



COMMONWEALTH OF AUSTRALIA

# Proof Committee Hansard

## SENATE

SELECT COMMITTEE ON THE SOCIO-ECONOMIC  
CONSEQUENCES OF THE NATIONAL COMPETITION  
POLICY

**Reference: Socio-economic consequences of the national competition  
policy**

THURSDAY, 8 APRIL 1999

BRISBANE

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**SENATE**  
**SELECT COMMITTEE ON THE SOCIO-ECONOMIC CONSEQUENCES OF THE**  
**NATIONAL COMPETITION POLICY**

**Thursday, 8 April 1999**

**Members:** Senator Quirke (*Chair*), Senator Crane (*Deputy Chair*), Senators Coonan, McGauran, Mackay, Margetts and Murray

**Senators in attendance:** Senators McGauran, Mackay, Margetts and Quirke

**Terms of reference for the inquiry:**

To inquire into and report on the National Competition Policy, including:

- (a) its socio-economic consequences, including benefits and costs, on:
  - (i) unemployment,
  - (ii) changed working conditions,
  - (iii) social welfare,
  - (iv) equity,
  - (v) social dislocation, and
  - (vi) environmental impacts;
- (b) the impact on urban and rural and regional communities;
- (c) its relationship with other micro-economic reform policies; and
- (d) clarification of the definition of public interest and its role in the National Competition process.

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**Committee met at 9.20 a.m.**

**DALTON, Mr Graham Laurence, Executive Director, Queensland Farmers Federation**

**ROBINSON, Mr Ian Burnett, Economist and Research Officer, Queensland Farmers Federation**

**CHAIR**—I would like to welcome the representatives of the Queensland Farmers Federation. We do prefer all evidence to the committee to be given in public but should you at any stage wish to give part of your evidence or answers to specific questions in private you may apply to do so and the committee will consider your request. I now invite you to make an opening statement. At the conclusion of your remarks we will invite committee members to ask you questions.

**Mr Dalton**—Thank you very much for the invitation to make a submission. The national competition policy is a major issue for our industry and for rural and regional Queensland. It is not exactly the same constituency but, obviously, there is a great deal of overlap. We have made a written submission. It is a relatively brief one and we expanded on some of the points in a similar inquiry being conducted by the Productivity Commission. We would be happy to talk to those points.

By way of summary, we are very concerned about some of the impacts and implications of the application of the National Competition Policy. I think that inherently farmers believe that there is no government like no government. In other words, we like a deregulated environment. We have been very strong supporters of a deregulated business environment in this country over many decades for such things as exchange rates, labour market mobility and so on, so fundamentally we believe in a competitive marketplace and we live and die by that.

However in terms of the way the National Competition Policy has been applied and some of the theoretical underpinnings of it, we do have concerns. We have a particular concern that it has impacted—I hesitate to use the word ‘inequitably’—to a considerably greater extent on rural and remote areas than it perhaps has in the cities. The benefits of the National Competition Policy appear to be distributed unequally across this country. We have a culture in Australia of broad equity on a geographical basis and we are worried that that is starting to come unstuck. I might leave it at that—I am sure you have read the submission—and throw it open to any discussion. If you want I can elaborate on some of the points, particularly on things like water and infrastructure services and so on.

**CHAIR**—Mr Robinson?

**Mr Robinson**—No, I am happy to leave it at that and just respond as questions are asked.

**CHAIR**—All right. Senator Margetts, would you like to start out?

**Senator MARGETTS**—I am particularly interested in the aspects of water. We heard yesterday that they seemed to have been sorted out, both at the moment or so far. Perhaps

you can give us an outline of what the issues are or were for you in relation to competition policy, water reforms—

**Mr Dalton**—I think we had two concerns. The first one related to one of the underpinning planks of NCP and water and that was cost recovery on sunk infrastructure. It was a definite plank and it was driving the state water pricing policy not only in this state but also in other states. I think few economists would support an argument that we should try and recover the capital cost of infrastructure developments that were made perhaps decades ago for a range of rural, national development, and regional and social reasons.

The benefits that the community had in building a dam in, say, Emerald have long been capitalised. To turn around now and say that there will be a value placed on this dam and that people have got to pay more for water so the community can get a return on that does not stack up economically. I think fewer economists would argue for that sort of policy, yet it was strongly embedded in the NCP.

I suppose I need preface my comments by saying that this is an irrigation industry state. Perhaps one-third of output of the \$5.5 billion of rural product comes from irrigation in Queensland, so water pricing is a fundamental issue for us. We took it on and we took it on as an economic argument. It took us two to three years to convince the state Treasury to convince the Department of Natural Resources here which administers water policy, and then to start convincing the National Competition Council and Canberra, I think, that the policy was flawed. It has now, I think, quietly disappeared into the distance, fortunately, but without any formal change in the planks of the NCP. So that was one of the significant areas of concern about water.

We are happy to look at new infrastructure developments and sort out an appropriate pricing arrangement for that. But to argue that the decision to make the investment into past infrastructure should be retrieved or that water should be retrospectively priced to recover a long past decision is, to me, just very flawed.

**Senator MARGETTS**—Are any of the decisions in relation to proposed new dams likely to be impacted by the competition water reforms?

**Mr Dalton**—The answer is, yes, but less so on pricing where the evidence available to us indicates that farmers have been paying a commercial price for new water. It is auctioned in the marketplace and it fetches an auction price. In fact, a very large part of the water infrastructure development going on now is private. It is water harvesting. People build their own dams. They build their own pumping and reticulation systems so there is almost no public involvement at all. On the pricing issue, I cannot see it impacting.

However we are also concerned that the National Competition Council is stepping very near the boundaries of its mandate in starting to revisit state environmental assessments of projects. To take the Dawson dam as one example, there was a fair bit of publicity given and a fair bit of questioning done by the National Competition Council on the environmental assessments that had been legitimately undertaken by the state and by the state departments responsible for that. I really thought that was very much on the fringes of what would have to be seen to be the mandate for a national competition policy.

**Senator MARGETTS**—Are the states meeting at all regularly in relation to this water reform process as part of national competition policy?

**Mr Dalton**—I cannot speak for what state governments are doing. I know there are various forums, such as SCARM, where the state ministers do meet. By and large—and I suppose this flows on to another issue of concern about national competition policy—it seems to us at the receiving end of some of this, that it is a stick that is carried federally and the funding really drags the states along. It is only in more recent times that some of the states have started to question the principles of NCP.

**Senator MARGETTS**—What has been worked out as far as environmental flows during this process?

**Mr Dalton**—We have to go back to the underpinning agreements. There is a statement in those that environmental assessments will be undertaken and obviously we have supported that. We stand by the need for environmental responsibility as part of it. For something like the National Competition Council to totally revisit each detail of the studies strikes me as being difficult for them to do at best and perhaps very close to the limit of the mandate.

**Senator MARGETTS**—When were the studies themselves taking place?

**Mr Dalton**—Which ones?

**Senator MARGETTS**—If I recall correctly, the water reform process started in about 1993-94.

**Mr Dalton**—Yes. Environmental studies are a requirement of any future investment decision. I can only speak for my experience in Queensland but this state is going through a process of water allocation and management plans for the major catchments and is defining environmental flows. Out of that will come some assessment of what water is available for future development. That has been an ongoing process in this state and, for the Dawson project as an example, the decision has not been finalised yet because of the WAMP—Water Allocation Management Plan—process.

**Mr Robinson**—The environmental studies for the Dawson dam were undertaken in 1997 by Hyder Environmental and were accepted by government.

**Senator MARGETTS**—You were saying there were some other aspects.

**Mr Dalton**—Yes, that is the water one. I have concerns that the NCP said we do support a more competitive economy—there is no question about that—but a lot of regulation is there for a sound reason. If you ask an economist about the workings of the market, for a competitive market to provide optimum social outcomes, there are certain assumptions. Those include things like: perfect information; the players in the marketplace all being equal in size; all transactions taking place at a single point in time and space; capital being infinitely mobile—as is labour—and so on.

The real world does not mimic those assumptions. In any market there is a question as to whether it is operating in an optimum fashion. Our experience is that government intervention is a high risk business. It often produces second-best outcomes but there are occasions when regulation is appropriate and is there for good reason. Some of the regulation we have seen comes under scrutiny and we have had to defend very vigorously the fact that it is there for a very good reason. Things like the chicken industry legislation in this state and the single desk selling for sugar and so on have been there for a good reason. Our concern has been that in some way the National Competition Policy has been driven in an almost zealous, dogmatic way, without full appreciation of some of the subtleties of either economics or the real world and the real marketplace.

**Senator MARGETTS**—In your submission you comment on the inadequacies in the economic analysis in relation to competition policy. Would you like to just outline those?

**Mr Dalton**—My experience relates first-hand to the chicken industry in this state and our members have been involved with dairy and sugar. But just to take the chicken one as a good example—and I think you have probably got submissions from that industry as well—the level of economic analysis of impacts was really fairly minimal. It may well have been beyond the industry to actually spend the millions of dollars that other industries have spent on the analysis, but for the actual people affected it was no less important. You need fairly sophisticated modelling and quality economic analysis and I think that in some cases we have not seen that level of quality brought to the task.

**Senator MARGETTS**—I guess we were all a little surprised when we found out that neither ACCC nor National Competition Council had done modelling of the economy wide impact. You are saying that to a certain extent the industry has been left to do it.

**Mr Dalton**—Yes. It has been a very costly task. With all due respect to the public servants on some of these committees, I think that is where the dogma comes. I have found that in Treasury, which is perhaps staffed more by accountants interested in the benefits of NCP to the state revenue than the regional and industry impacts.

**Senator MARGETTS**—Would you like to expand on what costs have been involved to the Queensland Farmers Federation in terms of either monitoring or involvement in challenging or putting cases in relation to national competition policy? Can you give us an idea of what kinds of resources have been involved?

**Mr Dalton**—We are a federation, so I would be speaking for our independent member organisations. I know for the sugar industry the inquiry ran into the millions. For the chicken industry it ran into perhaps the tens and hundreds of thousands in terms of consultants' time and travel and so on. That latter one is a small industry. They are significant costs for voluntary organisations.

**Senator MARGETTS**—That is quite extraordinary. That was never flagged parliamentarily when it all happened. We have been told that part of the problem has been an inadequate understanding of the public benefit test. Do you think simply a better understanding of the public benefit test would have made it a lot easier for your organisation?

**Mr Dalton**—I think the public benefit test is the balancing part of the NCP. I think it has been harder than it should have been to demonstrate a public benefit. Maybe there is more scepticism than there should be in the Competition Council. When I look at the industries that have come out of it, you would have to say that the key parts of the sugar industry remain reasonably intact. Again, in the chicken industry it looks like the capacity to bargain collectively, which is critical, will be able to be achieved. Looking bluntly at it, the public benefit test in its narrowest is delivering reasonable outcomes, but it is a long and hard road to travel. Also, in looking at some of the broader issues it is still not taking full account of the regional and social consequences of deregulation. Looking at things like telecommunications, are country people going to get the same quality of service? There has to be a real question mark over that.

**Senator MARGETTS**—One of the pivotal assumptions of national competition policy is that it will benefit the consumers and not just in price. In terms of price, availability, service and choice, what do you think have been the outcomes, especially for regional Queensland?

**Mr Dalton**—I think inherently a less regulated marketplace does deliver closer to optimum price outcomes for consumers and does deliver more choice. That may be an article of faith for me, but I would stand by that. We do have some specific areas. I think the dairy industry is a classic example. It is a regionally based industry. It has been a secure industry, a stable industry. It is one that has grown. It has performed well in the export environment. Despite those very positive benefits and including apparently very low prices of milk for consumers, some of that has been swept aside. I think the dairy industry in a year's time when it looks at the pricing being charged to consumers will say, 'I told you so.' When we look at what is going to happen to parts of regional Queensland, a much smaller dairy industry is going to have quite devastating impacts locally. What is the benefit to consumers? Generally, I would have to say competition is good for consumers. It keeps prices low and product quality high, but we are looking at some specific instances and I do have concerns.

**Senator MARGETTS**—Let me test this article of faith. What kinds of goods and services are actually cheaper now in rural Queensland than they were, say, four years ago?

**Mr Dalton**—That is one of the questions I have to ask. I should preface it by saying that nearly every service and good you buy is operating in a fairly deregulated way. If you want to go and buy bread, you are buying it in a deregulated environment.

**Senator MARGETTS**—Have you got more choices and more availability or less now in regional Queensland?

**Mr Dalton**—The answer generally is yes—and we are getting into a debate here—but in some specific and important things we have concerns. Telecommunications is one of them. I am very concerned about the long-term impact of higher electricity prices which may well come down the pipeline. If water prices go up significantly, the consumer in this case being industry may not be as well off and it will have a regional impact. If you are talking about consumers being housewives and househusbands who go into the supermarkets, the deregulated and competitive environment has produced better choices. About the areas of the economy that were in the past regulated, there was a reason for some of that regulation—I

repeat: things like electricity prices and some of the telecommunications services. There is a community service obligation as part of the pricing structure and I am concerned that that community service may disappear out of this process.

**Senator MARGETTS**—What about banking?

**Mr Dalton**—Loss of banking services has been a concern to communities. That is what we are saying about the domino effect. If you lose the bank, you lose the family. If you lose the family, maybe there is one less teacher at the school. If you lose that teacher, maybe the football team is not viable and so on. Fairly small changes can have significant local and regional impacts that probably would not be noticed in places like Brisbane or the suburbs of Brisbane, but in the smaller towns across Queensland those sorts of changes are noticed and have a detrimental impact.

**Senator MARGETTS**—What about some of the smaller stores? Do you have to go further to get some of the same goods now?

**Mr Dalton**—I cannot honestly answer that one. Stores close as towns get smaller but the loss of banking services has been significant. It has been part of the more competitive banking system. Banks have made judgments about what is profitable and what is not profitable, and country towns seem to be the losers in that. I am not sure what the answer is. To make a bank open a branch in a town where it feels it is not profitable? It is a dilemma we face.

**Senator MARGETTS**—We are getting some evidence that the trend is that as margins become tighter then in reality you are getting the choice, availability and service. In rural areas you are getting less. We will ask further questions of other groups and see how we go in building up that picture. Thank you very much.

**Senator McGAURAN**—Is the Queensland Farmers Federation an affiliate of the National Farmers Federation?

**Mr Dalton**—We are a state member of the National Farmers Federation.

**Senator McGAURAN**—Like or unlike Western Australia, do you have a breakaway group or anything?

**Mr Dalton**—No. We cover, we think, at least 86 per cent of all farm businesses in this state and every major commodity group is part of the Queensland Farmers Federation, and some that you would not traditionally regard as farming, including things like aquaculture, the nursery industry and so on. Probably of all the state organisations, we are the one that is most comprehensive.

**Senator McGAURAN**—As such a comprehensive rural representative, what more needs to be done in national competition policy?

**Mr Dalton**—Thank you for the question. I think it is really at the crux of what we want to talk about. I do think it is time to revisit it. We should not throw out the baby with the

bathwater but, on the other hand, I think we are losing parts of the baby at least. It would be worth the Council of Australian Governments sitting down—and I think this is part of the process—and saying, ‘What has NCP delivered? Where is it going? Is it having adverse impacts in some areas? Is it working as well as it could? Let us revisit it. We are entering a new millennium; let us revamp it.’ But I think it needs one critical element, and it is covered in your terms of reference—that is, the impact on urban and rural and regional communities. I think that has been missing from the equation.

I have to question whether, if every Australian is 1c better off but that is at the cost of some small towns in rural and regional Australia, the quality of life in this nation really is that much better. That is obviously a political judgment on matters. But I think we could probably have our cake and eat it with NCP with just a little bit more sensitivity to some of the social issues.

**Senator McGAURAN**—What I hear you saying is thus far and no further.

**Mr Dalton**—No, I do not think I am saying that. What I am saying is, I repeat, I think our belief—

**Senator McGAURAN**—So give me a hard example of what industry now needs to be touched? Is all the deregulating over? I hear you saying let us put a heart to it and let us get studies of the possible impacts. Okay, we would do that, but what more needs to be done?

**Mr Dalton**—In the broader context, we would argue that labour markets in this country are still sticky. Some of the professional regulation is not delivering what we want. Take doctors—try and get a doctor in the bush. Whatever structures we have in place regulating the supply of medical services, to my way of thinking, need looking at.

I think there is always a role for looking at the structures and the workings of the economy, and that is what NCP is about. It has worked its way through most of the industries, but I do not think we have seen all the impacts of it. It is going to be very hard for governments in this country to choose to re-regulate things, yet there may be a case for it. The culture is, if you try and regulate an economic activity, it is very naughty and it is going to be against NCP and National Competition Council will give you black marks and state governments will lose revenue. It may be no bad thing to have to jump hurdles to regulate, but I do not think it should be impossible. I am just saying that NCP is a culture of review, and that review process will continue.

**Senator McGAURAN**—You cannot name one rural industry that needs a further dose of national competition policy.

**Mr Dalton**—I need to think through it. Most of our industries have gone through the hoops. What are still going through the hoops are some of the regulatory arrangements and the statutory marketing arrangements. That is still not complete, as far as I know. Can you add any industries—the QFVG arrangements?

**Mr Robinson**—Yes. I think that their statutory arrangements are under the microscope fairly soon. But if you look at levels of assistance that go to some of those remaining industries, they are very small, so I do not think the gains are likely to be very great.

Just to answer your question, I think the hard yards have probably nearly been done on national competition policy. I think that is just as well because I think it is held in such poor regard that, if it is going to continue in a meaningful way, I honestly think it needs to be relaunched through some COAG re-engineering type process. That is how badly it is regarded in rural and regional areas.

**Senator McGAURAN**—We had the representatives of the grains merchants in here yesterday. They both live in Toowoomba. I think I will be backed up by my members here when I say that I asked them, ‘Is it badly received out there? Is there anger’—given that we received evidence that there had been and you are saying the same thing—and they said, ‘No.’ You do not need to comment on that. It then led to, of course—have a guess—they believing that the single desk is the next step for the rural sector to get a dose of NCP—namely, grain.

**Mr Dalton**—All I can do is report what comes up through our organisations. I can say that our assessment is that, when you say ‘NCP’ to people, the shutters go up. If you as politicians want to test it, perhaps look at the vote One Nation got and their platform for election—it was strong there—and look at some of the comments from some of the Nationals as well.

**Mr Robinson**—The state Premier and the leader of the opposition in Queensland.

**Mr Dalton**—In fact, I have a couple of editorials and things here.

**Senator McGAURAN**—Could you briefly articulate the benefits of a single desk selling system from your point of view?

**Mr Dalton**—If we look at the sugar industry—and perhaps you should ask this of the sugar industry—we have a very high quality product which is extraordinarily well regarded in the world market. By having a single seller of that high quality product we can extract a premium from the world markets. If we get rid of that, then, in fact, Australia will undoubtedly be less well off.

