Local Government and Shires Associations of NSW

Productivity Commission Inquiry

IMPACT OF COMPETITION POLICY REFORMS
ON
RURAL AND REGIONAL AUSTRALIA

November 1998

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Introduction

The Local Government and Shires Associations of NSW welcome the opportunity to comment on the impact of Competition Policy reforms on rural and regional Australia.

The Associations represent all of the 177 general purpose councils in NSW. As the representative body of Local Government in NSW the Associations are concerned with National Competition Policy (NCP) from a number of different perspectives. As a sphere of government, Local Government is essentially involved in the implementation of NCP. More directly, the operations of individual councils are affected by the requirement to conform with NCP. Most importantly however, Local Government is the sphere of government that is closest to the community and must respond to community concerns about the broader implications of NCP. It is evident to the Associations that the community has serious concerns about the impact of NCP and that these concerns are most strongly felt in rural and regional Australia.

A major difficulty in assessing the impact of NCP on Local Government and the community is separating the impacts of NCP from the impacts of other factors driving social and economic change in our society. This difficulty has been explicitly acknowledged by the Commission in the Issues Paper. It is common for the impacts of factors such as technological change, globalisation, demographic shifts fiscal constraint and other reform agendas to be bundled together as the impacts of NCP. NCP is frequently equated with 'economic rationalism' in a simplistic manner and is portrayed as being the cause of a multitude of problems. This is unfortunate but it is understandable in a society struggling to cope with rapid change and high unemployment.

In this submission the Associations will attempt to focus on impacts that are a consequence of NCP however, there are inevitable overlaps. It is also noted that the full costs and benefits of NCP reforms will only materialise over the long run, and even then may not be readily discernible. Given this, and the difficulties in unravelling NCP impacts from other causal factors, it is difficult to quantify the impacts.

That said, it is apparent that NCP has conveyed both costs and benefits to Australian society. It is also apparent that these costs and benefits have not been evenly distributed. Not only in a geographic sense, but also in terms of social equity.

In keeping with the definition arrived at by the Commission, rural and regional Australia will be referred to as 'country' in this submission.

Local Government and NCP

Local Government was supportive of the Council of Australian Governments (COAG) adoption of the Hilmer reforms and remains a proponent of the reform process. This is despite the fact that Local Government was not formally a party to the Competition Policy Agreement. Local Government is also making a direct contribution to the reform process and is responsible for a substantial proportion of the benefits expected to be achieved.

A primary thrust of National Competition Policy involves the reform of government trading activities and Local Government has a significant role in the process. Local Government has accepted the principles of competitive neutrality and council trading activities are being restructured on commercial lines. This will be most significant in the water and sewerage industry as Local Government is largely responsible for the provision of services outside the areas covered by the Sydney and Hunter Water Corporations.

Another key element in the process is regulatory reform, particularly in relation to business regulation, planning and development approvals processes. The Industry Commission report on the Hilmer reforms identifies regulatory reform as having the potential to deliver major economic gains. The report suggests reform of building regulations and approval processes would generate annual savings in excess of $1b nationally. Approximately one third of the potential gains would accrue to NSW. Local Government clearly has an integral role to play in achieving these benefits. The Associations and individual councils in NSW are working closely with the NSW Department of Urban Affairs and Planning, the Independent Pricing and Regulatory Tribunal (IPART) and other industry bodies to achieve these benefits.

While having an important role in delivery of the benefits of reform, Local Government is also incurring costs in implementing the reforms necessary to give effect to NCP through Local Government. It is impossible to fully quantify these costs on a state wide basis however, significant costs have been incurred by Local Government in areas such as:

- training and education of councillors and staff in NCP, Trade Practices Act (TPA) ramifications and application of competitive neutrality
- TPA compliance audits
- organisational restructuring to enable identification and ring fencing of commercial activities, in many cases involving larger commercial activities such as water and sewerage which has frequently involved the engagement of consultants
- development of new procedures, for example, competitive neutrality complaints handling procedures
- upgrading and modification of financial information systems
- participation with State and Commonwealth Government departments in the development of principles, policies and guidelines for the implementation of NCP in Local Government (for example, meetings submissions, reviews, surveys etc).

