to have the project fully operational four weeks after funding was approved - even though approval occurred some time before organisations actually received funding. The short timeframe was clearly unrealistic in regard to ensuring proper equal opportunity employment processes, establishing offices and systems and undertaking initial promotional work. In one case, we were informed by the Department that our delayed starting time would be noted in evaluation, as other agencies seemed to be able to comply. It was of significant concern to us that some agencies may be meeting these sorts of requirements by circumventing good employment and recruitment practices.

Data requirements

Data requirements were the next major cause for concern. Logically, where tenders are awarded on the basis of specified outcomes, management and accountability should be focused on the measurement of outcomes. However, we found that management and accountability were based on the collection of onerous, and in part irrelevant, information. For example, organisations were required to provide a breakdown of staff hours by client and further, by task. Gathering data on the time spent on referral for the client, on assessment of the client and so on is time consuming, not particularly informative at a program level, and totally uninformative about whether stated outcomes are being met. It also confuses the relationship between 'funder' and employer and purchaser and provider. The employer should be responsible for supervision and management of how staff time is spent, and it is at a local service level that this information is helpful. In a purchaser provider relationship, the purchaser need only be concerned about whether the services purchased were produced or provided - not how. The Departments have never been able to adequately respond to questions pertaining to the need for, or use of, this information. It could easily appear that the key interest of the various Departments here was that of control.

A second significant issue in program data relates to the type of information collected. The data required by the Departments was primarily quantitative, and thus provided little measure of the quality of service delivery or client outcomes. In effect, positive outcomes such as stronger and healthier communities, people leaving the service empowered to cope on their own, and the input into social capital and other community development activities have been largely overlooked in data collection and analysis.

Continuation of funding

In some cases, in the second year, services did not just continue. An open tender process was repeated. Again in one case, we were not advised of refunding until three weeks prior to the end of the funding round. Continued operation of the service was therefore very difficult, given the prospects of having to wind-down within a couple of weeks. When we approached one Department about this problem, their response was that they '...were doing it as fast as they could.'

The timing of notification of funding/defunding gave no recognition to the major costs associated with ongoing operational costs, particularly lease payments, rental properties and administrative staff. Nor did the timing give any acknowledgment to employer's legal obligations to staff regarding termination and other related matters. As funds are provided within annual contracts, the 'funder' does not provide resources for staff redundancies. However, if the employer extends the contract, the employee is considered a permanent employee and redundancy money must be accrued if the agency has fifteen or more employers.

The impact on staff of inadequate time frames for funding notification was significant. No consideration was given to the job uncertainty being faced by project employees. The contracting system generally mitigates against retention of skilled staff and continuity of project operation. Staff are too often forced to start looking for other work three months prior to the end of a contract, in order to ensure their own survival within the system. They experience high levels of stress due to the uncertainty of their job coupled with the pressure to work hard to meet contracted outcomes in order to ensure that final payments are not reduced through penalties. One recent experience has an agency being forced to extend staff's contracts four times – twice for six months, once for five months and once for three months while a Department worked on the development of a new program and then took eleven months to establish the tendering process and then did not make decisions in some areas and extended the timeframe again. The stress of this also impacts on the quality of service that is provided in these circumstances.

Management and the organisation as a whole also experienced unnecessary stress. Management were forced to distribute termination notices while expecting staff to continue business-as-usual, and planning had to be undertaken within the context of not knowing whether the service would continue to exist. There are also financial considerations including the additional cost of leasing arrangements for short periods, commercial rental leases and penalties and other such matters.”²²

5.39 These issues should not be solely placed ‘at the feet’ of National Competition Policy. There are clearly concerns related to administration and the problems associated with contracting-out and competitive tendering. However, having said this, it is the Committee’s view that it is time that responsibility is accepted by governments for the impacts of these various policies.

5.40 Generally, these policies would appear to be working to promote effective competition, but where these policies are being implemented under the umbrella of

22 Wollongong Youth Accommodation and Support Association, Submission No. 222, p. 8.

NCP without full regard to the public interest test, without full transparency of procedures and management, problems are occurring. There is a case for greater guidance and leadership. There is also a need to honestly represent that which is under NCP and that which is not. In Chapter 4, the Committee has discussed its concerns about the administration of the public interest test and recommended action. However, the Committee also considers that the level of concern in the community in relation to the impact of contracting-out and competitive tendering on the Health and Welfare Sector is sufficient to warrant action by jurisdictions to ensure that there are no unintended consequences.

Recommendations

14. *That all reviews of legislation and changes to competitive arrangements in the social welfare sector adhere to the broad principles of the public interest and take account of the difficult to measure social factors rather than relying on narrow, more easily measurable, economic factors. That all contracting out arrangements and competitive tendering processes and documentation in the social welfare sector be public and transparent. There should be a presumption that all documents will be public and any claims of commercial confidentiality should be kept to a minimum and where essential.*
15. *That Governments critically examine competitive tendering processes for social welfare services with a view to ensuring that a sophisticated and flexible approach is taken to the provision of service. The process should consider as part of the public interest test: quality, consistency and continuity of service; the value of local co-operative arrangements and the personal nature of such service.*
16. *That, where appropriate, the Commonwealth Departments of Health and Aged Care and Community Services, examine competitive tendering programs and determine which services are properly and efficiently competitively tendered and which may be contracted out on a benchmark of service basis. Particular attention should be paid to rural and remote communities where locally provided co-operative services may be integral to the success of service delivery.*

Impact on Medical Profession

5.41 The Committee heard from a number of witnesses representing the medical profession in relation to the issue of whether the introduction of NCP principles will be of benefit to the medical profession, particularly in terms of the entry to specialist colleges and training of medical personnel, perceived concerns re third-line forcing in the medical field and the contracting of medical personnel.

5.42 Witnesses attested to the fact that entry to the various colleges and professions is based on merit and limited to the number of training places available. Both representatives of the Australian Association of Surgeons and the Royal Australasian College of Surgeons put to the Committee the view that the supply of specialists is limited, particularly by funding for surgical services, in public hospitals.

5.43 The Royal Australasian College of Surgeons was particularly adamant that the entry systems are not discriminatory:

....we have previously had similar criticism.....where the policies of selection into surgical training of the RACS were claimed to be discriminatory. We would like to respond to the inaccuracy of that report.....the RACS over the last decade has followed a policy of planning the entry into surgical training to meet the community needs of an adequate number of surgeons of a high standard of skills and training. There remains a difficulty in the ready access of patients to elective surgery however, this is rationing imposed by the limited funding for surgical services in public hospitals.²³

5.44 The evidence given by representatives of the Australian Association of Surgeons endorsed this view and put forward further concerns about the commercialisation of health services:

I should like to summarise our submission into two concepts: the first is the complicity of services with TPA ramifications and the second is that surgery provides a quality service, not a product. At the end of the day these concepts must sustain the argument for a better outcome for the consumer.

Let me start with the complicity of services. As outlined in our submission, medical training to specialist level takes 11 to 15 years after leaving school. Colleagues give freely of their time on a voluntary basis to educate, train and supervise the trainees. Once out in the competitive work force, colleagues are supportive of each other. Frequently we seek opinions from our colleagues, help each other out with major surgery and cover each other when on leave or night duty. Minimal financial agreements occur with these arrangements. This complicity of services enhances both quality and efficiency. Surgeons ethically find difficulty in complying with a fiercely competitive market.

This brings me to my second point: surgeons provide a quality service, not a marketable product. From trainee programs to the end of a surgeon's working days, quality control must take precedence. Once we treat surgery as a marketable product to be advertised and sold to the consumer at a profit, business ethics compete with clinical decisions. We support the AMWAC work force assessments each three to five years to monitor supply of surgeons as outlined in the submission, but consumer demand is difficult to operate in the economic health care model which has a major free service in the public sector. We do not have a level playing field in medicine.

Contracting in both the private and the public sector is a paradox. Contracting of surgeons will force surgeons' wages down but will exclude others from their place of work and, hence, it is in conflict with TPA proposals where freedom of choice for the consumer is removed.

Competition policy and social dislocation of the work force as outlined in the submission do not sit well from the consumer benefit's point of view. In relation to collective bargaining and third-line forcing, these have been well presented to the committee by the AMA's submission and the AAS fully supports these arguments.....

Mr Brazenor—I would just like to add that we are concerned that the ACCC seems to display little understanding that turning health services and particularly the delivery of surgical services into a completely free market would hurt the consumer. We believe it would be a greater hazard to patients and we believe there would be a huge rise in discretionary surgery, and that is not in anybody's interests.

5.45 With reference to the issue of discrimination of entry to training colleges, the Australian Association of Surgeons responded with the following:

CHAIR—I have an interest in this area, in particular the surgical training schools. I wonder if you could tell us about that. Some of the allegations that were made some months ago now by various people who have come before this committee were that these schools do not necessarily pick the best and the brightest of students, and in fact they use a system where they pick who is known to the system, usually someone whose father or mother—usually father—is already prominent within the different surgical disciplines to train. So we are not necessarily, through the current system, getting the best surgeons to do all the various work they do in this country.

Mr Brazenor—I know of no substantiation for that at all. There was nobody medical in my family at all—I am the first—and I never met that. I competed fiercely for every resident and registrar job I went for. There was nobody backing me except the people that I worked for and it was quite obvious to me that if you did a good job you got picked and if you did not do a good job you were out. In the whole of Victoria I know of only possibly half a dozen people who might have had prominent forebears—fathers or mothers in medicine. I really find it very difficult to credit such a statement and I think it is silly. I must say it sounds awfully like sour grapes.

My experience of the system—and I came through it with nobody to help me—is that the only thing that had a bearing on my selection was whether I did a good job as a resident and whether my trainers thought I was going to hurt people. Right now, as we sit here, in Australia in the training centres of this nation, there are some conversations going on about trainees and these will be mainly, 'Is this man or woman going to hurt people if we let them through the training post, if we let them into an accredited training position, if we let them out the other end?'

You referred to the best and the brightest. How do you quantify that? I topped my medical course. I was first in my year and yet I am the first to say that I do not particularly want to take my kids to a doctor who was first in his year. I think I am an exception, but by and large people who do well

academically are not necessarily good doctors. Some of them would not know how to talk to a patient to save the patient's life and some of them are very bad decision makers. I can remember—this is 10 or 15 years ago when you could dress down somebody who was bloody incompetent without being strung up before a tribunal—roasting a person for seeing one of my patients in the middle of the night and prescribing a tranquilliser to somebody who was actually short of oxygen. This person had been accepted into the training scheme and I told him that if he ever did that again I would see that he was out of the training scheme.

That is the way business is done, and that is the reason why we are very uncomfortable about the ACCC looking at colleges and thinking it is some sort of boys club. It is not.we believe there has to be an independent accrediting body. It pains me to say it but I think the college does it as well as I could conceive of it being done.

5.46 The evidence to the Committee demonstrates that the issues are clearly not straightforward, and the existence of a 'market' for health services is one of contention. The major policy field here is health policy not NCP. Australian health has a system of public and private hospitals and contracted services to public hospitals. Without a major change in Australian health policy to move to a US-style system, the role of NCP is expected to be low. However, the Committee believes that, in the interests of dispelling any fears in the community and ensuring that entry practices are as fair and efficient as possible, the specific reviews of regulation covering the medical profession should proceed with full and open consultation with the medical profession and other interested parties. Further, the Committee considers that jurisdictions should take particular care to ensure that all social and economic consequences are considered in as open and transparent a manner as possible. Broad community consultation should be a feature of all such reviews.

The need for structural adjustment assistance

5.47 A number of submissions support the need for greater structural adjustment assistance and in some cases, compensation where the implementation of NCP has had adverse consequences. The Productivity Commission argues the use of existing programs for support and concluded that governments should rely principally on generally available assistance measures to help people adversely affected by NCP. The Commission tempers this by noting that the effectiveness of such measure should be kept under review.