**Senator McGAURAN**—Is it the Grain Merchants Association that you are affiliated to?

**Mr Dalton**—No, we are a farmers association.

**CHAIR**—The proposition they put to us yesterday was something like this: they were quite happy to live with the Wheat Board but the Wheat Board wasn’t happy to live with them. What they wanted was to be able to market large amounts of grain alongside the AWB, and they said that would lead to a maximised price. I said I couldn’t understand, if you bring competition into this, why prices will go up when normally they would go down. They suggested that the AWB was just not set up for pursuing certain niche markets, that there were some small markets, and a number of other markets, which were not aggressively

sought after by the AWB by dint of its monopoly. I have come in here because I was going to ask you about this afterwards. I would like this area explored as much as possible. What do your members think about the idea of busting the single desk?

**Mr Dalton**—I think I will have to partially duck the question because we have a section—the Queensland Grain Growers' Association—which is our member body, and they would be the ones with the capacity and expertise to answer the technical details you have. My understanding is that the Australian Wheat Board will allow niche exports of grains from Australia, but beyond that—

**CHAIR**—But you have to ask them first.

**Mr Dalton**—Yes, that is my understanding. Beyond that, though, if you do have questions, I could get the grain growers to respond.

**CHAIR**—I wouldn't mind that point being explored a bit further. It could be done on notice, I suppose.

**Senator McGAURAN**—Are you the president?

**Mr Dalton**—No, I am the executive director.

**Senator McGAURAN**—Nevertheless, you would be in touch with what they think and with the general feel of your whole organisation. It is hardly an issue you would not discuss.

**Mr Dalton**—It is an issue we do not put a lot of effort into. We have a whole grains association which handles grains matters. That is a commodity specific matter that the grains section would handle. I am reasonably attuned to what is being said because I read the newspapers and I read the journals of our members, but I would rather they answer the debate. I am not trying to be difficult. I can arrange for appropriate people to brief you from the grains industry—people who are in touch with the issues on a day-to-day basis and who know the industry inside out. I would be happy to do that. I just do not feel I am well enough qualified to respond to the best interests of your inquiry. Would you like me to follow that up?

**Senator McGAURAN**—We will pursue it later on with our secretary, if needs be. But you have to admit that the single desk is the rock in the road for any purist of NCP, isn't it?

**Mr Dalton**—The point I was making is that some of NCP has been pursued with a fair degree of zealotry. That is what the public benefit test is there, and if you run the public benefit test over single desk selling—and I use the sugar industry as an example; that is where I came from so I know the industry fairly well—most people would say the single desk seller of sugar in this country has served this country and this industry very, very well. We have extracted a premium from the rest of the world. I do not think the NCP is here to deliver cheaper prices for foreign consumers of Australian product.

**Mr Robinson**—International commodity trade is more and more being tied up by large multinational corporations. I think there is an increase in the degree of concentration

internationally. The great trend in agribusiness worldwide is for strategic alliances—that is, the grouping together of even bigger conglomerations. So I would have thought that the argument then for single desk sellers of large Australian commodities is reinforced if that is the international marketplace you are operating in—market power against market power. That is just an observation I would make.

**Senator McGAURAN**—I would make the observation that we read in the paper today that the ACCC is investigating an alleged collusion of the Dairy Farmers organisation and the Parmalat organisation.

**Mr Dalton**—They are both processors. Dairy Farmers actually are not farmers; it is a milk processing company.

**Senator McGAURAN**—They are not cooperatives?

**Mr Dalton**—It is owned by farmers, but it is actually a company, a cooperative. So those are the processes, yes.

**Senator McGAURAN**—It does not look good.

**Mr Dalton**—No. As I said in my earlier comments to Senator Margetts, in a year's time you might have the dairy farmers themselves coming back to the table and saying, 'Well, look at what's happened to the price of milk for the consumers. We told you so.'

**CHAIR**—It has got dearer, in other words.

**Mr Dalton**—Yes, it has got dearer.

**Senator McGAURAN**—But it is a regulated system now.

**Mr Dalton**—The only regulation now is the farm gate price of milk in Queensland. There is nothing stopping milk coming from Victoria or New South Wales.

**Senator McGAURAN**—Yes, there is.

**Mr Dalton**—What?

**Senator McGAURAN**—There is an agreement that Victoria will not enter the interstate markets with their fresh milk, is there not?

**Mr Dalton**—You had the dairy farmers here yesterday. Again, I think once we start getting into the technical areas of dairy farming, Ralph Leutton is the one to answer any questions. So, sorry, but my understanding is that there is not anything unconstitutional that would be in restraint to trade.

**Senator McGAURAN**—Yes. If it was ever tested in the courts, that is for sure. There is an agreement that they will not cross borders.

**Mr Dalton**—What is to stop Coles buying some milk in Victoria and trucking it up?

**Senator McGAURAN**—I do not know.

**Mr Dalton**—No, nor do I.

**Senator McGAURAN**—But it is there; the agreement is there.

**Mr Dalton**—Okay.

**Senator McGAURAN**—There probably is.

**Mr Dalton**—To my understanding, the statutory regulation is of the farm gate price in Queensland.

**Senator McGAURAN**—But the Dairy Farmers Association made the point that, if the new round of deregulation takes place, that is exactly what probably will happen—that is, the Victorians will enter the Queensland market and start knocking you off.

**Mr Dalton**—Yes, and that will have a serious impact on some of the towns up on the Downs, perhaps not the Atherton Tablelands—that is a very long way from Victoria—but certainly some of the areas around the south-east of Queensland would lose a lot of dairy farms and maybe even factories would close. I think Ralph Leutton probably would have made that point in his submission.

**CHAIR**—I want to come back to the dairying bit. I wrote down here the comments you have repeated—that is, that the dairy industry will be saying to the public in 12 months time, ‘I told you so.’ I am honestly puzzled by this whole exercise, but I must say that the empirical evidence seems to be suggesting that the dairy farmers will in fact be saying just that. Where the dairy industry has been deregulated in Australia, it has not led to lower prices but has led to higher prices, and significantly higher prices. How does this work? We asked Ralph and he told us a few things about it. I suppose I have been thinking about it overnight, but I am puzzled as to why it should be—to me, the consumer—a dearer commodity when it is deregulated than when it was under regulation. Somebody must be making something out of it somewhere.

**Mr Dalton**—I might give you a complicated answer. One possibility is that there is insufficient competition at the retail sector. That is certainly under review at the moment. People are asking the question: is there enough competition in the retail sector? That is where the volumes of milk go. If there is not enough, that would be one answer as to why prices go up. There are inquiries into that issue right now. The second answer—also a complicated answer—is that regulation can be beneficial and you can create a cultural deficiency up the supply chain. Ian alluded to the fact that supply chain management is the way industry is going internationally, by having a regulation that can in fact build in the links in a very efficient way. There have been elements of that both in the sugar industry and the dairy industry in this country.

I cannot think how I would quantify that as an economist, if you gave it to me as a research paper. I do think there have been elements of that in some of the regulation we have seen. Another example is the chicken industry which has been highly regulated. It had to be because we have a handful of processors and a large number of growers. Yet we have seen the price of chicken meat fall year in, year out, and it is now one of the most competitive meat sources in the marketplace. The theory would be that regulated markets are inefficient and would be highly priced. It is contra to the theory.

**CHAIR**—It is probably the same theory as the single desk. That is the key thing about it. Obviously, there is some competition out there at the retail sector. We are talking about 84 per cent of groceries sold by a couple of well-known chains.

**Mr Dalton**—Three big ones.

**CHAIR**—At the end of the day, milk is flogged off out there in every petrol station, in every capital city and regional city, 24 hours a day. I would find it hard to believe that the supermarket chains would actually sell 84 per cent of milk. I would think that milk sales would be more dispersed.

**Mr Dalton**—I do not know the answer on that.

**CHAIR**—It is a puzzle because it is a significant increase.

**Mr Dalton**—If they were not making enough profit out of it, presumably they would not have had it on the shelves in the first place.

**CHAIR**—I was thinking about that when you were giving the answer. It may well be that they would argue that they do it as a community service.

**Mr Dalton**—That is very kind of them.

**CHAIR**—Yes, I know. They are altruistic. In fact, you would not buy your smoked fish if they did not have milk there, or something like that. But it has led to significant increases. It appears that Julian made reference to a certain inquiry that is about to start up here into milk processing.

**Mr Dalton**—A lot of people are starting to ask the question: is that sector competitive enough? The newspaper reports today show that that was a focus of discussion.

**Mr Robinson**—There is a phenomenon called ‘tacit collusion’ which is written about in the economic textbooks. The players in that do not ever have to meet. They never have to have clandestine meetings.

**Mr Dalton**—You do not say that it is done over lunch. You learn the behaviours in the marketplace.

**Mr Robinson**—You just mimic the behaviour and it goes on. I think it is fairly well documented.

**CHAIR**—It would appear that there is a fairly sound case for that in this matter.

**Mr Dalton**—I cannot comment. All I say is that there is a question. Certainly if the level of concentration continued to grow in this country, our industry would be increasingly concerned.

**CHAIR**—Thank you very much.

**Proceedings suspended from 10.04 a.m. to 10.22 a.m.**

**HAMILTON, Mr Charles Peter, Executive Officer, Queensland Chicken Growers Association**

**CHAIR**—Welcome. We prefer all evidence to the committee to be given in public, but should you, at any stage, wish to give part of your evidence or answers to specific questions in private, you may apply to do so and the committee will consider your request. I invite you to make an opening statement. At the conclusion of your remarks, we will invite committee members to ask you questions.

**Mr Hamilton**—Thank you for the opportunity to appear. I do not wish to go into the detail of what we have prepared. It is there for people to read. To summarise some of the things we sought to do by making this submission, firstly, we detailed our experience in proceeding through the legislative review process, as required under the NCP agreement in relation to state legislation applicable to our industry. Secondly, we want to draw attention to certain practices or deficiencies which we perceive as being inappropriate in the conduct of the review, particularly in determining the costs and benefits that are integral to the public benefit test, at least as applied in Queensland. A lot of that detail we attached as an appendix to our submission. It was contained in a submission which we made to the New South Wales review. We did make some comments in the substantive submission here.

We also attached some comments from Professor Ted Kolsen. We retained him at one stage to ensure that some of the economic logic which was being used by the review committee or in the preparation of the review committee's report in Queensland was valid or sensible. We had some misgivings that it was heading in a wrong direction. He effectively confirmed that and we included his comments as well. The last thing we want to draw attention to is the suspicion that some of the public servants who were involved in the review process seemed to be pursuing agendas other than those which were inherent in the NCP review. I am not saying that there was a conspiracy. It just seemed to be that they wanted to drift off in directions which have nothing to do with the industry or the review process as we saw it.

I have indicated that I do not propose to go through the submission in detail. I would rather respond to questions, but make a couple of final comments. In our submission we did comment that the final report of the Queensland review committee had not been released. That is now no longer the case. That report is available. We were sent a copy I think in late January this year. It was the first time we actually saw the document between two covers. Notwithstanding that, it had been completed and submitted to the minister 12 months earlier. As an association with the substantive submission to the review committee, I guess our noses were a bit out of joint in not having received something sooner.

When we did receive it, it was after the independent person who was appointed to review the review committee's report and the dissenting report from the growers representative and a member of the Chicken Meat Industry Committee who were on the review committee—they had dissenting reports. That material was all reviewed by an independent person. His comments and recommendations went to cabinet and it was subsequent to that that the final report was released. We have not seen the full text of that independent person's submissions to cabinet.

The independent review effectively agreed with our views, that is, that the empirical analysis that was undertaken as part of the cost-benefit analysis was very poorly handled and with a lot of the material in the review report—it was not so much what was said, rather what was not said—there was insufficient logic, argument and substantive evidence to support the conclusions which were drawn.

The current status of the whole exercise is that at the moment most of the review committee recommendations have been endorsed by cabinet. I think one was perhaps not endorsed. In lieu, there were the recommendations of the independent person, which to a large extent included material put together by the growers's representative and by one of the processors, which effectively has become the drafting instructions to parliamentary counsel to amend the current legislation.

Overall, I think we were justified in complaining about what had not been included or the inadequacies of the report and the work which had been done. We do have some concerns that our original intentions in part have been watered down a bit, but overall I think we can live with what we have. As an aside, I will mention that the same material is being used to amend the South Australian legislation. The story was that the South Australian government intended to repeal their state legislation. They have backed away from that now and are going to amend it along very similar lines to those proposed in Queensland. We were concerned, being first cab off the rank, that not only did we get the story right for Queensland but that it would also be right for other states. What happens in New South Wales and Victoria has yet to be determined.

As a final comment, it is unfortunate that there were such delays in the exercise. Had we not had a spurious empirical analysis and been warned against proceeding down that route, then we would be 12 months down the road towards implementing the changes to the legislation which we thought were necessary anyway and which we had strongly advocated. In our view, it was in the spirit of the competition policy which was to free the marketplace up a little bit.

**CHAIR**—Thank you, Mr Hamilton. What is the basis of the amendments that are proposed to go before the Queensland parliament, which will be mirrored in South Australia?

**Mr Hamilton**—The basis is to move away from the agreement on a state-wide price for growing chickens—we call it a fee rather than a price; there had been a fixation about price and we would rather go to a fee-for-service—to providing for a number of negotiating committees which would comprise each processor with representatives of the growers from supply contractors in that process. So in Queensland at this stage we would effectively see three negotiating committees. Their task would be to negotiate all matters relating to contracts. I balked then just to say that that would also include negotiating the growing fee. I believe it does.

The key thing which we wished to retain was the arbitration of disputes in the event that parties did not agree. That has not happened in Queensland in my time with the association which is seven years. As far as I am aware, there has always been agreement between the processors and the growers before they go to the Chicken Meat Industry Committee about what the growing fee should be for the ensuing six months, or the current six months,

depending on when they meet. We wanted to include an arbitration or some kind of dispute resolution mechanism in the system. That is the part that has been watered down a bit. We sought to have arbitration built into the legislation. We now have a rather complex dispute resolution arrangement. I think the net effect is probably almost the same. We are going to have a lot more words on paper in the legislation than had we gone the simpler route, but that is okay.

So we have retained the arbitration. It is really shifting away. In a sense it is diminishing some of the powers of the Chicken Meat Industry Committee and devolving that to processor groups, as we call them. That is the element of competition which was not there previously. Whilst we had everything through the one committee, we had processors negotiating fees in the same forum as their peers and they were unhappy with that. We saw the sense in freeing up that system. It weakens the growers' position. From being a collective group arguing before one committee, we are now split among three. It is to be seen whether growers are entirely happy with that. We believe that they can handle it.

There is no doubt that there is a difference in economic power between the processors and the growers. For example, two of the processors are national companies. I think we would have 49 growers—that might be the maximum number—who are supplying one of the processors. So there is a relative weakness in terms of the bargaining position of individual growers. That is part of the story. The other part of the story is that there has been some fine print about people not wishing to become part of the collective negotiating process. If they wish to negotiate things off their own bat, that is fine, that is allowable. It is adding to the existing legislation in that context, making it a bit freer and allowing individuals to make a choice. They can either be in a collective bargaining system or they can do it individually. We have the processors now competing against each other.

Short term, we expect there will be little difference; longer term, we could see some differences, particularly in the growing fee. Already we are sensing that apart from the growing fee, some of the other arrangements which are part of the contractual arrangements—things like bird densities, the frequency and number of batches which they would have each year, the sorts of equipment and facilities which are required in the sheds—are already starting to vary between the two major processors anyway.

**CHAIR**—I have plenty of questions more but we will go to Senator Margetts.

**Senator MARGETTS**—I would like to ask Mr Hamilton what the cost has been in resources, money and time for the Queensland chicken growers to argue your case, to put together your arguments and your involvement in research and so on in relation to national competition policy.

**Mr Hamilton**—Good question. A lot of my time—I am a retired former public servant—I give for a nominal fee. It is really an honorarium which I receive monthly. An enormous amount of time is given free of charge, particularly by the president, who was also a member of the review committee. In terms of hard dollars, I cannot give you an exact amount but it was some thousands of dollars which we contributed, in part through the Australian Chicken Growers Council, to retain a lawyer from a firm of lawyers in Sydney. His name escapes me. He did a lot of the legal background work. That was initially for a case with the ACCC

for South Australia. We used the argument there and we worked it a bit for our case in Queensland. It has been used again in South Australia and it is the cornerstone of what is happening nationally. We retained Professor Kolsen to provide material; that was some thousands of dollars. Off the top of my head, it was tens of thousands of dollars—\$25,000. That is a guess. I cannot give you the firm figure.

**Senator MARGETTS**—That is an enormous commitment. Has most of your contact on national competition policy been with the National Competition Council, or have you had interactions with other elements of the national competition policy, including the ACCC?

**Mr Hamilton**—We have certainly had discussions with the ACCC, probably more with them than with the National Competition Council. Personally I have not talked to either, but Gary Sansom certainly has talked to both at some length, particularly the ACCC. It was initially the ACCC because we looked very seriously at whether or not we should go down the route of authorisation for exemption for application of the Trade Practices Act. We discounted that on the grounds that the time frames for the authorisation were too short and it really did not achieve much. I think there was also the perception that, unless we were to deregulate fully, which was unacceptable and nobody in the industry—processes or growers—saw that as being sensible anyway, it just did not seem to be a sensible way to go. The more logical route was to look at what we needed to do with state legislation.

**Senator MARGETTS**—You might like to take this on notice, but have you got any suggestions about the operations of either the NCC or the ACCC as to how they might be more accountable to the community, more accountable to parliament or simply operate in a better way?

**Mr Hamilton**—I will take that on notice. Off the top of my head, I have no strong view one way or the other. I do not think the problem lies with those bodies so much.

**Senator MARGETTS**—I meant structurally, not attacking the individuals.

**Mr Hamilton**—Off the top of my head, no. The only comment would be a procedural or process one rather than a structural one. Rather late in the piece we started to see some documentation about the intent of the NCP and the philosophy behind it coming from the NCC. I think that came out rather late in the piece. In my view, it has been misconstrued by a lot of economists who have seen things through economists' eyes, which are not necessarily synonymous with those of the architects of the NCP.

**Senator MARGETTS**—Which economists are having the most impact? Which kinds of groups and individuals are having these kinds of impacts?

**Mr Hamilton**—Which impacts are you referring to?

**Senator MARGETTS**—The interpretation. When do the problems in interpretation become a problem for you?

**Mr Hamilton**—I guess it has become a problem for us in state bureaucracy in how they have interpreted the intent or the fine print in how the process should proceed. In terms of

the arrangements—the calling for submissions, the advertising, the structure of the committees and so forth—we had no real disagreement. The argument was with the empirical analysis. The offer was made by one of the public servants on the review committee for the department of primary industries to provide a couple of economists to undertake the benefit cost analysis as part of the public benefit test.

