8 Impact of competitive neutrality and contracting on local government

Competitive neutrality (CN) policy applies to the business activities of all levels of government, although its application to local government has been of most interest to this inquiry. The policy has generated a mix of benefits and costs, but it is too early to assess its full impact on country Australia. There is still broad concern about the operation of the 'public interest' test used to assess whether application of CN policy to local government activities is appropriate, although recent efforts by governments are improving community awareness.

The policies of State and local governments on contracting-out, while not formally a requirement of National Competition Policy (NCP), are related to it insofar as all jurisdictions have deemed that in-house bids from government agencies for competitive tenders are subject to the application of CN policy. Some jurisdictions also have chosen to tie competitive tendering and contracting into their approach for complying with their CN obligations under the Competition Principles Agreement.

8.1 Introduction

Participants' comments on CN almost universally related to how it would affect the operations of local government in country Australia. A subset of these concerns was how CN might interact with the competitive tendering policies of State and local government and, thus, affect the operations and the viability of the communities that local governments serve.

8.2 What is competitive neutrality?

Competitive neutrality requires that significant government business activities should not enjoy any net competitive advantage over their competitors simply as a result of their public ownership.

Competitive neutrality does not extend to offsetting competitive advantages arising from factors such as business size, skills or location — factors which are independent of ownership. Neither does it require governments to deliver social programs via competitive market-based mechanisms, nor competitively tender a given proportion of government business activity. Moreover, the principles of CN do not apply to the non-business, non-profit activities of publicly owned entities.

The Competition Principles Agreement (CPA) spells out the manner in which the principle of CN may be applied to government business activities. In essence, it requires designated businesses to ensure that their prices take account of:

- full attribution of costs incurred in providing the goods or services (see CCNCO 1998a);
- full Commonwealth, State or Territory taxes or tax equivalents;
- debt guarantee fees (directed at offsetting any competitive advantages provided by government guarantees);
- a commercial rate of return; and
- regulatory costs equivalent to those which their private sector competitors would normally experience.

The agreement requires governments to adopt a corporatisation model for government business enterprises classified by the Australian Bureau of Statistics as 'Public Trading Enterprises' (PTEs) or 'Public Financial Enterprises' (PFEs).

However, the agreement stresses that governments are required to implement CN only 'to the extent that the benefits to be realised from implementation outweigh the costs'.

Clause 7 of the agreement states that each State and Territory government is responsible for applying CN to local government (even though local governments were not parties to the agreement).

The agreement allows Commonwealth, State and Territory governments the freedom to determine their own agenda for the implementation of CN principles. This has resulted in differences between jurisdictions in the speed with which the policy has been applied and in how the principles of CN are applied 'on the ground' (see section 8.3).

Where it is properly implemented, CN can lead to benefits such as:

- more efficient pricing practices in government businesses;

- longer-term performance efficiency gains as a result of government businesses operating in a more competitive environment;
- improved transparency and accountability by presenting costs in a manner comparable to that of the private sector; and
- better assessment by public sector managers of whether government should retain responsibility for certain business activities or consider alternative means of service provision (NCC 1997b, p. 2; Commonwealth Treasury 1998a, p. 1).

8.3 Commonwealth, State and Territory government approaches to competitive neutrality

Each government has published a policy statement outlining its approach to implementing CN. In addition, all relevant jurisdictions have published policy statements on how CN is to be applied to the activities of local government within their jurisdiction. (The exceptions — the Commonwealth, ACT and the Northern Territory — have either no local government or no significant local government business activities). To support their policy statements, all jurisdictions have (in cooperation with local government associations) released an extensive range of publications on aspects of the implementation process and provided for specific training of local government officials. In South Australia, government funds were used to provide a consulting service dedicated to assist councils with implementation queries. (For details of these measures, see NCC 1999b, vol. 3.)

As well as applying CN principles to significant businesses, each jurisdiction requires the policy to embrace in-house bids for competitively tendered contracts. This is of particular significance for local government activities.

Despite being derived from common principles, the various CN policy statements exhibit differences in how jurisdictions have chosen to meet their obligations. Examples of these include different approaches by governments to what constitutes a 'significant government business activity' and the 'settings' which apply to specific components of CN (eg the level of debt guarantee fee for an activity).

In some cases, these differences are of little significance — eg variations in the level of debt guarantee fees and rates of return chosen for businesses (Plain 1998). Of more significance are the different thresholds chosen by governments as a guide to whether corporatisation is warranted (see box 8.1) and the differing interpretations of which activities are to be deemed 'significant business' activities and, thus, likely to be subject to CN.

Box 8.1 **Thresholds suggested by jurisdictions for adopting corporatisation of government businesses**

The Competition Principles Agreement allows governments flexibility in implementing competitive neutrality. This has led to different thresholds used as a guide to whether corporatisation of a business is warranted. For example:

The Queensland Government policy statement notes that, as a guide, corporatisation will generally be appropriate only for those Government business activities which have an annual current expenditure in the vicinity of $15 million or more. (Queensland Government 1996a, p. 27)

The Victorian Government's policy notes that, as a guide, organisations with a revenue base less than $10 million and/or fewer than 15 employees should not be considered for corporatisation. (Victorian Government 1996, pp. 37–8)

The policy statement of the New South Wales Government notes that, as a general rule, businesses with annual sales turnovers of $2 million and above may be suitable for corporatisation (NSW Government 1996, p. 10). For these businesses, the presumption is that, in such cases, the benefits will exceed the costs. If a council considers otherwise, it must conduct a benefit–cost test to prove that. (DoLG. 1997, pp. 2–3)

Western Australia, by contrast, offers no threshold of turnover or employment as a guide for when corporatisation may be presumed to be warranted.

These designated thresholds are intended only as a guide. They do not preclude an assessment of whether the benefits to be realised from applying the corporatisation model (or indeed competitive neutrality) outweigh the costs.

All governments have treated those activities classified as PTEs or PFEs as 'significant' business activities — as required by the agreement. However, the CPA offers no guidance on which other activities may constitute significant business activities (NCC 1997b, p. 9). This has led to jurisdictions adopting different criteria for determining other significant business activities.

Although jurisdictions have shown marked variation in their approach to implementing CN at local government level, differences in local government circumstances make a consistent approach difficult. As the NCC has noted:

> The number of local governments, their geographical dispersion and their diversity in terms of size, organisational structure and service responsibilities have made a consistent approach to reform difficult. (1998a, p. 144)

Jurisdictions have also shown marked variation in the timing of their application of CN to their local governments. South Australia and Tasmania, for example, initially did not progress as far as other States — primarily because they waited for some local government amalgamations to be completed. That notwithstanding, the June

1999 assessment by the National Competition Council (NCC) indicates satisfactory progress with implementing CN at local government level in all relevant jurisdictions (NCC 1999b, p. 12).