5.48 This may be in order, however, it seems the Commission has not put forward any evidence to substantiate their claim that current programs are adequate. The anecdotal evidence would suggest there are gaps. The Select Committee considers that the view that those who have lost their job/business/farm must suffer for the good of the whole of the economy is not appropriate and it believes that transitional and compensatory arrangements should be given greater emphasis in reviews and practical application of the policy.

5.49 The evidence from hearings and in submissions supports this approach.

5.50 The Productivity Commission concluded in its earlier Draft Report:

Governments want to ‘do something’ in respect of regional development. They have a range of regional development policies in place, although these are often applied in an ad hoc manner and with limited coordination between the tiers of governments. This has resulted in a somewhat spasmodic approach by government to regional development and created a perception in country Australia that there is a lack of commitment by governments to regional development.²⁴

5.51 Mr Fred Argy also argued before the Committee that there is a role for governments in smoothing the effects of structural reform, as follows:

I am not saying that structural change and micro-economic reform always necessarily produce greater inequality-in the absence of government intervention, that is. But one only needs to look at the US, the UK and New Zealand to see that in fact this is what happens in practice unless you have a government actually out there trying to smooth the effect. Here in Australia we can really say with some pride that we have been able to introduce substantial micro-economic reform without the social trauma that you have had in these other three countries I mentioned, for example. We have been able to achieve a reasonably happy compromise between the two. I suspect this is changing. First of all, the impact of micro reform is becoming more and more severe in terms of its effects. And it is becoming harder, for fiscal and other reasons, to smooth the social effects.

So my view is that if we continue just relentlessly down the US path of more and more economic freedom without doing more to smooth some of its social effects, we run the danger not only of deepening social class divisions and intentions; but, for those who are really concerned about micro reform-as I am and I am sure you all are-there is a serious danger that it will cause a sharp backlash against structural change and economic reform, so in the end you will be throwing out the baby with the bathwater.²⁵

5.52 The Committee received on a number of occasions, evidence of the distribution of the tranche payment monies to affected communities. The distribution varied from State to State. It appears from the evidence that only in Queensland and in part, in Western Australia and Victoria, are funds from the tranche payments being distributed to communities in the form of payments to local governments. Witnesses to the inquiry, consider that the States could contribute further to the implementation of NCP through the increased transfer of funds from the tranche payments. The Committee considers that the issue of the distribution of the tranche funds should be a matter addressed by CoAG in the review of NCP.

24 Productivity Commission, Impact of Competition Policy Reforms on Rural and Regional Australia, Draft Report, Canberra, May 1999, p327.

25 Mr Fred Argy, Committee Hansard, Tuesday, 30 March 1999, p89-90.

Recommendations

17. *That the issue of the distribution of tranche funds should be a matter addressed by CoAG in the review of NCP.*
18. *That all reviews of regulations recommend action in regard to transitional arrangements, development programs, and compensation when proposing change which will negatively impact on communities.*

The Impact on urban, rural and regional communities

For rural development policies to be successful there needs to be a greater focus on people. Perhaps the best way to achieve this is by emphasising the value of social obligations rather than the 'rights' of self-interested individualism. Conventional wisdom stresses the importance of competition rather than community. While the current approach to rural development, at the very least, recognises the importance of rural Australia, successful achievement of its objectives requires a more critical consideration of the dominant neo-liberal approach to policy-making.²⁶

5.53 Amongst administrators of NCP and other micro-economic reform, there would appear to be a presumption that all economic activity in Australia takes place within the context of a perfect national market. This is not the case and the architects of NCP recognised this in the inclusion of the public interest/public benefits tests. Failure to properly apply the public interest test is at the heart of much of the problems with NCP in rural and regional Australia. The Committee's findings in relation to Public Interest are discussed in detail in Chapter 4.

5.54 The interdependence of economic and social activity in rural and regional centres may be accepted as given. That the local doctor, pharmacist, bank, supermarket, stock and station agent and post office are an integral part of the social and economic fabric of what constitutes a small rural town is understood by governments but may not always be considered as significant in the implementation of microeconomic reform policies. The demise of one of these services tends to lead to the demise of the others. Due to a number of economic and social forces a trend to centralisation is apparent. The term 'sponge city' has been coined to describe the growth of some rural centres at the expense of surrounding rural towns, in effect centralising rural populations into these rural centres.

5.55 Professor Quiggin of James Cook University states in his submission:

There has been considerable concern about the effects of National Competition Policy on regional economies, particularly those of country towns in the inland. In evaluating whether this concern is well founded, it is

26 Rural development policy in an era of economic rationalism: Issues and opportunities, Vaughan Higgins in *Studies in Australian Rural Economic Development*, ed Max Staples and Alex Millmow, Centre for Rural Social Research, Charles Sturt University, July 1998, p27.

necessary to take account of the fact that changes in the pattern of population and economic activity are an inevitable consequence of social and technological change. For example, as transport costs have declined, larger country centres have tended to expand at the expense of smaller towns.

It would be a mistake therefore, to suggest that National Competition Policy is the primary cause of the decline of rural towns. Nevertheless, it is arguable that National Competition Policy and other aspects of microeconomic reform have increased the rate of change and made it unnecessarily traumatic.

All communities are socially and economically interdependent. A contraction in one industry leads to lower demand for the suppliers of inputs, while the associated loss of employment reduces the income of retail traders and the viability of schools and other services. Economists can analyse some aspects of this process using methods such as input-output analysis. In the long run, market processes can be expected to respond to technological changes through adjustment to a new, sustainable equilibrium. However, only under very special circumstances will the process of adjustment generated by unfettered market forces be socially optimal. Processes of economic contraction are likely to proceed excessively rapidly as the loss of one area of economic activity imposes external costs on others.

In the past, the existence of stable employers like banks, post offices and so on tended to cushion the impact of adverse economic shocks. These stable activities helped towns faced with a temporary downturn in key industries to ride out the storm, and permitted a more gradual adjustment to permanent changes requiring a contraction in activity. In an increasingly market-oriented economy this stabilising effect is lost. Rather than continuing service after it is unprofitable as a return for past benefits, profit-maximising enterprises withdraw such services immediately. Indeed, the current trend appears to involve the withdrawal of services that are still covering costs, in the expectation that they will become unprofitable in future.

National Competition Policy closes off some routes by which governments have traditionally sought to slow down the rate of adjustment. For example, local governments are effectively prohibited from favouring local contractors, even if the closure of those businesses would lead to contraction in the local economy which would in turn accelerate the withdrawal of banks, schools, post offices and so on.²⁷

5.56 Professor Quiggin's submission, above, does not say what the special circumstances, under which unfettered market forces, will be socially optimal: but it is obvious, that in the small rural centres of Australia, the circumstances befitting perfect competition are most unlikely.

27 Professor John Quiggin, James Cook University, Submission No 91, p 26-27.

5.57 Rather, small rural centres may be better served by a mix of co-operation, co-ordination and competition. The Remote and Isolated Pharmacists Association Australia Inc represents 428 pharmacies in single pharmacy towns across Australia. In its submission, the Association summarises some of the policies that are affecting rural towns as:

- restructuring of Health Services;
- centralisation policies of Government Departments;
- down-grading of corporate services, particularly Banks, Post Offices and Telstra; and
- deregulation of professions.

5.58 The Association goes on to note:

A study of the Health Needs of Small Rural Communities by Roger Strasser et al, identified that these communities most frequently used the following health services, in order of frequency:

Doctor

Pharmacy

Dentist

*Hospital*²⁸

5.59 The Association concludes by recommending, inter alia, that Government Departments and Government-owned corporations be required to publish an economic impact statement prior to any closures in rural communities. All reviews should be 'published'. The entire process should be open, transparent and fully consultative.

5.60 A number of submissions and witnesses made the point that competition does not always produce benefits for the consumer or the region as argued so vigorously by its supporters, and that the public benefits test must be carefully weighed when any change is considered to ensure that benefits do in fact exceed the costs:

There is no question about the importance of competition. But I will just give you an example. As the mayor said, we run the Harry Riggs Regional Airport, a very successful airport in terms of growth. Skywest are providing a good service... If you took the competition issue to its ultimate conclusion, we should, somehow or other...say 'We want to call tenders for the providers of the air service to Albany.' Clearly, there is not the capacity there for two providers, yet, if we did that, it is likely that we would get two providers: Airlink....and....Skywest...In simple terms, they would probably cut one another's throats to get in there. I believe you would see

28 Mr Patrick Mahony, Remote & Isolated Pharmacists Association Australia Inc., Submission No 29, p 2.

exactly a repeat of what has happened in Port Hedland recently. Sooner or later, one of them would have to pull out. Then the whole topsy-turvy would start, people would not have any choice any longer, and so on.

Competition is not just a simple thing so that you should say “Always there should be competition.’ If you were talking about fast food outlets in Albany, I would be the first person to say there should be competition. We are talking about a discount department store in Albany, for example. They have given planning approval to a particular consortium to build one. I think their anchor tenant is going to be Target. Now you would say, ‘Competition should have it that we should get a K-mart here.’ You do not have to be a Rhodes scholar to say that you do not think the population of Albany and the region would support two discount department stores. Yet if you opened it up, and if it was a perfect world, you would say that you should give planning approval for two. Probably in the end both of them would go broke.²⁹

5.61 The anecdotal evidence given in submissions and during the hearings is supported by the empirical evidence in the Productivity Commission’s latest study and by work by the Strategic Liaison Committee, Queensland Departments of Transport and Main Roads. In giving evidence to the Committee, Prof Arthur Brownlea, Chair, Strategic Liaison Committee, Queensland Departments of Transport and Main Roads stated:

I think there is anger out there. And some have gone past anger to fatalism, that nothing is going to happen anyway, that in some senses perhaps metropolitan Australians do not care much about the bush. There is a sense that rural communities are losing membership of the broad Australian society and that perhaps government has left the negotiating table.³⁰

5.62 In its capacity as adviser to the Queensland Departments of Transport and Main Roads, the Strategic Liaison Committee, held community meetings in five different communities of different sizes across Queensland to assess aspects of the Departments strategic plans. The Strategic Liaison Committee produced a report titled, *Issues in rural social justice and transport*.

5.63 In giving evidence to the Committee, Professor Brownlea was asked to give what he saw as the profile of a rural community that is ‘bleeding’. His reply gives a construct to what seems to be an Australia-wide phenomenon:

It would have a population of almost 1,000, and it would not be far west and not be easily accessible to Brisbane. It would have had to fight to retain the top of the school-the years 11 and 12-but would be likely to lose that after a long fight. It would have invested in a hospital, an ambulance and a doctor’s

29 Mr E Kelly, Chief Executive Officer, City of Albany, Committee Hansard, Tuesday 18 May 1999, Albany, p 492-493.

30 Professor A A Brownlea, Chair, Strategic Liaison Committee, Queensland Departments of Transport and Main Roads, Committee Hansard, Wednesday 7 April 1999, Brisbane, p157.

residence. It would have attracted a doctor but been unable to retain it. It would have lost the pharmacy and would be losing banking facilities, but there are alternatives-a couple of mornings a week type model. There would be a loss of key families, key families that make the difference between whether or not there is a football team and whether or not there is somebody to chair the P&C. That is the social capital attrition that is taking place. But the community would be large enough to dispute its future.

....