I have been associated with public benefit cost analysis for 30-odd years, so I know what I am talking about. I was a former employee of the department of primary industries. Unfortunately, we went along with what came out of it. We said that that was fine. We had telegraphed that we knew there was a dearth of empirical information about the industry in Queensland. It was not only the chicken farms but also the processing side of the industry and right through the value chain. For example, relationships between the growing fee and consumer prices have never been established in Australia, to my knowledge. The relationship between chicken meat prices and other competing meats has never been established in Australia to my knowledge.

The only study which I think in any way comes near that is a study in the United States where we have an entirely different regime operating. But our concern was with the fine print. Treasury in Queensland insisted that we had to have an empirically based benefit cost appraisal. They went about collecting a handful of information, throwing it together, making some quite heroic and outrageous assumptions and then coming to a conclusion which effectively knocked the growers' case right out of the water.

**Senator MARGETTS**—Did Treasury do that benefit cost analysis?

**Mr Hamilton**—I know the two individuals concerned. At one stage they were on my staff. Aside from that, whether they were employed by Treasury or by the department of primary industries, I cannot be certain. But, certainly, they were public servants. I know who they are, I know who they were and they should have known better frankly.

**Senator MARGETTS**—I would love to talk to you sometime about that cost-benefit analysis, but another time. Can you tell me about the problems you have perceived in the nexus between the price of chicken meat and what consumers, the customers on the ground, are getting?

**Mr Hamilton**—I think the price of chicken meat used in the analysis involved in our industry was probably for frozen chickens. They represent a comparatively smaller proportion of retail sales of chicken. I have been to at least one shopping centre and counted at least 30 different lines of predominantly fresh chicken which are available to consumers, and the price varied from \$2.99 to \$9.99 a kilogram. Unless you know what the exact proportions of each of those particular lines are and you can look at the consumer demand for each, then I fail to see how you can determine what the average price for chicken meat might be. That is the sort of thing that you need to do if you are going to start playing around and saying that consumers are reacting to this or that. It is a highly differentiated product as far as consumers are concerned. There is not a single product before consumers. They have probably got more choice now than they have ever had in their lives.

**Senator MARGETTS**—Is it a problem that only some parts of the economy are having to change and other parts are not because of the current Trade Practices Act?

**Mr Hamilton**—I guess that is part of the concern that we have. For some reason, contract chicken growers have been singled out for microscopic examination. We said right from scratch that we felt that the market really was the market for our services as seen by the processors. There was no comparison with, for example, the processors' own company farms where they operate. We have one such operation in Queensland. There was no comparison made with that. No account was taken as to whether or not the processing side of the industry was running economically, if I can use that term. No cognisance was taken of whether the assembly of the chicken meat for processing or the distribution of it for retail was sensible or economically sound.

No account was taken of the retail sector and the economics that might have been there and whether or not that was economically sensible or sound. No account was taken of the determinedness of retail demand which might have nothing to do with what happens on chicken farms. So there are a whole lot of bits left out and yet all of a sudden we get this direct relationship between what happens on chicken farms to wit the growing fee, which is the fee for services for a very small segment of the industry. It is directly related to consumer prices. It is nonsense. There are a lot of filters in between.

**Senator MARGETTS**—I remember statements by Graham Samuels around a year ago saying that those people criticising the operation of competition policy were at best ignorant and at worst intellectually dishonest. Did you hear those kinds of statements?

**Mr Hamilton**—I cannot say that I did.

**Senator MARGETTS**—But from what you say you have been dealing with it on a daily basis for a long time. It sounds like the information might have been lacking on behalf of the National Competition Council, not on behalf of the sector. Sorry, that is an unfair question.

**CHAIR**—Can you just take me through this cycle for somebody who eats chicken, but that is as much as I know about it? I just want to get this worked out. Your members grow chickens.

**Senator McGAURAN**—And eggs.

**CHAIR**—Yes, I eat eggs too. Your members out there grow the chickens which are then handed over to the processors and, in this country, that is predominantly three organisations. Is that right?

**Mr Hamilton**—Yes. Let us go back half a pace. The processors have breeding farms. They produce the eggs. They have the hatcheries. They provide day-old chickens. They produce day-old chickens. The day-old chickens are provided to a swag of growers who, under contract, grow those chickens from day-old through to slaughter weight. The processors then come and collect those chickens, take them away, process them and everything that goes on. All the feed that is supplied is supplied by the processors. All the medication, if it

is required, is supplied by the processors. The processors have their own field staff who go round and check on the standard of husbandry, the current state of the birds and all of those sorts of things. In a sense, they keep an eye on their chickens. They are the processors' chickens. The service which the contract growers provide is to provide the shedding and the manpower to grow them from day-old through to processing weight.

**CHAIR**—And roughly how long does that take?

**Mr Hamilton**—From 35 to 48 days.

**CHAIR**—And your members get paid the fee?

**Mr Hamilton**—We get paid a fee per chicken.

**CHAIR**—Is it true that this industry is just so highly oligopolistic that in fact you only have a handful of processors that control the whole thing? Is that right?

**Mr Hamilton**—There are two major players, and I will name them—namely, Steggles and Inghams. They are national companies. They have operations in all states. In all of the states except Tasmania there are other processors who tend to be, I call them, regional processors. They compete and supply to essentially a regional market. For example, Golden Cockerel is the third member in Queensland. It is jointly owned by two companies who produce all their own chickens which predominantly have company owned farms. There are two or three contract growers supplying each of those.

**CHAIR**—If I go into the chicken growing business, am I obliged to stick with one particular processor or can I have one shed from one lot and another shed from another lot? Is it required by the processor that I stay with that particular crowd?

**Mr Hamilton**—First of all, you will need to organise a contract with somebody otherwise you cannot get your birds processed. You could process your own birds, and there is nothing to prevent you processing your own birds. I would suggest that it would be uneconomical because economies of scale operate. So the first thing is to get yourself locked in with one of the processors. This question has been asked before as to why you cannot have a shed to one processor, another shed to another processor and so on. For very sound technical health reasons and animal health reasons, that is a no-no. In fact, we would argue that we need a separation distance between the birds on one farm from the birds on another farm of something like a kilometre. So we would hope that an Inghams grower would be a kilometre away from a Steggles grower and they would be a kilometre way from another Steggles grower and so on.

**CHAIR**—So there is no way that I am going to be supplying both suppliers, is there?

**Mr Hamilton**—No.

**CHAIR**—What did they attempt to do here by deregulating this industry? What was that aimed at doing? Was that aimed at helping Inghams drive down the price a bit? Is there a regulation which says this must be paid to a grower?

**Mr Hamilton**—I cannot answer something that specific with certainty in quite that context. Let me answer it this way. The requirement is that, once the contract has been established, the contract in essence says that the processors shall supply the chickens and shall take the birds away and shall pay the requisite fee.

**CHAIR**—Was that fee set down in regulation until recently, or still is?

**Mr Hamilton**—The fee per se is not locked into the regulation.

**CHAIR**—It is a contract matter.

**Mr Hamilton**—It is effectively a contract matter. It is determined each year by negotiation. Every six months it is reviewed and the determination, if it is such, is by the Chicken Meat Industry Committee who meet sometime in the six months and say, ‘Yes, we agree with that.’ That is a handful of processors and growers sitting around the table together and they mostly determine that.

In fact, before they get anywhere near the chairman. That could be seen as being collusion and for that reason, yes, you could argue that there are some problems with the Trade Practices Act in that respect. We would argue that the fact that that has happened has had effectively no impact on consumers at all. Regulation as such really has assisted the industry.

**CHAIR**—Let us just explore that for a moment. What you have just told me is that in fact the prices and the whole arrangement between the processors and the growers is set down in a contract which is negotiated or renegotiated roughly every 12 months.

**Mr Hamilton**—It could be.

**CHAIR**—It largely has been?

**Mr Hamilton**—That varies from state to state. In Queensland they would determine it initially at some point in time and the nature of the contracts here is that they are a 12-month rollover. The only thing that gets renegotiated is the growing fee.

**CHAIR**—What I am lost on here is: why would the NCC want to interfere in what is already a highly oligopolistic enterprise in any case? There is going to be no free market in this arrangement, is there? What were they attempting to do? What were their stated goals?

**Mr Hamilton**—I would suggest that the stated goals is not so much the NCP or the NCC. It was probably more the state government and their minions making sure that they in fact reviewed the legislation which was perceived to have some anticompetitive elements in it to seek to get rid of those anticompetitive elements, so that they provided no blockage in terms of the flow of Commonwealth funds from Commonwealth Treasury to state Treasury.

**CHAIR**—There was no icing on the cake here so that I was going to get my chicken tandoori cheaper or something like that at the other end, was there?

**Mr Hamilton**—As far as we are concerned, no. That may have been argued in terms of moving from our preferred option to a preferred option which was conjured up by the review committee consequent on the public benefit test on our preferred option—which we have said is nonsense. Had that not been done they would not have gone to plan B. Plan B was not that much different to plan A.

**CHAIR**—That is the point I want to come to.

**Mr Hamilton**—It really did nothing as far as we could see. The figures might have said, yes, there was a benefit. I would have said that any perceived benefit there was in the area of random error.

**CHAIR**—In your case it would be reasonable to say then that if it was totally deregulated it is not going to make much difference?

**Mr Hamilton**—Totally deregulated? We would not agree with that, no. It depends what you mean by totally deregulated.

**CHAIR**—If you were to deregulate this particular area—and I am not carrying a can for that—then in essence you are still going to have the same processes, peddling the same day-old chickens to the same growers, then buying them back again when they are big enough to slaughter and selling them to the same 84 per cent of retail industry out there in the supermarkets and a handful of Chinese and Indian restaurants. Is that not the case? It would not make much difference, would it? What I cannot understand is where the difference is going to come in.

**Mr Hamilton**—The difference comes in in terms of the preparedness of the processors to in fact honour the sort of arrangement that you are suggesting. We have got annual rollover contracts. They can be terminated on six months notice, and that is written into the legislation. So they could terminate all contracts and say, ‘We are going to write new contracts.’

**CHAIR**—So the regulations do give some protection?

**Mr Hamilton**—Yes. They provide the growers with protection in the sense of countervailing power against the economic power of the processors in that sense. Certainly, individual growers who have to negotiate their own contracts and so forth, we would say, are going to have increased transaction costs. There is not much doubt that that would happen. It is probably the only thing that will happen.

**CHAIR**—There is just one more question I have to ask. You made a statement before about the fact that public servants sought to explore under NCP areas that you felt were outside the ambit of the NCP. I wonder if you could elaborate on that for us, please?

**Mr Hamilton**—In a sense I have already alluded to that in part by referring to the desire to ensure that there was a free flow of Treasury dollars coming from the Commonwealth to the state. That really had nothing to do with the review of our legislation. We would argue that extending the analysis or the assessment into the retail arena again is really a

questionable exercise, because that is not the marketplace in which we are operating. Our marketplace really in a sense stops with the processors. What happens beyond the processors really has nothing to do with the legislation we are involved with.

I have a personal view which suggests that they were trying to flick pass the legislation, and did not want to have anything to do with it and accept the responsibility of administering it—not that that is particularly onerous. I have been on the other side of the desk and it is not a difficult industry to administer. There is very little involvement in fact by the public service at all. I just suspect that there were some hidden agendas there. I know that those sorts of agendas float around because I have been on the other side.

**CHAIR**—We know too, and we are trying to find out what they are.

**Mr Hamilton**—Understandable, yes. I could be very cynical and say part of it is self-preservation of the public servant.

**CHAIR**—That is a given. It is usually other things, with all due respect to my civil service colleagues around here.

**Mr Hamilton**—I think the sorts of things that I have talked about would probably be the more obvious ones anyway. It might have been a throwaway line, but the comment made by one of the players was disturbing to us that, ‘If we are to get the sugar industry and the dairy industry up, we have to have a sacrificial lamb and that will be the chicken meat industry.’ That sort of comment does not sit very comfortably with the chicken meat industry. That is, if we are going to roll one industry and deregulate it completely, it is going to be the chicken meat industry.

Why should we be the bunnies? Why pick on us just because we happen to be a small industry? It is quite unreasonable. People have been homing in unrealistically and unreasonably on a very small sector of a comparatively small industry, at least in this state. That is unacceptable in our view.

**Senator McGAURAN**—I have no questions.

**Senator MARGETTS**—Can I just ask one further question?

**CHAIR**—Yes.

**Senator MARGETTS**—I just want to clarify that what you see is that the process is looking at horizontal equity rather than competitive neutrality. There seems to be, from what you describe, a problem in that the process of each individual industry—in your case, the chicken industry—is looked at microscopically and that does not necessarily make sure the benefits flow through. It seems to be kind of reductionist—just looking at a horizontal competitive neutrality and not being able to look at the vertical flow throughs.

**Mr Hamilton**—I understand what you are saying, I think. The fact that people have not looked vertically sufficiently and have concentrated on a particular sector of an industry is

perhaps giving a misleading view of what might apply if you look at the whole industry. I am not sure whether that answers your question.

**Senator MARGETTS**—I am still struggling. We are going to be looking at this for a while and we are not nearly at the point, I guess, of actually going to anyone with any recommendations. We are really just looking at the surface at this stage. I guess over time what we would like to look at is how the system might operate more accountably and more effectively.

Another question came from some of my original questions. Your process of review seems to be, from what we have heard from some other witnesses, a bit more open than some. Was it open enough for you? Have you been liaising with other sectors of the rural industry in Queensland, and have they had a similar experience?

**Mr Hamilton**—It was open in the sense that I had free access to the grower representative on the review committee. He and I used to have long conversations, at least at weekly intervals, about what was happening. There was some merit in having knowledgeable people on the review committee. There were some disadvantages with it as well, the main one being that they tended to be used as a source of information rather than as reviewers. We have commented in one of our submissions on that particular point.

As an individual, even though I put together the association's substantive submission, I never appeared before the committee. I never sat in on any committee meetings. Nothing was ever referred to me specifically for comment. In that sense, it was not open, it was kept within the ambit of the committee. I am open-minded about whether that is good, bad or indifferent. We would perhaps like to have had an opportunity to comment at a much earlier stage on where the end result was heading in terms of the report from the review committee.

**Senator MARGETTS**—Did they call for submissions at all from within the industry or ask for any input?

**Mr Hamilton**—Yes. There were advertisements in the paper. It was advertised and there was a call for submissions. I say that we put the substantive submission in: it was certainly the lengthiest and the most comprehensive, but there were other submissions. I think both of the major processors put submissions in. The Chicken Meat Industry Committee, I think, put in a small submission. I think a handful of individuals also put submissions in. So a number of submissions were fed through to the committee. In that sense, it was quite open. It was the back end perhaps when it got closed up a bit, rather than the front end.

**Senator MARGETTS**—Basically, you are saying that the report was finished and then it just sat around for a year.

**Mr Hamilton**—It sat around for a year. What was also happening at the same time in Queensland was that there was a succession of ministers for primary industry. I think we went through about three or four during the period.

**Senator MARGETTS**—What did you do to them?

**Mr Hamilton**—I won't answer that. We had not long since, I think, come out of a scrape with AQIS, and I guess we were a bit distrustful of public servants who, when they had a new minister, whizzed something in front of him to get him to rubber-stamp something. So we took pains to—

**CHAIR**—They do that up here as well?

**Mr Hamilton**—Yes—well, I do not know. I think we forestalled that. We made representations to each of the successive ministers to in fact look at what was being put forward carefully and to make sure that the dissenting reports, as well as the majority report, from the committee were considered. I think it was partly on our representations that the independent person was appointed to actually review the material which appeared to be in conflict. We did not just sit on our hands for 12 months. At least we tried to keep at arm's length from political lobbying; we were more concerned that due process was pushed along a bit faster than perhaps it was.

**Senator MARGETTS**—It does seem that a variety of review processes have taken place depending on where they are and how they have taken place. Maybe we will ask other people along the way what their experience has been as well. Thank you very much.

**CHAIR**—Thank you very much, Mr Hamilton. I now think I have a bit of an insight into how this arrangement works. Thank you very much for your evidence.

**Proceedings suspended from 11.09 a.m. to 11.24 a.m.**

**BRAY, Mrs Jean, Mayor, Esk Shire Council**

**GAUVIN, Mr Harry Louis, Finance Manager, Esk Shire Council**

**MULLINS, Mr Danny, Chief Executive Officer, Esk Shire Council**

**MIHOVILOVICH, Ms Sue, Manager, Economic and Public Policy, Local Government Association of Queensland**

**CHAIR**—Thank you very much. We prefer all evidence to the committee to be given in public but should you at any stage wish to give part of your evidence or answers to specific questions in private you may apply to do so and the committee will consider your request. I now invite one of you or all of you to make a brief opening statement and at the conclusion of your remarks I will invite committee members to ask you questions. I presume we are going to get this as part of the statement.

**Mr Mullins**—Yes, with your permission. I was talking to Peter yesterday and if we could start with this—

**CHAIR**—Sure, no problems. If you could just speak to it fairly well because we have Senator Margetts 3,000 miles away in Western Australia.

**Senator MARGETTS**—Did Senator Mackay bring her camera today?

**Senator MACKAY**—No, I forgot it, Dee.

**Senator MARGETTS**—All right. Never mind.

**CHAIR**—We are going to take a picture of you, Dee, like that. I want to remember you sitting there with an empty cup of tea next to the box.

**Senator MACKAY**—Yesterday we had Senator Margetts in the box talking to Professor Quiggin who was on the phone.

**CHAIR**—We will go over to you, Mr Mullins, and you can take us through the evidence.

**Mr Mullins**—On behalf of the council, thanks very much for the invitation to attend this morning. As you are aware, our representatives are our mayor, Councillor Jean Bray, our manager of finance, Harry Gauvin, and myself. This morning we intend to give a broad overview of the Shire of Esk that will be fairly brief, and information on the impact on our shire, the view of our council on the issues, and also the social issues and the views of the broader community—and I will ask Jean to make some comments after we go through this presentation.

*Overhead transparencies were then shown—*

As you can see on the map there, the Shire of Esk is located in south-east Queensland. We border nine other local governments, ranging from Brisbane, Ipswich, Maroochy and the shires to the west and north-west are rural shires. The township of Esk is only about 100 kilometres from Brisbane. That is in about the centre of the shire. In the southern part of the shire, we have the townships of Fernvale, Minden and Lowood and it is an average of about 55 kilometres from the CBD of Brisbane. Also in the shire we have got the Wivenhoe Dam and the Somerset Dam.

That is just a small map of the shire itself relative to the borders of local governments. In the shire we have got 11 townships and a population at this stage of 14,500. The forecast is for an average increase of 2½ per cent, but most of that increase is in the southern part of the shire mainly due to urban overspawl from the Ipswich and Brisbane areas where people are after lifestyle in a rural area residential environment. That is where most of the population growth will be.

Our annual budget is in the order of \$18 million. We have got 120 employees of council. Of those, there are approximately 40 employees that are internal staff ranging from shire planners, officers in the finance section, engineers, environmental health officers, and a few other areas are represented there, too.

