

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into structural changes in Victorian economy

Melbourne – 13 August 2001

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#### Witnesses

Mr G. Ryan, Corporate Secretary; and  
Mr T. Stephens, National Manager, Financial Services, Retail Group, Australia Post.

**The CHAIRMAN** — The Economic Development Committee is an all-party investigatory committee of the Legislative Council. Today it is hearing evidence on its inquiry into structural changes in the Victorian economy. I advise all present that all evidence taken by the committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

I welcome Mr Gerry Ryan, corporate secretary of Australia Post, and Mr Terry Stevens, national manager, financial services, retail group. I invite you to make an opening statement, after which the committee will ask some questions. The committee's reference is to inquire into structural changes in the Victorian economy in a number of areas. This morning we are talking about postal communications. The committee's brief is to assess the impact of the withdrawal of services, and particularly to examine the situation in small and medium-sized towns.

Mr Ryan, I ask you to make an opening statement, after which the committee will ask some questions.

**Mr RYAN** — Thank you, Chairman and members, for the invitation to appear before the committee today. I will start with a brief overview of Australia Post and move on to some issues that have been raised with us by the secretariat in correspondence inviting us to appear today.

Australia Post is a fully owned government business enterprise. It provides high quality mail, parcel and agency financial services to all Australians. We employ 27 000 full-time employees, 8500 part-time staff and a further 9400 as licensees and/or mail contractors. We are required to meet both commercial and social obligations. Our revenue in the last reported year — so that is the year before the financial year just completed — was \$3.7 billion; our profit was \$391 million, a return on revenue of 10.5 per cent; and we paid a normal dividend to our owner of \$156 million.

The committee has a copy of our submission and we would be happy to answer any questions on that. However, I wish to update and expand on some aspects, with particular reference to some of the issues raised in the recent letter to me from the committee secretariat.

Firstly, the level of our commitment to the Victorian community can be illustrated by reference to employment, our retail network, our delivery network, our delivery performance and some new initiatives, particularly in the financial services area. On the employment front, some 10 500 Victorians are engaged in the provision of postal services. Of those, 8400 are employed directly, either full time or part time, and some 3975 are employed indirectly as post office licensees or mail contractors. Approximately 17 per cent of the 10 500 are employed in non-metropolitan areas — that is, around 750 of our 10 500 employees or licensees.

At 30 June this year we had 1094 retail outlets in Victoria, about the same number as in recent years. Of these, 51 per cent are in metropolitan areas and 49 per cent in rural and remote areas. The dispersion between metropolitan and rural and remote areas has remained relatively constant in recent years. Of those 1094 outlets, 700 are currently online and 231 of those 700 online outlets are in country areas. So in addition to the normal range of postal services, the 700 outlets provide online bill payment and banking for the 70 participating financial institutions. The other outlets — that is those beyond the 700 — provide bill paying services and manual banking services, but only for the Commonwealth Bank at this stage.

We deliver to around 2.2 million Victorian delivery points. That is mainly done through street or roadside delivery, private boxes and locked bags. Almost 90 per cent of those 2.2 million delivery points are private households. Again, over time the total number of both household and business delivery points has increased in line with population changes, and in line with the population approximately 25 per cent are in country areas.

**The CHAIRMAN** — Does that include post boxes?

**Mr RYAN** — No, it does not. I am just about to deal with those. We service around 4600 street posting boxes. I may have confused your question there. I am talking of street posting boxes that are lodgment points for our — —

**The CHAIRMAN** — I am taking about delivery points.

**Mr RYAN** — Those delivery point statistics include — —

**The CHAIRMAN** — The 2.2 million includes post boxes at post offices where people collect their mail or in other spots.

**Mr RYAN** — That is right. In our submission — and we can go to that later — we have disaggregated those points among street delivery, private boxes, roadside delivery and counter delivery. We service around 4600 street posting boxes, which are our main mail lodgment points, particularly for domestic customers, and approximately 25 per cent of those 4600 are in country areas.

In terms of pricing, our basic postage rate has been frozen for the past eight years and at this stage we are committed to a further three years of that postage freeze. So the 45-cent rate has not increased over that period and if there are no unforeseen circumstances we hope to hold it for a further three years. Over that eight-year period that has saved around \$1 billion cumulatively to our customers, compared with what the basic rate would have been had it gone up by CPI. In the past year we have also absorbed the GST on all basic postage rate purchases, which represents a further \$90 million annual saving: that will be a recurring saving.

Delivery service performance — our national standard is 94 per cent on time — that is, 94 per cent of all standard letters are expected to be delivered within the various standards of delivery that are set down for local, interstate and country to country mail deliveries. At 30 June this year the Victorian delivery performance was slightly above the national standard of 94. I believe it was 94.1, but those results are still subject to verification by KPMG, which does an independent audit of our delivery performance.

I conclude by referring to some new services and initiatives. Firstly, in personal banking the major initiative currently benefiting most of our customers is the extended provision of banking services. That is through our service known as Giropost, which is available at the 700 online offices in Victoria that I referred to earlier. We offer customers of the 70 participating financial institutions access to card-based authorised banking services. The National Australia Bank is the most recent addition to those personal banking services, and we had a national rollout for the NAB in March of this year.

On the business banking front, we have a couple of trials under way. Nineteen Victorian officers are participating in a trial of business banking, and my colleague will be able to amplify on this if the committee wishes. That trial is for CBA customers. We have one Victorian site at Woodend for a smaller pilot business banking service for the NAB. At this stage our expectation is for a more widespread rollout to country locations by the CBA and the NAB later this year. We are also working closely with the federal government to examine ways of increasing access to Giropost services in country areas through the rural transaction centre scheme.

