HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON BANKING, FINANCE AND PUBLIC ADMINISTRATION

Reference: Aspects of the national competition policy reform package

MELBOURNE

Monday, 9 October 1995

(OFFICIAL HANSARD REPORT)

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Members:

Mr Hawker (Chair)

Mr Albanese	Mr McMullan
Mr Anthony	Mr Mutch
Mrs Bailey	Dr Nelson
Mr Causley	Mr Pyne
Mrs Gallus	Mr Willis
Mr Hockey	Mr Wilton
Mr Latham	

Matter referred to the Committee:

The aspects of the national competition policy reform package. The major issues the Committee has been requested to inquire into are:

(1) the appropriate means, including review processes, for applying the 'public interest' tests included in the Competition Principles Agreement:

These tests are a critical feature of this Agreement. They are described in Principle 1(3), which provides that:

without limiting the matters that may be taken into account, where this Agreement calls:

(a) for the benefits of a particular policy or course of action to be balanced against the costs of the policy or course of action; or

(b) for the merits or appropriateness of a particular policy or course of action to be determined; or

(c) for an assessment of the most effective means of achieving a policy objective;

the following matters shall, where relevant, be taken into account:

(d) government legislation and policies relating to ecologically sustainable development;

(e) social welfare and equity considerations, including community service obligations;

(f) government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;

(g) economic and regional development, including employment and investment growth;

(h) the interests of consumers generally or of a class of consumers;

(i) the competitiveness of Australian businesses; and

(j) the efficient allocation of resources.

(2) the impact of competition policy reform on the efficient delivery of community service obligations including an assessment of:

(a) existing government policies relating to community service obligations and

(b) options for the delivery and funding of these services;

(3) the implications of competition policy reform for the efficient delivery of services by local government, including arrangements that have been developed between State Governments and local government authorities for the implementation of the Competition Principles Agreement.

WITNESSES

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON BANKING, FINANCE AND PUBLIC ADMINISTRATION

(Subcommittee)

Aspects of the national competition policy reform package

MELBOURNE

Monday, 9 October 1995

Present

Mr Simmons (Chair)

Mr Braithwaite Mr Martyn Evans

Also in attendance

Mr Somlyay

The subcommittee met at 9.00 a.m.

Mr Simmons took the chair.

CHAIR—Good morning. I declare open the hearing of the House of Representatives Standing Committee on Banking, Finance and Public Administration's inquiry into aspects of the national competition policy reform package. This is the first of what will be a series of hearings which the committee plans to conduct in Canberra and elsewhere during the coming months. In addition, members will be holding a number of informal discussion sessions in regional areas so as to address a number of concerns raised by shires and councils in some of the more remote areas of Australia.

The committee hopes that the inquiry process will provide a forum for the views of as many individuals and organisations as possible. Forty submissions have been received from all parts of Australia so far indicating a lively interest in the inquiry. A number of fruitful lines of inquiry have surfaced in the submissions and the committee intends to pursue these with the organisations and individuals speaking to the committee during this round of hearings and meetings.

Those giving evidence today, including representatives of the education sector, unions, rural interests and local government, represent a cross section of opinion on the national competition policy reforms.

Among the issues on which the committee hopes to hear views are how the public interest tests which are an important feature of the competition principles agreement might be applied in various circumstances.

The committee is also interested in canvassing with witnesses ideas on the definition and identification of CSOs, the delivery of CSOs, their funding and the oversight of performance and accountability of CSO providers.

Other concerns expressed in the submissions received to date have been the relative merits of contracting out and cross-subsidisation, whether efficiencies can be gained by separating CSOs from mainstream public service activities and the compatibility of competition with public interest, social equity considerations and CSOs and the kind of regulatory framework needed in this area.

Submissions from local government bodies have indicated a desire to see discussion of the specific difficulties and disadvantages to local government associated with national competition policy as well as the need for adequate consultation between local and state government for deciding the application of national competition policy, the introduction of competitive tendering by some state governments, the impact of competition on the ability of local government to continue to deliver services that may benefit from cross-subsidisation and the role of local government in the provision of essential services. The committee looks forward to exploring these and indeed a wide range of other matters at our hearing in Melbourne today.

Before calling the first witness I would remind those present that the evidence that is given at the public hearing today is considered to be part of the proceedings of parliament and accordingly I advise you that any attempt to mislead the committee is a serious matter and could amount to a contempt of the parliament.

[9.00 a.m.]

MONAGLE, Mr Terry, Federal Industrial Officer, Community and Public Sector Union, Level 6, 390 Lonsdale Street, Melbourne, Victoria 3000

CHAIR—The committee has received a submission from the CPSU and it has been authorised for publication. Before we begin our questioning, do you wish to make an opening statement to the committee?

Mr Monagle—Yes, Mr Chairman. I suppose our interest is that we represent workers at both the Commonwealth and the state tier of government. We got heavily involved in the development and implementation, I suppose, of the Hilmer package. We were on the ACTU committee which did a fair bit of negotiating with ministerial officials and our interest developed from there. We are not the union which particularly covers the utilities. However, the scope of the Hilmer changes applies to any business, including not-for-profit businesses, so it reaches very much into the mainstream of the public services—well and truly beyond the utilities. We are concerned about the consequences for mainstream public service activities under the headings of competitive neutrality and regulation review and those sorts of things. So we have developed an understanding and perhaps an expertise of the implications of Hilmer. I note that today we are only addressing some aspects of it, but that is the sort of basis on which we come to this hearing.

We make a number of points. Essentially they are that the responsibility for supervising the public interest is inherently a political responsibility. You can come up with some ideas about how to institutionalise that responsibility, but essentially it will remain political, because it is so broad, so multi-faceted, when you look at the public interest criteria that are suggested in the competition principles agreement. The ideas we have come up with would be to say that decisions which impact on the public interest should be as widely subject to public scrutiny as possible.

We have appended to our submission a draft bill which was prepared by the Western Australian opposition. We would suggest that there ought to be a public interest impact statement whenever a new decision is being made to contract out or to privatise. That bill is capable of being redrafted to make its scope much wider so that it would match the scope of the public interest tests, as in the competition principles agreement.

Also, we would say that essentially the public interest test is expressed through CSOs and we are obviously recommending that governments mandate CSOs—that they mandate the delivery of universal standard services, such as there has been talk about in the banking industry. That is a key methodology whereby the public interest test is expressed. At the state level, what we recommend is that the scope of the various sorts of regulator generals or the pricing bodies which have been growing up like Topsy at the state tier of government could be widened, so that they are not just dealing with utilities or pricing or a range of other things—but they have some general responsibility for scrutinising the public interest at the state tier of government.

ACCC presents itself as another institution which can play a role in the supervising of the public interest criteria. Perhaps there could be some appeal by people to the ACCC, where they believe that the public interest criteria had been ignored. As I said, none of this institutionalisation is really going to solve the problem. It is going to be an ongoing matter of political responsibility for those people who want to govern and believe that government is about governing.

On the matter of CSOs, in our submission we do get a bit philosophical and our opposition to competition as the prior model of delivery of public services gets expressed. We give some examples about the difficulty of delivering CSOs through contracting out. We cite some examples, such as the Victorian ambulance system and the agricultural laboratory system in Victoria, whereby there have been failures when

governments have attempted to deliver CSOs through contracts.

So I suppose we have a philosophical opposition to the separation out of CSOs from the delivery of what are called commercial services. We think that that is a false dichotomy in many cases. It makes sense to us that if there is a problem with regional unemployment, you would deliberately leave or maintain public utilities or agencies in regional areas. We do not how you differentiate between the cost of the essential commercial functions and those CSOs.

However, given the momentum of events and political and economic forces, we expect that there will be this distinction made between CSOs and commercial services. We are saying that if you are going to do that, what you have got to do is be very tough and robust in your regulation of delivery of CSOs and essentially that can be done through mandating universal standard services—mandating the way these things are paid for, mandating the scope, the geographic spread of these services. We suggest that Michael Lee's post-regulation of the telecommunications market in 1997 provides an example of the way that CSOs could be mandated. We go into a fair bit of detail there about what a code of practice might be for the mandating of CSOs.

CHAIR—Thanks, Mr Monagle. Just taking up that last point about the mandating of CSOs, I guess in one sense it is probably a much easier task for government to do something like that, when it comes to an operation like Australia Post. Do you see any difficulty in mandating CSOs for other sectors of government other than just government business enterprises?

Mr Monagle—We have not teased it all out but imagine, for instance, if there was a competitive delivery of community services or a competitive delivery of services in education. It is not quite as easy in those areas because there is not a licensing of the service deliveries. With telecommunications and Australia Post there is actually licensing of public airwaves or public infrastructure, or deemed to be, so that you do not quite have the tightness of control in, say, community services as you would in some of those areas. But I think things like privacy, cost and universal accessibility would be quite comparable to the situation you would have in, say, telecommunications.

CHAIR—The committee has received a variety of submissions so far, and one of the things I guess we will have to address is exactly what is meant by community service obligation, particularly this distinction that probably should exist but does not necessarily exist between government business enterprises and other spheres of government activity. Indeed, you touched on that today in your comments where you talked about not for profit businesses associated with some types of government operations. Could we get your views on that sort of area of concern?

Mr Monagle—I suppose we are really puzzled by the Trade Practices Act definitions of what is a business. We are not really sure how far the scope of the Hilmer reforms extends. This is probably a roundabout way of answering your question but it goes to what I was saying before about utilities. I guess they are pretty clearly subject to Hilmer; they are pretty clearly businesses, I suppose. But you get a lot of ambiguity about what is a business and what is not a business. One example is university research. The university might be producing new products in biotechnology and it might be selling those commercially both here and overseas. If it is a business it is then subject to all the competitive neutrality rules and, presumably, it is subject to part 4 of the Trade Practices Act.

That itself, to our mind, can be contrary to the public interest but, then again, another way of approaching it is to say, 'The university essentially therefore has some sort of public interest activities, that is, education of people and producing the quality of research in Australia, but it also has this commercial arm on one view.' It gets very complex how you apply Hilmer to the universities, for instance. If this university research is actually a business, Hilmer says it has to be corporatised, it has to pay full taxation, it has to pay

full interest rates and so on. That might be contrary to the public interest because, if you have to have a complete separation of that arm of the university's activities from its, say, CSO arms, you have to have very complicated administrative structures. It might be good for the students to be actually participating in the research work but, if it is a commercial business and it is going to be taxed and all that, it might get much harder to run those things in tandem.

If you take a department of planning in a state tier of government, traditionally they have produced maps pretty much at cost and they have been available to people like explorers, geographers, lawyers, people doing title searches and so on. But, after Hilmer, they are potentially now subject to competitive neutrality because they are operating in a market. That market is perhaps contested or could be contested and, therefore, they have to be subject to competitive neutrality, to full pricing, full cost recovery and they have to be subject to full Commonwealth, state and local government taxes. So they have to be corporatised. You have to have different systems administration within that one department of planning. So that gets really quite complex.

CHAIR—Do you believe it will actually add to a lot of administrative cost in separating those business activities out from some of the more essential core activities of some of those departments?

Mr Monagle—I think essentially it does. If I am the senior manager, I am going to say, 'I have to operate the major part of my business according to traditional direct administration, and now I have to manage this business through a corporatised body.' I am going to say, 'This is getting a bit much here. I may as well flog the thing off altogether.' So that was a public service. It was, I suppose, a CSO providing that sort of access to the maps but now it becomes a totally privatised, commercialised business. So your chance of delivering the CSO is very much reduced.

This is the way Hilmer intrudes into the mainstream of the public services and its scope potentially is much wider than just the utilities. For the utilities it might be easier to say, 'Here is the commercial arm,' and the government can say, 'All right, you are going to give the first 100 litres of gas, or whatever it is, free or at reduced cost to the poor'—or whoever—but, because it is so intrusive in its impact, it is hard to see in many of these areas what is going to be a CSO and what is not and how the commercialisation of an arm of a public service agency impacts on their overall service delivery.

CHAIR—Was I interpreting you correctly earlier on when we were talking about the public interest test. Your emphasis was more on the political side of the application of that test rather than on some sort of administrative application of the public interest test?

Mr Monagle—I think that is correct. We see this as so important and when you read through the list of the matters that were put down there they are subject to a whole range of ordinary legislation and administrative decisions every day. So you cannot quarantine responsibility for those off to one particular body or one particular process and say, 'Well, they are yours.' The public interest test is essentially things that politics is about, I think, and we think that almost every political decision and every politician and administrative official carries responsibility for those things. I guess they come up all day every day in administrative decisions. Some of them are influenced by international treaties, for instance. They apply at all tiers of government. So you cannot just say you are going to have a commissioner for the public interest. Almost every agency and every politician has got to take responsibility for those. The minor point we are making is that, that being said, you can try to establish some processes or some particular responsibility under the Hilmer umbrella.

CHAIR—Have you had any feedback from the members of your union about some of these changes? Have you got any indication whether they understand the implications, or is it just something that is quite new and topical and perhaps a bit trendy to a lot of people and they are not quite sure what it all means?

Mr Monagle—A lot of that is true. It is very difficult to explain to them because it is so new. But in many ways it picks up patterns of change that have been taking place. Some of it is familiar to them, but put together in this package which is so comprehensive that can be very intimidating to our members. We can be very conservative and we can be very self-interested and say that all this is bad because it is undermining jobs and so on. But some of it, I suppose, is inevitable. So we are producing at the moment a manual to teach our people how to put in tenders and bids for contracts that are being let. This is in prisons and a whole range of areas where we are developing the skills to put in bids. So, if this is going to be a competitive market, we should be able to compete. Our frustration is that in some tiers of government the public sector is not allowed to compete for work that has been contracted out. I guess we would argue that that is anticompetitive. So we can say to people, 'All right, here is a new game. The rules have changed and we do not like it and we think in many cases it is inefficient and it increases the chances of corruption and so on but we will participate in it but then we want the rules of the contracting out and the tendering to be fair.' I think in some states a public sector bid attracts a premium of 25 per cent on the price of a bid so that it is seen to be on a level playing field with private sector bids. So, in some ways, we do not mind playing in the new game if it is fair. For instance, the access rules under Hilmer seem to us to give a private company the right to seek access to public infrastructure, but the reverse does not seem to be the case. So, if Rupert Murdoch has some telecommunications infrastructure, universities do not seem to me to have the right to tender for access to them, whereas, if universities have the infrastructure, Rupert Murdoch seems to have the right to tender for access to that.

CHAIR—Presumably, though, with some sort of access or user charge.

Mr Monagle—Yes, that is right. It will be negotiated and there will be a charge. That is okay. But the legislation does not give the public sector the right to seek access so that, if BHP have got a railway line, New South Wales rail or whatever it is cannot get access to that, as far as we understand it. But the reverse is true, that BHP can get access. So we see much of the Hilmer stuff as basically saying the public sector is inefficient because it is not competitive enough, there is not enough internal competition and let's translate it as far as we can across and treat it as though it was private sector. We think in many cases that is inefficient in itself and we would cite a lot of the competitive neutrality stuff as part of that.

CHAIR—The example we had a few years ago with the decision to change the structure of telecommunications though was a good case in point where, arguably, telecommunications costs have been reduced because there is, for the very first time, some genuine competition. But a lot of that competition was predicated upon the new carrier having access rights to the infrastructure of the former Telecom.

Mr Monagle—Yes, so you get puzzled a bit about why they have to run out two lots of infrastructures for the cable, don't you?

CHAIR—That is another argument and we could probably debate the merits of that for a long time. But the important point I making here is that what you are suggesting is perhaps not unusual, that a private sector interest would have access at an appropriate charge for the use of public infrastructure.

Mr Monagle—Access is to some extent a familiar idea now and we are not arguing against access. We just think that the onus should be both ways.

Mr MARTYN EVANS—But isn't there a distinction between infrastructure assets which have been generated at the cost of the whole public base, the taxpayer base, and those generated by private individual interests? There might well be an argument for allowing access to public roads because these have been built by all of the public taxpayers. But if someone has a private road on your own property which has been paid for entirely by that person, there is no public contribution to that road. I suppose that might be the distinction they draw in that context.

Mr Monagle—They would talk about that distinction, but the examples envisaged by the legislation are significant infrastructure which is national in its scope and which is really financially impossible to reproduce. You have to allow access to private infrastructure of that significance otherwise they could have a stranglehold on downstream markets. So if Rupert Murdoch had a monopoly on telecommunications infrastructure, it would make sense that Optus or anybody else should get access to that otherwise they could not have their cable stations. So there is a right for private to private and a right for private to public, but not for public to private as far as we understand it. Perhaps that will be teased out by test cases, but we believe there are lots of cases where the public interest would benefit by public access to private infrastructure.

Mr MARTYN EVANS—In the case of the cables, they are required to provide access to other content and where Telecom and Optus have cables to deliver vision services to homes, they are required to provide access to other private content providers. I would assume that if the ABC wanted to get its news channel on a private cable, it could tender for that right to put it on Optus' cable because there is a compulsion to provide access to private which would include a commercialised public service.

Mr Monagle—That is what has been going through my mind too, so I was surprised by how quickly AIM was disbanded, because I thought that under the new legislation they would have a perfect right to run their own station through that infrastructure.

Mr MARTYN EVANS—I think they do, the problem is no-one is willing to pay them for it. I do not think their problem is their right to do it; the problem is that no-one is prepared to pay for that subscription.

Mr Monagle—So to make their channel attractive they would have to have a range of other channels and they would have to run 24-hour sport and so on.

Mr MARTYN EVANS—Or they would have to be prepared to fund it themselves. If the ABC was prepared to take all of the commercial risk and put all of the money into the public news channel, the ABC news channel, they could then offer that at a subscription on Optus vision and then send out bills to people who were going to pay for it. But they wanted to sell it to someone who would then repackage it as part of their service and deliver it on the cable and therefore not have to take the total financial risk of that. So I think there is a right of access, but that does not imply that someone else will pay for it. It is a right of access but at your cost. So that might be the distinction. Do you agree with this: where the public sector acts as a private corporate body in effect, that is the ABC's news channel which is a perfect example of a public sector private corporatised body, then it would have all the rights of access to private infrastructure of any other private body.

Mr Monagle—I think so. The legislation says if it is a corporation, the corporation has the capacity to apply for access—so that ABC cable line probably would have, university might not, and I think probably university ought to.

Mr MARTYN EVANS—But a university research arm probably would, because it would be corporatised by definition.

Mr Monagle—I do not know. The actual legal structure is that some presumably are and maybe some are not. We are concerned where you have a research arm which is offering services, which is integrated with the life of the university, supporting life university, through competitive neutrality will have to remove itself from that contact and the benefits that it gains, either financial or otherwise, cannot be fed back into the role of life of the university. So the achievement of the public objectives of universities is limited perhaps by competitive neutrality, because that money cannot be fed back in, it has now got to go to full Commonwealth taxation and so on.

Mr MARTYN EVANS—But would not the surplus profits go to the university? I was associated with the Adelaide University board for many years and we established a private corporate arm for the development

of research projects from the university. All of the profits after tax of that go back to the university and then support university activities, students whatever—further research in fact. So all of the profits that Adelaide University has made from genetic technology are going back, after tax of course, but then with the benefit of the 150 per cent research concession and so on, because with the penalties go the benefits, flow back to Adelaide Uni. As I understand it, that corporate arm of Adelaide University has access as a competitive private sector body to anything that it would have access to as a private body, because it is effectively a private body, but its shareholder is 100 per cent Adelaide University.

Mr Monagle—That does sound right in that case. Our concern in those areas is we have a commercial activity perhaps, or a not for profit business, which is part of the mainstream public service agency. There has been a happy alliance between a 'commercial' process and the mainstream service delivery process. The competitive neutrality would say 'That commercial process has now got to be corporatised,' so the management structure starts to change, and there might not be the capacity for feeding back profits, if there are any. It might just perhaps become non-viable because the intellectual property on that commercial process is not available to them anymore.

CHAIR—Turning back to some other broader issues associated with the committee's terms of reference, what connection does the CPSU see between the power in state governments to exempt conduct from the competition rules of the Trade Practices Act and the competition principles agreement?

Mr Monagle—We are fairly sceptical about the powers of exemption that are littered through the various documents, both from competitive neutrality and also from the competitive conduct rules. We are waiting to see what is going to emerge there. The Tasmanian government has exempted the HEC from the impact of Hilmer and Jeff Kennett has exempted the taxi industry. We would argue on one level that if you are going to have a national economy with nationally competitive industries, that capacity for exemptions should not be there.

We are also anxious about the degrees of autonomy left to the states in the way that they set up the regulatory bodies, whether it is a pricing body or whether it is the regulatory review process. The regulation reviews, as far as we can see, do not have to be public, they can be nominal. So we think there is a capacity for the large areas of autonomy that have been left to state governments to undermine a lot of the good things about the achieving of national competition.

I suppose when we first heard of the notions we were attracted by national competition. We thought, 'Well, who could argue against just getting the current rules of government business and applying them nationally'. So we were surprised when the negotiation between the Commonwealth and the states emerged with the fact that you could have something like nine price fixing tribunals and nine different regulation review processes. And we find it hard to understand how you can have a national grid for electricity, perhaps, if state government can exempt some of the electricity players. So we tend to say that the Commonwealth government compromised too heavily against the interests of having a national competition regime by giving these areas of autonomy to the states. We know about the constitutional basis for that, I suppose, but we think that the Commonwealth perhaps went too far, especially in regard to handing over veto to the appointments to the ACCC to the states.

So you are left with a situation where you might have a public interest test, you might have some obligation on government to take that into account in its regulation review. The regulation review itself might not be a public review, it might be some desk exercise or it might be some sort of whim in the head of a state government minister, and there is not necessarily any public access to the operation of the public interest test and there is not any public scrutiny of the criteria whereby this regulation review would be made. It might be, say, occupational health and safety or it might be, perhaps, something to do with educational

credentials. It might be to do with some licensing. It might be done in private by the state; they might decide that their review is going to be private and they are going to do it just by a tick, so there is no public scrutiny at all about the public interest test being met. So the picture has got very amorphous and the implementation can be very vague.

You asked us earlier what our members feel about all of this. We had to say to them at some level that we are not sure what is going to emerge, we are not sure how rigorously the states are actually going to implement all this. Ray Groom might do something in his state, Richard Court in another state, so it is very hard to predict how seriously they will take it. They have got the incentive now to make genuine attempts at these reforms in order to get the compensation, if you can call it that, that is coming to them in various packages. So that is one incentive. But they may also say, 'We will do as little as we can. We still like getting these subsidies from the utilities, it is important for our budget and, because we are losing the subsidies, the dividends from the utilities from our budget, we cannot start paying for the CSOs from the state budgets. We just cannot afford it because we have lost the dividends. The compensation with the Commonwealth is not enough, the CSOs are much bigger than we expected, so the quality of service is going to go down.' So, how you actually enforce the public interest tests in that sort of environment when the state has been left with so much autonomy, we feel pretty sceptical about that.

The emphasis we are putting on all the time is that these decisions should be as public as possible, that there should be this public interest impact statement being made or being obligatory before the states or the Commonwealth take a decision to contract or privatise. It is going to be very difficult, and obviously we will be trying to provide a scrutiny, but we think the structure should put public scrutiny in place as much as possible.

CHAIR—There has been a bit of a debate, of course, in this state about the changes that are taking place in the context of the national electricity grid and the move to set up and to sell four or five different electricity enterprises. There is a similar debate taking place north of the border as well in New South Wales with the future of Pacific Power, whether or not it should be two or three bodies rather than one large body like that. But I think sometimes the debate has been clouded by concern regarding privatisation versus competition in the eyes of, perhaps, some of the work force or the public at large who perhaps do not really understand either of those issues and the ramifications. Do you have a view on that?

Mr Monagle—I think it is true that there is a lot of confusion about terminology. As I said, we do not really cover the utilities so we do not have accumulated expertise in the utilities, but it is true that there is a lot of confusion about that terminology.

CHAIR—Was that part of the concern that the union had when the whole debate took place in COAG on the Hilmer reforms?

Mr Monagle—I suppose it is to some extent a philosophical position we take. I suppose government is about governing and, in many ways, the cheapest and most efficient ways are through directly managed agencies, and the public interest is best served through those. We think that they are more flexible, although they are not without their own problems. We tend to argue that there is more chance of corruption with contracts. Again, when you look at the operation of the New South Wales police, that is direct service delivery by directly related agencies. We think you can get corruption in traditional public service delivery methods. So in some ways it is a philosophical thing.

We say that there is a lot of faddism about competition and contracting. We think that there are lots of contracts collapsing already. We think that you have to duplicate your expertise. If you are going to properly supervise a contract you have got to keep that expertise in-house to some extent, and we think that over time the inefficiencies that competition produces in the public service will come more and more to the fore and

you will come back more to a natural, commonsense, middle position where there will be many areas where direct service delivery is deemed to be the most efficient and the most flexible. I think it is the more directly clinically accountable, and I think politicians or ministers will be able to solve problems more quickly through directly delivered services rather than going through the courts, perhaps, to resolve contractual difficulties with a company. So I think there will be a natural emergence back to a middle position in the delivery of services. Some areas will continue to be contracted out and there will be benefits from that, but we think that there will be a fad, that that will all dissipate over time.

So we think that in some ways the baby has gone out with the bathwater. Public service delivery will definitely always have a role, and we are sort of at a high-water point of the fad. One side of that is a speech given recently by Elizabeth Proust who is the head of the Premier's department here in Victoria. She has got one of the more extreme views, I think, that basically the markets are so powerful and so all-seeing that they almost supplant government. She said in her speech that it is up to markets to tell governments what they should be doing. We tend to think that is just taking the ideology to extremes and that it is an extreme point of view which just lacks commonsense.

Politicians have always wanted to be able to deliver services directly. Contracting out can be good on some occasions but, if there is a need for an immediate solution to a problem, a problem you need to closely administer, a problem which is always going to be loss making, on many occasions direct delivery of that service will be the one that is appropriate. It seems to us that problems that emerge in the delivery of a service can more easily be solved if you can immediately intervene and move people aside, restructure the department and so on.

If you have contracted out the running of a prison yet you have got legal conflict about the terms and about the standard of delivery of services and so on, it is very difficult to go through the courts to try and get resolution of the difficulties between the government and the provider in such a sensitive area. In fact, in the prisons area the states have legislated to the effect that a person employed by a private prison provider will have the same legal status as those employed in public prisons, the same legal obligations, and they tend to say that officials can immediately intervene and take over the running of a prison when difficulties develop. So in some ways private prisons are almost still agents of the crown because of the very close legislative control. We think that is in a sense an exercise of commonsense, a recognition that these things are politically very sensitive and that government still has to have its fingers very much in the pie. We think that that view will prevail in lots and lots of areas.

What is particularly relevant, I suppose, is something like the agricultural laboratories in Victoria. There were four. They were contracted out, and we give the details in our submission. Those details are not contested as far as we know. I suppose in some ways the farmers have lost faith in them because they are private and they have collapsed financially within a year. The CSOs were implicit in the contract—that is, you had to stay open, and you had to maintain the current level of staff and the same servicing. That has become absolutely impossible. The staff in some places has been cut from 20 to 2.5, and the governments have had to prop them open financially even to keep them going at that level.

The speedy identification of diseases in livestock and so on and the quarantining of livestock are very important public functions, yet that has collapsed so quickly. I suppose there were inefficiencies and a lack of professional conduct in the letting of the contract, but it is an example that the eradication of diseases in beef and other livestock is an important thing for the public interest. You would think that there should be supervision of that public interest, but it seems to get much harder if you have contracted out. We are not saying contracts will fail in every case but, because they are at arm's length from government supervision and from the expression of political accountability, we think it does get harder for politicians simply to say what

they are in some cases, but also harder to actually express the public interest.

Mr MARTYN EVANS—Why wasn't that contract terminated when they clearly failed to meet the terms of the CSO and started dismissing staff from the other regional centres?

