



HOUSE OF REPRESENTATIVES

**STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND
PUBLIC ADMINISTRATION**

Reference: Aspects of the national competition policy reform package

CANBERRA

Thursday, 12 December 1996

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

**BELL, Mr Christopher Mark, Policy Manager—Finance and Micro-economic Reform,
Australian Local Government Association, 8 Geils Court, Deakin, Australian Capital
Territory 2600 312**

**SANSOM, Mr Graham Charles, Chief Executive Officer, Australian Local Government
Association, 8 Geils Court, Deakin, Australian Capital Territory 2600 312**

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Present

Mr Hawker (Chair)

Mrs Gallus

Mr Pyne

Mr Hockey

Mr Wilton

Mr Mutch

The committee met at 10.26 a.m.

Mr Hawker took the chair.

BELL, Mr Christopher Mark, Policy Manager—Finance and Micro-economic Reform, Australian Local Government Association, 8 Geils Court, Deakin, Australian Capital Territory 2600

SANSOM, Mr Graham Charles, Chief Executive Officer, Australian Local Government Association, 8 Geils Court, Deakin, Australian Capital Territory 2600

CHAIR—I declare open this hearing of the House of Representatives Standing Committee on Financial Institutions and Public Administration, which is inquiring into aspects of the national competition policy reform package. This is the third hearing this committee has held since it commenced the inquiry late this year.

I would like to welcome representatives of the Australian Local Government Association to the hearing today. The evidence that you give at the public hearing today is considered to be part of the proceedings of the parliament and, accordingly, I advise you that any attempt to mislead the committee is a serious matter and could amount to a contempt of parliament. The committee has received your submission, which is No. 21, and it has been authorised for publication. Are there any corrections or amendments that you would like to make to your submission?

Mr Sansom—Not at this stage, Mr Chairman.

CHAIR—Do you want to make an opening statement before I invite members to ask questions?

Mr Sansom—Only very briefly, because we did have the opportunity of discussing the issues in general terms with members some time ago. Firstly, I would reiterate that the submission before you today complements our submission to the committee in the previous parliament and that, where appropriate and necessary, it updates and modifies that submission. Secondly, I would emphasise that we have endeavoured in the submission to take on board the issues which we discussed with the committee informally. Of course, if we have failed to address adequately any of the points the committee raised or would like to see raised, then we are more than happy to provide further evidence to the committee.

Thirdly, I would clarify that this submission represents the consolidated views of ALGA and its member state and territory associations, and that through them we aim to represent the broad views of local government throughout the country. The committee may well take evidence from individual state associations or individual councils or groups of councils which would give a somewhat different perspective. However, we are confident that what we are putting to you as a national association does represent a reasonable overview of the views of local government. But I cannot vouch that everybody in local government will agree with every word we say.

CHAIR—Thank you very much, Graham.

Resolved (on motion by Mr Wilton, seconded by Mr Mutch):

That the committee authorises publication of submission No. 94 from the Australian Local Government Association to the inquiry into aspects of the national competition policy reform package.

Perhaps we could now pursue a couple of things in terms of the competition policy. Local government has made it very clear that you do not believe that this should be linked with financial assistance grants. If there is to be a dividend from competition policy, how would you see that best dealt with, from the perspective of local government?

Mr Sansom—Those are two questions rolled into one. We explain in some detail in this further submission to the committee our reasons for opposing strongly any linkage between performance in implementing competition policy with the quantum and distribution of financial assistance grants. Essentially, there are two key factors involved. One is the simple fact that the parliament has legislated for those financial assistance grants to be untied in the hands of councils and to be allocated on an equalisation basis, and that to introduce a factor such as performance in implementing policy would go against that. It would also go against the COAG agreement which was entered into in April 1995.

Secondly, as the submission points out, the distribution of likely costs and benefits from the implementation of competition policy may well be very different from the distribution of advantages and disadvantages that councils experience in a range of other respects and that currently relate to the distribution of financial assistance grants. So, it would cut across the spirit of the equalisation process and would, in our view, introduce distortions which are unwarranted.

As far as the issue of competition of payments is concerned, the first question is how such payments would be made. We are very strongly of the view that, given the ample demonstration in the Industry Commission's report to COAG that local government will be a significant contributor to the national economic benefits flowing from the implementation of competition policy, and as a consequence to the increased revenues flowing to the Commonwealth, there ought to be payments made by the Commonwealth to local government, and that that should have been addressed back in April 1995. The Commonwealth chose not to pursue that path, and the suggestion has been made since that this is a matter for the states.