The things that I have learned from the five studies we have done so far...is that somewhere in the middle are the groups that hurt most. Those that are very small, with a population of 100 or less, nothing is going to hurt them any more. They are right down to the bare basics. They have accepted that, they live with it and they make do. While they see national competition policy happening, in a sense, that is not going to change much for them. It is those middle communities – not the ones that are so small that the psychology and the opportunity framework has changed or so large that they have got resilience up here-that are neither one thing nor the other.³¹

5.64 All local government submissions point to the same raft of factors which challenge the social fabric of rural and regional communities. The WA Municipal Association's submission is representative:

The quality of and disruption to telephone service remain high on the list of community concern. When phone lines are down on remote farms, a family's link with the outside world is virtually cut off due to lack of mobile access and few public telephones. People in rural and remote areas have, through gradual loss of banking and other services, been forced to use facilities such as telephone banking to manage their bank accounts, pay bills, order supplies and meet other business requirements. When the phone access is lost, restoration of services should be a priority for Telstra. Yet I have personally received numerous complaints from families putting up with delayed service delivery and little support from Telstra. Out in the bush, we are simply not profitable enough to warrant greater attention.

It is the same with public telephone boxes. Recently, a small town near Esperance lost its only phone box due to lack of profit and inconvenience to service. Telstra's response to the community outcry was to offer to put a phone card into the local hotel, with the hotel renting the line on the community's behalf. The reasoning behind it was that the phone box had to show a profit; it had to be viable.

With the other utilities it is no different. The Shire of Gnowangerup recently went into bat for a growing company producing fencing wire in its community. The organisation in question was successfully established and was in the process of expanding to meet demands and reduce its costs. As

31 Professor A A Brownlea, Chair, Strategic Liaison Committee, Queensland Departments of Transport and Main Roads, Committee Hansard, Wednesday, 7 April, Brisbane, p 159 & 165.

part of this process, the organisation wished to install a new welder but was told by Western Power that an upgrade to the power supply costing hundreds of thousands of dollars was required, to be paid by that organisation. Obviously, the organisation does not have the resources to meet this obligation, leaving the shire concerned that the whole organisation will simply relocate to a more convenient location. The gradual move away from cross-subsidisation of essential community infrastructure and services by corporatised and privatised entities has left our rural and remote areas isolated and feeling very victimised.³²

5.65 Evidence from the Latrobe Shire Council provides a useful view of the impact of changes in that area.

Latrobe Area³³

In terms of national competition policy, Latrobe Shire Council is not necessarily typical of all rural councils. We are the third largest municipality in Victoria outside Melbourne and Geelong and are, in effect, the regional capital of Gippsland in terms of population, administration, employment, education and recreation. We are a bit like Ballarat or Bendigo, very similar in population; we just look different. That means our experience has been somewhat different in our effect on internal council activities.

Almost certainly we are the most dramatic but until recently little recognised example of national competition policy at work in terms of our regional economy. We also want to put on notice that we do not believe that our community fits the normal pattern of an irrevocably declining region. In other words, the economic difficulties we have had we believe are due to particular circumstances. If the policy settings are right, we believe that our community actually has the capacity for renewed growth with an environment of national competition policy.

As I said a moment ago, we have suffered a dramatic turnaround due to restructuring, not all driven by national competition policy specifically but certainly driven by the processes of restructuring. The Latrobe Valley grew very rapidly after 1945. As an example of that, the town I live in had a population of a few hundred in 1945. It now has a population of around 17,000—extremely rapid growth. However, over the last decade we have suffered from a succession of major public sector investment and general rationalisation of activities, which has happened throughout rural Australia. The Eastern Energy example I mentioned is typical of that. Eastern Energy has taken customer and billing staff from Traralgon, centralising them in Melbourne, with the loss of 35 jobs. That sort of thing has been going on throughout rural Australia and is still going on.

The really big effect has been the rationalisation and privatisation of the electricity generation industry. Over 6,000 direct jobs were lost in the power industry in around a decade, which

32 Western Australia Municipal Association, Mr I Mickel, Vice President, Western Australia Municipal Association, Committee Hansard, Monday 17 May, 1999, Perth, p 351.

33 Mr A Stephens, Latrobe Shire Council, Committee Hansard, Friday, 16 July 1999, p 519-523.

equates to roughly 10 per cent of our total population and a loss of something like 18,000 jobs overall. In a community of around 70,000 people, that is an extraordinary level of job loss.

The rationalisation and privatisation of the electricity industry offers a dramatic example of national competition policy in operation. Our local community believed that the government virtually changed the rules with severe disruption to people's lives and expectations. Over a number of years we had been led to believe that there would be continuing expansion in the electricity industry. There was a report released by the State Electricity Commission a couple of decades ago predicting the construction of 21 power stations. That now appears laughable. Nevertheless, a whole system of infrastructure growth was built up around that. There is excess water supply and there is an excess supply of roads, housing and what have you built around an expectation of growth. Generations of people had expected to receive secure employment and there was a whole system of tertiary training built around that. Then virtually overnight that all changed.

This resulted in a great loss of local skills and engineering resources. One finds former Latrobe Valley engineering people, for example, working all over the world. You will run into them in the most unexpected places. There are ex-SEC people working in Greece and in South-East Asia. The skills base that had been built up over half a century has been dispersed to a certain extent. We still have some of it, but a lot of it had to move.

Also, there was a virtual cessation of training programs that were conducted under the State Electricity Commission. This means that the privatised electricity companies are, in effect, running down the human capital base. They are aware of that, but it is much more difficult for half a dozen privately owned generators to mount a major training program than it was for a single unit entity. Individual generating companies do not necessarily have any commitment to making themselves a local emergency response capability. It is not impossible to believe that, if a Longford gas crisis type eventuality occurred in the electricity industry, we are probably not as well suited as we were once to cope with that.

However, as I said a moment ago, we do not necessarily fit into the pattern of high change and low growth, for example, as was identified in the recently released Productivity Commission draft report on competition policy. It identified large parts of Australia as 'high change' and 'low growth', and you could not see terribly many promising signs that that was going to change. We believe that, in theory, the Latrobe Valley has a lot of assets that are positive. We lie in the overall coastal zone of Australia. We are close to Melbourne. We have considerable existing local critical mass in population and infrastructure, excellent comparative advantages and an ability to sustain, or at least support, a larger population and industry base.

We believe the reasons for low growth are fairly specific, and they are the major industry restructuring without a proactive adjustment program, which we have described. I think the latter point is important. The restructuring process in our area was primarily driven by government and therefore, in theory, it would have been possible proactively to put in place

measures to address that. By and large, that did not happen. We also believe there are some long-term structural issues in the Gippsland region which are important for the whole region.

The Gippsland region is relatively isolated, and in fact the Gippsland region and south-east New South Wales have come together to form a south-east Australia transport strategy group, which is working together to change the reality to the point where Gippsland and south-east New South Wales, Eden-Monaro and so on are seen as a major corridor rather than two isolated ends of their relative state administrations. We believe that there is a lack of critical population and infrastructure mass outside the Latrobe Valley, and that results in a lack of economic and political leverage. Therefore, we believe that national competition policy must be balanced by the long-term pursuit of national goals. There will be cases where infrastructure may be required ahead of time for regional development purposes. We believe that Australia can, and must, recommence an active population growth program, as far as possible targeted towards regional areas. For example, our region has excellent resources, soils, climate and environment pertaining to only 250,000 people. The entire Gippsland region has a population smaller than the city of Canberra. We believe that it would function much better economically with about four times that level. The achievement of goals like that requires, we believe, a managerial approach to government and pursuing long-term objectives in a consistent manner.

Looking to the future, we would recommend two approaches: first, where appropriate, a more managerial or interventionist approach in cases where reliance on the market at local level may deliver perverse outcomes for the community and, second, in certain circumstances, actually follow through of national competition policy in cases where it is likely to deliver appropriate outcomes.

Picking up the latter point, we believe in certain respects national competition policy has not necessarily been fully applied to the electricity industry. Transmission pricing is still on a postage stamp basis, which distorts market signals by smoothing out the economic and environmental costs of transporting electricity from power stations to terminals. These costs are very great. Apart from capital and maintenance costs, considerable energy is lost in transmission and, in certain cases, you could lose up to 10 per cent of the energy just moving it from the point of generation to the point of consumption. This means that we are generating up to 10 per cent extra in greenhouse gases just to warm up the wires, in effect, to get the electricity from the Latrobe Valley to other parts of Victoria.

We find it hard to think of many other industry sectors where the market signals are hidden to this extent. For example, you would have a hard time sustaining any suggestion that there should be a uniform railway tariff throughout Victoria or throughout New South Wales. Yet, to a certain extent, that is what is going on in the electricity industry and has done for many years.

Probably more importantly, we believe that competitive neutrality is not being fully applied. With mixed public and private ownership of Australia's electricity industry, competitive neutrality is vital for efficient resource allocation. However, there is a possibility of corporatised publicly owned participants not necessarily obeying the rules, and we believe they must. As an example of that, I would like to table some work that one of our energy

companies, Yallourn Energy, has done which looks at the effect of some of these distortions. I have already provided a copy of this to Hansard for its records. This shows that major distortions can result from undervaluation of assets or capital and operating subsidies. We believe that national competition payments should take account of the achievement of competitive neutrality. Having gone as far as we have, and having privatised parts of our electricity industry on a national basis in a major way, we believe that the principle of competitive neutrality needs to be followed through. The question of ownership is not necessarily important, but the level playing field is.

We will also be seeking state and national endorsement of Latrobe Shire Council's energy advantage program to unlock what amounts to our greatest comparative advantage. The energy advantage program takes account of the fact that we have a unique concentration of generating capacity—that is, six generators within 20 kilometres of each other—and we can deliver cheaper electricity to local industry. We believe that the program will allow an unrivalled comparative advantage for us, offering cheaper electricity. We believe that this is an advantage both for the state of Victoria and for Australia in attracting footloose industries and competition with other regions internationally. We believe that there are significant environmental benefits as a result of transmission losses and that this would benefit our national greenhouse obligations. On that basis, I have already provided to Hansard a copy of our stage 1 report on the energy advantage, and I would like to provide copies to the senators.

Our energy advantage plan has essentially three parts to it. One is establishing a central energy park that gives consumers direct electricity supply linked to the region 6 electricity generators independent of the existing transmission and distribution system. This would reduce transmission and distribution charges and enable a range of complementary industries to locate on one site with access to secure, competitive electricity supply. Secondly, we believe that encouraging energy intensive industries to co-locate on land close to power stations owned by electricity generators will allow them to be exempted from transmission and distribution pricing under current regulations. Finally, we will be seeking a reconfiguration of the distribution network within the Latrobe Valley so that consumers are serviced by shorter transmission lines. This would provide a significant benefit. The point of this is that at the moment we have an anomaly where a medium sized electricity user in the Latrobe Valley can actually pay more for their electricity than they would in Melbourne.

One practical example of that is Rocklea Spinning Mill, which is a TCF industry located in Moe. It is one of the largest employers in Moe—it employs over 100 people—and yet it is paying more for its electricity lying 10 kilometres from Yallourn power station than it would if it were located in Melbourne. We find that a very odd outcome. We have discussed that with the National Competition Council, with the Office of the Regulator General in Victoria and with Eastern Energy, the local distributor. We are following it up but would like to place that issue on notice.

In summary, we would like to recommend a level playing field for corporatised entities versus private entities in the electricity industry. We will be seeking national and state assistance in achieving a comparative advantage, especially in siting energy intensive industries. That makes good environmental and economic sense, but we also believe that it

assists us to get back on our feet after having lost something like 10 per cent of our population in terms of jobs, which we believe has been an absolutely critical blow to us over about a decade. In fact, in spite of our remarks about postage stamp electricity pricing, we realise that the effects of an abandonment of postage stamp electricity pricing would be very detrimental to other regions in Victoria and Australia, so we are seeking a win-win solution on that one and believe our energy advantage program does provide that.