In addition to the organisational costs associated with implementing NCP, Local Government has also suffered direct financial impacts from reforms instituted by other spheres of government. These costs have been disregarded in the reform process. These costs have arisen as the result of NCP driven reforms to the electricity, gas, road transport and water industries. These impacts will be discussed in more detail in other sections of the submission.

Although bearing the costs of associated with NCP, Local Government in NSW is not receiving any direct compensation. While many other State Governments are providing a share of NCP payments to Local Government, the NSW government refuses to do so.

This situation is also contrary to advice received from the Federal Government that a proportion of the NCP payments to each state are intended to offset any up front costs borne by councils in implementing competition policy reforms which have lasting benefit.

It is argued that all participants will gain from National Competition Policy and that Local Government will see significant overall gains. The flaw in this argument is revealed in the Industry Commission report and by the fact that the states were not content to obtain these ✌ benefits ✍ without also obtaining additional payments from the Commonwealth. The Industry Commission report indicates that, while state reforms will produce 80 per cent of the revenue benefits, only 30 per cent of the overall revenue gains to government will flow to the states. The states have a broad range of revenue measures available to redress this imbalance, Local Government does not.

The Associations maintain that Local Government is entitled to a share of the competition payments to be received by NSW under NCP.

Local Government and Reciprocal Charging

The NSW Competitive Neutrality Committee established a Sub Committee on Reciprocal Charging. The Sub Committee was established to review reciprocal charging arrangements between State Government business enterprises - Government Trading Enterprises(GTEs) and State Owned Corporations (SOCS), and Local Government. The Sub Committee is chaired by NSW Treasury and included representatives of NSW Treasury, Cabinet Office, the Department of Local Government and the Associations. The Sub Committee is currently finalising its report and recommendations. In its draft report the Sub Committee is recommending that all State Government business enterprises, including State Forests, should pay rates. In turn it is also recommending that State Government business enterprises fully charge councils for services they currently provide free or on a subsidised basis. It is also proposing that infrastructure currently being provided and/or maintained by GTEs that is traditionally the responsibility of councils be identified and transferred to Local Government. It should be noted that Local Government business enterprises are already subject to State Government taxes and charges. This includes payroll tax, land tax and stamp duties.

NSW Treasury estimates that there would be a net gain to Local Government of approximately $4.8 m from the introduction of a reciprocal charging regime. This estimate is considered to be unreliable, not the least because of the doubtful quality of the data submitted by some GTEs. It is apparent in some instances that the potential rate liability has been vastly underestimated and that the value of services provided to councils has been grossly inflated. The asset value and the associated maintenance costs of infrastructure to be transferred to Local Government are also unknown. Infrastructure that falls into this category has not been clearly identified and maintenance costs could easily erode any net benefit to Local Government.

Assuming there would be a net gain to Local Government under a reciprocal charging regime, there is a serious distributional issue to be addressed. A breakdown of financial impacts by council based on Treasury estimates shows wide variations. While some councils would receive significant gains, many would be significantly worse off. It is not surprising that the largest gains would accrue to a small number of mainly urban councils where GTEs are clustered and that the largest losses, both in dollar terms and proportionately, would be borne by smaller country councils (figures can be provided to support this finding). The first question that arises is whether the distributional outcome should be redressed? If so, then what mechanism should be employed to provide a more acceptable and equitable outcome? It has already been established that the differences will not be neutralised to any significant extent by allocation processes of the NSW Local Government Grants Commission. It would reasonably be expected that councils in country NSW would object to this outcome on equity grounds. This provides a clear example of the potential for NCP to have a negative impact on country councils and country NSW in general.

Impacts on Councils in Country NSW

Apart from the potential distributional consequences of a reciprocal charging regime, this submission has not yet specifically focussed on the relative impacts of NCP on country councils as compared to metropolitan councils. Most of the impacts referred to apply to Local Government generally and it in most cases it is not possible to differentiate.

