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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO THE IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

MR J. COSGROVE, Presiding Commissioner
MR R. BRAITHWAITE, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT BENDIGO ON WEDNESDAY, 7 JULY 1999, AT 9.35 AM

Continued from 5/7/99 in Launceston

MR COSGROVE: Good morning, everybody, I'd like to welcome you to the Bendigo set of public hearings on the commission's draft report into the impact of competition policy reforms on rural and regional Australia. We try to do what we can to make these hearings as informal as possible but, with a view to helping us to advance the quality of our final report, we naturally ask participants to be accurate in the information which they provide to us. We are seeking at this set of hearings and others which we've been conducting around the country in particular factual evidence on the impacts of competition policy reforms, as well as reactions to the assessments which are contained in our draft report.

I'll be asking all participants today to identify themselves and the capacities in which they are appearing before us, and I should also mention, as you will see, that the hearings are being recorded and transcripts of them will be publicly available, including on the commission's Web site. Should anybody wish to obtain a copy of a transcript other than through downloading from the Web site, our staff who are here today will be able to tell you how you can do so.

Now, our first participant today is from the City of Greater Bendigo and I'd be grateful if you could now come to the microphones there and, as I indicated, if you would please identify yourself and the capacity in which you're appearing today.

MR SECOMBE: Thank you, Mr Chairman. My name is Barry Secombe. I'm a director with the City of Greater Bendigo.

MR COSGROVE: Thank you. Well, we're pleased to have had a further submission from the city, Barry. Are there any particular points about it that you'd like to draw to our attention?

MR SECOMBE: Well, I'd like perhaps to state that the emphasis of our submission this morning relates to the economic impact of deregulation in the retail sector. Obviously we appreciate that your brief takes on a very much wider role but it was thought that this particular aspect may be of use.

MR COSGROVE: This is retail shop hour deregulation - - -

MR SECOMBE: Yes, exactly.

MR COSGROVE: - - - which is a part of competition policy reforms, yes.

MR SECOMBE: Yes. Obviously we have a submission and, rather than speak to that verbatim I would perhaps go over those main points, if you like.

MR COSGROVE: Sure. Go ahead.

MR SECOMBE: I'm sorry. How should I address you, Mr Chairman or just John?

MR COSGROVE: As you wish.

MR SECOMBE: Okay, John, yes. It's obviously a topical issue in this area, particularly since the introduction of state government legislation in the form of the Shop Trading Reform Act. That caused some division in the community, certainly in the retail sector, which culminated in a poll. That poll was the only one of its kind that was held in the state of Victoria, and the Shop Trading Reform Act provided the mechanism to do that. The outcome of the poll received a very strong endorsement for Sunday trading to continue. In fact it was non-compulsory. We had a 72 per cent turn-out. 77 per cent voted against a ban on Sunday trading and 23 per cent did not support a ban.

John, it should be mentioned that retailing is a significant part of the Bendigo economy. We're very much a service sector economy. In fact some of those figures perhaps require a little bit of modification in our submission. In fact the retailing sector takes up 23.8 per cent of our workforce, and that's the latest 96 census data.

MR COSGROVE: That's retail and wholesale?

MR SECOMBE: Retail and wholesale, yes. Those figures are not down there but, once again gleaning from ABS figures and doing a bit of an extrapolation, we estimate that at this time retail is turning over in the order of \$550 million per year. What I'd like to focus on this morning is the impact of Sunday trading, more particularly the time lines since the time of the poll which was in April 1998. Just to set the scene, we've got a number of large retailing outlets in Bendigo. We have Myers, for example, and all of the large supermarket chains are represented. In terms of also setting the scene, Bendigo itself plays a significant regional role, and I think that in some way aligns with, I believe, some of the aspects relating to national competition policy, given that there has been a growth in regional towns and the subsequent impact, I believe, on the smaller areas.

But it's interesting to note that we did a study in 1996 - I'm sorry, it could have been 95 or 96. A consultant told us that we're capturing approximately \$80 million of retail expenditure internal to the region and, at the same time, I might add - and the whole thing grows into the Melbourne perspective because \$25 million escapes us in this area, with people going down to Melbourne and spending their retail dollar there.

Having set that scene, since Sunday trading, if we can talk about the major retailing areas, we have a large indoor shopping complex known as Market Place, which commenced operation I think round about 1995, and 10 per cent of their trade occurs on Sundays. Myer has Sunday as their third-best turnover day. Strath Village, which is a shopping centre to the east of the central area - which is very close to this venue - actually their Sundays have doubled in trade since the Sunday trading poll. Lansell Plaza has experienced steady growth. That's an area to the south of here, on the way to Melbourne, in Kangaroo Flat. They are actually spending \$4.3 million on an expansion and they're working on that as we speak.

Another impact is the increased tourism visitation which I believe will be subject

to a separate submission today, and I think very much an enhanced strategic position. My council contends that the Sunday trading and the subsequent surge of economic activity has given the right mix of economic and social opportunities which in turn provides a scope for attracting business.

We've had new business since the deregulation - I spoke before about the Lansell Plaza extension. Bunnings are developing adjacent to the Lansell Plaza site - quite a big development. And we've had retail outlets such as Rivers and we've had a number of specialty retail - something that's contributed to the retail mix in the CBD, and I'm referring to furniture-type outlets and expansions of existing industry in the retail area. We've had increased floor space, and there are figures that are mentioned in the submission. Also very importantly I think a significant indicator is vacancy rates. John, in that report we've mentioned some figures which just - I'm sorry, that's not page numbered, is it? On those figures with vacancy rates, which I think is on the second-last page - - -

MR COSGROVE: Second-last page.

MR SECOMBE: Yes, the second-last page. I just need to update those, and we've done some analysis and done some graphs of figures from June 1998 till 1999 and we've sort of looked at the overall picture throughout the municipality and there's been a decline in the 10-month period overall from 92 down to 80, but also a significant decline as we see in the CBD, which our figures indicate down from 55 to roughly 44.

I think in terms of indicators also, John, unemployment is something that is significant and as of April 1998 our figures indicate that we had an unemployment rate of 12.8 per cent. On the March released figures for the December quarter it's down to 8.8 per cent, and I think it's suggested there's an argument that our declining rate of unemployment is probably the fastest in regional Victoria.

So, overall, I think retailing has been enhanced in this area, particularly since the deregulation, and I think perhaps mainly due to the resurgence of the city overall. If I could just home in a bit on the retailing aspect, I think there's three critical aspects to successful retailing: (1) having the right retail mix, (2) having the right entertainment, because retailing is really now about an experience, and (3) having the support amenities, and I think this council has put an enormous amount of energy, effort and expenditure into the surrounding streetscape, urban landscape and design, and I think that's all contributed to the resurgence of the city and perhaps contributed to a lot of the good economic outcomes that we're seeing now. There's been a steady growth in floor space which has been mentioned in that report, and also I'd suggest the standard of floor space.

MR COSGROVE: Thanks, Barry.

MR BRAITHWAITE: Those figures you gave us for the central business area are not in your original report, are they?

MR SECOMBE: Sorry. I didn't hear that.

MR BRAITHWAITE: The figure that you gave us for the CBD on vacancies - - -

MR SECOMBE: No. This is the vacancy rates?

MR BRAITHWAITE: Yes.

MR SECOMBE: Yes. No, that was - - -

MR BRAITHWAITE: Could you just give us those again.

MR SECOMBE: Yes. That was overall, that figure, which had been over 90, which was correct, but comparing the 90, that's fallen down. I can show you this graph. It might be of more interest to you. You'll note by that graph that it's fallen down from that 92 to roughly about 80, but also we've taken those stats as at the end of April 1999, and you'll note that the green portion there which would take into account the December period - but that's a period of course where we have a number of shops that are occupied on a temporary basis for the Christmas rush, so that gives an indication, and that, as you will note also, specifically shows the CBD as well.

MR BRAITHWAITE: Thank you.

MR COSGROVE: We've read the submission, of course, Barry. It is very interesting and you do get the impression that the overall effect of liberalised shop trading hours has been positive. At the same time we've seen quite substantial growth in the national economy, as I'm sure you're aware, a big pick-up in output growth and a not insignificant decline in the national unemployment rate as well. I would guess that some of that is having an effect in your area.

MR SECOMBE: Of course.

MR COSGROVE: But what would you say about the relative significance of the sort of improvement in national economic performance and the particular influence of shop hour deregulation? It may be difficult to say but would you have a feeling that one is more important than the other or not?

MR SECOMBE: It's difficult to quantify, but I suppose if I can go back to the comparison with other regional centres, it is higher in terms of the growth - well, the decline in unemployment, as I said. And I think we're a little bit unique here. I think there's a number of other factors as well. We've gone through a significant period of municipal restructure. Whereas five or six years ago we had five competing forces at the local level, all competing for business and not really, I'd suggest, looking at Bendigo as an integrated unit, and I think we really had a magnificent opportunity and I think that's been grasped as a result of one municipal entity looking at the overall wellbeing of this area.

MR COSGROVE: You mentioned the phenomenon of retail dollars moving around, in some cases to Melbourne and I think in other cases towards Bendigo.

MR SECOMBE: Yes.

MR COSGROVE: Do you see Bendigo as what we've depicted in respect of some other provincial towns, as a sponge centre, a sponge city, drawing business and population away from smaller nearby towns?

MR SECOMBE: Yes, I think there's something to that.

MR COSGROVE: Is there any evidence that you could draw to our attention to that effect?

MR SECOMBE: No, I haven't got specific data, but it was interesting - a chap told me this morning that he had been travelling from the north and he came through down the Calder Highway, in those areas, and he came through Wedderburn, Charlton, and all of those places on a Saturday and he said it was just quiet. There were very few people, very few cars, in the main shopping centres. I would suggest that on this Saturday, for the shopping experience, a lot of those people would gravitate to Bendigo but I haven't got any firm evidence in that regard.

MR BRAITHWAITE: With the success of your trading hours here, it must also take into account that drift away from those smaller towns - you know, the vacancies in those smaller towns as against what they are here. These figures here wouldn't take that into account, would they?

MR SECOMBE: Actually those figures do take into account what we call our smaller townships, and it's interesting that in some of these there is a decline - in some there is a decline - but I've got all of the specific areas throughout the municipality. I've got, for example, Heathcote, which over that 10 months' period - and that's a small township to the east, just to give an example - has had the same number of empty shops during that period. The only time it declined was during that Christmas period, which I spoke about, where you've got the scope and capacity for a temporary trade - - -

MR COSGROVE: How far away from the city is - - -

MR SECOMBE: Heathcote would be roughly 35, 40 kilometres - yes.

MR BRAITHWAITE: Would Bunnings ever have come to Bendigo without the open trading hours?

MR SECOMBE: They made a statement that they wouldn't entertain a development in Bendigo if the Sunday trading poll - the ban on Sunday trading was successful.

MR BRAITHWAITE: When you talk about Sunday trading, you are talking about 24 hours seven days a week?

MR SECOMBE: Basically, yes. There are limitations, such as Anzac Day and Good Friday and Christmas Day, I think, but basically it's a 24-hour day - operates a seven-day week operation.

MR BRAITHWAITE: In the employment that you talk about - you know, the wholesale and retail employment percentages - have you broken down figures between permanent and casual part-time?

MR SECOMBE: No, we haven't. It's quite an interesting mix and I think the figures between male and female are fairly even. I'm not sure about that, but I would suggest that there would be a significant portion on a casual basis. The reason I say that is because we've got a university - La Trobe University - that has probably got about 3 to 4 thousand students. We have Bendigo Regional Institute of Technology. There's probably a couple of thousand students there. We also have a very good senior secondary college for year 11 and 12 and on that basis I would think that there would be a fair proportion of all those students with casual work. I say that from experience because my daughter is a year 11 student. She's got casual work and I know in her mix of friends they are all doing that. They are all working in the retail sector. That's not firm evidence, I know, but I can only give you an indication.

MR BRAITHWAITE: Has there been encouragement for greater use of the university - greater entries into the university?

MR SECOMBE: Sorry?

MR BRAITHWAITE: Has it been the cause of greater interest in the universities or entry into the universities - the fact there is work available?

MR SECOMBE: Once again I've got no evidence to suggest that but I think that's fair comment, that there would be a degree of attractiveness there.

MR COSGROVE: Barry, in your submission you've set out what you describe as a number of impacts of Sunday trading, all of which are positive impacts. Have there been any adverse effects of this change that you would mention to us?

MR SECOMBE: I think it's fair to say that there are winners and losers and we're seeing evidence particularly in the supermarket industry where the smaller outlets are suffering, and I don't think there's any doubt that, for example, the larger supermarket chains are getting a bigger share of the market. It's an interesting point. It raises a number of issues. At the end of the day I think it's primarily due to consumer choice and I think people are striving and craving for ease and convenience for their shopping, for their banking, and their leisure pursuits generally. I think people are striving for that. Of course that goes in hand with also perhaps market forces,

perhaps forces - macro-economic issues that are beyond the role of certainly council and, in many respects, beyond the role of national competition policy, I'd suggest, as well. So, yes, there are negatives. There's no doubt about that.

In the Sunday trading debate, now, whether this can be established or not, but I did have some sympathy personally with this argument. There was the issue about the impacts on the community, the fact that Sunday trading did force people, particularly the smaller people, to compete more which meant that they take up their weekends. There's an impact on the family life. The casual employment that I was talking about before perhaps indicates that a lot of kids can't play sport on the weekend. I'm not saying this is correct but what I'm saying is that they are arguments that are being put and I think they're worthy of some thought.

MR COSGROVE: Is it possible for you to say whether they were in evidence before the deregulation of shop trading hours or are they being reinforced?

MR SECOMBE: It was interesting: we had a mixed bag of regulations prior to the introduction of the Shop Trading Reform Act and there was an introduction of Saturday afternoon trading and there was also the ability for smaller supermarkets in Victoria that had less than X number of employees to trade on a more unrestricted basis, so you found that there were a lot of situations - I know one supermarket in the Khyber Road was trading when another one couldn't, for example, because of their staffing numbers. I thought obviously there was a good opportunity and that would have been quite a good little profit period for them because, now with the deregulation, that's turned around. So, yes, I think the deregulation did in some ways make it easier for those smaller outlets.

MR COSGROVE: We realise of course you have been addressing particularly this question of the effects of retail hour deregulation. The national competition policy has a number of other elements to it.

MR SECOMBE: Of course, yes.

MR COSGROVE: Two in particular that I might ask you about for reactions: the first, specific to the role of the council, is this principle of competitive neutrality and, I guess more particularly in the state of Victoria, the application by the state government of competitive tendering.

MR SECOMBE: Competitive tendering, yes.

MR COSGROVE: I'd be interested to know if you can tell us anything about the ways in which those measures might have affected the council's activities. Secondly, whether the efforts under national competition policy to improve the performance and essentially lower the cost of a number of infrastructure services like electricity and gas and telecommunications, just to mention some, have been of any significance in this region, either positive or negative.

MR SECOMBE: I think, as you correctly say, the competitive neutrality and the advent of market testing has certainly gone hand in hand. It's appropriate that they've come on to the table at the same time. I think at the end of the day it's been a positive experience. It's acted as a driver to increased efficiencies and I think cost reductions naturally because of the competitive element. As we're all aware, we've all got to be considered on an equal playing field with the loading of tax equivalents and so forth. There's an issue of transparency as well. The whole exercise has given a more detailed audit of what exactly has got to be done and in terms of what's got to be done to meet the needs of the community I think is very important.

So in answer to the first part of the question I don't see any issues. Perhaps there are a lot of things that are said about national competition policy that are due to other factors but at the end of the day it really has, as I said, been positive from an administrative perspective. I know that some councils were concerned about the way that they would have to embrace the requirements. From our perspective that has not been a problem. At the end of the day it's how you manage a process. The second question about - - -

MR COSGROVE: Before we go to the second one, could I just say a number of councils - although I think it would be fair to say smaller councils than the City of Bendigo - have raised concerns with us about the adverse effects on local council employment or indeed employment of local contractors as a result of the application of competitive neutrality and - - -

MR SECOMBE: Yes, CCT.

MR COSGROVE: - - - CCT in particular. Has that been a factor in the Bendigo area?

MR SECOMBE: It certainly hasn't been a factor in my experience but I must say to you I do have some sympathy with that argument because if you take a small town and you have, for example, the street maintenance gang - construction and maintenance gang - you have a fair proportion of that municipality's workforce, you have a fair proportion of the community's workforce in that area, and at the end of the day it may be difficult for them to compete. If they lose that tender and a larger firm - say just purely as an example Boral comes in and takes over the road maintenance and construction, at the end of the day two things happen: one, that you have the problems with destroying potentially the social fabric of your town because of the impact of unemployment; and secondly you do create a monopoly because the competitor would disperse and probably next time around they've all gone their own ways, so that's a bit of a worry. Of course that can be overcome if there's another competitor of an equal standing to Boral, which may be the case, but it's just an issue that once again warrants some thought.

MR COSGROVE: My second question you were going to address.

MR SECOMBE: Yes, my observation - and I don't know the figures and I'm sorry

I haven't read your report - but my observation is that in the utilities there have been some drivers, perhaps such as NCP, which probably have brought positive results to the consumers and I've seen that from a personal perspective. From an organisational perspective I haven't got any firm figures to convey to you but I can only give you an observation that I think there has been some positive outcomes there.

MR COSGROVE: Would it be possible, when you're back at your office and perhaps have time to look at some figures, to send us any information about the impact on your power bills or your costs of telecommunications over the period since - - -

MR SECOMBE: Certainly. Well, telecommunications definitely I can say that they've been reduced substantially, there's no doubt about that, but in terms of the other utilities I'd be pleased to get that information.

MR COSGROVE: Yes, if you could, I think that would be helpful to us.

MR SECOMBE: Yes.

MR BRAITHWAITE: Have you got a view on water - what the NCP has meant to you as far as water is concerned?

MR SECOMBE: No, only in the same vein that I've answered before. I could only generalise. I haven't got facts and figures but, yes, once again I observe perhaps positive outcomes.

MR BRAITHWAITE: This trend towards greater councils has been going on for quite a few years and it would be very difficult to ascertain but does the pressure of conforming to NCP, competitive neutrality and all of that mean that you've got more staff on to handle that type of thing? Is it more expensive to the council to do it this way?

MR SECOMBE: No, there's been no evidence of that. Well, I'll answer that in two ways. Since municipal restructure, which at the same time came along with the requirement to market test our services, there's probably been about a 30 per cent downsizing in staff mainly due to the results of restructure where you've got economies of scale, I would suggest - mainly due to that. Then with our competitive tendering requirements and our administration we set up a contract management unit, which is probably one of the growth areas within the organisation, but probably for 70 per cent of that contract management unit we grabbed resources across the board so 30 per cent of that department was actually new employment. So overall in answer to your question I don't think it's had any significant bearing on a requirement to increase our staffing resources.

MR BRAITHWAITE: But in order to get the dividend from the government you have to be very specific in the manner in which you have to do various things to be entitled to that dividend, don't you?

MR SECOMBE: To be entitled to the recovery, yes.

MR BRAITHWAITE: But what you're saying is that you think that you will manage that on the same staff level - - -

MR SECOMBE: Basically, yes.

MR BRAITHWAITE: - - - at the same workforce level as what - - -

MR SECOMBE: Basically, yes.

MR BRAITHWAITE: In that situation you wouldn't need the dividend, would you? It's a trick question.

MR SECOMBE: It's a trick question, yes. At the end of the day we play the game and, you know, this is what we're doing. We're conforming to your requirements.

MR BRAITHWAITE: Could I just go back onto the - - -

MR SECOMBE: Sorry, could you speak up. I'm having difficulty hearing you.

MR BRAITHWAITE: Yes - on the retailing.

MR SECOMBE: Yes.

MR BRAITHWAITE: What has been the effect - have you got a Woolworths here selling fuel?

MR SECOMBE: Fuel?

MR BRAITHWAITE: Have you got a Woolworths in town selling petrol?

MR SECOMBE: Yes. I'm not sure what the situation - at the Market Place area that I was talking about before. I'm not sure of the linkage with the service station there.

MR BRAITHWAITE: The question was, have you noticed service stations doing it a lot tougher under open trading hours than what they did before?

MR SECOMBE: No, there's been no evidence that has come before me, not to my understanding.

MR BRAITHWAITE: Have you got a big independent grocer retailer here, independent from the - - -

MR SECOMBE: There's probably the big three supermarket chains. We've got the Big W - of course they've got Safeways - and we've got Coles who, as you are aware, have got Coles and Bi-Lo, and there is also Franklins who are out at the site at Lansell in Kangaroo Flat.

MR BRAITHWAITE: But you don't have any local big independent grocer - - -

MR SECOMBE: Not a local one.

MR BRAITHWAITE: - - - who matches it with them?

MR SECOMBE: No. No, not a local one.

MR COSGROVE: I need to keep a bit of an eye on the clock today because we have a number of participants.

MR SECOMBE: Sure.

MR COSGROVE: But unless you have anything further you want to say to us, Barry, I think we will now conclude.

MR SECOMBE: No.

MR COSGROVE: Thank you very much for coming along.

MR SECOMBE: Thank you.

MR COSGROVE: Our next participant is the Visitor Information Centre of Bendigo. Is that right?

MS MacKENZIE: Yes.

MR COSGROVE: Thank you. For the purposes of our recording of the hearing, could you please identify yourself and the capacity in which you're appearing, please.

MS MacKENZIE: Kathryn MacKenzie, manager of visitor services with Bendigo Tourism and I'm here to represent the tourism industry which in the main is based on small business.

MR COSGROVE: What would you like to tell us?

MS MacKENZIE: Just to begin with, tourism for this area is quite a significant industry. The goldfields region attracts over 1.7 million visitors a year and that's about a tenth of all visitors to Victoria, or 11 per cent to be exact. Visitors to the goldfields account for over 4 million visitor nights, or 8 per cent of all visitor nights for Victoria.

Where do our visitors come from? 48 per cent of our visitors to this region travel from Melbourne; 32 per cent from country Victoria; 17 per cent from interstate and a growing 3 per cent of all overnight visitors are from overseas. That's growing, and our statistics at the visitor centre are showing that's notably a growing area. Total expenditure derived from overnight visitors to the goldfields in the study done by the state government in 1995 stated 185.6 million came into the region from overnight stays.

What is it that they want to do in this area? Whether they're a daytripper or an overnight person staying here, the main activities are shopping.

MR COSGROVE: It's becoming a national pastime.

MS MacKENZIE: Yes, it is. 48 per cent of visitors overnight want to shop and 22 per cent of our daytrippers list that shopping is their major activity when they come into this region. The overnight stays come to visit friends and relatives and for this region - Bendigo in particular - it's very high, it's 44 per cent. Restaurant and dining out is the next highest; for our overnighters, 43 per cent list that they come to Bendigo and one of the major activities they do is visit restaurants and dine out; for our daytrippers that is 40 per cent - so very high and it certainly has an impact on the hospitality industry here.

The fourth one is driving and sightseeing, which is great - to see they actually do some tourism activity. That's what they do. I then want to just have a look at what impact has Sunday trading had on the city and the tourism industry. For me Sunday trading coincided with Bendigo Tourism recently moving into the historic post office and setting up a major Visitor Information and Interpretive Centre -

probably in the best real estate in town, opposite the Shamrock Hotel.

We've seen almost a revolution since moving in and our business has more than trebled in a period of 18 months, and that has something, I'm sure, to do with the relocation but it also has something to do with the growth in tourism to this city. So for me trading, and for the industry, I think gave the green light that Bendigo was open for business, that it was a seven day a week city and, as you know, for tourism it doesn't matter what day of the week it is, people expect that the city will be open.

A number of smaller businesses in the CBD have taken the opportunity to alter their trading hours to open on Sunday. In particular, some of the smaller clothing shops now open at 10 o'clock on a weekday and run then on a Sunday from 11.00 to 3 o'clock in the afternoon. You will see signs up as you walk around the CBD, "Open Sunday". It may be 1.00 to 3.00, it may be 12.00 to 3.00, but they're taking the opportunity to deregulate and take the opportunity of Sunday shopping.

Two of the major shopping plazas are trading seven days per week, and one of them in particular is finding Sunday is their largest trading day. In discussion with some furniture stores - and there is one represented here - Sunday also is one of their busiest days. I think this mirrors the megatrends of lifestyle trends that are happening, not only in Victoria but I'm sure right across Australia, where people are seeing this leisure sort of activity actually taking place. So on Sundays our hospitality industry - and talking with a number in the hospitality industry - say that Sunday has become - Sunday lunch - their biggest day.

One of our traders in hospitality who has opened her doors for five years said in the early days she received good trade on a Sunday. Sunday is still her busiest day, double to treble any of the weekdays, and even now since Sunday trading - she has got 15 competitors that she sees as viable competitors on a Sunday - her business is still growing very strongly. So I think that indicates the strength of growth in that hospitality dining out, but also we know from other activity that people are going and doing the lifestyle-type shopping. Myers is open, but also garden and nursery shops, more boutiques, furniture and bedding, and bric-a-brac and antique - that lifestyle type of shopping - and they certainly are the shops that are open and certainly gaining good patronage. But as I said, in complementing that, certainly we can see a growth in smaller shops starting to regulate trading and take advantage of people wandering around browsing and hopefully buying.

MR BRAITHWAITE: In those figures have you found that this has driven tourism, open trading hours has driven tourism? You've given us figures there on percentages.

MS MacKENZIE: It certainly made tourism more vibrant in our city. Prior to Sunday trading we would have, probably on Friday and Saturday, a range of calls to our centre saying, "What's open?" "Are there any shops open?" "What is open?" On Friday and Saturday, from country Victoria in the main, about a third of our calls would be coming through asking what was open. That's become now a minor call. I

used to look out of our window and say the likes of Myer are open or, "I can see

something," because we didn't even know prior to Sunday trading - we almost had to do a drive around to find out what would be open. It was always this hit and miss and I think for us, having seven day a week trading and having stores open their doors has really turned the tide for us.

We are tapping into that short break market which is the growing market. Certainly in Victoria's case, 40 per cent of all interstate holiday trips and 79 per cent of all intrastate holiday trips constitute this short break market. We, as Bendigo Tourism, are certainly tapping into that short break market. What they do is take either a Friday and a Monday and add it to a weekend. That market, I know from what we have in our Visitor Information Centre, is quite an up-market little merchandising area. Our sales are quite different from weekday to weekend. We can sell, and we do sell on consignment, small retailers' - example, Goldrush Jewellers, who do not open their doors on a Sunday, but we have their product in our Visitor Information Centre on consignment. We have been known to sell jewellery over \$500 on a weekend to that trade. We certainly sell artworks to the tune of over \$200. So we can sell on the weekend.

There is quite a change in buying habits. During the week it's your travellers who are taking something back for probably the neighbour who is looking after the cat or dog and they'll choose something quite reasonably priced. But we see, when the Melbourne market comes in - now, I'm sure that's replicated right across, and we know the art gallery has increased its visitation in the past 12 months from 17,000 to 70,000 with its new development - that's a huge Melbourne market they are attracting, and we know from their experience in the merchandising area, too, that they're moving very high cost, high profile items.

I believe that is happening right across the city. So people who want to tap into that short break - and this is what Tourism Victoria calls the socially aware and the visible achiever - they're the high disposal income group with that short break; 40 per cent of our visitors fit that market; 48 per cent in terms of Bendigo. So we're certainly seeing that that is changing and it means that Bendigo is open for business; that you've got shops open; you've got restaurants and cafes and sidewalk cafes. Bendigo is no different to a South Yarra or a Brunswick Street on Sunday - people are taking their papers.

We also have here, as I stated earlier, a very high FR market - a visiting friends and relatives. In fact, Bendigo is higher than probably any other area in Victoria with a 48 per cent - between 43 and 48 per cent depending whose figures you look at. And I think it's a trend once again where, 20 years ago we used to entertain at home, it doesn't happen any more, or to as great an extent, and locals, with that FR market, are certainly taking their friends and relatives out to their favourite shopping places and to restaurants.

Interestingly, the B and B industry are starting to say to me that they're tapping into that FR market, too. Where once visiting friends always stopped with the friends and relatives the B and B industry are now finding that the friends and relatives are

actually stopping with them, and still going out and shopping and dining with their friends and reels, but the market is changing and it is that short break.

The other thing, as I said earlier, the international market: I've just come recently from an overseas trip, and certainly overseas seven-day trading is accepted. When our overseas visitors come to Bendigo, they want to go to Central Deborah, they want to have the underground experience, ride the tram, go to the Golden Dragon Museum and do those certain sorts of things, as well as shop, buy souvenirs, local product and eat out, of course. Bendigo is centrally located, and a large portion of our visitation, I think, comes from our central location, and I'm sure people here and a lot of our tourism and hospitality industry tell us that it's a meeting place for friends and relatives where they'll arrive from Melbourne and Mildura and meet in a central point, Bendigo, and do all the sorts of things I've been talking about.

The other thing with Sunday trading - it was quite likely that our fast-food chains would close on a Sunday; that's McDonalds, Pizza Hut, KFC and so on. That certainly would have been very detrimental for Bendigo because people will just keep on driving, and the places that would have been impacted as well are once again those lifestyle stores, your bric-a-brac, your markets - Bendigo has very good Sunday trading markets here; draws a large audience. In fact, on Sundays probably that's one of the areas that we field a large number of questions on - "Where are the markets and what do they trade?" So that has certainly been very important in the tourism industry here.

The other growing - and we're sitting here in one of the icons here in Bendigo - is the conference and events market. That's increasing in Bendigo and has, with great rapidity, over the last 18 months, Bendigo bidding and winning some very major and large conferences of well over a thousand. What these conferences are doing - and I've been handling a large number of these - they're bridging the conference over the weekend and wanting to get the full benefit for not only the participant but the partner of that conference to participate in all the things, of shopping, of attractions, and eating out. We actually facilitate that with a shopping voucher for conference participants with special reductions for shopping. We put a program where we welcome shoppers to the retail shopping outlets, and we have had very good feedback from the retail sector, as well as the attractions, that this has been a real boost to our industry.