Finally, we believe in principle that there is still room for proactive infrastructure provision for regional growth locations. We believe that a national goal of population growth should be pursued. We believe that should be supported by national policies in the fields of infrastructure, education, labour market management, housing and urban development, and urban and regional research. Thank you very much.

5.66 The experience of the Greater Shepparton region is different. It is more positive and supports the finding that the impacts vary greatly:

Greater Shepparton³⁴

The demographics on the Greater Shepparton region... which you will probably find are a little different from Latrobe. Also, the approach that we have taken to the submission has been more to give an internal report of how Greater Shepparton has approached NCP principles and some general views on how we are seeing those affecting our community. Once again, I think they will have different consequences to what they have, as in the submission that Latrobe has done.

Greater Shepparton City Council is located roughly 200 kilometres north of Melbourne and has a population of 51,900, from the 1996 census, and we estimate it to be about 60,000 in 1999. Our unemployment rate is 6.7 per cent, which is the fourth lowest for regional centres in Australia. Our employment by industry is very diverse, with the highest employer being the retail sector at 16.37 per cent, the second highest being agriculture, forestry and fishing at 13.8 per cent, closely followed by manufacturing at 13.7 per cent. The horticulture industry in Greater Shepparton makes up a quarter of the whole state's production, and the dairy industry is actually three times larger than agriculture in our region. The viability of the region is supported by the likes of SPC, Furphy Tanks, Ardmona Fruits and Tatura Milk as our larger manufacturing producers. The catchment area for Shepparton, from a retail point of view, contains over 160,000 people. We have an arrangement, which is probably unique to regional Australia, where, because of the diversity of the agricultural base and the intensity of the irrigation, we have a lot of satellite towns of the likes of Tatura, Rochester and Strathmerton which are strong industrial bases in their own right.

34 Mr J R Francis, Greater Shepparton City Council, Committee Hansard, Melbourne, Friday, 16 July 1999, p 522-523.

In relation to how Greater Shepparton City Council has approached national competition policy—and I am also including competitive tendering in that process—the ratio of our in-house bids to external contracts is currently 60 external to 40 in-house. The structure of the organisation is very much orientated towards what we call a client-provider split. We have the client side of the organisation which looks after the administration and the management. Then we have another branch, which is our business unit branch, which actually controls the in-house tenders that then are bidding against services of the client—being the council providers—or also in the open market, including other municipalities in the region.

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From a general point of view, I think our council would agree that NCP has not had a negative effect within our region and probably, to some degree, has had a positive effect from an organisational point of view, from a local government point of view. We have definitely seen efficiencies by the outsourcing or external tendering of a number of our services, particularly in the areas of infrastructure, public open space and even in some of the community service areas.

From a community point of view, it is probably hard to measure the effects of national competition policy; however, we have not had the cases that Latrobe and other regions have had, where you have had huge downsizing of public utilities on infrastructure authorities to that extent.

From a local government point of view, Shepparton is strong through the national competition principles and CCT implementation. However, that really is not typical of rural Victoria by any means. We do sympathise with the smaller councils that do not have the diversity and the catchment base that Shepparton does. I think their circumstances are quite different from the positive approach or the benefits that we are seeing.

One of the negatives we would see with NCP in its broadest sense, but probably directly as the result of competitive tendering, is the downsizing of staff. You mentioned before the issue of the consequences that it has had on employment of blue-collar workers in the industry. Our figures, just from Greater Shepparton, would support the figures that the MAV were mentioning. We started, at amalgamation, with a staff of around 600. We are down to around 300 staff at this time.

Interestingly though, in the outsourcing of those services to external providers or to business unit providers, but particularly to the external providers, a number of our staff have gone to be employed with those external providers in our construction areas and even in some of our community services—in maternal and child health services, in the HACC services. The

conditions upon which they are moving into those areas might be different from the arrangements they had under the council, with its awards and enterprise bargaining agreements; however, there have been a number of cases where those staff have directly gone and worked under the new arrangements and picked up a redundancy from council in the process.

There were three councils prior to Greater Shepparton being constituted in 1994, and our smaller towns felt the consequences of amalgamation of local government more so than competitive tendering by the regionalisation of the depots into the main centres of Shepparton. As I mentioned earlier, quite clearly we have seen economic benefits in outsourcing, and they have been in the larger sectors of road construction, together with some of the smaller sectors such as maternal and child health. Even our local saleyards have found that, by outsourcing the operation of that facility, they are generating hundreds of thousands of dollars back to the council to use in core services.

An issue that I think needs further clarification—and the MAV touched on it in its introduction as well—is the definition of what is deemed to be a public interest. I think each individual council would probably look at public interest as being something different, in its own right. From an industry point of view, there needs to be some criteria to determine public interest, whether it is done at a Commonwealth or at a state level; or, if it is done at a local level, there needs to be accountability and transparency to the communities as to what is deemed to be public interest.

Competitive neutrality is something that, from our council's point of view, we have embraced favourably. We see benefits for it in as much as it does place a level playing field out there. I think a lot of the businesses in Shepparton that are competing against in-house business units of council expect that council is playing on a level playing field. Consequently, by competitive neutrality principles being enforced—and we do enforce competitive neutrality principles—if external bidders do lose, they feel that at least it has been a level playing field.

From a community point of view I think that, if you ask anybody in the street, they would say that in telecommunications and, to some degree, in the power industry, they have seen some improvements in the quality of service in those facilities to the greater Shepparton region. However, I think there is still room for improvement, particularly in telecommunications, to rural Victoria and to the outskirts of our municipality as well.

Further changes that we would like to see in competitive tendering are in relation to the structuring of the contract arrangements. For example, Victorian local government came out of a situation where it may not have had very much expertise in designing contracts and specifications to, basically overnight, having to find 50 per cent of its expenditure from an external source, and it had to build up a lot of expertise in writing contracts. I think it would be fair to say that not all contracts have been right in their first round, and there are areas for improvement when they go out the second or third time.

In those arrangements we would like to see councils given the opportunity to enter into more partnering arrangements, rather than having a very detailed specification written for which strong terms and conditions are implied, and a move to an arrangement where we are sitting down with potential providers and asking how they can actually enhance the service. That means that you might be moving away from an economic basis where you are awarding contracts to looking at more quality of service.

In relation to the reporting on national competition, the reporting that we now do—in the last 12 months or two years—under our annual report requirements is a good start; however, I do not think they are designed to give the average person in the street a real understanding of the principles of national competition and how the council is using them. I am not sure whether that is a federal or state guideline, but I think a fair bit of work needs to be done in relation to that improvement. Thank you.

5.67 The Committee considers that the cumulative effect of micro-reform policies on rural and regional areas is a serious issue warranting far greater attention by all jurisdictions than is occurring at present. It is apparent that the impact of these policies has been disproportionate between metropolitan and country areas in that the latter does not have the capacity to quickly adjust or absorb the changes which those policies can generate, such as unemployment. Clearly, local government must look to the public benefits test and carefully assess the impact of these policies for their region. There may be a case for more to be done with respect to transitional arrangements and compensation in areas adversely affected by the implementation of NCP and other policies. The following quote from the Queensland Farmers' Federation sums up the Committee's view:

It would be worth the Council of Australian Governments sitting down - and I think this is part of the process - and saying, 'What has NCP delivered? Where is it going? Is it having adverse impacts in some areas? Is it working as well as it could? Let us revisit it. We are entering a new millennium; let us revamp it.' But I think it needs one critical element, and it is covered in your terms of reference - that is, the impact on urban and rural and regional communities. I think that has been missing from the equation.

I have to question whether, if every Australian is 1c better off but that is at the cost of some small towns in rural and regional Australia, the quality of life in this nation really is that much better. That is obviously a political judgement on matters. But I think we could probably have our cake and eat it with NCP with just a little bit more sensitivity to some of the social issues.³⁵

5.68 The Productivity Commission's report (findings summarised in Chapter 3) specifically details the impact of NCP on rural and regional Australia. The

35 Mr G Dalton, Executive Director, Queensland Farmers Federation, Committee Hansard, Thursday, 8 April 1999, Brisbane, p237.

Commission' s study was a mammoth effort to identify and quantify the kind of trends outlined above. The Senate Committee commends their efforts.

5.69 Having said this, it must be recognised that the Commission's findings are based on Input/Output analysis dependent on various assumptions and therefore subject to the verification of the passing of time. The Senate Committee believes that the task given to the Commission was a very difficult one. From its own findings, there would appear to be no clear way to conclusively extract and separate the impacts of NCP from the impacts of all of the other policy and economic variables at play in the community. The policy has been applied differently, and has impacted differently in different regions. Some elements of reform, such as those in the major infrastructure industries - electricity, water, rail and road, gas - predate NCP, although they are now subsumed into the process. Some elements of reform are yet to come - many legislative reviews have yet to be undertaken and recommendations acted upon. Some areas of government policy such as competitive tendering and contracting-out have been introduced compulsorily in some States and not others.

5.70 The Commission's report portrays a scene of considerable social and economic upheaval. Its brave estimate of a 2.5 % increase in real gross national product must be seen as just that - an estimate based on assumptions and subject to potential variation.

5.71 The Committee has received a significant amount of evidence from some States regarding the impact of NCP on urban and rural and regional communities. Statistical evidence supports the claim that some remote and rural towns are declining. It appears to the Committee that NCP and micro-economic reform are, in some cases accelerating an existing process. There appears to be a multitude of factors driving this process, including the impact of Competition Policy.

5.72 There is anecdotal evidence of a loss of social cohesion, amenity and human capital in small rural and remote communities. In the opinion of the Committee, the improper application of the public interest test or the inadequate definition of community service obligations may be contributing to this. It is the Government's responsibility to ensure that each of its citizens receives, as part of community welfare obligation, equitable access to basic health and welfare services, telecommunications, education, transport and housing. There would appear to be a perception rightly or wrongly, that either the services are being inadequately provided or the government is abandoning its responsibility in this regard. The Committee is concerned about the continuing confusion and lack of sophisticated knowledge about NCP in remote, rural and regional communities in particular. The Committee is of the view that there is a need for an information and advisory service on the application of the NCP. This service is not intended to replace existing services provided by State Government agencies. These services are rightly directed to State-specific issues or circumstances. Rather the proposed advisory service is to address the lack of a uniform national perspective.

5.73 NCP should not be used as an excuse by governments to abrogate their responsibilities for the provision of adequate services to country communities.³⁶

Isolated Aboriginal and Torres Strait Islander Communities

5.74 The issues for Aboriginal Communities arising from the introduction of NCP are unique and complex. Firstly, there is the broad concept of difference which must be recognised. The Royal Commission into Aboriginal Deaths in Custody 1991 noted:

‘The simple and undeniable fact of the matter is that the condition of Aboriginal people is different from that of non-Aboriginal people; firstly, because of the accumulated disadvantage which this report indicates; secondly, because a very substantial number of Aboriginal people live in remote areas; thirdly, because they have different cultural background; fourthly, because they are just coming out of a period of having no rights and no say in their affairs; and fifthly, they have continuously been responding to agendas determined by others.’³⁷

5.75 The same issues arise with the delivery of many health and community services to Aboriginal communities. Where contracting out or privatisation of community services under National Competition Policy dismisses these issues in favour of more narrow notions of efficiency and effectiveness, there is a risk that these programs will miss their mark. The Committee considers that the proper use of the public interest provisions of the NCP provide the flexibility to address the specific concerns of remote Aboriginal communities, as it should also be able to address the needs of all regional Australian communities.

5.76 A further issue for Aboriginal and Torres Strait Islander Communities is the fulfilment of community service obligations and the serious equity and social justice issues to be considered in the public benefit test of any NCP measures which affect these communities.

