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BY
NGUIU ULLINTJINNI ASSOCIATION INCORPORATED
TO
HOUSE OF REPRESENTATIVES STANDING COMMITTEE
ON
ABORIGINAL AND TORRES STRAIT ISLANDER AFFAIRS
IN RELATION TO AN
INQUIRY INTO COMMUNITY STORES IN REMOTE
ABORIGINAL AND TORRES STRAIT ISLANDER COMMUNITIES

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SUBMISSION

**INQUIRY INTO COMMUNITY STORES IN REMOTE
ABORIGINAL AND TORRES STRAIT ISLANDER COMMUNITIES**

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PREFACE

This submission, by Nguiu Ullintjinni Association Incorporated (NUA) to the *House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs* in relation to an inquiry into community stores in remote Aboriginal and Torres Strait Islander Communities, aims to present the following:

1. An overview of NUA that allows the *Standing Committee* to be aware of the background and various issues relating to the association.
2. An understanding by NUA of the *Terms of Reference* of the inquiry.
3. The views of NUA in relation to the issues of food supply, quality, cost and competition so far as they relate to the association.
4. The views of NUA in relation to the effectiveness of community store models.
5. The views of NUA in relation to the impact of the above factors on the health and economic outcomes of communities.

TERMS OF REFERENCE OF INQUIRY

It is understood that on Thursday, 4 December 2008, the Hon Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs, requested the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs to inquire into and report on the operation of *community stores in remote Aboriginal and Torres Strait Islander communities*, with a particular focus on:

- food supply, quality, cost and competition issues;
- the effectiveness of the Outback Stores model, and other private, public and community store models; and
- the impact of these factors on the health and economic outcomes of communities.

OVERVIEW
OF
NGUIU ULLINTJINNI ASSOCIATION INCORPORATED

General

Nguiu Ullintjinni Association Incorporated (NUA) was incorporated on 22 July 1971 under the then Associations Incorporation Act of the Northern Territory (Attachment I).

NUA is located at Kerinauia Highway, Nguiu, Bathurst Island, NT 0822.

NUA is comprised of:

- A general store that sells a range of products including dry and fresh food items, non-alcoholic beverages, cigarettes and tobacco, clothing, linen, hardware, white goods, electronic items, bicycles, toys, and an assortment of other miscellaneous items.
- A fast food outlet that provides a range of takeaway foods ranging from fresh sandwiches to cooked meals, as well as non-alcoholic beverages, and cigarettes and tobacco.
- A workshop that provides mechanical services to residents.
- A fuel outlet that utilises electronic fuel cards.

In addition, NUA provides cash withdrawal facilities to customers, as well as selling power cards and telephone cards.

NUA is currently in the process of building a bakery, which is expected to be operating by June 2009.

NUA has been endorsed by the Australian Taxation Office (ATO) as an Income Tax Exempt Charity, and therefore does not pay income tax (Attachment II).

The following applies to NUA:

- It submits monthly Business Activity Statements to the ATO and remits GST, PAYG withholding tax, and fringe benefits tax to the ATO.
- It pays payroll tax to the Northern Territory Treasury on an annual basis.
- It meets its superannuation obligations and remits the employer superannuation contributions to employees' superannuation funds each month.
- It has its financial affairs independently monitored on a monthly basis by De Castro & Sullivan Chartered Accountants.
- It undergoes an annual statutory audit by Merit Partners Chartered Accountants.

NUA relies solely on its trading and other income. NUA is not a government-funded entity. However, in the past, it has received government loans for capital expenditure, and complied with the loan-terms, never once defaulting on the loan repayments.

Management

NUA has an executive committee (being Tiwi members), which is comprised of:

- A President
- Two Vice Presidents
- A Treasurer
- A Secretary
- Three other members.

The committee appoints a general manager to be responsible for the day-to-day management and operations of NUA. The recruitment of the general manager is done formally through a national recruitment agency, and involves a compulsory police check.

The committee meets at least once a month in its boardroom, to deal with its business agenda for the month. The general manager is also present throughout each meeting.

In any one week, NUA employs between 35 to 40 employees. Apart from a few key positions, the majority of employees are local Tiwi people.