At the Commonwealth, State and Territory level, most of the action to date has been with the application of the corporatisation model to significant business activities. This reflects a decision by governments to apply CN to the more significant activities before moving on to less significant ones.

8.4 What is competitive tendering and contracting?

Competitive tendering and contracting (CTC) is the process of selecting the preferred provider of goods and services from a range of bidders by seeking offers and evaluating these against predetermined selection criteria (DOFA 1998, p. 7). CTC is often accompanied by a structural change within the government agency in order to separate the purchasing arm and the providing arm — the so-called 'purchaser/provider' split.

CTC, which is also common in the private sector, is not an end in itself. It is a means to achieve better performance, and is one of many reforms aimed at improving the efficiency and effectiveness of government operations. Used successfully, it is a means by which, for example, local governments can deliver an improved quantity and/or quality of services for each dollar of expenditure.

The use of CTC by public agencies is not new. It existed well before NCP reforms. Mail delivery, for example, has been contracted since it was introduced in Australia. Local governments have also contracted refuse collection and road maintenance since the early 1900s.

National Competition Policy does not require CTC by government agencies. As the Hawker Committee noted:

> Neither the legislation nor the Agreements contain any obligation to impose outsourcing requirements on local government or to introduce competitive tendering. This has been a common misperception and has led to confusion in these early stages of competition policy implementation. (1997a, p. 58)

Statements made during this inquiry indicate that this misperception and confusion is still widespread.

However, there is a link between CTC and NCP reforms. This occurs in two ways. First, all jurisdictions have deemed that in-house bids by government agencies for competitive tenders will be subject to CN policy — which is part of the NCP

reforms. Second, some jurisdictions have unilaterally chosen to link CTC with their approach for implementing CN to meet their obligations under the Competition Principles Agreement. For example, the Public Sector Research Centre noted that Victoria, South Australia, Western Australia and Tasmania have implicitly or explicitly linked NCP with competitive tendering (sub. 136, pp. 9–10). As well, a number of councils have developed policies on the application of competition policy in their jurisdictions which contain guidelines for competitive tendering and contracting (ACRLF sub. 192, p. 8).

It is not the role or intent of this inquiry to provide a comprehensive review of CTC. That has been done by the Industry Commission's report on *Competitive Tendering and Contracting Out by Public Sector Agencies* (IC 1996a). That inquiry included an examination of the scope of CTC at all levels of government in Australia, its benefits and costs, and employment effects.

It is appropriate, however, for this inquiry to report on the extent to which NCP reforms (specifically CN) interact with CTC and how this may affect country and metropolitan Australia.

Most of the information provided to the Commission related to the application of CTC at local government level. The CTC practices of State and Territory governments also attracted comment.

8.5 Participants' views on competitive neutrality

Information from submissions, the Commission's round of meetings in rural and regional Australia and public hearings provided a range of views on the perceived worth of CN policy and how it has been implemented.

Correcting artificial advantages

Some participants welcomed the policy as a positive move to address artificial advantages enjoyed by businesses operated by all levels of government. The NFF, for example, noted that prior to CN an exemption from sales tax had given government businesses a significant commercial advantage over private sector competitors (sub. 144, p. 18). Resource Consulting Services (sub. 101) saw a clear need for CN policy to curb the 'grossly unfair competition' its business faced from government activities — which, it claimed, accounted for only a fraction of their costs in their prices.

Gwydir Valley Irrigators Association Inc. (sub. 114, p. 4) applauded CN as a way of attacking local government 'fat'. It considered that subjecting their operations to CN would help to maximise the use of their specialist and everyday plant and equipment, and avoid over-staffing to maintain its community involvement. CN was also viewed by some as a means for improving government operations more generally. The NCC summarised some of these in its submission (sub. 178, p. 31) when it noted that in-principle benefits accruing from CN included helping governments and the community gain better value for money in service provision, and providing a sharper focus on customer needs and competitive pricing.

Policy deficiencies

A number of participants, such as the Tweed Shire Council (sub. 40) and the Public Sector Research Centre (sub. 136), criticised the policy as deficient because it aims to remove artificial advantages, but fails to offset constraints imposed on government businesses (such as borrowing limits). These participants argued that there is no point in removing advantages if the artificial disadvantages faced by a government business are not also removed (eg terms and conditions of employment under which they are obliged to employ staff). The claim put to the Commission was that the policy was biased against government businesses unless they could net out their advantages and disadvantages.

CN, however, is not just about removing advantages. The policy requires that government businesses should not enjoy a 'net competitive advantage' simply as a result of their public sector ownership. Underpinning CN is the idea that the competitiveness of an enterprise should not be *improved or impaired* by virtue of its public sector ownership. This does not mean that advantages in one area should compensate for disadvantages elsewhere. Rather, for every business where CN is considered justified, every factor contributing to an ownership-related advantage *or disadvantage* should be identified and, to the extent practicable, the advantage or disadvantage eliminated (NCC 1997b, pp. 7–8).

In some cases, governments provide transitional arrangements in recognition that their businesses have specific disadvantages as a legacy of public ownership. The Commonwealth Government, for example, provides for reductions in rate of return requirements for agencies which have terms and conditions of employment more onerous than their private sector counterparts, at least until new enterprise agreements are negotiated.

Definition of 'business' and 'significant' business activity

Chief among the concerns expressed to the Commission has been that many local government activities should not be considered *business* activities and, thus, should not be subject to CN policy. The comment from the Cabonne Council is an example of this view:

> … in rural areas many of the activities of local government eg halls, sporting grounds, caravan parks are provided as a service to the community and are not businesses as they are in metropolitan areas. (sub. 56)

In many cases, such concerns are unfounded. This is because a local scout hall or sporting ground, for example, would most likely fall into the category of a not-for-profit, non-business activity of government. The CPA specifically excludes these activities, and that position is endorsed in the policy statements of each State and Territory.

However, the approach taken by those governments in interpreting which activity qualifies for business status for the purpose of CN policy is not uniform. Government activities deemed to be businesses in some jurisdictions are not so deemed elsewhere.

Related to the concern that it is not appropriate to treat some council activities as 'business' activities is the view that, even where those activities are business in nature, they are not *significant* business activities. Accordingly, CN policy should not apply to them.