Mr Monagle—Maybe the contract was written very shoddily. I have not seen it. I do not know the details, but it is a good question that you ask. Maybe there is an awful lot of face to lose when it collapses within a year, and farmers' groups and others were agitating for it to be taken back into public hands. That could be a big political pill for some people to swallow, I guess.

CHAIR—I think you also mentioned the exemption in Tasmania of the HEC, and you also cited the case of taxi cabs in the state of Victoria. Are you aware of any other states that have already made any other exemptions?

Mr Monagle—Not really, but I think another example is the lobbying that must have gone on to exempt the coal transport in Queensland. I think that is exempt for five years. Obviously, that is another example where that has happened. Presumably, over time, it will happen in a whole range of places, either from the competitive conduct rules or from the competitive neutrality rules.

CHAIR—So what is the situation, for example, that would provoke the government of Victoria to exempt taxi cabs?

Mr Monagle—I would like to know. You would think it would be a prime candidate for increased competition. There are plenty of ways in which the industry could be made more competitive. As far as I can see, there was somewhat a negotiation between the state government and the taxi industry, and I think the understanding was, 'There will be exemptions as long as you get your act together, as long as you increase the quality of your service in a range of areas.'

CHAIR—Is there a danger in all that? Could there be an unwinding, if you like, of the principles under which the competition policy reform is based if, in fact, for one reason or another a government thinks it is expedient to exempt a particular operation from the rules?

Mr Monagle—Potentially that is so. On the other hand, there is that financial incentive to pursue the course of the so-called reforms.

CHAIR—Also because of the financial incentives that would come back to the states?

Mr Monagle—That is right, yes. There are also some, I suppose, qualifiers built into the Hilmer legislation itself. Those exemptions are only legally effective if you are a full participant in the Hilmer regime. I mentioned those exemptions in legislation, and the state legislation has to refer back to the Hilmer legislation, to the national legislation. So to some extent that is envisaged. There are some sorts of walls built around it. But what you say is true, that there is still that potential for the unravelling if the political imperatives get too strong at a state level.

We understand the constitutional situation was that the state governments had legislative control over associated bodies, but unincorporated bodies, and over individuals. If you wanted a national competition regime and you wanted to bring in the doctors and the lawyers and you wanted it to apply to services rather than just corporations where the Commonwealth's constitutional power went, you had to have the states on board. Therefore, the states were able to say, 'Well, it's not going to work without us. Therefore, you have to give us autonomy in all of these areas, and you have to give us compensation. You have got to give us a right of veto over, say, the Allan Fels appointment.' Our position all along was that the states were getting too good a bargain out of the negotiations.

Mr MARTYN EVANS—With the taxi industry, though, don't you think in some ways that typifies why we need some kind of competition policy? That is a private industry which provides a public service, but at a cost. Because of the very nature of the closed service provision where they pay for a licence from the

state, that requires a substantial trading value. The introduction of more taxis, for example, would dilute the value of the existing licences and, therefore, undermine the whole financial livelihood of individuals.

The fact that that system grew up in the past under the previous regime of limited competition in these things almost shows you what happens if you do not have some kind of openness in that service. The fact that we now have to grant them an exemption from competition policy is probably because of the way it has evolved in the past—in a very closed and private way. Perhaps the fact that that exemption has had to be granted just underlines the extent to which we need this kind of openness. That is not a public sector service, so I suppose it is not really in your bailiwick. The fact that we have had to do this in relation to a private sector service does imply to me why, in that particular area, one does need more openness.

Mr Monagle—Yes. In this area Ron Boswell and ourselves are just like that. I have heard him talk in the past about—

Mr MARTYN EVANS—Sorry, Boswell?

Mr Monagle—Senator.

Mr MARTYN EVANS—Sorry, I thought you meant someone in the industry.

Mr Monagle—No. I have appeared before a Senate inquiry in relation to the Hilmer reforms, and Senator Boswell and I had a lot of common ground, because he is very concerned about the impact of big players in a business and how they can squeeze out small players. He was talking about the retail industry at the time, so we obviously believe very strongly that there has to be a very robust regulatory regime about commercial enterprises.

Our problem comes when we say that there are specific public sector functions, and public sector functions themselves can be rendered inefficient if they have got to play according to the same sorts of rules. We say it is like saying you have a footie match and you have a set of rules and they apply to the players, and Hilmer says, 'All right. The coach is on the bench and there are the St John Ambulance people and the people selling the footy franks.' They have to be subject to the same sorts of rules as the players on the ground. It is totally appropriate for a competitive private sector to be subject to competition rules, but they are people whose functions in the economy and society are different, and their functions are distorted by being subject to the same sorts of rules.

So we are very keen and supportive of competitive conduct rules which are very rigorous and tough. We appreciate the increase of the penalties; we appreciate the extension of the Trade Practices Act to cover services and individuals. For instance, I think I should be able to buy my pharmaceuticals at Safeway rather than go to the chemist, if that is okay. I should be able to get my newspaper from anywhere I like and so on. I think there have been areas of the Hilmer reforms where competition was going into areas where it should have been, and that is okay. It should not go into the mainstream public service agencies and into community services and so on, where we believe it is creating inefficiencies.

Even just with market testing, the people here in Victoria who work with community services say that they have been sworn on pain of death not to talk about what they are doing with other parts of their same agency because of marketability and contestability and so on, and because information becomes a marketable commodity. We think that creates a lot of inefficiencies.

In the public sector you have now got management by a whole range of contracts, which get smaller and smaller as they go down the tree. That is inefficient because this little person who is having this contact with the public has got no sort of managerial or strategic commonality with people over here who are contracted by the same agency but interacting with the same people. When you have got unified management of that service, there are efficiencies in that which you do not get through a diminishing sort of scope of these particular contracts.

Mr MARTYN EVANS—We have certainly seen examples in South Australia's Modbury Hospital where there is a very inefficient outcome at the end of the day and the commercialisation of the hospital area—

Mr Monagle—Is that where you have some public sector managers, but the middle management and further down is contracted to the private sector?

Mr MARTYN EVANS—No, Healthscope has taken over management of the whole hospital. It has certainly had some problems, and that is one area where I certainly understand what you are saying. But in your submission, you are saying that cross subsidies are the only way to go in the provision of public sector services. Do you think that is always the case? Cross subsidies are hidden subsidies. They are by definition not transparent and by definition they subsidise things that we do not even know are being subsidised.

Is it the case that, if a subsidy is needed, there might be examples where it is better to have a direct subsidy which you identify? For example, if we need to maintain agricultural research centres in the bush, should we do that by direct provision because it is an obligation we recognise? Should we be more open about it than cross subsidy?

Mr Monagle—I think there should be a lot of clarity about what we are trying to do with any one particular program or utility. You would be silly to say that there are not examples where there should be full cost recovery and there should not be direct payment. Grain freight might be an example there. Only one section of the community is benefiting from that, therefore, the farmers should pay full cost recovery for their grain transport, although that is becoming a bit of an academic question now, too, with the privatisation of the various grain transport facilities.

There will be examples where cross subsidy is the only practical way of doing it. We were flagging that before when we were talking about the fact that the state budgets could suffer significantly by the loss of dividends from the utilities and loss of other income from businesses, and they might not be able to afford CSOs. We do not know yet. We do not think anybody has done a costing.

The Industry Commission in their analysis of the Hilmer costs did not really go into the detail about what the CSOs cost and what it is going to cost the state governments to pick them up. The states have perhaps done some themselves, but that is not publicly available. We are anxious to know whether they will be able to afford to pick up the CSOs if they are not paid for by cross subsidy.

Apparently, if you cannot pay your Sydney Water Board bill, you can go along to Saint Vincent de Paul or the Salvation Army and get a voucher. You hand over that Sydney Water Board voucher and you get your water that way. So there is still a cross subsidy in that sense, because the Sydney Water Board is paying for it. That is a humiliating process that people have to go through. We would argue that that should not have to happen, that there should be some guaranteed right to water for any citizen and that that should be mandated by government, whether it is services delivered by direct agency or delivered through competitive companies.

CHAIR—Mr Monagle, we have just about concluded our questions. Do you have anything else you would like to place before the committee before we wind up?

Mr Monagle—I think your task is very difficult, but very important. I hope that, at the end of the day, you are able to recommend a process whereby the public interest is, to some extent, institutionalised. Perhaps the emphasis there would be on public scrutiny of decision making so that, even if the public interest is in the hands of a whole range of agencies, a whole range of people and tiers of government, there can be public debate about it. In some ways the best device is to provide for public scrutiny of decision making. That will not guarantee the right result, but we think that is important.

Mr MARTYN EVANS—After our discussion a moment ago, you referred to those privatised utilities.

You were saying that, if we have a privatised utility and, therefore, the state is no longer in receipt of the revenue from that, the state may not be able to afford the payment of CSOs. But, if you have a privatised utility, should the cost of those CSOs be imposed on the privatised utility? Is that an alternative option if the states have not got the revenue stream any longer?

Mr Monagle—We explicitly provide for that in our code of practice or whatever for CSO delivery. Then again, I think we are drawing it from what Michael Lee is saying. For instance, he is saying that the providers or transmitters of telecommunications should have to pay for the Telecommunications Ombudsman from their own pockets. We think that is a precedent which can be applied right across the whole range.

Mr MARTYN EVANS—Privatised CSOs come out of the privatised utility.

Mr Monagle—Yes, that is right.

CHAIR—The committee thanks you for your appearance today, Mr Monagle, and would welcome any further responses your organisation would have during the course of the inquiry.

Mr Monagle—Thank you very much for that. I notice in the booklet that is published, the pages of our submission are pretty scrambled—at least in the one I got; maybe you got a different one—but I have brought along some extra copies so that you have a more readable form. You might think my content is scrambled as well.

CHAIR—No. I think in the combined submissions we have in another document it is all together, so I do not think there is a real problem there for us. Thank you very much.

[10.17 a.m.]

HEADBERRY, Mr David Maurice, Chairman, Victorian Gas Users Group, 14 Ranelagh Drive, Mt Eliza, Victoria 3930

REICHEL, Mr Alan James, Secretary, Victorian Gas Users Group, 14 Ranelagh Drive, Mt Eliza, Victoria 3930

CHAIR—I welcome the witnesses from the Victorian Gas Users Group. I remind you that the evidence you give today at this public hearing is considered to be part of the proceedings of the parliament. Therefore, any attempt to mislead the committee is considered to be a possible contempt of the parliament. The committee has received your submission and it has been authorised for publication. Before we begin our questioning, would either of you wish to make any opening statement before the committee?

Mr Reichel—I would like to say only just a few words in support of the submission itself. Our interest has been fairly direct and simple. We have a couple of concerns that we have outlined there in terms of the timing of the implementation of the policy. We would certainly be requesting that that be brought through earlier rather than later, and we have suggested some time frames there.

In respect of the other issues that we have addressed there, which are, largely, open access and the extension of the Trade Practices Act to a number of our public utilities, we have been strongly supportive of the legislation as it has been developed and have been involved as the legislation has been developed. We are essentially a party in support of the legislation as it stands at present.

CHAIR—Perhaps for the record you might give the committee a bit of background of the Victorian Gas Users Group—how it came about, how many members you have and so on.

Mr Reichel—We are a group of major gas users who convened ourselves in 1990 in response to the imposition of the petroleum resource rent tax by the federal government. That was in the budget of 1990. We are a group that is interested in gas issues related to gas pricing, gas taxation, ownership of the utility and security of supply. The resource rent tax has been a prime issue for us and is still an ongoing primary issue. But there are a number of other issues, both at the federal level and at the state level, that we are actively involved and interested in.

We are a group of 14 companies which are all major users of gas in Victoria. Quite a number of those companies are major users of gas in other states. In Victoria we consume about 40 petajoules, which is about 50 per cent of the industrial gas in Victoria. Our members consume additional quantities of gas interstate, but do not represent as large a proportion as we represent here in Victoria. So we are interested in state issues and we are interested in national issues. Of course, this one falls into one of the areas of national interest.

CHAIR—The gas supply in Victoria is probably quite different, I would suspect from my knowledge of the industry, from a lot of the other states though. Is it not supplied essentially at the uniform price throughout the state to domestic customers? I am not quite sure about industrial and commercial users. What is the position there?

Mr Reichel—There are a range of tariffs from the utility. There is a maximum uniform tariff policy that has been implemented by the state government. That has been in place for a long time.

CHAIR—Is that a sacred cow in Victoria?

Mr Reichel—It has been. We have certainly looked at the possibility and have been involved with the state government, with the support of the utility, of looking at a relaxation of that. As it is a government policy, it is an imposition on the utility by the government. We have been involved in discussions recently and over some period of time with the state government looking at a relaxation of that policy. We feel that

would open up the prospect for improved pricing for gas to large users in Victoria.

CHAIR—What is the position then of the Gas and Fuel Corporation of Victoria? Is it still called that?

Mr Reichel—It was, but it has changed its name now that the utility has been split into a transmission operation and a distribution operation.

CHAIR—So those functions have been separated?

Mr Reichel—Yes.

CHAIR—Is this in line with some of the competition principles agreed with or did it happen before the Hilmer reforms?

Mr Headberry—It was in the process of happening at the time the Hilmer reforms were brought forward as part of the overall approach by the Victorian government in its drive for competition.

CHAIR—But it is still essentially one distribution organisation and one transmission organisation?

Mr Reichel—Yes.

Mr Headberry—The transmission group of the Gas and Fuel Corporation runs the high pressure mains between the major centres and the distribution network still operates in all of the centres.

CHAIR—Is that very similar to the operation of the Australian Gaslight Company in New South Wales, for example, where they are in the process, if they have not already done so, of acquiring the line from the Pipeline Authority, who were previously the owners. They are now also the supplier of gas. They own the gas in the pipeline and always did own the gas in the pipeline. How different is that situation to what is happening here in Victoria?

Mr Reichel—The previous situation was one where the Pipeline Authority owned the pipeline so they were the owner of the transmission facilities. AGL owned the distribution facilities. AGL had first right of refusal in terms of the opportunity to purchase the pipeline from the federal government and were able to integrate their operations by going back up screen and took over the ownership of the pipeline. So they are now an integrated operation in terms of transmission and distribution. They have gone, in effect, the reverse of what has happened here in Victoria where we have broken up the two elements.

CHAIR—Would you have a view about that process?

Mr Reichel—We represented a case to the Commonwealth government. We did not feel that an integrated operation would provide as competitive or as transparent a situation as separated elements of transmission and distribution.

CHAIR—Is there a similar organisation to yours that operates in New South Wales?

Mr Reichel—Yes, there is. It is called the New South Wales Gas Users Group. There is another one in South Australia. They are informal groups, in the sense that they are large users who have agreed to meet together on a regular basis to look at gas issues. They can be convened or disbanded depending on the range of issues that are present at any one point in time. We have had quite a number of large issues here in Victoria, so we see ours as an ongoing organisation.

CHAIR—Given the way in which we have gone with electricity generation and distribution of transmission separation there and the decision to have a national electricity grid, do you think we have now lost any opportunity with what has happened, say, in New South Wales with the pipeline, to have such an operation at least in the eastern and south eastern states with gas?

Mr Headberry—I think the way the break up of the electricity system is happening is not too dissimilar to the way we believe that the gas reticulation system—the transmission system—will ultimately end up. The tie between Wagga and Albury is an important element in that. The ability for Esso or BHP West Coast to build their pipeline up the east coast of the country and being allowed to by the Victorian government is a very important element.

CHAIR—That is the proposal to link from Albury to the Pipeline Authority, lateral; from Young through to Wagga?

Mr Headberry—Yes. AGL and the Gas and Fuel Corporation are looking at that together as the two owners of the—

CHAIR—As a joint venture?

Mr Headberry—Yes, as the two owners of the main systems in the two states. But I think the other obstacle that is preventing any change at the moment is the declared position of the Victorian government not to allow interstate trade until the contractual issue with Esso BHP over the PRRT is resolved.

CHAIR—Do you have a view about that?

Mr Headberry—We do have a view about that. We have taken that to the Victorian government and to the owners. We are of the opinion that—I have to be careful here. We have an opinion. We have taken it to the proponents with our view on how it can be resolved. At this stage negotiations are still proceeding regarding that.

Mr MARTYN EVANS—How do you feel you are currently disadvantaged by the present regime? Also, how do you feel major gas users will benefit from the post-deregulation process that you are asking to be advanced? Currently it is set at the year 2000, and you want the systematic review shortened to five years. Would you like to set out what you see as being the current disadvantage and then the subsequent changes which you feel would benefit you?

Mr Reichel—Over its life, the gas industry in Australia has been characterised by state franchises. So, essentially, we have had monopoly positions held by utilities. Certainly it is our feeling and our opinion that that has disadvantaged the customers of those utilities. We have been active over a long period time, not just in Victoria but also as gas user groups interstate, in approaching state governments to ensure that pricing is as efficient as possible. Thereby, we have been instrumental in promoting a number of price enquiries in a number of states over the last 10 years into the pricing practices of the utilities and their compliance with the State Gas Acts, for which there are pricing regulations in place.

We feel that, with a deregulation of the industry into a structure that provides a larger number of distributors, certainly there is not the opportunity to look at more competition from pipelines; the market will never be large enough here in Australia for us to look at the prospect of duplicated and triplicated pipelines. So competition in terms of access to those pipelines is important. Competition or the extension of competition in terms of a larger number of distribution companies is important. To the extent that we can access a larger number of gas producers, that also becomes important. This legislation seems to promote the possibility of at least two, if not three, of those. We feel that that certainly should lead to a more efficient pricing outcome for customers, both large and small—not just large.

Mr MARTYN EVANS—Do you think that will arise from efficiencies in operational costs, or do you think it will arise from a redirection of cross-subsidies?

Mr Headberry—I would just pick up on where Alan was at. What we see is there being a number of issues that are not really being addressed by the current Victorian, New South Wales and South Australian governments—but particularly the Victorian and New South Wales governments.

One issue is that there is no driver being put into the system to get to world's best practice. At the moment we institute bad practice through such items as maintenance of rate of return, which AGL are allowed to have. There is no incentive for them to improve their game or performance because they are allowed to price their gas at such a level that it gives them back a return on the investment they have made.

The governments apply significant taxes and require a return which is way out of proportion with the cost of the commodity being sold. In the Victorian case, we have significant taxes. We pay perhaps between

80c in the dollar a gigajoule for the public authorities contribution—the PAC—and other state taxes, which are unnecessary if we are to have straight and clear competition. Those items would not be applicable if the gas were being provided to us, say, from another state.

CHAIR—Will those change after July next year?

Mr Headberry—At this stage, as far as we see the changes, there is nothing to indicate the removal of the PAC, the large state taxes and the requirement for, say, the Gas and Fuel Corporation to give a dividend or a super-dividend back to the state government; there is nothing that requires that. The competition policy does not prevent state governments from doing that. There nothing in the competition policy which drives the various natural monopolies to improve their performance.

There is nothing yet which looks at elimination of the cross-subsidies which already apply. We still have—and will have, particularly in the transition period—the issue of the state governments still using the mechanisms that they have to hold the domestic users at a particular level. That shortfall has to be made up by industrial customers. So there is still political interference in the gas pricing policy that is not being eliminated by these reforms.

Mr MARTYN EVANS—Do you think the greater contribution, though, to reduce costs for your users—who are major users, obviously—will come from improved efficiency in the distribution system or from the removal of cross-subsidies?

Mr Headberry—I think the main benefits will come to our members through the ability to contract directly with the producers of the commodity, and to pay a reasonable toll for usage of the natural monopolies.

Mr MARTYN EVANS—Doesn't that really translate into a removal of the cross-subsidies?

Mr Headberry—It can. With the point that Alan made before about the time frame, a number of proposals are being put out into the marketplace which do not even have a date and where everybody is contestable; it is still to be agreed. One of the things we are pushing for quite strongly is that the overall process should be driven quickly, faster rather than slower, and to give all users the ability to use their position to get the maximum benefit out of the gas supply.

One thing which concerns us is that, within Australia, we have a number of costs which we have to wear because of our physical location, because of the very shallowness of our industry. We have those as downsides. One thing we have as an upside is an abundance of easily won and low cost energy. We should be using that to maximise our position in the international market. With the reduction of tariffs that occurred over the years of the middle and late 1980s, the manufacturing industry has been very much subject to the vagaries of the international market, and yet a lot of our inputs have not been so put to the test.

The electricity and gas industries are two of them, and the transport industry is a third. They have never really been put to the test of international competitiveness. Because of their position in the Australian economy, they never will be. They are not going to have people piping gas in from New Zealand or Antarctica because the cost would be horrendous. So we have to drive them to world's best practice so that they can then give us the benefit that came with the reduction in tariffs.

Mr MARTYN EVANS—Have you done any international comparisons on what competitors in the broad range of industries that you cover would be paying for gas in Europe or the United States, for example?

Mr Headberry—We have.

Mr MARTYN EVANS—And what kind of outcomes do you—

Mr Headberry—In some places, the cost of gas and electricity is higher than it is in Australia. In other places, it is lower. It depends a little on where you are trying to source your gas. For instance, the cost

of gas in Texas or in Louisiana and the south-east of North America is very low. It is probably about $1 or $1.50 cheaper than what we are paying here. If you go to parts of California or into Oregon, the cost of gas is about the same as what we pay. In parts of Canada, it is lower again. In other parts of Canada, it is higher. It really reflects how close the source is to where we actually use the product.

In Victoria, our biggest paper mill in Australia is 40 kilometres away from Longford, yet we are paying gas at that site at about 50 per cent above what it costs. There are cross subsidies and uniform tariff pricing policies, and the Victorian government requires the PAC contribution. So these are the sorts of distortions that we are seeing within the whole of the gas and electricity industries.

Mr MARTYN EVANS—Do you think the Victorian government will be working towards removing and addressing some of those issues earlier than the stated deadlines? Do you think that they are going to wait until the threshold limit is reached?

Mr Reichel—It largely depends on the outcome of the petroleum resource rent tax, which they have said is an obstacle to free and fair trade. Until that is resolved, they will not progress gas reform in Victoria. However, they have also said that, having been a leader in electricity reform, they would also like to take on gas reform. They are quite positive in terms of that being beneficial to gas customers in Victoria.

Can I just follow up on your point about Gas and Fuel and their efficiencies. Substantial efficiency gains have been made by Gas and Fuel in recent years. Certainly the number of employees has reduced quite dramatically. But those gains have been largely taken up by the government and not passed through in more efficient pricing. We have, on quite a number of occasions, approached both the utility and the government to look for a flow through of those productivity gains, but to date that has not been the case. We hope that in future that will be the case.

Mr MARTYN EVANS—I understand your desire to see the cost of gas that you purchase accurately reflect the cost of producing it. You have a natural competitive advantage of being very close to major sources of gas. There is no reason why you should not benefit from that natural advantage to offset some of the disadvantages that Australia has in the world marketplace because of distance and the like. I accept what you are saying. Gas is a non-renewable resource—at least within our lifetime. There are therefore limited quantities of it. So it is something which is held in the public trust. Therefore, some kind of return to the public over and above the literal cost of production plus a small profit margin will involve some element of a resources rent or tax which reflects the fact that that resource is limited and that it is one that everyone owns, not just those who would seek to profit from it. How do we then incorporate that element into the pricing structure?

Mr Reichel—We certainly do not oppose the concept of a resource rent tax. We have been in favour of it from the outset. What we have opposed is the massive increase in the level of taxation that took place when that resource rent tax was introduced into the Bass Strait basin. The existing royalty rate, which sat at somewhere around 11 to 12 per cent, was increased to the nominal 40 per cent of the resource rent tax. If you include the grossing up effect that that tax also imposes, you have an effective rate of something like 67 per cent, which is a massive increase in the rate of taxation on gas. On other petroleum products that attracted excise, the excise levels were quite high. They were of the order of 70 to 75 per cent. They have effectively seen a substantial reduction back to the rate of the resource rent tax. So it is not a question of opposition to a resource rent tax—we can see that it makes sense—it is a question of the dramatic increase in the level of taxation that has taken place there.

Mr Headberry—If we are going to use those taxes to identify and get sources of energy which are renewable, or be able to use renewable sources, we should clearly identify the parts of that tax which are being used for that purpose rather than just go to consolidated revenue. In the Victorian system, the PAC,

which is intended to be an equalisation element, goes straight into consolidated revenue and is never used for the purposes you are talking about, which is to identify alternative sources of energy so that we do not use those up within our lifetime. At the moment, we see that it is just purely a tax that is not being used specifically for that alternative.

CHAIR—It is not unusual for governments to do it. They rarely hypothecate any form of taxes or charges that are collected directly back to the area of concern.

Mr Headberry—I accept that. But why should we not use that as a tax because of the essential element of replacing a non-replaceable resource or coming up with an alternative for it. If that is what we are doing it for, let us be honest about it and identify what that tax is being used for. Otherwise, it just becomes a tax for consolidated revenue and is not used for that specific purpose. The amount of money we sink back into the system to identify alternative sources of energy is nowhere near the amount that we are levying as an RRT.

Mr Reichel—We have also posed the point that, without an RRT, gas customers would certainly be better off. We feel that that could well be seen to be in the public interest anyway. Those customers certainly provide employment and investment opportunities. They also pay state and federal taxes.

Mr SOMLYAY—I go back to your comments about the price differential in the USA and Canada. What do you use as the standard against which you measure world best practice? What is world best practice in your industry, and how do you measure it?

Mr Headberry—With a great deal of difficulty. There are some yardsticks that can be used, for instance, in the transmission of gas. You look at the cost to transmit gas on a price per gigajoule per thousand kilometres basis. That is a yardstick that is used. It is recognised fairly well that a price about US50c per gigajoule per thousand kilometres is getting as close as you will get anywhere in the world for what the cost is now. There are always reasons for saying that is not fair. If you are taking a pipeline across the north-west slopes of Alaska and running it through the sands of the desert in remote parts of the world, then you will end up with a different sort of number. When you start doing that comparison right across the world, that seems to be coming out as one yardstick to be used.

As a comparison, the price of gas running down the Alintagas line in Western Australia costs us about $1.30 or $1.35 a gigajoule, compared to our US50c per thousand kilometres. You end up paying about two to 2¼ times the amount for hauling gas from Dampier to Perth. If you use the same yardstick for going from Moomba to Sydney, you will find that we are paying above the mark for that haulage. If you look at the same yardstick for hauling between Sydney and Newcastle, you will find that we are paying 12 times.

So there are yardsticks that you can draw. You have to use them carefully, but you can achieve a yardstick and use that to find out where we should be targeting our efforts. You can use similar analyses for distribution networks. You can also do the same thing with selling paper, if you want, or cement, which our major members are involved in.

Mr SOMLYAY—The object of competition policy is to provide an efficient resource for the most competitive cost to industry. In adoption of world's best practice, you are looking at the cost of consumption of gas rather than the cost of production. Am I right?

Mr Headberry—No. I am very much in favour of looking at the whole element right back from the wellhead through the gathering lines into the treatment plant, through the treatment plant into the transmission lines and into the distribution networks. When we are talking about the cost of producing the gas, we should be looking at all of those elements, not just at what it costs at the end of the day. This is one of the beauties of the transparency system and unbundling the various cost elements—so that we can actually identify what are the real parts of it that need close attention.

Mr SOMLYAY—How much substitution effect is there between gas and other sources of energy so that it would play some part in the efficient production of gas?

Mr Headberry—Most of the gas that is used in Australia is used for making heat, either in the form of steam or some other way of directly utilising heat. The next most usage of it is as a feedstock. Most of our members are involved in the conversion of gas into heat. So, if we start looking at what the cost of heat is from the various sources of fuels, it starts to add up.

Electricity costs somewhere between $12 and $25 a gigajoule. Gas, in Victoria, costs about $3.20 a gigajoule; in New South Wales, about $4; in Western Australia, $4.50 to $5.50, although that is coming down in Western Australia. In Queensland, it is about $4.50 to $5 a gigajoule. Compare that to the price of coal. Coal averages between about $1.50 a gigajoule through to about $2.50 a gigajoule. But there are increased costs associated with handling coal.