5.77 In giving evidence to the Committee, ATSIC stated:

The kind of impact of NCP on indigenous people varies depending on whether they are urban, rural or remote-and the population splits on those lines into about a third, a third, a third.urban dwelling indigenous people may have had some small price and service benefits from some of the competition processes so far. Certainly their experience in rural and regional centres is pretty similar to that of the mainstream-the loss of human capital, of services and financial services has been fairly pronounced.

36 Impact of Competition Policy Reforms on Rural and Regional Australia, Inquiry Report No 8, Productivity Commission, 8 September 1999, AusInfo, Canberra, p xxv.

37 Royal Commission into Aboriginal Deaths in Custody, Final Report, Commonwealth of Australia, 1991, Vol 4, p 24.

In remote communities, it is a fairly complex picture.for some remote communitiesthere has been no perceptible change in water and power services.....I think it is fair to say that, in a sense, the concerns that have been flagged about the impact of the competition policy in terms of low income earners and people in rural and remote towns are shared by ATSIC, certainly, and by most indigenous communities.

I think from an indigenous perspective and certainly from an ATSIC point of view, there have been some small and limited benefits...One major example of our driving a tendering process relates to water and power services for a lot of those remote communities in WA. Until about three years ago, we channelled about \$8 million through government utilities in power and water in WA to encourage them to provide water and power service to remote communities. We did a review back in 1995 which led us to tender out those services in Western Australia and to set up three service regions. We saved ourselves about 75 per cent in service delivery costs through working around the state utilities rather than through them, and in the few years since then we have actually achieved quite significant improvements in service delivery...

In terms of the financial sector, experience has been that bank closures have been proceeding apace, and that has had a pretty significant impact on indigenous communities....there are still 10,000 or 12,000 ...indigenous people, who still do not have the benefit of having bank accounts.....

The withdrawal of financial services from the bush has-as other people have mentioned-created a vacuum that indigenous people have tried to fill themselves. Up to date, there are two indigenous-controlled credit unions that have sprung up to try to fill the vacuum, as it were. I think that is the trend for the future...³⁸

5.78 In conclusion, it can be said that NCP is certainly not the major policy change driving the negative outcomes which are perceived to be happening in the community. However, it is part of a framework of policies and economic philosophy or economic decision making which are acting contiguously to produce varied outcomes.

5.79 In conclusion, it can be said that greater attention should be given in the preparation of legislative reviews, to the intent of community service obligations to ensure the maintenance of appropriate levels of service.

Recommendations

19. *That the Federal Government in consultation with local government and industry and community bodies and NCC, create a 'one-stop-shop' advisory service to provide local government, industry bodies, individuals, companies, and community groups with advice which will enable them to tackle competition policy issues.*

20. *That, this service should also be a mechanism by which concerns or complaints can be channelled to the appropriate authority for resolution.*

Environmental Impacts

Background

5.80 In Australia, environmental protection and natural resource use (land, water, fisheries, forests, minerals and energy) are primarily administered under a series of State laws and institutional frameworks. The Federal Government maintains an overall coordinating role through the Council of Australian Governments (CoAG), Ministerial Councils and other industry bodies, and also contributes funding through various mechanisms such as the Natural Heritage Trust. The Federal Government has powers over the environment and other areas under international treaties and corporations law. Against this background, management of the environment, and of natural resources in particular, has been a matter for publicly-owned agencies.

5.81 The importance of National Competition Policy to the environment is twofold:

- That part of the Competition Principles Agreement that has become known as the Public Interest Test, parts 3 (d) and (j) enable governments to include environmental considerations in Competition Policy legislative reviews and NCP reform processes. The Test specifically includes government legislation and policies relating to ecologically sustainable development and the efficient allocation of resources. Since the test is not exclusive, any other environmental issue/aspect which governments wish to be considered can be. This process implements the principles of sustainable development contained in State and Federal environmental legislation enacted prior to NCP.
- In February 1994, CoAG adopted a strategic framework for the reform of the Australian Water Industry covering natural resource management, user pays pricing, more rigorous approaches to future investment, trading in water entitlements, institutional reform and improved public consultation. The Tranche payments were linked to achievement of these goals.

5.82 In theory, competition should enhance environmental benefits through:

- Removing subsidies which promote activities with an environmental impact;
- Implementing full cost recovery/user pays for environmental resources such as native forests and water;
- Removing legislative protection from industries which are high users of natural resources; and
- Providing the opportunity to access various public infrastructure.

5.83 In practice, the Committee has found, commensurate with the application of the policy to the wider economy, concern from interested parties about the implementation of the policy across Australia.

Environmental Issues

5.84 The submissions and other evidence to the Committee raise several issues:

- The inadequacy of the NCP legislation and agreements;
- The inadequacy of State legislative review processes;
- Pricing, subsidy or regulatory distortions having adverse environmental impacts;
- Fundamental issues of private versus public ownership of natural resources;
- Adverse social impacts of water pricing reforms: and
- The inadequacy of the application of the public interest test.

Adequacy of the NCP Legislation and Agreements

5.85 The Australian Conservation Foundation has claimed in its submission to the inquiry that because the principles of Ecologically Sustainable Development are not sufficiently integrated into public policy nor given official definition in State/Territory legislation, the inclusion of a requirement to take account of ESD in the NCP legislation loses force.

Unfortunately, few Australian jurisdictions have adopted any official definitions of ecological sustainability, and even then, only in relation to quite specific areas of legislation (eg. NSW EPA Act). For this reason, the clause within the competition Principles Agreement is lacking in substance, and the capacity of organisations such as the ACF to ensure that the principles.....are afforded adequate recognition and consideration by state government agencies in particular is problematic.³⁹

5.86 That there has been a general failure to institutionalise ESD is a view shared by Dr S. Dovers of the Australian National University:

..there is simply the bothersome nature of change.....Most significantly of all is the fact that seriously pursuing sustainability will involve addressing deep, structural inconsistencies between human and natural systems. The problem attribute of systemic causes is a supremely difficult one: the roots

39 Submission No 88, ACF, p 1009.

of unsustainability are embedded firmly in our systems of production and consumption and patterns of governance and settlement.⁴⁰

5.87 Dovers continues to develop this argument and compares the level of commitment to ESD to the level of commitment to NCP and other micro-economic reform policies.

Anyone who has played junior football can impart the invaluable lesson that a level playing field, set rules and fixed goal posts - the stuff of healthy competition - matter little when someone twice your size charges at you. Just as big firms can (and do) run over and flatten small firms in a "fair and competitive" market, so it is that weakly institutionalised policy considerations can be easily outweighed by strongly institutionalised ones. Thus it is for ESD, and the lack of institutionalisation is evidenced in comparison to other public policy fields. Even official sustainability policy states that environmental, social and economic policy should be balanced and integrated, and this means that there should be some degree of parity in policy processes. Yet the underpinnings of much social and especially economic policy are vastly more substantial than environmental concerns. Where are the ecological equivalents of the Australian Bureau of Statistics, National Accounts, Census, input-output tables, monthly population surveys, or Productivity Commission? Where is the implementation that would make ESD - a weak statement of ecological rationality - comparable to its counterpart from economic rationality, the pervasive National Competition Policy (NCP)? NCP makes for an interesting comparison.

ESD and NCP should be, in theory, comparable, but they are not.....both are domestic manifestations of broader, international "metapolicy" concerns. Yet ESD has been kept to the margins of public policy and administration.....On the other hand, NCP is having a profound impact across all policy fields, and is being implemented with some vigour and relish. One part of NCP is a legislative review of some 1800 Australian statutes (including many environmental laws), seeking out "anti-competitive elements". Suggesting such a wide review to find "unsustainable elements" in environmental laws would not be taken seriously.⁴¹

5.88 The ACF considers that it is the responsibility of CoAG to ensure that the National ESD Strategy is progressed. As the Committee has already noted, the failure of CoAG to formally meet to discuss issues relating to NCP has serious ramifications for wide ranging policy co-ordination.

40 S Dovers, *Institutionalising Ecologically Sustainable Development*, in, *Australian Environmental Policy 2*, edited by K J Walker & K Crowley, UNSW Press, Sydney, 1999, p 215.

41 S Dovers, *Institutionalising Ecologically Sustainable Development*, in, *Australian Environmental Policy 2*, edited by K J Walker & K Crowley, UNSW Press, Sydney, 1999, p 215-216.

Adequacy of State Legislative Review Processes

5.89 Criticisms of the review processes under NCP are not confined to the environmental sector. The same issues seem to be a recurring theme - inadequate consultation processes, ad hoc unco-ordinated programs of review, lack of arms' length review, lack of transparency, and the predominance of economic factors in considering the public interest.

5.90 The ACF Submission stated:

The process of reviewing legislation for compliance with competition policy is one which is very difficult to track, appearing to proceed in an ad-hoc and, largely unaccountable fashion. As the arbiter on these issues, the NCC is no doubt having great difficulty in either tracking progress, or steering these reviews in the right direction.

One concern is that reviews are piecemeal, reviewing one piece of legislation at a time without considering other closely related legislation at the same time. For example, the review of the Victorian Forests Act (1958) is not able to also review related legislation covering various forms of public land use, annual reporting, relevant treasury regulations, endangered species legislation, specific legislation governing legislated agreements with Amcor (Victoria's largest timber customer), etc.

Another concern is that the process for these reviews is neither transparent nor participatory. While in some instances stakeholders are consulted by companies contracted to review legislation, this is more often not the case.

The skills and expertise of those reviewing legislation is often totally unrelated to the legislation in question, and hence results from reviews may prove to be either unworkable, or damaging to the environment.⁴²

Distortions in Policy, Regulation or Pricing causing Environmental Impacts

5.91 A number of issues have been raised in relation to policy, regulation, pricing distortions and perverse incentives which may be having adverse environmental impacts.

5.92 Reforms of legislative and regulatory systems in each State are proceeding at a pace monitored by the NCC under the Agreements. There are a considerable number of pieces of legislation and arrangements to review and these are being done on a priority basis. There are still many pieces of legislation still to be reviewed (See NCC Annual Report 1998-99, page 54) before the end of 2000 and it is unclear whether the criticisms presented to the Committee are as a result of new arrangements or arrangements yet to be reviewed. It may be that these issues will be resolved during the next few years as new arrangements are settled.

42 Submission No 88, ACF, p 1017.

5.93 Nevertheless, the Committee would like to draw the attention of the NCC and each jurisdiction to the issues which have been raised.

5.94 Firstly, the ACF has questioned the success of regional development policies which feature subsidies for the use of environmental infrastructure services such as dams and the exploitation of resources such as native forests in order to maintain regional employment and promote economic development:

In Victoria, the policies of subsidising native forests logging have been justified, in part at least, as a means of maintaining regional employment in areas such as East Gippsland. Effectively, the commercial costs of managing such regions for timber production are being subsidised, to an undisclosed extent, on the grounds that the maintenance of regional employment, all at the expense of the many and diverse ecological and tourism values which this region supports.⁴³

5.95 The principles of the design of community service obligations and subsidies under National Competition Policy are that they be open and transparent. It may be that the community is willing to pay for such subsidies referred to above by ACF, however, without the knowledge to assess the alternatives, communities cannot make appropriate public interest judgements. On the other hand, the existence of, for example, royalties which favour the logging of native forests over plantation forests, would appear to be totally in contravention of ESD or NCP principles.

5.96 The ACF goes on to cite other examples of distortions including:

For example, companies specialising in water-efficient technologies are disadvantaged by State Governments' practices of subsidising water resources and related infrastructure. Farmers and other landholders interested in investing in hardwood plantations (for example) face unfair competition from state native forest agencies, not to mention from similar government-controlled forestry operations overseas.⁴⁴

5.97 These criticisms may be premature considering how much water industry and other legislative reform there is still to go, however, the issues they raise should be considered in the ongoing reform process.

