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Impact of Competition Policy Reforms Inquiry
Productivity Commission
P O Box 80
BELCONNEN ACT 2616

Dear Sir/Madam

INQUIRY INTO THE IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

The following submission has been prepared in response to the invitation issued to Council requesting comments in relation to the Terms of Reference for the above Inquiry.

The New England North West Region of NSW comprises rural-based communities and several larger urban centres. Like other regional inland urban centres, Tamworth has been subject to a number of adverse influences during the past eight (8) years which have impacted considerably on the growth, employment opportunities and economic well-being of the City. Certainly, it is Council's view that the multiplier effects of the competition policy reform have impacted significantly on both the City and the region.

The impact of this reform has been exacerbated by a myriad of "other" influences, including, but not limited to the following:

- difficulties experienced by the primary industry sector (drought and depressed rural commodity prices);
- rationalisation/downsizing of the larger corporate and consumer providers such as banks and finance companies, ie deregulation of financial systems in accordance with a microeconomic reform agenda. This trend is set to continue throughout 98/99 as Australia's major banks continue to rationalise their retail network and consolidate their operations into the metropolitan areas;
- the declining level of expenditure in relation to health care/medical services has had a negative impact on employment growth and economic development within the region. Most centres within the region are experiencing severe declines in the level of general practitioners, specialists and other health workers servicing their area which, in conjunction with rationalisation of the area's health boards and future funding uncertainties, has resulted in a difficult climate to foster employment growth/encourage business investment in the region;

- inadequate access to telecommunication services (mobile phone, digital and the fibre optic communications) has limited the growth of regional businesses and acts as a major employment disincentive. In addition, the proposed closure of the analogue mobile phone system has enormous implications for regional areas that currently have inadequate or non-existent access to digital phone technology. Regional areas will require current analogue service levels to be maintained until all regional centres have adequate digital coverage. Telecommunications will itself be a major source of job creation over the next ten [10] years, and, as such, major infrastructure such as the provision of a “broadband communications network” is paramount in regional areas to ensure that they are able to compete with the metropolitan centres. It should be noted that the further privatisation of Telstra also has serious equity considerations which could render regional areas even more uncompetitive, ie fees for distance-based calls. This could potentially hinder employment/economic growth within the City;
- the continuing threat of cutbacks to transport services in the region: air, rail and road. In particular, with the advent of deregulated air services, private operators will be unlikely to maintain any unprofitable services to regional destinations nor offer frequent services on low demand routes. Any loss/decline in the current levels of air services currently provided to the region would have significant consequences for economic development. Likewise, rationalisation of the rail sector by either withdrawal and/or reduction of rail services to the region would severely hamper the City’s ability to attract further investment/foster expansion of existing industries within the City. In terms of regional road infrastructure, there has been an overall decrease in expenditure across the region with the majority of government expenditure being targeted to the needs of high growth metropolitan and coastal centres. This imbalance must be redressed if regional areas are to actively promote employment growth;
- inadequate or non-existent infrastructure within regional areas has impacted on the City’s ability to create/foster business/investment/employment opportunities. In particular, the non availability of piped natural gas has denied existing and potential industries access to a cheap, clean source of energy. The maintenance of an affordable water supply scheme is also a major employment generating issue. Governments must provide, and facilitate the provision of, strategic infrastructure to redress the decline in regional services and to attract new investments and jobs to regional areas.
- education and training opportunities within the City are limited in a number of fields and students are required either to complete the courses externally (if offered via distance education) or move closer to where the courses are offered. The absence of a University in the City (either a bricks and mortar “presence” or alternatively, a “virtual” multi-university campus which utilises telecommunication technology) has resulted in a “brain drain” from the City which in turn has hampered the City’s ability to provide a localised skilled labour force. In addition, the limited availability of trades’ training at TAFE continues to be a problem as a consequence of “minimum enrolment requirements” for apprentice courses. With the downturn in the building industry, apprentice numbers have fallen and those who have secured apprenticeships have had to travel outside the region for “block” training (which has resulted in additional costs);
- the on-costs of establishing a business in the region are commonly higher than for metropolitan areas which is a major disincentive to employment growth. Regional businesses frequently pay higher costs for transport, fuel, materials and communications than their metropolitan counterparts. Specific regional concerns include fuel pricing inequities, the lack of payroll tax exemption for “value-adding” industries, the soaring costs of workers’ compensation premiums and corporate tax regimes.

Whilst many of the above “influences” cannot be directly attributed to Competition Policy Reform, the social and economic impact of the reform must be assessed within the context of maintaining the viability of regional centres which are under constant threat from a wide range of government policies/funding/service level cuts. It would seem too often, that Government decisions both Federal and State are based on short term economic rationalist principles without due consideration of the long term impact on regional communities and the people who live in regional Australia.