So, if you try to compare coal at $2 or $2.50 a gigajoule to gas at $3 a gigajoule, as it is in Victoria, then it is a marginal case whether you stay with gas or go to coal. You do not use electricity for heating purposes. But we are finding that the most effective way of using gas is to make electricity and heat at the same time in cogeneration projects. A number of our members are already doing that. That worked but it is quite capital intensive to do so.

CHAIR—Does the group have any views about the provision of reticulated gas to the community, in terms of any community service obligations that a government may have?

Mr Headberry—In our view, the community service obligations the government has should be paid for by the government, not by the gas reticulator.

CHAIR—In other words, any subsidy should be an on-budget item?

Mr Headberry—Yes. In the overall concept, we are trying to unbundle the costs so that everyone can identify what they are and, if there is attention needed, then it should be handled in the place where it can be best handled.

CHAIR—So your view is that any community service obligations, however they are identified, should always be transparent through any budget processes?

Mr Headberry—Yes.

Mr Reichel—Yes.

Mr Headberry—What is the purpose of hiding it? I guess that is the question.

CHAIR—I am not sure whether we should choose to answer that one. Are there any concluding comments you would like to make before we wind up?

Mr Headberry—I would like to come back to one of the issues that I think has really got to be attended to in relation to disaggregation and the unbundling of the monopolies. We must institute improved performance. A monopoly has no natural reason to improve its performance and do things better, so there has to be a way of actually driving that process through so that the natural monopolies that we will continue to have have to work at getting their costs down on a continuing basis. It is equally so for instituting a set of performance measures, so that we can identify whether the natural monopolies are achieving their world's best practice. So the mechanisms have to be in place not only to drive the process but also to measure the process. If that happens, we think a great step forward will come out of all of these Hilmer reforms. If we do not do that, then all of this good work will be frittered away.

CHAIR—Thank you for your appearance before the committee this morning and for the time in preparing the submission to lodge to the inquiry.

Mr Reichel—Could you give us an indication of the timetable of the inquiry?

CHAIR—It is very difficult at this stage to give you an indication in terms of likely times for making

a submission. It is complicated by a number of factors. This is the first of a series of public hearings that we have been holding. We have also got to contend with both the parliamentary timetable and the Christmas and New Year period, and there is probably a slight matter of a federal election somewhere amongst all that. So it is very difficult to give you a timetable. I would suspect that the committee would hope to have a response in the first part of 1996.

Mr Reichel—Thank you.

CHAIR—Thank you for your time.

Mr Headberry—Thank you for the opportunity.

[11.06 a.m.]

GIBBS, Mr Stephen Phillip, National Secretary, Australian Services Union, 116-124 Queensberry Street, Carlton South, Victoria 3053

LEE, Mr Timothy, National Industrial and Research Officer, Australian Services Union, 116-124 Queensberry Street, Carlton South, Victoria 3053

NICHOL, Mr Steven, Shop Steward, Australian Services Union, 116-124 Queensberry Street, Carlton South, Victoria 3053

PARKINSON, Mr Brian William, Assistant Branch Secretary, Australian Services Union, c/- 1-3 O'Connell Street, North Melbourne, Victoria 3051

CHAIR—I welcome the witnesses from the Australian Services Union. The evidence you give at the public hearing today is considered to be part of the proceedings of the parliament and, accordingly, you are advised that any attempt to mislead the committee can be considered a contempt of the parliament. The committee has received your submission, and it has been authorised for publication. Before we proceed to questioning, do you have an opening statement you would like to make before the committee?

Mr Gibbs—Thank you. I would like to make a brief introductory comment and then pass over to Mr Lee, who will expand a little further on our submission. At the start, it is set out in the submission but can I just explain briefly about the ASU. The Australian Services Union is a union formed through a number of amalgamations. We are the principal union in local government in Australia. We cover local government employees in all states and in fact, apart from Queensland and South Australia, we cover all of the local government employees, both blue and white collar, in all the states apart from Queensland and South Australia. In those two states, we cover what is generally known as white-collar employees.

The submission itself goes to the issue of competition policy and local government. But I should point out to the committee that the ASU also has coverage of, and is a principal union in, the electricity industry, the water industry and the public transport industry in Australia. Of course, competition policy would have implications in respect of all of those industries as well. Although, as I say, our submission primarily is concerned with competition policy and local government.

The ASU acknowledges that competition has a role to play in the economy. We are concerned, however, about competition for competition's sake. We are concerned about competition that impacts negatively on award wages and conditions and on the jobs of our members. We are especially concerned that national competition policy could be used as an excuse by state governments to implement so-called reforms that are ultimately designed to undercut existing conditions of employment, to destroy pay rates awards and to put in jeopardy many of the jobs of our members.

The prime example that we see of this happening is in Victoria with the compulsory competitive tendering legislation in local government and the moves to privatisation, which are said to be consistent with national competition policy. But, as you will hear from Mr Lee in a minute, we dispute that contention and believe that such moves take national competition policy far beyond what it intended.

Finally, in terms of this brief introduction, we would say that slavish adherence to competition for competition's sake will have implications for any government, for the wages and working conditions of many people in paid employment and for the society as a whole. With that introduction, I will pass over to Mr Lee. Thank you.

Mr Lee—Members of this committee would be aware, having perused our written submission, that it was very much a preliminary one and raised, in essence, a large number of issues that we say this committee needs to take account of when considering the application, or not considering the application, of national competition policy in a local government environment. In that context, I think it would be useful if I was given the opportunity to spend 10 minutes or so expanding on some of the points that were raised in a fairly cursory manner in the preliminary submission. With your leave to do that, I will commence.

CHAIR—Please proceed.

Mr Lee—One of the first items in our written submission at point 3.2 dealt with the costs and benefits of any application of national competition policy. According to the competition principles, the costs and benefits of any application need to be assessed as part of any decision by any government to make such an application. On that basis, we have said that this committee, therefore, needs to seek out as part of its terms of reference and consider any evidence that exists that is relevant to making such a consideration. In particular, I have noted that the committee should consider recent evidence—particularly evidence from the United Kingdom—that relates to the likely economic gains or losses that flow from the introduction of competition into local services.

A point that may well be raised to this committee is the issue of what gains do arise, or do not arise, as a result of the introduction of competitive tendering. In that context, there has been a great deal of focus on the work of Simon Domburger, who, in 1986, undertook a study of refuse collection in the United Kingdom. On the basis of that study, he asserted that there were, on average, 20 per cent cost reductions flowing from the introduction of competition to that service and that service alone.

Since that time, there have been numerous studies that have discredited that work of Domburger and have further extended it. Without going into that work in detail, I think the key research that has been undertaken has been by the UK's department of environment. So, using an independent consultancy, the United Kingdom government, the Thatcher government itself, inquired into what has been the impact, in terms of price or cost reductions, of compulsory competitive tendering in the UK environment.

They found that, on average, there was a cost reduction across a range of services not of 20 per cent but of around 6.7 per cent. They also found that the deviation around that average of 6.7 per cent was so great as to make even the average figure largely meaningless. In some cases there were cost increases in the order of 40 per cent to 50 per cent and cost decreases in the order of 40 per cent. So any simple assertion that competitive tendering is going to reduce costs must be rejected by this committee.

In studying the whole period that CCT has been in operation in the UK, 1989 to 1992—and the study was done in 1992—that same piece of research also found that the figure of a six per cent reduction had been confirmed. But it also found that, on average, it cost about six per cent to seven per cent of the value of contracts to actually go through the process of competitive tendering, the so-called transaction costs of competitive tendering. This is an important factor that needs to be considered, and it is not considered by those who argue that competitive tendering is a panacea for local government.

So I am putting to you that there is considerable evidence that, if there are any cost savings that flow on from competitive tendering, based on what has happened in the UK, they are at best about six per cent. We also know that the raw cost of going through it—the cost of putting the ad in the paper, the cost of evaluating and the cost of reorganising whole councils to be able to introduce this mechanism—effectively wipe out any savings that might accrue. It is one hell of a costly way to get a very small change, if any change at all, in terms of the efficiency of local government.

There is also clear evidence from the UK in terms of the impact on the quality of services. This is clearly a continued, hotly contested debate. However, there is no systematic appraisal as yet as to how CCT

has affected service quality in the UK. However, it is known that private contractors are four times more likely than in-house teams to fail to perform the terms of their contract. It is known that one in 12 private contractors in grounds maintenance have been sacked by their councils, that one in five has accounted problems with delivering their contract. About 40 per cent of firms granted management of sport and leisure facilities have been wound up. So there is evidence that there are major problems with contractual arrangements that are being entered into with private operators.

Having said that, evidence is already emerging in Victoria under CCT that it is not necessarily an issue of whether the private sector or the public sector actually undertakes the work. In fact, we say that quality of service problems may well emerge simply as a result of the competitive process being applied, and being applied without any safety net framework.

For example, in the Melbourne City Council's aged care service, after competitive tendering, even though that service was won by in-house employees, we assert there have been reductions in the quality of service. That reduction has come about as a direct result of the fact that, in order to win the right to continue to provide the service, the in-house employees had to decrease their wage rates to about $10.50 a hour. Brian Parkinson, who is involved in this particular situation, will make clear the magnitude of the wage rates reductions that were dealt with.

As a result, the more experienced and qualified personnel have left the council. Only one-fifth of the staff that were originally employed by the council to supply the services are still there. They have tended to be replaced by less experienced staff, leading to complaints from clients. This is not necessarily a situation of private versus public. After what we have seen in Victoria, it is a situation where competitive tendering has in essence led to focusing on reducing conditions of employment, which is going to lead to a lower quality of service as a result.

Brian Parkinson will talk about the numerous job losses that are already starting to flow as a result of the introduction of competitive tendering in Victoria. We know from the UK experience that staff reductions, up to 25 per cent for some services, have occurred as a result of the introduction of CCT. There have been cuts in pay, in hours and in conditions of employment.

Importantly, a recent study undertaken for the UK Equal Opportunities Commission has found that the impact of CCT has had a differential impact on women and men. The research has found that CCT has been a major contributor to widening inequality in pay and conditions between part-time women workers and full timers, mainly men, in local authority manual services as well a weakening of EEO policies. As I say, that report was actually published by the UK Equal Opportunities Commission. So you could say the international evidence on the impacts of CCT is rather damming.

We also suggest that a major problem is going to emerge, and is already emerging, in many services in Victorian local government where competition is sought to be applied in that there is virtually no competition. We have seen in recreation services, for example, that there is only one competitor in the so-called private market next to ours. The question has to be asked in a competitive tendering environment: who is going to be the competitor once we have lost the tender? If the in-house employees are no longer there, where will the competition come from? We may well see, particularly in areas outside of developed metropolitan areas—in rural areas—a situation where there will be dominance of particular industries by large multinational organisations who are already operating in Victorian local government seeking to secure a foothold. We will see them not operating out of local communities; we will see them operating out of the biggest nearest provincial city or out of capital cities alone and operating on that sort of basis.

Having dealt with that issue, in relation to the terms of reference for the committee we say that you need to be aware of these factors and you need to be aware that competitive tendering has led to price

outcomes that are not consistent with various views that are being asserted by people like Domburger. In particular, you need to focus on this issue of the so-called transaction costs of implementing the service. As yet in Victoria, we do not have any hard data on how much it is costing Victorian local governments to implement competitive tendering but we do know anecdotally that it is costing a lot of money. There are consultants engaged on the clients' side; there are consultants engaged on the contractors' side to assist in the competitive process; and there is extensive documentation having to be prepared by legally qualified people. All of these factors are adding up to enormous costs of going through the process, not to mention the enormous cost, which is difficult to quantify—but which Brian will tell you about—in terms of the impact that CCT is having on the morale of the work force and inevitably the impact that will have on their ability to maintain their commitment to their employment and to deliver quality of service.

CHAIR—Mr Lee, could I just ask at this stage: when was compulsory tendering introduced into the state?

Mr Lee—It was said to take effect from October 1993 but, in effect, it took effect from June 1993 because the municipal financial year was amended. So from 1993 to 1994, the councils were required to competitively tender 20 per cent of their total expenditure as defined by AAS 27; in the subsequent year, 30 per cent; and in the following year, 50 per cent.

In our submission at 3.4 we also say that this committee needs to take account of any evidence that the imposition of forced competition in Victorian local government has had outcomes that are not in the public interest and, in particular, if there is any evidence that there have been outcomes that are not consistent with the federal government's policies in respect of industrial relations. If we look at a couple of case studies on this particular point, what we have already come across is a situation where it is quite clear that the introduction of competitive tendering in Victorian local government has, not unlike the UK experience, been used as a device to reduce terms and conditions of employment.

We are not talking about so-called featherbedding; we are not talking about rorts or extraordinary allowances. We are talking about basic rates of pay being cut as a result of the introduction of CCT and we are talking about superannuation entitlements being reduced. We have examples from the city of Morwell, for example, where the home help service was competitively tendered and in that situation superannuation contributions were reduced. For those employees who managed to maintain employment with the contractor, Silver Circle, they had their superannuation contributions reduced from 13¾ per cent to four per cent. Access to long service leave after 10 years was extended to 15 years.

We had a situation in Melbourne city council in the aged care service where the employees were previously paid at an average rate of $12.60 per hour and with a spread of hours of 6 a.m. to 6 p.m. They had overtime entitlements of time and a half for the first two hours and double time thereafter—a fairly basic award entitlement—and double time for all hours worked on a public holiday. The new agreement that had to be negotiated—'had to be negotiated' as a direct result of competitive tendering process—led to aged care workers being paid an average rate of $10.40 an hour, with the spread of hours being increased from 6 a.m. to 10 p.m. and with overtime entitlements changed to time and a half for all hours worked on any day. In that case, 95 per cent of that work force were women. What we are seeing increasingly is that competitive tendering in Victoria is leading to these sorts of outcomes. To give you another couple of case studies. Perhaps Steven could talk quickly about the Carlton baths experience.

Mr Nichol—Just a very brief history, if I can. Recreation of the city of Melbourne was tendered out in December 1994 to January 1995. Three of the facilities that were tendered out were the Carlton baths, the North Melbourne baths and the city baths. The Carlton baths were unsuccessful internally, so was North Melbourne; however, the city baths remained internally. The competitors in this field that put a bid in against

us were much lower wage payers than we were.

We went to the staff to see if they did want to compete or to give up their jobs. They chose to compete and they chose to accept pay cuts of between 20 and 40 per cent. In my workplace alone, this was around $140,000 per annum less that the combined staff were going to take home with them. Reductions in staff numbers were necessary as well, because the major driving factor behind winning the tender is the lowest dollar bid.

The quality of the service consists of three or four components which make up about 40 per cent, but the lowest dollar figure is worth 60 per cent of the deciding factors. Our major competitor staffs at a much lower rate than the current city of Melbourne staffing, uses some volunteer labour and has an award that is much lower than the award for the city of Melbourne. A couple of key points that I would raise were that the pay cuts were 20 to 40 per cent and the reductions in staff were around 40 per cent. So, between the reductions in staffing and the reductions in wages and salaries, we were reducing our annual expenditure by about $420,000, and we still lost the bid. To give a specific example of what Tim was speaking about before: the actual cost of the bid for us is reasonably difficult to assess because a lot of staff time went directly into the bid—but, conservatively, at least $50,000 to prepare our bid and up towards $100,000 if we include staff, overtime rates and things like that.

CHAIR—You said there was a 20 to 40 per cent cut in the pay. What did that represent, for example, on an hourly basis?

Mr Nichol—Some staff going from $14 per hour down to $9.80 per hour. Those cuts were across the board. So the manager of the facility down to the cleaning staff took an average cut of between 20 and 40 per cent. They volunteered to take that cut to compete—the other option being not putting in a bid and becoming redundant.

CHAIR—And you said that you still missed out on the—

Mr Nichol—We become redundant on 1 November.

Mr SOMLYAY—How much was the cost of the bid?

Mr Nichol—As I said, it is difficult to put a very accurate figure on it because a lot of staff who work in the centre had their duties put on the backburner, as far as the centre was concerned, and they were pulled in to work on the bid. By the time you factor in consultants, word processing and staff time, the cost is between $50,000 and $100,000 to put in a bid.

Mr SOMLYAY—How much was the cost of a private bid?

Mr Nichol—I don't know.

Mr SOMLYAY—Would you expect it to be about the same?

Mr Nichol—I would imagine that the private bidders would perhaps use some sort of template or pro forma. They have probably put in something similar before, maybe not as rigorous as the City of Melbourne requirements; but they probably provided something like that.

Mr Parkinson—Could I make a quick comment on that. In relation to the city baths, which was the formula as part of the specs, and Carlton and North Melbourne, I was involved in those three separate bids. We used the same formula because we knew who the external competitor was. Because of probity and commercial confidentiality, we never know what the external provider's bid is.

One thing I can assure you is that we were quite clear on the wage rates and the conditions. I believe we were within one per cent of that external provider. We used that same formula for the three centres individually. Obviously, if we had won the city baths, we thought we were very close to winning Carlton and North Melbourne. So, in real terms, we believe we were pretty close to the mark in relation to wages and conditions with the external provider.

CHAIR—If I heard you right, under the legislation it is just the price at the end of the day that determines the successful bidder; nothing else is taken into account?

Mr Parkinson—The legislation does say that it does not necessarily have to go to the cheapest tenderer, but, obviously, as I have indicated, we get no feedback at all through that commercial confidentiality in relation to assessment and evaluation.

Mr SOMLYAY—When you say 'we', who do you mean?

Mr Parkinson—The in-house bid.

Mr SOMLYAY—That is not the ASU.

Mr Parkinson—We obviously play a watchdog role over it, because the effects you have just heard about briefly in some of these case studies now affect our members. The other side of the coin is that the ASU plays a big role in it. If there are going to be changes to wages and conditions, through the federal legislation we are required to be involved to get those wage and condition changes through section 170 of the federal industrial relations legislation. So we do have a major role in it.

CHAIR—If there was only a one per cent variation in the bid, why wouldn't the employer want to keep the existing arrangements in place with regard to staffing on the basis that they were probably reasonably comfortable with the former staff in place?

Mr Parkinson—I believe that the employer should if you are that close. There is a lot of heartache in this type of thing where you are talking to people who are taking major wage and condition reductions. In some cases if people are prepared to do that, obviously we believe that the loyalty issue should come into play. But the point I would have to make is that the code of practice released on 14 August, I think, from the state government was something that spoke about evaluation and assessment of bids. We know what are the internal bids put in, but we obviously never know what the assessment or the evaluation process is. So it becomes very difficult for us. The reason I raise that one per cent issue is that we did win the city baths, and we used exactly the same wage formula for wages and conditions.

It is our understanding and our belief that we did look at the benchmark with the external provider, as far as wages and conditions were concerned, and we were very close to the mark. So that is how we get to the belief that we have got it. I cannot sit here and categorically say, 'Yes, we were within one per cent.' But we do know what they pay. We know what externals do in relation to wages and conditions. As Mr Griffin has indicated, we believe that we put a bid in that probably should have been successful; but, unfortunately, we will never know.

Mr SOMLYAY—Local authorities vary greatly from state to state. I am no expert on the Victorian system. Is there a conflict of interest in a local authority calling for tenders and submitting a tender itself?

Mr Parkinson—I do not believe so, mainly because it really gets back to the issue Mr Lee was raising before about quality. Obviously local government reform in Victoria has been on everyone's lips for the last five years. Generally speaking, in the blue-collar sector, which I can only speak for on this part, through attrition alone we have seen a decline in numbers in that last five-year period. If a council was to call for tender, we believe the in-house team has every right to put in for work that they have historically done for probably the last 150 years.

There are some case studies you could go on with and there are some examples I could put to you now that probably have different scenarios. We have spoken about the city of Melbourne briefly. The city of Melbourne was well ahead of other local authorities in Victoria with competitive tendering and in fact exceeded those percentages that Mr Lee put to you earlier, which was the 20, 30 and 50 per cent.

The city of Melbourne's business strategy, what they were doing there, is that they have actually set up a company under the Companies Act. Anybody who wins an internal bid, that automatically, through

transmission of business, goes into the company. Some could argue whether that is right or wrong in real terms. I do not necessarily agree. I am not too sure whether you understand what they are doing there, but the reality is that they are looking for this company to pay a dividend back to the city of Melbourne and probably finance some of their capital works programs in the future.

Again, when you get to evaluations, one of the examples we had in street cleaning was that specifications came out in Melbourne to do street cleaning. Our members put in an excellent bid. Let me give you an example of where I see some of these conflicts. In mid-1992 we had 140 members cleaning the streets of the city of Melbourne. Our bid, which was mid-1995, went in with 70 effective full-timers. So there was a 50 per cent reduction.

The members in the area resolved to reduce their wages from anywhere between three and 15 per cent. They also agreed to look at reducing their penalty rates on a Saturday. So obviously we thought we had a very good bid. The council said that we had an effective draw. The council then put to us that, because it was so close, they could not make a decision. One would have thought, by making all of those changes, that there would have been some loyalty there because, in real terms, they had tested themselves in the competitive market.

The outcome of all of that is that the council, in their wisdom, have split the cleaning of the city of Melbourne. It was never part of the specifications, and we were totally opposed to it. We did not lose the tender, but we still did not win it, notwithstanding all of those changes. The problem I have is that you move the goal posts in this particular case and you move the goal posts later in the game as far as the splitting of the bid is concerned and that type of thing. One could presume that there are different scenarios and reasons for that.

My own belief could be that the city of Melbourne were looking after their own company, which is Citywide Service Solutions. If they do not win their own bid for street cleaning in the city of Melbourne, how are they going to win bids in other councils, which is what their intention is? So you have all those different scenarios that might enter one's mind. Personally, there are loopholes in some of the strategies behind competitive tendering. I think that in real terms the assessment and evaluations are a real problem. That is what we have seen with the city of Melbourne.

Mr SOMLYAY—In the instances relating to the three baths, what has happened to prices to the public?

Mr Nichol—In relation to our strategy, the in-house bidders were to freeze prices for the first 12 months. But, as people have said here, we are not aware of the competitors' policies and strategies. They have not been released yet. We put in our bid. We know what it is.

Mr SOMLYAY—But there must have been something in the specifications about prices charged to the public, or was that open ended?

Mr Nichol—I cannot recall anything in the specifications that required prices to be frozen. Some programs were required to continue to run. The particular centre I am at has a strong community focus, so there was a requirement to continue to run a range of programs for various low income groups and non-English speaking groups.

Mr SOMLYAY—Let me put it another way: prior to the tendering process, were the three of them subsidised by the ratepayer?

Mr Nichol—One of the centres ran at a deficit to council, one of the centres returned a small surplus to council and one of the centres was in the process of renovation and had been closed for two years. They do not all have a similar—

Mr SOMLYAY—I asked a question about the basis on which anyone would put a tender and

whether, if they cannot raise the prices, they charge if the thing is running at a loss? It is like ANL.

Mr Nichol—A number of recreation management groups operating in Victoria call themselves non-profit voluntary organisations. They take it upon themselves to run these facilities without taking any profit from the facility. I understand, but I do not know this for sure, that they have offered to return to council any income that is above and beyond their specified contract price at the end of their financial year. So we have got some private groups and some non-profit volunteer organisations managing recreation in Victoria.

CHAIR—I am sure Barry Cunningham, one of the members of our committee who is unfortunately not with us today, would have been particularly interested in the mall example. Perhaps we could go to some of the more remote parts of the state, particularly in light of the local government amalgamations. I think in Victoria we have taken the councils from about 210 down to about 80. What sorts of effects is that having on, say, community service obligations that perhaps are implicit, I suppose—this relates to the question that Mr Somlyay raised with the matter of the baths—and the sorts of expectations of a community in some of those more remote parts, say in the Wimmera or the Mallee?

Mr Lee—Essentially that goes to some of the rating bases used. When considering the amalgamation of councils, the local government board does not have as its terms of reference that it must consider the impact on the rating base of any of the organisations. Frankston City Council is a classic example of a council that was effectively utilising a fairly good rateable area in Mount Eliza to cross-subsidise less rate-effective areas and continued to provide decent services on that basis. Frankston, in the reshuffle, effectively lost Mount Eliza and picked up another area that was being cross-subsidised by another council. Glenwarren was the area. In effect, it then picked up two areas that were negatively cross-subsidised and is now in great financial difficulties as a result.

Again in just talking about examples where councils have been amalgamated, in the shire of Otway the town of Beech Forest had a depot. It had shire offices and rate collections. All of those things went through there. It was a small town, in effect. With the amalgamation, all of those activities have been centralised not in Beech Forest, of course, but in Colac, which was the major provincial city. Beech Forest, you could say, has effectively now closed down as a town. That sort of phenomenon is occurring throughout rural Victoria.

Mr Parkinson—Just to supplement that, the shire of East Gippsland, which is down at Lakes Entrance and Orbost right through to the New South Wales border, have indicated that they will not be putting in in-house bids and are still going out to tender. Obviously, it will go to external contracts. The effects already there have been 350 of our members have been made redundant.

CHAIR—So you are saying that even in the amalgamation there are no real big winners, in terms of either the employers or the economic expansion, in some of the larger regional centres as a result of the closures in some of the smaller areas that were part of former councils that are now part of that total new set-up?

Mr Parkinson—That is correct.

Mr Gibbs—That is right.

Mr Lee—You have got to see the amalgamation process of this state. It has taken place in an environment where this government was not intent on securing amalgamation so that it could improve and expand upon the quality of and access to services provided by local government. It was interested in using whatever mechanisms. CCT and amalgamation were the ones that they have used to reduce the level of services that are being provided. So, if you like, amalgamations in this state have been used thus far not to the betterment but to the detriment of the community.

CHAIR—But why would a government set about with a task like that of wanting to reduce services?

Any government, I guess by definition of what politics is all about, that is going to engage in that sort of activity is going to attract a certain amount of odium, so why would they not want to at least guarantee a range of similar services rather than reduce the number of services?

Mr Lee—It is a matter for the state government, but I would expect that this government has made a judgment that some of the recipients of the services that are being hacked into—the ones we have talked about today: aged care and so on—are not necessarily the constituency of their party and are not necessarily something that they want to look after and instead are focusing on expecting to garner votes from reducing rates and are making pronouncements on that fact.

CHAIR—Does it go deeper than that, though? I note there was some speculation in New South Wales on the weekend that the state government is looking to withdraw from providing support for employment based services on the basis that they believe it is a Commonwealth responsibility, in the same way that there was agreement between the Commonwealth and the states in the area of disability services some time ago that the employment side of disability services would be handled by the Commonwealth and the accommodation side would be handled by the state. Is that part of the rationale for any of that? Are you just saying it is driven totally by a concern to see the ratepayer pick up the bill and say, 'Yes, my rates have gone down?'

Mr Lee—I certainly would not suggest that cost shifting from the state government to the federal government has not escaped the attention of this government. Again in terms of the aged care example as a case in point, the aged care services we are talking about are services that provide home maintenance services—help old people fix the washers in their tap, broken windows and all these sorts of things. All these things may seem inconsequential in their own right, but these are services that help to keep elderly people in their home for longer periods than would normally be the case. If you cut back those services—with Melbourne City Council we understand the access rate is now one in five; that is, one of the five people who were previously getting access to those services now have access—you are going to have a situation where people will be forced into nursing homes earlier than they would normally have been required to go. Who is going to pick up the responsibility for that?

Equally, in terms of job reductions, this is not a consequence for the state government. This is a consequence for the federal government in terms of having to meet the cost of the jobsearch allowance. In terms of what has happened in the UK, a recent study that was done for the equal opportunities commission has shown that in effect there has been a massive cost shifting from local government to federal government as the federal government has to pick up the bill with the enormous job losses that have occurred throughout the industry as part of the CCT. So, yes, certainly cost shifting would be a major part of the Kennett government's thinking.

