

**SUBMISSION TO THE SENATE SELECT COMMITTEE
ON SOCIO-ECONOMIC CONSEQUENCES OF THE
NATIONAL COMPETITION POLICY
BY THE SOUTH WEST DEVELOPMENT COMMISSION**

*(Also submitted to the Productivity Commission
Inquiry into the Impact of Competition Policy Reforms
on Rural and Regional Australia) 29/10/98.*

INTRODUCTION

The South West Development Commission appreciates the opportunity to provide the Committee with feedback on the socio-economic consequences of the National Competition Policy as it affects the South West Region of Western Australia.

The following submission is based on comments relating to a number of key areas of regional activity and has involved the input of various organisations and individuals, including local governments and representatives of industry sectors.

The content of this submission necessarily goes beyond the Policy and its specific elements. It broadens to comment on the consequences of applying national policies (such as regulatory and micro-economic reform), which are designed for large populated centres and metropolitan areas, to regional, rural and remote communities that are faced with low populations, the issue of distance and consequent poor economies of scale with resulting inefficiencies.

REGIONAL SETTING

The South West Region, in the south-west corner of Western Australia, is the State's most populous and economically diverse regional area. About one-quarter of Western Australians who live outside Perth - more than 115,000 - reside in the South West and the population continues to grow.

The region consists of 12 municipalities including the City of Bunbury and the shires of Augusta-Margaret River, Boyup Brook, Bridgetown-Greenbushes, Busselton, Capel, Collie, Dardanup, Donnybrook-Balingup, Harvey, Manjimup and Nannup, and covers approximately 24,000 square kilometres. More than one-third of the region's population is concentrated in an area known as Greater Bunbury, encompassing the city itself and the dormitory centres of Australind, Eaton and Gelorup in the adjacent shires of Harvey, Dardanup and Capel respectively.

The region has a reliable rainfall, good farmland, extensive hardwood and softwood forests and valuable mineral deposits, including mineral sands and coal. The latter supplies much of the State's power needs through coal-fired power stations at Collie and Bunbury. Alumina, processed from bauxite, is the major export through the Port of Bunbury.

With a Mediterranean climate and a wealth of attractions, including national parks, forests, beaches and wineries, the South West also draws more visitors than any other regional area, some 1.5 million annually.

The South West's annual gross regional product is in excess of \$3 billion, with key contributors being mineral extraction, processing and manufacturing; retailing; agriculture; timber and forest products; tourism; construction; other manufacturing; and the service industries.

NATIONAL COMPETITION POLICY - GENERAL COMMENT

In general terms the impact and awareness of the Policy appears to vary across the region and between the sectors that were approached by the Commission for comment.

While some local governments have had specific experiences on which to assess the impact, there was an equal feeling of 'it's too early to tell' from others. The low response from local governments to our request for feedback, and the nil response from chambers of commerce in the area, is most likely due to a lack of experience and awareness of the impacts to date and possibly the relatively tight timeframe for this inquiry.

The dairy industry on the other hand is well prepared and has been on a longer timeframe for change.

Major exporters in the region have advised that they are not affected. On the other hand the general community is feeling the impact of national policies such as privatisation and corporatisation of publicly owned trading enterprises, particularly in relation to telecommunications (mobile phones), Australia Post, health, education and other services.

The specific areas of comment are presented individually hereunder.

REGIONAL, RURAL AND REMOTE PERSPECTIVE

While the Policy aims to facilitate effective competition to promote efficiency and economic growth, it also aims to accommodate cases where competition does not achieve efficiency or conflicts with social objectives. Implementation of the Policy, particularly misunderstandings and interpretation difficulties, rather than the Policy itself, appears to be the problem in many cases.

The impact of the Policy seems to be felt mainly through a commitment to deregulation, together with the pursuit of user pays as a basis for government agency corporatisation - with user pays linked to efficiency requirements which then results in withdrawal of seemingly non performing services.

In regional areas, increases in costs/imposts of any sort have the potential to result in job losses and business closures, and the consequent flow-on effects of a relocating and declining population right through the community to the closure of schools and the local hospital.

Competition in small markets serving relatively small populations is not always in the interest of the community. It obviously depends on your perspective. Examples of the dairy industry and a timber processing operation, provided hereunder, are two different situations.

