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Chief Minister

Treasurer

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Mr Stewart Plain  
Productivity Commission  
PO Box 80  
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Dear Mr Plain

On behalf of the Australian Capital Region Regional Leaders Forum, I would like to thank you for the opportunity to provide a submission to the inquiry examining the Impact of Competition Policy Reform on Rural and Regional Australia.

The Australian Capital Region submission demonstrates that there has been a complex mixture of structural changes resulting from changes in technology, commercial decisions, national and world economies and decisions of State and Commonwealth Governments which have had a significant impact on this region.

I look forward to the findings and recommendations of the Inquiry.

Yours sincerely

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Chief Minister

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**SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY  
INTO THE RURAL AND REGIONAL IMPACTS OF  
COMPETITION POLICY**

by the Australian Capital Regional Leaders' Forum

**December 1998**

# **SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO THE RURAL AND REGIONAL IMPACTS OF COMPETITION POLICY**

## **INTRODUCTION**

This submission has been developed by (the ACT Government on behalf of) the Australian Capital Region (ACR) Regional Leaders Forum . The Forum comprises the leaders of local governments of the southeast region of NSW and the Australian Capital Territory (ACT) Government.

The Australian Capital Region encompasses the ACT and 17 surrounding NSW city and shire councils as listed on Attachment A. The region (see map Attachment B) covers an area of around 58,000 square kilometres. It is characterised by a diverse range of industries and services ranging from sheep farming and forestry to tourism. The region is home to about 500,000 people (about 3% of Australia's population) and contributes about 3% to Australia's GDP.<sup>1</sup>

The ACT has a strong link to its adjacent and surrounding city and shire councils in NSW. For example, there are several cross border committees consisting of government representatives which aim to foster co-operation and co-ordinate approaches to regional planning in health, education, water and waste management services. The links between the ACT and the councils is formalised through the Australian Capital Region Development Council and the Regional Leaders Forum.

The focus of this submission is on the Australian Capital Region and seeks to address those matters of a regional nature. In this sense its form is different to that of the NSW Government, the ACT Government and the Local Councils, although it should be seen as being complementary with any submissions those individual bodies might make to the Commission's Inquiry.

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<sup>1</sup> Agricultural and Food Producers in the Australian Capital Region: 1997 Case Study, p1, ACT Government, 1997.

## **BACKGROUND**

### **The scope of the current inquiry**

This inquiry is being undertaken in response to recommendations made by the House of Representatives' Committee on Financial Institutions and Public Administration. In undertaking this inquiry the Commonwealth Government:

*wishes to ensure that the benefits of increased competition in the economy flow to all Australians, including those living in rural and regional Australia, and that the implementation of competition policy promotes efficiency, economic growth and community welfare.*

The inquiry's terms of reference calls for an assessment of the transitional and ongoing impacts of competition policy and related reforms introduced by Commonwealth, State, Territory and local governments. The terms of reference specifically states that the Commission have regard for:

- the established economic, social, environmental and regional development objectives of Australian governments; and
- other influences on the evolution of markets in regional and rural Australia, including the role of international trade, foreign investment and globalisation generally.

In addition, the terms of reference requires the Commission to report on:

- the impact of competition policy reforms on the structure, competitiveness and regulation of major industries and markets supplying to, and supplied by, regional and rural Australia;
- the economic and social impacts on regional and rural Australia of the changes to market structure, competitiveness and regulation flowing from the reforms and the effect of these impacts and changes on the wider Australian economy;
- possible differences between regional and metropolitan Australia in the nature and the operation of major markets and in the economic and social impacts of the reforms promoted by national competition policy; and
- any measures which should be taken to facilitate the flow of benefits (or to migrate any transitional costs or negative impacts) arising from competition policy reforms to residents and businesses in regional and rural Australia.

Importantly, the Commission's Issues Paper draws attention to the recognition that:

*economic and social circumstances in rural and regional Australia reflect a complex interaction of many factors, some extending back for decades. These include: changes in the international competitiveness of Australian industries; improved access to world markets; world commodity price trends; government macroeconomic, assistance and regional policies; technological changes; the emergence of new products; and peoples' changing tastes and preferences.*

## Reforms already undertaken

Although many of the recent changes to the economy have been ascribed to competition policy reforms, the biggest impacts on the councils in the last few years have been the result of structural changes to the economy rather than competition policy. The structural changes to the economy have been occurring over many years although the pace of reform increased in the 1980's through:

- the floating of the Australian dollar;
- deregulation of the banking industry; and
- the reduction of trade barriers.

While many of the impacts of these and other reforms were on private enterprise, the focusing of further reforms shifted to government functions, services and businesses. From early 1990's the Council of Australian Governments (COAG) became a key mechanism for co-ordinating a national approach to further reforms.