An area that can be differentiated is the impact of NCP driven water reforms. This is because water and sewerage services are the responsibility of Local Government in NSW outside the principally urban areas serviced by the Sydney and Hunter Water Corporations. Costs associated with adopting water reforms including ring fencing or even corporatising water and sewerage businesses, have exclusively been borne by country councils. Again it is difficult to quantify the costs to councils in aggregate (although costs have certainly been incurred) or to identify any specific benefits.

Other impacts on Local Government in country NSW and on country communities generally will be commented in relation to specific industry reforms.

NCP and Local Government Structural Reform

As a matter of convenience or confusion, general Local Government reform issues have frequently been hitched to the NCP wagon. These issues include Competitive Tendering, amalgamations and structural reforms to create funder / provider splits for example. Many mistakenly perceive NCP and such reforms as one and the same thing. The Associations do not accept this position. While broader Local Government reform agendas may be compatible with and even complementary to the NCP reform agenda, they are not one and the same thing.

Having made the distinction, the issues having become so intertwined in the minds of many that some comments are warranted. Even Commission has entwined matters in the Issues Paper (p13, final paragraph).

The Associations support voluntary structural reform and resource sharing. A program for advancing these issues to councils in NSW was commenced in 1997. The objectives of the program are to:

- promote more extensive resource sharing between councils
- promote consideration of voluntary boundary changes
- facilitate discussions and broker agreements between interested councils.

The program has been successful in developing recognition of the potential benefits to be achieved through more extensive resource sharing and voluntary boundary changes in a number of instances. A large number of councils have now entered into dialogue with neighbouring councils to consider the opportunities, often utilising professional facilitators. It is expected that significant reforms and resource sharing initiatives will be achieved through this process. Promoting and conducting this process requires the investment of considerable resources by councils.

The Associations are strongly opposed to compulsory amalgamations. Apart from the obvious issues of local governance and the community's right to determine such matters, the principal objection relates to employment consequences, particularly in country NSW. In many parts of country NSW, councils are the most substantial institution and the largest employer. It would not be an exaggeration to say that the forced amalgamation of councils and subsequent rationalisation would be the final straw for many country communities.

The Associations also support the appropriate use of competitive tendering and contracting by councils and these practices being increasingly adopted by NSW councils. A large proportion of councils now subject a significant proportion of their operating expenditure to this process. This is not a new development, contracting out has a long history in NSW councils.

Again however, the Associations are totally opposed to compulsory competitive tendering (CCT). The objections principally involve employment and other negative impacts on country communities. The other negative impacts include the loss of local skills and resources which could reduce a councils capacity to respond to emergencies or step in if the contractor fails. Given that there is likely to be less competition in smaller remote markets, the loss of capacity would mean that council would be in a weakened bargaining position in future tenders.

Electricity

Reform of the NSW Electricity Industry - Impact on Local Government

Major restructuring of the NSW electricity industry commenced in 1995. One of the first moves was the amalgamation of the then 25 County Council owned electricity distributors into the current 6 State Government owned distribution businesses. The Electricity County Councils were essentially businesses owned by regional groups of councils.

In appropriating the electricity assets of Local Government in NSW, the State Government has denied councils access to the dividend and tax equivalent payments now associated with these assets. The NSW Government derived $438 m from these sources in 1997/98 (source: NSW Budget Papers 1998/99). No compensation for the assets or income foregone has ever been offered to Local Government.

In as much as this reform was driven by NCP, Local Government in NSW has lost out. The extent to which councils in country NSW were disadvantaged compared to urban councils cannot be readily determined in absolute terms. Country councils in NSW have certainly been more greatly disadvantaged in terms of their revenue base. Councils in country areas generally have a smaller own source revenue base than urban councils and are typically much more dependent on Commonwealth Financial Assistance Grants. Whereas grant revenue represents around 18 per cent of NSW Local Government revenue on average, grants more typically represent 30 to 60 per cent of the revenue base of country councils. Being deprived of a potential revenue stream of dividends and tax equivalent payments from electricity distribution businesses clearly represents a greater proportional disadvantage to country councils in terms of revenue base than it does to urban councils.