From a consumer's perspective, lower prices from competition rarely eventuate in the country. Usually the cost of freight and a limited number of competitors (e.g. major supermarket) are impediments. On the other hand, when the number of producers is small, co-operative action is likely to be the only way to compete in global markets.

Contracting out and reducing the skills and resources of all levels of government is very likely to backfire in country areas, where larger centres will grow at the expense of smaller communities. Loss of quality is also a concern that is becoming apparent.

LOCAL GOVERNMENT

Despite the short timeframe, the Commission has received high quality submissions from a number of local governments in the South West Region. Generally they recognise their obligations under the Local Government Clause 7 Competition Policy Statement and are adopting the Policy. However, most agree that it is too early for them to form any firm comments or provide a position on the socio-economic consequences of the Policy on any of the services that are provided to their communities.

The City of Bunbury has advised that there are some indicators occurring which are being closely monitored as business unit activities now begin to operate under full cost allocation. These indicators are both related to financial and social issues. It is the very difficult balance of competition principles, 'best value' service provision and people's employment security that appear to be the mainstream areas.

The perception within the community is the Policy is about the delivery of service at the least cost. The City of Bunbury believes that it should be about the delivery of a specified level of quality service at an agreed cost.

The City has recognised the potential implications of the Policy within its workplace and recently completed an organisational wide Enterprise Agreement that includes clauses providing for 'alternative' work and 'redundancy' safety nets for staff.

The input from the Shire of Busselton takes both a local and regional perspective. The impacts are seen to include:

- Loss of employment - long term impacts on the community. Contractors will often not be domiciled within a community, meaning full time employment and 'multiplier' economic effects will be lost to that community.
- There is a propensity for local government to go into a state of 'decline' because whenever a tender is lost the related infrastructure is usually sold and the capital is difficult to re-raise given other political/social demands for help. Realistically in-house teams cannot win all tenders meaning that 'communities' may ultimately suffer.
- Impact on regional areas that are forced to go into competition e.g. Contracting out of Main Roads and privatisation of the former Commonwealth Employment Service (Centrelink). A sense of loss of control and administration by remote control can be created.
- Issue of ideology now being driven into areas of health testing and building inspection areas. The scope for corruption and cutting corners, it is felt, will be increased.

- Loss of plant and equipment from the public sector - loss of skills and infrastructure - response time to emergencies are longer, not equipped to deal with situations. Ad hoc assemblies of plant and equipment may work for normal works programmes but could be difficult to collectively mobilise/commandeer in an emergency.
- Council's assistance in regional areas. Councils are a key component e.g. assisting cultural events. Festival etc are often staged with a more than good measure of in-kind and voluntary assistance from Council's staff. If only contractors were available, could they easily be co-ordinated? Would their spirit be the same?
- Economic rationalism is highly questionable in terms of the human services provided. Quality in local government is as important as cost. The attached extract from the publication FOCUS sums it up well. Could Australia not bypass the fetish with competitive tendering and learn from others?

Many of the above comments relate to the implementation of the Policy rather than the Policy itself and provide a good example of earlier comments in this regard.

The Shire of Donnybrook-Balingup provided the following specific example of the impact of NCP on a local government. Local governments are required to undertake public benefit tests on activities which would have a user pay income in excess of \$200,000, and as such, in 1997, Council undertook this action in relation to the operations of its Frail Aged Lodge.

Although the work was carried out by State Treasury appointed consultants, a considerable amount of Council staff time was involved in the process. In the end it was established that this facility did not reach the threshold and the public benefit test was not required. Council does carry out activities such as Recreation Centre Management and Aged Care, both of which will reach the \$200,000 user pay income within the next five years.

Council suggests that such an involved assessment should not be required when it is extremely unlikely that any other enterprise would be likely to invest in these areas in the country.

(The South West Development Commission acknowledges the input of the City of Bunbury and the Shires of Busselton, Donnybrook-Balingup and Bridgetown-Greenbushes.)

MAJOR INTERNATIONAL EXPORTERS

There are a number of companies operating in the South West Region that compete in the international marketplace. These are mainly in the alumina and mineral sands industries with other, smaller traders in the timber products and agricultural fields. None of the companies approached by the Commission expressed any knowledge of, interest in, or concern about the National Competition Policy.