We would still like to see further discussion of the idea of direct Commonwealth payments to local government and, obviously, there are various options for the payment of such payments. They could be through the FAG system—although we would have to acknowledge, as I have just said, that there are differences in the distribution of both costs and benefits of competition policy as against other factors impacting on local government. They could be distributed on a per capita basis to the states, to be handed on; or they could be distributed on the basis of the relative benefits from delivery of competition policy. We would need to sit down with the Commonwealth and the states and look at those different options.

The other way to go, which we mentioned in the submission, is for the Commonwealth to use its influence—given that it is making payments to the states—to require the states individually to negotiate with local government within their jurisdictions, on the basis of the relative contributions being made by local and state governments to the application of competition policy within each state. That obviously would produce quite significant variations: in the case of Queensland, where the state government has indicated that it is agreeable to passing on some of its payment to local government, there is a case for a quite substantial flow-on, given the major role that local government plays in areas like water supply, sewerage and, in the case of Brisbane City, transport. In other states, the case will be much weaker and, hence, the amount of money that might flow through would be correspondingly less.

CHAIR—Could I just clarify one point? Are you anticipating from competition policy that payments to local government will actually increase?

Mr Sansom—‘Anticipating’ is not the word I would use. Our expectation—and we thought it was a reasonable expectation, given the COAG discussions leading up to the agreements in April 1995—was that local government would share in all aspects of intergovernmental payments relating to the application of competition policy. At the Darwin COAG meeting, it was agreed and stated in the communique that governments should share in the benefits in proportion to the efforts they were making in implementing competition policy and the benefits that flowed from that. When it came to the April 1995 COAG meeting, the Commonwealth extended the real terms guarantee on FAGS to local government, which was part of the competition package, but did not extend the other element of the package, the actual competition payments. Our expectation has always been that the failure at that stage to address the question of actual competition payments ought to be rectified down the track.

CHAIR—I am trying to get it clear. Are you anticipating that the benefits that will flow back through to states and local government should be actually paid back through increased payments to local government?

Mr Sansom—We are expecting, as in the case of the states, that our contribution to additional national economic growth and, hence, additional taxation revenues to the Commonwealth—because the Commonwealth will benefit disproportionately from any increment to national economic growth—ought to be recognised, in the case of local government, in exactly the same way as it is being recognised in the states: through some payments being made.

Local government, like the states, will also benefit in its own right to some extent from improved national economic efficiency. We do not argue against that, but the whole premise of the COAG agreement was that the Commonwealth would benefit disproportionately and, therefore, should share some of its benefits with the states and local government. That was recognised partially in the case of local government but not fully.

CHAIR—Would you see that those benefits coming through would then enable local government to reduce some of its charges?

Mr Sansom—As in the case of the states, what individual councils choose to do with any growth in their revenues ought to be a matter for them. I imagine that some councils might use any such revenues to contain or conceivably reduce their rates and charges. Others might take the view that, given the backlogs in infrastructure provision and maintenance, which have been widely recognised most recently in the Audit Commission’s report, perhaps any additional revenues ought to be applied to making good such deficiencies.

CHAIR—One of the things that I think you have made reasonably clear is that you are rather keen to see state and federal governments act on the competition policy first so you can learn from their achievements before expecting local government to act as well. I was just wondering why that is.

Mr Sansom—That is not quite what we are saying. The point that we are trying to make is that as things stand at the moment, the clause 7 statements, which have been prepared and published by the states, in

many cases envisage very far-reaching application of competition to local government very quickly. The point we were making is that the current pace of application of competition policy appears to us to be faster in local government than in the states or the Commonwealth in the sense that in the case of local government, you are seeing competition policy principles being applied right the way through council organisations to very small areas of business activity.

We are not for one minute suggesting that local government should escape the application of competition policy, nor are we suggesting for one minute that those major business activities of local government should in any way have the application of competition policy delayed. That is not our argument at all. What we are saying is that there needs to be a very careful consideration of the overall costs and benefits of applying in one sort of king hit all facets of competition policy to local government. We are just pointing out that the states and the Commonwealth are themselves adopting a staged approach to application and that it would be appropriate to adopt a similarly staged approach in the application to local government.