As you are probably aware, there are 125 local governments in Queensland. Esk would be regarded as a medium sized council in the local government structure all over Queensland. Under the NCP criteria or principles we are identified as a type 3 council, which I will comment on soon.

You are also probably aware of some of the functions of local government in Queensland—water and sewerage is one function that local government has in Queensland. I am aware that not all states in Australia have that responsibility. Roads, I am sure you are also aware, are a major problem for local government on a national basis, mainly in terms of funding and shortage of funding, which, in most people's view, comes from the Commonwealth—that is another issue. The other function is waste management.

On the right-hand side there we have got lifestyle. It is a role that local government in Queensland has embraced, more so in recent years—I would say ever since the late 1980s—dealing with the issues of lifestyle. If you go back to the early 1980s, it really was not a role for local government in Queensland. It was virtually just rates, roads and rubbish. Those states to the south, such as Victoria and others, were not being prudent in taking on these other roles such as social issues. However, the world changed and this is what the people really want: that local government is to also deal with lifestyle issues. So there has been a major change in the role of local government in Queensland.

We can ask ourselves: what is NCP? I will not dwell on this. But this is our understanding or interpretation of NCP. It is there. It was signed off by all levels of government—when I say all levels, I mean the Commonwealth and the state governments—around Australia some time ago. You are also aware of the guiding principles, which apply to local government. It is shown on that map there.

Moving on from that, the next chart shows what is required for all councils: the Trade Practices Act; review of our local laws; identification of our business activities. As I indicated before, under the guidelines our shire fits in as a type 3 council within the structure in Queensland. In Queensland it was agreed between the state government and the Local Government Association, some time ago, that the benchmarks would be set for water and sewerage at those figures. If their annual recurrent expenditure, for example, is over \$28 million for water and sewerage it is a type 1 council. Only 18 of the 125 councils in Queensland are either type 1 or type 2. That is those councils—as you are probably aware—Brisbane, Rockhampton, Cairns, Townsville, Ipswich, Gold Coast, Maroochy.

The options for type 1 and type 2 are shown. It was back in 1997 that they had to undertake their public benefit assessments, and the implementation had to start from last year. The options there—1, 2 and 3—range from full cost pricing up to a corporate model. I understand—and Sue will be able to comment—that no local government in Queensland at this stage has taken on the corporate model for any of their business activities.

**Ms Mihovilovich**—No, not yet. They are worried about tax regimes.

**Mr Mullins**—Type 3 business activities—and this is the area that we fit into, as the council for the shire of Esk—relates to any activities where we trade in goods and services. The benchmark there is the amount of \$200,000 for any activity. In Queensland, over a number of years local government in the rural areas has been involved in a lot of business activities, mainly for the primary purpose of providing that service within their community. They range from caravan parks to some councils even owning hotels. I know of one council which owns a butcher shop within its town.

**Senator MACKAY**—A butcher shop?

**Mr Mullins**—That is true.

**Senator MACKAY**—Which council owns a butcher shop?

**Mr Mullins**—The council of Boulia, out in the far west of Queensland. It is almost as far as you can go, but it is out there.

**Senator MACKAY**—Local government never ceases to amaze me.

**Mr Mullins**—It is out in a township. They also own the hotel. They own the butcher shop. They own the caravan park. They own the cinema.

**CHAIR**—Caravan parks I can understand, but the butcher shops?

**Senator MACKAY**—It is because nobody else would provide it?

**Mr Mullins**—Yes.

**Councillor Bray**—Funeral parlours.

**Mr Mullins**—Cans, undertaker.

**CHAIR**—Council funeral parlours?

**Councillor Bray**—Some councils do. We do not.

**Senator MACKAY**—Councils do amazing things.

**CHAIR**—So you can be fed and stuffed at the same time. It is not the same bloke, I trust, though?

**Councillor Bray**—The coldroom can get a bit crowded sometimes.

**Senator MACKAY**—Shut up, Chair.

**Mr Mullins**—Bouliia is about halfway between Mount Isa and Birdsville. In the early eighties, the butcher shop was going to be closed down, but the council took the decision for the benefit of their township to buy it, open it and then lease it because they were of the opinion that, if it closed down, it might encourage other activities within the rural area surrounding Bouliia. Other people might have gone to Mount Isa to do all their shopping, and that would certainly have had an impact on the other small businesses that were there.

I will briefly talk about the public benefit test. Council sits down to do their public benefit test and, if the negatives outweigh the positives, there is really no action that needs to be taken. I realise there are certain principles and criteria that have to be addressed when you are doing a public benefit test. At the end of the day—this is our approach—if the negatives outweigh the positives, it is not our intention to make any major changes.

Things we do have to consider when we are doing a PBA, or public benefit assessment, are the staff of our council, the residents within our community, the council operations themselves, the services that we provide, regional issues—we are part of south-east Queensland—industry within our shire, which Jean will comment on later, and the impact on our budget or finances. This statement on the overheads is a quote from correspondence from the minister for local government in Queensland, the Hon. Terry Mackenroth.

**CHAIR**—Would you mind reading the quote?

**Mr Mullins**—It states:

. . . the NCP framework was developed cooperatively between the State and Local Government, and provides for the **maximum level of autonomy and choice** for local government to determine what, if any, reforms they wish to implement . . .

In our case, to date, we have undertaken the local laws review and also the policies that are linked to those local laws. That will be completed. It is certainly well under way, but our time frame is that we hope to have it finished by early next month, May 1999. We have also identified all the type 3 business activities within our shire.

In June last year, we embraced the code of conduct under NCP, full cost pricing. Back in 1997, there was a minor organisational review, mainly at the management level. The idea of the changes at that stage was to meet the changing role of council.

On the business activities, I indicated before that the benchmark is over \$200,000. We have not got any type 3 business activities that are over \$200,000 at the moment. However, we have identified a number of activities within our shire which we are going to apply full cost pricing to: quarries and gravel pits, plant operations, private works—that is, the services that we do for external parties—pools within our shire, waste management, roads, water, sewerage and the cemeteries. As I also indicated before, for water and sewerage, the benchmark there is a lot higher. Our recurrent expenditure for water is in the order of \$4½ million and sewerage is about half of that.

In Queensland, fortunately, there was an agreement between the Commonwealth government, the state government and the local government that local government receive incentive payments. That will happen over the next four years and it adds up to \$150 million. The first component is training, and that is being managed and serviced by the Local Government Association of Queensland and also the local government department.

As for the \$7½ million for review, all the reviews for the type 3 councils have to be finalised by June this year. Item C there, of \$141.5 million, is for those councils that embark on implementation of the principles of full cost pricing or any other model. It is worth saying at this stage that the \$141.5 million will only be paid if the councils actually hop in and do the work that they have indicated at this stage they will do.

Out of that \$150 million, our council has been earmarked to receive \$35,000 for review and \$487,000 for implementation. As I said before, we have already undertaken the review and we will receive that \$35,000. Obviously, it is possible over the next four years that we will be paid the balance of the \$487,000 in full. But it is also possible that we will not receive even half of that, because the onus is on us to see what we do over the next four years. That \$487,000 is for activities such as a review of our roadworks, water and sewerage and also various other business activities. In the water component, we are looking very closely at our water charging structure.

One of the problems we have encountered right from day one—you might say over the last two years—is that there has been a limited understanding of NCP generally. That is no fault of the Local Government Association or the local government department. They have done an excellent job in making training available and also circulating relevant material. Another problem is the shared vision between councillors and officers—and that may be regarded as a general problem in the local government industry—and also a lack of resources. The money is there for the future, but if we are going to embark on the various options and programs, we obviously have to gear up in a very structured way so that we do get value for money.

In Queensland local government, there is a lot of misunderstanding about NCP. It is not about competitive tendering in Queensland, it is not about contracting out, it is not about privatisation and it is not about job losses. There is no onus on each local government to actually implement any major changes.

**Senator MACKAY**—Just before you go off that slide, is that last point a quote from something or is that just your explanation?

**Mr Mullins**—Again, that is a quote which I should have referenced as being from the Hon. Terry Mackenroth in correspondence last year. He said:

Local Governments in Queensland are not required to contract out or privatise any of their activities, nor adopt any changes to their employment levels and conditions unless they voluntarily elect to do so.

**Senator MACKAY**—That is the ministers?

**Mr Mullins**—Yes, it was in correspondence. I think it was about 9 September 1998 by Terry Mackenroth.

**Senator MACKAY**—It may be helpful to get a copy of that.

**Mr Mullins**—As an aside there, you might notice our logo up on the right. It is a red deer. The deers are actually located in the Esk Shire. They are asking the question, why? Our views are that there is the media, the politicians and the unions. That is part of the reason why there is a misunderstanding out there generally in the local government industry. In the last four years in particular there has been a number of shires in Queensland that have downsized, right-sized or restructured. In recent times, in the last 18 months to two years, some external persons have made the comment that it is all the fault of the NCP. It is really not the case. The NCP has had no impact on small councils in Queensland in terms of the size of their work force. It has not to this stage and it is unlikely whether it will have in the future, unless council decide for their own reasons to have a change of direction or service delivery.

Back in 1994, local government in Queensland went through an agreement process with the state government; the Department of Main Roads in particular, and it was known as the road reform package. The major change there was that local government in Queensland—and most were and they still are—undertakes works for the state government on the Queensland road network. In our shire it is a very important source for revenue to us and to all of rural Queensland. It is fair to say that, if they did not have that source of income, they would be in dire straits as far as meeting their own obligations is concerned.

Up until 1994, the arrangement with the state government was that it was only based on inputs. After 1994, it was based on outputs. All that means is that, prior to 1994 the state government said, 'You have X amount of dollars this year to spend on road maintenance and capital works.' We are talking about sizeable amounts of money here relative to the general budgets of those local governments. On a monthly basis, each local government would do their work and send an invoice for their inputs—their plant, labour and materials. Whereas now it is based on outputs, so there is an agreement in advance prior to 1 July each year of what work is going to be done, at what unit price and what is the figure. So, if a council makes a profit on the project, the council keeps that money on the proviso that it goes back into the road network either on the state roads or their own local roads. If they make a loss, the councils have to wear that loss.

So back in 1994 councils had to look from the outside in and say, 'Is our work force really efficient? Because if we are going to do this work for the Department of Main Roads, we have to make sure that it operates in an efficient way.' In the case of Esk, at that stage that we did go through a restructure in our field operations. In the best way possible our staff reduction occurred over a period of 12 months by about 25 to 30 employees.

However, there are local governments now who are feeling the impact. I am not being critical of those other local governments, but for various reasons—and they are various reasons, too—they are going through the exercise now of right-sizing their staff. This is where we are getting comments from external people. I mentioned before about politicians—both state and federal—who have a lot to answer for about the misunderstanding which is out there in the community about NCP.

For an employee it has an impact too. If a neighbouring shire, for example, downsizes and a number of employees are made redundant, and on the radio that day you hear a politician—the employee may be out in the work force driving a truck or a grader—saying it is all the fault of NCP, and five minutes later you hear a union leader say the same thing, it has an impact on staff morale and on their attitude about what is actually going to happen within our organisation. So a lot of work needs to be done. We have embarked on it, but it is a reinforcement strategy. We have to get out there amongst our employees on a regular basis and say, 'Your job is safe. Here is our works program. Here is our position for the next two years at least.' We cannot guarantee everything in the long term.

As to the impact on Esk Shire, local government is our stakeholder. That ranges from our councillors to our managers and staff to our service organisations, to the various groups and organisations within our community, right through to our visitors, the government agencies we work with and the regional interest groups.

I note that in your correspondence that I received yesterday one of the questions—that we made a comment on—was about the economic effects on our budget. I will say at this stage that it is nil. The effect on our service delivery is also nil. As to the social and employment effects—and I referred to it before in relation to our own employees—there is a fear, and it is an ongoing fear, about a loss of jobs being caused by NCP. And there are various groups within our community, which Mayor Jean will comment on soon, which also have their personal views on this.

The pace of change is another issue that you asked for comment on. Obviously, it is a global trend, and that was the catalyst back when the agreement was signed and we embarked on this. There is a change in roles for local government in Queensland and also on a national basis. This change has been influenced by both the federal and the state government levels. In our community, and all over, residents are expecting a lot more from their local government in terms of the delivery of services, and they are also interested in the services being value for money.

In Queensland we have had some major changes in local government in the last five years in particular. My opinion is that the change process was generally well overdue. A lot of the change that happened in the last five years was on the agenda back in the early and mid 1980s, and it was only from about 1992-94 that the wheels started to turn in terms of

implementing it. And, as we are all aware, and I am sure that we will all agree, there will be more changes in the future, and we have to be ready for them.

On the topic ‘major changes that have occurred in Queensland’, even though I have got NCP at the top, it really has not had the impact at this stage on most local governments outside the types 1 and 2 councils—that is, the 18 bigger local governments in Queensland. Of the other 114 or 111 councils in Queensland that are classified as type 3, only 76 have indicated that they will be looking at, for example, their water and sewerage operations. This means that they will not share in that pool of the balance of that bonus money of \$141 million. That is their decision, and they have obviously got some good reasons for going that way.

All the other changes that we have listed there, on the bottom right-hand side, is the new Local Government Act passed back in 1984. That was a major change and really was a catalyst for everything else that came along. I mentioned before the role of the Local Government Department and the Local Government Association with their training and also providing material to support councils. You asked about the environmental impacts. I have mentioned nil there. Jean will comment later on a shire wide basis. What I am dealing with here is the internal operations of council.

Our view is that full cost pricing is a valuable management tool. Even if the phrase ‘national competition policy’ was never invented, full cost pricing is something that we and other local governments should be looking at and implementing. Even if the NCP was withdrawn tomorrow, it is a management tool that we have embraced, even though we have got a long way to go, but we are going to implement it for good financial reasons.

The main reason is to identify the real true cost of a lot of our activities. There are a lot of services that we are providing out there as CSOs, community service obligations. It is in our interests to identify the real cost of those services that are provided, not only for us at a management level—councillors and management staff—but also for the local residents within our shire who may be receiving some of those services.

Full cost pricing helps us focus on our strategy, structures, service delivery and cost management, and will make us more transparent when we get around to implementing it. It encourages us to look from the outside in at our own operation to see if it is efficient and how appropriate our current structure is. When we are doing any assessment we have to ask what we have achieved and what outcomes are going to benefit our community.

The council’s long-term view is to continue with the implementation of full cost pricing. Ongoing training will be provided to councillors and officers within our council for at least the next two years. The onus is on us now to get out amongst the residents within our community and inform them of what our views are about the NCP, so that we can get some shared understanding that it is not the end of the world for their own local government.

Finally, there is the general assessment. The NCP has not and will not have a detrimental effect on local governments such as ours. That is the end of the presentation. As a final comment, we are very positive about the NCP, but in saying that, we have a long way to go. We are very keen on embarking on this process.

**CHAIR**—Thank you very much.

**Senator McGAURAN**—Have your rates gone up or down in the last three years?

**Mr Mullins**—The answer is, no. There has been a marginal increase, but it is in line with the CPI.

**Senator McGAURAN**—Would you say that that is a benefit of NCP? That would be the main thing that your ratepayers would want to know. Is that NCP related?

**Mr Mullins**—That there has been no increase in rates?

**Senator McGAURAN**—Yes.

**Mr Mullins**—No, it has no relevance at this stage to NCP at all, because our only involvement at this stage in NCP activities is doing a review of our local laws and our other business activities to see what our trading activities are. What I was saying before about the implementation of full cost pricing is going to happen over the next 18 months.

**Senator McGAURAN**—I took it from your presentation that you have been implementing it. Have I completely misunderstood?

**Mayor Bray**—I would like to answer that. When the road reform was brought in—and this is where a lot of confusion has come in—it forced us as a council to reanalyse, particularly in our roadworks section, what we were doing with our plant and our men and with the activities and the processes. That is what NCP has been really tangled up with. The road reform process that we adopted and which recognised the benefits of that started a change within our work force. That road reform generated a lot of fear within our work force. Then, when the introduction of NCP came in saying, ‘You need to look at your operations from a broader perspective,’ people carried that fear through the NCP process. We actually have been reviewing what we have been doing over quite a number of years.

**Senator McGAURAN**—But you never implemented it?

**Mayor Bray**—We have been implementing changes progressively over a long period.

**Senator McGAURAN**—That is my point. You are saying that those implementations—

**Mayor Bray**—But I do not think NCP—

**Senator McGAURAN**—do not relate to rates going up or down.

**Mr Mullins**—No, it has freed up more finances that we can use on other functions and other service delivery. If you go back over the last 15 to 20 years—you asked about the rate increases in shires—you will find in most local governments that the rate increases have been pegged, on average, to CPI.

**Mayor Bray**—Perhaps you are confusing the issue with the fact that over the last few years, partly due to changes in society as well, local government has been required to take on a whole raft of additional responsibilities. We have really seen a reduction in our FAGs money. Occasionally, we get some more dollars from the state government; occasionally, we do not. But we have been required—partly due to public perception, but also with a lot of the changes too—to take on a raft of new activities that we previously did not undertake. We have had to fund those, so any changes have been structural changes within the organisation and rationalisation of services.

**Senator McGAURAN**—What began as a simple question has turned into more than that. I really thought—

**Mayor Bray**—It is more complex.

**Senator McGAURAN**—Just so I do not misunderstand your whole presentation: have you implemented, or are you in the process of implementing, NCP?

**Mr Mullins**—Yes.

**Senator McGAURAN**—Have you got advantages already?

**Mr Mullins**—Yes.

**Senator McGAURAN**—Thank you.

**Mayor Bray**—As the CEO said, I would like to talk about the social implications, because I think that our council has tried to be on the front foot with all of this, but we have paid a price for that, and the social implications have been quite heavy. It is a bit like what you were getting to in your question; you just cannot say, ‘Keep your rates down, so NCP can claim credit for that.’ I think that that is far too simplistic.

Over the last decade we have been dealing with major change, both within council and also from society’s perception. We are on the outskirts of Ipswich. Our border is just a few kilometres out of Ipswich. We have been through a partial amalgamation. Our area has changed radically from a rural area to an outer suburbia type area, so we also have a change of population. We have been through 10 years of drought, and we have felt badly the impact of change that has hit the rural industry. So a whole raft of changes have occurred—societal change, rural industry change, council change, legislative change—and it is all tangled up together. You really have to look at it from a historical point of view, and I guess that is the way I have tended to come to terms with it.

The road reform was a major change. It threatened a lot of our work force. It forced a cultural change. That, in itself, has not been totally successful, because a cultural change and an attitudinal change does not happen overnight; it progresses. We have got council employees that have been employed by our council for something like 35 to 40 years. They have an expectation that their job is going to see them out to retirement. They have pretty entrenched views. All of a sudden there is change, there is a downturn in rural employment

opportunities, there is a downturn in the economy, there is a drought, and people suddenly feel very threatened about their jobs.