The major reason for this is that these companies export approximately 70% of their product and compete against overseas competitors. They generally hold that there should be as little governmental interference in their operations as possible. This international competitiveness has also flowed through to many of the smaller local service providers.

It is important that the focus of competition be taken into account. For instance, Western Australia only has the resources to construct one internationally competitive pine saw mill and medium density fibre board (MDF) plant. This resulted in two competitors (Bunnings and WESFI) combining resources to expand a mill to international standard. While this is strictly non-competitive in the Australian situation, by creating a near monopoly, it is important for international competitiveness.

The Bunbury Port Authority is the major organisation in the region that is affected by the Policy. In general, the Authority is happy to have private sector disciplines imposed.

COMMUNICATION NETWORKS

Within the sphere of communications, regional business performance is affected by the cost of communicating, the availability of services, access to information and centralisation/decentralisation of operations, with the impact of communications gaps falling into the categories of increased costs, decreased efficiency of operations and lost opportunities. The result in regional areas is often poorer business performance and reduced employment opportunities. The social fabric of regional communities is equally affected by the communications gaps.

In relation to *telecommunications*, there are concerns in this region regarding the mobile phone network particularly the lack of digital coverage and the varying ranges of analogue and digital transmitters.

It is pleasing that the Federal Government has overturned a previous decision to close down the analogue AMPS network by January 1, 2000. There are rural areas with little or no digital GSM coverage that would be severely affected if it had occurred. It is imperative that the Federal Government takes appropriate action to ensure that the phasing out of analogue technology over time does not have any detrimental effect on regional and remote communities.

While Telstra claims its service is delivered to the majority of Australians, this means that the service need only be provided to a few major areas of dense population and has no relevance to the 'bush'.

The Federal Government's general requirement of all phone carriers to improve the telephone service needs of regional and rural customers, with a proposed hefty fine if a company does not comply with directions of the Australian Communications Authority, is also a welcome initiative.

This is a good example of public benefit recognition within National Competition Policy. The impact of an ineffective telephone system on economic and social activity in regional areas is obviously substantial.

In relation to communication via *postal services*, the closure of post offices in country towns in recent years has been of significant concern in some regions.

It is pleasing to note that the Federal Government's response to the National Competition Council recommendations (Australia Post review) will increase choice and reduce costs for consumers, while guaranteeing no reduction in standard of postal services. The commitment that no regional post office or mail centre will close as a result of this government response to the NCC is also acknowledged.

(Media release by Hon Alex Somlyay, Minister for Regional Development, July 16, 1998.)

Again, public benefit has been recognised. Progress in this area is critical in reducing the costs of all aspects of services in regional areas, and to improve regional competitiveness with metropolitan areas.

DAIRY INDUSTRY - A CASE STUDY

Western Australia has 460 operating dairy farms and two major processors. Approximately 350 million litres of milk are produced per annum of which 45% is market milk with a regulated price and 55% is manufactured milk in a deregulated market. Over 80% of the State's milk production comes from the South West Region.

The current quota system for market milk underpins the industry's existence, providing a base to grow milk volumes for export and a springboard into other products. With the market milk price set through the Dairy Industry Authority, there has been a guaranteed supply to the consumer and a fixed return to the farm gate.

With deregulation and only two main processors in the State, the dairy industry is in a weak position to receive a fair price. (In Victoria only 8% of production is market milk, therefore there is less of an impact on the farm gate and they have numerous processing options.)

Also in a deregulated market the industry is concerned that the public benefit of a stable price will be lost and that, without a stable price, investment in all levels of the industry will diminish.

In Western Australia, milk was once regulated all the way to the consumer. Now it is only regulated to the farm gate. In the last 4 years there has been a 23 cents/litre increase in milk price to the consumer and only 6.5 cents/litre increase returned to the farmer.

In a totally deregulated market a significant fall in the average farm gate price of milk is anticipated, and with only two major supermarket chains in the State there is little likelihood of the benefit being passed on to the consumer by way of lower milk prices. It is feared that, as per the New Zealand experience, the region would be worse off, with consumers paying more for dairy products and producers receiving less income for their milk.

It is suggested that in cases such as the dairy industry, it is important to promote competition throughout all levels of the industry - production, processing and retailing. Competition applied to only one sector will only promote market failure and greater anti-competitive behaviour.