5.98 The ACF also made a number of concerns in relation to the restructuring of Victoria's energy sector:

Victoria's energy sector provides another example of how investors in the (now-privatised) distribution and retail sectors benefited from policies which, at the same time, deliberately perpetuated a trading position which contravenes the competitive neutrality principle.

43 Submission No 88, ACF, p 1010.

44 Submission No 88, ACF, p 1011.

Restructuring and sale of Victoria's generating, distribution and retailing networks for electricity was characterised by the following:

A broadscale write-off of historic debt, providing electricity with an uncompetitive edge over other competing forms of energy services (gas, solar, co-generation, demand management services, etc.)

Regions with high distribution costs (transmission costs) have been cross-subsidised (ie "equalised") by other regions via rural electricity subsidies. While energy subsidies *may* be appropriate in rural regions, the competitively neutral approach would be to subsidise *generic* energy expenditure, rather than providing electricity service providers with an unfair competitive edge. Hence specialist local power supply services, most of which involve reduced greenhouse emissions and lower unit distribution costs, are priced out of the market.

The "pool" price system for those selling power onto the grid discriminates against those who can supply at reduced, or zero, transmission costs. (ie. A renewable energy producer in Melbourne cannot gain a competitive advantage over a Latrobe valley generator, despite the fact that the Latrobe generator faces higher transmission costs and higher power leakage rates.)

Economic externalities associated with greenhouse emissions are not factored into the price of coal-fired power. Similarly, industry regulation excludes consideration of the need for greenhouse emissions targets, and of policy instruments which may aid in achieving such targets.

The Victorian price cap system means that the only real way for a distributor to increase its revenues is to sell more power; a major disincentive to improving energy efficiency. For instance, a distributor considering selling a wider range of energy services, including energy audits, efficiency services, and efficiency improvement incentive schemes, cannot be financed via higher power prices, even though they may well be providing consumers with better value-for-money.⁴⁵

5.99 ACF goes on to note anomalies in the treatment of the various elements of the transport sector. The issue of distortions caused by the failure of NCP to promote intermodal competition in the transport industry is also considered in Chapter 6.

....the full costs on road construction, maintenance and refurbishment are not attributed to the road freight sector, which benefits from both direct road subsidies, and from cross-subsidies from road revenues derived from domestic cars. All things being equal, this gives road freight an uncompetitive advantage over other forms of freight transport.⁴⁶

45 Submission No 88, ACF, p 1015.

46 Submission No 88, ACF, p 1016.

5.100 This latter criticism is reinforced by the evidence of Prof Laird (Chapter 6) who highlighted that Australia has the highest level of road freight per capita in the world at the expense of rail.

... firstly, land freight is important to Australia. Secondly, rail should be doing a lot more of the nation's land freight task and, because it is not, road is being overworked to the point that Australia has the highest road freight per capita measured in net tonne/kilometres per person in the world. Thirdly, national competition policy is not fixing this problem, which has two parts: poor mainland intercity track as identified by a Senate references committee in 1997 followed by the House of Representatives standing committee on transport in 1998, the Smorgon Rail Projects Task Force this year and the Productivity Commission draft report. In some ways national competition policy is actually making the problem worse and the three following areas come to mind. Firstly, the first CPA tranche compensation payments required New South Wales to reduce their heavy truck annual charges. The amount of reduction was to slash the heavy semitrailers at 42½ tonnes gross vehicle mass from about 8,000 to 4,000 a year and to slash the B-doubles from about 14,000 or 15,000 to 5½ thousand to bring them in line with the National Road Transport Commission recommended or officially determined charges.

In the second area, national competition policy is driving rail to reduce its rail freight rates in areas where it can make a profit, most notably coal. The impact is shown in Queensland. Before, NCP funds were available for mainline rail deviations under both mainline electrification in the eighties and mainline upgrade in the mid-nineties. Now, Rockhampton-Townsville concrete resleepering is so budget constrained that it may have to proceed without any realignment.

The third area is where rail reform has had some positive attributes but one of the unintended consequences was downsizing of the skilled railway engineering base. In summary, the real problem is not so much rail competition—particularly in areas where markets are thin, like less than 10 million tonnes of freight per year on a given section of track—but road-rail competition. The Australian Transport Council, comprising the nation's transport ministers, two years ago agreed that this matter should be addressed as a matter of urgency and the progress is not inviting, except for the diesel question. Even then it is not the straight-out win for rail, getting rid of that fuel excise.⁴⁷

5.101 The pattern which is apparent from the above, is that State/Territory and Commonwealth jurisdictions are failing to manage the interrelationships that form a total market structure. In other words, piecemeal application of the policy to components of industry sectors rather than application of the policy to the relevant wider market - for example, not competition within the rail freight industry and road freight industry separately, but the whole land freight sector; not electricity supply

47 Prof Laird, Committee Hansard, Sydney, Thursday, 9 September 1999, p 819-820.

separately, but energy services, including insulation services, not a sewerage system, but waste disposal services.

Public versus Private ownership of natural resources

5.102 The micro-economic reforms in train throughout Australia has led to the corporatisation, privatisation and contracting-out of a range of government-owned or operated services, including for example, the supply of water and sewerage services. There is the potential under these reforms, to have private management of natural resources such as parks and wildlife sanctuaries.

5.103 The private ownership and control of such resources is contentious. However, in Australia there are already developments in this area. Dr Wamsley of Earth Sanctuaries Ltd, which is a private company engaged in the business of creating wildlife sanctuaries, has raised a number of issues with the Committee in relation to the competitive conduct of the publicly owned National Parks and Wildlife Service and put the case for private protection of the environment in Australia, advocating essentially that the environment become a commercial enterprise like any other:

The National Parks and Wildlife Service is both our competitor and our regulator, and they have made life very difficult for us as such - as does any monopoly that faces competition. It was a breath of fresh air to us when the competitive neutrality agreements were first signed. I must say that it is with great sadness that we find they had nothing to do with competition; they had more to do with other things. For example, if we identify a block of land in New south Wales for our development, the New South Wales National Parks and Wildlife Service will take it. They have done it at Byron Bay in northern New South Wales, they have done it at Tarawarra in western New South Wales, and they have done it at canyon in the blue Mountains.

In South Australia, even though the competitive neutrality commissioner ruled in our favour, the South Australian government refuses to implement his recommendations. So our problem is simply the non-implementation of the national competition policy, not its implementation.....

My appeal to you is that the neutrality policies be implemented in a sensible manner for the benefit of the wildlife and the environment of Australia.⁴⁸

5.104 The question of the ownership and appropriate management of natural resources can, in theory, be divorced from the principles of ESD. Whether resources are in the hands of private individuals such as farmers or eco-tourism companies or

48 Dr Wamsley, Committee Hansard, Monday, 2 August 1999, p 610-611.

corporatised government-owned bodies, the application of ESD principles should be required.

5.105 Further, it can be argued that it is necessary to assign dollar values to the environment in order to ensure that it is adequately taken into account in assessing the public interest of proposals.

... environmental issues, native flora and fauna, et cetera. These are important commodities. The mere fact that we have difficulty measuring them does not mean that they do not have value. Yet too often we proceed as though they are without value. One of the tasks we set upon ourselves is to try to work out some methodologies for getting some values in this context.⁴⁹

5.106 The issue of the valuation of certain difficult to measure factors in the assessment of public interest under NCP was a matter for discussion at a number of Committee hearings. In Perth, Senator Murray discussed the valuation of externalities and intangibles with Ms Margetts:

Senator MURRAY – In company balance sheets, to make people wake up to value, they make sure they give a value to intangibles – mastheads and brand names. In New Zealand when they created a national balance sheet they gave a value to their forests. To get carbon trading on the map, you have to give a value to it. Is one of the problems with competition policy that there is no numerical weighting given to environmental, social and economic components of the public interest test, with the consequence that the ideology of whoever is doing the assessment influences the value judgement that emerges because they are not giving the appropriate numerical weightings or according appropriate numerical weightings to their decisions?

Ms Margetts – I think you are right. I think what has happened is that the price, in a limited sense, or not so much even the price, but the profitability to industry, has been seen as the major goal and those other issues which do affect the viability from the community's point of view have been seen as something that gets argued later. That is very difficult, because putting the arguments together is expensive to start with. But, yes, if those resource values were in there to start with, the whole equation would look different. Terry Dwyer, as I mentioned, in the RIRDC reports also argued that the value of land is not counted properly as a factor of production. So it seems that competition policy has tended to concentrate on the productivities of labour and capital.

Senator MURRAY – Isn't that the second follow-on? The shortcoming in the legislation and the way in which the whole thing is designed is that it is not a precondition that full pricing should be established; in other words, not

49 Prof RR Officer, University of Melbourne, Committee Hansard, Melbourne, 1 November 1999, p 886.

just basic economic pricing but a full pricing consideration which includes externality costs.

Ms Margetts – That is right because, if we are relying for instance on environment policy, that is very limited as to what can be argued. It is about environment versus the economy. But if the pricing and value of commodities, resources, clean water, clean air and non-renewable resources were added in, then the whole decision to start with would have been different. I think you are right.⁵⁰

5.107 The Committee considers that insufficient attention has been given in legislative reviews to attempts to capture the value of environmental factors. The Committee believes that attempts should be made to account for environmental factors and that such an approach would enable decision-makers to be fully apprised of the consequences - social, economic and environmental - of proposed action.

Adverse Social Impacts of water pricing reforms

5.108 A number of Submissions have been received from rural water users concerned about the advent of tradeable water rights and the effects on farm viability. The Committee heard some evidence from rural water users in Western Australia and a number of North Queensland submissions also focussed on concerns over the application of user pays pricing of water for town supplies.⁵¹

5.109 The social impacts of the application of full cost recovery principles was a matter raised in hearings of the Committee. Calls for the striking of a balance between social, environmental and economic objectives are well appreciated. Senator Murray noted the argument that higher prices might result from the reforms intended to reflect the true costs of the provision of some services; but it was noted that such reforms may result in social ‘fallout’.

Senator MURRAY – Isn’t the other problem that competition policy is regarded as a failure if prices go up and yet the consequence of full cost pricing and of reform should in fact be an adjustment of price levels whereby some prices will go down and others will go up to properly reflect social, environmental and economic costs?

Ms Margetts – You are right. There are definitely some areas where we have undervalued resources – there is no doubt about that. However, it could be argued that the outcome and the way implementation is taking place – for instance, on the water reforms in Western Australia and other states – might mean for us that we do not have a fruit and vegetable industry any more. Albany and Margaret River in the south-west might end up being reliant on imported flown in vegetables from other countries. Now, the energetics and the sheer lunacy of that as a policy just staggers belief. So we might think

50 Senator Murray & Ms Margetts, Committee Hansard, Perth November 19, 1999, p. 993.

51 N A Birch, Submission No 45.

we are doing the right thing but going about things in such a ham-fisted way that we end up with a problem that is much bigger than the one we started with. I think that kind of thing need urgent and clear review.⁵²

5.110 The need for co-ordination of policies in striking the appropriate balance to achieve optimal benefits was also discussed:

Senator MURRAY – Mr Harman, what are we dealing with here with your discourse – and it is really helpful – is the question of full costing and full pricing. Let me tell you what I mean by that. Full costing has emerged – although it has not been described this way – in the committee inquiry as being the effect of competition policy when you take in the total cost of a competition policy decision in terms of social and environmental as well as economic factors. So the question of how rural and regional towns benefit or do not benefit from competition policy has to take in the consequential effects of that. Full pricing is at the other end of the scale but also needs to take into effect the full prices to the community that need to be recovered.

