

Submission No 29

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**Submission to the House Standing
Committee on Aboriginal and Torres Strait
Islander Affairs**

**Inquiry into Community Stores in Remote
Aboriginal and Torres Strait Islander Communities**

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EXECUTIVE SUMMARY

This submission is intended to address the economic rather than the health and nutrition issues facing Community Stores. Kadar Pearson & Partners Pty Ltd (KPP) is a Broome based business development group that works with indigenous individuals and communities principally in the Kimberley region of Western Australia. Its key focus is to develop economically viable, sustainable enterprises.

This submission is based on empirical research from observation and experience “on the ground” in some 60 communities through the Kimberley region of Western Australia and the Central Desert region of the Northern Territory.

Key issues and conclusions raised in this submission can be summarised as follows:

- There is no single operating model that will work across all Communities
- There needs to be a focus on agreeing to common outcomes rather than common operating models for both Community Stores and enterprise development
- Some form of monitoring of prices needs to be introduced so that “rogue traders” can be isolated and there is quantifiable evidence of issues surrounding affordability
- There needs to be far greater transparency of operations, particularly those that are funded by Government
- There is a need to develop operating models based on the dynamics and aspirations of individual Communities
- There needs to be training developed that genuinely looks to Community self management in the medium term
- There needs to be significant re-thinking on how governance training is delivered in Indigenous communities
- Current Community Store operators such as Outback Stores have little regard for economic development of the Communities in which they operate and therefore have minimal impact beyond the Store’s operation
- Enterprises that are developed need to be compatible with Community aspirations
- There needs to be a commitment by Governments to provide business support specialists to Communities for the medium term rather than based on short term projects with “immediate” outcomes
- The issue of land tenure needs to be resolved so that Communities can plan what they do on their own lands without the hindrances that currently exist

IMPORTANCE OF COMMUNITY STORE

The importance of Community Stores in remote regions of Australia cannot be over emphasised. The Community Store is far more than just the place to buy food. In many Communities, it is the only enterprise activity; the place where people meet; where banking is done; where mail is delivered; and where telephones can be accessed. In the Kimberley, Communities can be isolated for weeks at a time through the wet season, and residents rely on the Store to meet many of their external needs.

In any review of Community Stores, it must be understood that the dynamics within each Community varies. Each Community has different dynamics based on the number of family groups, the relationships between those family groups, the dominance of particular family groups and so on. Just as Community dynamics vary, so do the aspirations of Communities. For example, whereas some Communities see tourism as compatible to their Community aspirations, others see it is intrusive and disruptive to Community life. Many Communities have genuine concern that increased enterprise activity will attract greater movement of people (both indigenous and non indigenous) and therefore increase movement of drugs and alcohol whereas other Communities see increased enterprise activity as the means to improve Community infrastructure.

These differences simply mean that no one (1) operating model can be developed that will work across all Communities. We therefore need to focus on a common outcome, rather than a common business model.

FOOD, SUPPLY, QUALITY, COST & COMPETITION

There are significant differences between Community Stores in terms of food quality, cost and supply.

Supply, to a large extent is dependent upon accessibility. At this time of the year (December-March), there are weeks when roads are impassable or closed and therefore no goods can be delivered. However, this is a fact that is recurring year on year and provision is generally made to accommodate these circumstances. In terms of suppliers of goods, issues focus on the cost of supply. KPP has found examples of delivery charges of \$1,000 per pallet to deliver goods 120kms from the source of which only 5kms is on unsealed roads. Communities that do not own vehicles that can be used to collect food and other goods are therefore trapped into paying these exorbitant prices. The impact of this level of charges is significant as indicated. Although this circumstance is the exception rather than the rule in terms of food distribution costs, the trend is consistent across delivery of general trade services. There continue to be practices dealing with Indigenous organisations that would not be accepted in any other trading sector.