Financial Performance

Attachment III provides a summary of the audited financial results and financial position for each year from 1988/1989 to 2007/2008, as well as the unaudited financials for the six months to December 2008. It can be seen that NUA turned a deficiency of funds situation in 1991 to a \$6.6 million net assets position at 30 June 2008. This has been as a consequence of prudent management and improved procedures.

Problems Experienced

Since it was set up, NUA has experienced its fair share of ups and downs. Over the last 20 years, the following problems have been experienced by NUA:

1988/1989 – Financial Loss

In 1988, NUA suffered financial loss of approximately \$1 million due to combination of poor management, inappropriate pricing of goods, and a misappropriation of funds. This situation resulted in a policy by NUA to engage an independent external contract accountant to monitor NUA's financial affairs on a monthly basis, by providing the committee with detailed monthly management accounts and a summary report. (This arrangement still remains in place to this day.)

1989/1990 – Management Fraud

In 1990, over a four-month period, NUA suffered financial loss estimated to have been in excess of \$800,000 due to management fraud. This happened as a consequence of NUA's bookkeeper (suspected of irregularities) resigning in late 1989, and secretly sweet-talking the NUA committee into replacing the then general manager and takeaway manager, at a special meeting in March 1990, with herself and her son (through their private company). Major irregularities were soon exposed resulting in 'mother and son' fleeing the Island in July 1990.

1990/1991- Management Interference

In 1991, the inappropriate interference in NUA's affairs by an ATSIC officer created unnecessary management turmoil. The situation was ultimately resolved after an apology by the then ATSIC regional manager, and his guarantee of no future interference by ATSIC in NUA's affairs, together with a promise of an internal investigation into the matter.

1991/1992 – Committee Fraud

NUA suffered a misappropriation of approximately \$40,000 in cash when a bag of cash-takings was 'stolen'. A police investigation resulted in criminal charges against the then President of NUA.

2007/2008 – Commonwealth "99 Year Lease" Arrangement

As a consequence of the Commonwealth lease arrangement over the township of Nguiu, NUA suffered a major setback. In mid-2008, NUA was informed that all its buildings (paid for out of its own cash reserves) were no longer its property, and that under a sub-lease arrangement, NUA would have to pay rent for the use of those very buildings, which also include a duplex, a triplex and a house, all built by NUA to

accommodate its non-Tiwi employees. NUA received no compensation for its buildings, which had a net book value of approximately \$2.8 million. The sub-lease for NUA has yet to be finalised.

A further setback relates to NUA's new \$500,000 bakery building that is currently under construction, and which may also have to be surrendered without compensation. NUA had originally been encouraged to apply for a loan from Indigenous Business Australia (IBA) for this project. After many months of inaction by IBA, NUA ultimately pushed for a decision on the loan, only to be told that the loan would be approved if NUA surrendered its store to Outback Stores (wholly owned by IBA, which sits within the Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs).

In addition, as late as November 2008, Outback Stores attempted to persuade NUA's committee to enter into a partnership arrangement and allow the NUA store to be managed by Outback Stores. NUA's committee, however, did not feel the time was right for such an arrangement, or that it was appropriate.

Ultimately, NUA has been severely disadvantaged as a consequence of the impact of the 99-year lease arrangement. NUA was a \$6.6 million business that had total control of its major assets and its destiny. Suddenly, through no fault of its own, it found itself in a position of losing ownership and control of its buildings, being confronted by various government bureaucratic pressures, and being placed in a position of uncertainty. Needless to say, to suggest that NUA now feels somewhat frustrated is an understatement.

RESPONSE TO THE TERMS OF REFERENCE

FOOD SUPPLY, QUALITY, COST AND COMPETITION

Food Supply

NUA orders a wide range of dry and fresh food items from various reputable suppliers in Darwin.

The items are delivered to Bathurst Island by a regular barge service. From time to time, aircraft are utilised to transport some items.

When NUA takes possession of the supplies delivered to Bathurst Island, they are checked to ensure that the correct items and quantities of those items have actually been received, and that the items received are of good quality. Poor quality items are rejected. NUA does not pay for those rejected items.

The range of stock items sold by NUA has been determined over many years by trial and error. NUA can order goods but it cannot force customers to buy them. For example, canned baked beans might prove to be very popular. However, customers might only demonstrate a preference for one particular brand or particular can size(s). Consequently, stocking the wrong brand or can size could result in such stock items remaining on the shelves and eventually having to be destroyed.