Mr Gibbs—Chair, I would like to add to that, if I might. I would like to stress that, if you have any evaluation of competition policy—in particular, compulsory competitive tendering, which we are talking about here—it has to be done on a holistic approach. We question whether there are any cost savings anyway. If there are, you cannot just look at the cost savings about a specific tender; you have to actually have a look at the whole of the cost to the community, and that might be the transferring of costs from state to Commonwealth in terms of jobsearch allowances. In particular, in rural areas we would say that there is not much point just looking at a few extra dollars off the rate bill if there are 200 or 300 people, as Brian has mentioned, that now do not have jobs and the impact in rural Australia of the loss of those job opportunities and what that does to the entire community. You might be paying fewer dollars on the rates but where are the jobs for the kids? Are they forced yet again to go to the cities to get employment? What impact does that have throughout the whole of the community—through the business sector, through the retail sector and so

on? So just an analysis of competition policy or competitive tendering, looking just at contracts and where there are a few dollars saved, is not the way that we say should be evaluated. You must look at the entire effects on the economy and society and in particular, we stress, in those rural areas.

CHAIR—The CCT has been under way for a little over two years. Has there been any evaluation done? We are trying to get some indication of just how this contracting system is working. Apart from a union with obviously a vested interest in doing this, is there an interest by the state government, for example, in wanting to evaluate in any way the performance of the contractors? We heard from witnesses this morning that certain agricultural services were set out for contracting out. Some of them, or all of them, were on the basis that they had to give an assurance about employment numbers holding up. Some of them have folded, or their staff has been reduced from about 20 down to two in supplying agricultural services to a community. The question that obviously is raised there, was raised by Martyn Evans: what happens in terms of the contractual arrangements? The only response we got at that stage was, 'Well we weren't quite sure what was in the contract.' I would have thought that would have been a fairly significant breach of contractual arrangements. What evaluation or monitoring is going on at this stage?

Mr Lee—To my knowledge—others may have other knowledge here—the state government has no mechanism whatsoever to examine the impact of the introduction of compulsory competitive tendering in Victoria. There is an independent academic study being done out of the Victorian University of Technology. John Ernst is heading up that study. I understand that that is being funded through federal funds, Australian Research Council funds. I think the methodology is a case study approach—10 councils—to look at what the impact of CCT is. That is something that is being done independently of the state government; the state government has done nothing in that regard.

CHAIR—So there is no review period built into the decision to go out to CCT?

Mr Lee—No. None whatsoever.

Mr MARTYN EVANS—When you have an in-house bid, as you did with the swimming pools, if that is successful, how is that then organised? I know you have referred to the Melbourne City Council Corporation but, in the normal case, would those employees just remain as employees of the council but now on a reduced rate with different conditions or would they form a separate group or corporation for that particular service delivery?

Mr Lee—Perhaps this is a reflection of the absurdity of the process—it does touch on a question that was raised by a member earlier—about how you deal with the so-called probity issues in having a situation where in-house tenders are putting in to, in effect, win the right to do the work for the council in which they are already employees. The way that this is achieved is through an interesting exercise called splitting the organisation into the client side and the contractor side or the purchaser side and the provider side, depending on your favourite terminology. In essence, some members of the organisation call themselves the client and they say, 'We are the people who are going to buy the service' and we can either buy the service off our own employees or we can buy the service off SERCO or whoever. The contractor side then becomes the employees who are currently doing the work now. They put on their contractor side hat and the contractor side is no longer able to talk to the client side, particularly at specific points in time. They go through this process, the ad goes into the paper, and all of these conversations become secret.

We have situations where the client side people can come in the room at certain times and then they have to get out because we are going to talk about commercial things, even though they are all part of the one organisation. I should say that the costs of reorganising councils to achieve this so-called split are not insignificant, as you might imagine. That is how it comes about.

When the tender is won, the in-house unit is called the internal contractor unit, the business unit, the

in-house business unit or whatever you like is no more than an accounting entity—leaving the Melbourne City Council situation aside. So they enter into an in-house agreement, which is really no more than a understanding about what the terms of that agreement will be. Where there are changes to their terms and conditions of employment which are inconsistent with their current award entitlements—and this committee needs to be aware of this—we are forced into a position of having to agree to reducing wage rates, notwithstanding the no-disadvantage test that is in the federal government's industrial legislation.

You have heard about some of the reductions that have not just been contemplated, but agreed to. The union is forced to agree to those because the members are saying, 'Yes, we are disadvantaged but, if we don't agree to this, we are going to lose our jobs.' It is in that key respect that we are saying that this CCT is explicitly contravening the objectives of the accord between the ACTU and the federal government and explicitly contravening the objectives of the federal industrial relations legislation, in that it is making a mockery of the no-disadvantage test.

Mr MARTYN EVANS—So there is then a separate variation of the award for that council?

Mr Gibbs—There is usually an agreement certified rather than a variation to the award as such.

Mr MARTYN EVANS—In fact, you could have multiple agreements with multiple councils with multiple rates?

Mr Gibbs—Yes. To put the Melbourne City Council example you heard before from $12.60 per hour to $10.40 per hour into perspective, these people were on $478 a week and were forced to reduce to $395 a week—an $83 a week reduction. These were not from some big figures—we hear a lot these days about battlers; these people were on $470 who had to take an $80 a week pay cut to keep their job.

Mr MARTYN EVANS—Were they on federal or state awards?

Mr Gibbs—Federal awards.

Mr MARTYN EVANS—Are almost all of them on federal awards?

Mr Gibbs—In Victoria they are all on federal awards, yes. Largely that is the case in local government Australia wide—not completely, but largely. In Victoria they are all federal awards.

Mr SOMLYAY—What percentage of local authority employees are members of the union?

Mr Gibbs—It varies, but overall there are very high unionisation levels, probably 70 or 80 per cent?

Mr Parkinson—Yes, I would say 80 per cent.

Mr Gibbs—Eighty per cent overall. That would range from 100 per cent down to 50 per cent, but in terms of the general work force—

Mr SOMLYAY—That would be the same in, say, Queensland?

Mr Gibbs—It would be the same, in fact, probably higher in Queensland from my experience.

CHAIR—In paragraph 3.9 you make reference to section 149 of the Industrial Relations Act. Could you elaborate a bit further on that?

Mr Gibbs—Section 149 of the Industrial Relations Act specifies that, where there is transmission or succession of a business, then an award would continue to apply. The difficulty here is that it talks about 'of a business'. There is some debate—and we have only had the debate so far by way of legal advice—about whether the provisions of section 149 apply if you contract just part of a business.

If I could just take the opportunity to contrast that with what happens in Europe, there is a directive of the European community that states that, wherever any work is transferred from the public to the private sector by way of privatisation or contracting, the new private employer is required by legislation of the European parliament to pay the same terms and conditions of those employees. That has been in existence now for more than 10 years in Europe. Section 149 has basic fundamental flaws in the way it is constructed in terms of being able to protect people's wages and conditions.

CHAIR—So you are saying that that probably has much more profound implications for any matters that revolve around competition policy reform than perhaps many people have taken into account at this stage?

Mr Gibbs—Absolutely.

Mr Lee—If I can refer to the second reading speech on pages 4 and 5. There was some contemplation of the operation of section 149. I think this clearly illustrates that how far 149 goes or does not go has not been adequately considered.

CHAIR—Is this the Treasurer's second reading speech you are referring to?

Mr Lee—That is correct. If I could just quote from pages 4 and 5 of that speech:

Where there is a change of employer (eg. where the agency's assets are sold), it is usual for awards and enterprise agreements to transmit to the new employer by operation of s. 149 of the *Industrial Relations Act 1988*. If there is any doubt as to transmission, it has been the Government's practice to consider taking other steps to ensure transmission, such as including appropriate provisions in sale contracts. There may be occasions when some conditions (such as long service leave) are not derived from industrial agreements. In such cases, the Government has encouraged the parties to negotiate any changes to these conditions with an objective being to maintain broad equivalence in the overall package of employment conditions.

The Commonwealth considers that all governments have a responsibility to have in place appropriate safeguards for their employees. The Government does not see this package as a device for reducing the wages and conditions of public sector employees. Erosion of their wages and conditions does not equate with the 'benefits' in the Competition Principles Agreement against which policy changes need to be assessed.

So we are saying that that is the objective, as enunciated by George Gear. Clearly, there is evidence before this committee that that objective is not being met. Section 149 does not provide those safeguards.

In terms of hoping that other governments will put in place appropriate safeguards, that is not the objective of this state government and perhaps other state governments who are interested in reducing the wages and conditions of employees and so far are having a reasonable degree of success using competition policy to secure that objective. So there needs to be careful consideration by this committee of the European arrangement Mr Gibbs alluded to if the objectives of the competition principles are to be met.

Mr SOMLYAY—As I understand it, the European parliament does not pass legislation at all—

Mr Gibbs—I apologise, it is a directive of the EC. Sorry, my apologies, I did not mean to mislead you.

Mr SOMLYAY—Sorry, when you said 'directive'; it was a law—

Mr Gibbs—No, it is a directive of the EC.

Mr SOMLYAY—The commission?

Mr Gibbs—Yes.

CHAIR—My next question might seem a bit strange in the context of what we have been discussing. Does the union have any view about competition policy reform that is fairly positive? We have heard a lot of negatives, but are there any positives in terms of competition policy issues that you would like to put before the committee?

Mr Lee—I guess we would say something that we have been saying for some years now; that is, local government is not a stranger to using a competitive process to secure delivery of some services that, historically, it has always sought to out source. The classic reasons for seeking to do so are—and I am sure local government will be telling you itself if it appears before you—areas where they have needed genuine specialist expertise on a one-off basis and where they have had to top up in-house resources because of a peak load or things of that nature.

We have never argued that rural councils should engage in-house employees to build a bridge when it has never built a bridge before and will never build a bridge again. It is going to engage, obviously, specialist engineers and so on. So competition has always been used in a sensible framework by local government, because local government has been free to make the decisions about where it is appropriate to use it.

It is a different situation to be saying to local government in effect that it has to competitively tender, notwithstanding the 50 per cent target. It means for many councils in Victoria, especially rural councils, because the definition of total expenditure includes depreciation, that they will have to tender about 80 per cent of those services that can be competitively tendered to meet the Victorian government's target, and that is a fairly formidable situation.

So competitive processes or competitive tendering are certainly very positive, very useful, where councils have made the decision to outsource those services and typically those services where they have traditionally sought to have them supplied by someone else. But to extend that notion to introduce a market mechanism to everything—the list that we have seen for Victorian local government includes the school crossing supervisor; to extend the list to that extent—is, in our view, a measure of insanity in public administration.

One other thing I should raise is that this committee should also be concerned that national competition policy is being used as a veil to hide behind, not only by this government but by other conservative governments that seek to introduce compulsory competitive tendering. I will just quote to you from a report from the Ministerial Advisory Group on local government reform—*Reform of Local Government in South Australia: Councils of the Future*, a June 1995 report to The Hon. John Oswald, Minister for Housing, Urban Development and Local Government. This report canvassed a range of issues, including council amalgamations and the introduction of competition. At the end of the day, this report, after what the union has put to the government as a fairly cursory analysis, has recommended to the South Australian government—and they are considering this report at the moment—that they introduce compulsory competitive tendering in line with the Victorian model. So let us be clear that they have made that recommendation. What they have said in making that recommendation is:

> Once again the Ministerial Advisory Group notes that the competitive tendering issue is driven by a broader agenda that cannot be ignored by Local Government. The restructure of Victorian Local Government was centred around the gains achievable through competitive tendering. The National Competition Policy agreement is based around competitive tendering (and removing restrictions for competitors for Local Government services). There is a Industries Commission Inquiry into contracting out by Public Sector Agencies . . .

So, clearly, there are reports going to government saying that Kennett's legislation is national competition policy. What we are saying to you clearly is that it should not be because it does not fulfil the objectives that are enunciated in George Gear's speech, it does not fulfil the objectives as enunciated in the principles agreement itself, and it should be firmly rejected by this committee as having anything to do with national competition policy.

Mr BRAITHWAITE—Did I hear you correctly when you said that the Australian Services Union in Victoria covers 80 per cent of the workers under a federal award, of the workers in local government. Is that right?

Mr Gibbs—Yes.

Mr BRAITHWAITE—What are the other 20 per cent; is that a state award or a federal award or—

Mr Gibbs—They would be people who are simply either professional engineers, who are covered by another union, or simply not members of the union. We are talking about our actual members we would cover in the broad sense of the use of the term 'cover'.

Mr BRAITHWAITE—No, that is okay. This question might have been asked before—the number of

members in your union in Victoria?

Mr Gibbs—In local government?

Mr BRAITHWAITE—Yes.

Mr Gibbs—Probably about 24,000 or 25,000.

Mr BRAITHWAITE—And your union also is right throughout the other states?

Mr Gibbs—Yes.

Mr BRAITHWAITE—Do they have the same type of percentage within the local government as you do?

Mr Gibbs—Yes. It would be very high in all the states. It would vary a little. Perhaps it might be slightly higher in Queensland.

Mr BRAITHWAITE—I meant Queensland, yes.

Mr Gibbs—The rate of unionisation in local government in Queensland is probably the highest in Australia from my experience, so it might be a little higher, and in some of the states it might be a little lower. But usually local government employees are fairly highly unionised compared with other sectors of the work force.

Mr BRAITHWAITE—As I understand it, the states do have a predominant role in this and I think from what I have heard this morning your argument is basically on the state issues. Do you assume that the Commonwealth will have no control over what eventually devolves between the state and local government on competition policy?

Mr Gibbs—No, we do not assume that at all. I suspect what we say is that the facts are at the moment that there is not much control. Our local government is very much a product of state legislation and what happens to it seems to be dictated by state legislation. But we certainly would not assume that that would always be the case, nor would we say that it should necessarily always be the case.

Mr BRAITHWAITE—I am just sorry I came late.

CHAIR—Are there any concluding remarks, gentlemen?

Mr Lee—Yes, I would just like to add to what Mr Gibbs has just put in response to a question from Mr Braithwaite. Talking about the application of principles to local government, as I read it clause 7 states that they apply to local government even though they are not party to the agreement and that each party—each state government being a party—is to determine its own agenda for the implementation of those principles and to publish a statement by June 1996. If this committee wants to put a view that the Commonwealth does have a role in that negotiation beyond as it is described there, I would certainly be interested to hear about it. Certainly what we were seeking to put to this committee was that this committee needs to be aware of the dangers that we have put to you of competitive tendering, compulsory competitive tendering, and on that basis you need to look at the issues that we have raised and look at, if you like, creating some parameters for that negotiation to take place between each state government and each local government representative authority to make sure that the sorts of sentiments expressed in George Gear's speech are reflected. If you do not, there is a real danger—in fact it is more than likely—that those considerations will not be taken into account and the competition principles agreement will become a bit of a joke, if I could put it that way.

So that certainly is something that needs to be seriously considered by this committee in terms of what your role is and I guess in terms of what your reporting time frame is, because I am aware that Jeff Kennett has in fact put in a submission to this group and that he has made clear that his state government is already under way in terms of looking at the application of competition principles. If that is the case, they are operating at this moment in a bit of a policy vacuum on that one, so you need to make sure that you deal

with some of these issues.

Mr BRAITHWAITE—Could I put the question in reverse. You were saying you would be interested to know our committee's view about what responsibility the Commonwealth should have.

Mr Lee—Yes.

Mr BRAITHWAITE—Could I just put the question to you: do you feel that local government should have had a lot more input into the decision making process?

Mr Lee—Indeed. It seemed to be an interesting situation that they had been made a party to the agreement without actually being involved in the negotiations.

Mr BRAITHWAITE—And you regret that.

Mr Lee—Yes. I understand that the ALGA has put that view to you and we would certainly support that view.

CHAIR—Thank you very much for your appearance before the committee today. I think the background information was useful and I am sure that we will hear other examples of some of the matters you have raised in the course of our inquiry. If there are other matters you wish to submit before us, even though there has been an official closing time, please feel free to react to any of the public evidence that is given at any point.

Luncheon adjournment

[1.10 p.m.]

McQUEEN, Mr John Henry, Chief Executive Officer, Australian Dairy Farmers Federation, Level 6, 84 William Street, Melbourne, Victoria 3000

ROWLEY, Mr Patrick Desmond, President, Australian Dairy Farmers Federation, Level 6, 84 William Street, Melbourne, Victoria 3000

CHAIR—I welcome to the committee this afternoon representatives of the Australian Dairy Farmers Federation. I remind you that the evidence you give here today is considered to be part of the proceedings of the parliament and I have to advise that any attempt to mislead the committee is a serious matter and may amount to a contempt of the parliament. The committee has received your submission and it has been authorised for publication. Do you wish to make an opening statement before the committee begins its questioning?

Mr Rowley—Mr Chairman, there is one amendment that I think we should make. I will hand over to John McQueen just to do that, with your permission.

CHAIR—Certainly.

Mr McQueen—Mr Chairman, the fifth paragraph on page eight of our submission currently reads:

In other words, the Dairy Board does exercise market power on the New Zealand domestic market.

The board does not exercise market power on the New Zealand domestic market. It does exercise market dominance in that market. The situation is in fact the reverse and should read:

In other words, while the New Zealand Dairy Board does not dominate on the domestic market because it doesn't trade, it does exercise market power on that market.

It does not trade on the domestic market. It cannot have dominance when it does not trade, but in fact it does have power by virtue of its legislative backing.

CHAIR—Are there any other amendments?

Mr McQueen—That is all.

CHAIR—Do you wish to make an opening statement, Mr Rowley?

Mr Rowley—I make the observation that the Australian dairy industry understands the logic behind the Hilmer report and understands quite clearly that if the Australian economy is not internationally competitive then we do not survive as a nation. We have taken that same view in respect of the Australian dairy industry and all the adjustments we have made, probably dating back to the announcement by the Australian government to move into full CER with New Zealand, have been based on the premise that we need to be internationally competitive.

We understand and support the thrust of what is trying to be achieved here, as a principle. However, we have some strong reservations about how this might be applied. Our submission is about our concerns in terms of where the balance in the marketplace lies as we deregulate.

The theme of this is based on that within the Australian domestic market. It is also the theme of how we stand internationally. Particularly, we express our concerns here about CER and the lack of balance in there, particularly because the whole question of our competition policy and the making of it uniform between Australia and New Zealand has not yet been addressed satisfactorily, as far as we are concerned. I think I will leave my comments there and be quite happy to answer questions.

CHAIR—I understand that during the whole negotiation through the Council of Australian Governments at officer level there was some concern about the role of statutory marketing authorities in this new age of competition reform. No doubt the Dairy Farmers Federation put a point of view at that stage, or

at least had some discussions at ministerial or officer level. For the record, would you like to give us some general views about the attitude of the federation?

Mr McQueen—We certainly made a submission to the first round of hearings and consultations Professor Hilmer provided in developing the initial competition policy framework document that was presented in 1993. The thrust of our comments then is similar to the thrust of our comments in this submission. We expressed concern at that time, too, that competition for the sake of competition is not something that is necessarily a good thing if you do not, in the process of trying to open up more competition, ensure there is a balance of power between the various sectors in an economy.

Speaking from a dairy farmer perspective, when you have 14,000 or 15,000 dairy farmers out there each individually operating their own businesses and supplying a small number of companies of a small nature, which supply product on the domestic market to, essentially, three or four supermarket wholesale buying chains that control more than 90 per cent of the retail grocery trade, there is a lessening of balance in the marketplace the further away you get from the farm, except when you get past the supermarkets to the consumer. The consumer does not have quite the same power as they used to either, with the level of concentration in that retail grocery trade.

To some extent, the consumers' balance of power has been addressed through Commonwealth and state organisations and authorities, such as the Prices Surveillance Authority, trying to keep some balance towards the consumer end. It has always been the case in the dairy industry that, at least at the liquid milk end, there has been some balance of power for the farmers by virtue of some statutory authorities operating within each of the states.

Our contention is that, without the balancing mechanism to balance power between the various sectors in the economy, you end up simply transferring rents from one sector to another and not, necessarily, seeing a benefit at the end of the day to the consumer, which is supposedly what competition is about right across the board.

In our submission, we detailed what happened with the deregulation of the town milk industry in New Zealand and how the consumer did not gain from the theoretical benefits that were to arise from an economic perspective from that deregulation that took place in the town milk industry in New Zealand. That is a broad overview of the thrust of our submission—to Professor Hilmer, to other discussions we have had since and to this inquiry.

CHAIR—I guess if you go back and look at a lot of agricultural marketing authorities, you will see that they have been traditionally fairly sceptical, if not resistant, to a lot of change. I remember that in the early 1980s, with the Kerin dairy plan for example, there were a lot of discussions and disagreements with the dairy organisations at that stage. A wholesale restructuring did take place which I think most people would now say, with the benefit of hindsight, has worked to the industry's advantage. Is the problem, then, largely dealing with your membership base, that when you have got systems of quotas operating and other forms of market protection that it is often a bit hard to shift from there because of the fear of the unknown, the security blanket being potentially ripped from under them?

Mr Rowley—The Australian Dairy Corporation, which is a major statutory body in the dairy industry, does not have any influence on farm prices, so there is nothing there that gives consumer transfer. Outside of the marketing arrangements, which you rightly refer to as the Kerin plan, which has gone to the Crean plan and now the Collins adjustment to the year 2000—it is all the same principle—it is a consumer transfer from the consumers to the producers in that period.

There was no direct price intervention by the Australian Dairy Corporation. The process is of setting a manufactured milk price based on import parity, basically, with the support meter coming directly through.

When you get down into the liquid milk story, you have six states. State governments have taken some interest in the responsibility of managing supply and price.

CHAIR—That is often where the problem is, though—when you have had these quotas operating within states which has provided that protection and where you have had, often, quite high prices being paid for some of those quotas in years gone by; is it not? I am not quite sure what the story is now.

Mr Rowley—You will need to look at the dairy industry in this vein: 60 per cent of the milk is produced in Victoria, 15 per cent in New South Wales, 10 per cent in Queensland, seven per cent in South Australia, four per cent in Western Australia and five per cent in Tasmania. That is an industry with a lot of imbalance in terms of volume. The pricing structure in a place such as Western Australia or Queensland ultimately has to reflect the average price in Victoria plus freight. That is where the market will drive itself to.

The pricing structures in these authorities have, to some degree, reflected that fact. For example, the developments in Australia, where you have QUF in Queensland now taking a 40 per cent position in Victoria, means that they have an alternative supply line. My milk ends up at QUF, but they do not love me so much they are going to buy my milk regardless of the fact that they can bring it up the highway. That is the fact of the matter. Slowly but surely, we have had authorities having regard for the next best option, and you will find it going more and more that way.

The quotas with the supply management system that ensures—I will use the Queensland numbers because I know them very well—one million litres of market milk required every day means that the pattern has to be right. But the alternative to bring it out of Victoria is always going to be there. Some people will even go so far as to say that it should be brought out of New Zealand, which is not an economic or commercial proposition. But, nevertheless, that is another option.

What I really want to say in response to your question is that what concerns farmers is that instead of having some countervailing power in the hands of an authority—having a look at the price, having a look at the next best option and having a look at the supply management system; slowly but surely in a totally deregulated system, without having regard for any other factor—the power will reside in the boardrooms of the QUFs and the national food authorities of this country. They will dictate the price and they will dictate the supply management. The farmers will have very little say in it unless they can have some countervailing PR somewhere.

That is where the real issues are. It is not so much that they are trying to defend a quota or they are trying to defend an intervention by a government with price that is out of line with commercial reality; it is about where the power will ultimately reside. I understand the argument about consumer transfer very well because John Kerin and I discussed it ad nauseam back in 1985 and 1986. But the consumer transfer in a totally deregulated system will end up with the retail sector, without the consumer having much say in it. That is what our real concern is.

CHAIR—Where does the producer then get that countervailing influence, from your perspective?

Mr Rowley—There are only two ways. The best way and the most transparent way is to have an authority there which, in the public good—and I will come back to that in a moment; I think there is a public good argument here—can be seen to take into account the next best option of commercial reality in setting a price. That is the cleanest way to do it.

Mr McQueen—You get equity of access.

Mr Rowley—Yes, equity of access at the same time. The only other way to do it is to have the producer organisations with the countervailing power to negotiate price. It has to be one or the other. You can imagine the attitude of the big processors such as QUF and National Foods, and ACF, which is a

cooperative, will be the third major company in the milk in short shelf life market. They are not altogether keen on seeing countervailing power in the hands of the farmer organisations in this country for obvious reasons. They are running a very big commercial operation. It is not only national, it is international. We take the view that the cleanest and the most transparent way is to have one piece of regulation left there that sets the price and sets the supply management so there is equity of sharing of that particular trade.

I also wish to make this observation: the economic rationalists will argue that the base price of milk in Australia is import parity. That is very true; that is the real price. It is import parity in New Zealand because they are the closest people who like to trade in here. Off that price are set things like quality, 365 days supply, even pattern and the logistics of delivery. All those things will come into it in a real sense. Provided that the authorities' setting prices take all those things into account and do not get carried away by the parochiality of Western Australia or Queensland, I think that transparent system is the best. That is where we have got concerns of the absolute application of the Hilmer recommendations, without having regard for the consequences. That is why we are arguing, taking everything into account, and the transparency, about the likelihood of market failure. Let me say that Australia is a hell of a big place and to deliver milk into Mount Isa or south-west Western Australia and all points in between is an issue that does not come without a cost. Now it is all a question of whether or not there is some responsibility for governments to stay in to that degree. It is all a question of degree.

CHAIR—Is the situation in New Zealand comparable to Australia in terms of the marketing and getting good value for producers, without the consumers feeling disadvantaged?

Mr Rowley—John McQueen is better on the numbers, but could I just give you an overview of the two industries because this is not well understood, in my judgment. Australia and New Zealand produce about the same amount of milk. Ours is 8.3 billion litres, theirs is about 8.7 billion litres. But it is near enough the same amount of milk. We have got 17 million people in Australia, and they have got three and a half million.

CHAIR—They have to sell a lot of milk.

Mr Rowley—We have got a bigger domestic market, they have got a very small one. They are predominantly an exporter; we are not a predominant exporter, although nearly half our milk goes to exports right now. The second thing they have got is a New Zealand dairy board. A single seller owns the milk from the cow to the consumer, dominates, dictates—pretty big issue. The Australian Dairy Corporation is just an administrative board by comparison. What we have are big co-ops like Murray Goulburn, Bonlac, et cetera, which do the same sort of job as the New Zealand Dairy Board, but the power of that board is enormous.

The other issue that is not well known is that New Zealand, by history of the early 1970s, managed to maintain a big access into Europe in quota. Today, with the outcome of the Uruguay Round, they will now have 75,000 tonnes of butter and, I think, 15,000 tonnes of cheese.

Mr McQueen—That is a 50 per cent increase in butter access.

Mr Rowley—The point that needs to be made is that what they get for that butter and that cheese is an EU price, domestic price. That is a thumping big injection of money into that system. What we have got in Australia is a domestic market which gives us the platform to go into the exports. They have got that big access into Europe.

The two industries are not comparable. The real issue—if I could lead on to it, and you will probably want to explore it a little further—is that the competition policy in New Zealand and the competition policy in Australia are not uniform.

On the question of detail, John is better on the numbers, but that is the overall picture you are dealing with when you look at New Zealand and Australia. We are competitors in common third markets like Japan and South-East Asia. We see in the long term three players in that market—the USA, New Zealand and

Australia. We are pretty anxious about getting this competition policy right between Australia and New Zealand, because they could cross-subsidise with that enormous quota access out of there and dump stuff in here, because anti-dumping went with CER. So competition policy becomes an absolute issue.

CHAIR—This concern you have is based on the fact that, while we have got CER operating between the two countries, the principles under which the industry is based are so different—

Mr Rowley—Exactly.

CHAIR—for Australian producers. What you are really saying is that when we are looking at it both domestically and at the export market you have got one hand tied behind your back.