That said, it is also recognised that Local Government in NSW is benefiting to some extent from the lower electricity prices that have undoubtedly resulted from overall reform of the electricity industry. This may at least partially offset the loss in revenue potential. A small number of councils have managed to obtain electricity savings in the range of 20 - 40 % depending on their demand and load profile. This is not typical however. The savings are not evenly spread and the most significant reductions have only begun to be realised over the last 12 months. Many smaller councils do not have the demand/load profile to yet qualify for contestable markets and it is doubtful that they will ever realise significant energy savings. Naturally, larger councils and those with major water treatment and sewerage operations, were the first to benefit from contestability and have secured the largest reductions. Again, the bias is in favour of the larger urban councils and major regional centres.

There are also genuine doubts that the apparent savings will be sustained in the long run. Complaints are already emerging from the industry that electricity prices are too low.

Electricity Reforms and Country Communities

Employment in the NSW electricity industry was cut by from 12,752 to 8,061between 1993 and 1997. (source: IPART). The loss of 4,511 jobs, 38% of the workforce, represents a massive dislocation and would clearly have a major impact. It may be argued that the job losses were 'soft' in that a large proportion were achieved through attrition and voluntary redundancy, but the fact is that these jobs have been lost to the economy.

The loss of employment was incurred across the state but the impact was most acute in country NSW for a number of reasons. These include:

- the fact that there are fewer alternative employment opportunities
- lower economic growth in country NSW compared to urban areas (Sydney in particular)
- the former County Councils were major local employers in many locations
- many country towns were already experiencing severe economic difficulties before this impact

Rationalisation has also meant that the operations of the remaining six electricity distribution businesses have become concentrated in a small number of larger provincial cities. This means that the jobs that remain become less accessible for many people in smaller country centres.

The multiplier effect of such large job losses in country areas has been well documented in several reports over recent years. Often leading to the loss of staff numbers in, or the closure of, schools, banks, police stations and retail outlets. The cumulative impact can be devastating in some instances

It would be argued that the overall benefits of reform will exceed the costs and in this instance that lower electricity charges, particularly to business, will generate employment growth. While this may be the case, and at this stage, there is a paucity of empirical evidence to show a direct linkage - the cost and benefits will clearly not be evenly distributed. If anything, it is likely to provide further stimulus to employment growth in urban areas, reinforcing the existing imbalance at the expense of country NSW.
The social and economic impacts on country NSW are a matter of great concern to Local Government. Set backs like the above place increased demands on many council services and at the same time erode the revenue base. Councils in these areas are increasingly called on to redress decline by taking economic development initiatives. These comments also apply to the impacts of reform of other industries.

It should also be kept in mind that the cost savings have not been much larger for businesses users compared to residential consumers and much greater for large businesses than for small businesses. The has distributional implications for country areas as businesses are more typically small to medium in size whereas large businesses are more commonly located in large centres or urban areas.

Country consumers have also made complaints about a decline in service standards following rationalisation of the electricity distribution businesses. It is difficult to quantify the decline however, at least one NSW electricity distributor acknowledged a decline in service standards in a submission to IPART. It would be reasonable to attach some creditability to these complaints given the disruption inevitably associated with drastic restructuring and rationalisation.

Road Transport Reforms

Mass Limits Review

The National Road Transport Commission (NRTC) established a steering committee to investigate and report on the feasibility and net benefits of increasing mass limits for vehicles fitted with road friendly air suspension systems. This committee found that the gross mass limits (for a 6 axle articulated vehicle) be increased from 42.5 tonnes to 45.5 tonnes.

The Commonwealth Government supports the recommendations of the NRTC on the basis that there will be flow-on economical benefits to the community. The assumption made by the Commonwealth is that higher profits enjoyed by the trucking industry will be passed on to the consumer in decreased retail prices due to the savings made on transportation costs. The difficulty facing Local Government is that there is little recognition of the costs involved in not only upgrading infrastructure to the proposed limits, yet trying to maintain the infrastructure under current limits.