Our other initiatives relate principally to e-commerce areas and they include electronic bill payment, which allows bills to be electronically presented on our system and paid on our web site, which together with our telephone bill payment system has expanded the bill payment options for people in all locations, metropolitan and country.

Secondly, we have a service called the pay-it-at-post service which allows online shoppers to make payments at postal outlets for purchases online should they choose not to make payment for those purchases online.

We have also had a number of Internet-enabled enhancements to our point-of-sale technology that will provide a new range of agency service opportunities in real time, and that will provide country and metropolitan people with over-the-counter access to services previously unavailable at post offices. Opportunities exist in areas such as event tickets or vouchers, travellers cheques, activation or recharge of applications for phone cards, or the phone card reactivation itself, and payments in real time using credit cards.

Mr Chairman, in conclusion I reiterate that we have an ongoing commitment to maintain service performance levels and accessibility to postal services in Victoria and to enhance them wherever possible. I thank you for inviting us to appear today, and we would be happy to answer any questions.

**The CHAIRMAN** — Mr Stephens, did you wish to make any general comments?

**Mr STEPHENS** — No, my colleague Mr Ryan has covered most issues, but I am more than happy to answer any questions, particularly in relation to our activities in the financial services area.

**The CHAIRMAN** — The committee's reference suggests that the committee has been asked to examine the changes over the past few years, particularly in the past five, because it refers to local government, and local government reform occurred from 1994. We are probably looking back six years. The reference asks the committee to particularly focus on rural areas. Referring to postal communications, from what I have read from your submission — and the committee thanks you for that submission — and from what you have said today, if one looks back six years and looks forward to where we are today, a heck of a lot seems to have changed in your area from the more traditional post office services to what we have now, which you have just enunciated to us.

Secondly, the committee has been asked to comment on those changes in the context of how country people are affected by all the changes that have occurred over a range of services. In an overview sense are people who live in Rupanyup or Patchewollock, wherever it is, better or worse off?

**Mr RYAN** — Mr Stephens might want to comment as well. In a price sense they have done very well because of the price freeze, clearly, so they are getting the same if not better service for the same price. There has effectively been a price reduction because they are paying no GST on purchases, so price-wise they have done quite well.

In terms of service, an initiative I have not mentioned, but it is an important one: when we were corporatised there was an acknowledgment by the then government that there needed to be a balance between us having social obligations and meeting them and having commercial obligations and meeting them. Inherently there is a conflict there. To ensure that conflict did not lead to a reduction in service, the current government — even the preceding government started some work on it — introduced some performance regulations for post that are meant to offer a form of protection to ensure no reduction in services. Those performance regulations go to the number of retail outlets and where to operate. There is a minimum of 4500, 2500 of which are to be in rural and remote communities.

A second performance regulation specifies the average distance that retail outlets are to be located in terms of the general community or communities. I will not begin to try to explain the algorithm behind that, but the intent, in terms of an overview, is to ensure that retail outlets, particularly in rural areas, are on average no more distant than around 7.5 kilometres from the rural community. In general terms that is not a bad objective.

We are also required to meet a delivery performance standard of 94 per cent. We dipped below that last year — the year before last — as we were introducing a new system in our mail processing area called Futurepost. It was a half-billion-dollar investment. We brought in the latest technology and collapsed down a number of mail centres. We are now operating out of about seven fewer mail centres than we did in the past. In the transition from the old to the new we had a drop in delivery performance — I think it was 93.5 per cent, from memory. We are now back to slightly above 94 per cent.

In a long-winded way I am suggesting to you that yes, the government, our owner, has recognised the very difficulty you point to and has sought to introduce a number of measures to minimise the risk that services will drop.

Over the past five years we have seen a change in the mix of our retail outlets, so you will notice from our submission a reduction in the number of corporate outlets and an increase in the number of licensed outlets. That was driven on the one hand by commercial considerations, because we found that a number of our corporate outlets were not operating profitably. We found that under a licensed arrangement we were more likely to be able to operate profitably, so you will find that change in the mix. By and large we think that has worked well. What it has meant in many cases is that the licensed post office becomes part of a mixed business and the hours of operation of that mixed business quite often exceed our standard or normal hours for corporate outlets, so there is an argument that says perhaps the hours of operation have improved access.

If you look at price and service performance, a number of steps have been taken to minimise the price increases that might otherwise have occurred and to minimise the service reductions that are always at risk where you have competing social and commercial obligations between sectors.

**The CHAIRMAN** — Does the new system mean that less people are now working in country towns as a result of the service being provided in a different way? Where it is produced by being in the back of the supermarket or whatever it is, does that mean there are less people although the service is there, and we could argue that perhaps it is an enhanced service but less people are delivering it?

**Mr RYAN** — In the case of Futurepost, our new processing system, we have saved something like 2200 positions over a three-year period. Of that, and I will have to check the precise figures, around 200 to 250 were located in rural and regional areas. The remainder were located in metropolitan areas.

**Mr McQUILTEN** — ‘Saved’ is an unusual word to use. Does that mean they lost their jobs?

**Mr RYAN** — Yes, there was a reduction in jobs in that part of the business. You will find that overall there has not been a large change in our employment numbers in net terms, although there has been change in the mix. So yes, there is a small number — a small proportion.

**Mr THEOPHANOUS** — Can you explain that further?

**Mr RYAN** — Yes. For example, in the processing area the change in mix I am talking about is from full time to part-time permanent. In the retail area we will find that in converting from the corporate outlet to a licensed post office, or indeed in just looking at our corporate outlets, we again have introduced more part-time employment. That works for some people of course — for example, students who work in our retail outlets or parents of young children who work in our retail outlets — so I am suggesting there are pluses also, even with part time.