In line with the specific matters raised in the Select Committee's terms of reference, the anticipated and/or potential consequences of deregulation in the dairy industry are outlined hereunder.

Socio-economic impacts

If there is a loss of revenue at the farm gate then there is less money circulating from that source in the local community.

In the case of deregulation occurring, dairy farmers will need to increase production to maintain a viable bottom line. In Harvey, Brunswick Junction and the irrigation areas, farms are constrained by property size and, as productivity has been shown to have doubled in the past 10 years, it is unlikely the further increases in productivity on the same size farm will be possible. Consequently many of the smaller farms will be forced to sell and/or relocate to other areas. It is certainly a possibility that the dairy industry in the State may ultimately be relocated over the scarp to marginal rainfall areas (due to the high cost of land further south and the take up of land for vineyards).

Environmental

Reduced revenue at the farm will force farmers to cut corners in terms of sustainable environmental development. Laser levelling for drainage, which promotes better use of agricultural land, would be a likely casualty. In irrigation areas, the irrigation system will falter, as the reduced income will mean reduced purchases of water. The heavy wet clays of the irrigation area cannot be used for other agricultural activities - beef at present would not be viable.

Unemployment

Employment in the farm sector mainly involves families. A downturn in income would result in more sons finding alternative employment away from the farm. The industry also employs 1500 casual employees in the State. The flow-on effect of reduced income would be felt by support and service industries, particularly 'threatened' infrastructure such as banks, schools and post offices, and a 'reverse' multiplier effect comes into operation.

Equity

Equity is an issue if dairy farmers are unable to receive a fair price in a deregulated market.

In a deregulated market, with just a few processors, dairy farmers are seen as 'price takers'. The return to the farm compared with the return to the processors is not likely to be equitable.

A deregulated market does not necessarily mean reduced prices to consumers. The processors and the supermarkets will prevail. In regional areas there is also a need to add freight costs, and there is no discounting when selling the finished products in these areas.

Dairy farmers pay freight on their milk to the processor (the processors are increasing locating in larger urban areas) and then the rural consumer pays the full price of the final dairy products plus freight to be able to purchase these products locally.

As stated previously, milk was once regulated all the way to the consumer. Now it is only regulated to the farm gate. In the last 4 years there has been a 23 cents/litre increase in milk price to the consumer and only 6.5 cents/litre increase returned to the farmer.

Changed working conditions

A reduced income to the farmer may well generate a new modus operandi on the farm, a movement away from the farm entirely or a relocation of the farm. In these cases, the farm family will experience changed working conditions, which are not always satisfactory for the family or community.

Social Dislocation

Possible relocation of farms will have a negative impact on existing rural communities, affecting the social fabric of the community and the viability of many services including schools, hospitals, banks and others.

With deregulation it is inevitable that some dairy farmers will leave the industry and those that remain will need to double production to be viable. It is unlikely that the latter will be able to afford the cost of employing extra labour therefore another anticipated implication is that 'Mum and the kids' will be called on to 'help out'.

The farming community, which displays such tremendous community spirit and support, assisting each other and others in times of need, will inevitably be changed and dislocated as a result of the proposed new circumstances.

Social Welfare

If the unemployment, changed working conditions and social dislocation referred to eventuate, there will be an increase demand for social welfare in payments and support services.

Industry Recommendation

It is apparent that the Western Australian dairy industry needs to have a balance of bargaining power between producer and processor, and requires time to implement an appropriate strategy to ensure its survival in these changing circumstances.

The Western Australian Farmers Federation has recommended "the retention of farm gate regulations relating to pricing of market milk, on the basis of the net public benefits that are delivered by those arrangements to the community ... and that those arrangements be retained for a period of not less than 5 years, whereupon they be subject to further review at that time under the NCP framework".

(Submission to the Legislative Review of the Dairy Industry Act 1973 by the Western Australian Farmers Federation, 1998)

IN CONCLUSION

In general terms the concerns of regional and rural areas can be summarised as follows:

The problem with National Competition Policy seems to lie in its implementation and the practice of introducing uniform reform policy despite the inequities created in regional areas. Such policies are generally developed and implemented by urban based policy makers who have little or no understanding of the consequences of such an approach on the lives and livelihoods within regional communities.