The Dorset Council (sub. 92), for example, was critical of the blanket approach by the Government of Tasmania, which deemed that all council water and sewerage services are significant business activities, and thus candidates for corporatisation — subject to a 'public interest' test. It noted that Dorset Water has been listed as a significant business even though the total expenditure over its ten water schemes is less than $1 million. Similarly, attendees at the public meeting in Sorrell considered that none of the main services provided by the local council (roads, water, sewerage, waste management, childcare/youth services and cemeteries) should be viewed as significant for the purposes of CN.

Apart from their uniform treatment of PTEs and PFEs (which the CPA specifies as significant and which include water and sewerage activities), jurisdictions differ markedly on what other business activities they consider to be 'significant' at local government level. These differences stem directly from the lack of prescription in the CPA and the sovereign right it confers upon governments to implement CN in a manner appropriate to their jurisdiction. In doing so, the CPA acknowledges that a 'one size fits all' approach is not justified.

Participants pointed to these differences and claimed that the policy has led to inequities between jurisdictions. Tasmania's West North West Councils (sub. 45), for example, noted that the levels set for significant business activities in some States (eg Queensland), if applied in Tasmania, would result in there being no significant business activities in that State apart from PTEs and PFEs.

In Victoria, the Department of Infrastructure (responsible for local government) defines a significant council activity as including one where expenditure during the financial year exceeds 1 per cent of total operating expenditure or revenue from user charges generated by the business exceeds 1 per cent of council's total operating revenue. The Municipal Association of Victoria (sub. D276) criticised this approach as overly stringent, and noted that this definition is at odds with the approach taken by the Victorian Government's CN complaints unit. Such differences highlight the fact that, although implementation of CN is well advanced at local government level, the policy is still evolving and there are still important aspects yet to be finalised in some jurisdictions (sub. D276, pp. 3–4).

Some participants were critical also of the apparent lack of autonomy afforded local government in determining whether any of their business activities were significant for the purposes of CN policy. This criticism remains despite all relevant jurisdictions having consulted with local government in the development of their policy as it applied to local government (a requirement under the CPA), and despite most jurisdictions providing for councils themselves to assess how CN may apply and to which activities.

Community service obligations

Some criticisms of CN policy reflected the failure of efforts to publicise the policy and explain its implications. Most of the comments the Commission received about how CN policy deals with the provision of community service obligations (CSOs) fell into this category. Many participants expressed their concern that, in implementing full cost attribution and CN in pricing, local government will have to sacrifice CSOs. The South Gippsland Shire Council (sub. 80), for example, claimed that there is now increased emphasis on 'user pays' charging and, as a result, the cross-subsidies which funded CSOs are less likely to occur.

The CPA does not, however, require this outcome. The policy statements on implementation of CN of each jurisdiction make provision for the continuation of CSOs, albeit subject to the need to make explicit any subsidies paid to the business (for examples see box 8.2). How governments choose to treat CSOs once their existence and cost is made explicit is an important and separate issue. (A general discussion of how CSOs are treated under NCP reforms is in chapter 12.)

Box 8.2 **Competitive neutrality and community service obligations provided by local government**

The Competition Principles Agreement does not require the cessation or diminution of community service obligations in order to meet competitive neutrality principles. State governments have reiterated this position in their policy statements on the application of competitive neutrality to local government. For example:

The New South Wales Government's policy on the application of competitive neutrality to local government '… allows councils to subsidise businesses for whatever purpose. However, such subsidies [whether community service obligation subsidies or other subsidies] must be fully disclosed as an explicit transaction. They will also then be visible for the purposes of pricing the service.' (DoLG 1997, p. 28)

In Queensland, the policy is that 'Where competitive neutrality is applied, it will not interfere with the capacity of a local government to subsidise the provision of goods or services to particular groups; again provided that where a Community Service Obligation payment is made, the level of payment is readily identified in public accounts'. (Queensland Government 1996b, p. 19)

Tax equivalents and cost allocation

Other criticisms of CN policy and its implementation related to how specific elements of CN are applied to local government businesses. For example, on visits in Victoria, the Commission was told **'**It doesn't make sense for the council to load payroll tax equivalents on to its bid when it is competing against small businesses which do not pay payroll tax'. In fact, the Victorian policy does not require the blanket loading of payroll tax on bids to achieve CN. Only where a council business unit has a payroll in excess of the tax-free threshold would payroll tax equivalents need to be wound into cost and price. (This threshold — $515 000 — applies equally to public or private businesses.) In many local governments, business units would not have a payroll of sufficient size to qualify for the imposition of payroll tax.

A number of participants considered that CN policy put government businesses at a disadvantage, because it prevented them from pricing on a marginal cost basis or pursuing 'loss-leading' strategies as part of a legitimate business plan. Yet these practices are common among their private competitors. The Glenelg Shire (sub. D253) supplied a report on the experience of three councils in Victoria, which indicated that councils believed CN policy disadvantaged them in competing with private business. The report, for example, quoted the councils' views on the impact of CN as:

> The rules prevent us from operating as a business, for example it is normal business practice to wear a loss on some jobs … (and)
>
> We have none of the flexibility of private businesses … we can't loss lead … (Ernst & O'Toole 1999, p. 7)

However, marginal-cost pricing and loss leading are both practices allowed under CN policy (CCNCO 1998a, 1998b). CN policy and pricing guidelines permit government businesses to cost — and hence price — on an avoidable (or marginal) cost basis. Moreover, loss making is allowed by activities, so long as the business achieves a commercial rate of return over the life of its business plan.

Compliance and implementation costs

A general concern related to the upfront costs incurred by local governments in complying with their CN obligations and how they would pay for them. Participants referred to costs like setting up appropriate accounting and costing systems; costs associated with benefit–cost assessments to determine whether the introduction of CN is appropriate; and costs associated with corporatisation where that is deemed appropriate. Some councils also questioned the value they derived from incurring those costs. Merriwa Shire Council, for example, stated:

> A significant concern for the rural sector is the cost of implementation. To date [the CN part of] NCP has placed a burden on council resources without any significant benefit to date. (sub. 77, p. 4)

Not all councils considered compliance costs to be excessive. For example, South Gippsland Shire Council (sub. 80) held that complying with these (CN) requirements is not an onerous task.

Underpinning the principle of CN is the need to have effective costing systems (DoLG 1997, p. 5). As the Gold Coast Council (sub. 3) noted, a key issue for the council in implementing CN is trying to establish consistent accounting and asset valuation methodologies, including valuation of CSOs.