**Mr THEOPHANOUS** — There may well be, but to make comparisons we need to know what the number of effective full-time positions was and what it is now. I presume you can provide us with measures of that?

**Mr RYAN** — Yes, we can. I am checking in case we have put that into our submission.

**The CHAIRMAN** — You mentioned the 10 500, the 8400 and the 3975, but we do not have a figure of what it was, say, five or six years ago, do we?

**Mr THEOPHANOUS** — No. I think we need to be able to track it.

**Mr RYAN** — Mr Chairman, if I could take that on notice I would be happy to provide you with the five-year comparisons and the split between full time, part time, casual and by function.

**The CHAIRMAN** — And rural.

**Mr RYAN** — And by rural and remote.

**The CHAIRMAN** — Is that possible?

**Mr RYAN** — Yes, it is.

**Mr THEOPHANOUS** — Also effective full time?

**Mr RYAN** — Taking account of overtime?

**Mr THEOPHANOUS** — Yes, so we can have a point of reference.

**Mr RYAN** — Yes.

**Mr THEOPHANOUS** — I am going to play a bit of a devil's advocate here. According to your table here, there have been closures. You closed a number of corporate offices, which I take to mean the big post offices that have a corporate function as well. Is that what that means?

**Mr RYAN** — Not necessarily; we can have corporate offices manned by as few as three people up to very large GPO-type corporate offices.

**Mr McQUILTEN** — I suppose you pay the wages of corporate offices?

**Mr STEPHENS** — Yes, that is where we have salaried staff running the business.

**Mr THEOPHANOUS** — And you closed 64 of them in Victoria. Is that from 1995 to now?

**Mr RYAN** — That is correct.

**Mr THEOPHANOUS** — How many people would have been employed in those 64?

**Mr RYAN** — I can get that figure for you. We have a conversion agreement with our union, the Communications Electrical Plumbing Union (CEPU), and that conversion agreement means that our focus is normally on the much smaller corporate outlets, usually three full-time equivalents or less, so as a rough guide that might represent 180 positions.

**Mr THEOPHANOUS** — I do not know whether this is possible but it would be useful for the committee to get that list of 64 if we could; is that possible? Because then we could identify regionally where the spots are.

**The CHAIRMAN** — We are going to some country areas in our investigations and it would be good for us to have that information when we do that.

**Mr RYAN** — Just to balance the scale somewhat, we ought to indicate where those corporate offices were converted to licensed post offices. In many cases you will find that is what happened.

**The CHAIRMAN** — For sure!

**Mr THEOPHANOUS** — According to this you have had an increase of 50 licensed post offices.

**Mr RYAN** — Yes.

**Mr THEOPHANOUS** — And when you say ‘licensed post office’, that is a building which is a post office, not like an agency of something else such as a chemist shop or something like that?

**Mr RYAN** — It can range across each of those. It can be from a separate shop, which is a licensed post office, through to a mixed business that has a postal licence as part of that mixed business.

**Mr McQUILTEN** — Or an old post office like in Dunolly where an individual has taken over that business.

**Mr STEPHENS** — Yes, we often sell the property as part of the deal.

**Mr McQUILTEN** — It looks like and acts like a post office but it is a private business.

**Mr STEPHENS** — Our general philosophy is that the quality and range of services provided should be transparent to customers and there is no change between a corporate office and a licence.

**Mr THEOPHANOUS** — In Sydney we had some people speak to the committee about the way you do business. One of the issues raised with us was that to some extent you are behind the eight ball when compared with what is happening overseas with bar coding of letters and more efficient delivery as a result of that bar coding, and you are still stuck on the four-digit postal code which tells you in a huge area where the mail is going, whereas you could potentially have bar coding which would allow you to specify within a street or a few houses and increase efficiency dramatically which has occurred overseas. What do you say to that criticism that you have not gone far enough?

**Mr RYAN** — I would say it is quite unfounded. We have just invested half a billion dollars in new mail centres which includes bar coding as a feature, and 75 per cent of business mail is now bar coded and we are aiming for 100 per cent by July next year. Each shop, building and residence will have its own bar code so we have the potential, subject to us advising everyone of their bar codes and getting down into the small business area in particular, of significantly increasing the amount of bar-coded mail over the next few years. So yes we did not have it, but we are now very well advanced. We have the latest equipment.

**Mr THEOPHANOUS** — Why can you not provide individual consumers with a bar code? Is it eight digits or something instead of four?

**Mr STEPHENS** — I am not sure of the number of digits. The short answer is that we will be able to do that in the future; there is no doubt about that. We have the technology in place to allow it to happen. It is a case of timing. Clearly the vast majority of mail generated in Australia is from business to consumer and our primary focus is on getting the businesses to implement bar coding because that is where you will get the economies of scale. But as we go forward there will be the opportunity for everybody to have a unique delivery address, and that is what we are providing for under the postcode system.

**Mr CRAIGE** — According to the committee’s reference you should not be here because the reference refers to the withdrawal of services and the impact that will have on small towns. You have told us only good news stories about the improvements to services, especially in rural Victoria which, from my point of view as representing a rural electorate, are quite marked.

I want to talk about roadside delivery in particular and I refer to your comments on page 2 of your statement. Although we all know that it has to be five households further than 1.2 kilometres, I wanted to know the definition of ‘from a post office’, because you have changed significantly what we traditionally knew as a post office. Does



that mean a community facility, a rural transaction centre, or a licensed post office? What does it mean in your definition? I would also like you to elaborate on 'and the cost is reasonable'.