CHAIR—I take your point, but don't you see the benefits coming from the competition?

Mr Sansom—There are undoubted benefits but—

CHAIR—I am just wondering why you would not want to go as fast as you can manage it.

Mr Sansom—We are suggesting that it is reasonable to go as fast as you can manage and as fast as is justified by the balance between benefits and costs. I will give you the example of Tasmania. The Tasmanian clause 7 statement requires every council in that state to go through a detailed process of examining the potential application of competition principles throughout their organisation. We are talking here about small units of government and very small areas of business activity. We are also talking about application of these principles in rural areas where major concerns have been raised about the balance between costs and benefits.

I will just repeat—I cannot emphasise this too strongly—that where there is clearly a substantial net benefit and where we are talking about those larger units of local government that are well able to handle this process, we are not in any way arguing for going slow. All we are saying is that there needs to be some further consideration of the balance between costs and benefits in relation to small scale business activities of small councils, particularly in rural and remote areas.

Mr WILTON—What sort of criteria or benchmarks do you use to ensure that benefits do, in fact, outweigh the costs?

Mr Bell—In the first instance, we are proposing a staged approach to the implementation. What has been suggested as an appropriate practical policy measure—this has been incorporated in a lot of the clause 7 statements—is a threshold, say, a turnover threshold or something like that, so that the council's business with the highest turnover is the first to be dealt with.

Where you have a balance of costs and benefits between the implementation of policy for smaller businesses, you have to realise that the cost of implementation before the less experienced comes on line, the benefits will remain the same. Of course, the benefits in applying competition policy to smaller businesses

have always been less than they have been for the larger businesses. What we propose is a staged approach to the implementation.

Mr WILTON—You mentioned that in Victoria the method of implementing competition reforms through CCT was at odds with public interest.

Mr Bell—Not necessarily. What we are saying is that the Victorian way of implementing this through CCT does not incorporate explicitly a public interest test, which is a requirement of the competition principles agreement.

Mr Sansom—Nor has it to date incorporated all of the principles of the competition policy. I would repeat: we are not throwing these issues up to argue against applying competition policy; it is a matter of applying it appropriately.

CHAIR—You had all the councils here for the Local Government Association annual conference earlier this month. Were there any concerns raised then in terms of competition policy by people at the annual conference?

Mr Sansom—It was not a major issue at this year's conference; it was debated at much greater length last year. A number of the points in our submission reflect those earlier discussions. Chris actually handled that aspect of the assembly.

Mr Bell—To summarise the major concerns of councils, they are a little concerned that the practical aspects of the implementation of national competition policy have not been dealt with adequately as yet. What we have seen so far is a theoretical approach. I guess they are a little uneasy about how the theory will translate into practice at their council. Some of their concerns are warranted and some are not. I think some councils do not fully understand that they will have the opportunity for public benefit testing and that sort of thing. It is up to us to ensure that that public benefit test is meaningful for councils.

Mr Sansom—To add to that, certainly two very current issues, which we reflect in the submission amongst the main points, include the attitude that has been adopted by the NCC. A lot of what we are saying in some respects represents a response to the NCC's argument—particularly the discussions they have had with Queensland—that the rate of application of competition policy in their view is not fast enough in local government. They really have argued for what I described earlier as the king hit approach—apply all the principles all at once to everybody. Our consultant advice that we tabled previously, the EMCORP report and the feedback that we are getting from councils on their practical experience argues against that approach. We are concerned that the NCC should rethink its attitude on some aspects of that.

The other issue which came up at the General Assembly is the question of taxation treatment of corporatised local government businesses. We think it is very important for this committee to address that issue. If indeed the government, on advice from Treasury, takes the line that corporatised local government enterprises, unlike corporatised state enterprises, should be liable for Commonwealth taxes—actually paying the taxes, not just making tax equivalent payments—that is then going to slow down the application of competition policy principles.

It would be a self-defeating approach in terms of the Commonwealth policy objective, and for a relatively minor revenue gain. So we would strongly urge the committee to look at that question and assess what arguments there might be for the Treasury position on that one. It is not a clear Treasury position, though. The Treasury position, as we understand it, is that they do not want to talk about it. The problem is that we have got councils, like the City of Brisbane one, that are on the brink of corporatising. They need a clear answer.