The difficulty we have had in trying to educate councillors as well as our staff is that you say the first sentence and they shut their ears to everything else, because the first sentence determines whether they are going to have a job or not. So they just do not hear things. This has been, I think, a radical problem with NCP right across the country. The average person whose lifestyle, income base, future of his children or whatever is under threat only hears the first sentence. Anything else you say after that he just does not hear. He or she—they just do not hear it. Consequently, the message has not been getting through.

The NCP has been a good crutch to blame when people perhaps need to face up to change and do not want to. It is a bit like the drought in some respects. Once again, our shire is changing rapidly. A lot of the block sizes are not now large enough to provide a full-time income for some of those people who have survived there for 100-odd years. People were able to blame drought for a long time, saying, 'It is the drought, and that is why we haven't got a decent income,' or whatever. It is a bit like NCP, and that is the reason. Now that we have had a flood and they cannot blame drought anymore they are having to face up to some hard realities. NCP is a bit the same when it comes to attitudinal change.

I am probably going on a bit here. Society has changed. We have experienced the ups and downs. As the CEO said, councillors have tried to be proactive, but it has not always been embraced by councillors. Some of them do not understand it. Just recently at our last meeting, there was a resolution put up and one of our councillors voted against the resolution. I asked him why, and he said, 'It is that NCP.' The resolution had nothing to do with NCP, but that was the way he perceived it. As I say, I think it comes back to major confusion.

**Senator MACKAY**—Just following on from Senator McGauran's clarification questions, I think the issue here is that local government over the last 10 years has picked up a whole range of services that previously it did not have to provide, either through community expectations or through providing them because nobody else will. I think that is really what you are saying.

**Mayor Bray**—It has certainly broadened.

**Senator MACKAY**—What sorts of services have you had to pick up over the last 10 years or so?

**Mayor Bray**—I think there is certainly a greater expectation of community consultation and community development. We have provided swimming pools over a lot of years. Our shire is not unique, but it is very diversified. We have four larger towns and six smaller ones and, to put it bluntly, they are all as parochial as hell. So we own two swimming pools and have a major stake in another one—three swimming pools for a population of 14,000 in different towns. We run six water schemes and four sewerage schemes. One of the difficulties we face is providing services which are not economical to run to small populations that need them. So we have run swimming pools, and we have run three

libraries. They are all inadequate, because we cannot provide a decent service. We cannot afford it.

We have moved strongly into community development, once again because of the downturn in the rural industry and the exodus from rural areas. The northern part of our shire is now quite sparse in population; once it was quite heavy, and there was a lot of employment there. We have stepped into a gap there. We have certainly got a much larger role in environmental management, and that has been another issue that has created a lot of confusion and a lot of cost. Once again, the environmental legislation has been seen as an added imposition on business, so council is the 'imposer of added burdens on communities'. They are some of the things. We have moved into community development. We were fortunate enough to get a grant to have a community development officer on council.

**Senator MACKAY**—Is this under LGDP?

**Mayor Bray**—No. I am probably cynical, but we got lumbered with the radioactive waste facility in our shire. My view is—they will not ever admit it—that that was a compensation factor. That is fine.

**Senator MACKAY**—So this is from the state government?

**Mayor Bray**—That is a state government issue. We share that community development officer with the neighbouring council, but to have that person there has been certainly advantageous. It has moved us into a broader support structure for community groups. The other thing is that a lot of our community groups have a changing population with a lot of people struggling to survive. They do not have that same sense of community or involvement in community groups that they once had. More and more, councils are being expected to pick up and provide that support and take the initiative constantly on a whole raft of things such as sporting facilities, sporting activities, recreational arts and lifestyle issues.

**Senator MACKAY**—Just out of curiosity, in relation to those swimming pools you were talking about, that is a lot of swimming pools for 14,000 people. That is presumably as a result of, 'Hey, it's hot here' and also community expectations that towns want pools.

**Mayor Bray**—Our shire covers 4,000 square kilometres. Two of our larger towns, Esk and Toogoolawah, are 15 minutes apart. Toogoolawah has a swimming pool. It was built back in the late 1960s or early 1970s. In the southern part of our shire we have had a big influx of people. There was no pool. In fact, they were swimming in a little local pond. There was a pool built down there to service the southern part. At Esk, the school felt that their children were being disadvantaged. We have 16 schools in our shire and two high schools. Those students, the young people, were missing out on pretty basic fundamental services. So council stepped into the gap to provide these services that students need as part of the fundamental use for sporting activities.

**Senator MACKAY**—Why didn't the private sector build those pools?

**Mayor Bray**—Why would you? It costs us \$100,000-odd a year to run two pools. For the third one we put in about \$190,000 with the education department. That is built on

school ground. That is the best move we ever made because we only make a small contribution to that. But at Toogoolawah some \$100,000—

**Senator MACKAY**—You actually do not have to convince me. I think it is the federal government we are talking about here. Just out of curiosity, how much do you charge for entry to those pools?

**Mayor Bray**—I think the students pay 80c and the adults pay \$1 admission.

**Senator MACKAY**—What about libraries?

**Mayor Bray**—There is a free library service. We do have reciprocal rights with a number of neighbouring libraries. We have been lucky enough to still retain free access to books from the state library service.

**Senator MACKAY**—So there are not any nominal charges associated with your library services?

**Mayor Bray**—Only if they do not bring them back; we charge them then.

**Senator MACKAY**—Do you have to charge?

**Mayor Bray**—Yes. Our problem as a council is that we do not have the resources to provide decent library services or buildings. We rent one in Esk. We have a very tiny cubicle in Toogoolawah and we have one at Lowood because, once again, the people in those various centres do not necessarily interact. Their shopping is either local or to a provincial city. This is one of the difficulties we face. We do not have one particular focus centre for all our residents. They go in all different directions. That is why our shire and its proximity to neighbouring provincial cities partly determines the lifestyle of our people and where they go for their shopping.

**Senator MACKAY**—You were saying that in terms of the implementation of NCP there were some barriers, and I think you were concerned about tax regimes.

**Ms Mihovilovich**—That has been raised as an issue. Proceeding towards full corporatisation is the scenario that presents to us at the moment within our current taxation reform proposals. But the taxation equivalent regime has also been a longstanding issue—you probably are more across this than I am, Harry?—in terms of just how the taxation is sorted out between the three levels of government: whether or not we will be forced to pay tax or give tax to another level, if you go into that full corporatisation mode.

**Senator MACKAY**—This is the GBE argument.

**Ms Mihovilovich**—Yes, the same as GBEs.

**Senator MACKAY**—Would somebody be able to clarify that for me? This is in terms of GBEs having to pay tax equivalents in relation to the full corporatisation?

**Mr Gauvin**—It is a bit early to say at the moment.

**Mr Mullins**—It is only if it is set up as a corporate model. There has been a verbal agreement between the state government and the Local Government Association that it will be reimbursed but there is no undertaking of that in writing at this stage and—who knows?—it may never come, either. Of course there are a lot of other issues that are on the drawing board at the moment.

**Senator MACKAY**—What would they be?

**Mr Mullins**—GST; the tax structure.

**Ms Mihovilovich**—Those are all issues that we have to wait and see.

**Mayor Bray**—We are not talking GST.

**Senator MACKAY**—I could ask a question in relation to GST if I wished to.

**Mr Mullins**—Yes; I do not know the answer.

**Senator MACKAY**—Can I just make a comment here? I think that Queensland is, in terms of local government experience, a really good example of how NCP should be done.

**Ms Mihovilovich**—We have been very fortunate in Queensland with successive governments.

**Senator MACKAY**—We are not talking on a partisan basis. I think that, whatever complexion the state governments have been, it is a good example of how it ought to be done. You are the only state, as I understand it, where local government actually gets funds.

We had the state Treasury people in front of us yesterday. I thought they made a good presentation. They raised a number of concerns, however, that they themselves had raised with the federal government, and that is the role of the National Competition Council itself. They were very concerned about the National Competition Council's application of the public benefit test and they were raising that. Their view was that the determination for the public benefit test should reside with COAG rather than with the National Competition Council.

**Ms Mihovilovich**—Interesting.

**Senator MACKAY**—They were concerned about the lack of transparency in relation to the decision making processes. That is something that we have had continually wherever we go. I am curious as to whether you have had difficulty. I presume if you are dealing pretty much exclusively with the state you probably would not. But they have had difficulty in terms of the interpretation of public benefit test in terms of the NCC. Are you aware of it?

**Mr Mullins**—I am aware of what has been going on. Sue is right there. I am aware that the Local Government Association and the Queensland government have a joint approach.

This has gone on over the last 12 months with the NCC. However, at our level, we are working under the principles in the guidelines that are agreed to between the Queensland state government and the Local Government Association who are our representative body.

**Senator MACKAY**—In terms of federal politicians making remarks, with all due respect to Senator McGauran, I think if you came from another state—if you were a Victorian local government association—you may have a bit of a different perspective in relation to a number of issues. Here again, I do not seek to be party political, because it has been both parties that have taken a very strong position in relation to this.

I have another question. Treasury briefly advised us last night of the process for the way that the funding is apportioned—the \$150 million out of the \$750 million. As I understand it, at the end of the day it is a ministerial determination, but the minister has advice from various bodies. Is that it?

**Ms Mihovilovich**—The agencies have recommendatory powers only.

**Senator MACKAY**—Right.

**Ms Mihovilovich**—So a council can be qualified, perhaps, to get part funding under qualification from state QCA or they can go straight through and get full funding. But yes, the minister does decide who gets the funding at the end. People like QCA recommend to the minister.

**Mr Mullins**—There is a follow-on. Those allocations have been based on research over the last 18 months to two years, so they are very transparent in terms of the methodology that has been used with the allocations.

**Senator MACKAY**—That was my next question. So you are happy with the level of transparency?

**Mr Mullins**—Yes, we are happy with the transparency there. It would be nice to have more, but we realise that there are some larger councils in Queensland who have got some more immediate needs, too, in terms of implementation.

**Senator MACKAY**—In terms of the minister's letter—and I would appreciate a copy of the letter actually—he made it quite explicit that, in terms of the way this state government is operating, NCP does not necessarily mean diminution in terms of employment, does not necessarily mean privatisation and does not necessarily mean tendering out. That is correct; it is just that various state jurisdictions have interpreted it differently. Have you had any experience with tendering out or is your experience that you mainly in-house bid?

**Mr Mullins**—No. As you are aware, internal road works issues are not really subject to full cost pricing. However, if we embark on works outside our organisations such as doing subdivision works of maybe \$1 million, we are out there putting in a tender against the private sector. We only recently won a tender. That tender was based on full cost pricing. It was early this year that we won the tender and we are doing the works now. If it had been 18 months ago, our tender price would have been based on the old system of accounting that

we used whereas now we have incorporated all the tax components with everything else loaded up.

**Senator MACKAY**—It is interesting because, in terms of what you have been able to save through efficiency gains in terms of the NCP process with the assistance of the money from the state government and, clearly, for a cooperative relationship, you have not had to increase rates; you have put the savings into other services or into propping up services that you already provide. Is that what you were saying earlier?

**Mr Mullins**—This is leading back to the senator's earlier question. NCP and the principles of full cost pricing, et cetera, have not impacted on us at this stage. We have not implemented any major reforms. All we have done is our local laws review and any other business activities review. It was back in 1994 when it made reference to our restructuring, which, at that stage, was encouraged by the arrangements with the Main Roads Department in the state government as far as the works we did for them. In our case, our works add up to about \$2½ million to \$3 million per year that we do for the Main Roads Department on road networks.

**Senator MACKAY**—So they contract you to undertake the road funding?

**Mr Mullins**—That is right.

**Senator MACKAY**—So this is separate from the road funding you get from the Commonwealth?

**Mr Mullins**—Yes, that is right.

**Senator MACKAY**—This is separate from the Commonwealth funding?

**Mr Mullins**—Yes, it is separate. Under road funding, it is a cycle. They are all linked where the funding is provided from the Commonwealth to the state government.

**Senator MACKAY**—Yes, but there is a specific local government component for road funding as well.

**Mr Mullins**—Yes, that is right.

**Senator MACKAY**—Yes, that is separate, but that will not be around for much longer. So they contract you to undertake that road funding work?

**Mr Mullins**—Yes. Even though it happened back in 1994, there is a strong link there to the principles of NCP and full cost pricing. It is just that it happened before.

**Senator MACKAY**—Yes, I understand that. Chair, I might finish now. I might reserve my right to come back if I need to.

**CHAIR**—Absolutely. Thank you, Senator Mackay.

**Senator MARGETTS**—We have been advised that there is something like 2,000 pieces of legislation, and I guess that includes regulations across Australia that are being reviewed. Can the witnesses advise me what types of federal, state or local regulations are being reviewed which are likely to impact on the people of Esk?

**Mr Mullins**—All we are undertaking a review of is our own local laws. As you would appreciate, any state laws will be reviewed by the state government, so our council has already undertaken a review of our own local laws.

**Senator MARGETTS**—That I understand, but during that review process there are likely to be issues which impact on you such as state planning legislation and others. What is your understanding of what is going to come out of this review process that will impact on you?

**Mayor Bray**—The IP Act has been quite a major change for our council in terms of responsibilities and having to rethink our processes. The IPA has had a significant impact, and that has been an added issue that people have had to come to terms with. The Local Government Act was a major change for some, particularly some councillors who had operated under the old rules, old expectations and old attitudes. The Local Government Act, the IPA and the Environmental Protection Act have all had a big impact on local government generally. One of the concerns that we have had—and it is certainly a concern amongst rural councils—is that we have only a limited number of staff. I have staff with certain capabilities and sometimes have to ask them to step outside their roles and suddenly take on new roles, or they have to learn new skills to deal with the new legislation.

Once again, for rural councils with only a limited number of staff, you have seemingly endless government departments and people running around changing things, and it all comes back to one council and expecting them to make comment and reassess their own situation. So that has had a major impact, particularly on CEOs and staff. Councillors are expected to comprehend the changes and absorb them into their thinking, and when they cannot come to terms with it, it is almost impossible to expect them to go out and spread the right message outside.

**Senator MARGETTS**—As an example, I am really interested in issues like how the Integrated Planning Act is going to impact on your shire. Can you give us an example of what kinds of procedures are changing or will have to change?

**Mayor Bray**—In our case, we were fortunate. We were trying to develop a new strategic plan when the IPA was in the process of being introduced. We were actually used as one of the test cases for the implications of the IPA. So in some respects I think we were fortunate, and we had access to quite a number of state government people who helped us work through the process. We are still working through the process. But there needs to be an attitudinal change from a situation where if you are on this side of the line it is fine and if you are on that side of the line it is not, to looking more at the concept, your long-term vision for your shire, what your perspective is and whether this particular development is in keeping with the environment in which it is likely to be based. So there is a major attitudinal change that is required.

I think our council on the whole is pretty comfortable with that, because at times they have felt very frustrated when there is a line down the middle and if you are on this side you can do it and if you are just over that side you cannot. That was the frustration, but on the whole I think we were fortunate that we, being a test case, were able to be helped through the process a bit. It certainly involved a lot more community consultation and I think there are some problems with community consultation. I think it is great in a lot of respects but it is damned time consuming, it is costly in officers' time and it is costly to councils. It is valuable but there is also a worry sometimes that the more consultation you have the more there is an expectation that 'We have consulted, we have given you our views; you must adopt,' not 'You will consider it and you must adopt.' I think that is one of the issues that we are still having to come to terms with.

Overall, from our council's point of view, the whole process—the IPA—is a positive but it is a costly process that we are having to work our way through.

**Senator MARGETTS**—Can you outline what the process of consultation has been over what time period and what kind of responses you are getting?

**Mayor Bray**—We have been working on a strategic plan for about two years, but we have been bogged down for about 12 months because we got caught up in a bit of a sand and gravel war in our rivers. During the initial development of the strategic plan we tended to identify people from a whole range of activities and invited them to participate in small groups. So we actually invited people to come and consult with the council, with our officers, to determine a long-term strategic plan.

We were even very careful to ensure that we had not just invited people that might agree; we really went to some people that were quite critical of council at times and invited them to come in and participate. I think that was positive—certainly from council's point of view it was. I think it was positive from those people's point of view, too, because they developed a broader perspective. We worked very hard at trying to make developing it a joint approach; there were no hard and fast views, and we were on a type of journey.

We are currently moving into the second stage of developing local area plans. We have had some public meetings where we really just did householder drops to every house in a certain area and had a public meeting. From that public meeting the people had the right to put themselves up if they wanted to participate in more detailed workshops. That is where we are at the moment.

We have probably got three or four of our best knockers in with us. They give us hell all the time but at the same time, in my view, certainly—and I think the council generally would agree—you are better off having them in there with the discussions rather than at the outside shooting in all the time. It is a turbulent period at times but I think in the longer term it is a better way to go.

**Senator MARGETTS**—You mentioned earlier that people were not listening or that they had closed their ears off: are you suggesting that there are a number of them? What number do you think currently are not convinced yet that these changes are good for them—what percentage?

**Mayor Bray**—To be perfectly honest, I think the average person out there does not give a darn about local government except when the water is not clean or the garbage is not picked up. They are certainly interested in their rate bill. A lot of people are struggling to survive. It has been said often that if you keep doing it well it is largely invisible to the average person. It is when you do not do it that you hear about it—if the dogs are annoying you and things like that. A lot of people, I think, are only marginally aware of all the changes, but at the same time, too, the councillors themselves are having difficulty with the changes.

I think there has been a whole society change—certainly we have experienced it—and when things are wrong people look for crutches or things to blame. So they hit onto anything. Jobs are the big issue. The NCP, jobs and security of jobs has been linked together. And in our case, as I say, we have lost employment in the rural industry. A lot of them are no longer viable. Our towns are struggling to survive because they are losing trade to the larger provincial cities. As well, the money is just not there. I think people only hear how they are personally affected when they are personally affected.

**Senator MARGETTS**—Can you give me an idea of how many councillors there are on the Esk council and what level of debate there has been on these kinds of issues within council? What range of opinions is there within council?

**Mayor Bray**—There are 10 councillors and a mayor at the moment. We did a reduction from 13 to 11 at the last election. There have been ongoing discussions but in terms of debate—as I think I said earlier—at our last council meeting another issue came up—I cannot even remember what it was now—and a motion was moved. One of our councillors refused to support it because he had it all tangled up with the NCP. So he voted against it and he said, ‘It is the NCP’s fault and I am voting against it.’ I said, ‘But it has got nothing to do with it.’ He said, ‘Okay, I will look at it again.’

We have quite a number of new councillors this time, but even some of the other councillors who have served on council for a long period of time have had great difficulty trying to come to terms with the vast array of changes that have occurred and the fact that a councillor’s role, perhaps, is different to what it was 20 years ago. There have been so many changes that they get them all tangled up. From my perspective, one of the difficulties has been that with all the changes sometimes there is a perception of change for change sake. It is not necessarily a case of: where does it fit into the picture; how is this going to make my life better; how do all these bits, all these state and federal government departments running around changing things and telling us what we have got to do, fit together? This is a nice cop-out, you might say, but that is the way they see it, some of them. They say, ‘Where does it all fit together? How is this going to make our lives better?’ when particularly out in the rural area they are seeing the loss of employment, jobs and future—major uncertainties—and all they are seeing are negatives, and you are busy telling them all these changes are for the better.