Bendigo is a great sporting city, we have fantastic facilities here. On the weekend we attract large sporting audiences from international, national, intrastate and interstate. We run at our centre a tour and accommodation booking service, which is growing with great vengeance as well. We know that with that weekend football and sporting activity many of them are making it into overnight stays, and the family are actually booking, asking us what else they can do. Many of the rural areas that come to Bendigo want to shop and want to do all sorts of things, and take advantage of a larger regional centre.

We also know that since Sunday trading many of the businesses are taking

advantage of when major events are on, and activities, to actually open their doors during this time, so they're not bound by that regulation. I think this will grow as people see that they benefit financially from this. So for us, just in conclusion, we believe that the tourism industry is a major industry here and brings and generates major economic activity for the Bendigo region. Within, I would say, the last two years in short it has been almost a revolution. My staff - and I have 45 volunteers - really can't believe what they're seeing every day. In fact we have between 250 and 500 visitors to our centre every day, and that's quite a change from the 50s that we saw in the two years prior. Thank you.

MR COSGROVE: Thanks, Kathryn. I imagine from time to time you might consult or meet some of your counterparts working in tourism in other Victorian cities.

MS MacKENZIE: Yes.

MR COSGROVE: I wonder whether you could give us any impression as to how they have found the impact of deregulated shop trading hours on their tourism sectors. Is Bendigo somehow or other different or is this more - - -

MS MacKENZIE: Bendigo seems very vibrant, and we hear this a great deal from our visitors, actually, who drive through country Victoria, spending time, and we're often asked what is the bouyancy and vibrancy of Bendigo. It's really hard to explain. I think one of the greatest generators of this vibrancy has been the role of local government in this city; the beautification programs and the vision and the excitement; it's almost a renaissance happening here in this city. With a large VFR audience, visiting friends and relatives, who have been invited to be participants in this redevelopment by local government I think it has generated quite a large visitor audience, and one that where they only visited once they are visiting more often for events and various activities, exhibitions at galleries and whatever.

So I think with an optimism and a vision it generates that within your own retailers. However, I do know that Shepparton has quite strong - and we do know that people drive from here to do some shopping at some of the specialty stores over there. I'm not sure that Ballarat - and I have visited there on the weekends - seems to have the same vibrancy as Bendigo, but they do have the shopping. I think it may have more to do with - something to do with the layout of the city. I think Bendigo has been very fortunate with our forefathers setting out a city that doesn't have a huge long main street but actually has concentrated a CBD with some focal point, and has actually integrated a park and leisure activity in it. Bendigo is actually sort of satisfying in meeting some of the megatrends in lifestyle, and suiting that very well. But I do have to say I think the vision of this city, beginning with the commissioners, and then moving into our local government, has really put Bendigo at the forefront of tourism.

I know that Geelong is witnessing very strong weekend trading, and they are very strong in the tourism - all along the Great Ocean Road it is probably quite

significant. We had just one Commonwealth government funding to do an economic impact study on the impact of tourism, and just really trying to get some better data on what's actually happening here, because we know things are changing dynamically, rapidly, and we really want to work out what's actually happening so we can actually aid the growth.

MR BRAITHWAITE: Just two questions. I notice in your chart here that there's a regularity between what is taken on the weekend as against the rest of the week, even though that varies quite a lot. In October you took almost as much on the weekend as you did during the week.

MS MacKENZIE: Yes.

MR BRAITHWAITE: Was that a special event?

MS MacKENZIE: Yes. October for Bendigo - really that October and November, but October with school holidays and major events is a very very busy month. They're large events with Elmore field days, Bendigo Heritage Uncorked, and sporting events, and really for us October and November are actually huge tourism months in this city. April traditionally, with Easter, has been huge but we're finding that the growth has been certainly towards that end from moving through September, October, November. Interestingly though, when you start looking at the weekends, it's fairly even other than January, which is school holidays, and I don't think there's much difference between weekend and weekdays. But I think that what 1998 shows us, which is the first full trading year that we had after Sunday trading - and we know from our centre statistics that the growth of the weekends is the busiest and is holding its own against the weekdays.

MR BRAITHWAITE: Right. There is certainly a social impact as far as the consumer is concerned - they want the extended trading hours. Has any study been done on the social impact on the workers within the industry and the people who own the enterprise? Has it had any social impact?

MS MacKENZIE: It has had no formal - and I think that's what we're hoping for. We're going to take a good look at the retail sector in this economic impact study, because I think it would be fair to say that a large portion of our retail sector still do not believe they are in tourism, and yet we know from the study that was done in 1995 that \$38 million in revenue is directly brought in to retailing from the tourism industry, and yet I think if you spoke to many of our retailers, they wouldn't believe that they had anything to do with tourism. There are some enlightened ones, and they do know, and they are the ones that are certainly tapping into the Sunday trading.

I don't know really what it's doing to social lives in that respect. I think people everywhere are working very hard in this industry. Tourism probably is one of the hardest industries, and as the retail sector moves into tourism, I think they're going to realise the full impact of what tourism has been operating with for many, many years, which is seven day a week trading. My centre operates - and I know other attractions

in the city do, Central Deborah and Golden Dragon Museum - with a very small paid workforce and a very large volunteer workforce. We open our doors every day bar Christmas and extend hours, and are looking to do it - but it takes its toll; I think there is a social toll. But in Bendigo with the thriving industry, I think the buoyancy and whatever, the energy and enthusiasm that happens, is really carrying the day.

MR BRAITHWAITE: You did indicate that people have coped with the weekend trade on a weekday, where it is recognised as being a low trading day, by starting later. They haven't got to the situation at the moment of say trading five days a week, two on the weekend and take two days off during the week?

MS MacKENZIE: It is only a very small proportion that's just starting to see there's some changes to be made in changing their shopping hours, and it is this small, as I say, at the moment the small clothing and perhaps giftware. But no, nobody has gone to that extent. We'd like to think there would be more - deregulate the hours so that they're starting to open later and then open on that maximum shopping time on the Sunday. I'm sure that's why we sell more in our own retail shop, because people are really there looking for that lifestyle experience, and a little shop like ours does very well. Certainly we have a huge audience, we have between 80,000 and 90,000 people through our door a year, so that's quite a large audience to have. But our little shop, which is mainly consignment goods, taking those products of arts and crafts - and people that do find it hard to trade seven days a week or do have the collateral to actually set up a shop themselves actually use us a retail outlet for their purposes.

MR COSGROVE: Thanks very much, Kathryn, for coming.

MS MacKENZIE: Thank you very much.

MR COSGROVE: Our next participant, I believe, is Greg McRae Fine Furniture.

MR McRAE: Good morning.

MR COSGROVE: If you could, too, please identify yourself and the capacity in which you're appearing today.

MR McRAE: Greg McRae from Greg McRae Fine Furniture. I'm an independent furniture retailer in Bendigo, and I've been at the forefront of the push for weekend trading in Bendigo for some time, not because I like the idea of weekend trading per se but in response to what were already existing conditions in Melbourne. It's only a handful of years since we were in the crazy position of being legally bound to closing on Saturday afternoons when Echuca, which is a great catchment area for us, was open because it was deemed to be a tourist area, and Melbourne was open, so it seemed to me for my shop to be closed on a Saturday afternoon, and later Sunday, when just about every major furniture shop in Melbourne was open, and Echuca up the road, was tantamount to putting a sign on the door saying, "Get lost. I'm not interested, can't be bothered. Go to Melbourne." And in fact that's what people were doing.

When we used to close at lunchtime on Saturday, we'd have people from Echuca or Swan Hill or up-country somewhere ring to see if we were open because they were going to Melbourne for the day to look for furniture, and what's happened now is that Bendigo has become a furniture destination in itself. They don't bother - obviously some people still do, but, by and large, people from Bendigo's catchment come to Bendigo. You had the situation if the male and the female were both working, to race down to Bendigo from a place like Swan Hill or Balranald when shops were shutting at 12 o'clock on Saturday - I mean, it's just not on, and that's why a lot of them chose to go on to Melbourne.

With deregulated trading hours, the whole thing of shopping has changed and it's now become a leisure activity in itself and we find it's a family activity as well. Our percentage of sales out of town, and that includes Melbourne, has gone up hugely. I can't put a figure on it, but it's very very significant. Before Saturday afternoon and Sunday trading, the vast majority of our sales were to locals, Bendigo and outlying areas. Now it would be something very significant, maybe even 50 per cent would go well out of town. Our truck is in Melbourne just about every week, delivering, and hardly ever did that before. I think that's probably because we're on the main drag, High Street. We're in the tourist precinct, the tram goes past, we're in the motel area. But also to all the outlying areas, right along the Murray; our trucks are up-country all the time, and that was not the case. Those people did not have the same opportunity to buy furniture in Bendigo before.

We have people who will come - and locals do it, too - but especially out-of-towners will come early in the day. The family will walk around shops, sit, go away, have a cup of coffee, go uptown, do something, come back later on in the afternoon. It's a big day out. It's a lovely leisurely day. And the other thing that

I would say is that as retailers we're all competing for the public's discretionary dollars and we're not only competing against other furniture retailers but we're competing against the travel industry and the gambling industry; we're competing against the whole entertainment industry. So we actually have to make it enjoyable. We have to be open when people can come and have a lovely time, and that really means being open at weekends. It's unfortunate, it's not something that I would have desired, but that's the industry I'm in, and I just believe that that's where we have to be.

MR COSGROVE: Okay. Greg, has your total revenue and employment level changed with the - - -

MR McRAE: Yes, they've both increased quite significantly.

MR COSGROVE: I see.

MR McRAE: Not just a little bit, but quite a lot.

MR COSGROVE: Could you tell us by how much, significantly? Is it 10 per cent, 20 per cent?

MR McRAE: What, since Sunday trading?

MR COSGROVE: Yes.

MR McRAE: Probably 30 per cent revenue, and staff - I would have one extra full-timer and two or three extra half-timers, just since Sunday trading.

MR COSGROVE: Have you changed your pattern of work at all across the week? You're now operating on the whole of the weekend. You haven't cut back on your opening hours in the other five days?

MR McRAE: No. It would be nice, but I just don't think it's possible, because during the five weekdays, businessy things happen, things that aren't always related to sales, and it's just time-consuming; I don't think you can close. It's possible, but I wouldn't be prepared to do it.

MR COSGROVE: I'd be interested, too, to know, as I asked another participant earlier, whether the intention of competition policy reforms in the utility cost area, namely to either reduce the price of those services like electricity and gas and telecommunications, has had any significant impact on your company, or whether the quality of service provision by those utilities has changed in any noticeable way. Have you seen anything happening there?

MR McRAE: Well, no. I don't think it's anything that I've noticed to a large extent. Minor, but - - -

MR COSGROVE: Thank you.

MR BRAITHWAITE: Just general information. Across Victoria, is the option that the local authority can take a poll on whether the people want weekend trading - that is, if the people ask for it - but otherwise is it just open trading without a poll if it goes unchallenged? To what extent is open trading available right throughout Victoria?

MR McRAE: It is available.

MR BRAITHWAITE: And practised?

MR McRAE: Well, it's fairly widely practised. I mean, obviously those who don't wish to open don't, and so in smaller communities a lot of traders choose not to open, but certainly in areas that have a significant tourist input, like Bendigo and all along the Murray, as far as I'm aware - and I don't travel as much as I used to at weekends because I'm working - yes, I would think that it's fairly largely done, certainly in certain retail areas, like furniture. Furniture is one of the areas that has become a real leisure shopping activity.

I'm not sure whether furniture shops say in Echuca - because I cited that before - are open every weekend, but I know before deregulation when Echuca was allowed to open because they're a tourist precinct, my opposition furniture shops up there used to have big gala Sunday promotions and this, that and the other thing, and on the Saturday I would have lots of people coming into my shop saying, "Oh, we're going to Echuca tomorrow for blah blah blah blah," and I was not allowed to do that. They'd go up there for the day and have a lovely day out, get on the paddle-steamer and go and buy some furniture. I don't think they open every Sunday now, but they're allowed to, and they open when they wish.

MR BRAITHWAITE: The reason I asked the question is that Bendigo has become significant throughout Australia in that it asked for a poll to be taken as to whether the people wanted it or not. So the purpose of my question is, if Ballarat didn't actually ask for it, if the people didn't ask for a poll, they just could automatically trade seven days a week?

MR McRAE: Yes. But I would say about the Bendigo poll it wasn't so much a poll as to whether the people wanted their shops open - well, it was, of course it was, but there was an overriding issue because it was whether we in fact close our shops while shops in the rest of the state were open, and that was the overriding issue, so it wasn't as simple as saying, "Do you think shops should open on Sundays?"

MR BRAITHWAITE: Understood.

MR COSGROVE: Thanks very much, Greg. It's an interesting case. We're glad to hear from you.

MR COSGROVE: Our next participant I think is Bendigo Trust. Is that correct? I'd like you also please to identify yourself and indicate the capacity in which you're appearing.

MR THOMPSON: Good morning. My name is James Thompson, general manager of Central Deborah Bendigo, a division of the Bendigo Trust. I've provided you with just very brief jot points. Our particular interest is in extended trading in the city. The Bendigo Trust has a long history; it was established back in 1972. It's a company limited by guarantee. Our structure is a not-for-profit organisation. Our key charter is manage Bendigo's key heritage assets. We're fundamentally in the business of tourism. Our business entertains in excess of 70,000 visitors a year. We turn over just over 1.2 million and we contribute around 3 to 4 million dollars into the local economy through that turnover.

We employ in excess of 50 staff in our peak periods. Our particular interest in the Sunday trading debate and the referendum that was had was that if there'd been a ban on Sunday trading, with the way the legislation was written, because we employed in excess of 20 people, it would have closed our business in our peak periods, which would have effectively rendered the business insolvent. Our key trading periods are on weekends and in the school holiday periods, Easter, and we would match those trends that Kathryn has spoken to you about, from the Visitor Information Centre. So we had a vital interest, a vital stake, in the outcome of that referendum.

It's important to note that not unlike a number of businesses such as ourselves, whilst we're entertaining visitors who are wanting to garner an experience of our heritage assets, the Central Deborah Gold Mine and the Bendigo Talking Trams, we're also adding value to our business by expanding our retail function. In the course of the next 12 months we'll be undertaking a fairly large capital investment to actually increase our retail space for the sale of souvenirs and the like, and we're doing that to try and increase our yield rates, particularly on those weekend periods when we have our highest visitation levels.

As I note in my brief paper, we've noted over the last five years in particular there's been an increasing trend of international visitors, their second time, third time to this country, people who have visited the icons of Australia, the Opera House and Ayers Rock and the like, but increasingly getting out in their own hire vehicles and travelling into regional areas of the country, and there's an expectation by those people that when they come into these areas that you're open for business, not only the tourist attractions, but also the various array of retail services that are provided.

Also, as Kathryn has noted, and I won't expand any further on that, we do benefit greatly by the visiting friends and relatives market coming out of Melbourne and country Victoria. It's a major objective, as I note finally in my paper, that Tourism Victoria's domestic strategy is pronounced around trying to promote daytrip visitations into regional areas. It is a struggle, it's a fight by us and other attractions in the city, to retain our market share, and by being able to have the extended retail

trading it adds a capacity to us in our fight to retain that market share against other regions in the state. So it's most important to us.

I don't think there's anything else I can really add to the points that I've actually already given you. You made comment about competition policy and what impact that's had on our small business.

MR COSGROVE: Yes.

MR THOMPSON: In the utility area, with power costs, we were able to renegotiate contracts where we saved 15 per cent of our power bill. You'd appreciate that running a tramway system and an operational goldmine, our power bill was in the order of in excess of \$40,000, and we've actually trumped that back down to in the low 30s. So that certainly has been great value to us.

MR COSGROVE: Telecommunications? Do you make much use of that?

MR THOMPSON: It's hard to gauge. Because of the various array of increasing products that we've had, we've found that our telecommunication costs have actually increased. But that's probably the more products that we're putting out there, the more - - -

MR COSGROVE: Yes, expanded your purchases.

MR THOMPSON: We've expanded our functions, so our telecommunication costs have expanded accordingly, but we've certainly noticed that decline in the power costs.

MR BRAITHWAITE: Have you found anything in transport costs - freights? Have they decreased?

MR THOMPSON: To the extent of our inputs it's hard to - I wouldn't be able to put a figure of whether we've had increase or decrease in that area of any note.

MR COSGROVE: You mentioned that if retail trading hours had not become liberalised you ran the risk of becoming insolvent. But since the liberalisation, how has the extent of your business activity developed? Has it stayed on the same trend or have you seen any change of trend? One would think of an expansion, if anything, rather than a decrease.

MR THOMPSON: In our experience there is no question that extended trading has added value to the overall economy of Bendigo and adds a vibrancy to the city, with people coming in. They're not only coming to our attraction but they're coming to Bendigo for other reasons too, as Kathryn has mentioned - the shopping and the like - so there is a life and beat in the city at a time when our visitation levels are the highest, so that helps us in our fight to retain market share, which is a struggle.

In the tourism industry generally there is no question - and this is aside from retail trading - that the market in this state, and I would venture to say in other areas of the country, has become very metrocentric, with the large capital investments that are occurring in our metropolitan areas. There's clear evidence of that in Melbourne with South Bank, with what's happening with museums down there, larger capital investments in a large aquarium which is going to be opened in Melbourne prior to Christmas this year - Docklands, with theme parks proposed - so there's a real struggle with the regions to fight that concentration back into the city.

There was also an impact with the pokies legislation. Certainly we found that we lost some of our market where we had the concentration of poker machines up along the Murray River, where we had people coming out of the city, travelling up via Bendigo and going to the pokies at Echuca - large bus companies. We lost some of that market but I suggest that we've actually clawed some of that back with marketing activities that Bendigo Tourism and the combined industry of Bendigo have been undertaking, but there's no question that the market has become much more metrocentric concentrated. Tourism Victoria has recognised that with their own local domestic strategy in trying to promote regional campaigns. The state government is promoting regional campaigns and daytrips out of Bendigo. They recognise that fact of the centricity of the market into Melbourne, so they're trying to encourage daytrippers out of the city into these regional areas.

MR COSGROVE: It's an interesting point. Those tourism developments which are occurring in the metropolitan centre I guess are a mix of privately-funded projects and publicly or government-funded projects. Is there any feeling in a town like Bendigo that the government-funded proportion is directed excessively at I guess Melbourne in the case of this context as distinct from the regional centres?

MR THOMPSON: No, I don't think so. We ourselves, being a not-for-profit trust, are able to benefit from the community support fund, so whilst we had some downturn which we've turned around with the advent of poker machines being legislated in this state, we've been able to get some return via the community support fund with which we're actually undertaking a project at this point in time. There have been other examples of that in Bendigo but I'd say, as I suggested to you before, we've actually clawed back that downturn as a consequence of pokies being legislated in this state.

With respect to capital investment in Melbourne, the general aim or objective is with the investment of the government down there, together with what's occurring in the private sector - is that that's actually going to grow the total market, particularly from interstate visitors, into Melbourne. It's the strategy of Tourism Victoria, in growing that market, to then be able to push more people out into the regions, which is certainly going to add value to businesses such as ourselves. But it's a question of us - we're a member of the Victorian tourism operators attractions group in Melbourne and we maintain fairly close alliances with some of the major attractions down there. So it's perhaps what's best described in the United States as a phenomenon called "co-opertition". It's a question of organisations such as ourselves

really working with other attractions throughout the state in trying to make that pie bigger and then we all compete. I think that's certainly going to be the strategy for success in the future for businesses like ourselves.

MR COSGROVE: Joe, does the trust rely principally on volunteers or do you have significant numbers of employees or contract workers?

MR THOMPSON: We have 14 full-time staff in our peak. At our peak periods our total staff numbers are in excess of 50 and they're mainly casuals. Last year we benefited from something in the order of in excess of 7000 volunteer hours, particularly in our tramways division, with general restoration of our heritage assets. Our volunteer efforts are mainly involved in those maintenance and restoration areas.

MR COSGROVE: But so far as your employees and casual workers are concerned, has there been any change in the number of those since the extension of trading hours?

MR THOMPSON: We've actually increased our casual complement of staff and only recently we opened and officially commissioned a cafe tram in the city, so we've extended our trading hours. We operate seven days a week and we've extended our trading hours out from the general 9.00 to 5.00. We provide after-dark mine tours in our peak periods which operate through to 9 o'clock. Now with the operation of the cafe tram on Friday nights and Saturday nights, and also charter work, we could be working as late as 11.00 or 11.30.

MR COSGROVE: Is that the only significant area in which you've had to employ more people on a casual basis?

MR THOMPSON: Yes.

MR BRAITHWAITE: We've heard a lot of the information but it's obvious that tourism is profiting greatly from the extended trading hours.

MR THOMPSON: That's our view.

MR COSGROVE: Thank you very much. I think the next participant is Sandhurst Trustees. We need you, please, to identify yourself and the capacity in which you're with us today.

MR ATHORN: Neil Athorn from Sandhurst Trustees, 18 View Street, Bendigo. I'm manager of properties and client services, also a member of the Hargreaves Mall Traders Association, the Retail Network Traders Association.

MR COSGROVE: Thanks, Neil.

MR ATHORN: Sandhurst Trustees administers 110 shops in the traditional CBD of Bendigo. Outside of that we have about 25,000 acres of farmland we look after, some within the City of Greater Bendigo, and other shires around Bendigo. We've got all our shops let at the moment, which is 110 of them as I said, and demand for more shops, so we're actually building another shop again in Williamson Street. We've seen a slight decrease in the rent of about 15 or 20 per cent since the Market Place development was placed in Bendigo, which is understandable when you have another 50 shops come in. It doesn't necessarily mean that you have more shoppers or more money, but you've got more shops. We've coped with that but at the same time we've clawed back to have all our shops full.

We've been working with the city council on a number of different things. One was the CBD improvement. We see that we need to keep the face of our buildings and the interior up to date and upgrade them below and above the verandah line, which is important. A number of our shops are over a hundred years old, so there's a lot of work to be done with them.

Supermarkets being open, we've seen building being put up near them because of the approach to them; Condon Street-Edwards Road development where a new stationery shop has gone in and new McDonalds restaurant next door to a major shopping centre and supermarket. We've also seen, as Kathryn said before, around October-November - November especially - with our traders it's the start of the Hargreaves Mall Traders Association Christmas bonanza. It actually starts mid-November and the reason for that is another organisation I'm involved with is a vintage car swap weekend where we have 25,000 people come over the weekend to Bendigo and the shops start their trading then for the - and leads into Christmas activities.

We've in the last 12 months seen that traders are considering opening on Easter Sunday and Monday to take advantage of the people who come for the Easter fair. There's something like 80 or 90 thousand come just on the Monday alone. Our restaurants that are in our shops have flourished over the time. We've got a number of them and we try not to let them trade in, say, similar items and things like that. We actually keep them separate if we can, and they've all said that Sunday is a busy day as well as Saturday, but mainly Sunday for breakfast. For some reason people don't cook on a Sunday now.

Large ticket items such as Greg McRae and his furniture down there, and things like that, we've seen as a family shopping experience now where you go and buy a new lounge suite; everybody wants to go. The two-income families mean that perhaps during the week they can't make it. Having three teenage children, if we were to buy a new television they'd all want to have some input into it, I'm sure, because they need things. So that's a personal view.

Overall we've seen, as far as we're concerned with our shops and also our businesses, that deregulation has provided for shop operators to open when they desire and also to open when customer demand warrants it. This we would see as a win-win situation for both sides and also for Bendigo's economy.

MR COSGROVE: One point that you've put to us that I'd like to ask a little about is that relating to the supermarkets being open now for more hours. You've said they've attracted other shops. You mentioned McDonalds and - - -

MR ATHORN: The stationery store.

MR COSGROVE: Stationery store, that's right. Have you seen any other changes of that kind? And on the other side, have there been any adverse effects - closures of some stores as a result of supermarkets being open for longer hours?

MR ATHORN: As I mentioned before, there's a new shop we're looking at building in Williamson Street, which is a \$350,000 building on a vacant block of land we've had for a number of years. Hopefully that will be up and running by January. While there was a supermarket with some specialty shops built around it some years ago, about 12 years ago, the supermarket has closed and the specialty shops - a few of those have closed as well. That supermarket looks like it may reopen and the reason why we're going to build our shop near it is to take advantage of that shop reopening and the different configuration it will have.

MR COSGROVE: Is that an independent supermarket or one of the bigger chains?

MR ATHORN: A bigger chain. We would see that a number of the smaller supermarkets and the smaller milk bars, etcetera, are battling. In fact there's one out Condon Street that's just recently closed. That's a small milk bar. However, the way we would look at it, and when we also considered the Sunday trading and things like that and the deregulation, is that the bigger supermarkets and that will buy the business during the week if they need to have that business. The people who buy on the weekends are perhaps paying a higher price because you've got penalty rates and that for wages coming in. The smaller shops can't buy at such a good price, so the bigger supermarkets would just pitch their price during the week to contain the market around 90 per cent, as they do now.

MR COSGROVE: Do you know what happens to an owner of let's say a smaller independent grocery store when it becomes too difficult for them to continue to operate profitably? Do they find other areas of economic activity? Do they simply

retire because they may be elderly proprietors or do they find themselves reliant on government support of one kind or another through the welfare system?

MR ATHORN: Being a trustee company, we're also a lender of some huge amounts of finance. We also look at lending to small supermarkets like that, which we have done for over a hundred years. They do battle; they definitely do. They've got to find their niche in the market. If they don't do that they will go broke. They will lose their money and possibly their house or whatever they've put up as security. It is a definite downturn in their particular sized market. However, having a look at those, they probably started in opposition to a smaller shop some years ago as well. So, you know, it gets bigger.

Unfortunately it's the way society is going. It's not necessarily a supermarket thing or anything like that. I think you will find the same in the plumbing industry, the same with banks too. In our own particular case we merged with the Bendigo Bank some years ago for that simple reason; that you're either going to be in there or you're going to have to get out of it eventually.

MR COSGROVE: Would you say that this is a phenomenon, given as you said that you've been operating for a hundred years, which is not new? It's been happening for a long period of time or are you able to say, for example, that as a result of the extension of trading hours this has become a more common result?

MR ATHORN: It's possibly more common but I think each individual looks at themselves and says - well, food's one thing that they want to be fresh and up to date and at a reasonable price and well presented to them. You go and have a look at that, see what your shop is going to provide. Unfortunately the turnover in some of the smaller shops isn't there and then you come back to your specialty shops such as your jewellers and your clothing and things like that. You've got a longer life on the shelf, type of thing, so therefore your desire to buy those - you might have a look today and then in a week's time, whereas you can't decide that with an apple. I mean, it's gone and that's it. Yes, I'd say food is one of the main things that Australians, as a population, would look at having up-to-date fresh and everything.

MR BRAITHWAITE: Yes, I was very interested in the vacancy rates, you know, falling as they have, particularly the central business districts. Anywhere else in Australia is pretty well, not collapsing, but they're falling off as the bigger shopping centres open. So that's a trend that is a favourable one. Would you like to pass a comment on the costs of electricity, telephone, freight, under NCP?

MR ATHORN: Yes, we would see that our electricity costs at work in particular would stay the same. Probably the costs of upgrading a shop have gone up - and I mean upgrading as bringing it into the 90s or into the year 2000.

MR COSGROVE: Would labour loom large in that upgrade cost area?

MR ATHORN: Labour does. I suppose we're fortunate enough in Bendigo that -

I've just spent 100,000 on one building and we've used all local people to do it. At the same time you can see different ways of doing things, I suppose. We're doing another one at the moment, or assisting with it, where a lot of builders are coming out of Melbourne because it's a national bank that are actually doing it. Your labour costs are a lot greater from Melbourne because your demand is greater. You will also find that the demands are there because of union controls and all that sort of thing, whereas we don't have to worry about that so much in the country. But your demands of the actual usage of power go up because, once you upgrade a shop, you need bigger airconditioning or better carpet and all those sorts of things; parking is another thing. But the actual cost of what we would use at work has remained about the same.

MR COSGROVE: In terms though of let's say the rate per kilowatt usage of electricity or the price per telephone call or other telecommunications service, have you seen any changes there since the competition policy reforms took effect about - well, it varies but let's say five to seven years ago?

MR ATHORN: No, we wouldn't have seen that. I suppose our telephone costs have even gone up a little bit because it's more of a standard thing now where you run a 1800 number which costs you, as a provider, for services all around Australia. So we would see our costs would have gone up in that particular area. However, with one of the shops we are currently renovating we are looking at the power situation. We're putting in 80 btu's of airconditioning into it and there is enough power in the street to run the unit, so Powercor have to supply. As I said, it's a national bank - not the National Bank but a national bank we're putting in there - and if Powercor can't supply it, now you can go off the grid and somebody else will supply it, so it does open up a lot of competition for it. Admittedly it's going back through Powercor now but you have got that avenue, which before you didn't have that to go to.

MR BRAITHWAITE: Is the electricity authority making greater demands now on providing infrastructure, ie to increase the power unit going into the bank, than what it was before?

MR ATHORN: No, they wouldn't but we're demanding that they put the power into the building.

MR BRAITHWAITE: So it's no cost to you. They will put it in?

MR ATHORN: No, it's from the point of going into the building. It's from then on. Bendigo is so old underneath the streets and all that you've got to upgrade it every now and then and unfortunately these things get held up for a little while. Generally I would say in regard to power and things like that that you've probably got more hassle and frustration with being able to deal with them over the phone. We're on to a local basis now where your phone call, like with Telecom, can end up anywhere in Australia and you don't know who you're talking to. You must keep a track record of all your job numbers and things like that to be able to get a flow-through with it. If you ring today and then try and get back on to that person tomorrow you've got to

have a proper track record with job numbers. When you've got the number of shops that we have and you need action straightaway on different things, it gets a bit frustrating at times. I'd see that as a cost to us rather than anything else.

MR COSGROVE: A deterioration in effect in service provision?

MR ATHORN: Yes. The other thing is that I suppose Sandhurst Trustees doesn't open seven days a week, when you're looking at deregulation of shopping hours, but we do provide services. As I said to another meeting, nobody chooses when they're actually going to get sick and need to do a will or when they're going to die and need to do something with their estate. For years we've run a seven days a week 24-hour service and also with our property it's the same thing; that when they're empty, you need to keep them safe and secure or when they've even got tenants in you've got to look after your tenants. I suppose why we have got 110 full shops is we constantly have a team of people going around to make sure those properties are right and we've got them on call at any time should there be a problem. It's the thing you'd find in a country town you wouldn't find in the city probably. We've got two full-time builders pretty well working full-time for us.