Similarly, over the years, NUA has on occasions bowed to requests to stock food lines for customers who suffer from diabetes or other health issues, and who have special dietary needs. However, poor sales of such items often resulted in the removal and destruction of such stock lines because of the poor response from the targeted customers.

Over the years, NUA has also been confronted on many occasions with the criticism that it has not stocked enough fresh fruit and vegetables. However, what those who make such criticism have not understood is that NUA has often been adequately stocked with a wide range of fresh fruit and vegetables, only to find that most of it has had to be destroyed because of poor customer response.

It may be fair to state that NUA has had to react to the level of customer demand for items, in determining the level of supply to those customers, in an effort to minimize stock losses.

Quality

NUA has always purchased its supplies from reputable suppliers in Darwin. NUA rejects items received from suppliers that are not of good quality. Consequently, NUA believes it sells quality items.

Items that pass their "use-by-date" are removed from the shelves and destroyed. Items that pass their "best-by date" are looked at, each on their own merit. However, as a general rule, goods with "best-by dates" are treated the same as those with "use-by dates" and removed from sale and destroyed.

By far, the biggest accusation that NUA has faced over many years is that it sells "bad food". When pressed for an explanation from those who make such accusations, usually health practitioners, they refer to items such as coca cola, sugar, sweets, and potato crisps. Such persons fail to appreciate that NUA's role is to make available such stock items and not to police what customers buy. Customers have freedom of choice and must take personal responsibility for their health, and their shopping habits. Woolworths and Coles also sell such items, yet undoubtedly, they would strongly object to accusations of selling "bad food". And imagine what a customer's reaction would be if a check-out attendant of Woolworths were to try and police the contents of that customer's shopping trolley?

Cost

If there is one criticism that NUA regularly confronts, it is the prices of food items in its store. Prices are said to be too high. This issue is raised each year at NUA's annual general meeting of members.

The reality is that NUA is a commercial enterprise that must operate at a profit. The selling prices of food and other items are dependent upon suppliers' prices. NUA applies various mark-ups to particular categories of stock (Attachment IV) in accordance with its pricing policy.

Attachment V reflects a sample of individual stock items, cost prices of such items, and the mark-ups applied to such items.

It is a reality that the suppliers' prices paid by NUA are often higher than the retail prices of the same items sold by the major supermarkets in Darwin. Similarly, with fuel, because NUA is obliged to buy from fuel distributors that deal with remote areas, rather than the major fuel companies that only supply the urban areas, the suppliers' price is often higher than the bowser price paid by a motorist at a city fuel station.

In addition to the cost of goods charged by its suppliers, NUA also incurs the cost of freight, which is incorporated into the mark-up on goods purchased.

NUA does not believe that, over the years, a group structure such as Arnhem Land Progress Association (ALPA) or Outback Stores have delivered any noticeable benefits to stores in the form of reduced prices.

It is a reality that the further a community store is from a major urban area, the higher its prices will be, due to the high cost of freight. A subsidy on freight costs would be one way of achieving lower prices in community stores, and the most even handed way of delivering lower prices to customers. This could also be targeted at healthier items while such items as soft drinks could be excluded.

Competition

The township of Nguu has only had one commercial store, one takeaway food outlet and one garage/fuel outlet. These outlets have always been operated by NUA. This monopoly position, however, has never been intentionally abused by NUA.

NUA's committee has always been aware of the fact that a lack of competition at Nguu can attract allegations of unfair profiteering. The reality is that unfair profiteering has not been the case.

The committee members, themselves, would like nothing better than to lower the food prices. But they also appreciate that they must act with due care and diligence in ensuring that NUA operates as a going concern. They also appreciate their responsibility to ensure that NUA accumulates sufficient cash reserves for the purpose of meeting all sorts of expenditure that arise from time to time such as major repairs and maintenance, regular replacement of plant and equipment, and building new facilities. NUA is not a recipient of government handouts. It must satisfactorily manage its working capital.

NUA is also aware of the sensitivity of prices, and the effect on the net profit and cash flows that would be caused by a reduction in prices by between 5% and 10%.