The main policy tools, which create an impact in regional areas, are seen as deregulation and the corporatisation of government services to promote efficiency.

There are several reasons why flexibility is necessary in regional areas.

Local businesses are now finding that they are losing out to successful, out-of-town contractors, resulting in little or no local involvement in the activity/project and a significant proportion of the income generated going out of town.

The marketplace for utilities and essential services in small communities in regional and rural areas is not as large or developed, and hence as competitive, as that in the major urban centres.

Also, privatised government trading enterprises are no longer responsible for achieving social goals such as equity and access. In the inevitable withdrawal of services, there is a consequent reduction in amenity and economic employment opportunities in regional areas.

In small communities the market place will not provide the necessary investment to establish infrastructure which is expected to produce net benefits over the longer term to regional and State economies. In this region examples of reduced investment include cases of subdivisions not proceeding due to increased headworks charges, particularly sewerage on small blocks.

In regional and rural areas, for example, there must be sufficient flexibility built in to allow local governments to examine their activities and to be able to deliver them in the most efficient way. Local government is concerned that the Policy will diminish the provision of government services to regional economies. The cost of compliance of undertaking public benefit tests is an unnecessary burden, because there is no interest from the private sector in the provision of many community services and facilities.

The consequence for the regions of automatically implementing national policies is a shift of employment opportunities away from regional centres to major urban centres. The negative spill over from these job withdrawals in turn threatens the sustainability of the remaining enterprises and jobs. For small towns, with little or no capacity to absorb the shock of significant job withdrawals, the impact can be devastating.

The loss of population and departure of families affects business, education and many other services that are core services provided to these communities.

The loss of employment opportunities is often compounded by a reduction in the level and quality of service.

In conclusion it is important that the Federal Government, in all policy decisions, considers the needs of regional Australia and takes account of employment for local people, the issue of distance and higher costs experienced in the regions.

**SOUTH WEST DEVELOPMENT COMMISSION
SEPTEMBER 1998**

Mr Stuart Morgan

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LOCAL GOVERNMENT
A NATIONAL PERSPECTIVE



Best Value supersedes CCT in UK

maintenance and waste management. The Local Government Board had recommended to the Government. These three Councils should only continue if they put in place arrangements that would deliver the same benefits that would have arisen from creating a single Council.

The recent announcement of a State Election on 29 August has not affected Council elections. Postal voting for the new Councils will conclude just four days before Tasmanians make a decision on their State Government for the next four years.

Jenny Tibbitts, Organisational Development Officer with Blue Mountains City Council, recently returned from a three week study tour to the United Kingdom. She is the inaugural recipient of the Institute of Municipal Management/Task Software SOLACE Research Scholarship.

As well as attending the Annual Conference of the Society of Local Authority Chief Executives (SOLACE), Jenny visited a number of Councils in both England and Northern Ireland. Currently completing her final semester in a Human Resources and Public Administration degree, Jenny said that the study tour was a great opportunity to research, and experience first hand, overseas trends in organisational change.

"Councils I visited are grappling with similar problems to us, particularly how to avoid the divisiveness and insecurity that can result from rapid change," she said.

"The best thing was that the people I met with were very candid about the things that had worked and what had not."

Jenny said that the key issue impacting on Councils in the UK is the move from Compulsory Competitive Tendering (CCT) to the Blair Government's new approach of 'Best Value'.

"It is not just a matter of getting the costs down, as under CCT, but about quality," she said. "Councils are required to consult widely with their communities to ensure they are delivering what people want and are prepared to pay for."

"It is about working for continual improvement, not merely competing with the private sector but looking for partnership arrangements that will deliver best value. This calls for new management skills of working in partnership and networking rather than competition."

With Best Value not as prescriptive as CCT, Jenny said that UK managers are still grappling with the principles and how to translate these into practice.

She believes performance measures for Best Value will be a critical ingredient for success.

"It is easy to skew results by doing the easy things first to boost results, while the more difficult urgent matters are put aside," she said. "It is vital to look carefully at what should be measured for Best Value. Is it the number of hot meals delivered or the standard of the food presented that is important?"

"As described by one UK manager, we are moving away from the bean counting to the bean tasting, to quality and not merely the dollar being the bottom line."

For further information contact Jenny Tibbitts, telephone (02) 4782 0673.

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