Good costing systems are a vital part of any successful business operation, and the move to improve local government management and financial systems was under way well before the introduction of CN. For example, in 1994, local governments in Western Australia were required to adopt full accrual accounting under AAS27 (WA Govt 1996, p. 14). The Devonport City Council in Tasmania (sub. 44, p. 3) noted that reforms in local government were in progress before the Hilmer report and were part of a worldwide change to a more business-oriented approach. The council drew the Commission's attention to reforms (such as the adoption of accrual accounting) which have delivered a considerable improvement in local government

accounting and accountability (sub. 44, p. 13). Similarly, the Council of the City of Grafton (sub. 104) noted that a major reform to New South Wales' local government was the *Local Government Act 1993*. That Act introduced a number of reforms (including new accounting standards) to increase the transparency and accountability of local government, and to encourage efficiency and effectiveness in service delivery.

Moreover, instituting improved accounting and costing systems in response to the demands of CN can deliver advantages which more than outweigh the associated costs. The Tasmanian Government, for example, noted how enthusiastically its local governments embraced CN as they realised:

> … the advantages that CN could deliver in increasing the efficiency of council operations. This was demonstrated by the fact that 18 of the 29 councils decided to apply full cost attribution to all their business activities (rather than just those regarded as 'significant'). The majority of the remaining councils chose to apply full cost attribution to their public trading enterprises … and road maintenance. (sub. 198, p. 22)

It should also be recognised that many of the costs associated with implementing CN are essentially one-off or short-term in nature (LGASA, trans., p. 13). On the other hand, the benefits derived from CN (such as the tendency for a more efficient provision of local government services) tend to be on-going or long-term in nature (LGASA, trans., p. 14).

A sub-set of participants' general concerns about implementation costs was the concern that, where corporatisation is required under CN policy, this can impose significant costs on local government. Some councils claimed these are costs which they are not well placed to meet as, in most cases, they receive no compensation for them. However, the move to corporatisation was under way before the CPA and it is unreasonable to lay all such costs at the door of CN.

As well, corporatisation is required only where the benefits outweigh these costs. The 'public interest' test should weed out any 'inappropriate' candidates for corporatisation if it works as intended. This, however, does not address concerns that local government may incur the costs while the benefits of its efforts accrue elsewhere. Nor does it blunt participants' criticisms of a lack of compensation for these costs.

Reimbursement for implementation costs

At August 1999, only the governments of Victoria, Queensland and Western Australia have chosen to provide their local governments with a share of competition payments. The NCC has noted this approach provides an incentive for

reform and assists with associated costs, such as conducting 'public interest' tests and reviews of businesses (NCC 1998a, p. 144).

Participants in other jurisdictions criticised the NCP agreements for not specifically providing for a share of those payments to reimburse local government for costs in implementing CN. The Cabonne Council, for example, noted that local government has been asked to meet the requirements of NCP yet, in New South Wales, councils have not received any of the competition payments made to the State Government. The council strongly believes local government should get a share of these payments (sub. 56, p. 5).

Such views echo the Hawker Committee's finding that 'It is of considerable concern to local government and others that there is not specific provision made in the agreement in relation to Competition Payment for them' (Hawker Committee 1997a, p. 56). However, the reform agreements provide for State sovereignty in implementing the reforms and, thus, in choosing whether to share competition payments with their local governments. Those decisions are, however, taken within the context of State funding for local government and the appropriateness of those choices can only be determined in that context — a context beyond the scope of this report.

'Public interest' test

A common concern of participants was the apparent inability of the 'public interest' test to account fully for local consequences when assessing whether CN should be implemented for local government activities. (The issue of the application of the 'public interest' test more broadly to all NCP reforms is addressed in chapter 11.)

The CPA — clause 3(6) — clearly states that CN principles need not be applied where the benefits of implementation are outweighed by the costs. The agreement also provides an extensive (but not exclusive) list of matters which may be taken into account in that assessment. The list includes, for example, social welfare and equity considerations, regional development and employment. Governments do, therefore, possess the ability to implement NCP flexibly so that it remains consistent with the weighting placed by the community on particular social objectives (NCC 1996b, p. 2). As the Chamber of Commerce and Industry of WA stated:

> Contrary to the impression given by some critics of competition policy, the public benefit tests applied by the various jurisdictions are amply broad and flexible to incorporate non-economic considerations. (sub. 183, p. 7)

The widespread concerns received by the Commission suggest that this flexibility to accommodate the interests of local government and rural communities is neither well understood nor utilised in the application of the 'public interest' test. The fact that jurisdictions have taken independent stances on interpreting the 'public interest' test and have little consistency in their documentation on how it should be applied has contributed to participants' concerns.

Some of the criticisms of participants appear to arise because the scope and flexibility of the 'public interest' provisions of the reforms have not been publicised sufficiently. This conclusion found support from the Commonwealth Department of Transport and Regional Services, which noted:

> Unfortunately, there is little detail available on these provisions, and in regional Australia there seems to be a lack of knowledge of the very existence of public interest provisions. (sub. 191, p. 4)

In Victoria, the Municipal Association of Victoria noted that there is still considerable confusion among councils as to the extent and parameters of CN policy and how to apply the 'public interest' test (sub. D276, p. 6).

Governments are, though, aware of the need for better education and guidance on the operation of the 'public interest' test, and taking steps to address this need. For example, the South Australian Government has, with this in mind, revised its Clause 7 Statement and guidelines for local government (sub. D298, p. 18). Results of efforts by governments to educate councils on CN policy and its implementation (such as those in cooperation with local government associations in South Australia (sub. D224) and Victoria (sub. 276)) indicate that progress is being made.

FINDING 8.1

Misperceptions about the scope and implementation of competitive neutrality, and in particular the application of the 'public interest' test, suggest that early efforts by governments to inform those affected by competitive neutrality were inadequate. Additional efforts by governments have gone some way to counter these lingering misperceptions in the public and private sectors, but continuing measures are still necessary.

8.6 Competitive tendering and contracting issues

Competitive tendering policies of State and Territory Governments (particularly with respect to their road contracts) and of local governments attracted considerable comment from participants. This attention stemmed from the potential for those

policies to affect the business operations of local governments and the viability of the communities they serve.

Concerns associated with CTC

While governments have undertaken CTC to improve the efficiency and effectiveness of their operations, many participants were concerned about its potential adverse effects on rural and remote communities. These included:

- a loss of employment and income within the region;
- a transfer out of the region of equipment, workers and their families;
- the erosion of service quality; and
- a reduction in the ability of local government to meet civil emergencies.