MR COSGROVE: Thanks very much, Neil, for giving us your submission.

MR ATHORN: Thank you.

MR COSGROVE: Now, Goulburn-Murray Water is with us - our next participant. Would you, like the others, please identify yourself and the capacity in which you are appearing today.

MR SCRIVEN: Yes, my name is Chris Scriven. I'm the manager business development with Goulburn-Murray Water. We made a written submission to the inquiry on 8 November and I've also provided a dot point summary which I hope is here. I've got copies here today if that's needed. Obviously being from the rural water industry I've focused pretty much on the impact of competition policy on our industry. I noticed on the news recently you've had some comments from I think Murray Irrigation Ltd.

MR COSGROVE: Yes.

MR SCRIVEN: They're across the border from us at Deniliquin. Our headquarters are at Tatura. We cover about a 68,000 square kilometre area in northern Victoria. We basically go from the Great Divide right up to the River Murray and from Corryong right down to just past Swan Hill. So we're taking in a very big area and our business underpins pretty well all of that agricultural economy within those areas. People rely on a secure irrigation supply in order for them to produce their businesses.

Just directly in response to the inquiry, first of all there was a request for further information in some areas and one of those was the assessment of jurisdictional progress in water reform where I think in - - -

MR COSGROVE: Yes, I know the table.

MR SCRIVEN: Yes, there's a table, I think it's in page 131, where the various states and territories have identified their progress there. There's just one issue that we would have and that was in regard to water trading. We've had a lot of difficulty with our customers in trying to get them to understand what full cost recovery is. To us that is making sure that the business is financially sustainable into the future, so that means they've got to pay for future capital costs. They've also got to pay for operations and maintenance and they've also got to pay for the cost of harvesting the water in the dam in the first place and the renewals and replacement cost of that dam.

That traditionally was not a charge that has been paid for by irrigators. Victoria has now got that being charged everywhere. New South Wales have moved a long way towards it. In South Australia, however, no irrigators are required to pay for bulk water. We are having a lot of difficulty - - -

MR COSGROVE: So it's paid for by the general taxpayer?

MR SCRIVEN: I understand it's paid for by the urban water authority so it's part of the agreement with the Murray-Darling Basin Commission. Each state makes a contribution for their share of running the commission because we're all taking water

out of the River Murray. The state of South Australia is really making those

contributions via an urban water authority and the irrigators are not paying. When we move to interstate trading, we're not going to be on a level playing field. It's going to cause enormous resentment with New South Wales and Victorian irrigators if we finish up with a situation where they're prepared to - well, they have to pay for the cost of their water, or the bulk water, and then the people who are buying it don't have to. It's also got some implications for our business in the long run, if we sold water, for example, out of Eildon and it goes down to an irrigator in South Australia, who then pays us for the bulk water for their share of the dam if you like. So those sorts of things really need a national - not a prescription - but a national approach and commitment to make sure that all customers pay.

MR COSGROVE: Doesn't the COAG agreement on water reform in effect result in that kind of more uniform approach?

MR SCRIVEN: It should but I notice that in the boxes that are ticked here it's got the little square box for South Australia, which is the same as Victoria, to say that full cost recovery and reduction or elimination of cross-subsidies is in progress. In the South Australian case, unless that means they are going to pay for bulk water, then we are going to be in a position where Victorian and New South Wales irrigators are trading in the same market as South Australians but meeting different costs. That's just an issue that I think is one that politically will become an issue over time. At this stage there's very little interstate trading. There's only a pilot.

MR BRAITHWAITE: In a case like that, should NCC step in and arbitrate?

MR SCRIVEN: I'm not sure whether it should or not but it should be clearly disclosed, and I believe that anybody who is going to trade should be required to be paying not the full cost of the water that they buy from interstate but also the cost of the water they're currently using because otherwise there is clearly an unfair playing field. The only cost that they're meeting in effect is the cost of the retail distribution infrastructure. They haven't paid the initial cost of capturing and harvesting the water. So it's a clear subsidy and one which would not help competition.

The difficulty with this is some states will clearly try and encourage the high-value agriculture, which is clearly horticulture and wine grapes and there's a lot of suitable soils for that sort of stuff in South Australia. So from a state and a regional development perspective you would be trying to encourage that development and all states are trying to get that transfer of water into the high-value agriculture, but our irrigators would be at a disadvantage against their irrigators. We'd just like to see that position clarified because I've had a few debates with people about it and I'm being told that if it's declared as a cross-subsidy it's then not an issue, but I think that it is when people are competing in the same market.

Just in regard to water trading, it is one of the major reforms that has occurred. If somebody involved in a grazing enterprise, for a thousand megalitres that might only involve a couple of jobs - you know, a couple of real jobs on and off farm - whereas when you get into the more value-added production you can finish up with a

situation where you create a lot more jobs, and that's why the states are so interested in water trading and have supported it so solidly.

Just to give you an example, from a thousand megalitres of irrigation on a dairy farm, in a dairy business, you can create something like 15 jobs per 1000 megalitres. In horticulture - and these are only averages, they vary depending on whether it's wine grapes, tomatoes or peaches - it's something like 30 jobs per 1000 megalitres of water. If you're looking at grazing it might only be one or two jobs. So consequently governments are very much trying to see this transfer of water into the high-value agriculture, and then opening up markets overseas in terms of that trade. So it has a terrific local economic impact but also a subsequent direct impact on employment in the areas.

MR COSGROVE: Is value added synonymous with additional employment?

MR SCRIVEN: Yes, those jobs that I've given you, for example, in horticulture, only nine of those jobs would be on farm; another 11 would be in processing and another 10 are in the support industries in the town. So if you took a place like Shepparton for example, where you've got Ardmona and SPC, both those factories trading in the area, and they're really buying fruit from the local fruitgrowers there, they're all producing under irrigation. Dairy businesses like Bonlac and Kraft are very much interested in dairy farmers working in irrigation because once you know the annual allocation it's much easier for those dairy businesses to know what their level of production will be for the year and therefore research and sort out their international markets. So there's huge advantages there.

In dairying, the on-farm jobs, per 1000 megalitres, are about six, there's about two processing and about another seven in support industries. So these towns and areas that are centred on these irrigation areas are very much dependent on the long-term viability of those enterprises. So the reforms that are coming through in competition policy in terms of financial and environmental sustainability are very important, because those communities have to understand that. So the transparency that has been encouraged by competition policy has been a positive thing. Because we have had to have that accountability people more and more understand that they need that sustainability. Farming enterprises are very much about sustainability as well, about passing it on to the next generation. So we have been able to have success in those areas, and I'll talk a bit more about that, later.

MR COSGROVE: Chris, you have a soft voice. I wonder if you could speak a little more loudly so that people in the audience can hear more clearly.

MR SCRIVEN: Sure, yes.

MR COSGROVE: Is this point you were just referring to, about making more transparent the sort of long-term requirements of water policy, something that is, you would say, better understood in the Goulburn-Murray water area? I must say at a discussion at a similar hearing in Albury last week, I didn't get the impression that

that

message was being picked up well by the people who spoke to us.

MR SCRIVEN: In Victoria it has got a lot to do with the institutional arrangements and the political histories of the two states. In Victoria there was a major confrontation between irrigators and the then Labor government back in about 1990-91, where the head office of the irrigation industry was controlled by the Rural Water Commission, and all of the pricing decisions were really taken there and in effect just passed out via advisory boards; they would just use it as a sort of a one-way communication process. They were also pricing on what was called current cost appreciation. It was very much about looking back at previous capital investment and trying to use that as a guide to justify future prices.

The community reacted to that, and that resulted in the McDonald review which in turn led to the establishment of five regional boards which then evolved into independent statutory authorities that are accountable to the minister under the current government. Those boards have all been skill based and they are all located locally. So people like myself were brought into the organisation initially to help break up the Melbourne business, and then I went to Tatura as the first finance manager. The initial part of the work was to try and get irrigators to understand the position, and there was enormous tension.

What was revealed was that the previous organisation had failed financially, not in the sense that it went broke but in the sense that it could not explain its financial disciplines and where it was trying to head in a financial sense to the community. They did not understand the importance of the asset base. For example, it took us a long time to convince the irrigators - depending on the area - that 40 to 50 per cent of the total cost of irrigation is associated with asset management, either maintenance or renewal of the assets. The rest of it was just operations and management, and less than 10 per cent were overheads. So part of my role was to go down and break the business down. We really had just one big irrigation district, which was the Goulburn-Murray irrigation district of about 12,000 irrigators.

We broke that down into six discrete systems and then had water services committees elected. We got a customer service agreement with those water services committees and a formal charter, and we then worked through with them and developed up a pricing policy and proper pricing regimes. I didn't bring anything with me, but I can give you that information if it's required. But we would break our costs down into something like 15 or 20 different costs and we would separate bulk water from the retail part of the business, and we separated our headworks business from the retail, so the headworks is totally transparent but the costs are developed up in a similar way to the retail, so the retail parts of our business are separate but they can look into the headworks' costs and understand that.

So consequently there's a recognition that while they might need government assistance in some cases - particularly in things like dam improvement, because the community, the general community, and urban communities in particular, benefit from things like dam improvement - there's a recognition that you need to understand

the

costs in order to go into the future. For example, we had 100-year renewals annuities that we inherited from the Rural Water Commission. We've cut those back to 20 so it better matches the life cycle that people would run their farm over, and they can equate to that and there's also then an incentive to maintain now so that you can defer the renewal cost, and in some cases because so many of our assets are earthen based - it's really a hole in the ground in the banks adjacent to it - that if you get community support you can reduce some of your costs. For example, things like not allowing stock access to channels is critical because you can get a lot of stock damage. So those sort of policies have been developed up with water services committees.

We've also got our committees to accept very strong responsibility for their local areas, so not just to the point where they also endorse the prices that we negotiate with them. We now negotiate between our board and the areas an individual business plan which would focus very much on local issues. So they would all look at customer service issues, asset management, environmental issues, issues to do with their workforce. For example, it became very clear to everybody that like most workforces we've got a real cycle of the workforce ageing. We've got very few people under 21.

Our water services committees have now all agreed to introduce a traineeship program where they're all going to put in at least one employee, and as soon as that employee can be absorbed into the workforce - so they will come on as a trainee, as an additional person. They will pay for that person and then later on as that person comes into the workforce they will pay for another trainee, so that we get a spread of people over the years continually coming into our organisation, whereas with downsizing and the technology changes we went through we were really just reducing our numbers. Particularly in the field and service areas, our workforce is predominantly in the 40s and 50s, with very few young people coming through. So you can work on those issues together once you understand them.

MR COSGROVE: So this has been going on for longer in Victoria.

MR SCRIVEN: It's been going on for five years, yes, but also we've got control of the headworks where in, say, an area like Murray Irrigation Ltd they have control of their retail business but not the headworks.

MR COSGROVE: Yes.

MR SCRIVEN: That transparency in our retail business has been translated into our headworks as well. But our board is committed to this process of negotiation. There are a lot of issues. Obviously you would have heard about the cap and the impact there.

MR COSGROVE: Yes.

MR SCRIVEN: Again, the position we're taking with our customers is that the cap is an ally of anyone who is a current entitlement holder because it's protecting your

security. The more people who come in, if you just keep issuing more water then all you're going to dilute the security, and if it's explained in that context customers generally understand it. So what they're now looking for in terms of water reform is better definition of the products that they own, better water trading; as a consequence of that, more appropriate tariffs, and a real understanding of what the security is in the Murray bulk entitlements process has helped a lot there.

One of the other assets that Victoria has got, has had traditionally that New South Wales hasn't got, is a better security policy. Victoria has always tried to hold water back or has a policy where it will not give anything above the current used water right if we can't put something aside to next year. So we don't announce sales which are over and above water right unless we are confident that we can get the next year's water right, or a significant contribution towards it.

MR BRAITHWAITE: On that basis there was a cap introduced a few years ago equivalent to the 93-94 production, I think it was.

MR SCRIVEN: Yes.

MR BRAITHWAITE: Has the state moved that cap down or adjusted it in any way?

MR SCRIVEN: We've conformed, but the rules with that are still being worked through. Because the cap is seasonal, it would depend on the seasonal conditions, so it's not a fixed volume of water, it's a volume of water under certain seasonal conditions. What needs to be demonstrated by all states and to irrigators within all states is that everybody has made a contribution, because if irrigators in one state believe that another state has got an advantage over them, then they will complain about it. Their commitment to the cap changes. Because states are at different levels of development - you'll find in Queensland, for instance, that there's probably a lower acceptance of the cap and they're also at the top end of the system. So where water entitlements have been assigned lower down in New South Wales or Victoria and South Australia, if you can take more water out at the top, well, they will just get less in the long run. So you've got to have this interjurisdictional commitment to the cap.

MR BRAITHWAITE: You talk about a better security policy.

MR SCRIVEN: Yes.

MR BRAITHWAITE: Do you feel that Victorians have a better security over their water supply than what New South Wales does?

MR SCRIVEN: The security policy gives them that, and that's reflected in the level of dairy and horticultural investment. What you're seeing in New South Wales, and probably those people you spoke to last week, would be predominantly annual cropping and rice growing, and it's not just the soil types that are influencing that, it's also the water security. If you're going to invest in horticulture you've got to know

you're going to get your water for the life of your trees, which is not just one year; similarly, if you're a dairy farmer you need that ongoing security as well. So that has resulted in more investment in those sort of higher value agricultural activities in the irrigation districts in Victoria I think, and in the long run it will probably mean more investment in this state if the water can be retained here and not traded out, and that's another issue for water trading generally, because to some extent there's an exchange rate between the states. A megalitre of water in Victoria is different from a megalitre of water in New South Wales. What we call our sales may well be what they're calling their normal entitlement that they're producing rice with. It's that discretionary water.

Water is such an emotional issue. We've got 23 municipalities in the region that we cover. We've got a number of regional development organisations, and every region and shire recognises that, if you've got water entitlements held in your area and you can keep them there, you've got the basis for enormous growth into the future, because high-value agriculture, as the population grows and the demand for high-quality food grows, then it's inevitable that we can produce more and that we will move out of grazing into more horticulture and dairying and those processes.

So that transparency, the sorts of things that competition policy and accountability that competition policy I think has favoured, were things that in Victoria had to happen because of the political circumstances anyway, and when the new boards were elected they had some local people. For example, our chairman was Peter Ross-Edwards, the ex-leader of the National Party, but he was appointed by the then Labor Party.

That means that people like myself were going into public meetings and being introduced by Peter Ross-Edwards who would say, "I've heard what this person wants to talk about. I want you to listen and then we'll go through and debate it and we won't go home until you've had enough, and then if we've got to come around again we will come around," and that process meant that you really got your foot in the door and you were able then to develop other appropriate policies and get commitment.

So at the leadership level the people working with the water services committees, I would say that we have got a strong commitment to our corporate direction in what we've done. At the level beneath that perhaps for the farmer who isn't involved in some of these farmer organisations it's perhaps not so clear-cut and they wouldn't necessarily see all the changes or necessarily support the reasons for them all, but what they have got is somebody that they have elected to have a say and the local business plans and the area's ownership of that has made a big difference.

MR COSGROVE: And the situation in, say, New South Wales is not like that, you would say?

MR SCRIVEN: The situation in New South Wales - and this is only a personal opinion; not Goulburn-Murray - again is affected by institutional arrangements; the

fact that in southern New South Wales, in particular, a lot more water has been allocated than has in Victoria; that's why we have got the higher security. Consequently, there's a lot more tension because people have developed their properties on the basis of being able to get access to that water; that then means that it becomes so politically difficult to make a change because, in the long run, there may have to be a recognition in southern New South Wales that there is probably not enough water to sustain all of those people who are dependent on it. But that's a very difficult thing to say and I wouldn't like to be going into those communities and saying that.

Because you've had those disputes - I mean, if what was offered to Murray Irrigation Ltd - the opportunity to privatise - had been offered to, say, some people in Torrumbarry which is just across the border - that's the Kerang-Cohuna area, sort of opposite Deniliquin-Echuca - if that had been offered to irrigators in Victoria eight, nine years ago - or 10 years ago - they may well have taken it. It mightn't have been the best thing for them but they may have taken it because they said, "We can at least get control of our destiny and we'll try and do it ourselves."

The difficulty is that when you are in those remote areas it can be very hard to attract staff, so you need certain core capability and the economies of scale that go with that. If you break your districts down too much you just don't get the engineering and scientific expertise that we need because what we have found is that the more we get our experts to talk to irrigators our views change but so do theirs, because you get this interaction and a recognition that you actually need both parties; you need the sort of "school of hard knocks" that says, "This is the way I have to run my farm because of my financial circumstances," but then the experts saying, "This is what you have to do for the long-run sustainability of your farm and of the irrigation business."

MR BRAITHWAITE: Not wanting to refer to New South Wales too much, but don't they have a problem with Murray Irrigation there, where the irrigators are basically the same as the customers?

MR SCRIVEN: The irrigators there are in effect shareholders of the company and also are customers and that's the way that that has been constructed. The difficulty for them though, and why I think they will always have some difficulty, is that the allocation decisions aren't made by them, they are made by a party external to them and ours are still overseen by government but we recommend them, but they don't have control of the headworks. So even if you had resolved internally that you weren't going to pay a dividend back to Murray Irrigation Ltd, you worked out the taxation rules in such a way that you didn't have to pay any tax, you have still got this problem of your headworks water, or your bulk water, is still coming from another entity which might still pay taxation equivalence regime which could still require a dividend to be paid back to government and which could still affect the long-term security because of the environmental flows that are required. So they're in it anyway; you can't exclude yourself via some legal or institutional arrangement. Because of the way water works - it's got to be harvested in the hills and then passed

down - you're

joined up anyway; you can't separate yourselves.

Maybe it's just local politics sometimes, too - it's easier to blame those people who are away from you - and that's one of the big transitions in our business; that the people they have to blame are really in Tatura and they can ring up a director at any time if they're not happy. If a customer or a water services committee member is not happy with my performance they can make direct contact with one of the board directors, and certainly there are annual meetings anyway where we will get together.

MR BRAITHWAITE: How is your board appointed?

MR SCRIVEN: Our board is a skills based board appointed by the government, and the water services committees are elected by the customers. It's non-compulsory, obviously, but we're getting something like a 70 per cent turnout on those votes - there is a very high interest in that - so they have well and truly got a mandate to speak on behalf of the customers.

MR BRAITHWAITE: Could you explain to me this part about the headwaters - why you own them on the Victorian side and they don't own them in the Murray Irrigation - and that was explained to us last week? How is it that you've got control over the headwaters and they don't? Is it because the water is generated from the Victorian side of the Murray or not?

MR SCRIVEN: No. We've got two main sources. One is the Goulburn system which takes in the Lodden, Campaspe, Broken and the Goulburn Rivers, and the Goulburn River has got Eildon on it which is our major dam, and then on the Murray system what happens is that all of the structures are owned by the Murray-Darling Basin Commission, but they then appoint a constructing authority to manage those dams on their behalf, and we look after Dartmouth and we look after Torrumbarry Weir, Yarrawonga Weir and Mildura Weir, and New South Wales looks after Hume. What happens is that we make a payment to the Victorian government, which in turn makes a bigger contribution to the Murray-Darling Basin Commission.

We pay for our water but the Victorian government also pays for natural resource management. The MDBC then takes that and puts it into an overall budget and then commissions Goulburn-Murray Water, New South Wales and South Australia to look after the structures along the river, and they also have a water-sharing agreement which identifies how much water we are each going to get out of the dams on the Murray and we operate those in accordance with Murray-Darling Basin Commission requirements.

What has happened in Victoria was, initially, when the Rural Water Commission was broken up there was a push still to try and retain the headworks business in Melbourne because it can be dangerous to separate them into too small an area just because of the physical difficulty of managing structures of that size. They're all unique; you do need experts. We haven't got any dams that are the same; they were all constructed over different times, all got different sized catchments. So

they have

got different yields and different spillways, the whole thing is different, but because we were such a big organisation we were able to take the headworks with us, and the other organisations have got one or two dams each and they look after their own as well, and the state government, through the Department of Natural Resources and Environment - the water agency's branch - we have got an understanding with them as to how those dams are to be looked after. So we've really got control of the headworks that are on the river systems that we need to supply our customers.

Some people in competition areas might argue that you should separate the wholesale and the retail. What we found though is that there are very much economies of scale in us having them together and we have also found that our customers want that because they want to be able to look into the headworks business. They have got this distrust that if it goes back into a bigger headworks business they won't be able to see what is occurring.

The biggest reforms in Victoria came first of all from the institutional changes that broke up the Rural Water Commission and then the creation of these statutory authorities, but the relationship with customers was really built on financial transparencies because the accountants wanted to understand the businesses that they had been employed to help run and the farmers wanted to understand what the numbers meant. So people like myself when we came here, and the customers came here, had an immediate allegiance; we were trying to get the same things out of the organisation. And we managed to do that over time, and it wasn't any sort of reluctance on the part of the people there; it was just the history of some of these organisations where there'd been a bigger focus on operations and construction that perhaps on financial management.

The difficulty, if you look into New South Wales in particular, is that they really still can't see what the DLWC does for them in regard to water services; they are not seeing the breakdown that they wanted to see. IPART has added a lot of value but they're not where we are in terms of that transparency because we are physically a separate entity. You can't add anything into us without adding new people and new responsibilities, whereas the water sector in DLWC - and in Queensland, for that matter - is embedded in another government department.

For us to make comparisons, Goulburn-Murray Water and all the water authorities would really need to be folded up and then put into NRE and, if that happened, over time you would lose the boundary and it's very easy for people having to pay for their services to make accusations that, "You've actually loaded up or you're doing work that we don't really require," and there's no doubt that when we came into these businesses we did cut things out. There were things sold off - like our laboratories were sold off, designs were sold off - and we only buy back the services that we need from them now. Those parts of our businesses were privatised.

It is a different historic thing, I guess, that has occurred. If you started again now and you looked at the way the water systems work and the dependencies the economies have on them, you might have said something like the Murray-Darling

Basin area would have been a state because it was a logical grouping together of people and of communities and common interests, but it is really the Murray-Darling Basin agreement that has to bring them altogether now.

So there is a lot of history in this and that is why it is so hard to make arrangements - make competition and compare performance between different organisations. Some are totally separate and focused on the water businesses; some are imbedded in other government departments. You have got even governments with perhaps different agendas in terms of what they want to develop and people are coming from different historic perspectives where government have traditionally paid for more in some states than others have. But all governments and all communities now truly recognise, I think, the value of water, so it's becoming harder, not easier, as a consequence of that. Do you want to go through and perhaps answer some of these direct questions that were here?

MR COSGROVE: Yes.

MR SCRIVEN: We have spoken about interstate water trading. The next point there was, whether the imposition of both an allowance for depreciation and the payment of an annuity into a sinking fund is a fair impost on irrigators. The reason the royal commission ran into such a problem was that it was using current cost depreciation to price with; it was looking backwards on some costs. The renewals annuity that we run is very much about saying to our customers, "Here are the assets that we need. Do you want to say we don't need them? Here is the condition ratings."

We have gone through and classified our assets into 150 different asset types and given them six different condition ratings within them, so if it is a condition 6 it has basically had it; condition 1, it has got a pretty long life and in good nick. We have agreed those with our customers, we have agreed works programs to maintain and renew those where necessary, but we also use that - the replacement cycle that's needed to generate a renewals annuity which will over time make sure everybody makes a fair contribution to future replacements, because when we came out our business really had its debt written off for 8 or 10 million, which we have since paid off, and most water businesses are like that; they haven't got the large inherited debt. But the State Rivers and Water Supply Commission, the Rural Water Commission and the Rural Water Corporation just built up debt, just kept rolling over loans, because it was so easy for governments to say, "We'll just keep borrowing to replace this infrastructure," whereas what we are very much trying to do is saying, "Let's focus on what we need and put an annuity aside to preserve the future," and because we have pulled it back to 20 years on the retail part of our business, customers can understand the sort of life cycle they would have on a farm.

MR BRAITHWAITE: On the changeover did you take over the debt, too? You took over the asset; did you take over the debt also?

MR SCRIVEN: There wasn't that much debt there but what we did is when we sold

the businesses - things like the laboratories and the designs businesses - we used that to retire the debt. So what was left of the Rural Water Corporation took a pretty responsible position and said, "We'll realise all of the assets we can and we will use as much of that as possible to retire debt and whatever is left we'll allocate," and we agreed a basis for that, but we only got about 10 million, I think, in the end.

MR BRAITHWAITE: You weren't just passing the debt on to the entities, were you?

MR SCRIVEN: No, we have not passed it on - they have not got debt, no - but the State Rivers and Water Supply Commission had also had a lot of its debt written off in 1984, so the historical debt had been eradicated, and those of us who are committed to the long-run sustainability really want to make sure that those huge debts aren't built up again because, if they are, we'll never get out of it.

MR BRAITHWAITE: Yes.

MR SCRIVEN: So renewals was a way of looking forward and - - -

MR COSGROVE: Is that similar to the IPART methodology in New South Wales?

MR SCRIVEN: We have spoken with IPART and I think they are pretty well going to move along the same way as us. People interpret it in different ways but, really, we are talking about the long-run security of the business and really requiring customers who benefit to make a payment over an annuitised 20-year period. The other thing with asset valuations is that they can be very subjective and you can manipulate those. The past decisions shouldn't drive future decisions and why should current cost depreciation on an asset you have constructed 50 years ago drive a future pricing decision because you wouldn't replace it like it is there; you would use better technology - or you would hope.

MR BRAITHWAITE: So what's the practice of your board then? Do you use the annuity sinking funds?

MR SCRIVEN: We only use renewals. That's in our pricing policy.

MR BRAITHWAITE: Yes.

MR SCRIVEN: So when we do our financial reporting to satisfy accounting standards, we have valued our assets at their replacement cost, so they're recognised properly for accounting purposes, and the auditor-general in Victoria has passed our valuation. So what it means is we declare a book loss but our annuities are such that our future cash flows are covered over the long run. So what we've done is insured our sustainability into the future.

MR BRAITHWAITE: And that annuity is added into your cost price for current water?

MR SCRIVEN: That's in the price, yes. That's in the price for everybody. It depends where we finish up with taxation equivalence regime, but if our valuations are accepted it would also mean, because we would be declaring book losses we would hope that we wouldn't pay income tax. So it's again a part of our own strategy to do that.

One of the difficulties that we face with things like taxation equivalence is if the original historic valuations - and we don't have those, but if we had to go back and construct those, the original historic cost valuations were included - what we would do we'd have a break-even pricing regime which would be catering for future renewals and maintenance, current maintenance and future renewals, but our profits would be quite large because we'd have a very low depreciation charge, given that a lot of our assets were constructed 70 or 80 years ago. That would mean then we'd declare higher profits, which would mean we'd be paying taxation back in - we'd be losing the cash reserves we're trying to put aside for renewals annuity - we'd be losing that for tax.

So it's a very difficult path that all of these businesses are going to have to tread in regard to taxation equivalence and one in which - I guess what happens is that the accountants - all of the boards, all of the irrigation enterprises have got accountants in their businesses trying to work this out, and generally finance directors who are accountants on their boards, but the people who are working up a lot of the rules are generally economists looking at the theoretical side of it, whereas accountants know they've got to satisfy accounting standards, tax law and then also try and get through the competition policy side of it. So there's enormous anxiety about where taxation is going to go as well, and one of the issues again for Murray Irrigation Ltd is that the rules weren't resolved when they jumped out.

MR BRAITHWAITE: The annuity system would be okay on that depreciation question if you allied your depreciation write-off with the annuity, but you can't because you're contemplating the replacement of a future asset, which would mean it's got to be greater, so that's where the imbalance comes along.

MR SCRIVEN: That's right, and the historic cost depreciation if we were made to apply that charge is just going to be too low, because the value of inflation over those years means that we're going to have very very low depreciation, and the capacity of irrigation businesses to construct reliable historic cost valuations - they'd just be estimates anyway. We have to take our current valuations, look at when we believe the asset was constructed and then just keep discounting back by inflation to come back to that, and then we'd depreciate. So we have very low depreciation.

MR BRAITHWAITE: But in the meantime you'll be paying tax. You'll be taxed - you'll be tax equivalent - - -

MR SCRIVEN: If that happens. So what we're seeking in the tax equivalence regime debate is for the book valuations that we have had accepted by the

auditor-general to be accepted, and if that occurs then we think we're well positioned in terms of our long-run sustainability.

MR BRAITHWAITE: You do pay tax equivalence to the states now?

MR SCRIVEN: No, not now.

MR BRAITHWAITE: This will be a problem when it does start to trigger?

MR SCRIVEN: This will be a problem, yes, and we've got to resolve those rules. It will be critical.

MR BRAITHWAITE: Just to give me a clear picture on this whole system, a valuation is also required by the states to determine a rate of return on the capital invested.

MR SCRIVEN: Yes.

MR BRAITHWAITE: Now, obviously what you're saying is if the annuity goes in and the depreciation doesn't count in the cost, that's going to be a very artificial hurdle rate they're going to put in eventually on the cost of those assets, isn't it?

MR SCRIVEN: That's right. What I think will happen in terms of the rate of return - what appears to be emerging is that so many of the states have not met the full cost, the full business cost, that to look at a rate of return is beyond them at this stage. In our case, we would want our future price increases dedicated towards dam safety and dam improvement and environmental management, particularly drainage. Drainage is something where we can see just huge demands that are going to come onto us in the future in terms of controlling that. So we see our customers having price increases anyway into the future. And it's very hard politically to persuade them that they should pay a rate of return. So what we're arguing to government is that the rate of return for government is in fact environmentally and financially sustainable irrigation businesses and that you should be seeking to get your rate of return by trying to get things like water trading and movements into high-value agriculture up and get it via economic growth in these regional areas.

MR COSGROVE: What about the opportunity costs of capital?