The impact of the remote locations of most Kimberley Community Stores, clearly impacts cost of food as noted above. However, where more equitable

Impact of Distribution Costs

A Community of 300-350 people requires around 3 pallets of food per week. An average pallet of food is estimated at around \$2,500. Based on a delivery cost of \$1,000 per pallet, cost of goods received is calculated as follows:

3 pallets = \$7,500 stock
Delivery costs = \$3,000
Cost of order = \$10,500 of which 40% is delivery

Based on a gross operating margin of 65%, stock would be sold at \$10,125 whereas the inclusion of delivery increases that order to \$13,125. On this basis Community members are paying around 30% more than regional centres.

distribution costs have been negotiated, there remains a large discrepancy of the price of food sold in Community Stores vis a vis regional centres. A recent survey completed by KPP to compare costs of staples in Broome against six (6) Community Stores suggested the following:

Item	Broome	Average Community Stores	Variance
1 doz eggs	\$3.66	\$5.50	+50.27%
1litre milk	\$1.48	\$2.50	+68.92%
Loaf of bread (white)	\$1.49	\$4.50	+202.01%
500g stewing beef	\$5.00	\$9.99	+99.80%
1.5 litre mineral water	\$1.81	\$4.00	+120.99%
Pumpkin (1 kg)	\$4.68	\$8.50	+81.62%
Apples (1 kg)	\$5.48	\$11.05	+101.64%

FIGURE 1 - COST COMPARISON (FEB 09)

The information gathered for this survey was conducted by telephone. We stated who we are and that we were simply looking to get a snapshot of the variation in prices between Community Stores and Broome. We hypothesised that there would be a level of correlation between the remoteness of Community Stores and retail prices. It is interesting to note that the two (2) Outback Stores contacted refused to share any information and therefore information had to be gathered surreptitiously by someone in the Community.

Although the survey found some relationship between remoteness and retail prices, the sample is too small to draw conclusions however, without exception the variation in prices paid in Communities when compared to Broome were significant.

Of greatest concern is the affordability of basic foods for many living in Communities. Based on the 2006 Census, (Cat no 2086.0) 70.03% of indigenous people (15-65) living in the Kimberley, earn less than \$400pw and 56% earn less than \$250pw. Based on Grocery Choice data (February 2009) a basic staples basket in Broome costs \$82.57 (Coles). On the assumption that the six (6) Community Stores surveyed in February 2009 are reflective of the Kimberley, this would suggest that the average cost of a staples basket in Community Stores is \$161.07 (or 95.08% higher than Broome).

It is strongly suggested that some form of monitoring prices within Community Stores be undertaken on a regular basis. This could be as simple as a monthly listing of prices from each Store against an agreed range of basic staples. The results would provide a true indication of the cost of staples, provide data to measure affordability and provide greater transparency of the conduct of external retail management operators and suppliers.

EFFECTIVENESS OF OUTBACK STORES AND OTHER MODELS

As noted previously, this submission does not look to comment on health issues but focus solely on economic outcomes.

There are a number of business models operating in Kimberley Communities and include:

- The Federal Government's supported model of Outback Stores (operating 2 stores in the Kimberley)
- Privately owned retail management companies such as P Grundy & Associates (operating 8 stores)
- Community owned where managers are employed on behalf of the Community (such as Imintji, Yiyili).
- Incorporated Associations such as Arnhemland Progress Association, (ALPA) (an Aboriginal-owned benevolent organisation which provides benefits to its members from the successful operation of community retail stores and operates the Store at Beagle Bay)

Effectiveness, from an economic perspective can be measured against a number of variables. These include:

- Training and employment with the intention of building capacity and skills to a level that will allow Stores to be ultimately run by the Community, employing Community members
- Development of micro enterprises that are compatible to the Store operation
- Transparency of operational model
- Circulation of money within the Community (from individual income) and keeping that money within the Community.

Based on these criteria, the models currently operating within the Kimberley have achieved little from an economic perspective and against these measures, have been ineffective.

Of greatest concern (for long term Community sustainability) is the lack of genuine training of Community members who could eventually manage and operate the Store for their Community. We hear reasons for this constantly. These range from the inability of 'blackfellas' to manage money; the unreliability of "blackfellas" to turn up each day; potential conflict within the Community if "one of their own" is charged with managing the Store and so on. However, we are more of the view that it is not in the interests of most external managers and operators to pursue these Community aspirations.