Mr Rowley—We could be at a disadvantage if it were not for the fact that Australia has now lifted its production to a point that 50 per cent of its production is exported. About 3.7 billion litres is exported. And then New Zealanders have a quiet respect for the fact that if they push stuff in here at low prices, it will push that corresponding product out into the world market and will hit one of their major markets. That is the only balance we have got. We meet twice a year and look them in the eye and quietly remind people that there is a bit of balance in here.But, to be quite honest, they have got some major advantages unless we tidy up this competition policy. They have the opportunity to skew stuff off the side and transpose butter that might have been headed for Moscow into Australia. Not that they have done it, but they have the opportunity to do it and that concerns us a lot.

Mr McQueen—I would just like to add to that, Mr Chairman. With the dairy board being a statutory monopoly exporter, we are operating in a world market environment with companies which are minute by comparison. Even though within the Australian environment companies like Murray Goulburn and Bonlac are two of our largest processed food exporters they are tiny by comparison.

Each of those two companies would control approximately 20 per cent of Australia's milk production. Between them, they cover about 40 per cent of Australia's milk production. This is not talked about. If ever there were an attempt by those two companies to merge, and with the way that the Trade Practices Commission has acted and operated in the past, it would be our contention that they would be restricted from merging or taking over each other because they would then have the ability to exercise some power in this domestic market. Yet even as a merged company with the equivalent of about four billion litres of milk in the Australian market, they would be tiny by comparison with the New Zealand dairy board, whom they would be competing with internationally. They would be less than half the size of the dairy board in terms of the product that is controlled.

Even the dairy board is not the biggest competitor that we have. There are cooperatives in Europe that are bigger than the dairy board by a fair way. We believe that the US companies are going to become more and more competitive in South East Asia, even though we have a small problem with them at the moment on their dairy export incentive programs. But they have the capacity, over time, to compete. There are US companies that have the same milk flow as Australia's total milk production. Again, we would be competing against small players. So there is quite a difference in the way that we would be operating on the world market scene.

In New Zealand, about three years ago, there was a merger proposed between two companies—their largest company at the time, New Zealand Dairy Group, and another smaller company. It was rejected by the New Zealand Commerce Commission on the basis that they would have the capacity to exercise some dominance on the New Zealand domestic market. As a result of the substantial criticism of that commerce commission action by both the New Zealand dairy board and the government, particularly the Prime Minister, Mr Bolger, the commerce commission judgment was taken through the High Court and defeated. If the New Zealand dairy board ceased to exist tomorrow, we would have a company that would still be the equivalent of

our merged Murray-Goulburn and Bonlac, if ever that were allowed. Even if you remove those statutory powers in New Zealand for the dairy board, you would still end up with some competition difficulties between us and them.

The increasing access that New Zealand gained through the Uruguay Round for butter into Europe is equivalent to about $NZ150 million above world market price. That is a stand-up start for their industry each year, and it is there forever. Under the Uruguay Round, they are guaranteed that access. You must remember that in 1973, when Britain entered the EU, the deals that were done then saw New Zealand continue to have access for butter into the UK. But Australia lost all of it. So as a result of the Uruguay Round we have no access for that sort of product into Europe. We have a small quota of cheese into Europe, but it is only about one-third of what the New Zealanders have.

So there has been some good negotiation on behalf of New Zealand governments in the past that has helped them and given them a standing start. Go back to some of the logic of the early 1970s. The Chair has pointed out that we have a larger domestic market than them, so as an industry we probably did not need it as much. We went through an enormous restructure through the 1970s as a result of that. That restructuring is continuing. You mentioned the Kerin plan. The restructuring that has taken place at both the farm level and the processor level has been substantial in the last decade.

One issue you raised is quotas for liquid milk. In New Zealand, in 1987, the New Zealand minister for agriculture and fisheries decided to deregulate their town milk industry. Until that time, they had quotas. One thousand suppliers were operating on quotas. The quotas and the retail price were removed.

CHAIR—Were those quotas bought and sold?

Mr McQueen—There was trading of those quotas, yes.

CHAIR—Obviously, fairly substantial amounts were involved?

Mr McQueen—I am not sure what the value was.

CHAIR—When they were removed, were they actually removed by the government, and the government gave some compensation to the producer?

Mr McQueen—No compensation.

CHAIR—There was no compensation?

Mr McQueen—They just removed it. They removed the set farm gate price at the same time. As I said, they removed the consumer price. They kept regulation in the middle. They kept regulation on the processing sector. Processors were given licences to operate in particular districts that were set by government. These licensed districts were to operate through to April 1993. To get and keep their licence, they had to guarantee a supply of milk 365 days per year. The price differential between the retail price of milk in the supermarket and the price of home delivered milk was no more than three cents. The processors also had to guarantee a continued home delivery service. It could not be any higher than three cents per litre over the price it was sold for in the supermarkets.

As a result of the deregulation that took place in 1987, within a couple of years, the consumer price had gone from 85c per litre up to $1.20 to $1.25 per litre. The farm gate price did not exist any more. In most cases, it either stayed where it was or went down. Basically, the same people who were providing the milk prior to that were supplying it afterwards on a contractual basis with the processors.

Mr BRAITHWAITE—In spite of the 50 per cent increase in the price.

Mr McQueen—In spite of the 50 per cent increase in the retail price. One has to assume that a fair amount of that 50 per cent increase in the retail price went to the processors, because they still had a fair degree of regulation on them. In April 1993, that second tier of regulation was removed. Since then, the price of milk has stayed at about where it was. But the processors are all claiming that they are being squeezed

badly and that the supermarkets are now getting the margin.

Certainly the farmers are not getting any more than they were back in 1987 for their milk. That is the drinking milk segment of the New Zealand market. Consumers are paying substantially more. Admittedly, there was a 10 per cent GST introduced in the middle of that. That is a component of the increase. The majority of the increase was from just straight price increases, not the GST. The GST was only 12½ per cent when it was first introduced. One has to assume that that increased price has gone to the retail sector. Certainly the farmers have not seen any of it and certainly the consumers have paid more for it.

New Zealand treasury acknowledged that there should have been a reduction in the consumer price following the first round of deregulation in 1987. In 1989 or 1990, a publication was put out by the New Zealand treasury called *Farming without subsidies*. It criticised the power that the farmers still had in the market which had caused the price to consumers to go up, even though they had lost their farm gate price and their contractual arrangements. It claimed that the farmers still had power because many of the licensed processor environments and processor licences were taken up by cooperatives of farmers or organisations.

Let us assume for a moment that New Zealand treasury officials and the economists were right in their approach to deregulation. It should have led to a reduction if they did not have the power. Once the second round of deregulation took place, that argument should have been lost completely and we should have seen a reduction in price. So the rents have gone somewhere else in the market, but certainly not to the benefit of those to whom they were originally envisaged.

There are two levels of competition issues that we are dealing with in our submission. One relates to the drinking milk sector. We have some examples, in New Zealand at least, of how it does not lead to the benefits that it supposedly should under a rational economics perspective.

The second issue is that, whenever we are considering domestic competition policy, we have got to assure ourselves that we are not hamstringing our exporters, at least in our industry. Bear in mind that the dairy industry is 30 per cent of Australia's processed food exports. So we are the major springboard of processed food exports out of this country.

The two companies that I have already mentioned, Murray Goulburn and Bonlac, are two of our largest processed food exporters as individual companies. So we have to make sure that we do not put ourselves into a position where we allow the competition, particularly under CER, to beat us because of some domestic imperatives that are considered important at this time.

Mr BRAITHWAITE—Apparently, New Zealand is more regulated on the export market than we would be led to believe. All exports are under a single seller for the New Zealand Dairy Board.

Mr McQueen—All through the New Zealand Dairy Board, yes. Not only on the export market but, by virtue of the Dairy Board having legislative backing to give them statutory monopoly export powers, they also have powers under the Dairy Board act to set a domestic price, by not setting a domestic price, but they have power to apply a levy on products that companies sell on the domestic market. It used to be called the guide price, and it used to be fairly transparent, but for the last three or four years the Dairy Board has refused to let anybody know, including their farmers in New Zealand, what it is.

Nevertheless, it is still a part of their operations that they set a levy for any product—say, butter sold by company X—that is sold on the domestic market. They will apply a product levy on company X to get it up to at least the average of all of their export prices. The company pays that levy to the Dairy Board, it goes into its pool of income from export and that is then used to pay farmers the average price out of the New Zealand Dairy Board pool each year.

That is why I made the change in page 8. The New Zealand Dairy Board does not operate on the domestic market, and the competition test in New Zealand is whether you exercise market dominance. The

Dairy Board does not trade on the domestic market, so it cannot dominate the domestic market. But it has power on the domestic market by virtue of setting this product levy, which sets a minimum domestic market price. So, if you use the competition test that we have—which is whether you exercise market power or not—certainly, the Dairy Board exercises market power on the New Zealand domestic market.

Mr BRAITHWAITE—Is that levy on just export milk or on all milk?

Mr McQueen—No. It is on domestic sales.

Mr BRAITHWAITE—It is on domestic sales?

Mr McQueen—Yes.

Mr Rowley—There are a couple of other things that we should say. The New Zealand dairy industry is totally cooperative. There are no proprietaries in there. The other fact is that we would not know how an Australian company could amalgamate or take over a New Zealand company. I am not sure about all that. That does not stop the New Zealanders from being in here.

Mr McQueen—We are a competitor for Pacific Dunlop's dairy division.

Mr Rowley—The other thing that ought to be said is that no New Zealand company can export in its own right. It must go through the New Zealand Dairy Board. It is a very controlled industry.

Mr BRAITHWAITE—The Australian government also has export powers. Does it exercise those powers good or bad for the dairy sales?

Mr Rowley—We would not see very much that the Australian government does that directly affects us. Nevertheless, that is not discounting some of the things that it does in negotiations about removing trade barriers in South-East Asia under the Uruguay Round. I am not underplaying that. In direct support, the thing that it does the best is give us a piece of legislation which allows a consumer transfer to hold up the producer price phasing out to the year 2000. You cannot discount any of that.

Mr McQueen—The act that sets up the Australian Dairy Corporation does allow for industry agreed approaches to particular markets, if industry agrees. The Dairy Corporation, under its act, does have some power to be a single exporter if there is agreement amongst industry. There is agreement amongst industry for the Dairy Corporation to sell cheese for processing to Japan—only cheese for processing—and to be the supplier of our quota for cheese into the UK of about 3,500 tonnes. Apart from those two elements, if the industry agreed that the Dairy Corporation could act as a single seller in every market, you would not have an industry because it would not agree to that because there are too many of the companies out there in their own right. But certainly there is that opportunity now for two sectors of our exports. They used to be the largest component of our exports, but now they are only around 20-odd per cent.

Mr Rowley—Chairman, I wonder whether it would be helpful if I gave a couple of numbers on the size of this industry. We are worth about $5.8 billion at the retail level and $2.3 billion at the farm level. So that is the value adding component of it—and we export about $1.4 billion. Without wanting to underestimate our concerns about the New Zealand relationship inside CER, one of my major concerns is that the domestic revenue of the Australian dairy farmer is the counterbalance against the New Zealanders' access into Europe. Anything that knocks the revenue down inside the Australian system in the long term will diminish the export capacity of the Australian industry.

The break-up of the volumes of this 8.2 are interesting too: 1.8 billion litres goes into drinking milk; 2.7 billion litres goes into the domestic manufacturing sector; and 3.7 is exported. They are the balances. The revenue Australian dairy farmers gets is predominantly driven by those first two, because the export side of it is driven by all sorts of factors, including the Americans' EEP subsidies, the EU subsidies—all sorts of influences such as the strength of the Australian dollar et cetera.

If you remove all regulation and you let the power of supermarkets and a very strongly condensed

processing sector get the major power, the bargaining position of farmers is lessened. And we come back to the original point you asked, Chairman, about our options. You have a transparent piece of legislation which does minimal things, like sets a reasonable price in respect of the liquid milk, that 1.8 billion, or gives some countervailing power to producers to bargain—you only have two.

Mr SOMLYAY—What is the value of the imports?

Mr McQueen—About 11,000 tonnes of cheese comes in from Europe and that is all with subsidies on it and around 30,000 tonnes comes in from New Zealand.

Mr Rowley—Of which 22,000 is cheese.

Mr McQueen—Yes, 22,000 of which is cheese. Sorry, Chairman, but I have not actually done these numbers. On the back of an envelope, if you are looking at those products at essentially world market prices, you are talking about $A3,000 a tonne for 30,000 thousand, so that is $90 million.

Mr Rowley—That is a bit rough and ready.

Mr McQueen—It is very rough and ready.

Mr Rowley—We could give you those numbers if you would like them; I think that might the best way.

Mr McQueen—You are talking there about $90 million worth of imports just on those alone. That would be at the very low end of the—

Mr SOMLYAY—What effect would imports have on retail prices?

Mr Rowley—They have an influence out of New Zealand. The New Zealand import parity has a big influence on these domestic prices. When you have somebody as strong as the New Zealand Dairy Board operating here, it certainly influences cheese prices, for example.

Mr McQueen—Kraft would be able to give you some feel for that because they constantly complain about how Mainland one kilogram blocks of cheese affect their capacity to get their Coon cheese, for instance, which is about what it competes with, up in the marketplace.

Mr BRAITHWAITE—I do not know too much about the dairy industry, but when you talk about the New Zealand import parity, basically, that is what determines the Australian price; I imagine there would not be too much liquid milk in that. But do they translate a price on cheese that we import to an equivalent basis for domestic milk?

Mr Rowley—No, they do not.

Mr BRAITHWAITE—So there is no real import parity on our domestic pricing of milk?

Mr Rowley—If you are asking whether the New Zealand cheese price in Australia relates back to the same domestic price in New Zealand in cents per litre, the answer is: generally, no. The New Zealand price is generally better than the products coming in here on that relationship.

Mr BRAITHWAITE—But there is no suggestion of dumping or anything like that?

Mr Rowley—No, we cannot do anti-dumping any more because we are with CER and we relied heavily on getting these competition laws and business laws running in parallel. I understand the difficulty of that; I know the problem. I have talked this issue through with more than one minister. We could be vulnerable.

But let me also make the point, Chairman, that the New Zealanders generally have not badly misbehaved themselves. In 1983, we set up an MOU with New Zealand for the phase-in period to what was supposedly 1995 which became 1990. It was based on giving them a share of the increase in the domestic market and it worked pretty well. Right at this minute we meet twice a year and the relationship is sometimes a little strained. We have some robust discussions, but at the end of the day we have a fairly reasonable understanding.

So there is no wholesale dumping of product here. But the potential to do it is always there unless you get these business laws pretty well on the same basis. There is our major concern.

CHAIR—So do things like variations in the currency exchange have an impact? Has the strengthening of the New Zealand dollar against the $A made a big difference, presuming the contracts are written in Australian dollars?

Mr Rowley—Yes, it has. When we negotiated those in the early 1980s and Australia floated the currency, the Australian dollar started off around 1994, as you probably recall, in the early days and theirs was about 50. Now we are 76 today and I think they are something like 66 or 64-65, somewhere there. At some stage, these dollars have only been four cents apart. In other words, the dollars have almost lined up. That can give New Zealand a lot of leverage in here. So the dollar is a very important issue.

Mr McQueen—But bear in the mind the board runs a very substantial treasury. With an operation the size of the Dairy Board, if you take the entire Australian industry as one, we could run a very large treasury operation and do a lot of hedging, but it is much more difficult when you break that down into component companies. So the board has made some profits on its currency dealings in the past by virtue of its hedging approaches and the like and it has been fairly successful at that. It probably has a little bit more power to do that than any individual company here has.

Mr MARTYN EVANS—What would you change, if you had the power, about New Zealand's operations? Would you harmonise the market dominance market power issue? Would you try to break up the export authority? How would one ideally tackle the New Zealand situation if we were the New Zealand parliament? What is it about New Zealand's operations particularly that ought to be changed?

Mr Rowley—I would like to harmonise the market dominance market power issue. Trying to go in and break up the New Zealand Dairy Board is not within our power.

Mr MARTYN EVANS—Because it only operates externally anyway.

Mr Rowley—Yes, that is true.

Mr MARTYN EVANS—Internally, they have a fairly open—

Mr Rowley—This is a very personal observation. I have been dealing with New Zealanders for a long time. There is going to be increasing criticism of the New Zealand Dairy Board and straining at the leash by those big New Zealand companies to export in their own right in the longer term.

I would rather be positioned where the Australian industry is at the minute with its companies into the world market than in the long term in the New Zealand situation. But at the moment—you have to deal with the moment in this business—they have some decided advantages while they hold that position.

You ask what my priorities are. One of my priorities is to put a lot of effort into getting this right. I would suspect that perhaps a lot of other industries do not give the same priority to this as we do. CER issues probably do not concern a lot of other industries to the same extent that they concern us.

I must put one thing more to you—and I would hope that it would come under business law, in general—and that is, there are the same sort of investment opportunities one way as there are the other. I find it very difficult where you have control to the point where it is a totally cooperative industry, whereas we have a mixed industry but we do not have these business laws harmonised. I think that is a mix that is not real good, from an Australian point of view.

I take the view—and I am trying to be a bit philosophical for a minute—that governments and industries all should be about trying to put Australia into a fair position with other people and giving themselves a base to be strong exporters. I think this is an issue that we should address.

Mr MARTYN EVANS—Is there a trend in Australia to turn the cooperatives into companies?

Mr Rowley—Yes. I would just take two minutes of your time to say that, inevitably, as we have gone

towards deregulation, even before Hilmer was around, we had to do this to be competitive; it was the next best option. Co-ops have lost, to some degree, their first reason for being in existence: to sell the product of a farmer as he produces it. They have had to become more market oriented and less production oriented. A lot of them have had to bring in outside capital to be able to compete; they will be dependent on servicing that outside capital before they service the farmers' capital. They have to operate in the same way as a big proprietary company; they have no option.

That is another reason why we take the view that the countervailing power of the farmers is slipping away. Just to repeat a comment I made earlier: all you do, virtually, is take the decision making out of a transparent statutory authority in behind the big boardroom of a major proprietary company.

Mr SOMLYAY—This committee visited the Futures Exchange in Sydney. Down the track, can you see trading in forward contracts in commodities on the Futures Exchange as a way of stabilising international commodity prices?

Mr Rowley—I would have to be very honest with you and say that I am not terribly conversant with futures. I witnessed the grain industry in Queensland get themselves into deep trouble with futures at one stage. So I am not very conversant with it. All I do know is that the big companies do hedge their exchange by forward selling, and try to give themselves protection to that degree. But I am not conversant enough with futures to express a sound opinion.

Mr McQueen—The only close example is internal US where there is a futures on cheese and on butter. But it is not across the broad range of commodities. It certainly has never been on liquid milk because that has different pricing orders, anyway. That is the only place of which I know where there has been a futures exchange, in a sense. Even that is corrupted by virtue of all the internal domestic pricing policies that exist in the US to support those prices, anyway. It is hard to use that as an example of where that could be a means of stabilising, because it has not done too well in stabilising producer prices internally. It might have stabilised to retailers a little bit for those two commodities but not to producers because you are not across-the-board.

I do not think you can do futures contracts on liquid milk. A farmer does not have a product he can sell to anyone other than a processor who turns that milk into something other than that produced by the farmer, because the first thing to be done is to pasteurise it. Even if it is to be sold as liquid milk or turned into everything else, you have to pasteurise it. You are talking about very different sorts of commodities. The farmer cannot store it. There are different circumstances.

Mr BRAITHWAITE—I just have one question in an attempt to tie up the competitive edge. As far as you are concerned, in the market now there are two regulators. With the retail section, the regulator is the supermarket to the final end because they are putting the pressure on the manufacturer, and the manufacturer puts the pressure on the producer. The price you have indicated there seems to be all out of balance. So that is one regulator. The other regulator is the New Zealand import parity price.

At the very beginning you mentioned the difference in the competitive edge or the competitive basis on which New Zealand operates as against Australia, and that you cannot duplicate it. It appears to me that one of those competitive edges is the labour market of New Zealand, and that the supermarkets and manufacturers of Australia would probably argue that it is their cost of labour that allows them to get the bigger price from the consumer but give you less.

Can we really do anything about competition on that basis, without looking at our labour market? Everybody knows that the labour market is precluded from this competition policy, but I just want to ask you this question because I think you are in a position to answer it.

Mr Rowley—We would agree that in a perfect world the labour market would be included in this

whole situation. The dairy industry is not resisting the fact that we have to be competitive against the next best option, or else. So we would take that view. I think the reforms in labour and on the waterfront in New Zealand have gone a lot further than we have been able to go in this country, and that is an edge.

My answer would be that I would like to see the whole shooting match in the ring together, but I am not naive enough to believe that there would not be some difficulties in trying to achieve it in one fell swoop. I guess we come back to the same point all the time: we would just like to see some countervailing power, by one means or another, so that the dominance was not on the front end of the market.

CHAIR—Mr Rowley or Mr McQueen, do you have any closing comments?

Mr Rowley—I think we have probably said this many times during responses to your questions, but we have no objection to the general thrust of Hilmer and competition policy needing to be sorted out. We understand clearly that, where there is government intervention, there could be an economy cost to consumers and, ultimately, to the nation.

We are just concerned that, as we move in this direction, we do take into account the public good issues to try to get some balance into the market. It is a market with dairy farmers, who produce a very perishable product which has to be moved off farm, who are at the mercy of people with a lot of power. We think a great deal of thought ought to be given, before we move totally away from any legislative regulation.

Mr BRAITHWAITE—Mr Chairman, I would like to say one last thing to Mr Rowley. This is the last time I will be on a committee which has you as a witness, Pat. I just want to state what a great leader of the industry you have been. I know the dairy industry throughout Australia, and particularly in Queensland, has benefited from your years of presidency. I just wish to pay you that tribute because the next time you appear before this committee I probably will not be here.

Mr Rowley—Thank you kindly for those remarks.

CHAIR—Thank you for your presentation this afternoon. As with the other witnesses, I invite you to formally respond to any other submissions that may be lodged if you have a contrary point of view. Feel free to contact the secretariat if you need further information, and we would like to think we would be able to do the same thing in return. Thank you very much.

Mr Rowley—Thank you, Mr Chairman, for giving us a good hearing today.

Mr McQueen—Thank you.

[2.15 p.m.]

CORRELL, Mr Denys, National Executive Director, Council on the Ageing (Australia), Level 2, 3 Bowen Crescent, Melbourne, Victoria 3004

PURTILL, Ms Anne Marie, Canberra Liaison Officer, Council on the Ageing (Australia), Level 2, 3 Bowen Crescent, Melbourne, Victoria 3004

CHAIR—Welcome. The committee has received your submission which has been authorised for publication. I would remind you this afternoon that the evidence you give here is considered to be part of the proceedings of the parliament, and I would further advise that any attempt to mislead the committee may be regarded as a contempt of the parliament. You are invited to make an opening statement to the committee.

Mr Correll—Thank you. First of all, the Council on the Ageing is a national organisation of older people. We are run by older people. My board of directors, bar two, are over the age of 60; four are over the age of 70.

CHAIR—I guess you employ very young staff.

Mr Correll—That is right; we are the kids. Our mission is to improve the lifestyle of older people and to protect and promote the interests of older people. We have our origins in 1951, with the Older Peoples Welfare Council of Australia. So we have a very long, solid history.

The reason why we have submitted to this inquiry and appreciate the opportunity of speaking today is that older people are major users of many of the aspects of competition policy and particularly of public utilities, and they have great concerns about their access to those facilities. They want regularity, quality and stability of service from the public utilities. If those facilities become privatised or corporatised, they wish to see those aspects of regularity, quality and stability continued.

There is no doubt from the feedback we are getting that they are harbouring a lot of anxiety about the directions in service provision. I will give you two examples to start with. An 80-year-old man contacted us regarding the system he had under the old SEC in Victoria. They held the key and when they wanted to visit to read the meter they just let themselves in to do that. With the privatised arrangements, they were not prepared to do that, which inconveniences him quite considerably as he has a disability.

Another example, which gained some notoriety in Victoria, is to do with the water authority. A family with two disabled people—one with MS and the other with an intellectual disability—had their water cut off because they had not paid the bills. This was despite the two disabled people being incontinent. So you can imagine the particular strain. It is these examples which tend to create both a real and a perceived anxiety in the directions that competition policy could be leading in Australia. I will ask Anne Purtill to move on to the actual submission.

Ms Purtill—I thought I would quickly go through the submission and highlight points that are particularly more important to us. We begin by saying that the Council on the Ageing exists to give a voice to the interests of older people—that is, people over 50—and so that is where our main focus lies. But, at the same time, we recognise that it is in the interests of all older Australians and all Australians to have a healthy economy which is performing properly and optimally. Therefore, COTA supports anything that will achieve that result. So we support any reform that will promote the performance of the economy.

Our submission focuses mainly on those terms of reference which have a direct bearing on older people, because we obviously are going to limit ourselves to that. In the first part of the submission we simply talk about competition policy and where we are. We have put that summary in perhaps more for the benefit of our constituents rather than for this inquiry so they know what the history is and how we got to

where we are today. It includes the terms of reference.

Before we get onto the main issues, we simply discuss who should be targeted in this inquiry. Most of the discussion so far has focused on the GBEs, which is probably a good place to start because that is perhaps where the competition policy will be first introduced. But there are other sections of the community, some of them referred to in the Hilmer report, which need to be highlighted and perhaps brought back into the debate.

One area is the professions, which is particularly important for older people. The reason why this is important is that—recognising the changes in demography with the increase in life expectancy, the expanding size of the ageing sector, the increasing demands that those people will have as we move through the next couple of decades, the government's policy to help maintain people physically and financially in their own homes and independently rather than have them go into some kind of government-supported care—all of these things mean there will be an increasing demand from older people for using our professional services. This includes things like health, dental, legal advice, financial planning and the like. It is important that older people have genuine access to these services. In fact, throughout the community there are many areas beyond this where older people need to have access not just to what we now consider to be essential services.

The first question we ask is: is the delivery of CSOs compatible with the operation of the market? If we expose these services to the operation of the market, will we get an optimal result? COTA is not locked into a yes or no on this. We do not have any preconceived ideas on whether the services should be delivered by the private or the public sector. But if they are handed over to the private sector, there are certain things which we think should be highlighted. There are four categories or four areas which we would like to highlight when we ask, 'Will the market deliver the services in an optimal and efficient way?'

The first one we say is that the market focus is not on serving the community. It is on many other things, including making a profit. The public sector and the private sector have two entirely different sets of objectives when they are serving their constituents. The public sector is there to see that the community has access to certain goods and services which it considers essential and to see that the delivery of goods and services throughout the economy is working in an efficient and optimal way.

Private enterprise, on the other hand, understandably has a range of different priorities which it is trying to address. Serving the community is not a primary objective for the private sector. If delivery of goods and services are handed over lock, stock and barrel to the private sector, what will happen is that, predictably, there will be some goods and services which the market will simply not provide—it will not be in their interests to do so—and there will be other goods and services which the market will provide, but pricing policies will be such that certain members of the community will not have access to them. Our particular concern, of course, is with ageing people not having access to essential services.

We would just like to mention again the pricing policies of the professions. Pricing policies among the professions—although this is obviously not GBE; it is private enterprise—offer a conspicuous example of reduced access through pricing which occurs right now. There are two ways which this reduced access occurs. The first is through the pricing policies themselves, with the prices of many services being beyond the reach of people on lower incomes, and I would highlight dental services and lawyers there.

The other aspect is the inability to get full information about these prices before you actually take on a particular service, before you buy a particular service. It is often not possible—even for the average member in the community, let alone an aged person who might have some disability—to get proper information about the pricing policies before they buy a service.

COTA argues—and I noticed many of the other submissions made to the inquiry argue the same thing—that it is a fundamental social principle held by Australian society that all Australians have access to

essential goods and services. This being so, we consider it a failure of the market if this does not happen. So if we bring in competition policies such that some essential goods and services are no longer provided to certain sections of the community—namely, the aging people—then this constitutes a failure of the market, which will have implications throughout the economy and for government pricing, government policy, government decisions, and social and economic aspects of the economy.

