

**SOUTH GIPPSLAND SHIRE COUNCIL**  
**SUBMISSION TO ENQUIRY INTO**  
**THE IMPACT OF COMPETITION POLICY REFORMS**  
**ON RURAL AND REGIONAL AUSTRALIA**

**Introduction**

This response on the impact of National Competition Policy reforms combines the impact of Local Government Reform, Compulsory Competitive Tendering and National Competition Policy, as these influences are difficult to separate. In addition, the Victorian Government response to National Competition clearly includes Compulsory Competitive Tendering and review of Local Government corporate structures as a part of its response to competition policy. (National Competition Policy and Local Government, a statement of Victorian Government Policy, 1996).

**Background**

The South Gippsland Shire Council was formed on December 2<sup>nd</sup>, 1994 from four previous Shires. During 1995 the various services that were provided were reviewed and plans put in place for meeting competitive tendering targets.

The majority of contracts for the Shire's services were entered into between August 1996 and February 1997. Most of these service contracts were for a three year period. In-house Business Units were successful in winning 79% of the contract value that was advertised on the open market. These contracts included:-

School Crossing Supervision

Aged & Disabled Services

Maternal & Child Health

Mechanical Street Sweeping and Pit Cleaning

Provision of Toilet Cleaning and Minor Maintenance and Litter Bin Collection

Local Road Maintenance

Maintenance of Parks, Gardens and Reserves

Initially Planning and Environmental Health Services were also tendered and won by in-house teams, however, these contracts were subsequently cancelled and retained as part of Council's core Client Side Business.

The structural review of Council was carried out in mid 1996 with the Client/Provider separation being implemented in August of that year.

Business Units are currently set up under the full cost attribution and are moving towards increasing commercialisation and possible corporatisation as defined in the Victorian Government Policy Document.

The second round of tenders for service contracts for the Shire will be commencing in June 1999.

As is required under the National Competition Policy, Local Laws are currently being reviewed with a view to having appropriate reforms completed by June 1999.

## **Community Impacts**

The combined effect of Local Government Reform, Competitive Tendering and National Competition Policy has been to increase the centralisation of service provision as attempts are made to improve the efficiency of providing services. The reduction of service centres applies across the board and includes:-

Electricity suppliers

Main Road and Highway Maintenance (Vic Roads)

Local Government services

Phone services

Banking services

Other Government Departments such as Natural Resources & Environment

As a result of these changes, many smaller towns are under pressure to retain services and to remain viable. This pressure can not be laid wholly at the door of National Competition Policy, however, it reflects the current emphasis on cost of service provision rather than quality and accessibility of services.

Local Government has lost the role of directly protecting the economic well being of its local communities. Because families are not staying in the local area (particularly younger members) there is an increased demand for services such as home care. With the centralisation of service centres there is also an ever increasing demand for community transport services.

As a result of all the changes that have impacted on Local Government, there is now also an increased emphasis on user pay, (which to some extent maybe a result of rate capping) but is also a result of National Competition Policy as service areas are opened up to competition and cross subsidisation of services is less likely to occur.

As a result of the review of service provision and a focus on providing value for money services, South Gippsland Shire Council delivered an average reduction in rates of 20%. It must be remembered that this reduction was subject to a significant degree of variation depending on the rate base of the previously existing Shires.

Service provision, in terms of value for money, has generally improved and can without doubt be more readily quantified.

Competitive Tendering and National Competition Policy has increased the opportunity for local businesses to win local contracts. Even where contracts are won by in-house Business Units, a substantial proportion of work is often available for local sub-contractors. There is no doubt however, that some contracts are under threat from bigger players in the market place and the potential for further loss of local employment is very real.

## South Gippsland Shire Council Workforce Impacts

Over the last three years the Shire workforce has been subjected to extensive change and significant down sizing.