Associated with these was a concern that the CTC process or the 'public interest' provisions of the CPA were inadequate for accommodating preferences for local suppliers or for taking into account the adverse consequences of losing a contract to 'outside' suppliers. (In this regard, participants' comments echo those concerns relating to CN.)

CTC does not necessarily mean, however, that 'outsiders' will win tenders. As the Northern Territory Government noted:

> The move to outsourcing road construction and maintenance services was accompanied by concern that local employment would be adversely affected. While the day labour positions have gone, experience has shown that local companies have been established and have been successful in winning contracts for road work, thus maintaining a local employment base. (sub. 128, p. 2)

The Queensland Government (sub. 202) also emphasised that CTC is not synonymous with awarding contracts to non-locals. It stated that competitive tendering processes, based on value for money, could still allow local suppliers — whose tenders are superior because of local knowledge — to obtain contracts at a somewhat higher price than coastal competitors.

Additionally, how CTC is introduced can significantly improve the ability of in-house teams to win tenders, without compromising the potential benefits from its introduction. The NCC (sub. 178, p. 32), for example, noted that, prior to putting functions to a competitive tendering process, some public bodies in Queensland and Victoria provided training for their staff who undertook those functions. This gave the staff a better opportunity to win the work in competition with the private sector or other government suppliers.

The fear of losing tendered work to 'outsiders' (with the prospect of losing economic activity, local jobs and families, and a capacity to respond to emergencies like bushfires) has led some councils to give preference to local suppliers or require contractors to use local resources. Not all participants welcomed such a response. Canegrowers Burdekin, for instance, noted:

> [Burdekin Shire] Council says it could contract services and inputs from outside the shire (eg Brisbane) at a lower cost but this would reduce employment and business activity in the shire ie. it considers net public benefit for the community is served by paying more to local suppliers. It is incongruous that growers are asked to bear the brunt of NCP reforms … but they do not receive the benefits of competitive tendering by the Local Council through lower rates. (sub. 30, p. 2)

Some participants thought local preferences may run foul of the *Trade Practices Act 1974* (eg the Shire of Murray, sub. 71 and the ACRLF, sub. 192, and attendees at the Commission's meetings in Lismore and Maitland). Participants suggested that further education (and possible transitional arrangements) was required in this area. The Industry Commission's report on CTC considered this issue and concluded:

> If local governments in rural and remote areas give preferences to local suppliers or require contractors to use local resources, that should be set down fully in the tender documentation; all tenders, including in-house bids, should identify separately the additional price for being required to use local resources; and when the contract is awarded, any additional cost due to a requirement to use local resources should be announced. (IC 1996a, p. 21)

A number of participants expressed concern that the 'public interest' test was not able to factor in potential adverse local effects at either the stage of deciding whether to implement CTC or the stage of deciding between competing local and 'outside' bidders.

With regard to the first of these, the NCC (sub. 178, p. 55) has noted that while CTC is not required by the NCP, it is one way of implementing CN, and the implications of such reform for local communities must be considered in assessing whether to pursue such reform. The 'public interest' test does allow regional employment effects to be taken into account.

With regard to the second, the NCC's submission refers to its 1996 publication *Considering the Public Interest under the National Competition Policy*, where it stated that 'public interest' should encompass implications for local communities:

> In considering the relative merits of in-house and external provision, it is appropriate to examine factors in addition to the relative cost of in-house and external provision. One consideration is the value of keeping workers employed in a local region. Another is the convenience of having people readily available to provide a service. (NCC 1996b)

The Shire of Yarra Ranges (sub. 182) gave an example of how this has worked. It let a road maintenance tender for each of the two regions in the shire. The initial evaluation awarded both contracts to an external bidder. Council then applied a 'public interest' test which considered the potential for lost skills and knowledge of the area — critical for emergency management and planning within the Shire. (The Shire is the leading council in emergency management for fire, floods and landslip.) As a result, the external bidder was awarded one region and the in-house council team awarded the other.

Similarly, the Northern Territory Government noted that while it has encouraged competitive tendering by councils, it had not imposed any requirement on councils in remote communities in respect of CN (sub. D299, p. 2). This approach is intended to avoid adverse social impacts in these communities.

Another concern of participants was that the use of CTC would inevitably be associated with a loss of quality in service provision. The NFF (sub. 144), for example, referred to the increased risk to quality, commenting that it was harder to control the actions of individual contractors than council employees. Anecdotal evidence from Mr R. Linger (sub. 100) cited the failure of compulsory competitive tendering in practice to deliver better quality for money.

Quality problems can arise if CTC is poorly *implemented*. But CTC *policy* is all about getting value for money — not just getting the job done at lowest cost. Experience across Australia suggests that a deterioration of quality from process-related failure is not intrinsic to CTC. That experience also suggests that proper application of good processes (such as two-envelope tendering systems where bids are assessed first against a specified quality hurdle, with only those meeting that test eligible to be assessed on the basis of price) can consistently deliver satisfactory quality (IC 1996a, p. 10).

CTC delivers net benefits

In fact, the widespread use of CTC and the trend for it to encompass new areas of services is testimony to its worth.

Information to this inquiry reaffirmed that CTC can provide benefits such as a greater focus on outputs and outcomes rather than inputs, encouraging suppliers to provide innovative solutions, cost savings in service delivery (which continue to accrue over time). These in turn allow scope for lower user charges, council rate relief and freeing up funds for councils to meet other local priorities. The Australian Capital Regional Leaders' Forum (sub. 192, p. 8) stated that contracting and competitive tendering are the most common reforms implemented by councils in

pursuit of general efficiencies. The Local Government and Shires Associations of NSW (sub. 197, pp. 6–7) noted that these practices are being adopted increasingly by councils in New South Wales.

The Northern Territory Government (sub. 128, p. 2) drew attention to benefits available from CTC beyond just improving the efficiency and effectiveness of government service provision. It noted that, where some of its services (building repairs and maintenance) have been outsourced, this has resulted in a healthier and more competitive building trades industry. This has made skills available in the broader community which may not have been previously available — eg contracting of air conditioning repairs has meant that previous in-house Government expertise is transferred to the private sector and then becomes available to the wider community.

A sample of participants' comments about the gains to country and metropolitan councils from CTC is contained in box 8.3.

Box 8.3 **Examples of participants' comments on gains from CTC**

Participants at a roundtable meeting in Kununurra (Western Australia), referred to how a local council had made significant savings from contracting out. Its use had enabled the number of staff in parks and gardens to be reduced from over 50 to about 9. Most of those displaced picked up jobs with local contractors. As well, after contracting out the operation of the local airport, they noted that the shire is now making money on it.