**Mr RYAN** — I will answer that as best I can now and follow it through if necessary. In my understanding 'post office' means 'postal outlet'; therefore it could mean a corporate office, a licensed post office, or it could even mean a rural transaction centre if there is no other postal outlet in that area and the rural transaction centre is undertaking postal work.

To explain 'the cost being reasonable', we had a system which was known as urban base rate. The purpose of that system was to try to balance the cost of a street or a roadside delivery with, obviously, the need for our customers to get it and the efficiency with which we could deliver it. So we determined the estimated national average cost for delivering mail to homes and businesses in metropolitan areas. Several years ago that figure was \$93, so assume for the moment it was around \$100 a year. Then we said, 'Okay, let's look at delivery frequency and have a system where multiples of that urban base rate cost should be used in determining frequency of delivery'. So we had a system which meant that where the urban base rate was double in a country area we would still deliver five times a week. Where it was two or three times higher — \$200 to \$300 — we would deliver three times a week; three to eight times higher, twice a week. Where it was 8 to 13 higher we would deliver once a week.

We found that system was weighted in favour of the frequency side because we did not bring down the frequency delivery at the same rate at which the cost increased. In addition, our local managers had a discretion to double those urban base rates to take into account any special circumstances — for example, educational needs or medical supplies. I am talking in the past tense because that was a system that applied until a couple of years ago.

We now have a more general system. It is less prescriptive than that, but it still has that as its base. We now try every three years to poll residents of areas where there is no street or home delivery to see if they wish to have it introduced perhaps once or twice a week, depending on cost. Where the majority of residents or businesses in that area vote for that, we introduce delivery.

The thing that I have to mention is that we find a number of communities prefer not to have street delivery. We are talking here more of the Northern Territory and Western Australia than Victoria; they prefer the security of having mail at a central point and people will come into town for other needs and pick up the mail there rather than have mail left at a roadside where security may be a problem on occasions.

**Mr CRAIGE** — That is a country issue; many people want to come into town simply because it is a social as much as a business venture. I could take you to many regional and smaller towns in Victoria where on a given day somewhere between 10 and 20 people could be congregating outside the mail collection area where they interact with each other. It is therefore important to recognise that as being fundamental from a social point of view, not just a business point of view. I guess most of those people in those country areas make that decision when you poll them that it is important for them to go in and to interact with other people, usually in the post office vicinity.

**Mr McQUILTEN** — I suppose this a personal story and gripe that I have.

**Mr RYAN** — They are always the hardest.

**Mr McQUILTEN** — But it relates to other businesses in country areas. We had a bloke who was doing a six-day delivery in the particular area where I live out at Dunolly. He lost the contract and another fellow took over and because the mail was delivered on only five days he refused to bring the newspapers on Saturday. It caused great concern amongst a lot of people in the area, including myself. Mostly I did not have time to read the papers on Monday to Friday — the one day I did read the paper was Saturday. Consequently we all stopped taking all the papers and the newsagent next door lost an enormous amount of business. I am wondering how you can handle that type of rebound. You put it out as a contract for five days but on the sixth day there was a social service that was also helping the other business. The fellow who got the contract just refused to do it. Everyone, including the newsagent, complained because it was a real problem.

**The CHAIRMAN** — Was the paper being sent through the mail system?

**Mr McQUILTEN** — The papers were delivered. You ordered the paper and the contractor was delivering it and being paid for delivering it.

**The CHAIRMAN** — By the newsagent?

**Mr McQUILTEN** — No, you had to pay the contractor direct, once a year.

**The CHAIRMAN** — It is a rhetorical question.

**Mr McQUILTEN** — I know it is a tricky one, but that was a consequence of changing just one contractor where everything was working out nicely. The other fellow just said, 'No, I'm out of it' and it had consequences all the way down the line.

**Mr STEPHENS** — I think it is one of those situations where our local management — in this case it would be an area manager — would need to take those factors into account and clearly understand what the implications for any change might be. Perhaps that might have involved getting an undertaking from all potential suppliers of the service to make sure that they were in fact prepared to continue to deliver that kind of service.

**Mr McQUILTEN** — Could you bring that up with your general manager in Dunolly? We have had no problems with the postal service but the newspaper service has collapsed.

**Mr STEPHENS** — Unfortunately that is a commercial issue between the contractor and the customers concerned. It is really outside the realm of our operation. However, having said that, there are ways that we perhaps could help with respect to that in negotiating new arrangements.

**Mr RYAN** — That remains a problem?

**Mr McQUILTEN** — Yes.

**Mrs COOTE** — I live in South Yarra; my postal service is terrific, thank you. I would like to talk about our brief which probably goes to what your area covers, Mr Stephens, which is more the impact on postal services, which is why you are here, but we also have another part to our inquiry, which is on banking. I think you overlap on both of those. I have some concerns about service delivery for people in rural areas in particular. We speak about the development of the initiatives of email and e-commerce, et cetera. I believe there is a whole segment of the community that is being left out of this. The Chairman spoke about changes over the last six years; I think we all have to acknowledge that this is one of the very biggest changes. Could you enlighten me as to where we are at the moment in encouraging normal users — not the commercial people — in Woodend, for example, and how you are going to use that as a blueprint and where we go with this, how we are taking the community with us with your social charter rather than your business charter? Could you elaborate on that a bit more for me?

**Mr STEPHENS** — Certainly. Particularly in relation to provision of business banking services, it has been somewhat of a challenge for us to have the banks participate with us in the past but that is not the case now, fortunately. We have embarked on two pilots for provision of banking services, on behalf of both the Commonwealth Bank and the National Australia Bank. With the Commonwealth Bank we have 40 to 50 sites nationally where we are providing business banking. They are all in country locations. A similar number of sites will be operational with the National Australia Bank, within the next four to six weeks. They will be principally in Victoria. So we are starting to roll out the National Australia Bank pilot even though it is currently being restricted to just one place, which is Woodend.