One point we would just like to make here is that policies which reduce the access of aging people to certain goods and services will have a direct bearing on their ability to remain independent which, as I have said, is a government policy—that we try to maintain their independence as they grow older. It will have a direct impact on this. It will increase the inability of older people to remain independent, financially and physically, and this will correspondingly increase demand for family support and for services which are already provided to older people by the public sector. While the standard of living for many in the community might continue to grow, some people in the community—namely, the aging—particularly those on lower income, will have their standard of living decline. Therefore, that will exacerbate entrenched inequities that already exist within the community.

The second aspect we would like to highlight in relation to whether the market will do the job is the question of perfect information and choice. When we apply basic economic models to the marketplace and to our decisions, we base them on very fundamentalist assumptions that underlie a very simplistic economic model. In reality, in the real world, these assumptions actually do not exist. The result is that we can have many inefficient policy decisions that cause hardship to people because we forget that these basic assumptions under our original economic models do not exist.

One of these very basic assumptions is that people buying services have perfect information, and of course they do not. Complete, transparent and timely information about a service, the provider's policies and the consumer's rights and options is essential to all consumers if competition policy is to work. This is particularly important in the case of older consumers because older consumers, once they are out of the everyday workday world, have much less ability to access that information about what is changing in the community, where they go to get certain services, what their rights are, et cetera. They are also less likely to persist in making the necessary enquiries over the phone, or however they are meant to make them. So they lose out in their access to these services.

A third case is the case of monopoly or natural monopoly. Many of the Public Service's public utilities provided at the moment through the government or GBEs exist in a monopolistic environment. If these are moved into the private sector, there are certain issues that need to be addressed if the new service provider is not to exploit the situation. Once again, basic economic theory, if you like, says that, where you have a monopolistic situation, it is common for public utilities to exist in a situation where you have got fairly inelastic prices—they are essential goods, so we will pay for them, if we can—and services which exhibit large economies of scale. This provides an environment where a monopolist can, particularly if it is handed over to the private sector, increase prices without suffering any real loss through fall in demand. So the outcome could be higher prices and fewer services or different services. Once again, aging people will suffer as a result of this having fewer services and higher prices.

The last item under this category is community objectives. When we are trying to provide an optimal environment for the community to live in, we tend to talk in terms of the performance of the economy, and we tend to talk about improving productivity and performance, total quality management, best practice and the like. But we have to remember what the wider goals of the community are. Why do we want to achieve things like total quality management and best practice? The wider community objective that we are trying to achieve through this is to maximise the wellbeing and the quality of life of our community members. This

means more than just a simple financial outcome. This also means achieving things like health, happiness, education, care of the frail, care of the weak, care of the environment, et cetera. These things are not the sorts of things that can be handled effectively by the market. There will be those that miss out on achieving these things because of the play of market forces, but the implications will be a cost to the rest of the community as well. The cost that those that miss out bear will not be confined to them. A simple example could be health services. If parts of the community do not have proper health services and incur illnesses, it is not confined to them.

The second question we ask then is: if the market may not do it, will the government provide an environment that is consistent with the public interest? Our answer there is again also not conclusive. The government, particularly the federal government, has had a principle, which has been confirmed through various studies and reports, that it supports the idea that all the Australian community should have access to a similar range of goods of quality, wherever they live in Australia. Certainly, we support this principle and this applies to aged care, education, community welfare and the like. However, in recent times we have seen a move towards a more market oriented principle, if you like—the question of user pays and cost cutting initiatives. While we certainly support any moves that make the Public Service run more efficiently, the question of user pays means that quite often members of the community are denied access to goods and services which are essential to their being able to function properly.

A good example of this that affects community groups in general is the charging mechanism that is now being applied through the ABS. Community groups and groups for the ageing are particularly disadvantaged by these sorts of policies because they are unable, because of their low budgets, to access the information they need to then adequately argue the case on various issues.

Another issue is whether the current systems within the government enable a proper accounting and management information system to be developed or whether it currently operates within the government to be able to identify what the costs of CSOs are. There have been several reports which suggest that the accounting and management information systems currently operating in the government are inadequate. So, irrespective of whether these services continue to be delivered by the government or whether they are handed out to private enterprise, this system of accounting needs attention.

If we are going to corporatise or privatise certain delivery of services, and if we are going to move towards having CSOs paid for independently through some kind of budgetary system paid direct by the government, we will need a proper, efficient, workable system of accounting for the real cost of those CSOs. So that is an area that needs special attention.

The next question we ask is in relation to local government and this relates directly to one of the terms of reference. Is there a role for local government? Through several studies and reports that were done around 1989-90, particularly when the new federalism was being mooted and various reports came out, the federal government tended to take the view that many services should remain within the hands of the Commonwealth government to ensure that all the community across Australia had access to a uniform level of goods and services. This is all very well and good and COTA recognises the value in this principle. However, several groups also pointed out that the delivery of a good or service can be done most efficiently by the level of government closest to the customer. That level of government will have the best appreciation of what the community needs are and the most effective means of delivering that service. Quite often this is local government.

In relation to ageing interests, delivery of the HACC services is usually done through the local government, particularly in Victoria where we now look like moving towards 50 per cent of services being put out to the market by 1997. This means that those HACC services delivered by the local government will

be up front in having to be put out to market forces. This certainly is a question for councils like COTA as to whether this will achieve the most efficient outcome and whether the community needs will truly be met in this way. As I have said, several reports were in agreement with this idea that local government should play a strong role in delivery of these services.

Having said that, how then can we protect the interests of the older members of the community? We have listed three or four areas which we particularly need to address, but the most fundamental issue for the older members of the community is that the goods and services that they currently receive remain within their reach and that the quality of those goods and services does not decline. That is the most fundamental issue for us.

How to do this? There are a number of things. Regulation will be very important in where it is applied and how it is applied. If we have a publicly provided service which is contracted out, a very strong regulatory framework will need to be set up so that the quality of the service is maintained, the amount and the type of the service still matches the needs of the community, the prices are within the reach of the older members of the community and the community service obligations are met.

If we have a privately provided service, such as in the case of the professions, some level of regulation may be needed to enable the older member of the community to fully access those services. Where the delivery of service remains within the public sector a good deal more scrutiny, we would say, is needed to ensure that that delivery is effective and efficient and that a better mechanism for accounting for the costs of those services is put in place. Wherever there is public funding however provided a much better mechanism for accountability for the whole community needs to be put in place.

Where a monopoly exists there are several strategies which can be put in place to protect the older community member to ensure that the quality of the service is maintained and that the appropriate level of output is maintained. In some cases it will be possible, as has been done with Australia Post, that some aspects of the service which are not necessarily monopolistic or a natural monopoly, could be separated out and made contestable, exposed to the market. This is one way of introducing market forces and at the same time protecting the interests of those people within the community who need to be protected from higher prices.

Also it is important that an impartial complaints body or an ombudsman be put in place who can handle any grievances that occur and a personal body that is truly within the reach of the community and, once again, with no administrative or financial constraints or limitations—barriers I should say—placed in front.

The second issue that needs to be addressed is the question of differential pricing. If we want to move more towards market forces and yet still service our community service obligations, the question of differential pricing can be introduced into a lot of areas, so that we actually have a different product provided for different elements of the community so that people can buy what they can afford. A good example of this now is the airlines where we have a whole range of prices—we have stand-by fares et cetera; the same approach could be applied to a lot of services that are currently provided through the public sector. In that way all sections of the community still have access to basic goods and services and those that wish to pay more can pay more.

Thirdly, when we talk about assessing the benefits—the cost and benefits—of the particular action or policy, we stress that this assessment needs to be not only an economic assessment but an economic and social impact assessment, so that every benefit and cost of this particular strategy be fully assessed so that all the different implications for the different elements in the community, the different groups, the high incomes, the low incomes et cetera, are all fully recognised so that when we make a decision about this particular

action we are doing it in full knowledge.

Finally COTA makes the point that competition policy, to be introduced effectively so that no one is disadvantaged, means that there should be comprehensive community consultation throughout the process. In our recommendations we use the word 'genuine' consultation, but what we mean by that is that the consultation should be throughout the process. Many community groups have the experience where it has been required in a particular inquiry, that they be consulted, but they may be invited along to one or two out of 20 meetings and then not consulted further. So what we mean by genuine consultation is that the consultation begins at the beginning, goes through to the end and is full consultation throughout, that comments or input made by the community group be given equal status with other groups and that information flows to the community group in a timely manner et cetera. The actual practical way that the consultation takes place is essential in determining whether it really is genuine community consultation and not just adhering to some bureaucratic condition. I guess that brings us to the end there. The recommendations that we make are simply a summation of what I have just said.

CHAIR—Thank you for your opening remarks. During previous evidence this morning we heard from an organisation which gave some quite graphic examples about the impact of compulsory competitive tendering on local government, in fact cited the example in the Latrobe Valley where changes were affecting home maintenance services as a result of the competitive tendering arrangements. You alluded to that in your remarks too. I presume that you are probably getting some evidence coming through from some of your constituents on that issue at the present time?

Ms Purtill—At the moment the nervousness is largely about the uncertainty of what will happen and the concern that as we move, particularly in Victoria, to the 1997 deadline of having 50 per cent of the services go out to the market—those services delivered through the local governments and the local councils that are areas particularly utilised by the ageing will have to go out to the market—therefore the prices will change and the services supplied will be different. A submission put in by the Hawkins Masonic Centre raised some good points. They said that if the CSOs are no longer able to be guaranteed either to members of the community or organisations such as themselves, then it will have an impact through them and through the community and have an impact on the regional community by organisations such as themselves having to delay or postpone investment, employment decisions, regional development decisions and such like, and that theme we fear will go through all the regional communities.

CHAIR—This issue of community service obligation has been raised in a number of submissions and the definition of it is pretty broad-ranging: what is COTA's official position on community service obligations? Do you only see it restricted to government business enterprises or do you have a wider view?

Ms Purtill—I have a wider view but—

Mr Correll—Our view is a wider one. I think first of all that with government businesses or businesses that are being sold off by government there needs to be a regulation built into any legislation relating to that. I have just returned from discussions with the National Consumer Council in the UK and one of their comments was that while community service obligations are mentioned in the legislation it does not go far enough. Their belief is that parliament basically has abrogated its responsibility in community service obligations by the commercialisation and privatisation of services in the UK. It would be a feeling of ours that we would not wish to see, or let me put it positively, that we will want to see parliament maintaining a very strong interest and regulatory aspect of any particular privatising of utilities both federally and state.

CHAIR—So within the experience within the United Kingdom with the commercialisation there was no recognition of community service obligations?

Mr Correll—There was recognition in the legislation but the regulatory authorities that were

established were—and I just use the examples that they gave—largely members of the conservative party who were doing what the conservative party wanted and did not really carry out, as far as the community groups were concerned, any community service obligation.

Now that is changing in a lot of the privatised areas with the regulatory authority taking a much stronger stance on pricing, particularly because the issue of profits has become such an embarrassment. The privatised profits were really increased prices for the consumer so the regulatory authority is now having to take a much stronger stance with those organisations. We are saying that, within the context of Australia, with any form of privatisation, corporatisation, there needs to be a strong regulatory function. Anne may wish to comment further on the second part of your question which was more to do with non-government activities, I think.

Ms Purtill—I think this brings us back to areas like the professions where we, in the past, have not regarded these as essential services so we tend not to think that CSOs belong to those services. But as the demographics of the Australian society are changing, there are different services that we will begin to see as essential, particularly where we have a greater proportion of the population in the older group and they need more services because we are going to be trying to maintain their independence in their homes and so forth. Certainly it extends to the professions where we need to take some steps to ensure that ageing people have access to the various professions. But I see it as going far beyond that as well. It is almost something that we need to consider within every enterprise.

CHAIR—And who should fund that community service obligation from the non-government sector? You cited a case in your submission, for example. The banking sector and the superannuation industry immediately spring to mind in terms of professions that perhaps need to be a bit more cognisant of their broader community service obligations. But who should pay for that?

Mr Correll—We have concerns about them coming out of federal budgets or state budgets because they then become perceived as a welfare measure and are then subject to annual budgetary review. We could see that resulting in some degree of restriction. Also, if you take water, if you see all the community service obligations being paid for out of a budgetary measure whereas in the past it was done within the water authority, that then highlights their being a welfare measure rather than a community service obligation and certainly less benevolent governments treat them that way.

Mr BRAITHWAITE—Would you describe a community service obligation in the area of aged care being what the Commonwealth does at the moment—not only regulating for conditions but going further and paying a subsidy on the basis of a disadvantage or a health disadvantage or something like that in aged care? Do you call that a community service obligation—the funding arrangement?

Ms Purtill—Yes, I think we would, like a voucher system in a sense.

Mr BRAITHWAITE—At the moment the cost of accommodation on a daily basis in an aged persons home is $200 a day. The pension is taken off them and the balance is picked up under a subsidy.

Ms Purtill—Yes.

Mr BRAITHWAITE—That is a community service obligation?

Ms Purtill—Yes, I think we would see it that way.

Mr BRAITHWAITE—Can I come back to that because I am very aware of your argument that once a profit motive is put into it from the market point of view that steals away the dollars that the Commonwealth is bringing in. I can understand that. My experience with the community service obligation the Commonwealth has at the moment imposes very heavy restrictions on the organisation to perform to a standard and unnecessarily so, I think.

I went into a new nursing home the other day and the conditions of that nursing home were quite

unreal—wide passage ways and this family attitude. I think under that obligation they do impose unnecessary conditions. That is one way of doing it. I always said that if I was going to be the minister for aged care I would not increase or reduce the budget; I would just reallocate it and the money we spend now on excessive policing of standards could be better spent by giving more people access.

The question I would like to ask is: do you feel that with the CSOs still being paid, funded, to the individual, that in preference to the cost of making sure the standards are adhered to, an accreditation scheme similar to that of a hospital and a nursing home or an accreditation scheme for a blue nursing service delivering HACC programs could fulfil a cheaper option in that regard than what is there at the moment?

Mr Correll—Nursing homes are an extremely good example of a highly privatised area which is government regulated. The situation, as you describe it, where the person only pays a proportion of their pension income, is very much a reaction to the previous system. People virtually had to go around the whole family saying, 'Can you all contribute $10 or $15' for a person. You then gave them a choice of lousy, not so lousy or reasonably good, which was a pretty awful system. We now have a system which protects people from that.

Our belief is that we have probably overreacted with regulation. That needs to be pulled back. We would certainly promote an idea of a more accredited market rather than regulated, although we do believe that there needs to be basic standards which the government needs to ensure exist to license a place. But then optimum standards can be achieved by agreement between consumer groups such as ours and the industry, and the government and probably unions as partners in that. That would be a very good direction to go in. I believe that the market now has the maturity to handle it as well.

But we would not wish to see an unfettered market. The ideal nursing home, no doubt, probably has 40 or 50 beds with 10 beds on each side of a room. You can talk about efficiency. It is the same with HACC services. The most efficient way of delivering meals is probably a catapult from a car with an indestructible container. But that is not really effective if the person cannot get to the front door. These examples may sound absurd. I know that with the delivery of postal parcels the private contractors will wait some time for the door to be answered before they go. Somebody who is mobility disadvantaged cannot get to the door in time. You get a contest between efficiency and effectiveness at that point. We would wish to see a balance towards the effectiveness, not just efficiency.

Mr BRAITHWAITE—But you would agree with a licensing and accreditation scheme. It might be a cheaper option that could work for the benefit of the clients.

Mr Correll—I am not sure about it being cheaper. I would never guarantee it being cheaper. The nursing home industry has a much stronger interest in something that they help pay for. At the moment, they see the regulation as an impediment on them. If they contributed something towards it—it was not just a government finance accredited scheme—we would be very much in favour of that.

Mr BRAITHWAITE—I wish you would move lawyers up into greater prominence as far as professional responsibilities are concerned.

Ms Purtill—I would love to.

Mr Correll—We are a bit staggered when we look at legislation that restricts competition in the areas of the privates, including pharmaceuticals. You can own a pharmacy only if you are a pharmacist. That is hardly competition. There are restrictions on pricing advice. As we have mentioned in our submission, it is just about impossible to find out what a medical procedure or legal procedure will cost you. That is not competition. Currently, the regulation and the law seem to prevent people advertising their prices. So we could not advocate strongly enough that those regulations be removed so that competition becomes a much more real option.

Mr BRAITHWAITE—Victoria is certainly a special case as far as this committee is concerned. Local government has already gone through the amalgamations, the selling off and the commercialisation. In some local government areas, the idea of moving these facilities closer to the people sometimes loses its effect. In an organisation where it might take two months to get a building approval on a simple thing, one wonders about the delivery of that project as compared to a lot of the voluntary organisations in Queensland—I know you have them in Victoria—who could effect that delivery on behalf of local government a lot better. There would be a better and more timely service. Have you felt any great impact under the changing arrangements in Victoria because of the amalgamations under privatisation?

Mr Correll—Certainly there is more pressure towards efficiency to get a service in place for the cheapest possible tender price. Another impact we have noticed is a gradual deskilling of the public service. In the past, we had a public service, be it local or state, providing a service with a particular knowledge. With privatisation, you gradually remove those people with the skills and knowledge. You could use the nursing home example. If you move everybody out of the public service who knows anything nursing homes, the ability to regulate diminishes dramatically.

Mr BRAITHWAITE—That is not a bad idea when you get that same public service facing up to the reality of doing the work in a private home that has been policing all these years. It is a very good exercise.

Mr Correll—I am suggesting that we do not want to go too far in the other direction, where we deskill the public service and reduce the ability to regulate.

Mr BRAITHWAITE—I am not in disagreement with what you are saying. I am just concerned that in your area there seems to be an excess of over-regulation at the moment. If privatisation is going to be part of the competition policy, we need mechanisms in place that ensure the standards are maintained. I have always thought that accreditation could achieve that.

CHAIR—Would you like to make any further comments in conclusion?

Mr Correll—I will probably make a few comments from the UK experience. As I said earlier, the community service obligations need to be a fundamental part of any legislation. We cannot just sell off public ownership without retaining the parliamentary oversight of those traditional utilities. We need to look at the profits that are made. If you do look at the UK, we are now very much aware of the issues that have arisen because of profit levels and high salaries, which basically the consumer is paying for.

If we are selling off utilities in the competition areas to privatised facilities, we need to make sure that we do not end up with a privatised monopoly rather than a public monopoly. That is of concern to us, because you do not end up any better off if that is the case. That comment was made in the UK.

CHAIR—In your discussions in the United Kingdom, what sort of processes were there for monitoring and evaluating the role of contractors or privatised organisations in delivering some of those services previously carried out by government? I take it that they are probably through regulators for telecommunications, such as Austel, for example. Did you have much experience in that regard?

Mr Correll—Yes. The consumers were very positive about the Telecom privatisation. They were much less positive about electricity and water. They were least positive about water, which has been a debacle. Costs are going up by about a third in that case. Infrastructure has been allowed to run down.

CHAIR—Were there regulators involved in that process?

Mr Correll—The regulation was initially very poor. It was there basically to see the privatisation occur. It was not to oversee the quality of service that was provided.

CHAIR—But that is changing now?

Mr Correll—It is basically too late in a lot of ways. You are probably aware that there are water restrictions in certain parts, because infrastructure has been allowed to run down. How the infrastructure was

paid for has been a big issue there. They were trying to pay for infrastructure out of existing charges rather than the traditional way of taking out loans. Because they could not afford it in the water area, they did not create enough capacity for the growing population.

The transport area is another very major example. The road system grew dramatically, but the rail system did not. If you put it all in the hands of a privatised area of road systems, major lobby groups can influence the building of roads. There is not a major lobby to encourage the building of public transport systems. Our concern is that older people are major users of public transport. The last thing we want to see is the running down of public transport, be it intrastate, intracity or interstate public transport.

CHAIR—If we accept competition policy is going to become more the norm in the 1990s rather than the exception, would COTA's view be that there will be strong monitoring and evaluation procedures in place by governments that set up these privatised organisations or government business enterprises?

Mr Correll—Right from the very beginning the regulatory authority needs to be built into it. As we were saying in the last part of our submission, the consultation needs to be brought in at the early stages about what type of regulatory authority and what regulation can be prescribed in legislation. Then there is the parliamentary involvement in supervising that after the privatisations occur. We see that as absolutely fundamental. There are always different opinions on what has happened in the UK, but from the consumer point of view allowing regulation to come in later has led to major problems.

CHAIR—Thank you for your time before the committee this afternoon and for the trouble you went to in preparing your submission. I invite you to respond, if need be, to any other submissions or public evidence as the hearings proceed. We look forward to any further contribution you may have during the course of our inquiry.

Mr Correll—Thank you.

Ms Purtill—Thank you.

[3.05 p.m.]

COUCHE, Mr William, Member of the Executive, National Anglican Caring Organisations Network, 41 Somerville Road, Yarraville, Victoria 3013

KIRKEGARD, Ms Susan, Executive Officer, National Anglican Caring Organisations Network, 41 Somerville Road, Yarraville, Victoria 3013

CHAIR—Welcome. Before I invite you to give evidence to the committee, I remind you that today's hearing is considered to be part of the proceedings of the parliament, and it is my duty to advise you that any attempt to mislead the committee may be regarded as a contempt of the parliament. The committee has received your submission which has been authorised for publication. Do you wish to make an opening statement to the committee?

Ms Kirkegard—Yes, I would make two. Firstly, I apologise for the absence today of Bishop Andrew Curnow. He is still on leave. Normally he would head up most of our delegations to parliament. Secondly, I would to reiterate a couple of things we said and a couple of solutions.

Firstly, we believe that competition is changing the way we relate to each other as groups within our society. Also, we believe that, as a result of a narrow definition of what is efficient, social objectives are neither being defined nor met; in fact, they are being pared back. Secondly, we are quite clear that, to us, community service obligation is a broad concept of how we relate to each other in the community; that it is not just what is defined by a particular budget item that might be attached to a particular utility.

Then, in talking about how you might achieve the kind of society that we believe we are working towards, I think we have come down to two possible directions. One is that there are standards or accreditation, as we heard before, that the kind of social values that we believe are important for our society are set down in the standards which all organisations should meet in order to be considered for a particular service. Those standards might relate to issues of access, equity or, for instance, that no-one be disadvantaged geographically in accessing a service, or that no one be deprived of the service too lightly if it is an essential service. So, in one way there is accreditation or standards.

But we will also give examples in dialogue here that there is another way: to define, in your tender specifications, the social objectives that we believe this service should be meeting. For instance, with something like Meals on Wheels, you might define that a tenderer has to fulfil a specification of one minute's contact with every person to whom a meal is delivered.

With a foster care service, you might not just define the number of beds which are occupied—or 'bed nights', as they are referred to—but you might define that a certain percentage of those numbers will have two or three following visits because after care is very important in foster care. Bill might like to say more about how we feel there is a lack of experience in defining what we would call 'social outputs' in the letting of competitive tenders. Thank you.

Mr Couche—I would rather respond to questions than make comments at this stage. I must say that I do not have enormous understanding of the area of your work, but I think I do have an understanding of how welfare services operate in the current climate and something of the difficulties we are having in adjusting to a new climate. That is not to say that we do not want to necessarily adjust, given the comments that Sue has made about values.

But the difficulty for us I think is adjusting to a whole lot of new ground rules. We are finding that people who are taking up some of these new concepts, like tendering—whether it be fixed price tendering, variable price tendering, or whatever—do not understand much of the history and many of the conditions

themselves that have become an accepted part of tendering for services.

CHAIR—Your network, I notice, is under the auspices of the Social Responsibilities Commission of the General Synod, but is it mainly Victorian based or does it cover right through the nation?

Ms Kirkegard—It is national. We have all the major Anglican welfare agencies in every state.

CHAIR—So you cover care for the aged, foster care—the whole range of services.

Ms Kirkegard—Yes. If it is of any assistance, this is a list of all our member organisations. Perhaps you would like to look at it.

CHAIR—It might be useful to have that as an exhibit.

Ms Kirkegard—There are family and children's care, aged care providers, emergency relief providers and labour market employment training agencies; Anglicare in Perth, Darwin and Hobart; and the big Anglican agencies in Sydney, Brisbane, Cairns and Hobart. It is quite a network.

Mr Couche—Very few services that offer any kind of community service in the name of the Anglican church would not be part of the network.

CHAIR—It is very wide, just looking through the list that is covered there. I can see some local organisations involved in my electorate. I am sure some of my colleagues would be in the same boat.

Mr BRAITHWAITE—I was going to ask: do I have a pecuniary interest? I am a councillor of the Good Shepherd Lodge Aged Person's Home in Macquarie. So, do I have an interest?

Ms Kirkegard—Not at the moment, but you may well have.

CHAIR—In your remarks you made some mention—I am just trying to think of the term you used—of social responsibility or social service. Of course, part of the emphasis of this particular inquiry deals with the notion of efficient delivery of community service obligations. You might like to explain to the committee how you see competition policy reform, as it is currently enunciated, impacting or potentially impacting on the efficient delivery of these community service obligations, or in the terms that you might feel more comfortable with.

Ms Kirkegard—Certainly. We have a steady interest in the wider community service obligations of public utilities because we, in our client groups, see a lot of people who might have higher power bills or water bills, who see the quality of their parks change because the delivery of those services have gone into a competitive mode and certain things that were taken for granted, that you might call community service obligations, are not being met. The parks are getting a little scruffier; the disconnection of services perhaps is happening a bit quicker.

We believe that standards need to be set in place about issues that we have mentioned in our submission, such as access to services and not cutting services off too quickly. Those standards, we believe, should be put into broader commercial activities of government. But also in the area that we deal in day to day—which is, if you like, community services as such—I believe that there needs to be a very great learning curve in identifying the social indicators which were the main purposes of some of these services. I do not believe that the main purpose has been just to provide a bed for a young person, or just to get a meal delivered.

When Mr Wentworth first set up Meals on Wheels, he was quite clear that, in the act of parliament, there was an objective of social contact and an objective of nutrition. Similarly, when we first established care facilities for children, I am sure that the objective was to get that child back with their family or in some stable situation, not just to accommodate them for the night.

With the community services in our particular area, we have observed that there are social standards which are not yet being identified in the letting of tenders. They are letting tenders for the very practical things, such as beds and meals, or hours of a counsellor's time.

Mr Couche—I would be prepared to comment now if you want to get into it. I am having difficulty working out just how, as a practitioner, I can help you and give you examples. While Sue has been talking, something has occurred to me that might be worth discussing. You would be aware that in Victoria there is a debate raging about the privatisation of the SEC. There are two elements to that debate at present. A strong group of people in the community services sector believe that it is immoral—that might be the best way of putting it—to contract out to a private individual the operation of a public utility like that, which is using what is seen as a resource owned by the whole community. I am not particularly interested in getting into that debate as an individual.

CHAIR—It is a psychological debate.

Mr Couche—Yes. But I am interested in the implications of that happening as far as low income people are concerned. I was part of a briefing that the Premier and the Treasurer gave on how the new privatised system would work to ensure competition, equal access and all that sort of stuff from a large number of companies. I was reasonably impressed with the way in which they explained that service.

But at the end of the day I asked the Premier what kind of responsibility his government now has and how it is discharged to guarantee that low income people, whose lives are in crisis or chaos half the time, can be best assured of gaining access to electricity. The Treasurer's response to that was that, when you have five or six different people each selling power, it is in their best interests to have people connected to the power supply. I accept that. Therefore, the natural processes of competition and being seen to be a good, responsible company will mean that low income people will not be disadvantaged.

For me, the issue is how that is worked out. I think the community services responsibility is very poorly defined. In the system I have grown up in, if you feel that the State Electricity Commission, accountable ultimately and fairly directly to a minister for the way in which they perform, ignores the needs of low income people and the fundamental nature of electricity in our society to survive, one puts pressure on the minister. The minister very quickly holds the head of his department accountable. So if the department steps too far to the extreme in what I see as a loosely defined social contract, the political process brings them back into place.

I do not quite see how that is discharged when government is removed one step from four or five private operators operating in competition with each other. My concern as far as the state government is concerned is not whether it is immoral or right but how low income people, who, as I said before, are in chaos and likely to have their electricity disconnected, can be given some kind of reasonable opportunity to maintain supply. Does that make sense to you? If you want to ask questions about that in the context of your brief, I might be able to help.