The Bass Coast Shire Council (sub. 88) noted that the application of CTC in its operations has resulted in positive outcomes. Services are now better specified, monitored and managed and, as a result, they are more efficient and effective.

The Northern Territory Government (sub. 128, p. 13) considered that councils generally consider that the use of contractors has resulted in cost savings for the councils.

The NFF (sub. 144) noted the contribution CTC had made in helping to lower rates to the benefit of ratepayers, farmers and other businesses.

The NCC (sub. 178, p. 56) gave examples of significant capital and operating cost savings resulting from CTC, such as those achieved by the Noosa Council.

On the other hand, CTC is not without problems.

CTC may deter smaller bidders

Some participants were concerned that CTC may exclude smaller bidders — a category, which would include many local government and private sector contractors located in rural and remote areas. This may happen where the size and

duration of the bundle of tendered activities, or large performance bonds, effectively bar smaller businesses from competing. These concerns were focused primarily, but not exclusively, on CTC as it related to major roadworks.

In Western Australia, participants such as the Shire of Jerramungup (sub. 1) and the Shire of Yalgoo (sub. 98) noted that the aggregation of tenders by Main Roads has put the scale of the work beyond the capabilities of rural small businesses. The Shire of Yalgoo claimed that the size of the contract bundles and Main Roads' ten year contracting strategy for road maintenance mean that even though Yalgoo Shire enjoys a competitive advantage in road maintenance in their area (with all CN obligations met), it cannot compete. It noted:

> Main Roads has tendered maintenance of its network on a very large parcel basis. It is estimated that each contract will be worth about $200 million; this is will beyond the capacity of any shires or regional contractors. (sub. 98, p. 8)

The potential to lock out smaller contractors by aggregating tender packages on offer was also noted by the Civil Contractors Federation, Queensland Branch (transcript p. 640) as occurring in Queensland. The Association noted that this was probably being done to obtain efficiencies in the jobs involved.

This approach contrasts with that taken by the Northern Territory Government. In its submission, the Northern Territory Government recognised how critical the packaging of open competition tenders was for the involvement of locals. It stated

> If small jobs that could be handled by locals are included in tenders that they have no chance of winning (such as where major equipment or expertise is required) then that work is lost to the locals. However, if the small jobs are bid separately (or combined into packages that are 'winnable' by locals) then the local firms can bid and stand a chance to win the work. … The maintenance of local skills and expertise is essential for rural and remote communities in the Northern Territory. (sub. 128, pp. 2–3)

The Western Australian and Northern Territory approaches highlight some of the tradeoffs which governments face in applying CTC — whether to aim at minimising the administrative costs of CTC (by going big and relying on the prime contractor to determine local contracting, if any) or at directly facilitating the involvement of smaller contractors (by going small).

The issue of local government or smaller private contractors in rural or remote areas being disadvantaged by the tendering process was addressed specifically in the Queensland Government's submission. It noted that road construction and maintenance are particular examples where, in the absence of mitigating policies, open tendering would threaten the continued employment of local people. To address this concern, the Queensland Government has developed a CTC policy aimed at sustaining vulnerable rural communities (sub. 202, p. 6). In practice, this

can result in contracts for State Government roadworks being reserved for local council workforces. Against this, though, the Government noted that it must continually balance the need to obtain value-for-money results for taxpayers generally (p. 20).

This issue was also examined in the Industry Commission report into competitive tendering and contracting. That report concluded that agencies should determine contract size on a case-by-case basis, with reference to:

- the service and market characteristics (for example, economies of scale and scope);
- administrative or transactions costs (and whether the agency or an external contractor is best able to manage these costs); and
- the need to ensure effective competition (IC 1996a, p. 265).

The report concluded contract length should be determined with reference to the:

- need for contractors to recoup significant sunk costs;
- desirability of continuity of client–contractor relationships;
- possibility of fundamental policy changes affecting service provision; and
- need to ensure an effective level of competitive pressure (IC 1996a, p. 267).

Compulsory competitive tendering — a special case of CTC

The Victorian Government's policy statement on applying NCP to local government identifies compliance with compulsory competitive tendering (CCT) as one of the key elements of applying NCP (NOLG 1998, p. 179). As noted above, this is discretionary policy of the State and is not required by NCP.

Victoria's CCT legislation — passed in June 1994 — requires councils to market test (via the use of competitive tendering) at least 50 per cent of their total operating expenditure each year. This was introduced by setting targets of 20 per cent for 1994-95, 30 per cent for 1995-96 and 50 per cent for 1996-97. By 30 June 1997, the majority of councils had achieved CCT coverage in the 50 to 70 per cent range. Tendering programs for other councils showed that they would reach the 50 per cent target during 1997-98 (NOLG 1998).

The legislation allows each council to determine which services it will tender, although legislative and policy provisions effectively mean that councils must market test almost all parts of their operations (sub. 71, attach. 1, p. 11). As a consequence, the Municipal Association of Victoria (sub. 171, p. 17) noted that CN

— which applies to any service that is tendered by a Victorian council — will have a commensurately broader impact for Victorian councils.

CCT is one of a host of local government reforms — which include council amalgamations — introduced by the Victorian Government since 1993, with the aim of developing a culture of efficiency, competition and accountability in local government (Ernst *et al* 1998). As the CEO of Ballarat City Council is quoted as saying in the NCC submission, 'the results have been varied, but predominantly positive' (sub. 178, p. 57). At the Commission's Bendigo hearings, the Glenelg Shire Council illustrated the benefits to be derived from CTC, noting that:

> Our experience has been that … where an internal business unit has applied for a contract on 97 per cent of times it's won.
>
> … what we have got [from introducing CCT] is a far better understanding of what work we're trying to seek from business. … We see big benefits from having to actually apply the rigour of these policies. It's certainly adding to the professionalism and efficiency of our industry. (trans., p. 533)

While CCT raises all the issues inherent in the application of CTC, it has one extra dimension. It is a legislation driven process, mandatory for councils. This brings with it some unique concerns.