CHAIR—You have raised a whole lot of issues there; we will work through them. On the NCC and its approach, are you concerned that there seems to be too much focus on implementation and not enough on outcomes?

Mr Sansom—That is a nice way of putting it. There seems to be a somewhat dogmatic, purist stance that is concerned with arguing that these principles are so paramount that they should be applied almost willy-nilly. It appears to us that there is not enough emphasis on careful assessment of the costs and benefits and the practical experience of those people who are going through the implementation process. We point out that a continuing deficiency is the lack of anybody with local government expertise on the NCC board who can pick these issues up. We are concerned also that the NCC's promised paper on local government failed to emerge. I would like Chris to comment on this. We were not entirely happy with their recent paper on the public benefit test, either.

Mr Bell—No, we were not. Once again, the paper tackles the issue in a theoretical sense, but it admits, even within the paper, that it does not tackle the practical issues. It does not actually give guidance to councils as to how to implement these tests. We have the suspicion that, when it came down to it, if the NCC were the final arbiter as to the validity of the test that has been undertaken in the case of individual councils in their assigning of parameters—that is, the weights to be accorded to social factors versus the weight accorded to implementing competition—they would always come down more on the side of implementing competition whereas councils have a mandate to represent their community's interests, and so there would be a differing opinion. If the NCC were the final arbiter of some aspect of punitive measures against councils, they would arrive at a different answer to the one councils would, even though the councils perhaps have undertaken a legitimate and transparent process to arrive at it.

CHAIR—You raise a very important point there in terms of the way the NCC is actually functioning. What suggestions have you got for a set of guidelines to make it work more effectively?

Mr Bell—One of our suggestions is, of course, the inclusion of a local government person: that is the first thing. I suspect that the NCC to some degree—it is just my opinion—operates more or less in a vacuum and also looks at a lot of these issues in a much more theoretical sense than perhaps they should. I guess that has something to do with the background of the organisation itself.

CHAIR—That is a fairly strong statement.

Mr Bell—I am not meaning to be defamatory or anything about it.

CHAIR—It is not defamatory, but you are suggesting that the NCC has got some very serious

deficiencies.

Mr Bell—I think they are a body that is very qualified to arbitrate and to give advice on competition policy implementation, but they fail to do so at a practical level.

Mr Sansom—We are speaking from the local government experience. We would like to see many more opportunities for engagement and discussion on these issues with the NCC, and for some kind of formalised and regular channel which makes sure that those discussions occur to make sure, as Chris has said, that the practical experience gets through and is given due weight. That is our concern: are the factors of practical experience and real life, on-the-ground implications for local councils—and I stress again, particularly for the smaller councils—and their communities being given adequate weight? The information available to us suggests that they are not.

CHAIR—You have said that the guidelines for local government which you have been expecting still have not arrived. In terms of your consultation, are you being asked to assist in preparing some guidelines?

Mr Bell—I am not saying that we have not had any discussions at all with the NCC over a period of time. They have not specifically asked us to help them prepare these guidelines, nor have they made the draft of them available for our comment. We are quite open that we would like to see and be able to comment on those guidelines. We would be happy to see them.

CHAIR—Yes. I would like to move on to the question of tax and competitive neutrality. You raise, understandably, the concern about the fact that, if you corporatise, you are paying tax. But how else can you put everyone on an even competitive footing if you are going down this path of increasing competition?

Mr Sansom—Simply in the manner that has been agreed in respect of the states, which is that the business activity is required to incorporate, in its accounting systems and its pricing structures, the equivalent of the taxes that it would pay. Those equivalent payments then go to the parent body, whether it be a state government, in the case of a state instrumentality, or the council in respect of council business. The purpose of competition policy was to prevent publicly owned—government owned—enterprises enjoying a competitive edge merely by virtue of the fact that they are government owned. That was, essentially, because government owned enterprises did not pay certain taxes and had some benefits in terms of the rates at which they were able to borrow money and, in some cases, had regulatory holidays as well.