MR SCRIVEN: The opportunity costs of capital - what we've said is we've already - it's been written off, the debt that we've already had, okay, and in terms of our own investment we've got to make that decision when the investment is due. Because we're financing our own businesses, aren't we making that decision anyway?

MR COSGROVE: Well, that's what the rate of return is meant to do.

MR SCRIVEN: Yes, but not if you're paying it back to government. You see, when we make a decision as to whether we would invest or not, we've got to look at

our own cash reserves or what rate we're going to borrow at, and we've got to make an investment decision as to what is in the long-run interest of our customers and our business, right?

MR COSGROVE: Yes.

MR SCRIVEN: And we do that every time because we're paying our own way. It's already our cost. If you look at the rate of return on sunk costs on investment that's already occurred on that valuation, then how can that possibly affect future decision-making? It's not rational in that context, and that is sort of the argument that we're using, that if you turn it into a rate of return - and this is what the Rural Water Commission was doing - you really created the battlefield on which you were going to have your fight with your customers, because they were saying, "You've already sunk the cost. We're here. Try and make it successful."

MR COSGROVE: Yes, I agree with that. I think the only relevance of the existing asset is presumably its sale value - - -

MR SCRIVEN: Yes, but it's - - -

MR COSGROVE: - - - rather than any calculation of a rate of return on sunk costs.

MR SCRIVEN: That's right, but why go through and do that? The sale value of Eildon would be its sale value perhaps to the tourism operators around it.

MR COSGROVE: Not the irrigators?

MR SCRIVEN: Well - - -

MR COSGROVE: Isn't it an asset of value from their point of view?

MR SCRIVEN: I'm assuming that you don't have irrigation, because if it's in there it's already in there at the values that we've got, which is its replacement value in the end.

MR BRAITHWAITE: In your annuity system you look at all the assets, and do you take provision for deferred maintenance, you know, maintenance that's going - just not the capital replacement, but if you're going to have a big maintenance in five years' time, do you take that into account in your annuities?

MR SCRIVEN: No. We make the renewals pretty well capital specific but in our pricing we do it five years ahead, and in that sort of cycle of maintenance it would be included in the pricing anyway, so they'd be paying for that. So when we charge next year's prices, it's in fact looking out over a five-year operations and maintenance program anyway. But what we're trying to do is say to irrigators, "Here are these assets," and we've gone through and mapped sort of spikes in the replacement profiles, and said to them, "We really need preventative maintenance here, so pay for

it now," and that maintenance just goes into the charge they pay now. We don't try and annuitise that because otherwise again you're deferring it and it just doesn't lead to good decision-making.

MR BRAITHWAITE: I think the point you were making before is that when you're looking at a rate of return you're suggesting the government should look at the value of that dam that is necessary for the environmental flows that go after it too. Is that what you're saying?

MR SCRIVEN: That's the decision you could make without the irrigation industry being there, but is the government going to go and seek a rate of return on a dam where it's already written off the capital, where it's already a sunk cost? Let's take the South Australian position or say the Queensland position where the business is owned by the government. If the government decides that it's going to invest in a new dam, then I don't see any difficulty with charging a rate of return, because that's a decision that everybody can be aware of at the time you've done it, and you're going to participate in it and you can inform people of the implications.

But if you go back and say to people who are already committed to a business, "We are now going to charge you a rate of return on all of the assets that the government once paid for," you just get into this very difficult political debate, and that totally undermined what was then the Rural Water Commission. It was what led to their downfall, in fact all of the useful reforms that we've got to, is what we said is, "That's with the government. If they decide to levy a rate of return, we'll leave it with them." But under the competition policy agenda, no-one at this stage has levied a rate of return on irrigation that I'm aware of, and from everywhere I can see, every jurisdiction is going to make it zero, simply because people have got such a hard task to get to cover these long-run business costs, and they're going to get higher because of the environmental implications - - -

MR BRAITHWAITE: It's going to make the tax equivalence more difficult though, isn't it?

MR SCRIVEN: It's a very difficult issue.

MR BRAITHWAITE: That's why I raised it, because I see there's a confusion between the two. I have no trouble with an annuity as against the depreciation being built into the cost of the water, and I think that's very transparent. People know what they're doing. But when you try to lock that in with a valuation of an asset and a rate of return, there is conflict.

MR SCRIVEN: That's right, and what we're arguing very strongly in the deal we're trying to do, and we're trying to negotiate a financial framework with government, is that we would commit to maintaining the business. We keep the business financially and environmentally sustainable but it's a zero rate of return. That's what we're seeking. If the government, however, was to make a capital contribution to the business and sought a rate of return on that, that's a part of the decision-making at

that time, and I think it should be in there because the government could have alternative investments it would choose to make.

MR COSGROVE: The NCP policy differentiates between new and old water assets, doesn't it?

MR SCRIVEN: Yes.

MR COSGROVE: You're saying and I think the policy is saying that for existing schemes - well, actually it says if we're right - in this document - the requirement is to earn no less than a zero rate of return, but zero presumably is acceptable on those old assets. On the new assets it says that they should yield a positive rate of return. Do you have difficulty with that concept too?

MR SCRIVEN: Generally I wouldn't, but in some cases I think you'll find that government will make capital contributions for social purposes.

MR COSGROVE: Yes.

MR SCRIVEN: For example, in dam safety it's very likely to make a contribution, or it has made contributions for dam safety in Victoria to protect downstream communities. So our customers pay 50 per cent of the cost of dam safety under the current program for their share, so they pay that, and if we need to borrow we'll go and borrow for their share of it, but the government has just contributed 50 per cent. Now, I wouldn't like to see that changed.

MR COSGROVE: No.

MR SCRIVEN: And one of the things we're going to talk about later I hope is, as a consequence of all the work we've done, we've really isolated one small area which is Woorinen, where I'm hoping to get a capital contribution from government as a way of alleviating the problem we've got there, but fixing it into the long term. But if the government for example said, "We're going out into a greenfields site and we're going to open up 15,000 hectares of land here. We're going to go and acquire the land, put in the pump station, set up the retail irrigation system and then we're just going to sell that to private investors, individual property owners, or we've put the money up and now we want a return from the people who are going to use all the water there," I'd have no difficulty with that, because my problem is where we've already got customers and then coming in and doing it to them, because there are some people that we've isolated through the work we've done, and particularly at Woorinen, and we've got to work through and get a solution for them that's viable.

But as a general principle it's acceptable, but I think you've got to be able to look at the social impact and say, "We're prepared to make it zero." But if government is investing purely to create economic growth and believes it's justified as a result of that, then it's going to get a bit hard to argue why you wouldn't have one, especially on greenfields sites because people are making logical investment

decisions,

and why wouldn't it be in there.

MR BRAITHWAITE: Your best idea might be to let them resume and build and then buy it at the price you want to buy it. That's transparent enough, isn't it?

MR SCRIVEN: Yes, and some of the subsidies may well be - like for example on the Burdekin I think the Queensland government did open up a lot of land for cane growing. It acquired the land, put in the dam and the irrigation system, sold the water with the land on it, and people just bought that at whatever the market price was. Now, in some cases government might take a loss for the long-term economic benefit it might get.

MR BRAITHWAITE: Well, that's very transparent.

MR SCRIVEN: That's right, yes. It's where you lock yourself into ongoing subsidies through a political deal that makes it very difficult, and then if someone comes along and wants to fix it in 20 years' time, you can't get out. I'd better keep going anyway. That's the position on - - -

MR COSGROVE: It's very helpful, thanks.

MR SCRIVEN: - - - depreciation and renewals. We're very much committed to forward looking there and so are our customers. The feasibility appropriateness and impacts of reflecting transmission losses in irrigation pricing structures: one of the issues here is that people who are close to the dam often say, "You should give us the water because those people right downstream there, they're actually wasting it, losing all this water in transmission losses." What they're calling transmission losses could really be the environmental flow and that if you chose to give people closer to the dam the water you might still have to leave the water in the river to get it down to that end point. So, for example, if we want to send water down the River Murray to people in South Australia you've still got to have a basic flow there and you've still got to have a basic flow for the environment as well.

So some people in, say, our north-east area, might argue, "Well, someone in Swan Hill" - which is 300 K's down the river - "really they're using 1.3 megalitres to take their 1 megalitre out of the river. If you gave it to us closer we would only use a megalitre." But one of the things about water politics is you can always spin the argument and the spin that you put on this is that the person up-front might need to buy 1.3 megalitres so the point 3 is still in the river when it gets to Swan Hill. So it's very difficult and people tend to argue about this depending where they are geographically.

MR BRAITHWAITE: How many environmentalists do you have on your staff?

MR SCRIVEN: In our staff we've got one environmental management officer within a system but we have a production and catchments group, and that's got probably about eight or 10 engineers in it, and the production group is very much

looking at planning water flows and negotiating with government on environmental flows. So we agree with government what the environmental flows are through the bulk entitlements process and it's our responsibility then to deliver them, but again I think our bulk entitlement, our flows of bulk entitlement are likely to be higher than other states given where we've got to so far.

We don't have specific environmental people. It's a part of their responsibility though to make sure the environment is looked after and, again, that institutional separation of having a government department trying to oversee and set the environmental flow and then the water authority being responsible, or the headworks authority being responsible for delivering it is a useful split because you get the auditing and control and transparency that you need. So it would need to be assessed on a system-by-system basis because one of the things with water systems is you can find different answers in different systems. You could get dysfunctional outcomes, as I said, environmental flows could be reduced, and you could also produce abandoned infrastructure. So where you already set up irrigation districts, if you say, "That's not really viable. Let's build one closer," suddenly you finish up with abandoned infrastructure.

I do though think that people who are looking for special releases, or water outside the season or normal operational standards, and that would include environmental standards, they could and probably should be accommodated via tariff charges which would take into account those sort of transmission losses. So we do that in our irrigation districts, for example, if people want runs outside the season. We might charge them a special tariff to do that. Just in terms of the reforms implemented to date, in terms of financial separation of services, we've identified 34 different services where we strike separate prices and we provide separate financial reporting of the prices. We've set it up so that our area managers can produce profit and loss statements and pass those directly back to the water services committees at the end of each month.

We have removed the cross-subsidies. We've just got one area where I've got a real problem with but we've identified - everybody understands what they're paying for, and that's another thing that has helped us in dealing with our customers, is breaking it down. Where we had the old advisory boards nobody would consider maintenance or service standards while you were one big entity because why would you? If you made a concession it just meant you were then going to pay for a service that somebody else got. So breaking it down into water systems helped us a lot because it meant that people were prepared to accept responsibility for the maintenance renewals and operational standards in their areas.

MR BRAITHWAITE: Do you supply water for urban purposes?

MR SCRIVEN: We provide water to bulk urbans. We provide water, say, to Goulburn Valley Water, and they would provide water to Shepparton, and they would provide water to Tatura. To get the water to Tatura they have got to take the water through our channel system. Once it's through our channel system and into their

local

dam, they will then reticulate it within the town.

MR BRAITHWAITE: And there's no cross-subsidy there?

MR SCRIVEN: No.

MR BRAITHWAITE: No remaining cross-subsidy.

MR SCRIVEN: There's no retail, no, although those urbans are paying a 4 per cent rate of return on their bulk water.

MR BRAITHWAITE: They are paying?

MR SCRIVEN: A 4 per cent rate of return on their bulk water. The urbans are paying that. I should stress though that in our case the cost of that bulk water is the cheapest in Victoria, if not Australia, for urban businesses. It's only about \$15 a megalitre and believe me a business like Citywest or Southeast or Yarra Valley, those city based urban water businesses in Melbourne, would love to be able to buy water from us for \$16 a megalitre. It's very cheap. Again that's due to the economies of scale and the integrated nature of our system. It's quite efficient.

So we've got transparent financial reporting and pricing and regular accounting back to our water services committees; the establishment of the water services committees that review and influence performance, including the preparation of business plans that deal with local issues for each irrigation area. One of the things that we have done and one of the things, after having been through it - being brought in to try and break down the Rural Water Commission into its components - it wasn't just the difficulty in the financial break-up but also the local knowledge and where we were going to go into the future that was the difficulty.

So if it was decided to separate the retail entities, like has occurred in Murray Irrigation Ltd, that could happen in our business. We would know the exact financial position, but they have also got a business plan that they could go forward with. We would need to negotiate the headworks arrangements, but it could be done, and we have offered that to them and they have said they will stay with us in the corporate family because they can see the benefits of economies of scale and the expertise that they get. They want to participate. So I think that's a reflection of how successful the transparency and the full accountability is; that once people understand it they don't necessarily want to fight you, they want to work with you to fix it.

We have got customer service agreements with each of our area water services committees and we've got customer support for the achieving of financial break-even by the COAG target of 2001. That has been very difficult in some cases and particularly difficult in places like Woorinen and Shepparton and central Goulburn, but we're getting there and at this stage we've got most of our irrigation services - all of our big services there. It's only a few of the smaller drainage ones that we're still struggling with but we look like we will get there.

We have also developed a water exchange. One of the big issues with water trading is a lack of transparency. There has been a lot of work done in private markets but initially it was felt that rural water businesses like ourselves shouldn't be involved in it. There was sort of this poach your gamekeeper role, where we would recommend the allocation and that in turn in a particular season could affect the value of water. Our customers have come to us and said, "We want you to run an exchange in the same way you do your pricing and financial reporting because we want to understand what's happening."

So we've developed an exchange. It has been really well accepted. It sets the benchmark price for private trade so farmers can do individual private trades, but prior to this there was no formal disclosure of water prices, and we knew of people who would pay, on the same day in the same water system, \$70 a megalitre and somebody had bought it for 70 and someone had sold for 20. We don't believe the middle bit went to the middle agents. It's just different people doing different transactions, but this lack of knowledge meant that you didn't have an appropriate market.

MR COSGROVE: How often is information available in this water exchange?

MR SCRIVEN: Weekly, and we don't disclose the identity of anybody. They've all got a registration number. They put in their offer to buy or sell; they put in their floor or ceiling price. So a seller puts in their floor price, a buyer puts in a ceiling, and they don't have to trade unless they can get the volume they're after at the price they're after. The other big difficulty with water trading is not just match the price but the volume.

MR COSGROVE: Yes.

MR SCRIVEN: Because you can get one big buyer looking for a lot of water and you need to get 10 or 15 people to match that person. Towards the end of the season you get irrigators coming in just looking for enough water to buy one irrigation and then they hope it will rain in the autumn. Our exchange has actually highlighted all of the trends that are in water trading. In a year where you have very little water at the opening of the season horticulturalists will buy early to try and position themselves. When it was only 40 per cent horticulturalists were buying and the price was \$199 a megalitre.

Once we got to 100 per cent it was dairy farmers who were buying, and they were being driven by the cost of food or the external advice they got on what they should pay. So they were paying about \$90, and as we got towards the end of the season, when people were only buying for one watering at a time, sellers realised they had to sell and the price just fell away to \$20. But for the first time that information is in the marketplace and people who would previously have tried to produce water, produce with their water, will look at those tables that we're now producing over three or four seasons, they will match it to the season they're in, and they will make a

decision to sell their water at \$40 or \$50 a megalitre at the start of the season, and a tomato grower might buy that and then they might get a gross margin of 3 or 4 hundred dollars a megalitre, whereas the grazier who was using it will struggle to get 40 or 30, and they had to do a lot of work to get to 40. Here all they had to do was trade.

So it's that sort of disclosure and transparency and information that is really making the difference. To get proper competition and true markets you have got to have full disclosure and that's where we're heading in water trading. Our water exchange only trades 15 per cent of the water but it's actually setting the price because it's the only transparent point.

MR BRAITHWAITE: But you make the transfer effective immediately? You control it?

MR SCRIVEN: Yes.

MR BRAITHWAITE: So when you transfer it that's available immediately to them?

MR SCRIVEN: What we do is we say, "You've got to have your bid in by 10 am on the Monday. You've got until on the Wednesday to pull out." Between the Monday and the Wednesday we are checking that you've got the water, that it can physically move between water trading zones because you have got to physically transport the water, that we haven't got a problem with salinity on the property that it's going to go to. Then we do the exchange, and that's independently audited by a water exchange controller, which is an accounting firm, so the whole process is totally transparent. We declare the price by Thursday lunchtime and by Friday morning if you ring up - by Thursday night we try and up-load the entitlements into the buyers and by Friday morning you can be watering that water onto your property.

MR BRAITHWAITE: It's a bit different on the other side of the river.

MR SCRIVEN: Yes. Again the advantage with us is that we run all of the diversions as well as the irrigation. So we are running the river systems and the irrigation systems. It's very hard if you've got other parties in it, and it's going to get very difficult with interstate trading as well. We are really going to need interstate trading agreements here. I will just press on. But again the water exchange has been a major benefit, the reform is in progress. We are working on bulk water entitlements, the further development of the water trading market - that's the extension of our exchange perhaps into permanent trading - better publication of the rules.

The retail entitlement reform: we really want to better define the property rights so that people understand them. The fact that they've owned them for 50 years in the one family doesn't mean they really understand what they own, and we want to introduce new tariffs as well. The tariffs, we are going to try and argue those to

sponsor a bit more water trading. So all of the positive things I've spoken about, in particular water trading and relationships with customers, it has helped us an enormous amount, and there wouldn't be anybody on our water services committees, on our board or in senior management who would say that where we've gone to over the last four or five years has been negative. It's more the concerns about what might happen with rate of return, what might happen with taxation equivalence.

Where we have been hit particularly is in a couple of our districts. Woorinen which is a little area that was supplied by concrete line channels, very porous soils, there's a bit of horticulture there but there's also a lot of pasture. Central Goulburn is one of the first irrigation districts ever developed. Shepparton is a bit the same. They've got quite run-down infrastructure there. At Woorinen we've got a real issue. If they stayed a part of the old Goulburn-Murray irrigation district for another 10 years their concrete line channels would have been replaced and they would have very good infrastructure. As it is the timing of everything has really isolated them.

So far we've put prices up 74 per cent between 92-93 and 98-99, from \$16.18 to \$28.10. We've done a fair bit of research. We've gone through and done a reasonable design now with looking at going back to a pump station back to the river, pipelining the system, because we're losing a lot of water. It's having an environmental impact here as well. To get to a pipeline system we are going to have to go from \$16.18 to \$71. There's enormous transitional difficulty for people to do that because they're just not getting the margins that are necessary.

The customers affected don't have any alternative supply; they can only get their water from us. This sort of problem wouldn't occur in future. It's a current pricing problem. It has the renewals in the lease, so once we get them there we will make it financially sustainable in the future. We didn't have any renewals reserve inherited. That's one of the issues. We didn't get any borrowings but we didn't get any inherited. Generally, if we had been running for 20 or 30 years, you would have also got a renewals reserve. You might have got some borrowings but you would have got a renewals reserve with it. So although the people over the border complain more, always keep in mind that they have got significant payments from the New South Wales government to bring their assets up to scratch. There has been none received for that in Victoria.

MR BRAITHWAITE: They could have a problem with that too.

MR SCRIVEN: Again taxation could have a problem with that, yes.

MR BRAITHWAITE: Could I just take that first point, the actual increase from then to there.

MR SCRIVEN: Yes.

MR BRAITHWAITE: Actually what you're doing is, there's a stack of deferred maintenance when that was taken over, so you're asking the current generation of - - -

MR SCRIVEN: No, what we're doing is we've had customer meetings and customers from the (indistinct) channels.

MR BRAITHWAITE: And they understand it.

MR SCRIVEN: We've all agreed that maintenance is not a fix. We are just doing the bare minimum maintenance to maintain the existing service. We've now agreed that fundamentally the only solution is a pipeline. It's the only viable solution in the long run.

MR BRAITHWAITE: That's interesting.

MR COSGROVE: And those customers are prepared to meet the costs of the new pipeline?

MR SCRIVEN: They're prepared to meet half of the initial cost but not the full. They're seeking a government contribution for that. The difficulty for us is that because you've got to do it in such a short time-frame and you've got to finance it in such a short time-frame it hurts you, whereas with what we will do in paying - we've done the modelling on this - if you repay their 50 per cent of the capital and then you also look towards them starting to put aside their renewals annuity we've got a long-term sustainable price of about \$54 a megalitre there. We've said to them, "That's the price that we can get to you," and I've said to them, "Even if we got a bigger government contribution I wouldn't want you to have a price under 54 because if you have a price of 30, in 40 years' time you're going to be in a position where you can't fix it. You're going to have the same problem you've got now."

MR BRAITHWAITE: Wouldn't another alternative be to amortise that over the next five years?

MR SCRIVEN: Yes, we're doing all that. We're going to amortise the capital over something like 50 or 45, yes. I think there is \$71 amortising over about 40 years, but we still can't get it below that \$71. That's with 1900 megalitres of water savings and also some other customers in the gravity irrigation districts making a contribution to these people.

MR COSGROVE: But this is an area, Chris - sorry to interrupt - where you would say if you could overcome, by some means or other, this significant increased outlay that there is a long-term viability in the area.

MR SCRIVEN: Yes, definitely. The Swan Hill area is an area where there is a lot of horticultural development. The current landowners, some of them are going to find it very difficult and some of them are still only going to get land that's best suited to pasture. A good irrigator could turn it into horticulture. There are horticulturists within this area who are already developed, who want the pipeline and the better water quality and service that will come with it. But the long-run sustainable price is

only about \$54 and that's comparable to our Nyah and Tresco districts, where that's a sustainable price there and they're already pipeline districts.

One of the points that I really wanted to get through here is that the competition payments to states are going to be based on the level of achievement of reforms. I reckon we've gone further than anybody, particularly in terms of customer relationships, in the acceptance of this. We'd really like to see some of the payments made back to the states put towards fixing some of the worst problems that have been created by this. In other words, people see competition policy as the villain, but it could also be the fixer in terms of - it's the long-run fixer for those businesses that haven't got big backlog maintenance and renewals problems and - because we've been able to get all that exposure there and their understanding.

But for somewhere like Woorinen and perhaps central Goulburn and Shepparton it's a way of building a lot of support to get them to understand - because payments are really going to be made to the states for these reforms and the pain of these reforms has been worn by irrigators. In terms of customer relationships we have been more vigorous than any government has ever been. We have sold up customers who won't pay. We have put up prices more and we have more aggressively pursued collections than anywhere else, and our customers have supported us because they see otherwise they're paying as individuals and they don't want to cross-subsidise - because we've been able to explain and show the impact of those things.

MR COSGROVE: Could I just pursue that briefly. Are you saying ultimately that there is some special, if you like, public relations value associated with identifying a particular parcel of NCP money - these competition payments - as a sort of hypothecation which would have some special value over the allocation of normal government revenue?

MR SCRIVEN: To me it would have because in reality if we had not gone through all the reforms we have, we would not have isolated Woorinen. Instead of being in a pool of about 218 customers, they would have been in a pool of about 10,000, and their position would have been shared out by everyone - a very inefficient outcome. But the isolation of them has so exposed them that it's very difficult for them to get through. There are no existing government-funded programs, Commonwealth or state, that we can get into to fund programs like this because generally governments aren't funding infrastructure investment. So it's very difficult.

That's certainly the position I'm taking - is that I would like to see the worst affected, because governments really haven't foregone anything as a result of this reform on irrigation. They've got benefits. We've got water trading and the economic growth we're going to get with it. We've got long-term financial sustainability of irrigation businesses, apart from these small ones. That must be of benefit to government.

MR BRAITHWAITE: They will get tax equivalence too.

MR SCRIVEN: And they could get tax equivalence as well, yes. So why wouldn't the competition payments be used to soften these worst affected areas? I think it's a rational argument and one which I think the rural community would really support. This comes back against the transparency of the process. I'm really happy that this sort of information, the work you've gone through has been published and is available, although probably not a lot of us will read it. But it is very useful, I think, to have it there as a reference to take back to people when you're in a debate with them because we need that stuff.

The draft report indicates that competition policy is not well understood and that consequently competition policy has an unfavourable image in rural and regional Australia and I'd accept that as being pretty true, too. But I'd like to see the process use the same transparency and accountability required by those sectors being reformed - and particularly us, where we've really laid ourselves bare to our customers and in doing that have been able to justify the decisions we've taken.

It's very hard sometimes for city based organisations to understand what is occurring in the bush and I'd just like to see that full transparency exposed. I know that this work is done but it's in different documents and it's all over the place and it's hard to get hold of it. I'd like to see publicly specified the achievements required by the sector and payments associated with achievements within each sector. If you go to table 5.3, I'd like to know how much Victoria is going to get for water trade, how much it's going to get for these other reforms - you know, the removal of cross-subsidies and meeting the full costs. We might not meet the rate of return but we're going to get everything else. What's that worth, because it must be worth something?

Again, it could be identified that rural communities have directly made that contribution, but the contribution - and this is what is being put to us, particularly by the citizens of Woorinen - is that that money is just going straight back to government. Why can't we have our share of it? It's an argument that we haven't been able to refute, because it seems fair to us. So we'd like to see again the same sort of public accountability, report performance and payments made, detailing achievements and payments within sectors and states and publish and distribute information to industry sectors and the groups. That might be done, it's just how widely that's done and understood, because it's very difficult for us to find out how much the payments are identified - first of all with the water sector as a lump, and then with particular reforms within it

We'd like to see the reasons for non-achievement reported, because we - I'm quite happy to be accountable if we don't achieve. Sometimes it might just be a delay and we're going to get there once we get over this problem, so therefore that should be understood. Then the reason for non-payment should be understood. Identify when or if the agreements will be implemented; if the reforms aren't implemented what's the consequence of that? In some cases we might say, "It's not worth it," or "In fact not doing this is going to have a severe consequence for rural economies over the long term and we should take the pain, and this is why." But if that's out there

and understood it's much easier to communicate that to farmers and to the rural community generally.

Then just this last point is the public perception which again the report has identified - this public perception of competition policy will remain without that disclosure - you know, the belief that the pain of the reform is in the bush but payments have been made to the cities. The reality is that there has been enormous steps forward, say, in urban water reform but the impact is \$20 a bill, right. And in some cases it's really been in social adjustments of "Let's use less water," whereas impact on irrigators in some cases is literally business threatening. So the impact is different and therefore the reaction I think is often a lot different, too. That's about it, I think.

MR COSGROVE: Thanks very much, Chris. I know you have other commitments that you need to get onto, but I wouldn't like you to go without our thanks for the very careful and informative way in which you've tried to address the questions which we ourselves were grappling with in this area. I really am very grateful to you for that.

MR SCRIVEN: Okay, thank you.

MR COSGROVE: Thank you very much.

MR BRAITHWAITE: Chris, I'd like to reiterate that but just could you clarify in my own mind, when you talked in terms of those price increases, \$28.10 per megalitre at the moment, is that just in the channels of Woorinen, or is that - - -

MR SCRIVEN: No, that's just in Woorinen.

MR BRAITHWAITE: Yes, and they have faced the prospect of that being increased to \$71 - - -

MR SCRIVEN: They're facing that now.

MR BRAITHWAITE: For that reason.

MR SCRIVEN: Because of the separation of the businesses and no cross-subsidies. That's the direct consequence of that, yes.

MR BRAITHWAITE: But that's only happening there.

MR SCRIVEN: It's only happening there.

MR BRAITHWAITE: What about in the other parts of the system?

MR SCRIVEN: In central Goulburn irrigation area, gravity irrigation area, and in Shepparton there's a similar impact but it's not as severe, but it could be around, you

know, \$5 or \$10 a megalitre - the impact there. But they have certainly got again a backlog that they're very concerned about. We've had a couple of dry years which has affected the cash flow there which has hurt them as well.

MR BRAITHWAITE: Thanks very much.

MR COSGROVE: Thank you. We'll take a break now for lunch and resume at 1.30.

(Luncheon adjournment)

MR COSGROVE: We will get under way again now and our next participant is the Glenelg Shire Council. I would be grateful if each of you would identify yourselves for our recording, and the capacities in which you're representing the council today.

MR ZEIGLER: Thank you, John, yes. My name is Councillor Frank Zeigler. I'm the deputy mayor this year, from the Glenelg Shire Council. My position on the council is one of I suppose representing the view of our constituents.

MR B. BRAITHWAITE: Thank you, my name is Bill Braithwaite. I'm the general manager of client services for the Glenelg Shire Council, an officer.

MR COSGROVE: Thank you. We will be glad to hear what you would like to tell us in terms of any reactions to the material in the draft report or other issues which strike you as significant from your point of view in this inquiry.

MR ZEIGLER: Thank you, John and Ray - very much so - for the opportunity to be here today and to have some input into the appropriate inquiry. Primarily we feel that we have four main points we wish to address you on. The first one is what we would feel is a lack of competition. We are a rural community, situated in the south-west of Victoria, comprising about 6200 square kilometres. We have a delightful mix of urban and rural communities spread over a vast area. We offer a mixed agricultural, timber, fishing and industrial base, with aluminium processing - a very busy port. In fact we're equally set aside from the ports of Adelaide and Melbourne on the south-west coast of Victoria. We believe we have a very prosperous community and one that is very much in tune, because of a number of our industries, with world's best practice, and a number of other initiatives which are necessary to survive in today's modern world.

The first of these points we wish to bring up is a lack of competition. In many respects costs to the community often outweigh the benefits. When councils are faced with significant infrastructure funding shortfalls and any non-efficient use of funds is literally not to be tolerated - so we do find that we have a number of areas where competition in small rural areas does not apply and appropriately, in a broad brush sense, we do have a lack of competition.

I would like to draw your attention to a document called the Competitive Edge. It is a competition policy in local government in rural Victoria. It's put together by John Ernst and Kevin O'Toole, the Centre for Regional Development, Deakin University. It was published in May 1999. Part of the Competitive Edge and the major findings on competition policy and rural local government - and I read from this particular document on page 3. I will leave a copy of the document for you.

MR COSGROVE: Thank you.

MR ZEIGLER: It does state that:

Specific outcomes, both positive and negative outcomes: competition policy

has sharpened and improved local government practice in several respects.

However -

and in respect of this document there are three councils that took part in it, so the document refers to -

all three councils express the view that the standardised approach of the Victorian CCT model is inappropriate, that compliance costs are high and that substantial net savings from competitive tendering are elusive. The general outcomes on the competition policy: although competition policy would seem to have merit, each of the councils argued that it is likely to have adverse impacts on rural communities over both the short and the long term.