At meetings in Victoria, the Commission received extensive comments critical of the demands CCT forced on councils, especially smaller (generally rural) councils. An example of this was the need for a purchaser/provider split where councils are not big enough to support the depth of personnel skills needed in each arm. This echoed earlier survey findings reported by Ernst *et al*., which noted:

> Very few of the case study councils were satisfied with the way the purchaser/provider split had been effected, but the split is causing the greatest problems for smaller local authorities. This is substantially because they have neither the numbers of staff, nor the recruiting capacity of metropolitan councils, needed to create a sufficient critical mass of expertise and skill on both sides of the purchaser/provider divide. (1998, p. 3)

The views of most participants were effectively summarised in a study provided by the Council for the Shire of Murray. That study concluded that the 'one size fits all' approach of CCT is deficient given the circumstances faced by many rural shires, namely:

- low population and rate base, combined with high infrastructure costs;
- an inadequate number (and in some cases a complete absence) of firms able or willing to compete; and
- the perilous state of the economic and social fabric of many small towns caused by a complex range of broader economic forces (sub. 71, attach. 1, p. 64).

Murrindindi Shire Council (sub. 5, p. 1) — a small rural shire — noted, for example, that for it the costs of implementing CCT (eg gearing up, training staff, advertising etc) had been significant at about $100 000. But it has resulted in very little change, and any gains are marginal at best (eg 92 per cent of tenders attract only one bid and 88 per cent of previous suppliers were retained). Left to its own devices, it is unlikely that the council would have seen fit to expose as great a range of services to market testing.

While it is normally the prerogative of councils to take account of local circumstances in their decision to proceed to contracting or not, some participants suggested that this was denied under CCT. Mallee Family Care, for instance, noted that the (then) Office of Local Government refused to permit factoring of local employment and local economic issues into the tendering decisions (sub. 17, attach. 1, p. 17).

Participants in other States expressed concern that CCT might be (inappropriately) foisted upon them. The Murray Regional Development Board & Riverina Regional Development Board, for example, noted:

> Some small communities have been devastated by the loss of council activities eg Tungamah in Victoria [as a result of the introduction of CCT]. These Victorian experiences are of concern to rural NSW, and on an industry basis are not favoured ... When plenty of options for competition are available CCT is very beneficial to a council, however when options are limited, as is the case in some parts of rural Victoria the results could be detrimental in the long term. (sub. 109, p.8)

Participants in other jurisdictions (eg the Local Government and Shires Associations of NSW, sub. 197) opposed the introduction of CCT for their local governments.

8.7 Impact of competitive neutrality on local government

In June 1997, the NCC noted slow progress in some jurisdictions in the application of CN to local government business activities (NCC 1998a, p. 50). Since then, jurisdictions have made good progress towards 'on the ground' reforms, and the June 1999 assessment of progress by the NCC indicated no cause for interrupting second tranche competition payments in this regard (NCC 1999b, p. 12).

Although the move to implement CN at local government level has accelerated, submissions and information from public hearings suggested that the impact of those reforms has been limited to date. Participants were unanimous that it is too soon to determine what will be the net outcome. The Townsville City Council

exemplified this view when it noted that implementation of CN is still under way, whereas the effects of those changes can only be assessed in the long term (trans., pp. 773–75).

The reforms have, though, had an early impact on local government water, sewerage and road operations and where their business activities are large in scale. (Often these describe the same businesses.)

In Queensland, in particular, water and sewerage operations are large activities for a number of local governments. Such operations have been to the fore in the reform schedule, and have thus experienced the full and early effects of CN reform via corporatisation. However, while the implementation of reforms to water and sewerage operations is well advanced, the Queensland Government (sub. 202) noted that there is little quantitative evidence or definitive assessment of the overall impact at this point. It also noted (p. 4) that the smaller regional, rural and remote local governments are not likely to have any business activities of sufficient scale to qualify as significant and, thus, subject to CN.

Although local governments in other jurisdictions provided evidence of CN being applied to their water and sewerage activities, the consequences for their local communities are also not yet apparent.

The business activities of many local governments throughout Australia are too small to fall under the CN policy. In Queensland, for example, the government has deemed that activities with an annual expenditure of $5 million or less (or $7.5 million for water and sewerage operations) fall below the 'significant' business activity threshold for the purposes of applying CN. For the Mount Isa Council, for example, which has no business activities above these thresholds, CN has little relevance other than for in-house bids for competitive tenders.

Similarly, Western Australian Government representatives told the Commission that 'CN and local governments is not much of an issue, because [local governments activities] are much smaller here'. There are only around 40 local government business activities in Western Australia, and fewer than 20 local governments run those activities. In addition, under the Western Australian Local Government Act, councils cannot form corporations.

Information from South Australia also suggests that, at the local government level, there have been only limited effects to date from implementing CN. The Local Government Association of South Australia has told the Commission that local government does not do much business. Although many councils undertake their own local roadworks, this is not captured by CN because those works are funded through rates rather than on a user pays basis. (However, the Commission notes that

where a council business bids for a competitively tendered project, it must assess whether CN principles should apply to that activity.)

In some areas, the impact of CN has been cushioned because elements of the CN 'package' were already in place. In New South Wales, for example, applying CN will have less effect than expected because business enterprises of local government are already subject to State Government taxes and charges — including payroll tax, land tax and stamp duties (Local Government and Shires Associations of NSW, sub. 197, p. 5).

Moreover, the fear that CN will force councils into a new pursuit of efficiencies and possible workforce reductions implies that they have not pursued this energetically in the past. But participants (eg Greater Taree City Council, (sub. 203), the Council for the Shire of Murray (sub. 71) and Tamworth City Council (trans., p. 117)) noted that local government in New South Wales and Victoria has been subject to 'rate pegging' for many years. This has placed pressure on councils to look for efficiencies over a long period.

In fact, a number of local governments claimed that the introduction of CN offers no immediate or future threat to them, because their operations are already efficient. This was the case with the Colac Otway Shire, which told the Commission that CN is no problem for it. The Shire applies CN to its contracting businesses and still wins tenders. The Shire of Yalgoo in Western Australia (sub. 98) expressed the same sentiments. In road building and maintenance, even after accounting for CN, the shire still enjoys a competitive advantage.

A significant number of participants considered that CN would assist councils in their drive to more efficient and effective service delivery. At one of the Commission's meetings in Townsville, for example, an attendee noted the beneficial impact of CN in showing councils where they were inefficient — which was the first step to getting more value out of each dollar of council expenditure. At a meeting in Moree, the Commission was told that, while the establishment of the water and sewerage operations of the Moree Plains Shire Council as business units had involved initial set-up costs, the council was beginning to see management benefits from the change.

The Merriwa Shire Council (sub. 77) stated that a positive outcome is increased awareness of the need for councils to examine their work practices and accounting systems. Similarly, the Devonport City Council (sub. 44) noted that full cost attribution had helped improve the efficiency and management of council services.