The three arms of the competitive neutrality component were that taxes or tax equivalents ought to be charged; that the regulatory environment should be reviewed to remove any advantage there; and that debt guarantee payments should be made where there was a saving on interest. We have no problems with that—provided, as we say, that the treatment of local government is the same as the treatment of the states. In the case of the states, there is a clear agreement that tax equivalent payments will be made by corporatised entities, and that those payments will be retained by the parent state government, and will not be made to the Commonwealth; and so there will not be any additional intergovernmental transfers. But the actual business activity will be put on the same footing as private enterprise. We simply say that that should be the same principle for local government. Most of the states have agreed on that in respect of state taxes, but we are awaiting the Commonwealth's agreement on that in respect of Commonwealth taxes.

Mr MUTCH—Are you saying that the equivalent should go to the state government?

Mr Sansom—No, the equivalent should be retained by the council, which owns the business. As I say, one of the first cabs off the rank will be Brisbane City, with their transport undertaking. So if Brisbane City Transport is corporatised in the same way as state electricity authorities have been, then the equivalent of Commonwealth sales and income taxes would be paid to the Brisbane City Council and would be available then as revenue for other council purposes. That is exactly what is happening with the state governments.

CHAIR—Does that really mean though that, if that was to occur, really it would be in local government's interest to expand their business activities quite dramatically?

Mr Bell—Those businesses would have no competitive advantage. Councils already have the option to get into any business they want really.

CHAIR—But councils would basically then have a new source of revenue.

Mr Sansom—It is a source of revenue in the case of existing businesses which they have already. I do not see that that is necessarily—

CHAIR—It will go and start another business—whatever it is—running a bus service or whatever.

Mr Sansom—As Chris says, the point about competition policy is that the unfair competitive advantage would have been removed, so for a council to adopt the strategy you are suggesting it would be out there taking risks in the marketplace; it would not have a nice sheltered little niche that was a taxation milk cow. It would be in exactly the same position as any private entrepreneur. It would be setting up a new business with all the risks that attach to that. I think the answer to your question is that there are not going to be many councils rushing out to do that.

But the other point that has to be made here is that, under the present arrangements, a council as a monopoly provider of, say, water supply and sewerage, could theoretically be generating super profits from its enterprise by charging above cost and could be capturing the revenue that way. The aim of competition policy was to prevent that occurring so that, under the new approach, its charging mechanisms would have to be transparent and comparable to the private sector. Those tax equivalents would go to the council but then, of course, in many cases the council will have to use that money for community service obligation payments to ensure that disadvantaged users of its services are not further disadvantaged by the inevitable price increase that would come from applying equivalent taxes.

CHAIR—An interesting proposition.

Mr Sansom—That is the theory of competition policy.

Mr MUTCH—I see the chairman's point. If you are going to get back a tax refund, whereas private enterprise does not, then you are going to use that tax refund to go and fund other business enterprises—and I do not think that risk should be encouraged, frankly. You are going to then use that money to hedge your

bets on those enterprises and really have an unfair competitive advantage against local businesses that are trying to compete with this great council corporation that is growing up in their midst.

Mr Sansom—With respect, you cannot do that, because competition policy prevents a government enterprise from going into the market and using any benefits it has by virtue of being a government to the detriment of private sector competitors. That is the whole point of the exercise.

Mr MUTCH—That money would be funded and put back into basic services for local residents?

Mr Sansom—In our view, any revenue gained that emerged from this—and in many cases there would not be a revenue gain, because we are not talking about enterprises that are setting out to be highly profitable so in terms of income tax equivalent, for example, I do not think we would be talking about huge slabs of money—could be used for basic services, yes. It could be used for community service obligation costs, or it could be used to reduce general rates and charges so that those consumers who may have experienced some increase in, say, water supply and sewerage charges might then get a benefit in terms of reduction in their general rates.

I just emphasise again—however odd all this might sound—that this is the regime that quite explicitly was agreed between governments and this is what the states are doing. So all we are saying is that if these are going to be the rules then we want them applied to local government in exactly the same way as they are being applied to the states.

CHAIR—But you are actually still asking for tax-free profits.

Mr Sansom—No.

CHAIR—Is that not what it amounts to?

Mr Bell—The tax equivalent is paid. The enterprise itself will not enjoy tax-free profits.

CHAIR—No, but the owner will.

Mr Sansom—Yes. I just repeat, that that is the arrangement the Commonwealth has entered into with the states.

Mr Bell—The primary purpose of tax equivalent regimes was to separate the question of revenue implications from the question of implementing competition reforms. Now perhaps it is the intention to deal with these at a later date, but it is probably good policy to separate these in the first instance and that is what we are asking for.