**Senator MARGETTS**—You are telling them all these changes are for the better.

**Mayor Bray**—I am trying to.

**Mr Mullins**—It is our view, though.

**Mayor Bray**—People choose to read figures in a whole heap of ways. Once again, to add to the confusion, people like to make comparisons, and local government has been required to change from a cash accounting system to the accrual accounting system. It has been very difficult to do comparisons with the situation five or 10 years ago. People's memories are very short.

Let us be honest. Lots of positive things happen. You take it and move on. Maybe that is our fault. Our annual report is a good way to remind everybody of positives that have happened, but people tend to forget the positives because they are caught up in dealing with the negatives. The overriding factor, certainly in our shire, has been: what does the future hold for us? We are going through this major change.

**Senator MARGETTS**—I do not want to be rude but it sounds like you are operating as a proponent of the national competition policy. Wouldn't that put you in a position of being seen by those people who are very concerned and worried sick about the level and rate of change as part of the problem?

**Mayor Bray**—You are walking a tightrope because if you get up and say that this is the greatest thing since sliced bread, they will just say, 'Ah, well.' To bring politics into it, I do not belong to any political party so that puts me at odds with a few people because some people do. We have a number on our council who are very politically oriented and they immediately put you into a certain basket. Once again, people can find reasons to label you if you suddenly go all out saying that this is wonderful. Once again, they sometimes focus on that rather than looking at the issue or the detail of what you are trying to say. Sometimes it can be seen that you are at odds with the way people are feeling. You need to talk to people. When you actually talk to people—and I do a lot of travelling around the shire and I make it my business to—you can usually get to them one by one in terms of the real issues that are affecting them. They are perhaps more circumspect in terms of dealing with their own personal issues.

**Senator MARGETTS**—Would you have liked to have seen the change more managed and less one change on top of the other? One of the comments we received from a number of witnesses was that it was not so much the change but the pace of change that has become unmanageable.

**Mayor Bray**—To some degree that is a fair comment. In Queensland we were criticised for a long time because we were much slower than the other states. In a lot of respects, from what I can understand and from speaking to people, that was the case—we were much slower. It has been a major cultural and attitudinal change and, certainly from local government's point of view, there have been all those changes going on but there have been all these other changes as well that have impacted on people at a personal level. In some respects we all wanted the world to stop for a while and step off so we could just shake our heads. I recognise that the world is not stopping and that is what you had to balance your comments with when you were talking to people and saying, 'Look, you have to start realising that we are living in a world environment rather than just our own little closed shop here.'

One of our councillors made the comment one day that he has been growing cattle for 60 years and now he has got to grow cattle for a market. He has always just grown cattle and did what he liked. But he has had to change his attitude from growing something that he was comfortable with and liked to now having to cater to a market. It is that sort of attitudinal change that we have been trying to deal with.

**Senator MARGETTS**—You might want to take some of this on notice but, as you are keen on the change, I am really interested to find examples that you have seen or are expecting to see of the positives for the people of Esk and, also, examples of some of the concerns that people are showing, especially about their feelings of control and whether, somehow or other, external pressures are taking their decision making powers away. You talked about this grower who was forced to change to doing something he was unfamiliar with. Can you give us some other examples in a nutshell? I am happy for you to think about it further if you would like to.

**Mayor Bray**—I would like to do that. From my own personal perspective, I feel like I have been on a racetrack somewhere, trying to deal with it at a personal level and through working with council. The staff have had their own problems to deal with it. I have seen it as a reality. To my mind, that is what you have to face up to these days—what is reality; what is happening anyway that we have no control over; and how best we can cope with this change so that we, as a council, are better able to have a sense of future? In that process, I think we have to deal with the community in the same vein, trying to help them come to terms with the changes that are happening—not only from local government’s point of view, but from their own business and personal viewpoint as well. We have been working like crazy to try and help people by saying, ‘We understand that you are going through this change. We ourselves are going through it. There are some things you can maybe stop, but there are heaps you cannot. We are trying to face up to reality, and we will try and help you work through it.’ I think that is all I can say at this stage, other than that you only have to look at Victoria to see the radical amalgamations and all the rest of it.

There is a worry too about the economic rationalist approach to things that comes into all of this. We have to recognise that councils can no longer just pay out. They have got to be financially accountable. They have got to be cost effective. You have got to be concerned about local government being viable in the future because, certainly, there is a perspective around—and Sue might care to comment; she may not—that some councils in Queensland in the longer term will not be viable. It is simply the way that the whole financial structure and support that has been made available to local government is changing. So we, as a council, would like to survive. We would like to survive in a positive and proactive way, and we feel that by trying to face up to reality and change, we are doing that.

**Senator MARGETTS**—That worries me a bit. Viable in what sense? That they have to be a profit making body?

**Mayor Bray**—You look at your community and your people. We have a situation where a lot of our young people go out of the shire to get tertiary education and then they go on and do not come back. You want your young people to grow up and to be able to hold their places at tertiary colleges and then to hold their places out in the wider world, so they need services and the chance that city kids have. This is one of the problems that rural councils

and those further out field probably feel even more, that our young people need social services. It has historically been a local government role to provide those services, because private enterprise will not. In terms of what is required of it these days, council needs to have access to certain amounts of dollars. As the CEO said before, we rely substantially on Main Roads money to keep a number of people employed and to run a number of our work gangs. When you are told there are going to be fewer and fewer dollars from state and federal government, council needs to look at itself and say, 'Hang on a second. Can I provide a reasonable level of service to my community as an existing entity, or do we need a radical change so that our people are not going to be disadvantaged in what is happening in other areas?' This comes back to the FAGs grants, which I understood were set up in the first place in the recognition that not everybody lives in a city and not everybody is able to pay the same level of rates. Obviously, sometimes it costs more to provide services in some areas than others. In the longer term, there is a fear in local government that some will not survive. We have made a conscious effort that we would like to survive, we would like to be proactive, we would like to help our people maintain a reasonable lifestyle.

**Senator MARGETTS**—So how much—

**CHAIR**—Senator Margetts, could you make this your last question please?

**Senator MARGETTS**—Right. Was that my last question or do I get one more?

**Ms Mihovilovich**—Financial viability is an issue that has been around always, especially in view of the Victorian experience. How do you relate that to these terms of reference?

**Senator MARGETTS**—Is what is pushing it the desire to survive under the circumstances that have been created for you? I just want to do a reality check. We have been finding out so far that it is almost impossible to work out who was driving this—except maybe a few Treasury officials and people from the Department of the Prime Minister and Cabinet at a federal level. There did not seem to be an aware push within the community, or a knowledgeable push for this policy change at a federal level from state or federal government. Almost nobody understood it at the time. Almost nobody understands it now. Why do you see this as necessarily unchangeable and inevitable when, from what we have heard so far, almost nobody understands it, almost nobody knows the real reason behind it or what the outcomes are, and almost no modelling has been done? Why do you see it as being inevitable and almost immutable?

**Mayor Bray**—I think the CEO said before that change was long overdue in local government—perhaps I will quickly explain. Certainly, in our shire, we have had a number of people that owned farms and, as the farm was not earning so much, they went onto council. There was this attitudinal thing: get a job on council until you retire and you will be sure of a job and sure of some income. So councils have gone from being an employment base for a local community to now being told that you have to get your dollars and measure your dollars. That is the fine line you are walking all the time in providing services to the community but being cost effective as well.

I believe we need to go down this path anyway because—once again, as I said—I think we are working in a world environment and you cannot just lock the door and shut yourself

away anymore. We have made a conscious effort to work closely with our other councils and immediate neighbouring councils. We work closely at the SEQROC level with south-east Queensland and we see lots of benefits in working regionally—within small regions and a larger region. But when you are in a nice comfortable niche, sometimes you need a crowbar to get you out of it. If you do not get out of it, you are not going to survive.

**Senator MARGETTS**—It is a pretty big crowbar. Thank you very much.

**CHAIR**—Can I ask, in my southern ignorance, whether voting for local government up here is compulsory?

**Mr Mullins**—Yes it is, Senator.

**CHAIR**—And you get a good response?

**Mr Mullins**—Yes. On average, it would be around 97 or 98 per cent.

**CHAIR**—I want to make sure I have got this earlier point of yours right, Mr Mullins. You said that no-one has lost a job yet, as a result of NCP, out in your patch—is that right?

**Mr Mullins**—That is right.

**CHAIR**—Or was that in the whole of Queensland?

**Mr Mullins**—My view is that in the rural Queensland local government industry—outside the major metropolitan areas—the NCP has not impacted on councils in terms of restructuring. I made reference back to 1994 and the road reform package, an agreement between local government and the state government, when that was the issue. There has been a lot of misunderstanding and misquoting—as I mentioned before and I will say it again, with all due respect—from certain politicians and certain members of other organisations. This is unfortunate because we have to go forward and it would be a lot easier if everyone had a joint approach and we could go in the same direction.

**CHAIR**—Thank you very much. I want to say that I thought you gave an excellent presentation here today and this is first-class evidence. Thank you very much for the professional way in which you did it.

**Senator MACKAY**—Would it be possible to get a more extensive list of the services that you provide as a council? Has the LGAQ undertaken an audit about what local government provides across Queensland yet? I am aware of Logan and Burdekin shire.

**Ms Mihovilovich**—We have been looking constantly at the activities of the whole range of councils in Queensland, in terms of different sizes, locations and things. We are certainly not doing every single council. We are developing an analysis of a small sample size of councils from the small to the very large. We will look at the results and we will see where we go from there.

**Senator MACKAY**—That is important because I honestly do not think people really understand the services that local government provide. I think it is really important that the message gets out.

**Mr Mullins**—The Local Government Association do that on an occasional basis, but we have a local government awareness week coming up in late May.

**Senator MACKAY**—That is good timing.

**Mr Mullins**—It has been organised by the Local Government Association, but there are a lot of propaganda and activities that each local government has to get involved in. That will address that issue about getting the story out.

**Ms Mihovilovich**—I am surprised state Treasury did not table this booklet that has been put out. Senator Margetts may be interested in this too. It has Queensland local government time tables, lists of legislation and those sorts of things.

**CHAIR**—We will make sure it is circulated. Thank you.

**Ms Mihovilovich**—Also, there is the LGAQ training power point presentation about NCP and implementation in local government; the memorandum of understanding between Queensland government and local government, which was signed in Borbidge and Sheldon's day; the Queensland Treasury diagram of the process of NCP and local government, how it is all going to proceed and what areas are impacted; and implementation of the financial incentive guidelines, the methodology, the amount that councils will get and the way it is distributed. That will certainly add to your list of data and information.

**Senator MACKAY**—And we will get the letter from the minister.

**Mr Mullins**—I will get that.

**CHAIR**—Thank you.

**Mayor Bray**—We will also address Senator Margetts's comments.

**CHAIR**—We will sort all that out. Thank you very much.

**Proceedings suspended from 12.52 p.m. to 2.35 p.m.**

**BORROWS, Mr Peter Clark, Works Manager, Ipswich City Council**

**de CHASTEL, Mr Brett Norman, Acting Chief Executive Officer, Ipswich City Council**

**SPEARRITT, Mr David John Arthur, Finance Manager, Ipswich City Council**

**MIHOVILOVICH, Ms Sue, Manager, Economic and Public Policy, Local Government Association of Queensland**

**CHAIR**—We do prefer all evidence to the committee to be given in public, but should you at any stage wish to give part of your evidence or answers to specific questions in private, you may apply to do so and the committee will consider your request. I now invite you to make an opening statement and, at the conclusion of your remarks, I will invite committee members to ask you questions.

**Mr de Chastel**—At the outset I would like to indicate that the officers here today do not represent the political arm. We are officers who implement policy and not make policy. We are happy to answer any questions about those matters that our council has taken a policy position on. We try to deal with the NCP issues on a practical implementation issue. We are happy to deal with this presentation with a fair degree of flexibility this afternoon. We are happy to talk or take questions on the way through and simply try to outline how our council has dealt with the challenge of NCP.

Before doing so, I will tell you a bit about our council, where we come from and where we are. Ipswich City Council is located about 40 kilometres west of here near Brisbane. We have a population of about 140,000 people. We cover a fairly large area of 1,800 square kilometres. Our annual budget is around about \$167 million and we have just under 990 employees. We are the fourth largest council in Queensland, but also one of the newest. We have only been in existence for just on four years as a result of a forced amalgamation, so we have had a few challenges in those four years.

One of the things we will talk to you about this afternoon is that in terms of NCP we were a fairly introspective organisation from about 1995 through 1996 while we came to terms with putting together a forced amalgamation. In some respects, NCP came along at a convenient time for our organisation, because we were just getting through that introspective stage where we became aware of NCP issues around late 1996. We could not have dealt with it before then; we were just too busy with other matters.

Before getting into some of the details about how we implemented NCP and some of the effects that has had on both our organisation and, to a lesser extent, on the community, I would like to ask David to put in context the socioeconomic context of what NCP is.

**CHAIR**—Before you do, I was not sure of what you said in your statement. Do you want us to interrupt with questions during your presentation, or wait until you have finished and then ask questions?

**Mr de Chastel**—We are quite flexible. It is up to the committee. If you would like to interrupt, that is fine.

**CHAIR**—We will let you finish your presentation first and then we will go into questions.

**Mr Spearritt**—In terms of the economic structure of the city, you may be aware that Ipswich is the oldest provincial city in Queensland; parts of it pre-date even Brisbane. It is very much a traditional economy based on manufacturing and mining, which is largely in a period of decline. We are trying to bring in new industry such as high technology, Internet, information business, aerospace, et cetera.

As a result of that, there are a lot of social issues that need addressing. The council feels that there is a high need to provide both community services and community support, as well as economic development, to help turn that economy around. It all requires resources. At the same time, our federal grants have been reducing by five per cent a year as a result of the way the methodology is implemented through Queensland, which tends to put the grants to rural councils as opposed to urban councils.

Our rate levels are already higher than those of most of our neighbouring councils, so that has led to a lot of discontent on rate levels. In 12 months time we will lose one-third of our area and about five per cent of our population to adjoining councils, because people who have voted with their feet and got through a boundary change. So, largely, we cannot put rates up higher. We are not getting more grants, we cannot get more rates and there is very little growth, so the only real option is to do more with less to find better ways of making the dollar go further.

That is why Brett said that the NCP has been opportune, because we are using that and related reforms to try and get better value for money. At the same time, being a working class area, the council has very high priority towards maintaining a day labour work force. So it is really trying to pull those things together to get better productivity out of the work force, make the dollar go further and provide the economic development and social services.

The results so far are that in the 1998-99 budget, the current financial year, as a result of a lot of these cost savings—and not just the NCP because it really only kicked off on 1 July, but the related issues—there were no rate increase except for rural areas where rates were reduced by 20 per cent and pensioners' rates which were reduced by \$10. So, effectively, we are pulling down on our rate levels. Yet the capital works program was higher than previously and there has been no noticeable decline in services. So that is what we are trying to do: get better value rates that provide more services through better use of our existing resources.

I think Brett might go through the related reforms in a moment, but they are things like internal provider units so we have service level agreements internally. There are a lot of related concepts to NCP which we are introducing across the board.

**Mr de Chastel**—Our council has never at the political level made a decision that we take a pro- or anti-NCP stance. The council has never had a formal position on it. Instead, you can derive the council's philosophy more from the way in which it has decided to implement parts or not be so enthusiastic about other parts and has in that sense tried to take

a practical approach to NCP, rather than either a theoretical approval or disapproval of what is involved.

If I can put it this way, NCP has been a means to an end for our organisation, rather than a process in itself. What we have tried to do is sort through the myriad issues involving NCP, pick out those that we think can be useful to our organisation and carry those through. With the others, we will do what we have to do, but no more or no less.

We certainly have not tied, in a philosophical sense, NCP to any decision to outsource. We have, as an organisation, reaffirmed our commitment to our own staff that where possible we will use our own staff to do work. NCP has been a change management tool for our organisation when we came out of the post-amalgamation period to try and drive some changes.

The other philosophical approach we have taken is that, where we are going to make change, we are going to try and do so in a staged manner. The terminology we use is that it is an evolution, not a revolution. We are trying to get our staff to incrementally improve efficiencies using some NCP reforms and other management tools, rather than a slash and burn type of approach. That is the philosophical approach.

As for our actual experience of what we have done, we have a number of fairly large businesses. The largest is our water and sewerage business. David, I am going to put you on the spot here.

**Mr Spearritt**—Yes, I thought you would; that is why I brought the budget.

**CHAIR**—While he is looking those figures up, how many people reside in your municipality?

**Mr de Chastel**—Just under 140,000.

**CHAIR**—And your budget is how much?

**Mr de Chastel**—It is \$167 million.

**CHAIR**—It is a very substantial budget for that size.

**Mr de Chastel**—We have a pretty wide-ranging operation. We have a water and sewerage business, which is each year a bit over \$40 million.

**Mr Spearritt**—It is \$41 million revenue.

**Mr de Chastel**—We have the waste services. We have a waste business of garbage collection. That is about \$10 million a year.

**Mr Spearritt**—And that provides not just domestic waste—it provides commercial waste services as well.

**CHAIR**—I am just comparing it with the local council which I am in, which has 108,000 people. It is in a different state. It is not into the water business; that is done by the state government. But it has a budget of about \$44 million.

**Mr Spearritt**—That is right. We would be in one of the biggest, top 10, councils in Australia by budget. Our budget is bigger than Sydney or Melbourne city councils, for instance.

**Senator MACKAY**—Would you be able to give us an idea of what services, at this point, are provided by Ipswich City Council?

**CHAIR**—You can take it on notice, if you want. Is that what you want to do?

**Mr Spearritt**—Running across the departments, there is Planning and Development, which is a regulatory type of function; Health and Environmental Protection, which is the health inspections, licensing, those sorts of things; Community and Cultural Services, which is an interesting range of things from your normal social programs through to our currently building a \$6 million global arts link centre, which is an interactive art gallery at international standards, trying to blend history and technology—

**Senator MACKAY**—I am sorry to keep interrupting you all the time. Is that a joint partnership or a joint venture?

**Mr Spearritt**—It is joint. We are using centenary funds.

**Mr de Chastel**—We are using centenary funds, corporate funds and council funds. We are trying to use less of the latter.

**Mr Borrows**—And local community. There is fairly strong support from local community funding.

**Mr Spearritt**—We are trying to get about \$2 million out of the local community and local businesses.

**Senator MACKAY**—How much are you funding yourselves?

**Mr Spearritt**—In kind and direct, in the capital sense it is about \$1½ million, but operationally it will probably be about \$1 million a year, or a bit under.

**Senator MACKAY**—I am sorry I interrupted your list.

**Mr Spearritt**—That is okay. There is the Works Department—which is Peter's—which is water, sewerage, drainage. Anything else?