Both the CBA and the National Australia Bank are very keen for Australia Post to represent them for both personal and business banking services in country locations so we are moving on that quite quickly — and that will be national. Because the National Australia Bank is Melbourne based, its primary focus will be Victoria.

**Mrs COOTE** — Whose responsibility will it be to take the people with you? Are you educating the people? Is it Australia Post's responsibility or is it the bank's responsibility? How are the people in rural communities going to access this, presuming that for a lot of them the only access they have to email is through the post office? Are you helping to encourage them to make that transition?

**Mr STEPHENS** — Yes, we are. It is a joint responsibility, if you like. The primary responsibility is with the bank to let their customers know that the facility is now available at a particular office. I am talking specifically business banking. We are not planning to provide that at every Giropost office, although that is an opportunity. If the bank wishes to be represented at a particular location then we need to review those locations to make sure they have the facilities that are capable of providing the required level of service for the bank and for Post to be satisfied. Having said that, we rely on the banks to nominate the locations where they wish to be represented and then we make the necessary arrangements for that to occur.

**Mr THEOPHANOUS** — Why are you not involved at all with community banking?



**Mr STEPHENS** — We represent over 70 financial institutions through our network. That allows customers of those 70 financial institutions to either deposit or withdraw cash or to get a balance on their account.

**Mr THEOPHANOUS** — Through a machine?

**Mr STEPHENS** — No. Where we have clearly differentiated ourselves from the banks is that we are the in-person banking network for Australia, so you are talking to a real person across the counter for banking services. We have clearly and very deliberately differentiated ourselves in that respect from the banks.

**Mrs COOTE** — Who is that person? Is that an Australia Post person or a bank person?

**Mr STEPHENS** — They are an Australia Post person.

**Mrs COOTE** — Do you or the bank give them the training?

**Mr STEPHENS** — A lot of people do not realise that we have actually been a banking agent since 1911, with the Commonwealth Bank, so we have a very well-established capability in terms of transactional banking services.

**Mr THEOPHANOUS** — Are you saying that anyone can come in from 70 different banks and use an account and that it does not matter which bank they are with?

**Mr STEPHENS** — As long as that bank belongs to one of those 70 organisations that we represent, yes, they can have access.

**Mr THEOPHANOUS** — But it does not extend to things like arranging loans and that sort of thing?

**Mr STEPHENS** — Not at the moment, no, but we are looking to extend the range of services we are providing for banks. In some country locations we will be looking to provide specific accommodation for the mobile bankers. So, for example, Commonwealth Bank or National Australia Bank customers will be able to phone in to have an appointment at a particular location at a particular time.

**Mr THEOPHANOUS** — You did not answer my question about community banks.

**Mr STEPHENS** — No, we are not participating in a community bank because that would mean that Post is aligning itself specifically with one bank rather than acting as a neutral provider for all banks and financial institutions. We differentiate ourselves in that we provide access to our network for any registered financial institution that is prepared to meet our commercial terms.

**Mr THEOPHANOUS** — But if you are talking about a rural town where the local bank closes down, I do not think they would be satisfied with simply having all those services transferred to Australia Post, if Post was still there. That is why community banking has developed in those areas, because they actually want a full range of banking services. Why are you not interested in that?

**Mr STEPHENS** — In terms of a full range of banking services, if you are talking about loans and all that type of thing, we are not in a position at the moment to provide that extensive range of services, but in terms of the day-to-day banking requirements of people we are well equipped to do that.

**The CHAIRMAN** — If a community bank meets your conditions you would be happy to represent it?

**Mr STEPHENS** — Yes. If you talking about Bendigo Bank, we already represent it through Giropost — they are one of our clients. So in addition to their own community bank branches, they are also represented at each of those electronically equipped Giropost sites.

**Mrs COOTE** — I was going along the line about how the normal people in rural areas actually come to understand this. Whose responsibility is it to teach the people in Rupanyup or Patchewollock how to use the system? Is it yours or is the bank's?

**Mr STEPHENS** — It is the bank's system. We do not make any changes to the way that a customer interacts with their financial institution. They go through the same process with us as they would if they went to a bank branch of that particular bank or they used one of their ATMs. It is the same process. We are in effect just providing the access.

**Mrs COOTE** — Thank you.

**The CHAIRMAN** — Would you be happy to give us the locations of those 19 trial sites?

**Mr STEPHENS** — Yes, we can give you those details. I do not have them with me today but I can certainly give you details of those. I should also add that the National Australia Bank has already provided us with advance notice of a number of other locations it wants to be represented at over the next six months or so. I would have to check with it as to whether it is willing to release those, but aside from that I would be more than happy to provide you with that information.

**The CHAIRMAN** — Thank you.

**Mr CRAIGE** — Can you pay your registration through Australia Post?

**Mr STEPHENS** — Car registration, yes.

**Mr CRAIGE** — You won that contract, did you not, and therefore every person in Victoria can pay their car registration anywhere there is an Australia Post facility?

**Mr STEPHENS** — That is correct.

**Mr CRAIGE** — The second question is as to the future. We see in Europe, and in the United Kingdom in particular, that a lot of postal vans not only deliver and pick up mail but also act as a small bus service. It is extremely popular throughout Europe and the United Kingdom. Have you considered that as an option in rural areas in this country?

**Mr STEPHENS** — It generally works the other way around, where someone will bid for a mail contract and they are also a bus company.