Local Government does not support the introduction of mass limits without guaranteed new funding being made available from the Commonwealth for the upgrading and maintenance of bridges and roads affected by the increased limits. Local Government is also concerned about the impact that higher limits will have on the viability of rail freight operations. To help level the playing field, Local Government is of the view that higher limits must be accompanied by higher charges. This is a view contrary to that held by the road freight industry.

Increased mass limits may assist rural Australia in the more efficient transportation of produce from the farm gate. However, without adequate compensation for maintenance of roads damaged by the increased mass, rural roads will be in a worse state than ever before.

Uniform Registration Charges

The adoption of national uniform registration charges for heavy vehicles has increased the costs of Local Government in NSW by $10m per annum through increased registration charges and the loss of permit revenues. Again this cost has not been recognised in Financial Assistance Grants or by any other form of compensation. Local Government supports uniform national vehicle regulation but compensation should be paid by the Federal Government to NSW for any loss of revenue from the introduction of the scheme.

The NRTC has recently released a draft policy paper proposing that heavy vehicle charges be updated for the first time since 1992. The current proposal is to increase the notional fuel charge and to increase registration costs for some heavy vehicles. The proposed registration increases would affect only 18 per cent of the heavy vehicle fleet in Australia (there would be no change to registrations for 78 per cent and the registration charge for 4 per cent would actually decrease under this proposal). Heavier vehicles cause most of the road damage and it follows that the charges for these vehicles need to be altered to retrieve some of these costs. Roads in rural and regional Australia are particularly susceptible to damage due to the intense levels of heavy vehicle usage during harvest seasons. Local Government supports user pay principles to road transport.

Gas Industry Reform

As part of the move to develop a nationally integrated and competitive gas industry, the NSW Government introduced the Gas Act of 1996. A specific section of this Act (section 51) would exempt gas distributors from charges made by Local Government for the use of public space for gas mains. These are known as section 611 charges under the NSW Local Government Act 1993 and allow councils to charge for the use of public space for commercial purposes. Part of the rationale for the proposed exemption is that electricity distributors are not subject to such charges for their transmission corridors and that such charges do not apply to the gas industry in other states. This exemption would take effect from 1 July 1999 however it is still under negotiation.

The exemption would deprive councils of revenue derived from gas distributors. Revenue derived from the gas industry amounts to approximately $3m per annum for councils in NSW, with significant collections by some councils in the vicinity of $200,000. Apart from the revenue loss the exemption undermines the principles represented in section 611 of the Local Government Act and its potential for broader application.

The objective of a level playing field could be achieved by extending the charge to other industries rather than exempting the gas industry. There is a legitimate basis for charging a rent for the commercial use of public assets. Apart from the benefit obtained by the commercial user, there are costs to the public associated with such uses. The costs include loss of amenity, restrictions on other usage, risk and additional maintenance expenses (for example, increased costs of road openings). The benefits and costs should be appropriately recognised. Public assets should not be considered as free assets for commercial use.

Water Reforms

Rural water services include town supplies, agricultural and other industrial supplies, and recreation needs. A need is acknowledged for the provision of adequate water for environmental flows. Each of these uses has a different service provision cost structure, and should be treated differently. Competition Policy reforms in each of these areas will have a different impact upon rural Australia.

Environmental flows

The provision of sufficient water in both temporal and spatial contexts must satisfy the needs of aquatic and other water dependent ecosystems. Environmental flow provisions are now an integral component of the management of water in rural NSW. This has been one of the more significant outcomes of water management reform in NSW. It suggests that the cost of developing and maintaining water supply infrastructure for environmental flow purposes should be paid for by the entire community, and provided as a community service obligation. The benefit to the community from the provision of water for environmental flows needs to be quantified so that the appropriate proportion of cost can be allocated.

Industrial uses

The supply of water for industry may allow for private economic growth. If it can be sustained, economic growth can then support other regional service providers, and a regional economy may develop sufficiently to support the growth of regional communities.