*The table shows the number of effective full time employees employed over the last 4 years.*

<b>MONTH/YEAR</b>	<b>NUMBER OF EFT'S</b>	<b>PERCENT REDUCTION</b>
August 1995	222.71	-
July 1996	217.34	2.4%
August 1997	151.6	30.2%
August 1998	149.51	1.4%

As can be seen from the above table, a significant number of staff redundancies have taken place, and whilst there are no records available to Council, anecdotal evidence suggests that not all staff that have been made redundant have been able to find local employment. Often in these cases employees need to travel considerable distances in order to find suitable work. From this point of view redundancies created in rural areas can result in significant disruption to families, compared to the easier access to employment opportunities in the metropolitan areas of our larger cities.

Those employees that are on the Service Provision/Provider side of the organisation have significantly less job security than was previously the case in that Council contracts are re-advertised generally every three years and whilst Business Units are bidding on work outside the Shire, there is still a substantial reliance on Shire contracts to enable staff to be employed.

In the initial stages of implementing Local Government Reform, Competitive Tendering and National Competition Policy, the impact has been to reduce employment opportunities in the local area. In particular where traditional Local Government has provided employment opportunities for apprentices and young employees, these opportunities have been greatly reduced and have only been improving to a small extent over the last 12 months.

*For the current and previous year the age demographics are shown in the table below.*

1997		1998	
20 + under	4%	20 + under	6%
21-30	11%	21-30	10%
31-40	20%	31-40	23%
41-50	40%	41-50	37%
51-60	21%	51-60	20%
60+	9%	60+	3%

## **Council Operation Impacts**

Where in-house Business Units rely principally on a single source of income, for example Shire contracts, there is very little long-term security and therefore a shaky future for Business Units as they need to rely on what are basically dollar driver contracts. In order to protect the long-term future of these Business Units and their employees, there is significant pressure to expand and diversify the activities of these Business Units. This process is currently being supported by Council.

The loss of in-house contracts can result in substantial costs to Council for payment of redundancies, which would take many years to recoup via reduced costs of service provision.

There is now a greater focus by South Gippsland Shire Council on providing value for money services, that is ensuring that quality services are provided at a competitive cost. Despite there being, in some instances, substantial changes to the way services are delivered service standards throughout the Shire have been generally maintained and in some cases improved.

The introduction of trade practices legislation has not caused any compliance problems and has not had an adverse impact on Council's operations. Local laws are currently being reviewed and it is not anticipated that there will be major compliance problems in this area either.

In order to spread the risk, from a business point of view of having only one source of income, Council's in-house Business Units are bidding on works available on the open market as well as internal Shire works. As required under National Competition Policy all costs and relevant taxes and charges are provided for. Complying with these requirements is not an onerous task.

The trend to Competitive Tendering and the move away from government monopolies under National Competition Policy has been successful in reducing the cost of providing services. In particular where service delivery is able to make use of innovation via improved technology, this is providing a good outcome. The down side is in the Human Service's area where service delivery is people based, and where the main criteria for contract acceptance is dollar based, the service delivery outcomes may be less than desirable. Where the major cost component is staff salaries, for the delivery of a service, driving down the cost of service provision is generally achieved by reducing the cost of labour or by reducing the hours that that labour is utilised to provide the service.

Many service contracts, both in the State Government and Local Government area, provide for a range of criteria to be assessed in the acceptance process including service quality, occupational health & safety, management and financial ability and the degree of innovation. However, despite the inclusion of these criteria, many of these contracts are still largely dollar driven. The challenge for the future is to change the selection criteria for contracts away from dollar outcomes.

A major advantage of the changes that have taken place is that service requirements and outcomes are now better documented than was ever previously the case in Local Government. Reporting on contract outcomes, rather than inputs, is enabling more focused decision making to be made on service delivery changes and the associated costs that are incurred in delivering the required service levels.

## **Conclusion**

The effects of National Competition Policy for Local Government has been both positive and negative.

The positive outcomes are that service delivery is more focused and being delivered at a competitive rate. In addition Council is able to better monitor service outcomes and accurately gauge the impact of changing service delivery requirements in terms of required resourcing and cost.

On the down side, centralisation of services has had an adverse impact on many of the smaller townships within the Shire in terms of their access to a broad range of government and commercial services. As a result of downsizing, which has been a product of both Council amalgamations and the introduction of Competitive Tendering, the ability to find replacement employment in ones own local area is considerably more difficult than is the case in metropolitan Melbourne.