Public Sector Reform

One of the Council’s major concerns in relation to the impact of Competition Policy Reform is the current “rationalisation” (“downsizing”) of public sector workforces, together with the ongoing relocation of government agencies to coastal/metropolitan NSW. Central to the justification for this action is that the various authorities are simply implementing the restructuring process in accordance with the competition policy principles relating to public sector reform and that the restructuring process will result in improved productivity, increased cost effectiveness and the provision of a more efficient service. Council is certainly an advocate of any action which will increase the efficiency and effectiveness of government departments, however the respective departments have not been required to produce any documentary evidence nor analysis of savings to be achieved/services to be enhanced by the withdrawal of services. Furthermore, the economic justification for the process often fails to take into account the serious negative impacts on an already fragile regional economy. Whilst it is difficult to quantify the extent of any such impact on regional communities, the relocation of government agencies can result in the following:

- loss of local employment/income;
- loss of local knowledge/expertise from the region resulting in a devaluation of the service provided to the region;
- lack of appreciation by the “relocated” agency of the environmental, demographic and geographic factors peculiar to the region;
- the time/costs involved in communicating effectively with a management structure in a remote location (including any necessary travel to and from the region);
- the difficulty in attracting new investment to the region and the creation of business (and employment) opportunities in a climate where government agencies and other major employers are “relocating” their workforces outside the region;
- the multiplier effects resulting from the withdrawal of services to the region (reduction in retail expenditure/school enrolments/threat of further government funding cuts as a consequence of declining population levels etc.).

In response to recent criticism of closures/withdrawal of state government services to the region, it is now mandatory, when further office closures are proposed, that the relevant department prepares a Rural Community Impact Statement analysing both the costs and the benefits of the proposed action. Whilst such an analysis is commendable, the Statement is submitted directly to the Premier via a Cabinet Minute and is not available for public scrutiny (in line with the long established Cabinet convention of confidentiality under the Westminster System of Government). This lack of

transparency does little to address widespread community concern in relation to the proposed closure/withdrawal of services to the region.

It is respectfully submitted in relation to the impact of competition reform, that the much touted benefits of the national competition policy (improved level of service, competitive prices, economies of scale, etc) are often outweighed, especially in regional communities, by the serious negative impacts of the reform process: rationalisation/withdrawal of government services and the subsequent multiplier effects on local trade, employment, investment and tourism.

Water Reform

Concern is also expressed at another potentially harmful impact of the NSW Competition Policy Reform: the NSW Government's Water Reform Agenda which is being undertaken in response to the recommendations arising from COAG's Water Policy Framework.

Particular recommendations relevant to water sharing include the proposal that the State Government members of COAG are to implement comprehensive systems of water allocation or entitlements backed by separation of water property rights from land title and clear specification of entitlements in terms of ownership, volume, reliability and quality. In addition, where they have not already done so, the States are being required to give priority to formally determining allocations or entitlements to water, including allocations for the environment as a legitimate user of water. In relation to trading in water allocation and entitlements, COAG is requiring, where it is not already the case, that trading arrangements in water allocations or entitlements be instituted once the entitlement arrangements have been settled.

The NSW Government's Water Reform Agenda proposes to revolutionise the manner in which water licences are to be issued. It is proposed that water licences are to be separated into water use rights, which allow for water to be used for specific purposes on a specific property, and water access rights, which will resemble shares and be available for sale on the open market. The development of the access and use rights, and their potential implications, may have a significant effect on inland towns, town water supplies and rural regions.

In the development of the access and use rights, the manner in which town water supplies will be handled is currently under consideration by the NSW government. The proposals for the management of town water supplies include exempting town water supplies from the water embargoes, which would effectively result in no change to the current situation. However, the proposals also include town water supplies being made subject to the embargoes which would result in towns having to purchase water access rights on the open market. The primary consequences of the latter proposal are twofold. Firstly, inland country towns would be placed at an even greater competitive disadvantage (for development, employment, etc.) when compared to the larger metropolitan centres which are not subject to water embargoes. Consequently, the limitations will effectively discriminate against inland country towns in favour of the larger metropolitan centres. Secondly, curtailing town water supply access will not result in significant gains in reducing water use. Town water supplies contribute only a very small proportion of inland water consumption and any reduction that would result from limitations could not be considered significant compared to consumption by irrigators.

It should be noted that the proposed reforms also intend to make industry compete for water access rights on the open market where the industry is located in an embargoed area. That is, industry may be driven away from inland areas subject to embargoes, to metropolitan centres such as Sydney,

Wollongong and Newcastle which are not subject to embargoes. Similarly to town water supplies, industries use only a very small proportion of the total water consumption when compared to irrigators.)