So in your case, the coal-fired power station, the full price of the cost of emissions which the state has to wear, the cost of pollution, the real cost of using carbon fuels. It seems to me that National Competition Policy has primarily focused on normal, historical, traditional pricing methods. I would like a response to this because if electricity, as an example, was fully priced as the total real cost of the provision of that power, you would find coal becoming very unsatisfactory economically and other forms of fuel becoming much more satisfactory. Don't you think that before we can work out what price Esperance should bear, with a generational mix of its power, versus say Perth, we have to develop a full pricing understanding and approach?

Dr Harman – Yes. This is standard economic analysis in all energy type courses and so on. It goes by the slogan 'Internalise the externalities.' I am sure you have heard that expression. That is not necessarily an aspect of competition policy. I think competition policy has to be reinforced by other policy frameworks, and that is where environment policy should come in. It should be the environment policy that says, 'You have to put your prices, and the prices you charge your consumers should reflect not just the cost to the utility but what are the particular costs that your particular generation or your transmission processes impose on the society.' There is a good example that I am sure, Senator Lightfoot, you are familiar with where the state government forced Western Mining to install a desulphurisation plant in Kalgoorlie. Kalgoorlie accounted for something like 25 per cent of Australia's sulfur dioxide emissions and people came the view ...

... The state government came to the view that they would tell Western Mining that they had to spend \$200 million fixing that problem up. So that is the scope for environment policy, and competition policy should work in

52 Senator Murray & Ms Margetts, Committee Hansard, Perth 19 November, 1999, p. 994.

conjunction with environment policy. I do not think we should load everything into competition policy. It is a necessary aspect to it – getting prices right is exactly what you are talking about – but we need input from the environmental policy area to get that side of it correct.⁵³

5.111 The Committee recognises that water reforms are a key element of the NCP and that these reforms are intended to have benefits in terms of the environment and delay or remove the need for capital works such as dams that may have associated environmental costs. However, there are some contentious issues associated with the costing of works and allocation of those costs.

5.112 The response to water issues raised in evidence with respect to urban centres may lie in the development of community service obligations but this is unproven. With respect to rural water use the issues are more complex and involve the costs of production of agricultural produce, impacts on the environment, land values and property rights. The Victorian Case Study below illustrates an attempt to meet community service obligations and address water trading and water pricing issues.

URBAN AND RURAL WATER - A CASE STUDY⁵⁴

This case study illustrates how competitive trading systems can allocate scarce resources (such as water) to higher value uses, and create employment. It also shows how careful attention was paid to social welfare objectives when shifting to consumption based pricing.

In February 1994 the Council of Australian Governments (COAG) agreed to develop a "strategic framework" for water reform. In April 1995 this strategic framework was brought within the ambit of the NCP process. The Victorian Government has implemented a wide ranging set of reforms to the structure and regulatory framework of the Victorian water industry, consistent with its obligations under the strategic framework. The objectives of these reforms are to:

- *achieve the lowest possible sustainable water prices for Victorians, consistent with the achievement of service quality and environmental outcomes;*
- *generate a more efficient industry and encourage efficient investment;*
- *provide the framework for an efficient and sustainable water market; and*
- *ensure a regulatory environment that provides consumers with the best protection in terms of price, safety and service standards.*

The benefits of the Government's reform program have been enjoyed across Victoria - most recently through the price reforms implemented on 1 January 1998 - which

53 Senator Murray & Dr Harman, Committee Hansard, Perth 19 November, 1999, p. 981-982.

54 Submission No 123, Premier of Victoria, October 1998, p 8-11.

delivered price reductions to 85% of properties and 18% reductions in the average domestic bill.

The water reform program has been communicated widely through a task force on water reform, established by Ministers of the Agriculture and Resource Management Council of Australia and New Zealand. There have been numerous newsletters and fora through which to publicise the reform agenda. Also individual elements of the program-for example the drinking water quality guidelines-have involved detailed community and industry consultation.

The reform initiatives can be broadly divided into five, related, categories: (i) water trading; (ii) improved industry structure; (iii) pricing reform; (iv) economic regulation; and (v) competitive neutrality.

(i) Water trading

Water trading allows voluntary transactions to transfer water to areas where it has a higher value. Since all transactions are voluntary, all parties to the trade must be better off. The Government's role has been to convert existing rights to water into tradeable entitlements and then to encourage water trading. Sellers of water rights receive additional funds to invest in other activities, while buyers have the capacity to start up new activities. The resulting increase in agricultural production is expected to create many new jobs. Moving water to users who value it more highly also has the capacity to make new developments possible without the need to construct new dams.

Water trading has also improved environmental operating rules negotiated during conversions to bulk water entitlements, leading to enhanced environmental protection. As well, attaching a value to water rights encourages improved on-farm irrigation practices.

Specific new enterprises made possible by water trading include "Boundary Bend," a Greenfields vegetable farm at Robinvale in Northern Victoria, and Nangiloc vineyard, near Mildura, which purchased water rights from a citrus farm in Wentworth, NSW.

(H) Improved industry structure

The 1994 disaggregation of Melbourne Water has facilitated "competition by comparison" between the three retail businesses in the services they offer customers. The Office of the Regulator General (ORG) has established comparable performance measures, and ensured publication of relevant data. The most recent of these, published in March 1998, indicated that the industry's performance against the measured criteria had improved over the review period.

For the supply of urban water outside Melbourne, amalgamations of the previously very small water boards have enabled the establishment of 15 businesses of sufficient size to exploit scale economies and to attract skill based Boards of Directors.

The disaggregation of the former Rural Water Corporation into 4 separate rural water businesses has facilitated better local management and more involvement of customer advisory committees in local decision making.

The new industry structure has increased water companies' responsiveness to customers' needs, and has resulted in fewer restrictions to supply and more sensitive debtor management. The changes have also significantly improved drinking water quality in rural areas.

(iii) Pricing Reform

Old price structures-with charges reflecting the value of the property rather than the amount of water being used-have been replaced, both in Melbourne and in the non-metropolitan urban systems, with prices that are based more closely on the cost of the service.

In Melbourne, water and sewerage rates based on property values were abolished for all customers. These charges were replaced by a flat fee and "user pays" charges, to ensure that consumers pay for the water they use, and so have an incentive not to waste water. A shift to prices based on cost of service has a greater impact on households with larger populations, and on households with a low property value. It therefore had potential for adverse social impacts. The Government assumed \$850 million of Melbourne metropolitan water industry debt to ensure the social impacts were minimised. At the same time the Government provided an additional capital works injection of \$410 million for water businesses in urban areas outside Melbourne, and \$40 million for rural water authorities.

The changes have resulted in lower bills for 85 per cent of properties, and fairer pricing through smaller cross subsidies between commercial and non-commercial customers. A rebate scheme was introduced for not-for-profit organisations, and the hardship grant scheme was extended to rural Victoria.

The new industry structure places pressure on each water business to offer the lowest prices by tying prices charged to future revenue determinations.

(iv) Economic regulation

Responsibility for economic regulation of the Victorian water industry has been given to the Office of the Regulator General (ORG), a new independent regulatory authority. The ORG's objectives are to:

- Ensure the maintenance of an efficient and financially viable water industry;*
- protect the interests of customers with respect to water industry charges and terms and conditions of water industry services; and*
- promote the reliability and quality of water industry services.*

As a result of the new regulatory structure, the water businesses consult more closely with their customers, and are more sensitive to their needs. Service standards (for example, time to restore supply) have improved, the number of restrictions of supply for non-payment of bills has fallen, and innovative "customer friendly" payment methods have been introduced.

(v) Competitive neutrality

The urban water companies have been or will be made subject to competitive neutrality arrangements including a tax equivalence regime and the requirement to pay commercial dividends. The intention of these changes is to remove any advantages these firms have arising from State ownership, so as to provide accurate incentives for investment and fair outcomes for private businesses.

Community Service Obligations

The water reforms have also involved the use of Community Service Obligations to ensure equitable outcomes. Water and sewerage services are delivered at less than full cost to pensioners (who receive concessions of up to 50% of service and water sewerage charges). The Water Relief Grant Scheme provides one-off assistance to eligible domestic customers who are unable to pay their water and/or sewerage bills due to a temporary financial problem. A rebate of up to \$260 a year is available on the fixed water and sewerage charges of not-for-profit organisations in the fields of education, hospitals or nursing care, religious worship, charity, outdoor sporting or recreation activities, and war veterans organisations.

Benefits of the reform program

The Government's reform program has provided sharper incentives for the industry to reduce costs while becoming increasingly focused on meeting customers' requirements.

Benefits from the reform program include:

- ◆ *by the year 2000, about \$50 million per annum in increased agricultural production arising from water trading;*
- ◆ *a thorough environmental assessment is being undertaken of each water system, leading to recommended flows to be allocated for environmental purposes;*
- ◆ *cost savings of around \$150 million over the first five years of disaggregation, while the ORG reports service standards had generally improved on the pre-disaggregation level; 2*
- ◆ *the percentage of the non-metropolitan population whose water meets bacteriological standards has increased to 58%, from 27% in 1992-93. The target is full compliance by 1999-2000;*

- ◆ *the rural water authorities are on track to be sustainable by achieving business cost recovery by 2001. Currently 39 out of 54 districts have reached full cost recovery; and*
- ◆ *all water businesses now have customer consultative committees and internal dispute handling processes in place.*

The improved industry structures and accountabilities which are now in place will maintain pressure on the industry to further improve its performance.

The single exception is an increase in water supply interruptions in 1996-97, which the ORG attribute to the unusually hot summer.

The most convincing evidence of the benefits of the water reforms is that the vast majority of Victorian properties are now paying less for their water and sewerage services, while the quality of the service provided has been at least maintained and, for many Victorians-particularly those outside Melbourne-substantially improved. Through the widespread use of customer consultative committees, customers now have an enhanced capacity to influence their water suppliers. Also, the environment is being protected through the specification of environmental flows as a precursor to water trading.

5.113 The Australian Conservation Foundation has a different view of the reforms in the water industry in Victoria over the last few years and in its submission lists the concerns which the ACF has of the management of the environment, in particular, water in that State:

....while Victoria has "led the pack" in the reform of rural water prices since the late 1980's, Victoria's approach is still deficient:

- questions of pricing and resource use and access rights are resolved in the absence of opportunities for public debate, input and scrutiny;
- a number of issues critical to pricing decisions in our view (eg the financial costs of environmental and related externalities where cause and effect can be attributed) are consistently regarded by Victoria as being extraneous to pricing decisions;
- the riverine "environment" is expected to raise its own works funds via temporary sales of environmental water; an arrangement which both avoids the need for core environmental water, and assumes that the "environment" doesn't need its water;
- refurbishment of water infrastructure is invariably paid for from a combination of State and Commonwealth funds;
- in recent years enormous accumulated debts have been written-off by the Victorian Government to relieve irrigators of this additional financial impost;

- debt guarantee fees have never been required;
- state-owned rural water corporations, which are administered by boards drawn largely from their irrigator customer base, are not subject to independent environmental regulation; they are their own regulators.⁵⁵

5.114 It would be unfair to say that policy changes have not occurred to benefit the environment and as with the wider economy, National Competition Policy is but one element of the changes which are proposed or occurring:

In the past, water has not been treated as an economic resource which should be charged out at its full cost. It has been used to promote regional development and closer settlement in semi-arid inland areas of Australia through the development of irrigation schemes. Governments usually supplied the capital to establish the irrigation infrastructure out of consolidated revenue, and water charges paid by irrigators often did not meet the costs of delivery. Also, the full cost of providing urban water and sewerage services and rural domestic and livestock supplies were not recovered from users.

In the 1990's, water policies have changed in a major way. The focus has moved to emphasise resource sustainability rather than infrastructure or regional development.