Whether such gains translate into benefits for local council ratepayers will depend partly on the extent to which council services are funded from a local rate base

rather than grants from, say, State governments. Benefits from efficiency gains may accrue entirely to local ratepayers (via rate reductions or more services for any given rate dollar) if services are totally funded from a rate base. Otherwise, a share of the savings may accrue to the State government in the form of a reduction in the funding required of it to support any given level of services.

The application of CN was seen, however, as having an adverse effect on some rural communities when it was applied to councils' road operations. Even where council road operations may not qualify as a business (as in South Australia) or a significant business (as in Queensland, where construction and maintenance of roads under council control are deemed not to be significant business activities), CN policy is applicable when councils bid for competitive tenders. In this context, some participants claimed that because council road activities were so important for the council and local workforce in rural areas, the application of CN has (and will have) a significant adverse effect on local economies. The Glenelg Shire (sub. D253) provided an indication of how important CN may be in this regard. It submitted a report on the experience of three Victorian councils which claimed that fulfilling the provisions of CN added 6–10 per cent to the cost of those councils' in-house bids.

A widely held view of the future impact of CN on local government was that its introduction may mean that council business (especially for road contracts) will tend to lose out to private businesses within or 'outside' the local government area. If these businesses are from outside the council area, this was seen as likely to compound the loss of economic activity and employment that some areas are already experiencing. The Atherton Chamber of Commerce (sub. 25), for example, claimed that competition policy has forced smaller shires to tender out projects, resulting in tenders being won by large companies from outside the area. The Chamber said that these companies move men and equipment on and off jobs very quickly and take money out of the local economy. Local contractors then find themselves with only minor works to do and have to dispense with their local work force.

Such views attribute entirely to CN the adverse consequences which are arguably more the result of the decision to put to tender work performed by councils. As the Queensland Government noted:

> … NCP does not require governments to outsource their work. Where jurisdictions have opted to call tenders for all road works, this has been a deliberate policy decision on the part of the jurisdiction in question, rather than an NCP-related outcome. (sub. D302, p. 9)

Some participants considered that a loss of local capacity — eg in personnel and equipment to do road works — would also mean they could then be 'held to ransom' further down the track. This view reflects the small scale of markets in

country Australia compared with metropolitan Australia, and a belief that the Trade Practices Act is ineffective in curbing abuses of market power.

To the extent that fears of a loss of local capacity are warranted, their origin lies more with the decision to market test council activities, rather than with the implementation of CN.

A number of participants claimed an impact of implementing CN would be the loss of CSOs to their communities. However, as noted in section 8.5, neither NCP reforms generally nor CN in particular call for the cessation or diminution of CSOs. (The issue of how NCP reforms — including CN — may affect CSOs is discussed in chapter 12.)

The NCC (sub. 178, p. 55) noted that, while the application of CN can pose some potential costs for rural and regional communities, it is important not to lose sight of the potential benefits. An outcome of such reforms is likely to be cost savings in service delivery, in turn providing scope for reduced user charges, rate relief and a greater pool of funds for investment and other local priorities — including the delivery of CSOs.

Different effects on country and metropolitan Australia

Evidence from submissions on the differential impact of CN reforms on country and metropolitan local governments is scarce. This is mainly because implementation of these reforms is relatively recent.

Because CN applies only to certain business activities of government, its regional impacts will depend on whether local governments conduct any business activities subject to CN. Moreover, how important those impacts are will depend on the share of total council activities represented by those business activities.

Information provided to the Commission suggested that the business activities of local government in country Australia clearly differ from those of metropolitan councils in two main areas — the provision of water and sewerage and the provision of roadworks.

In New South Wales, Queensland and Tasmania, local government outside the capital cities is generally responsible for the provision of water and sewerage. In the capital cities of those three States, and across all other States and Territories, the provision of water and sewerage is the responsibility of the State or Territory government rather than local government. As the provision of water and sewerage is deemed a significant business activity, the non-metropolitan local governments in

those three States are to that extent subject to CN effects not experienced by their capital city counterparts, nor by their local government equivalents in other States.

Roadworks are another area where participants indicated that councils in country Australia are likely to be more affected by CN than their city counterparts. This is because road-related *business* activities generally constitute a larger share of rural councils' total activities than of councils in capital cities. Participants also indicated that these road-related activities are of sufficient importance (especially in remote areas) that they would make it likely that rural councils would have a greater proportion of their total activities and workforce in business activities subject to CN than would metropolitan councils.

Victoria is an exception to this tendency for local governments in country Australia to have a greater share of their total activities subject to CN than their city counterparts. In Victoria, CN applies more widely to all council activities because the Government of Victoria has introduced compulsory competitive tendering — which is subject to CN — for *all* local governments. In addition, the definition of what constitutes a significant business activity in that State (applied by the Victorian Department of Infrastructure) has the potential to expand significantly the coverage of CN beyond that commonly found in other jurisdictions.

With regard to the incidence of CTC, information provided on CTC has essentially been ancillary to this inquiry's main focus — that is, the impact of NCP reforms. The Commission received only a sketchy view of the impact of CTC on country and city Australia. Moreover, while many submissions drew attention to obvious costs associated with CTC, the benefits were largely unchampioned (reflecting their less visible nature).

Current evidence though, suggests that the vast majority of Australian councils use CTC in some form. While aggregate expenditure data on CTC are not available, a likely level would be over 20 per cent of total council expenditure (IC 1996a, p. 63). However, while CTC is used extensively at local government level, its use varies substantially between individual councils.

The Commission has insufficient information to identify the extent to which the share of total council activities subject to CN differs between country and metropolitan councils. Accordingly, the extent of any different incidence of CN and its impact remains unclear.

The significance of any impact arising from CN for particular geographic areas will also be influenced by the relative importance of council business activities in the local economy. The Queensland Government, for example, noted:

> Local governments in rural and remote areas play a significant role in local community development through employment creation and contributions to the continuing viability of communities. In remote areas, it is not unusual for the local government to underpin economically and socially an entire town or shire. (sub. 202, p. 5)

Submissions also referred to the different nature of the economies operating in rural and city Australia as a reason for believing that the impact of CN will result in a differential incidence of *consequences*. This issue of how the different nature of 'country' and metropolitan economies may affect the adjustment pressures facing Australians as a result of NCP reforms more generally is discussed in chapter 13.

In summary, significant implementation costs have been incurred by some councils (particularly those with large water businesses). It appears the costs are generally incurred early and are largely one-off in nature, while the benefits of more efficient provision of council services are likely to manifest themselves in the longer term and be on-going. However, it is too early to determine with any certainty the impact of CN on local government, especially as implementation of the policy is still evolving.