The second point I raise is the impact of small townships. Council historically are both major consumers and major employers in small rural townships. Competition policy, combined with CCT and council amalgamation, specifically in Victoria, has placed further pressure on the viability of small rural communities. If you can go back into the historical aspects of councils in Victoria, where we have had rate reductions of 20 per cent, where we have had other issues primarily right across - as Bill has pointed out, yes, infrastructure funding right across our communities - these have had a vast impact. Also, with rate capping, as applied through the Victorian local government provisions, it really has knocked about the availability of local governments and councils to provide what they need to in their communities. This has had a significant impact, if you like, on the NCP dividends.

The third point is compliance costs. In many instances the costs of compliance outweigh the actual benefits that have actually been paid. Where we're coming from in local government is that we can see the benefits but we should not have to carry the burden where the advantages are not gained. The fourth point, in the national competition policy dividend: that the Glenelg Shire Council NCP dividend in 1998-1999 is about \$54,000 or, if we apply it over five years, a sum total of about \$499,000. The percentage share of the NCP dividend paid to local government is in our view far too low. Local government as an industry has accepted the challenges presented by the legislation wholeheartedly, with a view to bringing the best outcomes that we can from that legislation. Bill?

MR B. BRAITHWAITE: If I can expand on two or three of those points made by Councillor Zeigler, our organisation and our council and I think our community definitely see the advantages that national competition policy and compliance with the Trade Practices Act and the whole idea of looking at global markets have. There's no doubt about it, we've sharpened our focus. Organisations like local government have become more professional and certainly have lifted the standard, and particularly in Victoria I would say that's across the board.

I suppose now we're saying that because we're now acting as a business, in a business environment, we have to make sure that the money we allocate to various projects has a return. In some ways that return is not just measured in dollars; it's

measured in the impact on communities. That goes to some of the comments that Councillor Zeigler made about its impact on our small rural townships, where the fact that the local hardware store might not get the same level of throughput of business from the council any more, because they might not compete on the same basis as a bigger player, is an impact. It's something we have to take into account and everybody has to play in the same market now. We understand that. We apply it. However, we still have to deal with the impacts of it. This is where we consider that the return through the NCP dividend, of say half a million dollars over five years, falls well short of what we have to do as a council and as a supporter of the community to actually address the negative sides of it.

We see those negative sides occurring in increased unemployment, increased despondency in our communities, the impact of further reductions of the public sector and the corporate sector out of our townships because of economies of scale get tougher and tougher to meet and they withdraw. We, as the community organisation in the area, eventually have to handle the social impacts of those things. Quite frankly, for \$54,000 a year the sums don't add up.

We're not denying that in other sides of our organisation that competition has generated savings. It has driven organisational change in a positive direction. We regard ourselves as a leading council and have been recognised as that by our peers and by the state government in fact. So we're not trying to change the world and we know we can't change the world. We're just pointing out that there are some impacts - and you would be aware of them in your studies - that we have to feel with and we have to deal with. Really that's the point we really need to make, is that we would like to see some recognition of the impact of this policy on the further escalation of rural decline.

It's actually an accelerant to rural decline. Rural decline is something that's occurred over a hundred years and is a trend that has occurred worldwide. We're not asking this review to change that. We know that's a fact of life that is probably not even within the Australian government's power to change. What we probably need to see is that this policy is actually putting the pedal back. It has actually put a little bit of an acceleration to it. We need to see some return so we can actually ameliorate the ramifications of it.

MR ZEIGLER: Just to elucidate that point, I can give you an example outside of local government where a large consumer of goods within our local community has decided that they will have a national supplier, with a view to determining the best price for goods and services. As such, the consumer has asked that the national supplier set up a branch within our community. They have done so. They now employ two people full-time. We looked at this with again an open view, with a positive motive behind that - that we would like to see the positive outcomes come from this.

Formerly the suppliers were provided by a local supplier who employed seven people. As a result of this national competition from the national supplier,

two jobs have been created. However, three have been lost within the local community. The net return to our community is in fact a loss of probably over \$50,000. However, the net savings go to a corporate group that do not then spend that particular amount of money within our local community but would be spent away from our local community, in a larger area perhaps overseas or outside of Australia, which was an outcome that we could not have foreseen because the ownership of the large corporate group is not an Australian ownership and the ownership of the supplier again is not an Australian company. So again a small local group, that had a policy of perhaps purchasing and selling locally and Australian made goods, is now one that looks at the cheapest possible price. Therefore we believe that our rural community in this case has suffered.

To put things into balanced perspective we would now like to work on two areas, first of all the positive views of the competitive process and the negative views, because I think if you don't look at both then you're not going to get an accurate understanding of where they need to work. These again come from the document Competitive Edge and these are quotes from a series of the three councils who have participated in this, the Deakin University investigation:

It has identified the true costs, driven down the prices and brought a whole new attitude about efficiency to local government -

and these are under the positive aspects. The next quote:

It has been a driver of cultural change within the organisation, setting local government up to succeed in the future -

again a very positive comment.

Lots of bad practice has been removed.

Another comment:

It has resulted in a clearer understanding of the job.

A further quote:

It forces people to be clearer, getting a harder edge, who really is the customer.

Further, it goes on to say:

Far easier to focus on policy and direction now. In some services it has been the driver of positive change - more efficient, more effective etcetera - but in others it has been destructive. CCT has done an awful lot to fix up abuses in the metropolitan areas but you are much more visible and accountable in country areas and hence we never had the inefficiencies of some of our metropolitan counterparts. Some efficiencies have been gained but wouldn't

suggest that these have been overly significant.

This is a comment from a separate comment. Another comment, "We don't get over budgeting any more." Which is very important. Further comment:

The state government has achieved what it really set out to achieve in local government. Most of the dead wood went in the first round of restructuring.

That was from a respective council. A further positive comment:

It has created opportunities for "go get 'em" type people but this greater opportunity needs to be balanced against the culture of insecurity. In terms of working conditions many staff are better off and there have been gains to the organisation in productivity and flexibility. Council hasn't saved much money but has achieved other changes. Downsizing following amalgamations etcetera meant some loss in the skills base but this is being progressively rebuilt. Also staff now take on more responsibility and have less supervision. Further, under compulsory tendering thus far we've managed to maintain standards and the community is telling us that they don't want these standards compromised. There is more community consultation now. As councillors we're dealing more with policy and we have to go out to the community more. This also has the effect of complicating the decision-making process.

This is from one of the specific group councils. Finally, in the positive groups:

There has been a remarkable acceptance of change in all areas of micro-economic reform. 90 per cent of the community now accept the new model.

Some of the views of the negative of the competitive process:

It has been pretty messy and has been a big cost to councils. Most business units have not had the business acumen and skills to mount bids without lots of help. There are no savings out of CT. If the costs of contract management are taken into account savings can only be achieved at the expense of contract management. It does end up costing more. We wouldn't have made enough out of CT related savings and competition dividend to cover the compliance costs. It has cost more in dollar terms than we would have gained but taking other things into account the outcomes are less clear.

Sooner or later redundancies will be an issue. We've been lucky there have been no redundancies as a result of CCT thus far. Staff are concerned about the loss of job security. There has always been a trade-off in local government between less pay and greater security. The impact of the culture of insecurity is hard to assess because councils never really measured outcomes before. Generally people are stuck with it in rural areas as there are few alternative sources of employment. There has been difficult finding staff as a result of

time limited

contracts and we are losing the ability to manage staff and their workloads and there is reduced flexibility.

From a further council:

The lowest paid workers, for example, home carers, have had to reduce their wages through changed classifications in response to the potential threat of Silver Circle -

which is described as the home care benchmark from one council.

It may create gaps in the information loop between the client and provider sides. It uses standards to apply across the state irrespective of size of job, location etcetera. This drive for uniformity ends up in costing more. There has been a real lack of competition in rural areas and a loss of service capacity within councils.

There are further comments but I would like to keep the positives and the negatives in an appropriate balance. Prior to closing, I'd ask Bill if there is any other questions?

MR B. BRAITHWAITE: No. We'd like to give a copy of that study to you. We were one of the three councils that participated. We're not identified, it's just a study that looks at three organisations specifically in the south-west of Victoria. We support some of the comments from the other councils, we would have different views on others. But we do believe it's a fair cross-section of the type of comment, the way it's perceived, the way competition policy is received in our area. We don't want to give you the impression that we're anti-competitive tendering or anti-competition policy. We do see the advantages that it brings but I think the message we're trying to get to is that there needs to be, out of the study and out of the reworking of this document, a greater emphasis placed on how we ameliorate those negative - and look at the social impacts of how we, as community organisations, handle those down sides because at the end of the day we, as the organisation closest to the community and support of the community - they're our ratepayers and residents - we have to handle any issues that come up. Without putting anything on the report I think there needs to be some beefing up of that in the final document.

MR ZEIGLER: I suppose we should sum it up in two quick sentences, we want a win-win. We want the benefits from the competitive edge, from the NCP, we want to win from that but we feel that where it doesn't come up to the mark in rural communities we don't want to lose by it so we believe there should be a mechanism in place that recognises the special case in rural communities to see that they are not disadvantaged where the NCP doesn't meet the requirements it can for a whole range of issues that are beyond its control. The concept is brilliant. The effects simply need to be guarded so that there is no backward slide from the effects.

MR COSGROVE: Okay, thank you both. We will of course take a careful read of that document but I have the impression from your description of it and your other

views that what you're seeing as the main adverse effects of what you might broadly call competition policy reforms are coming predominantly from the Victorian compulsory competitive tendering policy, which of course is not, at least strictly speaking and one can try to be a bit too fussy about these distinctions, but it isn't embodied in national competition policy per se. As we've tried to make clear in our draft report, it's consistent with the general thrust of national competition policy, I think it would be fair to say, but it's not a part of national competition policy. It's a discretionary policy decision taken by the Victorian government. Now, I can see that if you focus on CCT, the obligation now I think on all Victoria councils to tender out at least 50 per cent of their operations - is that essentially what's involved?

MR B. BRAITHWAITE: Well, 50 per cent target is quite achievable by all councils. The actual target is something that all councils in Victoria should be very comfortable in meeting.

MR COSGROVE: I see.

MR B. BRAITHWAITE: And have met. I think we achieved 68 per cent last year and we'll probably go even higher this year. The target is not the issue.

MR COSGROVE: It's the effects that you're concerned of.

MR B. BRAITHWAITE: It's the effects, exactly, but the changes to the Trade Practices Act and competitive neutrality issues are issues which come from - - -

MR COSGROVE: They're part of NCP, yes, that's right. Now, what I'd like to get some help from you on is - to the extent that you can - is to have an indication of which of those two sets of policies, CCT on the one hand and the changes to the coverage of the TPA and the application of the competitive principle, are more or less important or whether you feel they've been equally important.

MR B. BRAITHWAITE: I think in general organisations understand the thrust of what all those reforms are trying to achieve and in general I would think that there would be support for them all. I think what we're seeking is probably some mechanism where we can demonstrate that there is no benefit, either on a financial level or a community impact which is going to cost you more in the long run or more in the short term even, that there should be a way to say this is not good management because I suppose what the whole process is about is good management and good business.

MR COSGROVE: Yes, I'd like to come back to that point, Bill, because it is an important one but before I do let me try to explain how think the various policies might be operating. The extension of the coverage of the Trade Practices Act I think essentially now exposes local governments and indeed other government enterprises to possible prosecution to anti-competitive conduct of one type or another and I would have thought that that was really not a very big issue for local government, particularly a rural local government. Would you agree with that or not?

MR B. BRAITHWAITE: I would agree with that. I believe that we as an organisation have taken that on board and see that exactly as you've described it.

MR COSGROVE: I'm sure you have. Then if you look at the application of competitive neutrality, again my understanding is that it requires councils to effectively assess their various operations to determine, in accordance with guidelines provided by the state government, which are business operations which might be significant business operations and to the extent that you have significant business operations then they will be subject to the principle of competitive neutrality. Do you have significant business activities?

MR B. BRAITHWAITE: I think the definition is one per cent of your activity.

MR COSGROVE: Okay.

MR B. BRAITHWAITE: We would have business operations that would fall within that category.

MR COSGROVE: Right.

MR B. BRAITHWAITE: We probably think that that's a too low a level. That one per cent is probably to low.

MR COSGROVE: But all that it means - and I quite understand what you said and I remember you making the point when we had our earlier discussion last year that there have been significant compliance costs for you in putting in place the various requirements of the CN principle, but beyond that have any of your business activities actually been the subject of a competitive neutrality complaint which has required you to either change the way in which those operations set their prices or perhaps even give way to a private business operator?

MR B. BRAITHWAITE: No, we have not received any complaint.

MR COSGROVE: No, okay, well, that's fine.

MR B. BRAITHWAITE: Our NCP adjustments to any contract price is done in open council and is a transparent process. That's not to say we won't in the future.

MR COSGROVE: No.

MR B. BRAITHWAITE: I can only ever recall one amendment made by the council to a report which followed a recommendation saying that's who should have the contract and then the council took other issues into account and changed the result. I'm talking about a very minor difference in price. That is their role. At the end of the day the council are the political leaders of our local council. They can make that determination. As long as all the information and the correct adjustments

are identified and put before them it's up to them to make the final call as to whether this is a good or bad thing for our community. I think that's good that they have the ability to do that and I think it's also very good that our council in particular understands its role and its powers and uses them very rarely in effect. So they would follow the procedure on 99 per cent of occasions.

MR COSGROVE: What that is suggesting to me is that those two areas of NCP, TPA coverage and the CN principle, don't seem, at least to date, to have had really big effects on your council apart at least from the compliance cost, which I quite understand. But on the other hand I could imagine that most of the adverse effects of the type that you were illustrating or including from the report have been more significant because there you are required to tender on a competitive basis for at least 50 per cent - you've said you're doing more than that in fact - and that may well be producing results of the kind that I think you referred to, Frank, where a small local supplier of services to you might lose out to a distant company which might well be an efficient provider of the service but has this incidental effect of resulting in a loss of employment in your own area. That was really the kind of indication I was really searching for. Which is the more important? It seems to me that CCT is the more important in terms of producing perhaps beneficial and adverse effects.

MR B. BRAITHWAITE: We can only report on the environment we work in and we work in that environment. We're the only state in Australia that has to do that. We're not complaining about that. We're just saying that this is the reality for us.

MR COSGROVE: Quite.

MR B. BRAITHWAITE: A review of this legislation, we believe, is important to get those points across but we are a significant part of the population of Australia. We're a significant part of the business of Australia and local government in Victoria is a \$3 billion enterprise and this is our opportunity to put our views about our realities. It may be different in Perth, it may be different in Queensland but we're giving you the view that we have and we're reflecting the views of our community. Frank is the elected person and he's giving you the views that we generally get from our community.

MR BRAITHWAITE: Could you be specific as to where you see the review should go? You've already nominated, I think, the 1 per cent tolerance for a business activity. You'd like to see a ceiling on that, a threshold, as far as shires are concerned. Is there a percentage figure, a threshold? Would that be better?

MR B. BRAITHWAITE: I'd like to see some flexibility in the way it can be applied and that may be a lifting or a different sort of threshold.

MR BRAITHWAITE: You couldn't give us some guide as to what you mean?

MR ZEIGLER: I certainly could. If we could design a matrix that takes into account urban rural communities, their gross product, the impact, the amount of

money in the community, the age of the population, it would have to be a very, very varied matrix but perhaps it's best not to have a hard and fast rule to delineate the flexibility required. Just the ability to apply flexibility of certain criteria is applicable.

MR BRAITHWAITE: Having set that matrix down, that takes into account rural areas, rural shires, as against metropolitan and things like that. How far should compulsory competitive tendering go? You have 50 per cent at the moment. Would you see any shift in that?

MR B. BRAITHWAITE: That's a matter for the Victorian state government to determine. I don't think that there's going to be a change there and I think that most councils are fairly comfortable in meeting that target.

MR BRAITHWAITE: Could I come back - what are the difficulties in meeting that target? How often are you forced to tender and you win that contract yourself?

MR B. BRAITHWAITE: We win the contract ourselves? Our experience has been that 97 per cent of all the contracts that we've let out have been won internally where there's been an internal - where an internal business unit has applied for a contract on 97 per cent of times it's won.

MR BRAITHWAITE: So what you're saying is, for 3 per cent the compliance cost is not worth it?

MR B. BRAITHWAITE: Yes, but I think that's simplistic because what we have got is a far better understanding of what work we're trying to seek from business. It doesn't take cultural change processes which these policies have put in place. 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. I suppose what we're saying now is now that we're acting that way we probably need to have a mechanism where we can say to whoever the responsible authority is, "Hang on, this one just doesn't add up economically and socially." There needs to be some mechanism for us to say there are some exceptional cases - and it might only be the 3 per cent or whatever - where we're not trying to get to 100 per cent business units, we certainly don't.

We're actually trying to promote competition in our area because we see the seeds of competition as one of the problems for rural areas. It's a lack of being able to get true competition and people who are willing to put in competitive bids which has probably helped our business units win a lot of tenders, because quite frankly if you've got to travel 400 kilometres to put a bid in, you know, you might not be having as sharp a pencil as your local competition. But we just want to see some ability in the legislation where if we can demonstrate that to strive for this last percentile is not efficient because all these policies are saying, "We want you to be competitive in an open market on a global market and be accountable for the way you

spend your money," and we're saying, "Well, we can identify a few instances where doing that is actually inefficient."

MR BRAITHWAITE: I don't think anybody is arguing about the need for local governments to maintain a system that's transparent and something you can work with which is efficient and is demonstrating a net return - and I'm not talking about social returns. Having established that, what would be your answer to the problem you have? Having established that you are continuing to have full disclosure, transparency and everything else, what's the mechanism you bring in there to suggest that at a certain level you be given the responsibility for internal tendering without putting it out to a tender or something like that? Do you use that mechanism also to tender for outside works?

MR ZEIGLER: We do, yes. To give you an example - I'll just point out - we had an in-house bid and we had a number of outside contractors, one within the local community and one from an interstate contractor. The in-house bid didn't meet the criteria in respect to quality and price, so it was dropped out. The next two were very close to one another, one from outside the state but had an appropriate quality of service, a proven track record, in other words the decision-making matrix was carefully evaluated by means of past criteria, an ability to perform the service and the price was within the appropriate area, but it was the cheaper of the two prices. The third price was of a local contractor who was just outside but met all the other criteria and missed out on the ability to provide at the appropriate price. A difficult decision for council, but the rules we put in place under the appropriate policy were that if you met the criteria you would win.

We gave it to an organisation from another state to provide services within our shire, missing out on the in-house team and missing out on a local contractor, not by very much money. But the council stuck to its guns. Of course what this meant was a number of jobs lost within the local community, and the loss of that local community and that group to continue to provide those services for subsequent and future contracts and provide the services further on when they came up again. I'm very proud of the fact that council stuck to its guns under the policy and met the criteria of the particular contract, especially the tender process. But at the same token, I must have a degree of intrepidation as to the fact that a couple of jobs were lost within the local community. I can't give you specifics because I can't speak for the exact numbers but there was a great degree of furore. Perhaps a degree of flexibility under the policy may have averted this but it was something we needed to look at in advance so that everybody knows when they enter a tendering process that it is still transparent and this is a criteria under which they will be adjudged. That is a difficult issue.

MR BRAITHWAITE: Could that be addressed by a particular CSO demonstrating - or a public interest test demonstrating where a preference might be given?

MR COSGROVE: If I may extend that question, is anything like that contained in the CCT legislation or whatever instrument of government is used?

MR B. BRAITHWAITE: The CCT legislation, I suppose, at the end of the day does allow the council to make a local decision. It's not incumbent on councils - the

council does not have to accept just the lowest tender, it can take other factors into consideration and those could be social impacts too. However, at the end of the day, our state government is saying, "If you make that decision you've got to be able to justify it to us, and if we believe you're making poor decisions we'll send an inspector in and he'll have a look at it too." Again we have no problem with that. I suppose this particular instance outlined by the council brought home to our community and also our contracting community that, "This isn't just about us competing with the council for work, this is about us competing with everybody for work."

In this case an organisation from another state beat both the council and the local contractor. The council was very, very concerned about that and asked us an organisation to work on how we could factor into our future matrixes for evaluating contracts, some form of understanding that problem.

MR ZEIGLER: Another point that comes from that - a conclusion perhaps - is that we have well and truly met our CCT requirement and of course we need to do that to receive the dividends. But what if we hadn't, what if we'd been at about 49 or 48 or whatever per cent and this was a large contract, then I believe perhaps there would have been negative aspects in respect of an appropriate decision under the policy.

MR B. BRAITHWAITE: Yes, because we won't get an NCP dividend unless we achieve all our CCT requirements as per - - -

MR COSGROVE: So the Victorian state government is actually linking the NCP competition payments to CCT.

MR B. BRAITHWAITE: Yes, you do not get your NCP unless - - -

MR ZEIGLER: If you don't go through the turnstile you don't get the ticket.

MR BRAITHWAITE: So the criteria on which you get your dividend is determined by factors other than NCP?

MR B. BRAITHWAITE: Yes, it's full compliance with all NCP, competitive neutrality and trade practices requirements and that we meet 50 per cent CCT target.

MR COSGROVE: Can I come back to a point you were making, Bill, of a factual kind that in 97 per cent of the tenders in which your in-house team bid - sorry, they were successful in 97 per cent.

MR B. BRAITHWAITE: Yes, I can qualify that. That doesn't contain capital projects, right.

MR COSGROVE: That's what I was coming to.

MR B. BRAITHWAITE: That's service contracts.

MR COSGROVE: Yes. So can you tell us what proportion of council work tenders your in-house team actually bids for in the aggregate?

MR B. BRAITHWAITE: Glenelg Services has a requirement to bid for all council work that is currently undertaken by council. That's part of their charter.

MR COSGROVE: Except capital projects?

MR B. BRAITHWAITE: No, they bid for all capital projects.

MR COSGROVE: I see.

MR B. BRAITHWAITE: But in that figure of 97 per cent does not count the annual capital program which is \$7.5 million. In their business plan, for them to survive, they have targeted that they have to try and win \$6 million of that work. If they don't win \$6 million worth of that work they've got to go out and win the shortfall in the normal - be normal contractors and go and compete against them. They've done the business plan and they've said, "To maintain our 120-strong workforce, our \$8 million fleet of plant and equipment, we need to have a certain amount of generated income each year."

MR COSGROVE: So the 97 per cent relates to work that they have bid for other than council work. It includes both, I suppose, does it?

MR B. BRAITHWAITE: Yes.

MR COSGROVE: I see, yes.

MR B. BRAITHWAITE: But we've certainly lost a number of capital projects. I mean, one of the instances this year is we have two major road resealing contracts a year - one is for council's own road network which is local roads, about \$600,000 a year; the other one is for main roads which we get funded for by VicRoads for the main roads in our area, to reseal those and maintain that. What happened this year is VicRoads' own corporatised sealing unit, they won our roads and we won theirs. So we're actually winning contracts to seal their roads and they're winning contracts to seal ours.

MR BRAITHWAITE: In Queensland, as you may know, they've divided the councils into three regions: those that can compete and do so effectively; the middle range that can probably still do it, and the third range which are basically the bush-type shires. The Main Roads Department in Queensland have said, "Righto, if you're in the third region this is the amount of work that will go and you don't have to tender for it," so they would get that as of right up to a certain date. Now, it could be that when that certain date comes up they will change the mechanism, but that's what Queensland does. The interesting thing is Queensland is the other state that pays a dividend to the local councils.

MR B. BRAITHWAITE: Just from our organisational point of view I would like to relay this to you. Even the parts of our organisation that aren't subject to tendering are still subject to actually putting a price and a contract in. So they actually work under contestable service agreements which are benchmarked and if their price is not considered good then the council has the right to say, "Well, we'll put you out to the open market." So everybody in the organisation is working under one form of contract or another.

MR BRAITHWAITE: Have you got any complaints about the statement that they put theirs out for tender and they tender themselves - about their process?

MR B. BRAITHWAITE: Sorry, I didn't - - -

MR BRAITHWAITE: The state has to also comply with the same rules.

MR B. BRAITHWAITE: Yes.

MR BRAITHWAITE: You know, competitive neutrality and tendering out. You've got no complaints about the manner in which the state tenders out its own contracts and bits of it?

MR B. BRAITHWAITE: I think I lack the political side of the argument as - - -

MR BRAITHWAITE: No, what I'm trying to say is, does the state abide by its own rules.

MR ZEIGLER: Recently Victorian councils were required to have a questionnaire completed - if you like, a questionnaire of residents within their own shire - of which the first one was paid for by the state government. We now pay a third. In fact next year we will pay two-thirds, and then the final amount - we'll pay for the total amount of this questionnaire to go out.

MR B. BRAITHWAITE: Customer service survey.

MR ZEIGLER: Customer service survey. We have had no input at all into the information contained in the body of the survey. We have had no information or input into who provides it, the cost or price of it. Furthermore, when we have pointed out that there are a number of areas which are completely incorrect. For example, councils are now evaluated on roads which are not their responsibility but because the survey doesn't take that into account we are now being, if you like, valued and rated on roads which are not our concern. Part of our shire actually has a South Australian postcode but part of our shire doesn't even become included. We have told them about the inadequacies in this. So I would say in a number of areas, correct, the state government is not following its own policy. Whether it meets the 50 per cent compliance or not is of course another issue.

MR B. BRAITHWAITE: I think more of a concern would be we don't see private

industry required to meet the same stringent requirements of this - - -

MR ZEIGLER: Bill's point is a very important one - that market forces do tend to determine the appropriate outcomes.

MR BRAITHWAITE: Well, competitive neutrality is only designed to make the local councils equal with the payment by the private enterprise. There's no mechanism that says the private enterprise can't bid on a job under the cost price and that's a mechanism that's not there, nor - - -

MR COSGROVE: Except perhaps the Trade Practices Act.

MR ZEIGLER: Yes, but they have to comply with the Trade Practices Act - anti-competitive behaviour.

MR COSGROVE: Yes, that's right, they would be picked up that way.

MR ZEIGLER: I suppose another point too is that in some cases we may only - when we go out to tender, we may only get one response. That also makes the cost returns sometimes very hard to gauge.

MR COSGROVE: I would like to come back to this point you were putting some importance on, namely what might be done to ameliorate, if not offset, the effects - the adverse effects that might come from these various policies. Now, we've said in our draft report that we can see that the existing set of social safety net arrangements in Australia is a pretty extensive one and that at least in the first instance - although I think we said ordinarily - should be relied upon to deal with adverse consequences of national competition policy, or for that matter any other sources of change. We went on to say that there might be circumstances in which a separate, more specific type of assistance might be needed to respond to the circumstances of a particular area.

I wonder if you could tell us whether you essentially agree with that assessment: that is, whether the generally available assistance measures for people who are in difficulty for one reason or another is more or less adequate; whether you think there are circumstances, including in your own region, where specific assistance might be required; and I suppose thirdly, whether you are really looking for something other than either of those two sorts of support measures.

MR B. BRAITHWAITE: In relation to the whole mix of safety net and social infrastructure, certainly they're there. It's a lot more difficult for rural people to access them, because of distance, because of cost, you know, travel. We are subject to a deal of regionalisation which has pulled back a lot of those social structures to places like Warrnambool, where they used to be offered in smaller rural communities. So my answer would be, while they're there, they're certainly not as accessible as they used to be. We would like to see something happen. Unfortunately I don't have the answer.

MR COSGROVE: It's a difficult area.

MR B. BRAITHWAITE: What we're seeking is that if a number of people that speak to you in the course of all your hearings across Australia have a similar story to tell, that you may be able to put something in the final document which comes some way to solving our problem. I wish we could have come with a solution for you.

MR COSGROVE: No, I understand. We are trying to do what we can in that area.

MR B. BRAITHWAITE: I suppose that's the process we're sort of saying. We're trying to tell you what we feel the impacts are. I suppose if we had the answer we would probably not be sitting in rural Victoria.

MR BRAITHWAITE: Are you saying if you were able to get the answer right to start with that you wouldn't need the adjustment programs? You know, if you had the mechanism to get the answer right to start with - - -

MR B. BRAITHWAITE: Yes. Well, I suppose \$54,000 that we're getting paid this year out of NCP doesn't even go two-thirds of the way to employing the one contract engineer that we have had to add to our organisation to make sure that all the contracts are complied with and these things are put into contract documents. So straightaway, in pure dollar terms, it just doesn't work for us. The benefits come from the sharpening of the organisation across the board and the professionalism that comes out of it. I suppose we need to get a bigger cut of the cake so that we can start to put that back into our rural communities of 300 people, 200 people, 1800 people, to try and offset them somehow.

MR COSGROVE: When you say that the generally available assistance measures are less accessible in your region or in parts of it at least than they used to be, are you talking there about essentially Commonwealth provided services?

MR B. BRAITHWAITE: I think it's not just even government, it's corporate side - you know, banking - - -

MR COSGROVE: I see, that kind of thing, yes.

MR B. BRAITHWAITE: Everything.

MR COSGROVE: Yes. But if you think more specifically of - - -

MR B. BRAITHWAITE: Education.

MR COSGROVE: - - - you know, unemployment benefits or that type of thing, they too - the administration of that has become more centralised?

MR B. BRAITHWAITE: Yes.

MR ZEIGLER: Everything has actually reduced in rural areas. I can give you some perfect examples of the changing style in rural areas at the moment in the general quality of life. I can tell you how people that used to be brilliant at roadworks and asphaltting can't fill in a contract, it's too complex and too damn hard for them, so they have gone over to hay carting. That's one more competitor that's no longer available in rural areas. I can give you examples where - for example, now in rural fire brigades the volunteers roll out, you've got people in their late sixties and seventies and young pregnant women are the only ones that are available to perform that particular service because the younger men have gone off on a contracting crew into another area to earn work. In many cases it's breaking up the moral fibre and structure in rural areas. In the city areas you can get away with it because you have a broader base and you don't have to travel as far. But in rural areas the tyranny of distance is difficult.

MR B. BRAITHWAITE: It's adding to that trend. It has not caused that trend. That trend was already there. What we're saying is this is just another additional thing that is, you know, forcing it in that direction. I don't even think that changing it will make any difference. I mean, it's almost an irresistible force. But you know, I suppose it's your job to try and find the fair common ground, and we'll be watching you very closely.