**Mr Borrows**—Roads.

**Mr Spearritt**—Roads, of course—how could I forget roads?—conservation, parks, sport, economic development, libraries, the internal areas as well as the Ipswich Water business,

water and sewerage, the domestic and commercial waste, and an Internet service called Global Info-Links.

**Mr de Chastel**—We will probably come to that one a bit later. It is one of the unique ones in local government in Australia, that we are aware. We actually run our own Internet business, and we have been dealing with that through the NCP reforms even though we are not required to—just to explain how that works.

**Senator MACKAY**—Thanks for that. Perhaps if you have got a more comprehensive list, you could provide that to us—to take Chair's suggestion.

**Mr de Chastel**—Sure.

**Mr Spearritt**—But you are right. The range of services in Queensland local government is far greater in the range and the extent of the services.

**Mr Borrows**—To give you an example, in roads we are currently looking, in the budget, at spending around \$18 million on an arterial road into the city to open up an area. When you compare that to other councils, it is way in excess of their budgets.

**Mr de Chastel**—That is one road.

**Mr Borrows**—One road.

**CHAIR**—About how long?

**Mr Borrows**—Six kilometres.

**Mr de Chastel**—That is leading to Australia's largest master plan development, which is in our area as well—Springfield.

**CHAIR**—So \$3 million a kilometre.

**Mr de Chastel**—In terms of NCP and the council businesses, the largest is clearly Ipswich Water. We ran a public benefit assessment test to determine what type of reform to apply to that activity. The outcome of that public benefit assessment test was to operate it as a commercial activity—commercialise it. It has been operating on those lines since 1 July last year, so it is coming up for nine months. With Ipswich Waste, which is our garbage collection disposal and so on, it is a similar process—a public benefit assessment test—with the same decision to commercialise that on and from 1 July last year. In both cases the council has also passed a resolution to revisit those businesses by June next year—that is June 2000—and determine whether or not to look at corporatising those two activities at that stage: let them run for a couple of years on a commercial basis and see what happens.

Also within the organisation we have done some structural changes to reflect matters which, while they are not related to NCP, are purchaser-provider splits. That has been incorporated within our structure so that we have a business provider. Say, for example, Ipswich Water is the provider and at the same time Peter is, if you like, the purchaser of that

service, and there is an internal type contract which we call an ‘annual operating agreement’, which sets out the parameters of what they need to produce. I have got some examples here if the committee would like to see those. There are five copies for the committee.

**Senator MACKAY**—Just while you are handing those out, in relation to the initiative moving towards corporatisation, we had the Esk council before us this morning—

**Mr de Chastel**—Esk are our neighbours.

**Senator MACKAY**—Yes. They expressed some concern about going down that track because of potential tax disadvantages. Do you see that as an issue?

**Mr de Chastel**—We share those views, and that is one of the reasons we are saying that we are not going to look at that until that tax issue is sorted out. To be blunt, we are quite confused about the tax issue and where we are going to stand in relation to corporatised local government entities. We do not have a difficulty in making allowance for tax equivalents, but I do not think we would consider corporatising until that tax issue was resolved.

**Mr Spearritt**—Certainly paying income tax for something like Ipswich Water or Ipswich Waste services—traditional local government services—would be just taking money out of the local community. Though, for something in a volatile area of the economy, like Global Info-Links, an Internet service, there are other factors that may be advantageous, like being able to have equity partners or other arrangements in the private sector. It is such a fast-moving area that that is more of a factor than the tax issue is. But, in terms of the traditional functions, yes, that is a major concern.

**Mr de Chastel**—Global Info-Links, which is our Internet business, is a really good example of how we as a local government have taken NCP reforms and tried to fit them to our own needs. Under the Queensland legislation the only requirement we had in respect of a business of that size was to look at whether or not to apply essentially full cost pricing to the activity. Our council said, ‘That is all we need to look at but, voluntarily, we will have a look at whether we should commercialise it or corporatise it.’ We ran a public benefit assessment test on that basis. The decision was to commercialise it from 1 July last year. We agreed in principle to corporatise it from 1 July this year, subject to the resolution of that tax issue or finding the best mechanism for doing so in terms of taxation. So we have actually gone further than NCP said we should in terms of that particular business, because of the nature of it and because of the market it operates in.

**Senator MACKAY**—How does Global Info-Links work?

**Mr de Chastel**—It is a typical Internet service provider. Our council was quite visionary many years ago and saw this coming down the track. We are now the largest Queensland based Internet service provider. We are the fourth largest Internet service provider operating in Queensland and the largest community based Internet service provider in Australia.

**Senator MACKAY**—How is that paid for?

**Mr de Chastel**—The council ran the whole thing as an internal operation. They started, bought the equipment, signed up subscribers, provided service and kept signing up subscribers.

**Mr Spearritt**—At the moment it is a separate commercialised operation, so it is treated in accounting terms as a separate company. We sell all the internal services to it—like payroll, et cetera—at full cost. We buy back about 10 per cent of their services for ourselves or for the local community, but the other 90 per cent is sold directly to the community at market rates.

**Senator MACKAY**—Why did you decide to set this up? What was the rationale behind it?

**Mr de Chastel**—In terms of the original decision to establish?

**Senator MACKAY**—Yes.

**Mr de Chastel**—It was probably designed to try to stimulate information technology development in our local economy. As David said before, our mines and other types of traditional manufacturing based employment in the area are starting to decline. So we are looking at getting technology to attract industry to the city. It has worked in the sense that the University of Queensland this year opened up a campus based on information technology courses in Ipswich. So it is starting to work.

**Senator MACKAY**—Why did the council feel the need to set this up?

**Mr de Chastel**—It was part of the economic development of the area.

**Senator MACKAY**—But why did you not approach the private sector to do it?

**Mr Spearritt**—We felt there needed to be a catalyst of some form—something to turn it around, rather than just see the decline—to put a seed fund operation in place.

**Mr de Chastel**—It was also tied to some extent to the council's development at the time, which was the creation of a new library based on information access—'A library without walls', I think, was the terminology that was used at the time. They were trying to make it an information rich community.

**Senator MACKAY**—What was the initial capital investment at start-up?

**Mr de Chastel**—I cannot answer that off the top of my head.

**Senator MACKAY**—What was the investment in terms of the hardware?

**Mr de Chastel**—I am not sure. I will have to take that on notice.

**Mr Spearritt**—In terms of the current hardware, it is not an asset intensive industry. We have just done a leasing deal on most of the equipment, and that was more cost effective than outright purchase. It is not largely capital intensive; it is more in the labour.

**Senator MACKAY**—So you are saying that it pays its own way and it is not a drain on rates or on your revenue base.

**Mr de Chastel**—That is correct.

**Mr Spearritt**—It did require some council support in the early days. It was hard to tell under the old accounting frameworks because you did not have the full support costs, but now it is paying for its rental, its use of all internal services, et cetera.

**Senator MACKAY**—I think it is fantastic. Do you think that this actually led to the University of Queensland looking at setting up in Ipswich?

**Mr de Chastel**—There is no doubt about that at all.

**Senator MACKAY**—That is excellent.

**Mr Spearritt**—We know it was part of the deal. Also, it has been one of the issues in getting the Rail Technology Centre commitment from the state government. They are now moving the operation out of our library and relocating it at the Rail Technology Centre, and there is a belief that three or four businesses will hang off that. They will site themselves there because our Internet is there—in other words, they are support businesses.

**Mr Borrows**—It is going there as a tenant of the Rail Technology Centre.

**Mr Spearritt**—So it is having some economic advantages.

**Senator MACKAY**—It never ceases to amaze me what local government does. I was saying that to the Esk council. I do not think people are aware of the range of services provided or of how creative local government can actually be. This is a very good example.

**Mr de Chastel**—Our CEO, who is currently on holiday, always says that local governments immunise babies when they are born, bury people when they die and do a lot in between.

**CHAIR**—They sell them meat in between.

**Senator MACKAY**—We heard of that. Was it Boulia Shire Council?

**Mr de Chastel**—Yes, Boulia Shire Council owns a butcher's shop. There is council towards Roma that runs a hotel.

**Senator MACKAY**—We heard about that one too. It is very interesting.

**Mr de Chastel**—Global Info-Links, our Internet business, is a good example of how we have tried to take NCP and use it as a catalyst for some of the changes in the way in which we operate those businesses. But at the same time we have looked at some of the other types of businesses that need to be examined under NCP and said, ‘There is just no benefit in making any changes’. An example is our cemetery operations. Technically, it falls within the definitions as a ‘business’, because there is a crematorium operating in the area as well. But our council said, ‘There is no way we are going to apply business principles to a cemetery.’ I won’t say it is a community service, but if we started to change the way we dealt with it the community would get very nervous. So we said that we were not going to change that operation at all. Another example is that we have a retirement village—and it is means tested—which is for people who cannot afford to go into a normal retirement village.

**CHAIR**—Do you provide housing as well?

**Mr de Chastel**—Just for this particular entity, the retirement village. We do not have a general housing program.

**Senator MACKAY**—Does the council own the retirement village?

**Mr de Chastel**—Yes.

**Senator MACKAY**—And there is no Commonwealth funding associated with that?

**Mr de Chastel**—There was some state government funding through the Queensland Housing Commission some years ago, and we subsidise that.

**Senator MACKAY**—But it is not through an existing HACC program or whatever?

**Mr de Chastel**—Not to my knowledge, no.

**Senator MACKAY**—That is interesting. How much do people pay to go into the retirement village?

**Mr de Chastel**—It is means tested. The average would be about \$40 to \$50 per week, maybe a bit higher. We made a decision not to run a test there to look at commercialisation or whatever because of the human impact on the people who live there.

**Senator MACKAY**—Just to digress, because I am curious about this, they will be paying GST on that.

**Mr de Chastel**—We have not got to that. I cannot answer that.

**Senator MACKAY**—They will be, because it is completely funded by the council.

**Mr de Chastel**—Just moving on, we have also looked at some of the other activities that we have, businesses that we operate. We operate a civic hall, and we have done a review of that and are applying a full cost pricing regime, which we have never done before. And we have done similarly with our swimming pools. We own a number of swimming pools and,

again, we are making sure that the full costs are there. We have done those reviews through NCP.

Voluntarily, we have also taken the rest of the organisation and looked at what benefits there could be in applying NCP related reforms on a practical level. We are just in the process of finishing some public benefit assessments of our construction and maintenance activities for our roads, which is a big part of our organisation, and also of the way in which we run our plant operations, our fleet, our trucks and so on. The council has not made a decision on what it is going to do with either of those yet. We are just in the review process.

In terms of effect on service delivery, certainly the primary focus of our elected representatives has always been customer service. Whenever issues of NCP have come up, they have said, 'What effect will it have on the customers?' I think it is also fair to say that at this stage it is probably too early to tell.

We do have requirements for our businesses to report on a monthly basis on a fairly narrow range of things but also on a quarterly basis. I have an example of a range of issues from financial, assets and maintenance to, more importantly, customer service issues so that the council can monitor performance. Probably one of the benefits is that as an organisation while our reporting systems were not as efficient as they could have been this has probably driven us to be more efficient in the way in which we report, although we have still got more work to do there.

I am happy to pass the quarterly report to the committee. That one is commercial-in-confidence, if you do not mind. We have marked that. It gives examples of how our business reports on a range of issues.

**CHAIR**—We will keep that under wraps.

**Mr de Chastel**—The other thing the council was very determined about was that each of the business units would have to have a customer charter to make sure that the customer service levels were maintained. That is an example of the customer charter for Ipswich Water.

**CHAIR**—Can I interrupt you. The Ipswich Water quarterly report is, you say, commercial-in-confidence. Is that for a time or is that forever?

**Mr de Chastel**—Probably for a time.

**CHAIR**—It might be appropriate for you to notify the secretary when that is likely to expire, then we will know how to deal with it.

**Mr de Chastel**—What those documents show is that our organisation is trying to measure the success or otherwise of these reforms on a balanced basis. In other words, it is not just profit, it is not just customers, it is not just maintenance of assets; it is a combination of all of those matters. We are trying to get a measured example. It is too early to say whether that has been successful, but this is the mechanism we are putting in place to try and determine how we can monitor that performance.

The other issue we would like to address is the impact on staff. There have been no forced redundancies directly as a result of NCP within our organisation. Certainly we have had a natural attrition where the size of our organisation has reduced. At the time of the amalgamation, the total number of staff was 1,160 or thereabouts. It is down to about 990 at the moment. That is more a result of duplication of positions from the amalgamation, more efficiencies and positions no longer being required. It has essentially been done through natural attrition rather than through forced redundancies. There have been some forced redundancies, but mainly as a result of restructures and those sorts of things.

There has certainly been greater pressure on staff, particularly key staff in the business units where the expectations of performance have risen. It is probably also worth noting one of the ways we have managed that. You might be aware that the Queensland government has agreed to pass on what we call 'bonus payments' to local government. Our council has agreed to put a proportion of those bonus payments to our staff through the enterprise bargaining agreement as a recognition of dealing with change, which has, I think, helped with the staff acceptance of these changes.

**Senator MACKAY**—What proportion do they get?

**Mr de Chastel**—Ten per cent.

**Senator MACKAY**—So they effectively get a 10 per cent pay rise?

**Mr de Chastel**—We have a proposal whereby, within our enterprise bargaining agreement, any savings which staff are able to put into our budget go into—for want of a better phrase—a 'bucket', which the staff then get to share out of productivity bonuses and which helps fund salary increases. We, as an organisation, said that part of the bonus payments should go into that as a reflection of the changes which are occurring through NCP.

**Mr Spearritt**—Basically if they are one-off savings or bonus payments we take 10 per cent—in other words, amortise over 10 years—whereas if they are annual then we count the whole lot in sharing these savings. So, the bonus payments being one-off, that is why we just take 10 per cent.

**Senator MACKAY**—And that is not something that they would have got anyway through various award movements or the national wage? They are over-award payments?

**Mr de Chastel**—No, they are generally over-award payments. Our EBA is well above the award payments.

**Senator MACKAY**—It is very interesting. Thank you.

**Mr de Chastel**—Within the staff, though, I would have to say that there is still fear or a perception that national competition policy equals contracting out. We have tried to explain to staff and have spent a fair bit of time dealing with that issue, but there is still a general feeling that NCP equals contracting out or job losses.

**Senator MACKAY**—Why do they think that, if there is not much being contracted out?

**Mr Spearritt**—The two different councils that were amalgamated each had a different policy on waste services. One council had them contracted out and the other had a day labour operation. When they were brought together into the one area you really had an internal benchmarking—day labour and contract. The work force got together and there have been a lot of reforms in labour practices. They have now moved to 10-hour days four days a week on a rolling shift and that type of thing, to get the better productivity in the vehicles, et cetera, and believe they are offering a competitive service.

The contract for the former Moreton Shire Council area expires this June, so that contract is coming up. There has been a lot of issue—if you like—very locally in the area about having to contract for that business. The day labour area is tendering against the private sector as to whether it expands and does a full day labour operation or whether we keep half of it under contract. It is very real in there. We have not introduced any new contracting out, but just in the existing mechanism it is coming up.

**Senator MACKAY**—Is it likely that when that does happen anybody who currently has a position will actually lose that position?

**Mr Spearritt**—No.

**Senator MACKAY**—Have you pretty much guaranteed that?

**Mr Borrows**—They are only tendering the contract part of the business and not the whole of it.

**Senator MACKAY**—Not the actual—

**Mr Borrows**—One of the other things we did was that, as our capital programs expanded, we handled that through contract. So rather than basically having inflexible numbers in the work force with expanding and contracting workloads, we have basically picked up the shortfall in contracts. That has been a conscious decision, which is probably different from some of the earlier individual council's decisions prior to the amalgamation.

**Mr de Chastel**—One of the things the staff quote at us is that they have heard what happened in local government in Victoria. Our staff quote that to us quite a lot.

**Senator MACKAY**—Yes.

**CHAIR**—Do you mean compulsory tendering?

**Mr de Chastel**—That is right. That is certainly the fear. A lot of our staff identify NCP with compulsory tendering. We can talk to our staff as much as we like and we provide information by way of newsletters and so on, but that feeling is still there.

**Senator MACKAY**—It is a real difficulty when evidence that we have heard from around Australia—we have only had a little taste so far—is that the application of NCP

across Australia is completely patchy. Queensland, in terms of local government, seems to be the best example of how you could do it properly. Then you have other states where state governments have interpreted it differently. The public benefit test is applied differently. That is one of the things that is becoming very clear, in terms of evidence that we are hearing. That is probably why you are getting that kind of feedback.

**Mr Spearritt**—The performance reports you have been shown there do show some staff type measures—

**CHAIR**—Is this the quarterly one?

**Mr Spearritt**—Yes, the quarterly one. There is sick leave, for instance. My understanding is that with things like Ipswich Water those levels are well below the council average. Some of those early morale indicators are more positive in the business areas than in the remainder of council.

**Mr de Chastel**—As an anecdotal example—if you like—with the Global Info-Links Internet business, the management and a lot of the staff there feel that they have a lot more flexibility and autonomy within a commercial business unit than they had previously, operating within a council bureaucratic type of framework. It has probably enabled them to feel that they can compete a lot better with what is, essentially, a fairly cutthroat type business at the moment. So that has been beneficial. A change of culture has probably helped there.

**Senator MARGETTS**—We spoke to Esk Council about the implementation of national competition policy. Esk Council mentioned that they received \$35,000 for review and \$487,000 for implementation of national competition policy. First of all, could you give us an idea of what kind of figures Ipswich was able to obtain from the process?

**Mr de Chastel**—I can answer that to the extent of what we expect to obtain over the next four years. We have been given advice that, if all of the reforms are implemented to the maximum level they could be, the total our council could expect to receive is about \$5.8 million.

**Senator MARGETTS**—On what basis is that done and how is it split up?

**Mr de Chastel**—In Queensland the state government department—the department of local government and planning—and also the Queensland Competition Authority have been involved in determining the breakup of the \$150 million that the Queensland state government agreed to distribute to local government.

Some of that \$150 million was for implementation costs, some of it was for reimbursement of review costs and some of it was, if you like, almost a bonus to encourage local governments to implement the changes. Our council, I think, would have implemented these changes regardless of whether or not those bonus payments were offered. It has not really swayed us in the sense of being the catalyst of whether or not we would make the changes. We are treating it as a bonus, certainly to reimburse some of the cost for reviews

and the administrative costs of having to go through this process. I think we would have made these changes regardless.

**Senator MARGETTS**—What sort of benchmarking is involved and how detailed is it?

**Mr de Chastel**—Some of our businesses are able to benchmark fairly easily. For example, part of the operation of our waste business is a day labour force—that is, they are full-time council employees who drive the trucks, pick up the bins, go to the dump and so on—but part of our area is also done by a contractor. So there are some direct benchmarks available.