In 1994, CoAG developed a National Agenda for Water Reform. Key features of this Agenda include:

- Introduction of commercial principles to the water industry, including privatisation or corporatisation of utilities;
- Separation of water wholesale and retail supply organisations with performance monitoring at both levels;
- Separation from supply responsibilities of regulatory functions that protect the public interest in the way the resource is managed, allocated and priced;
- Consumption-based pricing (not property taxes) set to cover all costs of water supply;
- Establishment of water rights as a separate property right from the land;
- Markets for the free trading of water rights separately from land;
- Reduction of cross-subsidies in water provision;
- Specific water allocation to the environment;

55 Submission No 88, ACF, p 1012-1013.

- Natural resources management through integrated catchment management; and
- Public consultation.

.....Despite these developments, the natural resource and environmental aspirations of the CoAG Agenda are far from being realised. Environmental water allocation is accompanied with varying statutory force, and the cap on Murray-Darling Basin diversions is yet to be fully implemented.⁵⁶

5.115 Structural adjustment and the pace of change is as important an issue in the environmental sector as it is in the wider economy. The burden of cost recovery is of major concern to rural users of water and whilst it is recognised that cost recovery sends the right kind of economic message to users of water and will ensure that the resource is used with diligence, care must be taken to limit structural shock. An equitable balance must be achieved.

Increased water charges have the potential to significantly reduce farm incomes in some regions. Irrigation farms are often small and were designed to allow as many families as possible to be settled on the land. Many were established with the aid of government subsidies. In some areas this has contributed to the poor financial performance of farms, social decline and increased environmental impacts. Structural adjustment problems such as these must be resolved.

A study of the lower Murray-Darling Basin estimated that a move to full recovery of water supply costs would reduce gross margins by 6%. One response has been to separate the right to use water from the right to use land, as proposed by CoAG.... This has been estimated to reduce the net loss to farmers from increased water charges to 3%.⁵⁷

5.116 The Committee received conflicting evidence about the value of tradeable water rights as a mechanism of improving the environment. Prof McKay of the University of South Australia has found that tradeable water rights have not always produced the outcomes sought by management authorities, rather sometimes the opposite:

....the TWE has increased the demand for water in the Murray-Darling system. Water that was going down the river unused.....has now been mobilised because it suddenly has a value. The long term outcome of that is that the Murray-Darling has had to be capped because of the increased use.

56 J F Thomas, Water and the Australian Economy, A joint study project of the Australian Academy of Technological Sciences and Engineering and the Institution of Engineers, Australia, Community Summary, April 1999, prepared by Bryony Bennett, April, 1999, p 6.

57 J F Thomas, Water and the Australian Economy, A joint study project of the Australian Academy of Technological Sciences and Engineering and the Institution of Engineers, Australia, Community Summary, April 1999, prepared by Bryony Bennett, April, 1999, p 15.

...In some areas there are the very distinct advantages of tradeable water, but whether or not you are encouraging everybody by TWE to move into more efficient irrigation technologies is debatable...⁵⁸

5.117 The Australian Conservation Foundation, considers that it is the application of NCP that is the concern:

...a correct application of NCP will help to reduce environmental pressures, particularly where new water resource developments are involved. Specifically, the CoAG Water Resources Policy requires that all new schemes, or extensions to existing schemes, be both economically viable and ecologically sustainable. It also requires a range of other environmental reforms.⁵⁹

5.118 Other evidence available to the Committee advocates the ability of environmental bodies to trade in water as well.

Improvements in the efficiency of on-farm water use and water delivery are essential to enable transfers of water to more productive uses and to the environment. Wide differences exist in the value added per unit of water used, and in the amount of water used per unit land area, both regionally and between irrigation enterprises. Relatively few farmers use any objective method of irrigation scheduling, but this will become more feasible where open channels are replaced with piped supplies.....

Governments have yet to accept that it will be more efficient and effective if environmental institutions are allowed to trade water. Trading by environmental custodians will allow the possibility of increasing resources allocated to the environment and enable environmental water to be available for urgent productive purposes in times of drought. Unless such a mechanism exists, savings in water use from improved efficiency will tend to be distributed to other farmers.⁶⁰

5.119 These are specialist issues beyond the expertise of the Select Committee. However, what would seem to be a common theme is the responsibility of NCP managers to ensure that the public interest test is as broad, all encompassing and frank and open as possible to take into account the competing demands of all parties.

Inappropriate application of the public interest test

5.120 The Committee is concerned overall that there is inadequate and narrow application of the public interest test in the NCP process and a lack of public

58 Assoc Prof McKay, University of South Australia, Committee Hansard, 1 November 1999, p 885.

59 Submission No 88A, ACF, p 1.

60 J F Thomas, Water and the Australian Economy, A joint study project of the Australian Academy of Technological Sciences and Engineering and the Institution of Engineers, Australia, Community Summary, April 1999, prepared by Bryony Bennett, April, 1999, p 15.

accountability of decision making which contributes to suspicion and distrust of government motives. The Committee does not seek to add a cost burden of additional reporting, but rather seeks to ensure a transparency of decision making and an open and full honest reporting of the assessment of the public interest in these cases.

The AGO believes that the scope and application of the public benefit and public interest test applied under the auspices of National Competition Policy (NCP) are key factors in determining socio-economic consequences of NCP. Presently, the vigour with which the test is applied differs between jurisdictions and regulators and many participants appear unaware of governments' commitment to incorporate Ecologically Sustainable Development principles and objectives in policy making processes.⁶¹

5.121 The Australian Greenhouse Office (AGO) outlined a number of concerns in its submission relating to the consideration of public benefit in the development of new infrastructure proposals, particularly in electricity. The submission notes the changes that have been wrought by NCP to the previously State-owned and controlled system and the lack of emphasis on environmentally friendly alternative sources of power.

Under vertically integrated regimes, electricity systems were developed on a jurisdictional stand-alone basis within large centrally planned systems. State owned businesses were responsible for planning, developing and implementing new generation and network upgrades. This allowed for a high degree of jurisdictional political interference in the decision making process (eg Collie Power Station, WA) and minimal consideration of the broader national interest.

The cost of any expansion was arbitrarily spread over all users with those directly benefiting not bearing the full cost of providing the service. This was due essentially to there being no competition within each jurisdiction and all costs, generation, transmission, distribution and metering were arbitrarily averaged throughout the state and bundled into one bill for users. The lack of competition meant there was minimal emphasis on technical efficiency in providing the service, (eg uneconomical grid extensions in Queensland). This ethos has resulted in the present structure of large, generally coal fired generators sited at the fuel sources transmitting electricity over large distances with associated, large transmission losses.⁶²

5.122 The Australian Greenhouse Office considers that the current management of the National Electricity Market and the interpretation of the public interest test continues to be "narrow" and without consideration to environmental issues.

The NEM is managed by the National Electricity Market Management Company (NEMCO) which controls the centrally coordinated dispatch

61 Submission No 208, Australian Greenhouse Office, p 1.

62 Submission No 208, Australian Greenhouse Office, p 1.

process and the spot market. However, the advent of the NEM has not resulted in a consistent methodology for assessing regulated network augmentation and extension proposals. Some proposals are assessed under a net customer benefit test and others under a net public benefit test, neither test takes account of externalities such as green house gas emissions.

Network planning in the NEM is undertaken by the wires businesses that service a particular area. Transmission Network Service Providers (TNSP) must conduct an annual planning review with each Distribution Network Service Provider (DNSP) connected to their transmission network. Where the necessity for augmentation or extension is identified by this review the relevant service providers must undertake joint planning to determine plans for consideration by code participants and interested parties. The Network Service Providers must carry out economic analysis of the possible options to identify the option that maximises the net benefit to customers.....

The AGO has argued, unsuccessfully, for externalities such as a cost for greenhouse gas emissions to be included in any network augmentation or expansion test criteria. The AGO, in a submission to the Australian Competition and Consumer Council [sic Commission] (ACCC) review of criteria for a public benefit test for new interconnectors and network augmentation, argued that if externalities were not to be included then to avoid confusion the test should be called something other than a 'public benefit test'. Following this submission, the ACCC subsequently changed the name of the test to the 'regulated assets test', or 'market benefit test' which assess the benefits which accrue to the market.

The AGO believes that the application of such tests, as opposed to a public benefit test that incorporates externalities, is providing for suboptimal results. Moreover, many investments are proposed and analysed by the Network Service Provider that stands to benefit from the proposal. This can result in further inefficiencies.

There are examples of Network Service Providers recommending network augmentation, on the basis of a biased assessment process that fails to examine realistic alternatives.....At present the broader social impacts of augmentation and expansion are not examined and the test for expanding regulated assets concentrates on financial benefits to generators and customers. This may be due, not to a failure of NCP, but from the problem of inconsistencies between the different regulators and jurisdictions who oversee its implementation.

The AGO is of the opinion that a public benefit test, which incorporates greenhouse gas emission externalities, is necessary to ensure that environmental considerations are factored into electricity market investment decisions. The ACCC contends that the public benefit test can only include known environmental costs arising from government legislation.⁶³

63 Submission No 208, Australian Greenhouse Office, p 2.

5.123 The Committee was particularly concerned about evidence it received in Perth, WA in relation to the tendering process for the supply of power to Derby and surrounding areas. The group which had tendered a tidal –power option for the supply of the power relayed their misgivings to the Committee about what they saw as bias toward conventional methods of generation and a lack of consolidation of environmental impacts and long term solutions.

Senator Murray – If another plank of competition policy is independent, objective appraisal on a fair and informed basis, you are suggesting to this committee that the way in which the tender process is constructed, the people who manage it, and the way in which it is opened and adjudicated does not meet the tests of independence, objectivity or fairness?

Mr Wood – Yes, that is my view. If Tidal Power had not been one of the bidders and the basis was purely a choice between, let's say, LPG and LNG, it would be purely an Energy matter. But I think the very introduction of a renewable project with spin-off benefits for the region has created a major question mark in that selection process. I know that the chairman of the Kimberley Development Commission, Peter McCumstie, made representations that the region should be represented on that assessment panel, and that request was rejected. His presence would have ensured the broader view being taken in that process.

5.124 Resource management - particularly infrastructure management - is undergoing considerable change from public funded subsidised systems to systems cognisant of the costs of provision in terms of construction, supply, transmission and environmental impact. The changes are fundamental and cannot be adopted 'overnight'. Nevertheless, the Committee is concerned at the apparent lack of co-ordination in the reform processes affecting the environment, particularly with respect to water, forests and energy. As noted previously, if rigorously applied in conjunction with ESD principles, many of the 'systemic' factors which result in environmental degradation could be overcome.

Recommendations

21. *That in reviewing legislation and arrangements which involve environmental impacts, Governments should ensure that a broad interpretation of the public interest test is undertaken, including an "account" of environmental effects of changes to regulations or failures to change.*
22. *That greater rigour be applied to ensuring that the processes of reviewing legislation and assessing the public interest in areas involving impacts on the environment are as open and transparent as possible.*
23. *That the NCC work with Commonwealth and State environmental agencies to ensure that reviews of related legislation are co-ordinated. The aim of this is to eliminate anomalies in legislation and regulation that may lead to environmental degradation.*

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| <p>24. <i>That the government commission a review of subsidies and other incentives to use publicly owned natural resources which are inhibiting private investment in competing products, to the detriment of the environment.</i></p> <p>25. <i>That jurisdictions ensure, that in implementing the public benefit test, environmental 'externalities', including greenhouse gas emissions, are appropriately considered.</i></p> |
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Summary

5.125 The Committee is sympathetic to the concerns of the community that NCP and micro-economic reform are having adverse and perhaps unintended consequences. To this end, the Committee has recommended a number of key changes and actions in relation to the administration and implementation of the policy.