Recreation

The provision of water for recreational needs has a broader community benefit similar to environmental flows. The cost of this service may not be able to be fully recovered from all beneficiaries, and a cross-subsidy for the development and maintenance of water supply infrastructure may continue to exist. The cross-subsidy could be justified by the level of public benefit it provides, and can be determined from the net quality of life that it brings to the community it serves.

Cost reflective pricing

Cost recovery pricing is accepted as being appropriate as long as the provision of service is at a satisfactory level of efficiency and where it does not include the recovery of excessive costs that have resulted from poor water management decisions made in the past. The approach to water management has changed dramatically in recent years at Commonwealth, State and Local Government levels as the result of greater knowledge and understanding of our water resources and the needs of the environment. It is widely acknowledged that many water management decisions made in good faith in the past, have proven to be inappropriate and are a cost burden that is unevenly spread. These costs need to be sunk if a level playing field with accurate price signals is to be created. Further, full cost recovery is clearly not appropriate when the benefits from provision of services as community service obligations can be justified.

Under the guidance of IPART and the NSW Department of Land and Water Conservation, councils are moving towards the adoption of cost reflective pricing for water supply. A large number of councils have already adopted this basis. This will facilitate cost recovery and will promote the more efficient use of water. The move towards user pays charging will also reduce existing subsidies that currently benefit residential premises over commercial premises. This has a number of implications. Where councils calculate water rates on the basis of land value, potentially lower water use businesses activities in the town’s centre are paying water rates that are significantly higher than those of private residences.

To remove this subsidy would benefit the commercial businesses, reducing their operating costs and enhancing their ability to remain in business. This is particularly relevant in smaller urban centres that are suffering from general economic decline in rural areas. At the same time it may create hardship for some residential users, particularly large families. This may be need to addressed by specific CSO payments or transition arrangements.

In centres that have adopted user pays charges, the required increase in charges to residential customers to offset the removal of this subsidy has been in the order of 10-15 per cent.

Impact of freeing-up the trading of water entitlements

In most cases the establishment of a water market has benefited rural industries. It has provided a mechanism that allows for the development of new water-using industries.

Concern has been expressed about the potential for the water market to move significant volumes of water between rural areas. The associated transfer of wealth could be away from areas that have an existing commercial infrastructure of a size that reflects current levels of water use. To be forced to relocate this infrastructure elsewhere, or for it to lay wasted, may not be an efficient outcome.

The other concern is the capacity for non-production-based speculators to invest in water entitlements, and thereby reduce the amount of water that can be put to productive use. Thus reducing economic activity in rural NSW.

The trading of water entitlements between major river valleys is considered detrimental from many ecological, social and economic points of view. While the capacity to do it is generally considered to be limited to the Murray, Lower Darling and Murrumbidgee river valleys in NSW, the transfer of wealth issues described above do not allow it to be supported by the Associations.

Telstra and Australia Post

The Associations have expressed concerns about the reform of Telstra and Australia Post on many occasions. These representations have generally reflected the shared concerns expressed to us by country communities rather than specific concerns of councils. Only brief comments are provided.

Telstra

It would be difficult to argue that the introduction of competition to the telecommunications industry has not delivered lower charges, an expanded range of services and generally, improved services on the whole. There is also little doubt that the most significant gains have been made in urban markets where competition is most intense. It is apparent that the gap between the telecommunications and information technology services in urban areas and country areas is widening even though there have been improvements in both. It is this widening gap that is important. It serves to reinforce the growing concentration of employment and economic activity in urban areas and major centres. Modern businesses need fast, affordable access to the latest information technology. The Federal Government has already acknowledged that country areas are significantly disadvantaged in this regard through its decision to establish the Regional Technology Infrastructure Fund.

There is some evidence to suggest that competition and advancing technology has helped some businesses to remain or locate in country communities but this has been largely constrained to the major transport and communications corridors between capital cities. For example, call centres in Port Macquarie and Orange.

The net employment effects on country NSW are difficult to quantify. New jobs have been created in some centres, predominantly larger centres on major communications corridors, at the same time, jobs have been displaced by the rationalisation of Telstra. Like many other organisations, public and private, Telstra has reduced its workforce and centralised many positions in larger centres.