**Mr RYAN** — In Western Australia we use bus companies extensively for delivery. As Terry said, we are getting into their system rather than the reverse.

**Mr CRAIGE** — Have you looked at it particularly in rural areas where you have high delivery costs and there is no bus service?

**Mr RYAN** — We contract out nearly all those services, and we contract out to existing infrastructure. So unless the existing infrastructure providers wish to do that it is not something that we would normally advocate.

**The CHAIRMAN** — If a small town post office has been closed for the reason that it is just not big enough to sustain the costs, is it possible for somebody to go in there to provide a post office business as a separate entity? Is it sustainable? We noticed that in Ultima you called for tenders and did not receive a tender from anybody, which to me means you could not make a go of it. What is the situation with very small towns, presumably with very small business? How do you get around that, and is that an issue?

**Mr RYAN** — It is an issue. First of all, we have something like 500 licensed post offices around Australia that are on an income maintenance system, so that we are supporting them to keep them open. So it is an issue but we are dealing with it in that way.

**The CHAIRMAN** — How many in Victoria?

**Mr RYAN** — I would have to get that number for you. I would suspect that there are probably less than the normal proportion. In some cases, however, even with income maintenance the licensee who perhaps is running a mixed business in a small town might decide they have had enough and they leave the town. We do try to get another licensee, but in cases where we cannot we then look to establish a community postal agency that provides basic stamp assessment, post parcel assessment, postage assessment and pick up and delivery of mail. So it is a base core service that is not at the licensed post office level. We try to work with the community to do what we can with the resources that are left.

**Mr THEOPHANOUS** — The figure of 278 is for 30 June 1995. Are you able to go back before that and tell us what it was five years before that?

**Mr RYAN** — Perhaps I could take that on notice and see if we are able to do that.

**Mr THEOPHANOUS** — Thank you. I suppose because of our reference the first question that needs to be asked is: do you think that you now provide people in rural Victoria with the same level of services that they received five years ago? The second is: taking a business in rural Victoria, does it receive the same level of postal services as a business in metropolitan Melbourne would?

**Mr RYAN** — They are two very broad questions.

**Mr THEOPHANOUS** — They are.

**Mr RYAN** — I would say they are the same, if not in some instances better. For example, over the last five years the price has not moved in relation to the basic postage rate, so in real terms the price has gone down. That is a definite plus for those in country and metropolitan areas. Secondly, as Mr Stephens has indicated, we now provide a much wider range of choice in relation to financial services than we did in the past, so that is another improvement.

As to businesses, the price for pre-sorted bulk mail, which is related to the basic postage rate, has also come down in real terms because that margin has been maintained between the frozen postage rate and the business rate. In addition to that, businesses are having the GST on pre-sorted bulk mail paid by us. So again in cost terms as far as prices go for basic core services, businesses are better off than they were five years ago. And again businesses will be better off as we roll out business banking, which is really still in its fairly early stages but we think it has great promise.

**Mr THEOPHANOUS** — But you still think your monopoly should be protected?

**Mr RYAN** — No, in fact we argued in front of the national competition council inquiry three and a half years ago that our monopoly position should be reduced because the reality is that alternative technology is a competitor that is with us and the old boundaries, if you like, are becoming less relevant. So we advocated a staged reduction in protection. We worked through that with the current federal government and that resulted in some legislative propositions to reduce the level of protection from around 50 per cent of our current revenue, which is where it is, to around 12 to 15 per cent over a two-year period. That legislation did not proceed because there was opposition in the Senate. Post has advocated staged reductions in protection, not immediate, total free-for-all, because we think there has to be a period of adjustment to deal with increased competition, but we have not advocated retaining the monopoly at its current level.

**The CHAIRMAN** — We had three or four questions for you about data. We will send you a letter seeking that information, in due course. A record of the discussions today has been taken; when that is prepared we will send it to you for your comments and any suggested alterations. Thank you for your attendance. It may be that later we may need to send you a note about matters or issues raised.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into structural changes in Victorian economy

Melbourne – 13 August 2001

#### Members

Mr R. A. Best

Mrs A. Coote

Mr G. R. Craige

Ms K. Darveniza

Mr N. B. Lucas

Mr J. M. McQuilten

Mr T. C. Theophanous

Chairman: Mr N. B. Lucas

Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis

Research Officers: Ms Ellingford

#### Witnesses

Professor L. Neilson, Secretary;

Mr J. McMillan, Director of Public Transport; and

Mr R. Kinnear, Director, Public Transport Planning, Office of the Director of Public Transport, Department of Infrastructure.

**The CHAIRMAN** — I welcome Professor Neilson, Mr John McMillan and Mr Ray Kinnear from the Department of Infrastructure. The Economic Development Committee is an all-party investigatory committee of the Legislative Council and is hearing evidence today in its inquiry into structural changes in the Victorian economy. I advise all present that all evidence taken by the committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the provisions of the Constitution Act and the Parliamentary Committees Act.

The reference given to the committee asks it to look at structural changes in the Victorian economy. It particularly nominates a number of areas, one being public transport. The time span for our inquiry dates from about 1994, when big changes were made in local government and banking matters came to public notice. In other words, we are looking back for about five or six years. We have to consider particularly what has happened and what is happening in small and medium-sized rural towns.

On the subject of transport, the committee is interested in generally what has happened in the past five or six years. I invite you to make an opening statement. Welcome, and thank you for attending.

**Prof. NEILSON** — My role here today will be to observe this session and the next session because I am interested in the work of the Committee, not having been in this role previously. This is a good opportunity to engage with you and the Committee's activities. The detail will be addressed by my colleagues, who certainly have been here since 1994, which I have not. Thank you for your invitation, and I look forward to our discussions.