MR BRAITHWAITE: Thank you. If they played rugby I could say that's passing the ball in a tough tackle. Now, what you have concentrated on here has been beaut. Have you found the benefits of other reform in electricity charges, water charges, freight costs, telephone?

MR COSGROVE: As a result of competition reforms.

MR B. BRAITHWAITE: No, I think that definitely there are significant cost reductions in those areas which - again some flow through to rural areas. It certainly hasn't in fuel costs. We still pay exceedingly high fuel costs in country areas - much higher than can be justified by the freight costs. Telephones - it's improving. We don't get a lot of services that the city people get. We don't get SBS television. We don't get those services that come in. So in general my comment would be we are seeing the benefits across the board of competition in pushing price down, but a lot of it is being done by the withdrawal of many local services. I mean, we do not have people in Portland now that actually maintain the power system. They contract from another town. Where there used to be 36 people in the shire, dedicated to maintaining the power system, there are now six and they live in another shire.

I mean, there has been a whole series of reductions, and that's really caused by privatisation, as well as all this other stuff - you know, the privatisation of all our utilities has caused a whole series of restructuring and business reworking and it has caused those things to occur. That again is another impact. What we're basically saying: there's all these impacts, and this is one of them.

MR COSGROVE: Yes, those sorts of cases - although it's difficult to know - may

well have involved - - -

MR B. BRAITHWAITE: They may well have been efficient.

MR COSGROVE: Well, apart from that, may well have eventually involved reductions in workforces anyway.

MR B. BRAITHWAITE: Yes, sure.

MR COSGROVE: Because probably there has been a degree of overmanning in many of those former government-operated - - -

MR B. BRAITHWAITE: But when it happens in a community of 250 and the school becomes unviable and the local shop becomes unviable and the pub shuts, you know, it gets to the point where things get into the critical. You know, you lose two, three, four families out of those types of communities, you're talking about a fair chunk of the town. In Portland - 10,000, 15,000 people - that impact isn't seen as greatly. I suppose we're advocating the case here that the communities of 250 people up to say 2000 people - where really we see the impetus of this actually putting further pressure on the viability of those townships.

MR COSGROVE: However, I guess you would agree that over the longer run, sort of 50 years or so time span, we've seen communities grow and shrink. It's going on all the time. It's not always sensible to ossify, if you like, a particular regional population structure.

MR ZEIGLER: I think our rural communities and urban communities are simply under a constant rate of change. The only thing that varies is the speed of that change. It's probably unfair to say that national competition policy is a direct contributor. It is one of the contributors. But in relation to some of the complaints our council gets, it's about, "Well, yes, we do have cheaper prices for power and gas and water, but we really don't care about that. Just when it breaks down, we want it fixed within a day or two. We don't want to have to wait two or three days." That's again not an NCP issue. They're just comments from our local communities.

MR COSGROVE: Thanks very much for making a long trek to come and speak to us today. We appreciate it and we will be very interested to have a read of that.

MR ZEIGLER: Thank you.

MR COSGROVE: We will have a short break.

MR COSGROVE: Our next participant is the Latrobe Shire Council. Before we get into the substance of your presentation to us I would be grateful if, for our recording, you could each identify yourselves and the capacities in which you're here today.

MS HOLLOWAY: I'm Penny Holloway, the chief executive officer of Latrobe Shire Council.

MS BARTLING: Councillor Lorraine Bartling, mayor of Latrobe shire.

MR STEPHENS: Andrew Stephens, economic development manager, Latrobe Shire Council.

MR COSGROVE: Thank you. We're interested to hear what you have to say to us.

MS HOLLOWAY: Andrew is going to work the slide presentation for us. We felt that it would be useful if we could just go through the presentation with some slides, because I think it's easier to take it on board, but we do thank you very much for the opportunity to address the commission today. We have read the draft report with a great deal of interest. We do recognise that in the draft report the Latrobe Valley has been recognised as the regional capital of Gippsland in terms of population, administration, employment, education and recreation. It has also been recognised that Latrobe Valley is the most dramatic but little recognised example of national competition policy at work. I think the figures show that Gippsland region has suffered negatively out of all of - - -

MR COSGROVE: The only one, according to our estimates.

MS HOLLOWAY: - - - the regions in the whole of Australia through the national competition policy. But we do believe that that Latrobe shire - and that has been recognised we hope - doesn't fit into the normal pattern of an irrevocably declining region. If the policy settings are right, it has the capacity for renewed growth within the national competition policy environment.

What I think has been recognised is that Latrobe shire has suffered a dramatic turn around due to restructuring, which has not all been driven by national competition policy of course. It grew rapidly after 1945, driven largely by public sector investment. That was because of the State Electricity Commission investment in the area. But over the last decade the Latrobe Valley has suffered from the cessation of major public sector investment, the general rationalisation of activities - and that's in common with much of rural Australia, we heard the previous presenters saying that - but also the rationalisation and privatisation of the electricity generating industry. I suppose that's the unique factor that has affected the Latrobe Valley. We have got a bit of a typing error in the next slide but we have corrected it in your paper and we will officially correct that.

MR COSGROVE: Okay.

MS HOLLOWAY: Over 6000 jobs have been lost directly through the restructure of the power industry, which is around 10 per cent of our total population. Our population in the Latrobe Valley is around 70,000. With 6000 jobs being directly lost, that is a very, very significant - - -

MR COSGROVE: A larger share of your workforce than that, yes.

MS HOLLOWAY: A large portion of the population. Now, there has been various estimates of the flow-on effect of that job loss throughout the community. It's very hard to get a fix on it but certainly estimates are that around 18,000 jobs have been affected overall, if you take on the flow-on effects of those 6000. Of course, the 18,000 would include those 6000. That may be in the retail sector etcetera.

The rationalisation and the privatisation of the electricity industry does offer a dramatic example of the national competition policy in action. I think it's because it happened so quickly that the area has had huge difficulty in coming to terms with it and reacting. The government suddenly changed the rules and that led to severe disruptions to people's lives and expectations. There was no real lead-up to the rationalisation. The plans that had been around within recent decades were plans for 21 power stations. That might seem pie in the sky now but several decades ago that's what was being discussed. The community was planning for that level of expansion. The infrastructure in fact reflects that level of expansion. So the area has gone from that vision of growth, to stagnation.

There has been, as a result of that, great risk of loss of local skills. I mean, people don't believe that they can stay in the area. Many people believe that they have to move elsewhere. That applies to the engineering resource base too. It affects things like training programs. I mean, the public sector investment in training through the SECV was very big and that has been discontinued to a large extent.

The individual generating companies don't have specific commitments to maintenance of a local emergency response like the government organisation would do. I mean, they are a public sector company and they do play a role as a corporate citizen but they don't have that same commitment to a local emergency response capability. So in the case of a big crisis, for example the Longford gas crisis, there's a number of different organisations at work. We haven't yet been faced with that type of crisis in the Latrobe Valley but there isn't the same overall commitment, as I say.

One of the concerns I suppose that we have in the description in the draft report about growth patterns in regional areas - that we don't believe the Latrobe Valley actually does fit the pattern of high change, low growth identified in the draft report. In the draft report we have been put in the same sort of bag as towns like Broken Hill and so on. Obviously there are comparisons that can be made there but we don't believe that that has to be a long-term position for the Latrobe Valley. Whilst we're not right on the sea, we do have a coastal location. It's only an hour's drive from the

Latrobe Valley to the sea, so we're in that coastal strip. We're close to Melbourne. The edge of the municipality is one and a half hour's drive. There is considerable existing local critical mass in population and infrastructure. Whilst there has been a population decline as a result of the restructuring, we don't see that that has to remain a position of decline. Certainly there is significant infrastructure that has been built up over the many years of that public sector investment.

So there's excellent potential comparative advantages, and the ability to sustainably support larger population and industry base. So I suppose we are concerned at getting a label of a declining area where we don't believe - and because we have suffered the impact of a major change - but we don't believe that that is a correct label for the longer term.

MR COSGROVE: Yes, I quite understand your reaction, Penny, and I can see we probably need to make that particular part of our report - - -

MS HOLLOWAY: It becomes a bit of a self-fulfilling prophesy.

MR COSGROVE: Yes.

MS HOLLOWAY: We found that with other demographic studies too, where you have growth areas and areas of population decline. They reflect - if they are based on unique events, they can give you basically the wrong signal. But it becomes etched in concrete almost, because it's in a book and people say, "Oh well, it's down there that this area is in decline."

MR COSGROVE: It's a good example I think of one of the benefits of these types of occasions - that in our writing up of these regions we have done so exclusively, in our eyes, in an historical context. In other words, we weren't trying to indicate that because over this 15-year period a region had been assessed as having high structural change and low employment growth, that didn't necessarily mean to imply that that would be its future. But I can well see that people in regions might fear that that was the signal being sent and we will have to improve our description of that part of the document. Thanks for drawing it to our attention.

MS HOLLOWAY: That's okay. Andrew will just say something in relation to that.

MR STEPHENS: In fact the approach we have taken has been to commission Boston Consulting Group to actually do a fairly exhaustive scan of what our comparative advantages are, so that we really don't just try and be all things to all people. We focus on where we have a comparative advantage that's actually superior to other regions. I would like to table the glossy version - well, not terribly glossy, I suppose a prospectus style document - which outlines that, but it gives you a flavour that we have really done our homework seriously, to discover what we're potentially good at.

MR COSGROVE: Thank you.

MS HOLLOWAY: Just moving on further to the reasons for the low growth, as I said, they're very specific: major industry restructuring without a proactive adjustment program in place. There are more long-term structural issues in Gippsland, which I suppose does reflect the rural situation more generally. With Gippsland, the structural problems include the relative isolation of Gippsland in south-east New South Wales. This has been identified in a study undertaken by the south-east Australia transport strategy. We're a major regional area but the through road I suppose connecting Melbourne to Sydney goes up a northern corridor. Whilst we're on the Princes Highway, it can be easily seen as a pocket in the corner without a through road. It doesn't necessarily have to be the case in the future but there is this relative isolation.

There's a lack of a critical population infrastructure mass outside of the Latrobe Valley. The Latrobe Valley is the population centre, with 70,000 people. I mean, overall in Gippsland there's 250,000 but they are spread around a pretty large geographic area. Because of that, there's a lack of economic and political leverage that might be enjoyed in other larger population areas.

We believe that, by way of addressing some of these issues that we have raised, that the national competition policy must be balanced by long-term pursuit of national goals. That includes considering services or infrastructure ahead of time, for regional development purposes, so that some of that impact may be dispersed or cushioned. We believe that Australia must commence an active population growth program targeted at regional areas because the tenancy of course is one way towards the major centres of the capital cities. We're not the only area suffering from that of course.

Gippsland for example has excellent resources, soils, climate and environment but, as I said before, is home to only 250,000 people. We could function much more efficiently with at least four times that level. We have good basic infrastructure but a sparse population. So we do believe that there is a requirement for a more managerial approach to government pursuing long-term objectives in a consistent manner. Leaving it totally to the market will inevitably mean continued drift of business population to the centre.

Just over coffee there we talked about Eastern Energy, one of the privatised distribution companies, making an announcement yesterday that it was closing its Traralgon office and there's a loss of 35 jobs there, and they are to be centralised to Melbourne. So that's just another example of centralisation. It will be for efficiency reasons and from a commercial point of view that's understood, but that's still 35 jobs lost from an area that has lost so many already. We as a council are struggling to attract investment, to create and encourage employment, so every loss of a job is just yet another one that we have to try and attract.

So looking to the future, we recommend two approaches, which combine a more managerial or interventional approach in cases where reliance on the market at

the local level may deliver perverse outcomes for the community, or contrary to

long-term goals - and the Eastern Energy case that I just mentioned is such an example - and a follow through of national competition policy in those cases where it's likely to deliver appropriate outcomes. To take that last point a bit further, the national competition policy we don't believe has been fully applied to the electricity industry nationally.

Generation in Victoria has been rationalised and privatised and retailing has been progressively deregulated. However, transmission pricing is still on a postage stamp basis, which distorts market signals by smoothing out economic and environmental costs of transporting electricity from the power station to the terminal.

This is a very difficult question of course. We understand that. But it's hard to take when you have six electricity generators, generating electricity in the one area, and electricity is being sent all over the place. That's fair enough. I mean, that's equity. But there are huge transmission losses involved in that and therefore costs involved. We don't have any advantage whatsoever in the Latrobe Valley by virtue of the fact that the generators are based there. In fact there's a disadvantage because we pay more for electricity than - I mean, purchasers of electricity pay more in the Latrobe Valley than they do, for example, in metropolitan Melbourne.

One example is Rocklea Spinning Mills which is a case - because we have heard it said to us time and time again - it's based in Moe and they pay about \$100,000 per year more for their electricity than if they were based in Footscray.

MR COSGROVE: Do you know why that is? By the amount of money you mentioned are they above the contestable threshold?

MR STEPHENS: No, it's a peculiarity of the distribution system which we'll come to in a moment. In fact we'll table a report which goes into that in quite some detail and explains why that is. We've done quite a bit of research on that.

MS HOLLOWAY: That was just to do with distribution issues, but of course there is the energies lost in transmission, as I said. So we're generating up to 10 per cent in greenhouse gases to push electricity around the place. So that actually hides market signals. In other places you'd say you should be locating the industry closer to the generation. Then you get into the problem of - sort of like telephones or whatever. How do you - - -

MR COSGROVE: Do you charge for delivery costs, in effect, yes.

MS HOLLOWAY: Yes, that's right. So we understand that but we believe that there has to be perhaps a way of dealing with those distortions so that we can reap the benefit of the generation locally but does not disadvantage purchasers of electricity in the further flung places. To talk about a situation where we believe that the principle of competitive neutrality is at risk:

With the mixed public-private ownership of Australia's electricity industry, competitive neutrality is vital for efficient resource allocation. Corporatised, publicly-owned participants must face the same rules as private operators -

and this is why I talk about that this is on a national level.

Major distortions can result from undervaluation of assets or capital and operating subsidies. National competition payments must take account of the achievement of competitive neutrality.

We'd like to just provide an example of that. This work was actually undertaken by one of the privatised generators in the Latrobe Valley who are concerned that there is not an even playing field when it comes to comparisons between the privately-owned generators and the corporatised generators. This is not a matter of privatisation. It's not an issue about privatisation, it's just about the same rules applying, whether or not an enterprise is publicly owned or privately owned. Andrew, would you like to just quickly explain these figures?

MR STEPHENS: Without going into all the detail, essentially of course, with a corporatised entity the requirement of the relevant state treasury in terms of the valuation of the assets of course has a big bearing on the ability of the organisation to compete in the marketplace. There's also issues, for example, of the nature of the contracts that may be written, whether they contain a force majeure and a clause. There's a number of issues and that's in fact on the last page. As I say, the valuation of the assets and the nature of the contracts in place can have a very big bearing on whether there's real competitive neutrality or not. So what the entire Latrobe Valley community are saying on its council and our generating industry is we're not really fussed about the ownership issue.

Whether it's privatised or corporatised doesn't matter too much but there's got to be fair competitive neutrality otherwise the national market is going to be distorted. Of course, with the nature of long-term contracts being what they are, that can mean that distorted investment and consumer decisions can be made now that we'll have to live with for many, many years.

MR COSGROVE: As I'm sure you're aware, there are mechanisms in place - so-called competitive neutrality complaints officers - and it sounds as though, although I haven't absorbed this yet, that this would involve a complaint to the New South Wales office.

MR STEPHENS: In fact we are preparing one.

MR COSGROVE: Has that option been used?

MR STEPHENS: Yes.

MS HOLLOWAY: The generators - and I mean it really is something that they

have to do - are putting together a case to make a complaint to the New South Wales complaints officer for this very reason.

MR COSGROVE: At least one option which wasn't previously available.

MR STEPHENS: That's right. I think our concern is then if that process works as it should that may well be good, but certainly our concern is that there are decisions being made every day which, as I say, lock us into the future.

MS HOLLOWAY: What we are looking for - and this is something that we're not sort of seeking an answer from you of course here, but I mean this is something we're looking for in a general sense - is:

We want state and national endorsement of our as yet unrealised energy advantage for a program to make what appears to be a comparative advantage for us - a real comparative advantage.

As I said, we don't have it at the present time, despite the fact that we generate 85 to 90 per cent of Victoria's electricity.

The energy advantage program that we want to achieve would take our unique concentration of generating capacity which is six generators within 20 kilometres, to deliver cheap electricity to local industry. What we would hope to deliver through the program is being able to offer energy customers access to electricity up to 40 per cent cheaper than elsewhere in the country. This would provide a strong competitive edge for the state of Victoria and Australia to attract footloose industries in competition with other regions internationally. So it's not just for ourselves or Victoria but there could be a competitive advantage for Australia.

There would be significant environmental benefits achieved because of the major reduction in transmission costs and water use which could ultimately benefit Australia's greenhouse reduction strategy through a saving of up to 10 per cent in greenhouse gases through avoiding those transmission losses. This plan, whilst it may sound interesting, would be achieved through establishing a central industrial energy park that would give customers a direct electricity supply link to the region 6 electricity generators, so just earmarking an area with the Latrobe Valley which would be independent of the existing transmission and distribution system. This would reduce transmission and distribution charges and enable a range of complementary industries to locate on one site with access to secure, competitive electricity supply.

So they would be competitively supplied with electricity from the generators but to one location and not have to pay the transmission and distribution charges. That's one option and that's, I suppose, what we'd ideally like to achieve. Another option which achieves a similar aim but is less competitive is:

Encouraging energy intensive industries to co-locate on land close to power stations owned by electricity generators which under the existing regulations can be exempted from a transmission and distribution pricing regime.

That's where an energy intensive industry with, say, a magnesium smelter - that's very topical in our area - locates beside a power generator on their land and therefore, as I say, under the existing regulations wouldn't have to pay transmission and distribution charges and therefore the generator would be selling electricity at the same price but the purchaser would be receiving electricity at a cheaper rate. The one difficulty of course with that is they're just receiving it from the one source, the one generator, and they're not being able to enjoy competition.

The third element of our plan is to work on reconfiguring the network within the Latrobe Valley so that consumers are serviced by shorter transmission lines. This would provide significant benefit for small local industry and add incentive for new industry to locate in the area.

That Rocklea Spinning Mill example I was to you about before comes as a result of Rocklea being on a long transmission line and therefore paying the price of that. Andrew, would you like to explain how that works?

MR STEPHENS: Yes. The difficulty at the moment is apparently the pricing regime - and this is outlined in the report that we've given you - averages the cost of low voltage distribution lines across the entire line. So even though Rocklea might be only, say, 10 kilometres away from Yallourn Power Station, it's paying an average price of the cost of that line less, say, to Leongatha or Warragul or somewhere like that. Because of the population distribution in Gippsland that we mentioned to you where there's a very high population density in the Latrobe Valley but fairly low population density elsewhere, we're bedevilled with a lot of these long, low voltage transmission lines. So it means that customers in the Valley are paying the cost of servicing what almost amount to community service obligation type customers throughout the rest of Gippsland.

So we're saying, "Okay, as we understand it, the rules would say if you simply change the pricing regime it's a Pareto optimality situation where, you know, if we're better off, somebody else is worse off." So what we're saying is we've had initial discussions with the energy distributor in the area about - at a cost - a reconfiguration of the network where you try and get a win-win situation and you actually grow the cake so you don't end up damaging somebody else's prospects in the process of fixing the Rockleas of the world.

MS HOLLOWAY: So in summary, as far as the energy advantage is concerned, we're aiming to - we're recommending a level playing field for corporatised entities versus privatised entities, as we've said; state and national assistance in achieving the Latrobe Valley's comparative advantages, especially in citing energy intensive industries. In principle, Latrobe shire opposes postage stamp electricity pricing, however, we are aware of the ramifications of not having that system and we'd seek a

win-win solution, as Andrew has just said, as we are aware of the widespread ramifications of total abandonment of this long existing policy. Finally, in a more general sense - and this is moving away from the energy situation - our recommendation is that:

There needs to be proactive infrastructure provision for regional growth locations, proactive population growth through perhaps increased targeted immigration and supporting national policies in the fields of infrastructure, education, training and retraining, labour market management, housing and urban development, urban and regional research, including disclosure of the true costs of metropolitan versus regional locational decisions and the benefits of regional locations.

In summary, we are saying our area has been through significant change and has had to bear the impact of national competition policy. We don't see that it has to be that way in the future but there has to be, I suppose, support from governments to ensure that those areas that have a potential for growth, because of the natural resources and their existing infrastructure, are able to grow, to realise that growth that they have the potential for.

MR COSGROVE: Thank you very much to you all for putting together that informative presentation. In case it slips my mind later, Penny, should we regard this as a submission to the inquiry from - - -

MS HOLLOWAY: This document, yes.

MR COSGROVE: And perhaps the attachments.

MS HOLLOWAY: Yes.

MR COSGROVE: Okay, we'll treat them that way, thank you. You have raised a number of issues I think that we should discuss somewhat. My first question is a simple factual one. That loss of 6000 jobs that flowed from nationalisation of the power generating sector, did that occur over a short period of time or a few years, I just don't know?

MS HOLLOWAY: It was in the space of about five years. It was a fairly short period of time.

MS BARTLING: I think between four and five years which is a short amount of time really to lose that amount of jobs.

MR COSGROVE: That was leading up to my next related question. Are you able to tell us much about what happened to the workers who were displaced? Did they find within what you'd call a reasonable time, say, 12 months, employment in other occupations or did they have to leave the area to regain employment or maybe some of them simply retired because they were near the end of their working lives? I'm not

sure.

MS HOLLOWAY: I think it's a mixture of all of those things - and I will ask the Mayor Bartling to speak in a minute because she's actually lived through that, whereas I'm a newcomer to the area. But the professional people, many of them had moved elsewhere. If they were not able to find replacement employment in the area they moved elsewhere in Australia.

MR BRAITHWAITE: When you say professional, do you mean the engineers, people in the - - -

MS HOLLOWAY: Yes.

MR BRAITHWAITE: Just not the ordinary professions that probably didn't have - - -

MS HOLLOWAY: No, I'm talking about the people who were displaced from the SEC. Many of the professionals were employed but those that were not have moved elsewhere. But those who were in the blue-collar areas that lost employment and were not able to find alternative employment many of them have remained in the area unemployed. Our unemployment figures - it's hard to get a true fix on it because it sort bumps around but the September quarter of last year was 18.9 per cent unemployment in Moe and Morwell and I think it was 12 per cent unemployment in Traralgon. Now, the December quarter showed a drop and I don't know why that was because there wasn't anything that happened in the September quarter to the December quarter that would indicate - - -

MR COSGROVE: It could be seasonal. Sometimes there's a pick-up in activity around the Christmas period.

MS HOLLOWAY: It could be a seasonal adjustment. But certainly the levels of unemployment are very high. Lorraine, would you - - -

MS BARTLING: I think that one of the things was that the community - perhaps we're all a bit naive about the SEC employment because it'd been so stable over many years and everyone believed it was always going to be there so that created I think a problem. But the people, especially the 40-year-olds plus and the 50-year-olds plus that were put out of work with the SEC, they got a payout but they also believed that there would be employment for them in the future and a lot of them went around Australia, came back to the Valley believing that they would have some employment but it wasn't there and it hasn't been there so I think we've got a lot of people around about that 40 to 50 plus, going on to 60 now, that - - -

MR COSGROVE: When you say they went around Australia, do you mean they took a vacation?

MS BARTLING: Yes, I think they believed that because they got that money and

that they would be able to get employment that this was a chance to have a bit of money in their pocket, buy a new car, have a holiday and then come back and settle into a job. That's what I mean by being naive, that because there's been that employment security there it was believed that it would but because of the flow-on effect of those 6000 the other jobs weren't there either.

MR STEPHENS: We talked amount ago about the lack of preparation or government management of this process and we thought that - I think we feel that that should have been especially possible in this case because in this case it was actually government that was driving the process. When a BHP or something like that suddenly decides to downsize, maybe as a result of an external corporate decision, that's a bit harder but in this case it was actually the government driving the process.

MR COSGROVE: Yet, in the case of the closure of the Newcastle steelworks BHP actually gave its employees two years' notice I think to enable them to adjust.

MR STEPHENS: Whereas the early stages of handing out voluntary redundancy packages we believe there was even inadequate counselling of the employees concerned. So they weren't even prepared for how they should use their redundancy packages appropriately and how they should plan their futures.

MR COSGROVE: Yes.

MR STEPHENS: They were really left to their own devices. There's perhaps a few other things that are interesting in all of this too. Another aspect of the statistics, you asked what happened, where did these people go, we believe part of the process also is a casualisation or a move to part-time work and official employment statistics don't always pick that up. For example, we could quote to you examples of major workshops, sometimes they were always in the private sector, sometimes they were once owned by the SEC, where they might have had 1000 people working, where they may be down to a handful of salaried workers now, 50, 100 perhaps, and the rest of their employment is basically just called in when they're required. So a person's working pattern may be highly irregular.

That of course causes family dislocation, it doesn't boost business confidence, people aren't willing to invest in their personal futures. There's also examples of breadwinners who are working casually outside the region. We have stories of people working as far away as Queensland, north-western Australia and so on but it's not uncommon for their families to be left behind in the Latrobe Valley, sometimes because they want to be there and they live in hope that their breadwinner will be able to come back but in some cases it's as simple as that their real estate prices have dropped so dramatically that they can't sell their Latrobe Valley house at a price high enough to allow them to move or in some cases they're not prepared to move because they're not sure - there's imperfect information and they're just not sure that they'll be any better off if they move to the Gold Coast or somewhere else like that. So they say, "Let's stick with what we know."

Another issue too is that, in a major change such as we've had in our society, a brake on us achieving new growth is the issue of spouse employment. So, for example, it's all very well to say, "Yes, we've created 100 jobs," or something like that for maybe a primarily male breadwinner workforce but if you're looking at engaging - in today's world where so many couples both work if you can't provide meaningful employment for the spouse then you really are in trouble. So there's some of the manifestations that lie behind the question you asked.

MR COSGROVE: Would many people have left to work in Melbourne?

MR STEPHENS: I don't know that necessarily know exactly that. We do know that Latrobe Valley workers are working all over Australia and certainly there's examples of that - particularly the Gippsland Trades and Labour Council is well aware of that. But you will run across Latrobe Valley people, as I say, working all over Australia and indeed internationally. There's been a massive outflow of skills and people.

MR BRAITHWAITE: Have you got figures of those people who were displaced came from two income families?

MR STEPHENS: I'm sorry?

MR BRAITHWAITE: Have you got figures of those people who were displaced came from two income families?

MR STEPHENS: Those that did? I don't know that - I certainly don't have any concrete statistics. What we're basing our information on quite a deal of anecdotal information. I mean, I know examples of - just to quote one example that's very close to home, one of our former managers who recently left the shire - a senior manager who recently left the shire and is now working in Melbourne. His spouse was previously employed in a photographic laboratory in Newborough near Moe. That photographic laboratory closed and as a result of that she then didn't work regularly again. That's just one example very close to home but there's many like that. So the information is anecdotal rather than statistical.

MR BRAITHWAITE: But the mix would be pretty well the same as anywhere else in Australia?

MR STEPHENS: I think that particular issue of spouse employment, yes, is a wide-spread issue.

MR BRAITHWAITE: I was thinking of a mining situation where there's not a lot of two income families, just the single income. Latrobe would not have been the same as that?

MS HOLLOWAY: Yes, I don't think we've got the full figures here but I'd say a lot

of the two income families in the past were where both partners would have been working with the SEC and both of them have become unemployed as a result of the downsizing.

MR STEPHENS: You take the example of the SEC admin facility. There was an administrative facility in Morwell which I believe employed about 600 people at its peak and that building is now empty. There's absolutely nothing there. The power stations of course have spread out some of their local management amongst the different stations. Quite a bit of the management has moved to Melbourne but also just the nature of the reform process has probably meant that a lot of those positions have just become redundant absolutely. There would have been a whole range of employment opportunities in that 600 person building, ranging from IT to secretarial and so on and so forth.

MR COSGROVE: You mentioned in your presentation that the turnaround that you've suffered as a result of restructuring was not all driven by national competition policy. Now, that's I think a general pattern that we can perceive more or less across rural and regional Australia but what would you identify as the more important non-NCP factors having an impact on your region.

MS HOLLOWAY: It would be the centralisation of services and so on. The Eastern Energy decision that we spoke about earlier was just one small example of that pattern happening, where services for efficiency reasons - and one can understand the commercial decisions behind that - are being centralised. Rather than having a number of smaller offices, one big service centre, call centre, shared service centre, whatever, serving a much larger area. So that's happening all across Australia. So the Latrobe Valley and Gippsland has shared that or had that same experience.

MR COSGROVE: Would I be right in saying that among agricultural activities dairying is perhaps the only really significant one in Latrobe shire? You're not into grain production, are you?

MS HOLLOWAY: No, dairy is our major primary production area from an agricultural point of view.

MR COSGROVE: Yes.

MS HOLLOWAY: We do have a large timber industry and that's both producing sawn timber, woodchips and also paper. That's our other large industry apart from - - -

MR COSGROVE: I raise the dairying case because I was wondering whether, again over a span of time, there might have been a shift towards consolidation of dairy farms with a resultant reduction in the number of dairy farmers and their employees, I guess, which might also have contributed to some of the turnaround in the areas fortunes. Would that have happened?

MR STEPHENS: In a small way, yes, I would think. I mean, it would be dwarfed by the change in our industrial workforce. I suppose if you take a long enough view the change in fortunes in the Australia dairy industry, say since the mid-1960s, is reflected in the Latrobe Valley. I mean, most of the Latrobe Valley towns once had a butter factory, certainly Moe had a large one, and all of that infrastructure. That's just part of the normal economic development and economic change process that would be experienced all over Australia.

MR BRAITHWAITE: Has forestry had an impact in that regard?

MR STEPHENS: There's certainly been a drop in employment at the Amcor Merrivale mill over a period since about 1988 and again that would be unfair to, say, directly label that as an effect of national competition policy. It's part of the corporate restructuring process in the private sector.

MS HOLLOWAY: And automation, increased automation. I mean, I think the output is probably similar but the workforce has reduced.

