
Wellington Shire Council (Vic) Submission

Productivity Commission Review of National Competition Policy Reforms Discussion Draft

1. Background

Local Government is required to comply with National Competition Policy in accordance with *National Competition Policy and Local Government – A Revised Statement of Victorian Government Policy (January 2002)*.

Compliance is assessed through the application of the Local Government Incentive Improvement Program (LGIIIP), administered by the Department for Victoria Communities.

Under the guidelines, Local Government is required to identify any business that may be significant in terms of impact on a market.

Where Council runs a significant business it must apply full cost reflective pricing to ensure equal market access for any actual or potential competitor. This requires Council to accurately identify any subsidy it receives because it owns and or has access to existing infrastructure and resources a competitor may otherwise have to obtain.

Alternately Council may seek community endorsement for the current council owned and operated service/business on the basis that the service/business provides a level of access, facility, social amenity that may not otherwise be available. These issues are canvassed in public policy that sits behind the construction and operation of the service/business. The Council may decide to run a public interest test to seek community support for the current service/business construction.

Local Government certifies its' compliance with national competition policy annually via the submission of the LGIIP certification.

2. Wellington Shire Council

Wellington Shire Council is located in South Eastern Victoria. It is approximately 2.5 hours travel from the Eastern Suburbs of Melbourne. It covers 10,900 square kilometers and extends from the Great Dividing Range and Victorian High Country through to the Gippsland Lakes, the 90 Mile Beach and Bass Strait.

We have 30 communities and a total population of approx 40,000 people. Our communities include Sale and surrounds.; Yarram; Rosedale; Stratford; Maffra; Dargo; and a number of smaller communities based along the 90 mile beach.

Council is responsible for a wide range of infrastructure including 3,300 kms of sealed and unsealed roads, 267 bridges and major culverts, 180 kms of footpaths, an extensive underground drainage network, two aerodromes, 6 swimming pools, 312 hectares of sporting facilities and 30 recreation reserves.

A recent population study conducted for Wellington Shire Council highlights the following regional trends:

- We have an ageing population that is centrally located within Sale and surrounds (based on a 20 km radius)
- We have a declining population of young people and our rate of ageing will outstrip our birth rate by a ratio of approximately 3:1 by the year 2021
- Our unemployment rate is consistently higher than the state and national averages. Some of our smaller communities rate extremely highly by this comparison eg Loch Sport.
- Nationally we are one of three regional centers that have failed to thrive over the last decade.
- Traditional industry base is declining:
 - Oil/Gas production from Bass Strait is declining
 - Uncertainty regarding expansion of the RAAF base
 - Implications for farming community with regard to declining and ageing population and security of water supply.

3. Implications

The broad implications of this study on competitive neutrality compliance can be summarized as follows:

- To date we have minimal competition in provision of most council services. This was confirmed under the Compulsory Competitive Tendering program implemented for Victorian Local Governments in the early 1990's. Wellington Shire Council experienced difficulty in attracting tender options. This is not likely to change given a consistent decline in population and business activity.
- In most cases there is no alternate supplier of council services
- Where council provides a business based service or component of service, there are strong community development and access principles that underpin provision

4. Positive Impact of NCP compliance:

NCP promotes transparency in Council financial operations by highlighting areas of subsidy.

Wellington Shire Council supports the requirement to be transparent in its' financial operation. In particular council supports the need to identify

- council owned and operated business activities
- any competitive advantage available to council (usually in the form of a subsidy) as a result of owning or having access to existing infrastructure and resources.

Transparency in financial requirements enhances Council's ability to communicate decisions to our community. This in turn fosters community trust in our stewardship of its resources.

5. Issues

Cost benefit analysis

Wellington Shire Council however, takes the view that the time and expense required to administer NCP is onerous and of little benefit to our community in the current context.

As with many rural councils' we operate a tight budget framework. Council rates contribute 54% of our income. Short and long term State and Federal Government funding and grants make up the balance of income.