**Mr McMILLAN** — Based on the request from the committee we have prepared factual background information on public transport in Victoria; if you are interested, we could run the committee through that. It goes through public transport in Victoria, both metropolitan Melbourne and regional Victoria; the contracting and franchising arrangements, all of which have been developed and put in place since 1994; the legislative framework that has been put in place through Parliament to govern and manage all that; and finally, Mr Kinnear will spend time briefing you on projects and programs that go beyond the franchising process announced by the government. I supply copies of our presentation, and I will refer to it.

The opening sheet of the submission goes to those four elements. The next page is a map covering metropolitan and regional public transport. It sets out the public transport arrangements that operate in metropolitan Melbourne. You can see the radial train services and tram services, although there are some across-town services in, for example, Glenferrie Road, Chapel Street and so forth. It also shows the integrated bus route system that generally provides local and connecting services. A much larger map of that detail has been shrunk to the size in our submission; I can make the larger map available. It gives a picture of metropolitan Melbourne.

The next table is an inventory of the components of the metropolitan system. It shows 30 bus operators over 268 routes with nearly 1500 buses. It totals 13 500 services per week day covering 69 million timetable kilometres per annum. Included in that are the nine Nightrider routes that operate between the last trams and trains on Fridays and Saturdays and the first trams and trains on Saturdays and Sundays respectively.

The sheet also includes information on the taxi industry, which the government sees as an important arm of the overall public transport system. The submission shows that more than 2000 licensed operators manage about 3200 cabs in metropolitan Melbourne out of 8 major dispatch centres. The multi-purpose taxi program is a long-standing subsidy program and was introduced in 1983 to give taxi access to people who have permanent disabilities that prevent them from using mainstream public transport. It accounts for about 5 million metropolitan trips a year that are subsidised by the government.

The next section on that page shows the current inventory of trains being operated by the two companies. I will return later to the ownership and contracting arrangements. It shows the number of trains and lines operated by Bayside and Connex. The half-train statistic shown in the 74.5 trains figure is because they count them in six-car sets; that 0.5 represents a three-car set. It gives the weekly services operated by each of the companies and the timetable kilometres in total, as does the next table for trams.

**The CHAIRMAN** — What about the right-hand column, headed '92.0 M trips'?

**Mr McMILLAN** — That is the annual number of trips. For instance, that figure is the estimated number of trips for buses in the financial year.

**The CHAIRMAN** — They are annual figures for the year?

**Mr McMILLAN** — They are anticipated figures for the year ending June 2002. For instance, the taxi cab trips is passenger trips, not cab trips. The average trip per cab is just short of 1.5 persons per cab trip. The 5 million trips is a component of the 32 million. That is the number of trips taken by people eligible for the multi-purpose taxi program, which receives a 50 per cent fare subsidy. The total of suburban train trips is getting close to 125 million; the trams total is about 128 million.

The next diagram shows the metropolitan train system. The blue lines shows the Connex franchise, which tends to be the north-eastern and eastern lines to Ringwood, Alamein, Glen Waverley, Ringwood, Epping and Hurstbridge. The other franchise covers all the remainder.

The next diagram shows the tram network on a similar basis. The blue lines are the Yarra Trams franchise. They tend to be the northern and north-eastern routes, with a couple going through to St Kilda and Port Melbourne. The balance, the black lines, are the Swanston Trams franchise. The next diagram shows the Nightrider route services that supplement the mainstream systems in the early hours of Saturdays and Sundays. It is worth while to remind the committee that seven separate airport shuttle services operate, with the Skybus service being the well-known one. They operate from Melbourne Airport to central city connections. The remainder shown there are discrete and separate regional links to the airport.

The next map sets out the Victorian regional passenger network. The main black lines are the six V/Line passenger rail lines. The grey lines are the V/Line coach services, which, along with the black passenger rail services, are all operated by National Express. The V/Line passenger network is a combination of the black rail passenger and grey V/Line coach routes. The red routes are what we call the V/Line marketed services. They are separate, privately owned and operated services. They operate under contract to the Department of Infrastructure but fly the V/Line flag. It is part of the totally integrated service across Victoria.

The dotted lines are the West Coast Rail service to Warrnambool and the Hoys service to Shepparton, which has a bus connection to Tocumwal and onwards into New South Wales. The two services are not listed on that page. We have agreements with New South Wales for the operation of the XPT service between Melbourne and Sydney, and with Great Southern Rail for the operation of the Ghan and Overland services between Melbourne and Adelaide. They proceed from the arrows shown above Albury and Wolseley into New South Wales and South Australia respectively.

The next page is an inventory of the regional Victorian services. The list on the right is an inventory of coaches and trips. They represent the coach trips shown by the red and grey lines on the previous page. The 'buses' category on the left-hand side of the page represents largely the urban town services, for example, Warrnambool, Geelong, Ballarat, Bendigo, Mildura, the Latrobe Valley and Wodonga — that is, the town services operating in all of our major provincial centres.

The next group is the free school bus services operated by 600 separate operators under 1600 contracts. Each school service is tied to a specific contract and the 3300 services represent two services — one in the morning and another in the evening. It shows regional Victoria has 500 taxi operators with nearly 800 cabs out of 120 depots. That represents the spread around country Victoria. The sheet shows 8 million trips in country Victoria, 250 000 of those being the subsidised multipurpose trips. Country Victoria has 6 train lines and 28 coach services, totalling 200 weekly services. I have made reference on the map to the Warrnambool, Shepparton, Adelaide and Sydney services.

**The CHAIRMAN** — We are pleased that at the moment Mr Theophanous is doing some study for the government on school buses. We are awaiting his expert advice and the final report. In the right-hand column, is that the anticipated number of trips for the year ending June 2002?