Another of our businesses, for example, is Ipswich water. That is our biggest business. We as an organisation have not done our benchmarking as well as we could have in the past. This process has really brought forward the way in which we have kept statistics on the way in which we perform. I would say it will be a year or two, if not longer, before we can really give any accurate trend about how we are performing.

**Senator MARGETTS**—What has been the public involvement in setting benchmarks?

**Mr de Chastel**—When we did the public benefit assessment test for Ipswich water and Ipswich waste, we ran advertisement campaigns looking for feedback. We ran public meetings. To be honest, the interest from the public was not that great. Our observation is that the public is more interested in the outcome and the price, rather than the process which gives rise to that. Does that answer your question?

**Senator MARGETTS**—Yes. I am just wondering whether or not people understood what was going to happen. What we have clearly had from a number of sources even so far is that, until it bites them, most people do not understand.

**Mr de Chastel**—We have come across an issue just recently in the review which has not been considered by council about our council's plant operations—that is, our motor vehicle fleet and the servicing of our trucks, purchases and so on. It is almost like a reverse NCP effect, where our plant operations currently only provide services to the council and they do not provide services externally. They are not competing in the marketplace. But if, for example, we said that our plant branch could go and operate in the marketplace, they would have an impact on our local business but our local business could also compete for our council's work. That is where the public interest will arise—about what effect it would have on local business or, conversely, what opportunity there would be for local business to compete for council work, rather than just being done internally. Our council has not considered that formally yet.

**Senator MARGETTS**—Has the Queensland state government given any written advice as to what needs to be done to obtain the full \$5.8 million, or is it just an understanding? If there is any written material or advice, is it something that the committee would be able to have a look at to get an idea of how it all works?

**Mr de Chastel**—The state government department and I think also the Queensland Competition Authority have published some guidelines of the criteria they use. We do not

have those with us today, but I am sure the Local Government Association would have those.

**Senator MARGETTS**—Have they said anything specifically to you about how you earn your \$5.8 million?

**Mr Spearritt**—They have broken it up into businesses, so we would know how much we would get for each business; for example, we would know how much we would get for the water business, and the others. I think they are still working through the tests. As to what the first tranche of those is and whether we have met the criteria, we were supposed to know by the end of February—and we are still waiting to hear.

**CHAIR**—Pursuing that a little further, what sort of issues are considered in connection with the public benefits and costs? Am I right in understanding that are you going through this process right now or that it has just finished and you are awaiting the outcome?

**Mr de Chastel**—For the businesses which we set up, we did those in late 1997 with a view to implementing those changes on 1 July 1998. They were the ones that the legislation required us to do, and they were done in accordance with the guidelines published by the state government.

They required both a quantitative and a qualitative analysis. The quantitative analysis looked at the financials and, depending upon what sort of change was introduced, what impact there would be. The qualitative matters looked at impact on the environment, impact on customers, impact on staff, impact on the market and were more subjective as opposed to measurable; and local governments could put a weighting on what they thought greater—the impact on the community or the impact on the environment—or deal with it in whatever way they wanted.

At the moment, we are doing ‘voluntary’ reviews of some of our other activities. We are using a review process which has been developed through the consultancy that the Local Government Association prepared; that is a scaled down version looking at the analysis, both qualitative and quantitative.

But eventually it will be the council’s decision as to whether or not it wants to make the change. The reality is that there is no compulsion under the act in Queensland for any local government to implement a change. Even if the public benefit assessment test says they should do X, Y or Z, the council can still make the final decision about what it wants to do.

**Senator MACKAY**—It is very different in other states, very different.

**Senator MARGETTS**—What authority are you dealing mostly with; is it the Queensland Competition Policy Unit? With whom are you benchmarking or ticking off against?

**Mr de Chastel**—We do not really need to report to anyone, which is a lovely position. In reality, we have probably had the most to do with the Local Government Association of

Queensland, which has meant that there has been a very effective interface between local government and the state government.

**Senator MACKAY**—So you report to them.

**Ms Mihovilovich**—Certainly not.

**Mr de Chastel**—We do not report to the Local Government Association. But, certainly, the Local Government Association has assisted councils with representations to the state government. The NCP reforms in Queensland within the state government have generally been driven through both the Department of Local Government and Planning, as it then was, and Queensland Treasury.

**Senator MARGETTS**—Whose pen is on the cheque in allocating the money? In that sense, which minister are you answerable to?

**Mr de Chastel**—I believe that it is the Treasurer, but I am not 100 per cent sure on that.

**Mr Spearritt**—The recommendation though is made by the Queensland Competition Authority.

**Ms Mihovilovich**—I wonder whether it is the Treasurer; anyway, we can give you that.

**Senator MARGETTS**—Regarding the legislative review, I was interested in the responses that Esk council gave about such things as the Integrated Planning Act. How has that impacted on Ipswich? I realise that you, yourself, are a new entity that has originated from an old council. But, with changes to the planning act and other major acts, what extra work might be required for people to get used to doing things in a different way?

**Mr de Chastel**—I would put it this way. Our council over the last few years has had challenge after challenge after challenge, and the Integrated Planning Act was just another one. Certainly the amalgamation was a big issue that, as an organisation, we had to face. We are dealing now with external boundary changes, and that is an issue we have to face. The Integrated Planning Act created a new system or a new way in which town planning and land use was regulated in Queensland, and it is being implemented by local government. We are facing the same organisational demands that most other public sector organisations are facing, but we seem to have found that they all hit at once.

On a practical basis, the Integrated Planning Act has freed up the way in which the assessment process for building applications is being done. Traditionally, building applications could only be approved by local government; that is now able to be done by private certifiers. Our council certainly has private certifiers operating in our area who are approving building applications. But, at the same time, a lot more work has been involved in the town planning side—that is, the land use side—and we are spending a lot of time dealing with that.

**Mr Spearritt**—That is one area in the private certification where council has not decided to go into a big business method; largely, it has just taken a back seat to see how far the

private certification comes in. So we have lost some work and some income there and, at the same time, it has been a fairly quiet period in development terms.

What probably has had a greater impact than the integrated planning act—and particularly in the businesses we are talking about—is the environmental protection legislation. That has significantly increased the standards and costs for both our waste business and our water and sewerage businesses. This is in many ways difficult and quite a quandary: at the same time as being commercialised and asked to become more efficient and produce a greater rate of return, they are having to put considerably more resources into environmental protection issues.

**Senator MARGETTS**—I would just clarify that. We are speaking of national competition policy changes to your EPA; that requires you to get a greater return from what?

**Mr Spearritt**—No. They are two separate issues but both impacting on the same areas of operation. So the EPA is a state government issue. It just happens to be impacting on our waste, water and sewerage businesses fairly heavily.

**Senator MARGETTS**—That was not an NCP type change; it is just another change you have to deal with.

**Mr Spearritt**—Another change at the same time. But it is adding significantly to cost that you cannot get a rate of return on. There is the need to invest in upgrading, say, sewage treatment plants that you do not get a rate of return on, and yet commercialisation and NCP are saying, ‘Invest your money where you get the rate of return.’ So it is very difficult to achieve both at the same time. We are having to properly educate the competition authorities in that there are other issues as well as competition and commercial rates of return.

**Senator MARGETTS**—Like environmental protection, yes.

**Mr Spearritt**—Confessing up to past sins of 100 years or so, and you cannot expect this year’s customers or ratepayers to be picking that up overnight.

**Senator MARGETTS**—When the national competition policy was first being introduced back in 1995, the Local Government Association was very concerned about the loss of revenue to local government: that there would be extra costs and no commensurate increased revenue. Has that been the case? Has there been a revenue loss over all as a result of the implementation of national competition policy?

**Mr de Chastel**—No, we do not believe so.

**Mr Spearritt**—No, we are losing revenue because ratepayers are moving to adjoining councils. But that is another issue.

**Senator MARGETTS**—Wasn’t there an issue in relation to whether or not state governments or federal governments pay rates, and whether or not you have to pay them taxes compared with whether or not you can charge them rates?

**Ms Mihovilovich**—That has not been clarified as yet, and it is part of the whole gamut of activities that are being debated at this moment as part of taxation reform proposals. So we are really not clear on it. Yes, you are correct; that has been an issue that has been raised. But, at our recent meeting with Commonwealth Treasury officials, they were unable to clarify that matter.

**Senator MACKAY**—I am sorry, what matter is Senator Margetts raising?

**Ms Mihovilovich**—Raising the issue of tax equivalent regimes, the kind of concept that a Commonwealth building or piece of land is liable for local government rates.

**Mr Spearritt**—At the moment, under the tax equivalent regime, these businesses we have set up as commercial businesses do pay nominal or notional state taxes and federal taxes, but they are paid back to the council. So it is treating them on a businesslike basis, but the council gets that revenue. Council-wide, we are no worse off revenue-wise from that.

**Mr de Chastel**—We are a bit uncertain about where that tax issue sits. That is one of the reasons why we are not too sure of what we will do in terms of corporatisation.

**Senator MACKAY**—Yes, indeed. I think a whole lot of state governments are having the same sort of interest.

**Senator MARGETTS**—Looking back at my notes on your presentation, you spoke of a loss of five per cent per year with some form of implementation. Can you expand on that?

**Mr Spearritt**—That is in the general financial assistance grants to local government. Just as there are financial assistance grants to states, there are also those to local government—and I think it is over \$1 billion nationally. Our level has been going down five per cent per year. That is a fairly complex state and federal issue. The state gets its allocation on a per capita basis. Then each state has a Grants Commission which, applying federal legislation, allocates those funds on its individual methodology; each state uses a different methodology.

**Senator MARGETTS**—Why is that? Are you eating less, or what?

**CHAIR**—They do not look like it, to me.

**Senator MACKAY**—It is just the cuts to the FAGs.

**Mr Spearritt**—It is largely the distribution of FAGs. With the way the methodology works, it tends to favour rural councils because it says they have high expenditure needs and lower revenue bases, and the urban councils tend to head towards the minimum grant. So we would be straight on the minimum grant, which is about \$14 per head, if not for a flaw in the grant reductions of five per cent. We cannot reduce by more than five per cent a year. But it means that, for the next few years, we will keep going down by five per cent per year.

**Senator MARGETTS**—With this public consultation process, what kinds of advertisements went out? What did people understand they were being asked to talk about?

**Mr de Chastel**—Some time ago when we ran the ads, my recollection is that we had—if there can ever be such a thing—a plain English version of what NCP meant. We tried to explain to people that we were after feedback about potential reforms or potential changes to the way in which the council would operate under NCP.

**Senator MARGETTS**—I would love to see that.

**Mr de Chastel**—I think everyone would. We asked for written submissions, and the response was quite poor. We ran focus groups of major consumers, chamber of commerce type things, the rural sector.

I can tell you a quite humorous story. One night I was sitting in a hall at one of our country towns, debating the benefits of NCP with some of the farmers and talking about how service provisions may or may not change. The farmers' view was that, provided the rubbish bin is still big enough to take the dead calf, they did not really care how we ran it. They were more interested in the outcome rather than the way in which the service was delivered.

**Senator MARGETTS**—That is interesting. I would have to say that, at the time we were putting through the legislation in 1995, almost nobody in the parliament understood it. So we now at least have a committee of people looking at it. What year was that? When were you running those initially?

**Mr de Chastel**—The year 1997.

**Senator MARGETTS**—What debate is had within council? Do you have differing views within council, and different views expressed to the council, about some of these issues?

**Mr de Chastel**—We have 13 councillors on our council who are all independent. As I have said, our council has never passed a formal resolution saying that it has a philosophical approach to NCP one way or the other. Through practice, it has simply tried to deal with NCP as another challenge; it has picked the eyes out of what it thinks is good about it and can be implemented in a practical way and, if there are elements which it does not think will work, it refrains from adopting them.

**Mr Spearritt**—It was debated fairly heavily; I think at every council or committee meeting a report went up, so there is a major debate. As officers, the essence we took out of those debates was that the critical thing was maintaining or improving customer services and making sure that costs improved. It was more the outcomes than the process.

I also wish to elaborate on that point on public consultation. I have only been with this council for a bit under two years. Prior to that, I did consulting in NCP and I did some public benefit tests for local governments in other parts of Queensland. I remember one in an adjoining area to Townsville. There, we even managed to get it on the Channel 9 news—the fact that we were having a public inquiry at night and for people to come along and have their say about the effect on water, that it could affect water prices, water metering, et cetera. Apart from the staff, we got four people to come along. So, even when it went on the Channel 9 news, there still was not a great community interest.

**Senator MARGETTS**—I would just contrast this with remembrance of the fact—and we have had it mentioned during this inquiry again—that, at the exit poll at the last state election, the single most often quoted reason for people's voting patterns was national competition policy. I do not want to be rude, but could it be that you were not asking the right questions? I know you tried to explain it in simple terms.

**Mr Spearritt**—It could be. But I also suspect that what is happening now is that the NCP is being labelled as the cause of most of the social change and pain occurring in the organisation, when it is probably just one of many factors.

**Mr de Chastel**—I do not know whether this statement is sustainable, but I would say that, if you asked most of the people on the street and in the Ipswich City Council of the effect of NCP on our organisation, they would not know that it existed in that sense. They know that their rubbish bin gets picked up every morning and, when they flush their toilet, the waste goes away. But the method by which we provide the service is not as important as the result of that service. I think if they were to notice the service going down or the customer response times becoming poorer, then questions would be asked about why things were happening or why the performance had dropped, and issues of NCP would come about then. But if the service at the right price is still being delivered, then it really has not been an issue for us.

**Senator MARGETTS**—Under national competition policy, have you had any problems associated with water reforms?

**Mr Borrows**—One of the issues for us with water reform is the stage that the state government is at. At the moment it is just getting across what it should be doing under the water reform policy in Queensland, and it probably has only put a big focus on this in the last 12 months.

One issue for us in the area of water reform is that we are a part-owner, and deciding whether to become a bigger owner, of the South-East Queensland Water Board. We are interested in the purchase of water for that side, so we are interested in water reform as it relates to things like water entitlements, rural water questions and payments for rural water. We have an interest in that as an urban water supplier. But, again, the policy that is associated with that under the water reform agenda is still only being debated at the state government level at this stage, and it is not clear yet. It is only in the first stage of their preliminary papers going out for consultation.

Another issue, which is still not clear, goes to the policy scenario at the state level: what sort of water distribution vehicles does the state want to have in south-east Queensland? By that, I mean that we have Brisbane City which, by most definitions, is a large business in terms of water. But the state has not clearly said whether or not it has a view about having one major water distributor across south-east Queensland; whether it is happy to run with it being distributed through local governments, as it currently is in Queensland, as opposed to what happens in the southern states, and having it focused on some elements of NCP and water reform, such as third party access, which is really only a small part of it at the end of the day if you do not have that big policy picture in place.

Through the Local Government Association of Queensland and through BCC, we have been negotiating recently and having input into that sort of state scenario. At the end of the day, that will have a bigger impact on, say, water distribution for Ipswich and south-east Queensland than anything else.

**Senator MARGETTS**—Do you have any prospective dams in your area? Has that been an issue?

**Mr Borrows**—No, we have some around our boundaries that we take it from. But we are part-owners of the water board that owns the dams, and that is of interest—well, we are not at the moment. That is subject to a tax ruling; that is being prepared now to go down to the federal government for a tax ruling. Depending on how that comes out, we will be looking at incorporating the water board under the Corporations Law, as opposed to government owned businesses. Basically, we will have an ownership of that business. So we are interested in things like water entitlements, rural water charges and those sorts of things as a policy issue because of our ownership in the board.

**Senator MARGETTS**—Are environmental flows an issue or being seen as an issue within your area?

**Mr Borrows**—Yes, it will be an issue. A major study of Moreton Bay is happening at present. Basically, that is a study of where the water discharges from most of the river systems in south-east Queensland. Environmental degradation of the bay is a major issue, and part of that is the environmental flows in the river.

I suppose whatever we come up with about environmental flows in the rivers will, again, have an impact on us in our ownership role of the water board. Basically, that is the value of that business. That will be an issue, and its detail is still being determined. It is tied up in the water entitlements debate that is on the table at the moment.

**Senator MARGETTS**—Do you have any idea of when it is likely to be clarified?

**Mr Borrows**—It will be in the next 12 months.

**Senator MARGETTS**—Somebody was telling me that the problems involved with the potential tranche payments may have been sorted out. Is that your understanding?

**Ms Mihovilovich**—I do not know what the source of that information is. I am not clear on that.

**Senator MARGETTS**—Thank you.

**Mr Spearritt**—I would like to add something on the water pricing end of things in terms of the effect on the end customer. There is the COAG water reform policy which often gets called as part of NCP, although it is not directly NCP. That basically requires two things. Firstly, there is full water pricing based on all volume usage and, secondly, the elimination of cross-subsidy between different types of consumers. We have done a review on that in the council. Currently 85 per cent of our water consumers are on water meters and they pay for

every litre of water used under that. That is a voluntary scheme. We are basically encouraging people across to that so it is gradually moving up year by year. We do not think there is a high level of cross-subsidy between the domestic and the commercial sector.

**CHAIR**—We will have start winding up these proceedings pretty shortly now.

**Senator MARGETTS**—I have a final comment on that. My understanding is that it started as a separate COAG process and actually merged officially into part of a national competition policy tranche payment system.

**Ms Mihovilovich**—Yes, I agree with you on that. There is still the separate COAG agreement to achieve water reform by June 2000. Certainly councils can attract payments for reforms in that area if they choose to undertake those processes. It has been quite a rush in Queensland. Once again, this is an example where state governments have been working very well with local government to get this process through. There has been quite a bit of consultation and certainly the state government has been quite receptive to our concerns in that area.

**Senator MARGETTS**—Thank you.

**CHAIR**—I have two quick questions. What issues are involved for roads with the public benefit test?

**Mr Borrows**—We have been looking at it from the council service delivery point of view. It is an efficiency sort of question, whilst still maintaining the same level of service or better. We have been looking at how we can achieve those sorts of improvements in productivity that we need to in the road delivery area compared with the effect on customer service for it.

The other part of that question is the issue that Brett raised with respect to competition with local businesses. If the roads became a business it would be comparable in size to a lot of the major contractors in the local area and we would be competing against those.

**CHAIR**—Is the process transparent?

**Mr Borrows**—Yes. The inside work of PBA has been done, if you like, and it is due to go out for public consultation. We actually have a report going to our council for their decision in the next month and that will then invite public comment on the PBA.

**CHAIR**—What are your average rates?

**Mr Spearritt**—I think about \$1,250.

**CHAIR**—Does that include the water?

**Mr Spearritt**—Yes, including the water.

**CHAIR**—If you took out the water, what would it be?

**Mr Spearritt**—If they were general rates only, I think they would be about \$600 to \$650, or something like that.

**CHAIR**—Thank you very much for your presentation here this afternoon. Thank you to all those involved. Thank you to Senator Margetts and to *Hansard*.

**Senator MARGETTS**—I will see you all in Perth, unless you are going to attend by phone.

**Committee adjourned at 3.39 p.m.**