MR BRAITHWAITE: Has the forestry agreements had any effect in that area? Have there been any new forestry agreements?

MR COSGROVE: You don't have a regional forestry agreement there yet?

MS HOLLOWAY: We do in the - we don't in the in the Strzelecki's, do we?

MS BARTLING: No.

MS HOLLOWAY: No, we've got one in the western part of Gippsland but not in the - - -

MR COSGROVE: But that's not affecting it, it's the restructuring that affected more than anything else?

MR STEPHENS: If you look at the municipal boundaries to our south, we include the northern side of the Strzelecki Ranges, in fact, our boundary roughly is the watershed of the Strzelecki Ranges, but to the north our boundary is at the foothills of the Great Dividing Range and so the major forestry activities to the north are in Baw Baw shire primarily. So if you look at it in strict municipal boundaries there's not a great deal of forestry activity to our north. But certainly it's terribly important to our economy and there's a steady flow of log trucks coming down out of those northern hills down into the Latrobe Valley.

MR COSGROVE: Could I come back to dairying again? Our modelling of the possible long-run effects of national competition policy reforms indicates that that's one of the main - in fact, I think the main likely adverse effect on your shire, or at least the region in which your shire is located. Is that your perception, that deregulation - and I might say our modelling assumes that total deregulation occurs,

in other words, there is no sort of part-way house justified by public interest considerations which might in the end be the case. But taking that assumption underlying the modelling, would you expect that the outcome of deregulation of the dairying industry would be adverse for your dairy farmers? Are they producing mainly what was called marketing milk, fresh milk, as compared to processed milk product?

MS HOLLOWAY: I don't know whether we could give you an answer at this stage.

MR COSGROVE: Yes?

MS HOLLOWAY: I don't believe that we're sufficiently informed about what the impact would be. There has certainly been huge debates about it in the dairy sector and in our area but I don't believe that we're able to give you a response on that.

MR COSGROVE: No, that's okay. I was just trying to get some sort of a reality check on our modelling.

MR STEPHENS: That's recognising also that if you talk about our strict municipal area, although we do have a dairy sector and it's important and they'd be very upset with us if we said anything else but the predominance of dairy farms of course is probably in Baw Baw shire.

MR COSGROVE: Outside your shire, I see, yes, thank you. Now if I could move on to what I might call some of the possible solutions that you're trying to find, one was this idea of targeting immigration towards regional areas with a view to inducing renewed population growth. I suppose that's a possible way of going. But what occurred to me as you were raising it was how could you be confident of holding the immigrants in a particular region, whether yours or any other for that matter? They come in, they gain permanent residency. I suppose most of them eventually choose to be Australian citizens. They're then in a position to live wherever they wish in Australia. Is it really, do you think, a long-term solution?

MS HOLLOWAY: Of course people are free to move - and this is one of the problems about population drift, is that people elect, through their own free choice, to move wherever they wish to move and that's their right. I think it is a chicken and egg thing. You can't forcibly move people - I mean, public housing policies in the past, where people have been, if not forcibly - but given strong incentives to move to rural areas through the provision of public housing. I mean, either they waited three years on a waiting list in Melbourne or they got a house immediately.

MR COSGROVE: Although sometimes a lot of that public housing has been placed in areas where employment opportunities are really rather limited.

MS HOLLOWAY: That's right.

MR COSGROVE: So it hasn't really helped them.

MS HOLLOWAY: That public policy wasn't all that successful, because you ended up with people choosing to have a house now rather than in three years' time, moving to an area where they were separated from their family support and into areas where there was perhaps high unemployment. So you do need to have a multifaceted approach to such programs. We do have to be able to offer people the prospect of employment. So targeted immigration is certainly one thing that we would support but it has to be accompanied by incentives for business development in the area as well.

When we talked about some of the locational choices for businesses - I mean, we as a council have a strong economic development policy. Council places a high priority on that. We will do what we can to attract new businesses and industry to our area. We believe that there are good reasons why businesses should locate in our core centres. I mean, that's not a secret. It's cheaper for core centres to operate in regional locations, on the one hand because of lower staff turnover, lower establishment - lower land prices and whatever.

MR COSGROVE: Lower land prices, yes.

MS HOLLOWAY: Yes, that's right. But such businesses have to see the advantages of locating in such regional areas. So what I'm trying to say is you can't just target immigration and say that's the only answer, you bring the population and the jobs will inevitably flow. I mean, that may happen if you've got enterprising people but you can't assume that's going to happen. You have to have a multifaceted approach to supporting that population growth through business development.

MR BRAITHWAITE: Just on that same thing, to what extent have you actually lost households - you know, people have actually moved out of the area because of this?

MS HOLLOWAY: Well, we have a lot of empty houses. I mean, there are houses - and once again it's a bit anecdotal but just talking to estate agents, Churchill, one of our towns which is about 6000 population, where there's a university - speaking to an estate agent relatively recently, she said that there are 40 per cent of the houses available for rental are unoccupied. I mean, they just can't get tenants. Those houses were built at a time when there was a population there to sustain them because of changes not only in the electricity industry but in the university too. People have moved elsewhere for employment but they haven't been able to sell their houses so the houses remain empty. So that's where a whole household has moved.

MR BRAITHWAITE: Yes. That must put enormous pressures on your council then, to have a rate base that's been denied, infrastructure that's required for a lot bigger population than what you have.

MS HOLLOWAY: Well, that's true, although the houses generate rates whether

people are in them or not. So at this point we get the rate income but for the owners it's pretty hard because they can't sell them and yet they're paying rates on them. They can't even let them sometimes.

MR STEPHENS: But nevertheless the point you make is quite valid in a general sense. The last time I looked at the figures Latrobe shire, out of the Gippsland shires, was devoting I think the largest proportion of its total budget to recurrent services, because we have a level of council responsibility infrastructure that was geared around expectation of population growth and also a level of services in other areas, which is appropriate to a provincial city which is the third largest provincial centre in Victoria. We're third to Ballarat and Bendigo. So we're geared up to that style of operation.

You made a comment to the previous presenters I think that you can't ossify a structure that's no longer appropriate. I suppose the key message we're trying to deliver in making that sort of go, no go decision, to either - to be very blunt about it - say, "Well, time has moved on and so you move on," or not. I think the message we're trying to give is by most measures, even those in your report, we ought to have the capability of doing quite well, but there are certain things that have to be done to unlock that.

As we said at the outset, we're within that coastal band that you defined. We're closer to Melbourne, very good resources, abundant infrastructure - all those good things - but there's a particular outworking, primarily of national competition policy, that stopped us dead in our tracks for a period of time. Perhaps in hindsight that process could have been managed a lot better. Overall the process was a great benefit, some would argue, to the state and to the nation. It allowed Victoria to significantly reduce its state debt. It was one of the key planks in the creation of a national electricity market and the benefits that you've outlined in your report that come from that. It was I suppose an example of what could be achieved through efficiency processes, where you've got the same output for greatly reduced labour and so on - you know, all of those sort of benefits - but they were widely spread benefits. The costs were almost entirely localised. So I think that's probably the message we're trying to get across: that we do have very good prospects but we basically need to restart it and get it going again.

MR BRAITHWAITE: It supports your claim of migration - is that you have the facilities and everything there just to receive them. What about the retirement industry? Is that a large feature in Latrobe?

MS HOLLOWAY: No, the growth areas of Gippsland at the moment - and that's largely due to retirement - are in the seaside areas of, say, Lakes Entrance and around Phillip Island and the southern coast. I suppose people are retiring to areas that they see as being attractive. I mean, we don't have - apart from the normal ageing of the population and people living in the area who are retiring - it hasn't been something that has developed as an industry at this point in the Latrobe Valley.

MR STEPHENS: We have traditionally had a younger than average population for

rural Victoria. Of course, that big immigration of population into the Latrobe Valley that we described, in the forties and fifties, is now ageing. So the providers are looking after that. But again I think our message is that we believe we have got the capability, if we get it right, to be able to create a vibrant economy that will actually provide employment opportunities for young people and actually keep our population relatively young.

MR COSGROVE: In terms of adjustment pressures, which is a topic we have tried to address at the end of our draft report - it's a quite difficult issue I think - but you were making some remarks earlier about the fact that this had been a government owned power generation plant and why couldn't the government have foreseen, in effect, what were the likely adjustment pressures placed on people. One aspect of this debate is more or less just that. Should governments in particular be trying to take decisions more or less at the same time as they, let's say, rationalise a power plant, with a view to the likely consequences of that change, or should they respond after the event - you know, ex ante ex post - to alternative ways of going about it.

Do you have any thoughts on that? I could see in the case of your particular experience, where it might have been the case that conditions other than the policy decision to rationalise the power generation system were, you might say, relatively stable, that this discrete event might have been a case in which the effects could have been foreseen and some special measures put in place to help to address them. But there may be other cases in which there's quite a lot of change going on and in which it wouldn't make a lot of sense to try to identify the effects of a particular source of change, although as I say, your situation may have been rather unusual in that respect.

MS HOLLOWAY: Yes, I think our situation is unusual. I suppose, because it was so large - I mean, the impact was so large. I think where you can look at a similar example somewhere else in Australia is Newcastle, with the changes to BHP, where that was a private sector decision. Whilst I know that the current management of BHP are not likely to take the same approach in the future when they make their decisions - but they were aware of the impact of closure of the plant at BHP on the - - -

MR COSGROVE: And I think it was a smaller component of the total Newcastle area economy than in your case.

MS HOLLOWAY: That's right, it was 2000 people I think.

MR COSGROVE: Yes.

MS HOLLOWAY: But there was considerable amount of effort put into looking at how the process could be managed, and joint work with the local council etcetera. But in the Latrobe Valley, where there was a greater direct impact of loss of jobs, that process of anticipating the change and working with the community through the change didn't happen. Probably in areas where there's - like, the rural adjustment changes to the farming and whatever you're talking about - maybe that's an ex post or

whatever change program that's put in place.

MR COSGROVE: Yes. As I was raising with the representative of Glenelg Shire Council, there does seem on the face of it to be a fairly extensive range of generally available support measures in our country. Do you have any feeling that those measures somehow proved inadequate in helping the people thrown out of work in that rationalisation to adjust to new careers or otherwise carry them through a period of difficulty?

MS BARTLING: I think Andrew mentioned before that they were badly advised and I think there's no doubt about that - very much so in the early stage of redundancies and things like that. They were very poorly advised.

MR COSGROVE: Yes, I suppose having received those redundancy amounts they wouldn't have been eligible for some of the social safety net provisions, would they.

MS BARTLING: That's right.

MR STEPHENS: All too many of them, in the absence of any good advice, thought, "Good, we'll pay off the mortgage on the house," which then promptly dropped in value, "and we'll buy a four-wheel drive, go for a tour around Australia, and then we'll come back and we'll pick up more work because there has always been an excess supply of work in the Latrobe Valley." Now, that was simply the history they knew, and it just didn't work out that way and there was nobody to advise them that they should adopt a different strategy.

MR COSGROVE: Who do you think should have been playing that role as adviser - the employer, Department of Social Security or - - -

MS HOLLOWAY: Well, I mean, I think it's probably a mixture of both but in this case the employer, being the government - state government, as opposed to Social Security being federal government - has had a responsibility with such significant change to play a major role in assisting that population to adjust. They could say, "Well, we did it through redundancy payments," but what we're talking about is more than that because that's the short term, you get the money, for a short period of time you get the benefit of that, but it's the longer-term adjustment which is more the issue that we're talking about. It would be pretty hard on Social Security, Centrelink and the job system to have to bear that whole burden of supporting people through the adjustment because of an event that the federal government didn't have responsibility for.

MR STEPHENS: I think part of the answer to your question probably is yes, there are, and of course the back of your report outlines a whole series of programs that are in place. The programs are there but I think when you've got an event, such as the one that we went through where it was fairly predictable, even the measures that you could use to address that were ultimately predictable. I mean, the vision of energy-intensive industries, for example, that sort of thing we're doing, okay, we've

had to develop it up in the current regulatory framework. But the basic concept was one that was known to the old State Electricity Commission and they had people working on very similar concepts, so in other words the fundamental philosophy is not new. So it might be that it's not so much that there is - with a couple of exceptions - an absolute lack of the programs in place, but it might be the lack of a concentrated task force or program or whatever to put them together in a structured way to address a particular situation.

MR COSGROVE: Let me step now to the future. I don't wish this to be taken incorrectly but having been burned badly by a state government in the past I'm intrigued, I might say, to see you now looking for state and national government assistance to help you exploit your comparative advantage. What is it about the role of government in the future that gives you reason for confidence?

MS HOLLOWAY: We don't believe that we can do it on our own as a region. We just don't have the resources in our own right.

MR COSGROVE: I can understand on the infrastructure side, I think any region would want to have a reasonably adequate physical infrastructure to enable its business enterprises to perform competitively, but beyond that what do you really have in mind? I see on the last page of your presentation, apart from infrastructure you've mentioned education, training and retraining. I think most people wouldn't have great difficulty with those. Labour market management, what did you have in mind by that?

MR STEPHENS: I suppose an example of that is the development of a vision for a region and working according to that. So, for example, I think it might have been late 1995 early 1996 - probably late 95 - when the outworking of this process was at its height, the then Commonwealth - I think it was the then CES, as it was - adopted an approach of saying, "Our job is to move skills out of the area," because they simply looked at it in a very simplistic sense and said, "Okay, there's an excess of welders and boilermakers and what have you in the Latrobe Valley so our job is to facilitate their movement elsewhere." We sort of said, "Whoa, hang on, that's not where we see our future going, and if you do that you'll actually rob us of the major part of our comparative advantage." So that's just one example of an individual agency doing what it thought was the right thing to do. It's like a business, working without a corporate plan. An individual business might have, let's say, it's corporate services department, in the absence of an overall plan, doing a particular thing.

MR COSGROVE: But if there's limited or no work opportunities for boilermakers in a particular region what is really the point of trying to keep them there?

MR STEPHENS: I think what we're saying is we have the potential to actually have those employment opportunities again. If you do the things we're suggesting you do in terms of exploiting our comparative advantages then in fact those opportunities will be there.

MS HOLLOWAY: It addresses the short-term problem for those individuals. Of course they want a job and they've got a right to be assisted to move to wherever those jobs may be but if there's no assistance to attract industry that will be able to build on our advantages to our area then it's just a one-way outflow and those skills are then lost to our area. You can't of course prevent an individual - and you wouldn't want to - from having the opportunity to obtain a job somewhere, anywhere, and that from a short-term point of view would certainly solve that problem but it doesn't assist us in the longer term to - - -

MR COSGROVE: Yes, I guess that was in a way what I was trying to drive at. I think if you're trying to regenerate or stimulate activity in a particular region you can try to, if you like, go with the flow, as they say, of market changes or market forces or you can try to somehow or other work to modify those forces or in some cases people might even try to work against them. I think that last approach is pretty unlikely to proceed. It's a bit like trying to push water uphill in a sense.

MR STEPHENS: I don't think we were suggesting that.

MS HOLLOWAY: No, no, we're not suggesting that at all. We want to build on our comparative advantages. We have got natural resources that can be exploited for industry purposes. I mean, take the example of a magnesium smelter which is very topical, as I say: one of the magnesium smelter developers has said that the Latrobe Valley is their preferred location, as a preliminary step. That was our doing a lot of work to make the case that it would be. There's huge competition for such a development across Australia. I mean, Tasmania has been clearly making every attempt to attract such developments down there. In order for Tasmania to attract such a development it would have to be a considerable distortion of the market because they would have to have considerable input from a level of government to make that a competitive decision for such a magnesium smelter development.

MR STEPHENS: Or similarly, if there's a major distortion of the market from New South Wales, which we believe would be contrary to national competition policy, that could just blow us away.

MR COSGROVE: Well, yes, that makes good sense.

MS HOLLOWAY: But for a magnesium smelter, all things being equal, we've demonstrated that the transport costs, given our infrastructure - our rail infrastructure - are not a major impediment if we can reap some benefits from the fact that there are generators there on the doorstep and take into account minimising transmission losses and so on. There's no reason why a magnesium smelter wouldn't locate in the Latrobe Valley.

MR COSGROVE: I was wondering whether there mightn't be some sort of information gap here. Is it partly a case of those potential investors not being sufficiently well informed about what your area has to offer?

MS HOLLOWAY: That may in fact be the case.

MR COSGROVE: In which case there is a legitimate role for local government or state government to try to fill that gap.

MR STEPHENS: We do do that, but as we're saying, there's also the issue of making sure that there are not the other eventualities, as we say, such as distortion interstate that would rob us of that opportunity.

MR COSGROVE: Yes.

MR STEPHENS: I suppose the other thing we're saying though - and this is coming back to the question about the labour market - there was also probably an information gap at an individual, personal level. If you were in 1995 and you'd just taken your redundancy package and you were a boilermaker and you were trying to figure out what to do, in the absence of any vision for an area like the Latrobe Valley, the average person sinks into great despair. It's all very well for us - relatively highly paid officers of a shire council who are in the information loop, who have the ability to be positive - but for the average person sitting in a back street in Moe or somewhere like that, how the hell do they know what the future holds?

That's a case where if at an earlier stage it had been clearly said, "Look, the Latrobe Valley does have a future and these are the comparative advantages. It is legitimate to expect that the Latrobe Valley has a future in, say, major energy industries," and so on and so on, it would have given a lot of people a lot more hope to say, "Yes, it is worth staying here. It's going to be painful to move. We don't really want to do. We've got trouble selling our house" - all those things we talked about - "therefore it's worth sticking here." But there really wasn't any vision for the future, so in the absence of one, the average person just felt nothing but despair, I suppose.

MR COSGROVE: Would you say that there are any features of the labour market in your area that constrain the capacity of people to regain employment, whether in their previous occupation or not? I mention this because we hear a lot as we travel around country areas from people saying that really, the labour market in a rural situation is often less formal than in the cities. The influence of unionisation is sometimes less. Some people might see that as a negative rather than a positive. But the implication is that rules don't have quite the same punch as they do in city areas, thereby enabling people to adjust within the labour market a little more readily, even if it meant in some cases working for slightly lower nominal wages than would otherwise be the case. Is that common in your area?

MS HOLLOWAY: I actually think the Latrobe Valley is somewhat the exception there because it is so industrial.

MR STEPHENS: It doesn't actually look like the city we're in now physically, but in terms of many of its characteristics it's almost the equivalent of a Ballarat or a

Bendigo. It just looks very different. So we're really not the average - - -

MS HOLLOWAY: It's industrial as opposed to the service industry. But the reality is that people from the Latrobe Valley have found employment elsewhere because they're highly skilled.

MR COSGROVE: Elsewhere, you mean outside the Valley.

MS HOLLOWAY: Outside of the Valley.

MR COSGROVE: Yes, but within the Valley do you think there weren't any significant constraints operating within the labour market, as impediments to their chances of regaining employment?

MS HOLLOWAY: No, I don't believe so. They were trained in specific areas which was to do with the industry that they were in, so there may be a retraining requirement but I don't think there are any particular impediments. In the industrial relations climate, the Latrobe Valley had a name for decades as being - that is different from the other rural areas you're talking about - highly unionised and a reputation for being difficult from an industrial relations point of view.

MR COSGROVE: Yes, that was the sort of thing I had in mind, whether in fact - - -

MS HOLLOWAY: But the reality is that that has changed.

MR STEPHENS: You're now getting to a stage where blue collar workers will walk around with a mobile phone on their body so they can get the phone call to call them into the factory and that's a very big change from where we were at, even 10 years ago. I think probably the stickiness is more that you had a lot of workers who were maybe shop floor type managerial - managing machines and so on, which is highly specialised and not very well suited to moving to other employment areas.

MR BRAITHWAITE: Just trying to get to the grips of the NCP but obviously what you're looking for are answers - and you have supplied those - and I understand that this is a forum that you have to be at to make your presentation. What's the response been to your local state government? Have they been all over you with a fine toothcomb to try to help you etcetera?

MS HOLLOWAY: We don't believe so. I mean, there is no doubt that where there have been business opportunities to attract new businesses to the area, the state government has assisted with incentives, as we have too as a council - I mean, quite considerable incentives. So there have been those examples of state and local government partnerships to attract businesses. A case in point is the establishment of National Foods within our area which was something that local government worked hard for and put in significant financial incentives to attract, but also the state government assisted too.

But we would like to see more state government support for our area, to assist in overcoming those difficulties that the area has experienced as a result of the massive restructuring. I don't think that's just a matter of whining and complaining and saying, "Oh, we should be assisted more by government." I mean, we actually don't believe that there has been the level of assistance provided to our area that has been provided to others.

MR STEPHENS: Is it fair to say that the state's policy is that we're eligible to apply for the same assistance as any other region in Victoria - and that's basically it.

MR COSGROVE: Right. Well, I don't have any further questions and nor does my colleague. If you wish to make any other points to us, we're happy to hear them, but if not we'd like to really thank you for taking what I know has been a lot of time and trouble to get here. We'd like to wish you a safe journey home. I think your region has been indelibly printed on the minds of all of those of us working on this inquiry and we will be following your fortunes with a good deal of interest. Thank you again for coming.

MS HOLLOWAY: Thank you very much for the opportunity.

MR BRAITHWAITE: You're welcome to a hot cup of tea or coffee before you head back too.

MR COSGROVE: Yes.

MS HOLLOWAY: Thank you.

MR COSGROVE: Now, I believe our next participants are the Hughes. Would you come forward. We would like you each to identify yourselves for the purposes of our transcript please and tell us the capacity in which you're here today.

MS HUGHES: I'm Anne Hughes. I'm an orthoptist. I'm here on my own behalf and also as a member of the Orthoptic Association of Australia. This is my husband, an optical dispenser, Robin Hughes, who is here as an optical dispenser. Reading the draft report of this commission, under section 9.3 is a discussion of the reviews of the professions. I note that the National Competition Council did not have a lot to say about legislative review in the professions, largely because those reviews were just starting to take place and have been ongoing since then.

MR COSGROVE: Yes.

MS HUGHES: I am directly concerned with Victorian state legislation governing optometrists. To that end I have approached the problem by looking at a number of points: first, a brief overview of people providing eye care in Victoria, and this applies nationwide, not just in Victoria; the impact of the Victorian government legislative changes on this area. Then I have looked at difficulties facing the Victorian rural population in accessing eye care services and possible benefits to rural communities from changes in this area.

MR COSGROVE: Has this review actually taken place, Anne?

MS HUGHES: The Victorian one has, yes. It was passed in 1996 and came into operation in 1997. So in the eye health care team we have basically four providers, who sometimes change their names. The first is the ophthalmologist, also known as the eye doctor, who is a registered medical practitioner of six years' training. He or she then goes on to specialise in ophthalmology and this takes a minimum of another six years' full-time training. The ophthalmologist treats diseases of the eye using both medical and surgical means.

We then have the orthoptist, who is a university trained person with a bachelor of applied science in orthoptics. It's around three and a half to four years across the states of Australia. The orthoptist undertakes a differential diagnosis and management of disorders of binocular vision and eye movement. The reason why it's probably an unfamiliar term to most people is because the orthoptist is largely working with pathology, you only get to see one if you've got problems. So we tend to be not particularly conspicuous. The orthoptist is a recognised expert worldwide in the treatment of binocular vision disorders and eye movement disorders.

We're also trained in the assessment and management of the vision impaired people and trained in screening for eye and systemic diseases. Many orthoptists work with and for ophthalmologists, as both are involved with pathology and abnormal eye conditions. Many orthoptists do also work as independent practitioners and have done so in this country for the last 70 years. We are not Medicare funded. We are privately funded.

Then we have optometrists, who are largely shop front people and are usually familiar to most of the community. They are a university trained person with a bachelor of optometry of about four years' duration. They are trained in the measurement and correction of vision by means of lenses and prisms, and in the dispensing of glasses and contact lenses. They are also trained in screening for eye and systemic disease.

Optometrists work mainly as private practitioners and for large groups such as OPSM in Victoria, and there are various other big corporate bodies in other states who employ optometrists. Optometrists are funded by Medicare for the practice of optometry. In your appendices you'll find a definition of optometry which is quite concise. Then we have an optical dispenser, who is a two-year trained technician with expertise in lens materials and in spectacle making to prescription. So that's a quite overview of some of these words, just to give people a general idea of what we're talking about.

Now, as I said, the Victorian government legislation was changed in 1996. The Optometrists Registration Act before that had been passed in 1958. It was probably high time it was looked at anyway. It was reviewed to comply with the anti-competitive legislation. Prior to this the old act, the act of 1958, gave optometrists a monopoly over measuring for, prescribing and dispensing glasses. It also prevented orthoptists from legally carrying out these functions, although it did not specifically mention orthoptists.

The new act, which came into being in 96, changed to comply with anti-competitive legislation but in so doing it brought orthoptists in under that act, where they had not been in the past. I have included that in your appendix there, the section we're talking about, section 60 part (2) subsection (b), which talks about unregistered persons under the act, that is people who are either unregistered optometrists or not optometrists at all. One class of person who may practise optometry under this section - and that is an orthoptist who is registered with the appropriate bodies and who is measuring for glasses and prescribing lenses and prisms not in the form of contact lenses and doing so at the request of or on the referral of a registered optometrist or medical practitioner.

Now, that part (b) is the part that turns the legislation around and makes it anti-competitive once again, because on the one hand it's admitted that an orthoptist is competent and trained to measure for and prescribe glasses and then it says, "But she or he may only do this with a request or referral." I will come to that a bit later because it makes the whole situation somewhat farcical.

Most refractions - that is a measurement for glasses - in Victoria were carried out in public hospitals and ophthalmologist rooms by orthoptists for, to the best of my knowledge, at least the last 30 years. It's something we have been doing for a long, long time. It's not a new thing for orthoptists. Prescriptions, however - if we wanted to write the prescription for glasses it had to be signed off by the

ophthalmologist to

comply with that Optometrists Act of 1958. The Victorian government believed it was anti-competitive for orthoptists not to be able to sign their own prescriptions and stated that:

If this were the case, it would offer consumers a greater choice of eye care provider.

This has been backed up by the statements in Hansard that were spoken prior to the bill being passed. The Optometrists Registration Board, also known as the ORB for obvious reasons, has been given the power by the government to interpret and implement the legislation. It has interpreted section 60 part (2) subsection (b) in a way that prevents an orthoptist from measuring for and prescribing glasses as an independent practitioner. It has sought to have the definition of request and referral the same as that in place under the medical benefits schedule - ie, Medicare - despite the fact that orthoptists are not Medicare providers or recipients. The ORB in its reasons for this restriction states that orthoptists are:

not adequately trained in recognising eye disease to prescribe glasses and that this could lead to a public health risk.

This is stated in Hansard and attributed to the Optometrists Association of Australia. However, the definition of optometry does not include either the screening for, recognition of or diagnosis of eye disease. This is shown in the Optometrists Registration Act under their definition of optometry. The Royal Australian College of Ophthalmologists states that there is no threat to public health and safety in orthoptists measuring for and prescribing glasses, and that only ophthalmologists may recognise or diagnose eye disease.

It is nationwide ophthalmic practice for the measurement of vision and its correction with lenses to precede any other testing for disease. Why then is there a restriction placed on registered orthoptists carrying out what is a fundamental procedure and one which poses no threat in itself to public health and safety. I would just like to note there that the Victorian Optometrists Registration Board is set up by government legislation and it consists of eight appointees, five of whom are optometrists.

Now, some of the difficulties that rural Victorians are facing in access to eye care services - first, the population itself is ageing. So as a result of that we have increasing age-related eye problems - cataracts, glaucoma, diabetes and degenerative eye diseases. All of these lead to increasing levels of morbidity, visual impairment and blindness. They also lead to increased lack of mobility, both in daily living activities and in the ability to travel to access health and other services.

As the population in rural areas decreases, young people leave to take up study and work options and it leaves fewer able bodied people about to assist older members of the community to access services. The threshold population numbers for various health services mean specialist eye services have mostly contracted to larger

regional centres such as Bendigo and Ballarat. Places even as big as Swan Hill and Horsham only attract visiting services, usually once a month. This is for ophthalmologic services for the specialist medicos.

Optometric services are subject also to these forces and towns the size of Stawell, which has a population of around 8000 and I think it has a district population of another 2 or 3 thousand on top of that, has only part-time optometric facilities. Towns such as St Arnaud, where I hail from, has a town population of 3000 and a district of about a thousand. We rate five hours of optometric service a week. Donald a bit further north, with a combined population of around 2000 people, gets five hours per fortnight.

So there are three morals in all of this if you're going to live in the bush: don't live too far from a centre that has pretty reasonable even optometric facilities; don't sit on your glasses, don't break or lose your glasses; and when you need new ones, be prepared to make at least two trips - and we're looking at around 200 kilometres to do that - and perhaps even three trips to get a service that people in either the large regional centres or in a place like Melbourne will get within five kilometres of their home.

Secondly, if you have the misfortune to develop an eye disease, do not have difficulties with your vision as your nearest specialist services in that case will be Ballarat, Bendigo or Melbourne and this is a bit tricky to access these services when you can't see, you no longer hold a licence and you have to travel a long distance to get these services. I believe people further north than this, they may come into Bendigo to access vision impaired services. If you live in somewhere like Swan Hill they're being sent to Melbourne to get services and it becomes a fairly difficult exercise for these people.

The third moral is do not belong to a group at risk of diabetes or glaucoma as community screening programs targeted at education about and prevention of eye disease are about as common and regular in north-west Victoria anyway as a good rain, a good harvest and good wool prices. They are pretty thin on the ground. Now, where does the orthoptist fit into all of this? Well, nowhere at the moment, as the Optometrists Registration Board has used the judicial system in Victoria to make sure that an orthoptist cannot go out into the community and use the training he or she has and is admitted by the legislation to have because this poses a threat to the optometrists' sheltered and very lucrative monopoly.

So while the relevant legislation looks as though it complies with the anti-competition requirements of the government the interpretation of it by the ORB makes a mockery of these policies. Some of the benefits to rural communities from meaningful changes to the legislation - and by that I mean allowing orthoptists to go out and work in the community as independent practitioners without relying on supervision or referrals from other professionals. An orthoptist is trained in enough areas of eye care and recognised in the Optometrists Registration Act 1996 as competent to perform optometry, that is the measurement for and prescription of

glasses, and can thus offer stand-alone eye care service on at least a par with optometry.