CHAIR—We might move on to community service obligations because I think that is another area that you have raised a lot of concerns about in terms of competition policy.

Mr Sansom—Our concern is simply that care needs to be taken to ensure that local government has a

capacity to make such payments. This links to what we have just been talking about. One of the obvious prime uses of any revenue gain that the host council might make from competition policy would clearly be to meet community service obligations. Any responsible government would have to ensure that individual consumers—particularly disadvantaged consumers—were not made worse off as a result of applying competition principles. It is fundamental that state and Commonwealth governments make sure that local councils will have the financial ability to make such community service payments or to meet the costs of community service obligations. One way is through any retained tax equivalents or profits.

The central concern we have is to draw to the committee's attention that local government is not well placed in its financial structures to meet substantial community service obligation costs from its general revenues. The councils' general revenues are restricted to property rates. Property rates are a very difficult form of taxation to levy and to increase. They are very up front. People make three or four large lumpy payments a year and there is strong community resistance to increases in rates and councils are always under intense political pressure to contain such increases. The council rate base is not one that is readily increased dramatically. If very large community service obligation costs were incurred, it would be difficult for councils to meet them from that.

The other point we make in the submission is that, where the application of competition policy is linked with the application of compulsory competitive tendering and large amounts of activity go outside the council's operations to private contractors, in those cases the council loses any potential revenue from the activity because it is fully privatised in effect. So there will not be any of these retained profits or tax equivalent payments coming back to the council. So it loses that revenue stream, but may at the same time find itself confronted with the need to make CSOs and would have no revenue with which to do it.

CHAIR—Would that not be balanced because if you can contract it out, presumably it is cheaper and therefore the savings there can be reapplied.

Mr MUTCH—Otherwise there would not be one attempt if it was not cheaper.

Mr Sansom—There may be some savings there. They may be quite marginal. We are just highlighting the fact that this is an issue that has to be worked through. If such savings indeed occur, would those savings be sufficient to meet any CSOs resulting from the change? We have discussed this with some of our Victorian members. This is an issue which has not been adequately addressed.

Mr MUTCH—But is it not fairly unsatisfactory that you are depending on profit making schemes to fund CSOs in the first place? One year profit making schemes can be profitable but the next year they cannot. So where is the stability in that system?

Mr Sansom—No, we are not depending on profit making schemes. We would be relying, in exactly the same way as the Commonwealth and the states do, on government revenues to meet those payments.

Mr MUTCH—And that is the rates, and that is stable income.

Mr Sansom—It is a stable form of income and that is one of the problems. It has tended over the

years to be too stable. It does not have, built into it, the automatic growth increments that are certainly built strongly into the Commonwealth tax structure with bracket creep on income tax, and so on. It has none of that. And it is politically a difficult tax base to increase substantially in the short term. Of course, in three states—South Australia is doing it now, too—it is actually pegged by the state government. Whether the council has the political stomach to increase it or not, they are not allowed to.

Mr MUTCH—Just the overall increase is pegged.

Mr Sansom—Yes, for each council.

Mr MUTCH—A lot of consumers would see that as a very good thing.

Mr Sansom—All we are saying is that councils cannot do all these things: they cannot purely apply competition policy, purely apply CCT, meet CSOs and hold their rate base down. It is an equation which simply does not balance and the interaction between these different elements needs to be thought through more than it has.

CHAIR—All governments face certain challenges in that area. I do not know whether you want to open up the wider issue of your revenue base, or is that for another day?

Mr Sansom—We only sought to raise it in the context of CSOs and the competition payments.

CHAIR—You have made some fairly strong statements about the NCC; I wonder about the role of the ACCC in this. Have you any comments to make on that?

Mr Sansom—Yes, and Chris can add to these. We have enjoyed a very good relationship with the ACCC. As we indicate in the submission, we have had very useful discussions with them; discussions which led to the joint publication of a booklet on the application and the significance of the changes to the Trade Practices Act. That booklet has been very helpful in allaying a number of concerns within local government circles about the approach the ACCC might adopt, and also the concerns some councils have that they might find themselves liable for prosecutions and so on. The relationship in that regard has been excellent.

Also, unlike the NCC, we do now sit at least on the advisory committee to the ACCC. Chris might comment on that because he attended a meeting just this week.