Of secondary concern, is that monies generated by the Store are leaving the Community. At a meeting with Outback Stores, we specifically asked questions about operating margins and so on but were told that this information was commercial in confidence. Therefore the only information we have been able to confirm is that from the Outback Stores website. The example provided by Outback Stores, shows an example of Community Store sales at \$840,000 with profit of \$40,000. At 4.76% profit, this would be regarded as a marginal business by most investors and we are not clear how this profit is then returned to the Community. We have also reviewed other management agreements (on a confidential basis as Communities are reluctant to "get on the wrong side" of

Store operators). Generally, on trading of around \$1m, \$300,000 is paid for management services, administration and wages, around \$690,000 for cost of goods leading to break-even or small losses most years. These “other operator” figures are in line with the example provided by Outback Stores on their website and can be summarised as follows:

	Outback Stores	Other
Sales	\$840,000.00	\$1,000,000.00
Cost of Sales	\$584,000.00	\$690,000.00
Wages & Admin	\$236,000.00	\$300,000.00
Gross Profit	\$20,000.00	\$10,000.00

FIGURE 2 - OPERATING PROFIT COMPARISON

However, Communities operating their own Store and employing external managers don't always fare all that much better. We have a recent example in the Kimberley of a Store Manager having allegedly stolen around \$211,000 from the Store bank account. As this matter is currently before the Court, this has not been proved. However, what we do know for certain is that the Store has around \$160,000 in creditors and it will take 12 – 18 months to recover from this situation. In this instance, the Community Store Directors believed they were being diligent by having regular meetings with the Manager but the information they were provided was fabricated and therefore they had no idea of their situation. Unfortunately, this is not an unusual occurrence.

The issue of sustainability of Community Stores is an ongoing discussion in the Kimberley. However, if there is genuine Government commitment to the long term (economic) independence of Indigenous people and long term sustainability of Indigenous Communities, a number of actions need to be taken:

1. There needs to be far greater transparency of operations, particularly those that are funded by Government.
2. We need to develop operating models based on the dynamics and aspirations of individual Communities. A “blanket approach” will not work.
3. There needs to be training developed that genuinely looks to Community self management in the medium term. This may include “life literacy” in the first instance.
4. There needs to be a re-think on how governance training is delivered.

IMPACTS OF THESE FACTORS ON THE ECONOMIC OUTCOMES OF COMMUNITIES

Community Stores that are managed by Outback Stores and other like operators have shown little regard for Community development and therefore have minimal impact on economic outcome beyond the Stores' operation. KPP has made a number of attempts to develop micro enterprises around Community Store operations with little support. Examples can be cited where a Community has looked to develop a market garden and we have approached the Store to commit to purchasing market garden produce of their Community and have been rejected. We have also attempted to start up a bakery in a Community but the Store would not agree to purchase the product.

As Community Stores are often the only enterprise within a Community, it is the natural focal point for expanded economic activity. KPP has found that the only way to achieve these outcomes is when the Store is owned and operated by the Community (albeit employing a whitefella to manage the operation). However, if the Manager is an employee of the Store, there is a far greater opportunity to develop micro enterprise activity. These micro enterprises create real jobs (not just CDEP plus top up); enduring economic activity; a model of "how things can be" and most importantly, long term independence.

It should be noted that KPP is aware that it is not in Outback Stores' charter to develop enterprise activity nor is it a requirement of external retail management companies. Outback Stores' focus is health and nutrition based and managing Stores in a commercial manner that will reduce government's need to continually "bail out" failing Stores. However, this model does not contribute to Community (financial) independence as it does not create the opportunity for compatible enterprises.

It is KPP's view that sustainable economic activity (within Communities) will be developed effectively if:

- There is a genuine understanding of Community dynamics and aspirations
- Enterprises developed are compatible with Community aspirations
- There is a commitment by Governments to reject "quick fix" options
- There is a commitment by Governments to provide business support specialists to Communities for the medium term rather than based on short term projects with "immediate" outcomes
- The issue of land tenure is resolved so that Communities can plan what they do on their own lands without the hindrances that currently exist
- There are skilled people working with Communities to develop their economic plans