CHAIR—Perhaps I can ask you a question. Were there rebates, for example, given to aged people or people from low income groups by the previous State Electricity Commission?

Mr Couche—There was a system put in place by the government prior to this change that people defined as low income people—the benchmark probably was whether or not they had some entitlement to a social security payment—

CHAIR—Pensioner concession card?

Mr Couche—Yes. When the nature and way in which things were charged was changed, they were guaranteed that their electricity bill would not be above a certain level. That dealt with people on a low income. They were acknowledged because they had some kind of outside credential, such as a health care card or the fact that they were a pensioner or a beneficiary.

But there was really nothing organised in the same kind of way for people that might be in a very low paid job or temporarily on income security payments, such as the unemployment benefit, or who might be on

a special benefit. There was nothing in place for people that were not as easily defined. So what tended to happen was that organisations like ours knew that there was a willingness, because of political sensitivities, if you like, to forego large charges for reconnection and to come to some arrangement around individual consumers about how they could maintain supply and pay off what they were owed. Our system relied upon that kind of political sensitivity to negotiate with people to get a deal for an individual customer.

So a social worker would get on the phone and say, 'This woman has got a $350 SEC bill. There's no way she can pay it. Can we come to some arrangement where it is paid off over a period of time?' The people at the other end tended to be fairly sensitive to that, perhaps because of their long history of involvement with the SEC in this kind of work. There were probably some informal operative guidelines written down somewhere. You could usually get a response.

It has been more difficult since it changed to private operators. Public comment is that this is because the private operators are by and large new operators and they did not understand how things used to work in the past. They did not understand the sensitivities that could be applied to them, too, if they did not behave in what is seen as an appropriate, moral way. People like me will go to the press. In fact, the first supplier to be privatised has become aware, over the last two or three months, of the political sensitivity of how, as a business, they operate.

I suppose what I am trying to say is that the social contract that was there—the informal social contracts—and the nature of the game have changed and we are going through a fairly difficult time to find what seems to be acceptable, because those kinds of procedures have not been written into the conditions under which the new private operators operate.

CHAIR—So the assumption is that, under the new arrangements, competition will reduce the prices for all concerned, which will have a flow-on benefit to low income people?

Mr Couche—That is right, other than those for which there is a specific arrangement made because you are a pensioner and there was something operating. You see, SEC is a mixture of a fixed charge and a charge according to the amount of power you use.

CHAIR—I was essentially trying to say that, for those who were recipients of, say, pensioner concession cards in the past, there is an arrangement that has been made by the government for those concessions to apply with the new operators.

Mr Couche—Yes.

CHAIR—So they are not any worse off. But your argument is that, even in the past, government had a responsibility to go wider than that, not to just lob on the shoulders of organisations like your own.

Mr Couche—That is exactly right. That might not have gone so far as establishing a pool of $100,000 that could be accessed by people who could not pay their bills, but there was a toing-and-froing, a shifting and a moving, in the system that meant you could usually negotiate a deal. The evidence that is quoted by people at the hard edge of social policy from overseas is that, with the privatisation of water—particularly in the UK—electricity and other essential community services, a lot of that ability to negotiate has disappeared. It has become much more hardline.

So there are more and more people who we acknowledge as being part of the way in which we operate working with people whose lives are in chaos. It is argued that fewer and fewer of those people or organisations like ours are able to negotiate an arrangement which means that people get a bit of water and a bit of power, et cetera.

Mr BRAITHWAITE—In a situation where rates are rebatable for a certain amount to a person on a pension or in a certain situation, if the services performed—water, electricity, sewerage, cleaning—go out completely to a private contractor, your concern is to what extent that community service obligation now in

the rate rebate would follow through. The pension card has a whole stack of community service obligations built into it, your concern is whether that will be maintained. Are they your concerns?

Mr Couche—No. My concern is for a group of people who are different or who are to one side of that. The sorts of people that a general welfare organisation—like the one that I am involved in—deals with are those whose lives are very chaotic. Low income is certainly a feature of their way of life, and there is usually a fairly low level of education. They operate at the margins of our society all the time.

When things go awry, they will come to an organisation like ours. It is usually when the SEC has been cut off, there is an enormous bill and they discover they have to put up $80 or $90 or whatever to have their power reconnected. With water, there might have been some outbreak in the family which is related to poor health and lack of cleanliness because of lack of water supply. So they will come to an organisation like ours and ask for help.

We can pay the bill. Usually we do not have access to the amount of money that is required—if you stack up the number of instances of having to pay bills. So, in the past, we would have negotiated with the provider to come to some sort of deal that meant that perhaps something was paid off the old bill, there was a way put in place that meant people could pay gradually so they maintained supply. But some kind of deal was struck between a social worker and a person who had the sensitivity within the instrumentality for making sure the instrumentality was seen as a 'good citizen'.

With a change in the ground rules, all that sort of stuff is disappearing. The private company, of course, can argue that its first responsibility is to its shareholders and, if they are seen to be giving away the profits in perhaps the way a government can exercise largesse, they will be called to task by their shareholders. So it is a different ground rule. The answer to that is either perhaps for the government to draw up some conditions under which that company operates which says that a certain allowance has to be made for these kind of low income people or, alternatively, it might be the government setting aside a pool of money which is used. But there is really nothing put in place to cope with a new way of doing business so that people do not miss out. I think that is what I am trying to say.

CHAIR—If we go back to the question, then, of the electricity rebates under the new regime, who actually funds those rebates? Is it a condition—

Mr Couche—The state government does.

CHAIR—So they pay the private firm?

Mr Couche—I am not sure how it works out, but perhaps it is on a basis of reimbursement. But the government are clear that in that case, because that was something that was in place, that was the formal procedure, if you like, that they should fund it. I am talking more about the informal procedures because I would say, straight off the top of my head, that was probably less than 25 per cent of, in fact, the concessions that the old SEC made to low income people. That was the recognised, legitimate, structured one. There was all this other stuff going on over here, which meant the difference between the sorts of families we worked with having electricity and not having electricity.

CHAIR—Let us look at some examples, then, in other spheres of government. Let us take the national level, for example. The Commonwealth government provides a telecommunications rebate to those with pensioner concession cards, so that is clearly funded by the taxpayer and there is obviously a budget item which is then paid. I think it is an amount of about $50-plus a year. Is that an acceptable way, do you believe, of a government recognising it does have some obligation to low income groups?

Mr Couche—Yes, that is one way, and the state government will have a whole subset of procedures that build onto that. The group of people that I think loses out are those kinds of people that are not recognised aged pensioners, and it is not acknowledged that they have got this limited level of income

coming in all the time. They are not the people that are easily identified by the state government. They are the people that, as I said before, tend to live at the margins of our society and for whom often the solution is a kind of one-off arrangement, if that makes sense. We hear stories of people saying, 'I was going to pay the SEC bill; I'd saved the $350 out of my husband's low wages, but I dropped my purse as I got into the tram. By the time I got the tram to stop and got back, someone had cleared off, the 350 bucks is gone, and it was the last day before my SEC gets cut off.' That is the kind of emergency crisis situation.

Now you could argue that the Commonwealth government has taken that into account to an extent by having what is called this emergency relief fund which is paid. By and large, of course, that tends to go on things like food to keep people alive, and it never goes so far as to pay rents that are in arrears for the Housing Commission, SEC, that sort of stuff. Another element, of course, is that there tends to be, between the levels of government, an argument that the Commonwealth government says, 'Look, it is a state government responsibility to deal with those people that can't pay for state government charges'. I do not know whose responsibility it is when you are dealing with a private operator who is contracted by the government to provide a service.

CHAIR—The other area where we have heard some evidence today is in relation to the issue in this state of compulsory competitive tendering. Have you had any experience of that in terms of any adverse reaction?

Mr Couche—Yes, I have, and that is what Sue was alluding to. We are about to move from a system whereby, 10 years ago, the state government defined what they wanted in the way of a foster care service and they paid an organisation, we will say, $300,000 a year to provide a foster care service that would mean there were 40 or 50 kids, perhaps we will say 50 kids, constantly. That was the target of the organisation, to have 50 kids in foster care for 52 weeks of the year, seven days a week, et cetera.

What is tending to happen at present is that when the state government requires a new service or the agency that is running the foster care service goes out of business and they then look around to see who else will provide it, they put it out to what they call tender. My comment before was that there is not a history of tendering within the welfare department in this state and they do not understand or apply many of the ground rules which I think have been accepted in tendering for the traditional kinds of services that are tendered. That is proving to be very difficult. They use the word 'tender' but they do not understand many of the written ground rules which have grown up around tendering. We do not understand them, either. So we are both trying to operate with each other in a fairly ignorant way.

We submitted a fixed price tender for a foster care program at the beginning of the week before last. Last Friday we appeared before the group of people within health and community services who were considering our tender. In fact, the questions that they asked us to try and justify why we should be given the tender were not related to specific things that had been put out in the tender document; they really came around to our convincing them that we were the sort of agency which, in an informal way, you might say, should be accredited to provide this service. We did not have much trouble because we have got a 100-year track record of providing services. It is a bit like the SEC before—we tend to be recognised as a well-run 'professional' social welfare organisation. The questions that they were asking us were not so much about the detail of the tender but about how we could convince them we would do the right thing.

That brings us back to the point that, in a tendering environment, I think issues like accreditation, standards and detail become far more important, otherwise they get lost. We could tender for that foster care program at $100,000. They are relying on our moral behaviour to deliver a good service, because they have not put the details in the tender document.

CHAIR—Are other people who are going to be tendering likely to come from the same sort of

background as yourself? Do you see a lot of private firms in the tendering business for foster care?

Mr Couche—Not in fostering but it is beginning to occur in some of the other traditional human services. So one of the issues that you find talked about amongst organisations like the one that I head is: is this restricted to recognised non-government agencies or is it open to a private individual coming in and tendering? The concern is that perhaps the private individual will come in with a tender that has not got all those kinds of acceptable practices written into it. I think it is becoming a real issue, unless the details are more clearly defined. Is that making sense to you?

CHAIR—Yes. So what is the major factor in determining the tender under those arrangements? Is price the sole criterion?

Mr Couche—Pretty much. Just to take the question a step further, the price was struck in this case for the foster care program. This is the second time this has happened with a service in the last month. The process now says it has got to go through the tender board, but they did not know how to assess the applications under this new scheme because it was a fixed price tender. In the specifications that the department had drawn up, there were not sufficient guidelines, if you like, or benchmarks for them to assess one submission against the other.

Ms Kirkegard—We even had the situation in New South Wales where the government there was letting fixed price tenders. I understand that, with regard to the tender that was eventually let in one area, the price changed because they found that they could not get the quality of service for the original fixed price for which they had asked tenders to be submitted. So there is a lot of learning to be done as to how you specify quality.

Mr MARTYN EVANS—Is there any work being done on performance indicators in that area to ensure that those things can be incorporated in tenders?

Ms Kirkegard—Yes. They are starting and I recommend that they continue. I heard reference to the aged care standards before. That is, of course, a very, very detailed way of doing it. There are some developing in community health and there are some developing in family support, where you identify the indicators that would show you that that social goal has been achieved.

Mr Couche—That becomes the question though. Most of the performance indicators which have been developed so far are around quantity, not so much quality. It is a question of how you document the social indicators. What social indicators indicate quality? That is the bottom line. A lot of that stuff is missing from the process at the moment.

Mr BRAITHWAITE—It is improving, isn't it? Governments are looking at outcomes a lot more than they used to.

Mr Couche—Yes. Our concern though is that there is a balance between quality outcomes and quantity outcomes.

Ms Kirkegard—I would still say that there is a fair degree of ignorance on both sides about identifying these things which we both know. With the pressure to commercial competition, unless you identify these, no-one thinks they are important. If I get a contract from you as a government and you say, 'We want you to make sure that you can deliver so many meals at this price', if you can't do that, another competitor might get the contract. I will think the price is the only thing you are interested in unless you identify those social objectives. So unless the government identifies the social objectives, the tenderer will believe that price is the only thing that the government is interested in. That is why we are arguing quite strongly that the social goals should be identified in the tender specifications.

Mr Couche—I think there is also an argument being mounted increasingly here that some of the people who have been experienced operators ought to have the opportunity to at least have some input into

the process of developing the objectives rather than being developed somewhere else within government and then put out to tender. The argument is that sometimes the practice experience of people who have been operating in this field before should be used at least in drawing up some of the tender documents. I think we would understand that that means you would put up your points. You cannot be part of the process of developing the specifications and then also be involved in submitting for it. We would have to have a process that enables that perspective to be brought into drawing up the documents. Quite clearly, it has to be removed from the process of tendering out the actual service.

Mr BRAITHWAITE—But the plus in that system is that if you are an experienced tenderer in producing that quality and detail, you are more likely to get the job on your record than a person who comes up first trying to establish some sales. It becomes very difficult for them to break into it, doesn't it?

Mr Couche—Yes, this is true.

Mr BRAITHWAITE—So there has to be a balance of one against the other. I am a firm believer in the fact that too often governments have gone for accountability at a huge cost instead of looking at people in the field who can deliver the project with minimal worries.

Ms Kirkegard—Yes.

Mr Couche—One of the things that I think the Industry Commission said very loud and clear—they said a lot of things—was that there ought to be a greater acknowledgment when government is trying to specify whatever it is they want and that they utilise the experience of the people operating outside a government department.

Ms Kirkegard—Yes.

CHAIR—Are there any other comments you would like to make in closing?

Mr Couche—I would like to conclude by saying that I hope you have found this useful. I personally found a fair bit of difficulty coming to terms with exactly what it is you want. If there is anything that you would like followed up from this meeting, I would be only too pleased to do it in a more considered way in direct response to something you might want looked at.

CHAIR—We thank you most sincerely for your contribution this afternoon. It is an area that all of us are probably having to come to grips with. There is no necessarily easy directional pointer there. This is the first of our series of public hearings. To some extent, today's hearing has been a very useful exercise for members of the committee to get such a diverging range of views from quite a varied group of organisations which appear before the committee. Please feel free to respond in any way to evidence that comes before the committee during the course of our inquiry. We thank you for your written submission and for appearing before the committee this afternoon.

There are some exhibits which require authorisation. Is it the wish of the committee that the following documents presented by the state government of Victoria, the community and public sector, be included in the committee's records as exhibits: community service obligations policy statement and background of policy, as exhibit No. 7; Scrutiny of Government Contracting Out and Privatisation Activities Bill 1995, as exhibit No. 8; and the National Anglican Caring Organisations Network list of organisations associated with the network, as exhibit No. 9? There being no objection, it is so ordered.

[3.59 p.m.]

BURROW, Ms Sharan, Federal President, Australian Education Union, 120 Clarendon Street, South Melbourne, Victoria 3205

CHAIR—I call our next witness from the Australian Education Union. I advise that the evidence you give at the hearing today is considered to be part of the proceedings of the parliament and advise that any attempt to mislead the committee is something that could amount to contempt of the parliament. The committee has received the submission from the Australian Education Union. It has been authorised for publication. Would you like to make an opening statement to the committee before we ask questions?

Ms Burrow—Thank you, David. I apologise for my lateness. I will briefly reiterate our concerns and then, without going to the detail of the submission, hope to answer questions that may assist you. The national competition policy, commonly known as Hilmer, is actually shaping up to be one of the most significant issues for us in that we believe it threatens the very fundamentals of public provision of education.

We draw your attention in particular to that section from the second reading speech, presented by Assistant Treasurer George Gear, where the Commonwealth government gave us some heart that in fact they recognised the essential nature of public sector provision in regard to education; but, in comparison, refer to the activities or the current conceptual framework in which state governments are starting to move towards contracting out, even of core services, and the difficulties that that holds for us.

If you begin with TAFE, while there is certainly an element of competition which we accept in the VET sector, I do not believe anybody genuinely believes we ought to dismantle the TAFE system; yet most of the chief executive officers of TAFE, I think, are either on the public record or certainly are dealing with issues associated with the level of contracting out of funding or the notion of putting funds out for contestable tender. It is now our view that, if we do not stop this trend with some sort of definition broadly accepted by both governments and community, Western Australian TAFE will be privatised by January.

There was almost an eleventh hour reprieve from full tendering in New South Wales. The restructuring there is still being considered. In Queensland there was again some talk initially this financial year of contracting out at least all growth money, if not state government services. It is certainly on the public record there from various people that, as a result of Hilmer, the belief is TAFE will be privatised within five years.

What this amounts to for us is that, whether or not the Commonwealth government—and we believe it does not—holds those perceptions, the policy itself is being used by state governments and by other parties to actually undermine core provision. So it would be our contention that at this point we need to draw a fence around those areas of core provision that guarantee young people entry level training provision, particularly through the TAFE sector, and to work more broadly within the framework of the VET sector, which of course will have some areas of competition, and we need to work out what that might be—what the marginal provision of core and contestable funding is.

We would also argue that, while people might sense that this does not have a huge impact on schools, we are beginning to face these issues for schools, particularly in South Australia where a company called SERCO has already applied to manage school service officers—or allied staff as we call them nationally—those people who assist teachers in the nature of their work. Their submission, should you care to read it, argues that governments have been slow to tender out core budgetary provisions in reference to Hilmer or the national competition policy.

I would finish by saying that I cannot stress enough the seriousness of this issue for us. We accept that extending the Trade Practices Act to public utilities is a fair and equitable principle but we do not accept

that competition is in itself a means to quality. It is certainly no guarantee of equity or access in regard to an egalitarian society that has always viewed education as a way of providing some social cohesiveness.

At point 8.3 on the last page of our submission 8.3 we indicate that if the Australian principles in relation to social welfare and equity, industrial relations and the efficient allocation of resources are to be adhered to in terms of cohesive futures, then we must look at the national competition policy in order to draw a fence around core provision. In that context, I would draw your attention to a recently endorsed proposition at the ACTU congress, which basically indicates that TAFE is the dominant public sector provider and ought to remain a major provider and calls for some guarantees around universities and schools in regard to any negative impacts of competition policy. I would leave my remarks there. Suffice to say that this is now critical public debate. We hope that this inquiry will assist by making recommendations to ensure that we have quality public provision into the next century.

CHAIR—Thanks for those remarks. You made reference to the Assistant Treasurer's comments about the issue, particularly concerning education, in his second reading speech. The point was made there that they would be largely excluded except where those enterprises were engaged in a business activity. You talked about what was happening in Western Australia that was coming about as a result of growth in other sectors of private provision of what in the past has essentially been TAFE dominated responses to post secondary education. Where is the competition coming from that is driving that change that you alluded to in Western Australia?

Ms Burrow—It is competition that is being generated by government policy.

CHAIR—Labour market programs?

Ms Burrow—No, it is a transfer or a shift in provision of TAFE places to the private sector. It is a government induced private provision in order to generate some notion of competition that does not actually exist. If I can give you an example in Western Australia: for those of you who know how parochial Perth is, there are ample mechanics places north of the river. We have just seen most of the trade teachers in that area made redundant and/or deployed to colleges south of the river. But the demographic and business projections show that the demand will remain. Our understanding is that if the demand does remain, then it will be put out for contestable funding. Having dismantled the TAFE provision which is there, we are now worse off with a government system than we would be if the TAFE colleges were autonomous bodies that were able to generate a profile of funding from the federal and state governments in terms of a set of demands. It is quite a serious issue.

CHAIR—You mentioned also Queensland and New South Wales.

Ms Burrow—Yes, at the beginning of the financial year Queensland was considering tendering out fundamentally all of its funds—certainly Commonwealth growth funds and some consideration of state growth funds. I understand they have reduced those ambitions to somewhere in the vicinity of 10 per cent of current TAFE provision. But there is clearly an understanding that the trend in public policy is to move towards fully tendered provision, of which TAFE might well be a significant provider if it were successful. Our assertion is that we have in Australia one of the most serious advantages in terms of training in business and industry skills. It is recognised as such internationally, and we are actually headed towards dismantling it.

Mr MARTYN EVANS—With the secondary and primary areas of education, we already have a substantial amount of alternative providers. Perhaps a third of education in the country is provided by religious or non-profit organisations. How do you see that in the context of competition policy? You express some opposition to the notion of it, but to some extent it is already incorporated in the system, isn't it?

Ms Burrow—No, I think that is quite different. If you asked those people responsible for independent or non-government education, you would find that their perception is that they have a stable base which is

based upon a client base that contributes to the education and also relies on government funding, both at the Commonwealth level and the state level. Some of that funding, particularly in terms of Catholic systemic schools, is now in total past the 90 per cent. So, consequently, I think you will find that sector as nervous about competition policy as the government sector.

Frankly, that is not my concern. I would challenge you to think about whether or not Australia needs a stable public education system and whether that is the basis of a decent and cohesive society. If it does, you need to think about what is the stability in schools and what is the core business of schools that governments have to continue to be responsible for as providers—not merely as buyers of a provision that sees encroaching privatisation, whether it is semi-privatisation or otherwise defined.

Mr MARTYN EVANS—I am just trying to get at the outcome here. I have read the sorts of comments that you make where you oppose the element of contracting out and why it is undesirable in paragraph 6.X. Is that addressed to these areas where people are looking at providing ancillary services? Do you actually have a view that governments will move to providing primary and secondary education in some other private form? Just what is the concern really?

Ms Burrow—We are not entirely sure where governments will stop. If you had told me that state governments would seriously undermine the strength of their TAFE systems five years ago, then I would have said that I did not believe that; that this was not the base of values in this country; and that we were always about a strong public education system, although we clearly accept competition at the margins.

I do not believe that any more, and I certainly do not believe it in terms of the North American experience where, if any country in the world has defended its public education system from the president down, then it has been that country. We now have all manner of examples—state county, Baltimore, charter schools and so on—that, frankly, are faddish. They are not about being submitted to quality control in the public environment;, they are not about issues of equity and access; and they are not about scrutiny by democratic means, such as elections of governments who are responsible for these core provisions. If you put this debate out to the public, I think they would without doubt say that they must have a strong neighbourhood comprehensive school setting that governments are responsible for.

Mr MARTYN EVANS—Would they refuse to send their children to a school which did not meet those criteria?

Ms Burrow—I do not think it is that easy. If parents think that the only way to actually provide for their children is to pay for it, then they will do so. But if we seriously think that we can generate a cohesive society on the basis of who can pay and who cannot, then I suggest no government is going to last very long. It is a choice of whether we want the kind of stability through our school system, whether we have the kinds of high levels of skill that this country enjoys, or whether we want to live in walled cities with increasing violence that you see in other countries.

Mr MARTYN EVANS—You mentioned earlier publicly accountable systems. How do we ensure that the state system we have is publicly accountable?

Ms Burrow—I think there is a number of measures that we could talk about. There are measures of quality assurance that go much beyond the rhetoric of accountability, which is about fairly reductionist data, and look at involving whole communities, including school staffs and others, in the assessment of quality assurance with regard to community and school objectives. Add to that government policy and I think you have a comprehensive system. I frankly do not believe any more that those systems of quality assurance can reside within systems only. They must involve other stakeholders in the design. If we spent time, we could probably redesign a national system of quality assurance that would be about inputs and outcomes. If you are interested, we are about to launch a publication called *Creating the education nation* that argues that the

federal government must become an equal partner in our schools. It provides some indication of mechanisms that might provide for the kind of questions you have just raised.

Mr MARTYN EVANS—The federal government is already a substantial partner in education in the private sector. I often attend the opening of local schools on behalf of Ross Free. They are Commonwealth funded to a massive degree. They offer real choice in the education system, do they not? My district, which happens to be northern Adelaide, has a very substantial state education system. It has a very substantial Anglican and Catholic education system. The vast majority of people who go to the Anglican and Catholic schools do so in order to get a choice of educational system, not because of a commitment to a religious objective. To what extent do you think the religious schools—Anglican, Catholic and other systemic schools—provide a meaningful choice for people, which is what competition is inherently about at the end of the day?

Ms Burrow—Choice in this country is a myth in the way that it is defined. There is more choice within systems than across systems. Many Catholic schools and low fee paying—to use the current jargon—Anglican schools look pretty much like Catholic schools. They are about a feel good notion of choice as opposed to a real notion of choice on the basis of pedagogy, curriculum or any of the things that we might associate with choice in education.

Having said that—it relates very firmly to this policy framework—at what point can the country continue to afford supporting what is largely mythical choice, and where do we stop? Do the Islamic schools, Christian fundamentalist schools and the home schoolers and others simply have the right, as they do in some Nordic countries—Holland, for example—to simply set up schools as they see fit and ask for government provision? It is a nice, egalitarian notion at one level, and it is a nightmare in terms of quality and use of government monies efficiently at another. So through both issues of core provision, public provision and through policies like the new schools policy that the Commonwealth government is currently reviewing, we must underpin public schooling with some sort of stability if we are actually to avoid increasing negative characteristics of social cohesiveness.

Mr MARTYN EVANS—So you are also concerned about the provision of any contract services within state schools? Even if the fundamental provision of state education is retained as a state function, you would also reject the provision of any of the services within those schools? Schools are also consumers of just routine services in much the same way that any business or other government agency is. I take it from your submission that you also appear to reject the involvement of any contracted service, even where that is ancillary to the main function.

Ms Burrow—I think we would need to debate what is the main function or core business. We make it clear in part 5.3 of our submission that there is already a range of contracting out provisions in the areas of cleaning, professional development, some curriculum development, unfortunately some policy development, and technology. It might be perfectly reasonable to contract out some of those services you talked about. I do not believe that some of it is.

Can we really justify, for example, that teachers spend time that could be associated with teaching and learning on fundraising in order to contract out professional development or technology services because governments will not provide for retraining? I do not believe the public thinks that is a reasonable thing to do. Those areas should be debated. There should be community consensus and we should put stability underneath a public system of education across preschools, schools and TAFE. It will enable parents and society more generally to know that there is quality provision and that this society will continue to be underpinned by a quality educational provision.

Mr MARTYN EVANS—I think you hit the nail on the head when you talked about the assurance of

quality, though. To some extent, the public are concerned about issues like quality assurance in education—and the public frequently tell me this even when I do not ask them—because to some extent we have moved away from what the public, as distinct from educational professionals and perhaps the governments, view as traditional sources of assurance in schools.

If you go back a generation, we had a system of public examinations and the like. The public had some view—however misguided that view may have been—that it provided them with some assurance about outcomes and quality. It is very hard to generalise across the country here, which is what I am doing, but we then moved to a position of having less assurance about that in the public's mind. If we are going to underpin the view that we have here, we have to replace it with something which provides public confidence in that process. That is the fundamental driving force between the adoption of parents in my district of some of those other low fee Anglican and Catholic schools. However misguided that public view may be in educational terms, unless you reassure them in that context they will continue to vote with their feet I suspect.

Ms Burrow—You are probably making more of it than is the case in reality. I think the old adage of, 'I'm worried about schools, but my school is okay,' still holds for parents who actually are involved with their students in schooling. I support you in the notion that we need serious quality assurance provisions, but they are not notions of external examinations.

Again, with due respect to old conceptions, I do not believe any parents today want to know what I am doing in response to your capacity. They actually want to know what I can do, what I know and do, and therefore what opportunities life holds for a child who is in the teacher's care. That does not mean that there is not a balance between some notions of assessment that might look like exams in the old sense and some notions of diagnostic analysis of a child's achievements. That is much more significant in terms of depth. We need to have those debates. They are partly going on now with the question of curriculum statements and outcomes.

I well remember David Simmons saying that there was a difference between back to basics and forward to fundamentals. I actually think this is a critical issue in the 1990s because nobody who understands the fact that knowledge doubles every four years at its current rate, and that is escalating, could pretend that old systems of schooling, which have served us well and are internationally quality systems against any other, will continue to be unless we do some rethinking around those issues. In a democracy, that has to be broad debate.

Mr MARTYN EVANS—It has to bring the public along with us, and that is the critical part.

Ms Burrow—Absolutely.