Secondly, an orthoptists' training is biased towards education and the prevention of eye disorders and disease and he or she is ideally placed to work with communities to this end. The orthoptist is also trained to manage patients with eye disease. Thirdly, the orthoptist does not make any demands on government funds through Medicare but acts either as an employee of an ophthalmologist or as a private practitioner. So there can be an increase in service in rural areas and, I might add, in other areas, without the need for extra government funding, which amounts to \$46 per initial consultation and \$26 per subsequent for an optometrist working anywhere. An optometrist working in rural areas also gets a remote area allowance on top of that. Most rural people appear to be quite happy to pay a few dollars for a local, readily available service rather than have to spend time and money travelling for same.

Four, locally available services, especially in the areas of low-vision clinics, that is specialist services for the vision impaired, and for paediatric eye services are often a great relief where families are involved. It is not uncommon for a family to have a number of children with different handicaps and this involves an awful lot of running around the countryside accessing services. People using low-vision clinics are frequently the frail aged who's partner or support is also frail and aged or may, in fact, only have an unofficial carer to tote them around the place. Five, an orthoptist based centrally in a rural area such as north-west Victoria and with direct communications to the region's ophthalmologists is able to provide an effective and efficient eye care service to the areas communities. He or she is acting as an outreach centre clinic in that situation because orthoptists have traditionally worked with ophthalmologists and this extends the ophthalmologists' range without them having to go out into these areas.

Six, for the greater percentage of people a pair of glasses is a fundamental need, much the same as a pair of shoes. For the greater percentage there is no underlying pathology that means they have to see an ophthalmologist, the correction of their vision deficit is sufficient. These people are currently in rural areas only able to attend an optometrist to have their vision tested and glasses prescribed, despite the new legislation. This means lengthy delays for them and considerable inconvenience in getting these services. A person in Donald, which is probably about 80 miles north-west of here, who breaks his or her glasses on a Wednesday has to wait nearly a fortnight to get optometric service or travel two round trips of around about 250 kilometres each. The financial cost and loss of time is a considerable burden in these cases.

Easy access to an locally available service provided by an orthoptist means that people will come in with complaints for which they would not normally seek attention. They frequently don't want to bother the local GP, who is usually run off his feet anyway, and there is often no local optometric service in a lot of these rural areas. A certain percentage of these complaints will be serious and will need urgent

medical attention and this has been my experience in the last few years working between St Arnaud and Birchip and around those centres there, covering probably around about 150 kilometre radius from St Arnaud - north of St Arnaud anyway.

There are some implications for the other states in this. Victoria was the first to change the Optometric Act. I believe New South Wales is currently undergoing the same review and is very close to formulating a new act. I think its Optometrists Act dates back to 1930 so it's even more antediluvian. Queensland is also undergoing review and South Australia is a bit further away but every state and territory in Australia has an Optometrists Act and they will all come under review. Orthoptists work in all states in Australia and in the ACT. I believe there are none presently working in the Northern Territory, like a lot of other things.

Most of these orthoptists are restricted to the metropolitan and city areas. The optometrists legislation in all these states and the ACT prevent orthoptists from measuring for and prescribing glasses at the moment but the legislation is likely to change, in line with that in place in Victoria, and that is to say, yes, an orthoptist is qualified and competent to perform measurement for and prescribe glasses but because she is a threat to public health and safety because she cannot recognise eye disease she may not do this except with a referral or request from an ophthalmologists or optometrist. So we go round in circles.

The Victorian government has spent much time, money and effort in changing this act in order to allow orthoptists greater scope in their work practice and to allow consumers greater choice. By letting through legislation that has been unduly influenced by the optometrists' vested interests and by giving the Optometrists Registration Board the power to interpret and implement the act, the government's anti-competitive intent has been destroyed. Now, I imagine there'll be quite a lot of questions from that because it's a fairly abstruse sort of situation and also an obscure one so I'm happy to take questions and hope I can answer them to your satisfaction.

MR COSGROVE: Thank you very much and I think it's, in some ways, a quite technical area in which we'll be much less able than you to ask questions let alone have them answered but I think you've made a very interesting input to our inquiry. It's often been said to us that the ways in which these reviews of legislation which contains restrictions on competition have been done is not ideal and not as intended under NCP and I was really wondering whether this may not be one of those. I've just got a few relatively straightforward questions really. First of all, who conducted the review? Do you know?

MS HUGHES: Do you mean a person or a body?

MR COSGROVE: Yes, was it done by an individual, by a panel, if so what was the composition or the occupational experience of the members on the panel?

MS HUGHES: I can't answer that.

MR COSGROVE: You're not sure.

MS HUGHES: I know it was instituted by the Victorian government but who was actually on that panel, I don't know.

MR COSGROVE: Yes, I guess we could find out by approaching the relevant Victorian department, which would be the Department of Health I imagine.

MS HUGHES: Yes, I would imagine so.

MR HUGHES: We tried but we weren't told. We were told that was privileged.

MR COSGROVE: They wouldn't tell you who was on the panel?

MR HUGHES: No.

MR COSGROVE: Did the report that that panel or person provided to the Victorian government was it made public?

MS HUGHES: Not to the best of my knowledge.

MR COSGROVE: Not even after the government had taken its decision?

MS HUGHES: No, I have not been able to access it.

MR HUGHES: Apparently it was quite recently the head of school of orthoptics at La Trobe University tried to find out and she was told that it was privileged information.

MR COSGROVE: Were orthoptists - and I must say I'm grateful to you for drawing this occupation to my attention, I hadn't known it existed before - but were orthoptists given an opportunity to be consulted in this review?

MS HUGHES: They were consulted. The feeling of the Orthoptic Association of Australia and the orthoptic course which is run under the auspices of La Trobe University was that not enough information was sought by the review to make a balanced decision.

MR COSGROVE: Did they have an opportunity such as the one today where the members of the panel were listening to the views of people interested in this particular legislative review?

MS HUGHES: I would hope so but since I was not involved in it I can't say how far that went. But I believe there were two Orthoptic Association representatives invited to make a submission - or the association was through two representatives.

MR COSGROVE: I don't know also whether you can answer this question but I wonder whether the recommendations made by the review panel were actually implemented by the government or whether the government chose to alter or not accept some of those recommendations?

MS HUGHES: Not having had the committee's report, if there was such a thing and imagine there would have to be, I can't answer that.

MR COSGROVE: No. However, on the face of it the outcome, however it was reached, does, as you say, seem adverse from the point of view of the health and social amenity of people living in rural communities.

MS HUGHES: Considerably so.

MR COSGROVE: A service which would be satisfactory, as you pointed out to us, under the act is not made available to them. It's surprising in view of the interests which governments say they take in the needs of people living in rural communities.

MS HUGHES: It looked like it was going to be a good idea but it's proved to be otherwise at this stage.

MR BRAITHWAITE: It is just on the formation of the panel that interests me because I'm in contact with the Dental Association in Queensland and they're undergoing this review at the moment. They know who is on the review panel and they're not particularly keen on the fact there doesn't seem to be a specialist on that team. But the other thing that concerned is that they were asked to make a submission but they weren't told the guidelines under which they were to make the submission. I'm just wondering if this is the same here.

MS HUGHES: Anything is possible.

MR BRAITHWAITE: For instance, there is a public interest test in that and unless you understand what the public interest test is, you don't have much of a hope of making a meaningful submission.

MS HUGHES: That sounds quite reasonable to me. When I look at what is reported in Hansard as having been said and accepted by the government, they have accepted a number of arguments from the optometrists that are patently not true about orthoptists, about the need to screen for eye disease before prescribing glasses. There are a number of quite untrue comments contained in Hansard that the government has accepted. So it would indicate that perhaps the tests for public health and safety have not been understood by the committees or the representatives making those submissions.

MR BRAITHWAITE: So in Victoria this review was driven by the optometrists, did you say that?

MS HUGHES: I can't really comment about that. I would expect that it was more driven by the government in this case because it was shown to be anti-competitive.

MR COSGROVE: Yes, there's no doubt that they would have needed to review the legislation.

MS HUGHES: The major players in the review would have been the optometrists because it is their bill and their act.

MR HUGHES: There were three changes in that bill. That one was the drug prescription - - -

MS HUGHES: Yes, allowing orthoptists to practise as independent practitioners in the area of prescription and measuring for glasses and what have you, was only one part of the changes. There were two other changes. One was the owning of optometric practices and the other one was the optometrists being given the right to use and prescribe drugs, which was fairly strongly fought by the Australian Medical Association and the College of Ophthalmologists. The optometrists were making a case for being able to use and prescribe drugs in the treatment of eye disease. So that was a major part of the bill, apart from allowing orthoptists to go out and do what they were trained to do.

MR BRAITHWAITE: You mentioned during the course of your presentation that there's a panel of eight; five of whom were from the profession.

MS HUGHES: The Optometrists Registration Board which implements and interprets the act is made up of eight appointees - government appointees - five of whom are optometrists, one is a lawyer and two are non-optometrists.

MR BRAITHWAITE: One lawyer?

MS HUGHES: One lawyer, yes.

MR COSGROVE: It seems as though we've got really two problems here in denying, as you might say, easy access for people in country areas to these services. One is the section of the new act which you drew to our attention - section 62(b) - which contains this requirement on orthoptists to either act on the request of or referral from a registered optometrist or a medical practitioner. The second though is this board which under the act, I gather, has the power to interpret its application. Which of those would you say is the more significant or are they equally troublesome?

MS HUGHES: That's a good question.

MR COSGROVE: On the face of it, although as you mentioned the board is not entirely comprised of optometrists, they do have a majority.

MS HUGHES: They have a majority, yes. They're both very troublesome and I

might explain what has happened to make me say that. The subsection (b) of section 60 is, when you read it a few times, quite ambiguous. When one asks for clarification of it from the Optometrists Registration Board or from the Department of Health from their minister for health, you are referred back to subsection (b) as your elucidation of the point, so you go around in circles on it. There's been quite a lot of legal argument as to what this actually means. The orthoptists and the ophthalmologists have put a different interpretation on it to what the optometrists have put on it.

MR COSGROVE: Has that actually been the subject of a legal case?

MS HUGHES: Yes, it has.

MR COSGROVE: What was the outcome?

MS HUGHES: I'm now a convicted orthoptist, convicted of practising optometry without a referral under subsection (2) part (b) of the act. So it has been tried out, and the interesting legal point from it was that the Optometrists Registration Board has the power to interpret the act.

MR COSGROVE: According to its own devices.

MS HUGHES: And we go back to the interests of the board.

MR COSGROVE: So in other words it would pretty clearly be the case that it's the application, the interpretation of the board of the act which is the dominant - - -

MS HUGHES: The interpretation of the act is the problem, but the only reason for "the request of", or "on the referral of" has been brought in by the optometrists because that effectively stops an orthoptist as working as an independent practitioner. If you think about it, if you go to see - say you're wearing glasses and you leave them behind somewhere and you were in St Arnaud - unhappily - and you come in to see me, in order for me to write you a prescription to get Robin to make you a pair of glasses, I have to somehow get you to get a referral from your previous optometrist or ophthalmologist. This becomes very difficult. I may not access that request. I may not initiate it. It has to come from elsewhere.

MR COSGROVE: Yes, I see what you mean. It has to come from the customer.

MS HUGHES: If I am working somewhere and we've got an ophthalmologist handy or an optometrist handy, then I say to you, "You go and see Joe Blow and he or she will give you a prescription," so I have no part to play any more. An optometrist will not send a patient or a client to an orthoptist because they can already do this work. We're parallel professions, we're working in similar areas. They are not going to send a patient to me and forgo their fee. If there's an ophthalmologist there and you see an ophthalmologist, he is going to say, "You go and see Anne first and she will do all the tests and then see me." But strictly under the law they should see

the patient first and organise all of this. This is quite at variance with the practice right throughout Australia and elsewhere that all these tests, including the tests for glasses and prescriptions, are done before you go any further with eye disease.

So it's trying to turn the whole ophthalmological practice around and say, "All right, the ophthalmologist must screen the patient first for disease before we do glasses," but this is putting the cart before the horse. This is why the optometrists have said, "If we make it this way then this is going to bar orthoptists from getting out and measuring for and prescribing glasses." If we say, "You have to see an optometrist or an ophthalmologist first," then we have no part to play. Yet when you look at it on the surface it looks quite reasonable.

MR BRAITHWAITE: What was doubtful in the act was the second reading speech - and I haven't read it. Did the second reading speech actually clarify your situation or just left it doubtful too?

MS HUGHES: It has reiterated the same statements that were pretty well made in the first reading, I believe.

MR COSGROVE: I see a statement here that "orthoptists work in hospitals and in private rooms, so they would be under the direct supervision of ophthalmologists".

MS HUGHES: That is not so. As I indicated we have worked as independent practitioners for many years.

MR COSGROVE: That's a very interesting case. I don't think we have anything else to ask you but we're very glad that you drew it to our attention.

MS HUGHES: And I thank you for your time in listening to this little difficulty.

MR COSGROVE: Not at all. We're very grateful to people like you for coming along and helping us. Thank you.

MS HUGHES: Thank you.

MR COSGROVE: I believe we have final participant for today, Associate Prof Lloyd. Is that correct?

PROF LLOYD: Thank you. I want to express my gratitude for you being prepared to see me late. I have a hard copy of the submission. I've just returned from a couple of periods of extended leave and only learned of your visit late last so. First of all, thank you, and I have another apology and that is that I haven't had a chance to read your draft report. So some of the things I say may well in fact be there and I hope you'll tell me that I'm wasting my time if that's the case.

MR COSGROVE: Before we go any further, Doug, I wonder if you'd mind just repeating your name for the purposes of our tape and the institution with which you're associated.

PROF LLOYD: Sure. I'm Doug Lloyd. I'm the head of school of arts and education at La Trobe University on the Bendigo campus. My particular interest, I suppose, in making a submission is that I do research in rural education and training in particular and that's becoming now increasingly research in rural community development. I suppose in those roles I come into contact with a fairly large range of rural communities and obviously have a strong interest in those rural communities. Some of what I say will be, I guess, at the other end of the generality spectrum from what you've just heard about the eye industry. Some of it's anecdotal but there is some hard evidence tucked away in some of the bits and pieces of what I'll say.

So I imagine at least some of the early and I hope brief parts of what I say will be not news to you at all but towards the end I hope I get to some conclusions which seem to me to be ones that are worth repeating, even if you have heard them. The competition policy in my view and in terms of some of the evidence I've seen actually disadvantages small communities and even regional centres to quite substantial extents in some cases because in most instances, those small communities aren't well equipped with either infrastructure or expertise to compete against larger organisations which are often metropolitan based or even in some cases internationally based where they've got extensive infrastructure, high levels of practice and experience at obtaining or being successful in tendering for work that might be put out to tender.

In fact in point 4 there I make another, I guess, somewhat insidious point about their increased experience in actually creating new work. I think I've got an example of where that happens. So the net effect seems to me to be - and I think there's some evidence for it - that smaller centres, whether they be small municipalities or small towns or even regional centres in some cases, lose work to larger centres, more practised, better equipped centres. That in fact contributes further to what is effectively a wind-down of the infrastructure of the services of the communities in some of these smaller locations. That I think represents something that's a bit unfortunate for those rural communities, not from the point of view just of some emotional or sympathetic grasp we have on those rural communities but because in fact it's a relatively narrow interpretation of the efficiencies that can be gained by

putting out these contracts for services to tender when we only count the lower cost

to residences or communities of the services that might come superficially because the services can be provided more cheaply.

What in fact happens is a large range of other effects with locals being displaced from their workplace - and I think we heard some of that in the Latrobe Valley - of a wind-down of infrastructure and services that might lead to increased government costs through welfare payments or whatever it might be. An identification of a large range of other services which previously might have been provided on the basis of goodwill or of the fact that there's been previously a multiskilling in the services that might have been provided by, say, a municipal service - and the fictitious example there I give is a road-worker who does some work on the recreation reserve on his or her way home from work at negligible cost. But if you have to separate out the service that's provided for roadwork from recreational facility refurbishment, then in fact the cost looks very substantially greater.

So in point 8 I make the point there that if there is to be a real assessment of the efficiencies or cost savings that are to be gained through competition policy then all of those other sort of knock-on effects of reduction in infrastructure and additional costs in maintaining rural communities really needs to be countered and I suspect they aren't countered in most of the assessments and analyses that are done, because the competition policy effects are analysed in relatively narrow ways. I believe that they should be analysed in much broader ways than that.

I guess there's another set of consequences that come as a result of that and that is that - well, taking up your question to the Latrobe Valley people, almost "So what?" You know, if that's a consequence then maybe that's life and maybe we should get on with living life. I think there's a strong view around and some evidence that Australia's economic well-being is coming much more substantially than is generally recognised from industries and productivity that comes from rural and isolated areas and there's not a commensurate return to those areas of the profits or the benefits that are derived from those rural areas.

Secondarily, if there is to be continued economic wealth and growth from rural and isolated areas then there needs to be a re-investment in those areas. That re-investment is what I'm alleging - and I think there's some figures to show - is not happening. The benefits, whether they be tangible financial returns or re-investment in infrastructure and future industries back to rural and isolated areas, is not happening. There's a bit of asset stripping going on and the benefits go to either metropolitan regions or to offshore locations.

That's the first part of the sort of secondary effect, which focuses on the sort of economic analysis, but I think there's a much more important one that also talks about social and cultural benefits, which are much more difficult to put your hand on but which nevertheless are really important in terms of some sort of balanced view about Australia's development. I think that the sort of emphasis on economic is a relatively short-term phenomenon and we're going to increasingly regret the extent to which we wind down the social and cultural views of our national development.

I suppose a sort of a narrow and almost individualistic view of that is that if people who have chosen to live in rural and isolated areas have chosen to do that, then they ought to be encouraged and permitted to continue to do that without a set of government policies, whether it be competition policy or otherwise, that undermines their capacity to do it. That's the sort of narrow and individualistic interpretation of that. But the broader one is that there are a whole range of I think intangible benefits that come - whether it's social and cultural diversity or whether it's some as yet undiscovered benefit - from having population centres and infrastructures that are spread more broadly throughout the nation, for times when we want to, you know, recreate or create new industries in rural and isolated areas, that are effectively being undermined by relatively narrowly focused practices and policies of now and today. So that's really the basis of what I would like to say.

MR COSGROVE: Thanks, Doug. You're touching on issues which I must say have been drawn to our attention fairly frequently in the course of this inquiry. I don't think you were here when we were discussing matters with the Glenelg Shire Council - - -

PROF LLOYD: No.

MR COSGROVE: - - - but they made points very similar to the ones you began with about the, as they saw it, adverse implications for small communities of competition policy reforms.

PROF LLOYD: Sure.

MR COSGROVE: I think though that - and I know this is a particular difficulty in the state of Victoria, where the so-called compulsory competitive tendering policy which has been applied by the state government is having, it would seem, some significant effects, including perhaps most particularly on small communities, but nevertheless it's not strictly speaking required by the set of national competition policy reforms which we have been asked to review, as I mentioned to those people, though it is consistent with the sort of thrust of national competition policy.

PROF LLOYD: Yes.

MR COSGROVE: We have had something to say about it in our draft report, because it didn't seem sensible to leave it out entirely. Your point about the social and cultural aspects, though, is another one which is squarely I think in our terms of reference and more particularly or more importantly is meant to be picked up when panels charged with reviewing anti-competitive legislation or government agencies implementing other changes as part of the national competition policy are meant to address squarely on their agenda. In fact we mentioned in our draft report the list of what you might call non-economic, as well as economic, considerations which people in those situations are meant to have regard to. These include - and I'll just read some of them to you:

Government legislation and policies relating to ecologically sustainable development; social welfare and equity considerations, including community service obligations; government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity; economic and regional development, including employment and investment growth -

and then it gets into some more straightforward economic issues like resource allocation. So it is intended in other words, under the policy framework, that these sorts of concerns are to be taken into account - the potential costs, as well as the potential benefits - and weighed up, which is not an easy task as you rightly say.

PROF LLOYD: Sure.

MR COSGROVE: The capacity of people to put a value on social and cultural aspects of the matter is really rather subjective, I'm afraid, inevitably.

PROF LLOYD: Sure.

MR COSGROVE: That may not be working well. You know, that's one of the things that we have sometimes heard - that those sorts of things are not being taken properly into account.

PROF LLOYD: Sure. It's clear to me from a number of cases that I have seen that it can never work well as long as people feel more comfortable in dealing with things that are relatively easily or relatively accurately quantified.

MR COSGROVE: Agreed.

PROF LLOYD: As long as those what I called intangibles - and I think they're not intangibles but they're just less tangible - as long as those things are more problematic in terms of putting a monetary value on them or even quantifying them in some way or other and therefore moving from that quantification to a monetary value, as long as that remains difficult - and I think I hope it always remains difficult - then they are going to become a second order consideration rather than a first order consideration, which tends to be the ones on which people can get a harder grasp - you know, the employment capacity or the financial returns or whatever it may be. It seems to me that there's a case for almost taking sort of a new form of affirmative action in favour of those particular factors in order that they can assume a prominence which even would be equal to those others that are more easily quantified, because until we do that they are going to be relatively overlooked I suspect.

I think there's another factor that probably needs to be taken into account with respect to that, and that is that while a review such as this may well draw that to government's attention and there might be some increased awareness to it, the

absence - at least as far as I'm aware - of a sort of a rural policy for Australia, which does need

to be a sort of a government initiated set of statements about our collective intentions for how we regard rural circumstances, be they social, cultural, economic or whatever else, is going to continue to leave that set of questions as second order questions.

I think one of the broader set of issues that may well be beyond your brief but which I am convinced needs to be taken up by state governments but national government in particular is that question of what do we actually want our national rural and isolated environment to look like with respect to its contribution to our financial development, financial economic development, or our social and cultural development.

MR COSGROVE: Do you have any thoughts on what policy measures or instruments might form part of that national rural policy?

PROF LLOYD: Yes. There's actually some very good work that has been done by a group which I previously chaired, the Australian Rural Education Research Association, which has a paper prepared by one of our international colleagues. It's a relatively lengthy document. But those questions about obtaining some estimate of the relative contribution of wealth to the national economy that comes from different sectors and re-investment in the sources of that wealth is sort of what I'm calling these first order effects. Second order effects really come from some communication mechanisms that establish some better dialogue and some better understandings of rural and urban, I guess, thought processes.

A set of policy directions and intentions which aren't always metrocentric but in some cases start from a rural or isolated point of view as the starting point, rather than from metro and assuming that - sort of mainstreaming the metropolitan approach is one that will work from rural. It's very interesting for example, if you speculate on what would some of our policies look like if you started developing it from a rural perspective and said it can be mainstream to a metropolitan environment.

You know, metropolitan people would be less comfortable perhaps with the idea - the eye industry's examples might well be a good case in point. If you were to start with saying, "How do I provide eye care for people in rural and isolated parts of Australia," and you developed a policy that worked well for that, would that policy be equally acceptable for people in urban environments. I haven't worked that through and I don't know the answer to it but you could imagine that it would come up with a very different set of policies. I would be happy to provide the further details of what the proposals might look like. It's from a fellow called Prof Jonathon Sher and I would be very happy to provide that to the inquiry because it's - - -

MR COSGROVE: If it's readily available you can send it to us, please do.

PROF LLOYD: While it was first developed in a form that's now a little bit dated - I think the early 90s - it's still relevant in terms of us not having a national policy on rural issues, but some of the points are still absolutely pertinent I think.

MR COSGROVE: Yes. It is the case that at present - although it's not presented in a coherent, organised way - but it is the case that there's a lot of things done by governments which could fit into the category of sort of rural policy.

PROF LLOYD: Yes, fragments of.

MR COSGROVE: They, for example, require the telecommunications companies to provide levels of service to rural communities, which in a normal commercial environment they almost certainly wouldn't.

PROF LLOYD: Yes.

MR COSGROVE: That is paid for by other parts of the telecommunications customer network.

PROF LLOYD: Sure.

MR COSGROVE: We have, as the jargon goes, postage stamp pricing of water still in some states, similarly with electricity in some states. There are various redistributive mechanisms, through bodies such as grants commissions at the federal level and the state level, which have the effect of re-allocating current income towards areas which are not so well placed to provide a minimum level of services or collect a minimum level of taxation revenue.

PROF LLOYD: Yes.

MR COSGROVE: So I think that's an indication that governments are aware of some special circumstances pertaining outside the metropolitan centres.

PROF LLOYD: Sure.

MR COSGROVE: The other point though that I think is easily overlooked is that in the process of improving the rate of economic growth of the country as a whole, resources are created which can then, if democratically elected governments so choose, be directed towards maintenance of a network of rural communities. Without that generation of additional resources, about all you can do is transfer wealth or income from the metropolitan centres to the outlying areas. So there is some interest - and I would say a fairly high interest - on the part of rural communities in trying to seek greater national economic efficiency because that's going to help them in the longer run or provide capacity to help them in the longer run.

PROF LLOYD: I agree. But part of the point I was making about the absence of a commensurate return to rural areas is that there has been a flow that's gone from rural to metro in a way which is perceived by many people in rural areas as being unfair and unreasonable in that it's been a subsidy the wrong way - the wrong for them - in terms of - - -

MR COSGROVE: I think that was undoubtedly the case for a long period of Australia's history; I'm not so sure it's true now, when you consider that I think almost 70 per cent of Australia's national production comes from the services sector, not all of which of course is located in metropolitan areas, but a substantial chunk of it is. I would say on the whole - - -

PROF LLOYD: 70 per cent also corresponds approximately to the metropolitan population of Australia and so if 70 per cent of the wealth is being generated by the service sector, not all of which is in metro, then there may still be a subsidy from rural to metro.

MR COSGROVE: There may be. My hunch is it goes the other way but I can't tell you I'm right.

MR BRAITHWAITE: Those service industries - not to a large extent but to a certain extent - service the mining, manufacturing and rural industries in the bush, particularly the mining industry.

PROF LLOYD: Sure.

MR BRAITHWAITE: I was very interested in the review panels. I'm glad you brought that other example up because I had a feeling too that there's a lot of people influencing that legislation who are metro bound but obviously not rural bound, so that was the thought I got there. But probably the attitude that I'd like to see taken, is that I don't think anyone denies that all legislation should be reviewed, particularly when Queensland or New South Wales is looking at 1930 legislation. I think it's to the benefit of everybody it should be reviewed. The NCC has said that those reviews should be done in a rigorous and robust manner. That's their wording, that's not the wording here. I'd like to think they were done thoroughly. By "thoroughly" you try to look at the public interest test in a way where you can say, "Look, if this is what we do, that's what's going to happen in the city, that's what's going to happen in the country," you meld it and away you go.

But I've just got a feeling that some of the reviews that have been done, particularly early in the piece - and I go back to the dentists: up to the time they were asked to make a submission, the dentists didn't know what they were reacting to. When you talk about transparency and that's what it's all about, I think it should be equally transparent in the reviews where you're heading and you try to get it right. If you're only going to review this legislation once every 50 years, let's get it right when we do it. So I can appreciate that.

PROF LLOYD: That's helpful.

MR BRAITHWAITE: Your reasoning about what comes out of the bush, I use that very often in my case against Canberra.

PROF LLOYD: I'm pleased. If I could just return to John's point about the

elements of government policy that recognise rural circumstances. I think I'd return to somewhat repeat the point I made about them fundamentally being urban based policies which have bits tacked on that recognise the rural circumstances. I think probably the one area that I'd say comes closest to being a genuinely rural policy is the one that was generated around the Murray-Darling Basin Commission where it was recognised that the problem that very often faces people in rural circumstances is that they do need to take an integrated view of the service provision because there's no single opportunity to get a service in its entire and comprehensive form and therefore there needs to be relationships and cooperation and collaboration.

The Murray-Darling Basin Commission I thought represented very nicely an example of where you can get it very wrong by taking small fragments from different circumstances, or in this analogy, small bits of rural policy from the electricity industry or the water industry or whatever other industry it might be and sort of putting them together, hoping that they fit. The Murray-Darling Basin Commission was an impossible task because each state and the Commonwealth had a range of different instrumentalities that all had a finger in the pie of the health and wellbeing of the Murray-Darling Basin Commission and what comes from it.

So putting all of those issues with respect to the health and wellbeing and economic and social benefits from the Murray-Darling Basin into one commission which in my analogy is a sort of a rural policy, meant that all of that red tape that previously impeded development because someone wasn't able to step into that jurisdiction that they had to consult and consequently nothing ever got done, is an example I think of how, by taking a sort of a different perspective starting with rural policy, you can actually overcome some of the difficulties that are faced by people in rural circumstances where the circumstances are demonstrably quite different from urban environments. That's the case I'm putting for rural policy and for maybe even a different view of competition policy in rural environments. So perhaps that Jonathon Sher paper will be helpful and maybe if I can get some details from your secretary of where to send it, it would be helpful.

MR COSGROVE: Yes, we will tell you where to send it. Thanks very much for coming along, Doug.

PROF LLOYD: Thanks very much, and thanks again for being prepared to take me late in the piece.

MR COSGROVE: No problems. That ends our hearing in Bendigo. We're resuming I think in Toowoomba on 12 July.

AT 5.07 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 12 JULY 1999

INDEX

	<u>Page</u>
CITY OF GREATER BENDIGO: BARRY SECOMBE	466-476
VISITOR'S INFORMATION CENTRE, BENDIGO: KATHRYN MacKENZIE	477-483
GREG McRAE FINE FURNITURE: GREG McRAE	484-486
BENDIGO TRUST: JAMES THOMPSON	487-490
SANDHURST TRUSTEES: NEIL ATHORN	491-495
GOULBURN-MURRAY WATER: CHRIS SCRIVEN	496-523
GLENELG SHIRE COUNCIL: FRANK ZEIGLER BILL BRAITHWAITE	524-541
LATROBE SHIRE COUNCIL: PENNY HOLLOWAY LORRAINE BARTLING ANDREW STEPHENS	542-565
ANNE HUGHES AND ROBIN HUGHES:	566-576
DOUG LLOYD:	577-584