It is questionable whether there is adequate competition away from the major communications and population corridors to allow country NSW to realise the full benefits of competition. The population is to widely dispersed to make it an attractive or viable market for additional competitors in the major service areas. Further advances in technology may help resolve this in the future.

Australia Post

The Associations concerns in relation to Australia Post were expressed in a submission to the National Competition Council review of Australia Post in 1997. The major views expressed by the Associations were that:

- Australia Post needs to remain in public ownership
- the universal service obligation must be retained (standard letter service at a uniform rate)
- service standards, including delivery frequency, need to be maintained
- country post offices must not be rationalised.

Following the release of the NCC report, the government announced its postal reform package. The key elements are:

- Australia Post is to remain in full public ownership
- it is to continue to serve the entire nation with a standard letter service at a uniform rate
- the price of postage of a standard letter is to remain frozen at 45c until at least 2003, any Goods and Services Tax (GST)is to be absorbed into this price
- no Post Office or mail centre in rural and regional Australia is to close and Australia Post is to continue to subsidise the 700 licensed Post Offices in rural and regional Australia
- the concessional parcel rate for the delivery of distance education material to isolated children is to be maintained
- a Service Charter that specifies that 98% of delivery points are to receive a minimum of five deliveries per week with the remaining 2% in remote areas to receive no less than one service per week.

At the same time, the government proposes to open a large portion of the postal market to competition. Australia Post's reserved services for domestic mail will be reduced from 250 grams and four times the standard letter rate ($1.80) to 50 grams and one times the standard letter rate (45c).

Incoming international mail is also to be opened to competition. This represents deregulation of a major portion of Australia Post's most profitable markets however, the government states that it has Australia Post's assurances that the remaining reserved service will be sufficient for Australia Post to maintain its universal service obligation.

On face value, the government's postal reform package addressed the primary concerns raised by the Associations. However, the long-term consequences of such a high degree of deregulation remain a concern as competitive pressures are likely to erode Australia Post's capacity to cross subsidise the universal service obligation, particularly in country areas.

Conclusion

It is too early too fully appreciate the wide ranging ramifications of NCP. The full benefits and costs will only be realised in the long run. It is also likely that the costs are more readily realised than the anticipated benefits. As previously acknowledged, it is also difficult to clearly distinguish the impacts of NCP from those driven by other forces. This complicates any attempt at a comprehensive assessment of the differential impacts on the Australian community.

On the basis of the information available to us, the Associations are of the view that the costs and benefits of NCP have not been evenly distributed to date. Factors such as Australia's geography and demography make it highly unlikely that the impacts could ever be equitably distributed. History has shown us that achieving the high degree of equity that Australians expect has required government intervention and cross subsidisation.

It is very clear to the Associations that the impacts of NCP on Local Government in NSW have been inequitable in terms of its relationship with the State Government. The State Government needs to be compelled to recognise Local Government's status as a sphere of government and recognise the important role it has to play in implementing NCP by allocating Local Government a share of the states Competition Policy payments.

It is also apparent that the broader impacts of NCP tend to favour larger, predominantly urban councils as compared to councils in country NSW. This outcome reflects the experience of the community in general.

The distribution of costs and benefits currently shows a definite bias towards the larger, more concentrated urban markets. This is the logical outcome of a market driven reform. This raises a number of questions for government. For instance, should this imbalance be corrected? If so, what interventions should be made to correct the imbalance?

The Associations are firmly of the view that the distributional consequences cannot be ignored. It is also recognised that it is not practical or even possible to create protected segments within national or in some cases, international markets. Many NCP reforms now have their own momentum and are driven by international market forces, so it is not a matter of winding back NCP reforms.

The distributional consequences need to be addressed by government funded CSOs designed to redress the real inequities and hardships that obviously result from NCP. These would often be of a transitional nature, reflecting the lag between the impact of costs and the realisation of benefits.

It should also be acknowledged that NCP is providing additional stimulus for structural changes that were already occurring in the Australian economy and that in accelerating these changes there is an obligation on government to assist individual and communities in coping with the changes. This is in the best interests of all of society.