The pending water reforms also propose variations to the security of licences. One of the options under consideration is changing high security licences (such as town water supplies) to general security licences. Whilst existing high security licences would be given extra water access rights to accommodate the extra security needs, in times of drought they would have no greater right to water than irrigators.

Changes to the water accounting system are also proposed for water storages (such as the local Chaffey Dam). It is proposed that water users be allocated a set volume of storage within a dam for each year. When water flows into the dam, the user's "storage" fills up, and when water is ordered, it is removed from the user's "storage". Whilst this accounting system has benefits for the environment in terms of ensuring environmental flow requirements are fulfilled, it means that in times of drought, where dam levels can be very low, town water supplies may have very little in reserve in their "storage" to meet the needs of their communities.

On a regional level, the water reforms may have some very significant effects. Water access rights may, to some degree, be made transferable. Thus the water resource may effectively be transferred away from one area to another. This has the potential to greatly impact on some country towns. In addition, the water access and use reforms have been designed to provide water to higher value uses. This may encourage water transfers to an area which can produce a high profit crop. Alternatively, this practice may result in rural regions becoming perilously dependent on a single type of enterprise.

Overall, concern is expressed at the potential for the above reform measures to impact negatively on regional communities.

Planning Reform (*Legislation Review*)

In terms of the "legislation review" aspects of Competition Policy Reforms, it is too early to provide any commentary on the impact of new legislation on regional communities. Certainly, one of the most fundamental changes currently being implemented by the NSW Government is the new Integrated Assessment Legislation which proposes to facilitate private certification of the development approval process. Whilst the introduction of a private certification regime will undoubtedly provide a number of benefits for metropolitan consumers (more choice/competition in relation to application fees and processing times for development applications), the benefits to regional NSW are not so apparent. Of particular concern is the potential impact on regional economies if the majority of private certifiers choose to operate from a metropolitan location ie. outside the region ie The privatisation of Council's regulatory role could potentially result in further job losses within the community. The administrative costs imposed on a local government as a consequence of implementing the new legislation is also of concern.

Reform of Government Monopolies (Electricity, Telecommunications, Postal Services)

The recent "rationalisation of the **electricity** supply industry in NSW was designed to ensure that the community has a choice of suppliers in a deregulated market. Council is, however, alarmed at the potential negative social and economic impact of this reform of regional communities. In particular, the relocation of the administrative headquarters for NorthPower (formerly PCCC

Electricity) to the NSW Coast, has had a significant multiplier effect in terms of job/income losses within the City.

In addition, the closure of the local Telstra office has impacted significantly on employment opportunities within the City. In terms of the proposed privatisation of Australia Post, Council must express alarm at the possible closure of Post Offices within the region – and the inevitable job losses which would occur. The government's recent assurance that Post Offices in regional communities will NOT close as a result of reforms flowing from NCC recognises the cumulative negative impact that is occurring as a result of reform of government monopolies in regional areas.

As the largest centre in the New England Region, Tamworth provides both private and public sector services to some 234,000 people living within a 150 kilometre radius of the City. The diversification of Tamworth's employment base has played a major role in providing economic stability to the City and is vitally important to Tamworth's future growth. The continual erosion of public sector employment, including government monopolies, creates instability and a climate of economic uncertainty.

Competitive Neutrality

The possible introduction of state government legislation requiring local government to enter into a compulsory competitive tendering environment represents another significant threat to regional communities. Whilst competitive tendering is currently undertaken by many Councils within the region, a "mandatory" regime could involve significant job losses from the councils (in terms of larger out-of-town contractors securing many of the tenders). As local government is one of the major employers in many regional communities, the resulting employment loss from the Council's workforce would be unsustainable.

Conclusion

Whilst it is difficult to isolate one aspect of National Competition Policy Reform which is impacting more significantly than others on regional areas, the cumulative impact of constant closures/rationalisation of government services to the region has had an undeniable impact in terms of employment loss and the consequent multiplier effects within the various communities – the recent population figures (from the 1991 and 1996 censuses) attest to this phenomenon. In the absence of any quantitative data to the contrary, it would appear that the costs to regional communities significantly outweigh the perceived benefits of the reform agenda.

Council would appreciate the opportunity to present these concerns directly to the Commission, if appropriate. In the interim, should you require any additional information in relation to this submission, please do not hesitate to contact Council's Urban and Regional Planning Manager, Genevieve Harrison on (02) 6755 4533.

Yours faithfully



Peter Roberts
Acting General Manager