Mr MARTYN EVANS—In relation to what you said I would just make the observation that almost all the state schools in my district have declining enrolments, and some of the religious based schools that I talked about have waiting lists of 3,000 to 4,000 children. I think that is a pretty substantial indication of a degree of concern. Now part of that is because my state government has withdrawn funding from the state education system. If we are going to maintain this process, that would be one of my concerns about the partnership process.

We have that partnership in health. As the federal government has injected more and more money into health in my state and others, so the state governments have pulled it out from underneath and, therefore, has left everyone in a difficult position. The current situation with those religious based schools about which I spoke is that they are almost entirely federally funded. Therefore, that dichotomy, that problem, does not arise because there is no-one pulling money out of the bottom drawer, there is just the federal government putting it in along with some money coming in from the parents and the diocese, or whatever, which is very little. Therefore, you have a much more stable environment in which to provide the education.

Ms Burrow—That is correct. The only state where we have a serious decline in government school numbers is in fact in Victoria, and the government has taken 20 per cent out of the education system. What would you expect? The reality is that, if we want to be really serious about this—and this is our concern about the nature of public provision—let us talk the figures because they are critical and they are shocking.

In Victoria we have a residual post-compulsory schooling sector in the government arena. That is the reality. It is not anywhere else in the country, but here fewer than 50 per cent of students attend government schools in the post-compulsory arena. From memory, the figure for the secondary schooling sector as a whole is between 53 and 56 per cent. That is a pretty shocking situation when you understand that we profess to have stable and strong public education systems. Those public schools are still continuing to provide quality despite a 20 per cent reduction, but for how long can teachers continue to do that in the face of such a challenge?

But I would simply say to you that contracting out is an even bigger issue than that. We no longer have systems—governments of any kind—that are advocates of the public education system. That is an absolutely damnable comment to make but you show me anywhere in the last 12 months where somebody, apart from possibly Ross Free and Simon Crean, has actually made statements about the role and the importance and the funding needs of the public sector in any system throughout Australia. If you can, we will have found a new friend because, frankly, the paternalistic systems that we used to rely on for public systems of education have disappeared. They see their role as quite different.

Our contention is, if that is the case, we need to reassess what it is that systems are responsible for and who are partners in this process. Our contention is the federal government must become an equal partner in schooling. They already provide much more funding to public schools than is recognised, although that is not a popular assertion. But let me say this to you: at what point do we say the children in year 3 will not have their educational guarantees contracted out? They do not know in year 5 or year 6 or year 7 who will be their provider and whether it will be stable. We do not know whether those people will survive or whether they are like any small business and have the failure rate of that sector.

That is not something our community is, in my view, willing to accept. So governments must have the courage to say, 'What are we going to stand up for?' in terms of schooling and in terms of TAFE provision because I would say the same thing amounts. If you know that your child is going to require a trade certificate, what parent is going to say, 'I'll be happy to have that contracted out on a six-month or a 12-month basis, thank you very much.' It is not on.

CHAIR—What is driving all this then? What do you think is at the core of it? Is it just that all this has suddenly got mixed up with Hilmer and competition policy reform? I think it probably goes back even before all this move towards competition policy reform. What is your view about what is behind it all?

Ms Burrow—I think fundamentally sound ideas by government are simply taken out of the hands of government by executive bureaucracies and there is now such a politicisation of the public service. One would not want to be naive and suggest it has not always been there to some extent, but you see no chief executive officer in this country who stands up to any minister in this day and age, but rather actually feeds the ministers often more than they bargained for. If you look at a George Gear statement and look at DEET policy about funding in the VET sector, you would have to ask yourself whether or not this bureaucracy and this government were in line: who was actually running the show.

If you go to New South Wales and you look at the minute that was almost passed through government—it was certainly on the cabinet's agenda until the last minute—that all funds would be out-sourced or put out for tender in TAFE, you find it was actually stopped at the death knell. That was a bureaucratic recommendation. Thankfully we had a government which could see that that was a measure of

insanity and they are still struggling about restructuring TAFE. What we say to the Commonwealth government is: TAFE needs national reform.

There must be additional responsibility taken by the Commonwealth for helping TAFE systems to maintain a stable base that no state government is prepared to do. And likewise in schools, if there is not an equal partnership and there is not a national funding framework, then we will continue to get the same problems we have in health—disability services. The Commonwealth-state agenda and the tensions in that are now the greatest impediments to stability in this country in education.

CHAIR—Does your union have a view that the Commonwealth should assume the same role that we had following the review of university education in the 1950s and 1960s; in other words, TAFE should become a totally Commonwealth responsibility?

Ms Burrow—We certainly do in TAFE because we do not think the constitutional impediments are there. We think that the lines we have run are very simple to the Prime Minister's. We have asked the Prime Minister to reinforce that there are public universities, there are public schools and there will continue to be public TAFE colleges. But we have asked him to underpin that with a statement that says, 'However, there needs to be national reform of TAFE,' and we have requested that something like an options paper—dare I say, a green paper—ought to be promoted as the way that we generate the kind of debate that will see the business community, the education community and the parents at large able to be involved in the shape of a future public TAFE environment.

In schools, the constitutional responsibilities are a little more problematic. However, there are three heads of power that we have identified in documentation that allow the Commonwealth, at least at this point in history to become equal partners. That takes this shape. We argue they already provide 43 per cent, if you disaggregate Commonwealth grants on top of direct funding. In addition to that we have requested that an immediate $1 billion be put into primary education to bring us at least somewhere towards the OECD average by the year 2000; ultimately, that they look at the Commonwealth contributing 50 per cent of funds to public education—it would be much quicker to get there in terms of education as a whole, and I am talking about schooling—and that they genuinely use that leverage to reconstruct through COAG—which, in our view, is inevitably an escalating trend in new federalism—sensible partnerships in terms of national standards and funding on the basis of national standards. They are standards which are not just about academic achievement but about opportunity to learn as well.

CHAIR—Given that we have had virtually a dual system in primary and secondary education with a mixture of public and private—which I would probably largely agree with you has served us pretty well—why then do you think we have not gone the same way in post-secondary education? Why don't we have, for example, more private universities to compete with the public sector? Does that seem to be at odds with what has happened historically?

Ms Burrow—Because you do not actually have a private sector in schooling. We should look at the language. You have non-government schools, but if you go to my colleagues down the road in the IEU, they will argue they are non-government schools and they exist in the community sector. That is an euphemism for telling us like it is: that, in fact, governments provide the bulk of funding in non-government schools, at least those that are systemic schools, low fee paying Anglican schools, community schools, christian schools and all of those that are not elite and belong to the rich in this country, which are a small percentage.

If that is not genuinely a private sector and by the time people get to post-compulsory schooling, parents do not believe, for whatever reason, there is a need to segregate their children into religious settings, then you do not have the same sets of demands. In the post-compulsory area you would be merely setting up the notions of who can pay and who cannot.

Mr MARTYN EVANS—With your analysis for dividing that on the basis that they receive almost 100 per cent government funding and, therefore, they are not really private or not really separate, isn't there also an issue that the government could notionally be seen as allocating funding for the education of each child and that, whether they go to a government school or not, they are still entitled to a share of that pool.

Ms Burrow—Are you talking about vouchers?

Mr MARTYN EVANS—I am not advocating vouchers, but I am saying that there is a notional view here.

Ms Burrow—That is nice.

Mr MARTYN EVANS—Just because they are receiving government funding in a religious school, that does not necessarily make that a government school because it is funded by the government. It is that child's notional share of the educational budget, but it might be provided in a non-government school setting. I do not know it, therefore, follows that these are implicitly government schools.

Ms Burrow—If private is about profit and competition and the community sector is about not for profit and public subsidy or funding, then that is the distinction I make. If you are talking about the private sector and contestable funding in the national competition policy arena, then you are talking about those who would provide as private providers a service that undercuts, equals or provides better quality—we wish—than the public providers.

We are saying that the country has to have a debate. Does it want the instability of contracting out in the provision of public education where governments become buyers of educational services and not providers, or do we want to reform systems that have fundamentally served us well such that we have a stable culture in this country and democracy that virtually no other country in the world has with the degree of social cohesiveness or stability?It is a huge social question. If governments were brave enough to debate it, they would find themselves at odds with the people in terms of what they want to do with the futures of young people's lives in TAFE and in schools.

Mr MARTYN EVANS—If they took an alternative view.

Ms Burrow—They are taking an alternative view.

Mr MARTYN EVANS—Some are.

Ms Burrow—You already have governments at state government level. Labor governments in New South Wales and Queensland do not entirely set this out. We have state governments who abort the notion that the federal government is now advocating contracting out all core business areas of government policy via the national competition policy framework. We think that that is untenable.

Mr MARTYN EVANS—But as you pointed out yourself, the second reading speech specifically excludes the core business of education.

Ms Burrow—Yes, and we would like to see the second reading speech segment, which we congratulate the Commonwealth government for, actually implemented. That is our request—that we actually debate what that means and we draw a fence around core provision. I think a time will come in this country very soon where unless the line is drawn in the sand about privatisation and central government services, no politician and no bureaucracy will be trusted by individuals and we will dismantle our systems around us.

Mr MARTYN EVANS—But that is not to the exclusion of the current non-government sector.

Ms Burrow—That is a different debate; I think I have already indicated that.

Mr MARTYN EVANS—I am just wondering how we draw a line around the funding against contestability, but leave open our current arrangement of pretty much open-ended funding of non-government schools.

Ms Burrow—There are many models. My own assertion would be that no federal government can

actually afford to have an open-ended policy of funding that does not have a cap. Having said that, there are models in Canada, New Zealand and the Norwegian countries that we could actually look at and learn from. Again, let us have the debate. There is EPAC material that shows that people want a fundamental, stable public provision. Those non-government school systems and sectoral interests that you advocate will tell you that they believe in a strong, viable public education system.

Mr MARTYN EVANS—Absolutely.

Ms Burrow—They are now as concerned as we are because their fate, in a sense, hangs in the balance.

CHAIR—Let me put to you perhaps what may be seen as a bit of a leading question. In evidence this morning the Australian Services Union pointed out that there was extensive reference in George Gear's second reading speech to the intent of the parties in respect of some of the industrial outcomes in the national competition policy application. Its submission said:

In this context there needs to be an examination of the effectiveness or otherwise of the application of S.149 of the Industrial Relations Act in relation to areas that have already been subject to a competitive process, as well as an examination of the likely effectiveness of such industrial instruments to realise state of government objectives where National Competition Policy is further applied.

Has your union ever thought about the implications of section 149 in that context?

Ms Burrow—We have looked at the section and certainly thought about the implications. Our view is that it is like the other proposal that is floating around—that there would somehow be some sort of advisory or review or counsel mechanisms to actually assess the impact on contracting out of public sector services. We think the issue is bigger than that. These are fall-back issues when you have lost the debate. Frankly, if I was to sit here and say to you that I think we have lost the debate around core provision in TAFE and public provision, however defined, in schools, I do not think we would want to be entering into those sorts of negotiations. I think we would be out there campaigning around government representatives and future representation. It is that serious an issue.

There are also a whole lot of British examples where for us as unions we follow our members. When they are contracted out, you can use legal provisions to argue that sort of notion. We have thought about it. But, frankly, for us it is not just an industrial issue. It is actually a fundamental, democratic issue about what kind of country we want and whether the public provides for its own in terms of fundamental services.

Mr BRAITHWAITE—In connection with the North American experience of contracting out, is there any definitive review of the results of that or is it too slim a time into it to come to a conclusion?

Ms Burrow—We could go on all day, but let me take Dade County. I will talk about one or two case studies at your request and public evidence is available. I do not, let me say up front, support the measures in outcomes, nevertheless, they are ones that the American community has accepted for decades. In Dade County we now have a five-year experience and the contract has not been renewed. The fundamental reason it has not been reviewed is because the SAT scores for standardised testing provision that denotes outcomes did not improve; in fact, they were severely curtailed in some areas.

If you go to Baltimore, we are not too far down the track yet but three years into provision more money is provided to the schools contracted out to ETS than is provided to district schools. At the moment, we can see that core services have been cut and semi-privatised—things like specialist provision of music, PE and so on. What you have to show for it is prettier buildings. We would not reject that, but that has been the injection of funding from the districts to capital works; industrial conditions that are not acceptable for teachers; and no evidence of academic achievement, in fact an evidence that some of the academic options for learning experiences have been cut and are now subject to parental payment.

So even if you take those two—and many such examples are now starting to emerge—then I do not

believe that any government would be in the business of wanting to own that experiment. If you would like some evidence from the president of the NEA, it is not in transcript form but we have a video of an interview I did with Keith Geiger just a fortnight ago.

Mr BRAITHWAITE—The secretariat would be happy to look over that. The other problem I have with the Australian experience—and I am just talking about the ground-root level—is as Martyn said, a lot of the parents are transferring from the public to the private sector. One of the reasons for discontent in the public sector at the moment is that at a high school level they are asked to retain the students in society. Some of them come through the system and they achieve very well, but they really then have to provide for the under-achievers—the ones where the parents have said, 'Righto, there's a better education over here because of X, Y and Z'. But the major discontent I have found with principals in the secondary system in Queensland is they then have to take up the residue of those students who are compulsorily required to go to school. Is there a community service obligation that could be applied in the system of education to ensure that that fact was recognised—which I would imagine would require additional resources—and is that a common occurrence through all the states of Australia?

Ms Burrow—My personal view is any system or school that rejects students from educational opportunities ought to examine its own conscience in life opportunities for kids.

Mr BRAITHWAITE—They are not rejections.

Ms Burrow—No. Let me give you a couple of statistics and this might help in the community service obligation. DEET's own survey—the youth in transition survey, and it is a longitudinal survey—shows that if you do not complete year 12 or equivalent, then you are four times more likely to join the long-term unemployed cohort. They show that, in fact, the earliest indicator of later educational success is early literacy competence. Put the two together and ask if, in fact, there ought not to be a community service obligation from very early childhood provision through to year 12 or equivalent and I think my answer is the affirmative. While, clearly, we advocate that public schools ought to be catered for first, and public first is our current motto, nevertheless, any schooling that receives public funding—I do not think it should be acceptable that you reject students unless, of course, there are extreme and individual cases but in the main.

Mr BRAITHWAITE—I did not make that quite clear. I am not suggesting that they are rejecting students. The ones who can afford and who want the education of the private sector are moving out by way of awards and bursaries in some cases, but what is left is the responsibility of the public school and so you get differing standards.

Ms Burrow—I think that is a generalisation. There is no doubt that there is some effect, where you have selective schooling, of taking the so-called cream. If you go to any public school, you will find a range of abilities, however they might be defined. It certainly is a challenge for public schooling to provide what is now an almost universal provision to year 12 or equivalent, given that we have reformed ourselves from an elitist system across any sector that only provided for students who were bound for university. The challenge that you are alluding to is certainly the case. It has long been our fear that we would, by these sorts of policies, reduce public schooling to a residual system. We are not there yet. Hopefully with the support of statements, if they are to be implemented, like those of George Gear's, we might get there.

CHAIR—Do you have any closing comments that you would like to make to the committee?

Ms Burrow—Across preschools, schools and TAFE, we urge the inquiry, which we think is one of the most significant going on at this point in our history, to think about serious and challenging recommendations with regard to a provision that will see a stable public sector survive into the next century. Thank you for your time.

CHAIR—Thank you for your appearance today. We have both come a long way from all those years

at Bathurst High School. We would welcome any response that the AEU would like to make to any of the other evidence that may be presented or other contributions you would like to make during the inquiry.

[4.46 p.m.]

WELLS, Dr Julie Patricia, National Research Officer, National Tertiary Education Industry Union, 120 Clarendon Street, South Melbourne, Victoria 3205

CHAIR—I remind you that the evidence you give at the hearing today is considered to be part of the proceedings of the parliament. I advise that any attempt to mislead the committee may amount to a contempt of the parliament. The committee has received a submission from your union, and it has been authorised for publication. I was wondering if you would like to make an opening statement to the committee.

Dr Wells—Thank you. Without revisiting in detail the points made in our submission and the attachments, I would like to take this opportunity to summarise and amplify some of the key points in the union's submission.

There are two main components to our submission. The first argues that a competitive regime is not appropriate or applicable for the higher education sector and calls for a clarification of the policy intentions of government in this regard. While we have noted Minister Gear's assurances that the core functions of the education sector will not be subject to a competitive regime, this is clearly at odds with the policies of some state governments and the promotion of competitive tendering in the provision of vocational and further training at state and federal levels.

More specifically, the current review of higher education management which we are experiencing within the university sector has clearly included within its purview the applicability of competition policy to the university sector. Therefore, while government is paying lip service at least to the necessity for exempting the core activities in education from the application of competition policy, this cannot be taken as a given. We feel that the ambiguity which is bedevilling debate around this issue needs to be clarified.

The NTEIU believes that the activities of higher education and TAFE should be exempted from the Competition Policy Reform Act. The key point to make here, in addition to the points made in our submission, is that the union and its members are not afraid of reform, especially if that reform is to result in a more cost effective and efficient provision of education services. Indeed, you would be aware that the universities have undergone massive changes in their funding arrangements and operations over the past eight years.Our members are having to demonstrate increased accountability for the expenditure of public and private money in tertiary education institutions. Commonwealth funding is being allocated competitively in a number of instances on the basis of performance indicators.

However, we believe that competition can only be a means to an end and not an end in itself. The ends of higher education institutions remain the provision of high quality, accessible education and research which enhances the public as well as the private good. Beyond that, universities clearly have a role in ensuring the flourishing of a critical self-reflective culture, providing an environment in which accepted knowledge and truths can be challenged and built upon. These are the goals which are reflected in the mission statements of universities around the country and their achievement cannot be judged only on the basis of cost, nor should they be compromised by a forced reliance on a competitive approach to education provision. Indeed, because many of these services operate within a broader policy framework which requires that issues of equity be addressed, their effective operation can actually be incompatible with an approach which is driven by cost efficiency—for example, the provision of bridging courses to Aboriginal and Torres Strait Islander students. Another example which illustrates the tension which can arise between cost efficiency and educational goals is in the area of vocationally oriented, fee-paying post-graduate courses. As you may be aware, there has recently been a review into the conduct of courses for post-graduate students for which fees are charged. That review found that, since the deregulation of the fee-paying post-graduate area,

there has been an enormous range of arrangements within institutions. There has been little way of tracking the impact of fee-paying courses on issues such as equity and access to vocational education for students, simply because they have been deregulated—they have been placed outside the purview of government responsibility.

We have found from other sources—for example, statistics provided by the Graduate Careers Council—that women are severely disadvantaged in gaining access to fee-paying courses in post-graduate education, largely because employers have shown themselves to be less willing to subsidise the fees of female students. At the moment, most institutions are providing HECS liable places within those fee-paying courses in the interests of equity. But if these courses are seen as part of an institution's commercial enterprises, if the institutions are to take a truly competitive approach to the provision of fee-paying courses in post-graduate education, we could be seeing a situation where students' access to those courses on a HECS liable basis decreases or disappears altogether. I give you that example as something which our members are encountering, which the students are encountering, which highlights some of the problems of applying a purely competitive approach to education provision.

We are also very concerned about the extent to which competitive tendering within higher education can lead to the contracting out of activities and a subsequent diminution in the quality of service provision. Again, I will give you a few examples.One Victorian institution took the decision to contract out its seasonal administrative work to a temporary agency. Departments were instructed that all their casual, seasonal administrative work should be filled via this particular agency, rather than the university employing its own casual staff. This led to enormous problems within the departments as the agency was providing people with no knowledge of the education sector, no knowledge of the clients whom they were supposed to service—the students, the academic staff.

The actual problems encountered led the institution to abandon this approach, but I think the story underlines the fact that the work of educational institutions cannot readily be hived off into commercial and non-commercial areas. Workers in this area are part of the same project, which is providing a high quality education to students, be they administrative workers, student counsellors or lecturers. I think this is one of the problems we face.

The second major component of our submission which goes to the issue of applying the public interest tests stresses the need for these tests to be conducted with full regard to the views and experience of key participants in the tertiary education sector. The NTEU also emphasises that the application of these tests should not be so disruptive as to undermine the important continuity of service provision in these areas.

The principal author of our submission is currently overseas. I am happy to respond to your questions that arise from our submission. If I am unable to provide you with detailed answers now I will provide you with written responses to those questions at a later date.

CHAIR—Thank you, Dr Wells. I turn to the issue of the public interest test that you have just pointed to in your opening remarks. You talk about the open and accessible nature of any such public interest test. You have a structure allowing for equal rights and equal participation by a range of groups and stakeholders. What role would you see this structure having? Would it be a role to advise government or would it be a role of a determination that was just rubber-stamped by government?

Dr Wells—I am not sure of the distinction.

CHAIR—In terms of someone looking at the whole issue of public interest test and saying, 'This is the situation; this is what we would possibly recommend' as opposed to an organisation that has the power, like a statutory body, to make a final determination.

Dr Wells—The higher education sector at the moment works on a consultative model with the

National Board of Employment, Education and Training. They are advised by a number of bodies which do not have statutory independence but nevertheless play a key role in shaping the decisions of government. Therefore, we would not be necessarily wedded to a consultative group having that statutory independence from government because ultimately it needs to be accountable to government. But if it were not to have statutory independence it nevertheless should be providing advice directly to government and its status should be such that that advice should not be readily overridden by government.

CHAIR—Take an example in the area of telecommunications, since we now have competition in that area. There is also a place for a regulator, which obviously has a function, if you like, in terms of the public test, the public interest. Would you see something like that as being appropriate in higher education?

Dr Wells—Yes. In the case of problems in the education sector that might go to the Ombudsman, for example, if they do not have jurisdiction over that area of an institution's activities then their recommendations can have no teeth. People are left to pursue complaints through private legal avenues. So in that sense, yes.

CHAIR—I noticed in a newspaper last week coverage about the significant variation in fees being charged for MBA graduate diplomas by a range of universities, which from recollection range from about $20,000 down to about $7,000 or $8,000. Do you have any comment on that trend? Was it an accurate reflection of the reality out there in the university sector at the moment?

Dr Wells—Yes. In courses such as MBAs, which can command quite a high paying market, you find an enormous variation in course costs. An institution's willingness to charge those high costs will largely depend on its confidence in attracting the highest fees, the top end of the fee paying market.

CHAIR—Is it a classic of running with whatever the market is going to say—that an MBA from a certain university is going to be sought after compared to, say, one of the newer Dawkins type universities?

Dr Wells—You only have to scan the pages of the higher education media to see the way institutions are actually bidding and playing to that line, promoting themselves as high status institutions. Where the union has concerns—and it is not just related to our concerns about our members' working conditions but also as a body which has an interest in maintaining a publicly accessible higher education sector—is that the student market does not constitute a market in the pure sense of the word. Students often do not have a lot of flexibility about their ability to move between institutions, particularly in the MBA courses. This is where we found women being denied access because there was a mentality among employers which made them less likely to subsidise female employees in these very high charging, high status courses. So, yes, what you say is consistent with our understanding.

CHAIR—Do you have any coverage in the private sector—Bond university or some of the catholic colleges?

Dr Wells—That is in train, not technically, at the moment. We are actually in the process of having disputes found in those areas.

CHAIR—So you are essentially covering staff in the public sector?

Dr Wells—We are essentially the public sector, yes.

Mr BRAITHWAITE—Have you got a comprehensive cover of that?

Dr Wells—Yes. Among academic staff we have comprehensive coverage of all of the institutions. Among general staff, that is, non-teaching staff, our coverage is restricted to mainly Victoria, the ACT and South Australia. We share coverage with a number of other public sector unions in those areas.

Mr BRAITHWAITE—What is your overall membership?

Dr Wells—Our overall membership is approaching 25,000.

Mr MARTYN EVANS—Can I ask about the aspects of universities which are perhaps a bit more

inclined towards the business enterprise unit. My own university, Adelaide University, has spun off a number of subsidiary organisations—Camtech, Adelaide University entrepreneurial groups. How do you see the operation of competition policy in relation to those areas? Is that a more legitimate area for approach?

Dr Wells—Competition policy would mean that universities would have to distinguish more clearly between their commercial activities and their publicly funded non-commercial activities. And there would be pressure upon them to hive their commercial activities more into the areas of their commercial arms.

Mr MARTYN EVANS—You have not had any noticeable problems with that to date that you have been aware of?

Dr Wells—With the operations of the commercial arms?

Mr MARTYN EVANS—Yes. And interfering with the universities' fundamental public obligations.

Dr Wells—There is a tension there, definitely, between the pressure to generate income and the pressure to provide education and research which is in the public benefit. It has partly been increased by the fact that, sector wide, we are now down in some cases to about 50 per cent public private funding. So because there is increasing pressure on institutions to generate more of their money from external sources, they are putting more resources into the activities of the commercial arms and this can inevitably lead to a shifting of resources away from areas which are not lucrative—the provision of courses, for example, which do not attract a fee paying market, or research services, research which does not have an immediate commercial benefit but which may have long-term public benefit and may have long-term commercial benefit of course, however, it is just not apparent to an industry funder. So the tension is there in universities trying to keep the balance.

As to the operations of the commercial arms, we are concerned about the extent to which commercial arms may be charging fees to undergraduate students, which actually contravenes the spirit of the higher education funding act which stipulates that up-front fees should not be charged to undergraduate students.

Mr BRAITHWAITE—This is not a question in connection with competition, but over the last 20 or 30 years we have seen organisations graduate to the tertiary qualifications and the initial one was the institute of technology. They started off in the mid-range and all of a sudden found themselves as fully-fledged universities. Do you see TAFEs in this country going the same way, whereby in another 10 or 20 years' time they will be giving degrees and being accepted as tertiary institutions?

Dr Wells—Yes, provider of higher education. I would not necessarily say that we will see TAFEs becoming universities, but what we are seeing now is a blurring of the divisions between the sectors, between secondary TAFE and higher education, most definitely, whereby—and I guess this goes to some of the issues that we have problems with—we might find universities preparing courses for off-campus delivery, university lecturers preparing courses for off-campus delivery, and then those courses being delivered within TAFE or within open learning centres. We have concerns about the extent to which this blurring of the sectoral boundaries may actually compromise the quality of higher education provision. At the same time, we certainly would not be opposing more flexible pathways for people to move between TAFE and university, but we think that there are very clear and distinct roles that the TAFE sector and the university sector currently play, and that the strength of each sector should not be lost in cross-sectoral arrangements or the blurring of boundaries between the two.

Mr BRAITHWAITE—The same problem existed 20 or 30 years ago between institutes of technology and universities. Are we fast becoming a nation where we cannot really keep and maintain that lower level of higher education?

Dr Wells—When you say 'lower level', do you mean technical and vocationally oriented?

Mr BRAITHWAITE—Yes.

Dr Wells—I would hope not, and I would concur with the comments made by the AEU in their submission on the need to ensure the quality of TAFE provision is not compromised by a competitive approach and, in particular, would reiterate their concerns regarding the contracting out of teaching functions. I think that it is essential that we do retain a strong publicly funded vocational education sector and not try to turn it into a pseudo-university sector. But, at the same time, I think there are probably constructive pathways between the two which we could encourage.

CHAIR—Any further questions? Any other final remarks you would like to make, Dr Wells, to the committee?

Dr Wells—No. Thank you for your time and for receiving our submission.

CHAIR—Thank you for your submission. I also invite your organisation, at any stage, to respond to the committee during the course of the inquiry, particularly any public evidence, or if you have additional information to provide to the committee during the course of the inquiry it would be most welcome.

Dr Wells—Thank you.

CHAIR—Before concluding today's hearing, we have a couple of resolutions that the subcommittee needs to consider.

Resolved (on motion by the Chair, seconded by Mr Martyn Evans):

That this subcommittee authorise submissions 37 to 40 from the Local Government Association of Tasmania, the Australian Council of Building Design Professions, Dorset Council, and Professor Stilwell to this inquiry.

Resolved (on motion by Mr Braithwaite):

That this subcommittee authorise publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Subcommittee adjourned at 5.05 p.m.