Accumulating reserves is of particular importance to the committee because NUA now knows it only has itself to depend on, to finance any projects. This fact became quite apparent when NUA effectively got locked out from ever getting a loan from IBA when IBA advised NUA it would only get a loan to build its bakery if it handed over its store to Outback Stores.

EFFECTIVENESS OF THE OUTBACK STORES MODEL, AND OTHER PRIVATE, PUBLIC
AND COMMUNITY STORE MODELS

NUA has been aware that, over the years, remote community stores have operated under different models, for example:

- as an incorporated association (e.g. NUA);
- as a function of a local community government council (e.g. Kunbarllanjja Community Government Council store); or
- under a group model like ALPA (e.g. the store at Gapuwiyak).

NUA appreciates that all these community stores have evolved under different circumstances and situations. NUA also appreciates that many community stores have suffered all sorts of problems, which have left remote community stores open to major criticisms, many of which are justified. NUA also appreciates the serious impact it can have on a community when a community store reaches a point of collapse like NUA, itself, experienced in 1988 and then again in 1990.

NUA was set up as a community service organization, and it continues to see itself as a community service organisation. The Tiwi people have always taken great pride in running their own enterprises, in their own way, and have never entertained the idea of surrendering the operations of NUA to outsiders. This point possibly applies to other community stores, and cannot be emphasised too greatly, and it is often overlooked when investigating community stores.

A community store not only provides a source of pride to a community but also an avenue of funding for events and occasions for which no other funding is available. This point highlights the fact that community stores operate in a different cultural setting to the majority of Australian retail stores.

An example of not taking this different cultural setting into account can be demonstrated by the experience of the Fred Hollows and Woolworth collaboration, involving stores in the east Katherine region. Little account was taken of the fact that the stores were operating in a community setting, with a different culture to that of mainstream Australia. The end result was large debts to creditors, a demoralised workforce and committee, and the two-partner organisations blaming each other for the failure of the program.

NUA has operated its store with reasonable success over the last 20 years despite the many challenges it has faced, and still faces.

NUA is often criticised for its inadequate facilities. But these were designed back in the 1970's. Although they have undergone improvements over the years, these are the same facilities in which the store operates in 2009. NUA's store building is a cyclone-proof metal shed. It is inappropriate, too small, poorly designed, and it limits NUA's ability to present an image of, and operate as, a first class supermarket.

Funding options are needed for community store organisations where land remains an issue. If the government makes loan funds available through its agencies, this money should not be tied to surrendering the management of the organisation.

IMPACT OF ABOVE FACTORS ON THE HEALTH AND ECONOMIC OUTCOMES OF
COMMUNITIES

NUA acknowledges that:

- remote area community stores play a vital role in their communities;
- food prices in remote community stores are a concern;
- quality and range of foods sold by community stores is an important issue; and
- foods sold by community stores could be responsible for various health related issues in communities.

But NUA believes that it is just too easy and simplistic to blame the poor health of residents of remote communities on community stores.

When it comes to the issue of nutrition and peoples' health at Nguiu, NUA is of the opinion that the quality and range of foods it sells is not the underlying problem, but that a person's shopping habits and diet are largely to blame. NUA provides a wide range of foods. But if a person shops inappropriately, and does not enjoy a balanced diet by eating healthy meals each day, then this must surely have a very big impact on that person's health.

NUA believes that, rather than criticism being constantly aimed at community stores to improve their standards, programs should be implemented in remote communities by the government:

- to educate families about healthy eating and the meaning of a balanced diet, and to demonstrate how to prepare various types of meals in the appropriate manner;
- to provide major initiatives to allow stores to benefit from new modern facilities; and
- to work out an arrangement that could allow stores to buy goods at significantly cheaper prices, or to subsidise freight costs and/or the cost of food purchased by stores.

In NUA's opinion, improving the health and general well being of people living in remote communities could be better advanced by government through the following means:

- by the provision of major adult and school programs promoting and monitoring healthy eating habits, promoting a balanced diet, and preparing healthy meals;
- by the provision of new shopping facilities to replace the old dilapidated sheds and warehouses used as stores in various communities; and
- by creating a mechanism (on behalf of all community stores) by which stores could benefit from buying goods at cheaper prices, or receiving some form of special remote area food subsidy, thereby allowing selling prices in stores to be significantly reduced.