## Councils

The NSW Government is responsible for overseeing the implementation of competition policy reforms in the councils encompassed by the Australian Capital Region. In June 1996 the NSW Government published a policy statement on the application of competition policy to local government. A key component of the NSW Government's statement is that

*the Government does not believe that a prescriptive approach will achieve reform with the spirit of co-operation necessary to benefit both consumers and business.*

This approach allows councils to implement reforms on a pragmatic basis that maximises the benefits from reform. As a result, not all councils have implemented the same competition policy reforms at the same time.

A number of councils have developed policies on the application of competition policy in their jurisdiction. These policies contain guidelines for contracting out, competitive tendering and benchmarking.

Contracting out and competitive tendering are the most common reforms that councils have implemented generally as a result of pursuing efficiencies. The impending implementation of competition policy reform and the possibility of jurisdictional amalgamation are also adding impetus to efficiency drives. While contracting out and competitive tendering are not explicit components of competition policy reform, they are closely associated microeconomic reforms.

Similarly, some councils have undertaken benchmarking of their services with a view to maximising their efficiency in providing services and allocating resources.

The impact of the reform processes is not limited to measures undertaken by councils themselves. As part of the broader regional, state and national economies councils have been subject to reforms happening at state or national levels. These reforms include the development of the national electricity market and the opening up of government services to competition. In addition, the councils that surround the ACT are sensitive to changes in the ACT economy and hence are affected by reforms implemented by the ACT or Commonwealth Governments in Canberra.

## *ACT*

The ACT Government has implemented a range of national competition policy reforms. As a signatory to the suite of national competition policy agreements, each year the ACT Government is required to report to the National Competition Council on its progress in implementing competition policy reforms. The ACT Government's 1998 report to the National Competition Council is attached.

In brief, the ACT Government's reforms include:

- contracting out and competitive tendering;
- legislation review;
- separation of regulatory functions from service providers;
- removal of ACT Government businesses exemption from the *Trade Practices Act 1974*;
- application of a tax equivalent regime to government businesses;
- independent pricing oversight of government businesses;
- structural reform of public monopolies;
- application of reforms to electricity, water and gas provision; and
- publication of a competitive neutrality statement.

## **THE IMPACT OF REFORMS**

Due to the big variation in the industries and businesses in each of the councils, the impact of changes have not been the same throughout the region. Also, while there may be a positive impact due to a reform in one council area, the neighbouring council may suffer a corresponding adverse impact - leaving a zero impact overall for the region.

## **Structural changes**

Many councils have been affected by a range of structural changes in the Australian economy. Structural changes have occurred due to changes implemented by state and Commonwealth Governments, commercial decisions by private service providers, technological change and other changes in the national and world economies.

As has occurred in many countries around the world, cities such as Canberra and Sydney have grown often at the expense of rural communities as people (particularly young people) move to the city to seek employment opportunities. Similarly, the larger rural service centres such as Young and Goulburn have grown at the expense of their neighbouring smaller rural communities. Councils are also being amalgamated to provide a more cost effective service. This too is withdrawing services and business from the smaller towns.

Technological change has had a large impact on the Australian economy. Electronic banking and bill paying (and the rationalisation of banking outlets), communication networks, access to information (eg Internet) and electronic access to commodity (particularly primary produce) markets have all had a significant impact on the way people do business. This has resulted in a declining reliance on service providers in smaller towns.

Improvements in the quality of cars and roads has allowed people to travel faster and more comfortably. Many people now travel from rural communities to city centres for work. A significant side effect of this is that these people often also do their shopping in the city to take advantage of the larger range of products and often lower prices. This has added to the declining reliance on service providers, affecting the economic growth of these “feeder” towns. In addition, the construction of safer dual lane highways has led to these major carriageways bypassing many small towns that relied on the traffic to bring them business. However, in some towns, such as Yass, the reduction in traffic through the town has made it more attractive to tourists and business has improved.

The financial crisis in Asia has added to the steady decline in the prices of wool and meat exports on the world market. This has combined with drought conditions in some areas in recent years putting some farms under financial stress.

Another sector of the region’s economy that has experienced a significant change is the logging industry. A change in the NSW and Commonwealth Government’s attitude toward logging natural forests has resulted in a contraction of the logging industry.

The region's economy is increasingly relying on tourism. Better transport links have enabled more tourists to visit the region stimulating the hospitality and retail sectors of the region's economy. The communities that service the snowfields and the coast rely heavily on tourism for economic growth. In Jindabyne and the skifields tourism has generated strong growth in construction and business opportunities. Although improvements in transport has aided these industries to grow, the recent Asian currency crisis has dampened the growth of tourism in the past year.