Mr Bell—As Graham says, we have a window of opportunity into the ACCC's processes and the ACCC, in fact, has a full-time compliance officer who deals with local government issues also. That is all I can add.

CHAIR—Anything else you want to raise? Anything else that you feel that you would like to mention?

Mr Sansom—Just to put it formally on the record today, because it was a matter we discussed previously, at the end of our submission we do have a couple of paragraphs on issues complementary to

competition policy. It is also raised at No. 10 in the summary points. Competition policy is not the only game in town as far as local government reform is concerned. As the EMCORP report pointed out, it may not be the biggest game in town in terms of delivering benefits to the national economy or to council consumers. Councils around the country are engaged in a lot of other things related to rewriting of local government acts, organisational change, new management approaches, more emphasis on customer service and quality assurance and strategic planning and corporate planning and so on and so on.

These changes, which are being made—and I would stress this, which are being made outside Victoria in a voluntary way by councils, especially larger councils—are delivering major benefits and are applying principles, such as splits between funder and provider within councils, which are very much in tune with the broader economic reform agenda. So, I would just like to highlight that all that activity is going on as well, and delivering real benefits. So, if I can use the dreaded word, we are not in any way recalcitrant when it comes to application of reforms.

CHAIR—Okay. Are you happy with the way the message is getting through to councils about the implications of the competition policy and the fact that the benefits might not be as great as some have thought?

Mr Sansom—I think there is still a lot of confusion. I would like Chris to comment on this, too. As we say at the beginning of our submission, there has been tremendous confusion between CCT and competition policy. Without in any way wanting to have a debate about CCT, that confusion has not been helpful. It has gone outside Victoria into other states so when you talk competition policy to many councils they think you are talking CCT and I think that is unfortunate for getting the message across.

We do not want to keep going back but things such as the statement that the NCC floated about FAGS introduces an element which is not helpful to the central debate about applying these reforms and getting on with the job. There is also the fact that we have seen quite substantial differences in approach from one state to the other, which is understandable in one dimension but is not helpful. We should be focussing on the big benefits to be derived from application of competition policy amongst the larger councils, and those larger councils talk to each other across state boundaries. The fact that they are being subjected back home to significantly different regimes complicates the debate, and complicates the sharing of experience and the exchange of best practice. I think these are some factors in the system which are not helpful and have slowed down getting a clear message through.

Mr Bell—Overall, local government has been very supportive and constructive about the national competition policy as a whole. We obviously want to emphasise the points we are making in the submission but we do not want them to overshadow the constructive things that have gone on and the support that national competition policy does enjoy amongst councils and where there is some holding back of support, it is perhaps because councils have not been given enough information to make a proper assessment of how national competition policy will affect them. Once again, I think there is a role for the National Competition Council—or a body like the NCC—to get out and speak to councils about the implications.

Mr MUTCH—There is a lot of talk about efficiency gains, productivity and improvement in the administration of local government, across-the-board. Do you have a list of councils that have reduced their

rates as a consequence of it that we could have a look at so that we could see a positive benefit?

Mr Sansom—The positive benefit would be if they had not increased them as much as they might otherwise need to, as well as just reducing them. Every council in Victoria has reduced its rates.

CHAIR—Victoria has done it across-the-board.

Mr MUTCH—Sounds like there has been mass immigration going the other way. It normally goes north; doesn't it?

Mr Sansom—We need to wait and see whether that will have any long-term impact on things such as infrastructure maintenance and so on. But in the short-term there has been that benefit. We could try to get you some figures.

Mr MUTCH—Thank you. Just in relation to some of the other states, to see what is happening.

Mr Sansom—Local government rates, over time, have increased less than CPI. I think that demonstrates the political imperative at the local level to restrain tax increases. There is that very immediate connection between the councillor and the ratepayer and it is on the table every year in a public forum. In New South Wales now a revenue policy and a draft budget has to go out for public discussion every year. So there is intense pressure on local councils to keep rate increases down and, by and large, they have.

Mr MUTCH—As you can see, it is a very subjective thing for everyone of us.

Mr Sansom—Indeed.

CHAIR—Thank you both for coming today. I think it has been a very useful addition to our inquiry. Your time is much appreciated.

Resolved (on motion by Mr Wilton, seconded by Mr Mutch):

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

Committee adjourned at 11.16 a.m.