In terms of cost benefit analysis, the time taken to administer compliance outweighs any demonstrable benefit from the application.

Skilling up Management staff to comply with NCP requirements has proved costly operationally and with little result. We have not experienced any significant practical benefit or outcome.

Public policy drivers

We have two identified significant businesses – Leisure Services and the Esso BHP Bilton Wellington Entertainment Centre.

The Leisure Service has a long history of strong cross sectional community support. A public interest test is currently underway

The new Esso BHP Bilton Wellington Entertainment Centre is one year old, but is supported by a long term community movement to create such a facility. A public interest test is scheduled in the near future.

In both cases long term community access and public health/ wellbeing drivers outweigh any limited advantage in terms of market share and profit from smaller “business” related activities. This is often the experience of many rural Councils.

Sale is a natural market within a natural catchment and separated from other markets by distance and geography.

Rural Councils cannot respond as quickly to community need as metropolitan councils because they have limited income. In many instances it takes a longer time to satisfy public policy imperatives in rural councils with restricted income streams.

Such Councils are already significantly disadvantaged by the tyranny of distance in terms of proximity to a Capital city; and remoteness from services. In such situations Councils are often the key generators of economic activity. This is the direct experience of Wellington Shire Council.

Impact of demographics

It could be argued that Wellington Shire Council is uniquely placed in that it has not benefited from growth in the same way as other rural regional Centres.

Rural Councils that have not benefited from growth should be exempt from the application of NCP to any council operation.

The exemption should exist on the basis of an analysis of population and industry where the study shows decline or limited growth. The need to comply in these circumstances does not engender greater competition. It could be argued that it imposes a cost of compliance for no demonstrable outcome thereby increasing the rate of decline and limiting growth further.

Exempt services

In many cases regional councils operate facilities for broader public “good” first, then find it necessary to engage in some form of limited profit making activity if they are to break even and continue providing the service.

Small regional air fields are an example where the access to medical facility for a community is of paramount importance. However to break even in terms of operating expense, a portion of the space may be rented out at market rates.

The aim in this situation is not to profit or run a business, but to subsidise or underwrite critical community infrastructure. In our case, West Sale Aerodrome was formerly owned by a federal government authority and was transferred to Wellington Shire Council. In order to retain viability, it requires a major capital investment. We will struggle to fund such a resource.

There are a number of similar issues faced exclusively by rural councils that are not within the experience of metropolitan councils. Often contact with the Victorian Competition and Efficiency Commission will confirm that the “business activity” is not significant. The need to comply in these circumstances does not engender greater competition.

It could be argued that the need to comply with NCP policy in regard to Council service provision builds resentment. In our situation it could be argued that it supports a view that central governments are not making decisions based on conditions experienced in rural and regional areas.

It is suggested that at a minimum the Victorian Competition and Efficiency Commission circulate a list of exempt services and that this list and examples are listed in supporting information issued annually with the LGIP statements. It would reduce confusion.

6. Recommendations:

In preface to our suggested recommendations it is important to recognize rural and regional Councils at their very core exist to provide community desired services.

They are not set up like businesses. They do not as a whole of council operation exist to make profit. Applying the public interest test requires a level of compliance that adds a level of additional input for no observable outcome. It is not a solution. Application of the public interest test in our experience is not required. It does not change the outcome.

- Exempt rural and regional councils in economically depressed regions from the requirement to comply with National Competition Policy.
- Alternately, develop a policy of special consideration for rural and regional council operations. Councils meeting the requirements (as demonstrated by a population and industry study) should be exempt from NCP compliance requirements for a period of 5 years.
- Alternately, the Victorian Competition and Efficiency Commission could be requested to list exempted services and business activities. A set of guidance criteria could be published in conjunction with the LGIIP statement to assist in self assessment.
- Devise a simpler method of recognizing long term community access and health/wellbeing drivers that underpin services for rural councils. The “need” is not likely to change in the medium term.