The Shire of Eurobodalla on the south coast has experienced some of the biggest impacts of the region's shires in recent years. The major employment cutbacks by the Commonwealth Government in 1996 had a large impact on the region. As a result of these cutbacks the Shire had a large influx of people seeking to retire by the coast. The local economy received a large stimulus to housing construction and sales and through increased council rates. In addition, trade has increased for local businesses. However, this has placed stress on the provision of municipal services such as waste collection, water supply and health services.

### **Competition policy changes**

Compared to the effect of structural changes to the economy, there appears to be only minor impacts on the region due to competition policy. In addition, competition policy reforms are relatively recent and it is too early to confidently determine its impact. However, the perception in many regional areas is that they are bearing the costs of competition policy without enjoying the benefits.

One of the most significant impacts of competition policy has been the reforms to the electricity industry. Competition has now been introduced into the supply and generation of electricity. Those users of greater than 160 Mwh/pa now have a choice of who supplies their electricity. However, there are few users of this amount of electricity in the region and consequently, few people can see the benefit of this reform at this stage. There have been localised impacts as regional electricity distributors have been amalgamated. The resulting larger distributor has rationalised its administration functions to increase productivity. This has resulted in staff reductions as administration is rationalised. An example of this is the administration functions of the formerly Monaro Electricity which was located in Cooma, being centralised to Queanbeyan. Cooma has experienced a significant reduction in employment while the employment increase in Queanbeyan has been far less significant.

Councils are becoming increasingly focused on providing their services more cost effectively. Several councils such as Eurobodalla, Yass and Tallaganda Shire Councils have developed guidelines on competitive tendering and contracting. A major impact of competition reforms has been the extension of contracting out and competitive tendering. However, even though contracting out is more extensive, the shires and city councils who have a less robust economy are wary of reducing permanently employed staff and contracting out services. Councils with a less robust economy fear that outsourcing to contractors external to the shire will have detrimental impact on their community. There is a general fear across all councils that



in the years subsequent to outsourcing the contractor will have less competition and will increase its charges negating benefits that were made through the initial contracting out while the problems of localised unemployment remains. Councils give anecdotal evidence of predatory pricing by contractors in rural Victoria which is driving this fear.

A highly publicised reform has been the introduction of competition for the supply of telephone services. Canberra has experienced a significant fall in the price of long distance telephone calls. However, in many places in the Australian Capital Region, competition has not been introduced and there appear to be only minor price reductions in telephone services. When competition is introduced, it is expected that the region will benefit from lower call rates.

The region has also experienced the closure, or reduction in the level of services, of some Commonwealth Employment Service offices as the employment placement function undertaken by the Commonwealth Employment Service is open to competition.

Benefits that are not immediately obvious are the benefits of legislation review and third party access to significant infrastructure such as rail networks and airports. Although the region has limited rail networks to open to competition, the rail line running from Harden to Blayney is now also used by private operators and after an absence of rail freight services for 20 years, rail freight services are now being provided.

Also, the principles of competitive neutrality are yet to be fully implemented throughout the region. The opportunity for private enterprise to compete with government businesses will allow greater opportunities although it must be recognised that this impact is likely to be less in country areas than city areas.

### *Further work required*

There is a need to determine changes occurring which appear to be driven by reforms which may have contrary results. Where changes have occurred in regional (micro) markets due to amalgamation and merging of retail outlets, resulting in monopolistic retail supply, the need for intervention should be examined.♦

Councils are concerned that there are conflicting needs between retaining employment and the risks of the Independent Commission Against Corruption's recommendations against adding margins to contracts in order to favour local businesses. It is legitimate to weight local employment criteria more highly than other criteria in the competitive tendering process, providing that it is a transparent process. This submission suggests development of a framework that will openly allow Councils the flexibility and confidence to emphasise criteria pertaining to local employment and employment conditions in tender assessment procedures. The framework should enable estimation of the flow-on impacts due to localised unemployment resulting from works being outsourced to contractors whose labour is external to the shire.

**ATTACHMENT A: AUSTRALIAN CAPITAL REGION MEMBERS**

Bega Valley Shire Council

Bombala Shire Council

Boorowa Shire Council

Cooma Monaro Shire Council

Crookwell Shire Council

Eurobodalla Shire Council

Goulburn City Council

Gunning Shire Council

Harden Shire Council

Mulwaree Shire Council

Snowy River Shire Council

Queanbeyan City Council

Tallaganda Shire Council

Tumut Shire Council

Yarrowlumla Shire Council

Yass Shire Council

Young Shire Council

Australian Capital Region