**Mr McMILLAN** — Yes. That is the regional counterpart to the metropolitan figures given previously.

The next sheet in our submission provides the committee with an overall summary of all of those statistics on a Victorian basis; it covers metropolitan and regional Victoria. I highlight that the 2001–02 budget for public transport taken from Budget Paper 3 is \$1.4 billion, but that includes things like capital asset charges and the operation of the division of public transport in the Department of Infrastructure. The actual net cost to government of running all those services is in the order of \$750 million.

The legislative background that governs the way the services are operated and contracted out is set out. The first of the three major pieces of legislation is the Public Transport (Competition) Act that governs the contracting and safety accreditation arrangements applying to the bus industry. The second is the Rail Corporations Act that



provides the operating rights for the franchisees. It established, for example, Victrack and the Spencer Street Station Authority. The third is the Transport Act, which provides for the Office of the Director of Public Transport and the associated contracting arrangements. Rail safety and the associated accreditation arrangements are enshrined in that act. The legislative regulation facilities for taxis and hire cars are also included in the Transport Act.

The next sheet sets out the contracted operators of the services that I have mentioned. The metropolitan trains are on a 15-year franchise which commenced on 29 August 1999, so they are coming up for completion of their first two years this month. Bayside is operated by National Express. Connex is owned by Vivendi Environment, a French company. Trams is operated by National Express. The two tram franchises for Swanston and Yarra trams are 12 years in duration. Yarra Trams is a consortium of Transdev, a French company, and Transfield Australia.

For country trains and coaches we have a newly negotiated contract with West Coast Rail for three years from 1 July this year. The current arrangement with Hoys extends to December this year. The contract for all of those services outlined on the regional Victorian map for V/Line Passenger, which is also owned by National Express, is a 10-year franchise which expires in 2009. In summary of the trams and trains, National Express is contracted with the department for the operation of Bayside Trains and is now operating with the M Trains logo. Swanston Trams is now also operating with it. That just sets out the metropolitan, country and bus service contracting arrangements. The V/Line freight business was sold to Rail America, trading as Freight Australia, in May 1999.

The next chart gives an indication to the committee of public transport usage for travel to the central business district (CBD) in total trips by mode. Very briefly, other information on rolling stock purchase and upgrade is set out there. Essentially, the new train and tram programs commence from next month and run through till March 2005.

**The CHAIRMAN** — What was the date of that survey?

**Mr McMILLAN** — It is an ongoing survey

**The CHAIRMAN** — It is a continuing thing?

**Mr McMILLAN** — It is a continual survey that has been going on since 1994

**The CHAIRMAN** — It is pretty current.

**Mr McMILLAN** — The mid-1990s. The next two charts show arrangements for the purchase of trains and trams and when they will be supplied under the franchise arrangements. The next couple of charts show the committed train and tram infrastructure projects and funding that were part of the franchise agreements. Under the agreements the franchisees are required to provide the services, provide the new rolling stock and also do certain things for the infrastructure.

That gets us through the first three dot points, and Ray is going to take us quickly through the programs and projects.

**Mr KINNEAR** — There are a couple of significant rail projects in the process of implementation that affect rural and regional Victoria which we thought might be useful to draw to your attention. The first is rail gauge standardisation. You will probably be aware that a large chunk of Victoria's rail network is broad gauge based, which separates it from the network of New South Wales and the national network, which is now all consolidated on the standard gauge network. There is a program being put together now to extend the amount of standard gauge operation within Victoria from 27 per cent of the network to 69 per cent of the network. An amount of \$96 million worth of state funding has been put towards that project. That is a project that would be implemented over about a four-year period. The next page is a map showing the regions of Victoria that would be directly affected by that. I could talk to that or we could come back to that if it was a matter of interest to the committee.

**The CHAIRMAN** — When we were in Mildura recently there was a huge push to connect up, I think it was Hopetoun, on to that pink line, to get a connectivity from Mildura to the port of Portland for all the mineral sands and produce up in that area. They predicted the amount of rail traffic and use of the port would go up exponentially if there was a connection from Hopetoun across.

**Mr KINNEAR** — That is one of the proposals we are looking at.

**The CHAIRMAN** — Is that something you are looking at?

**Mr KINNEAR** — Yes, at an earlier stage. So the need to connect the north-west Mildura area straight down to Portland for mineral sands was recognised very early on in the study. There were a couple of ways considered of achieving that. One was to come down from Mildura, on the Mildura line, to about Lascelles, and connect across to Hopetoun, as you just mentioned. The alternative was to convert the whole of the Mildura line right down to Dunolly that you can see there and across to Ararat. It was found that converting the whole of the line would be a lot more cost effective way to achieve that result, and that is part of the program which is being funded.

**The CHAIRMAN** — We do not want you to announce anything on behalf of the government. You are looking at all these options, we will say. That is good.

**Mr KINNEAR** — Those options were previously examined. The government has announced its program. The program is to convert the Mildura line down through Dunolly to Ararat.

**Mr THEOPHANOUS** — So the Bendigo and Ballarat upgrades will remain as broad gauge upgrades?

**Mr KINNEAR** — That is right.

**Mr THEOPHANOUS** — In terms of the faster — —

**Mr KINNEAR** — For the fast rail services, that is right.

**The CHAIRMAN** — Let us keep moving.

**Mr KINNEAR** — The second project is the Wodonga rail bypass, which you may well be familiar with. There will now be an efficient rail bypass of the city and a new freight terminal established at West Wodonga as part of that project.

**Mrs COOTE** — Could you tell me as a proportion of the commonwealth–state initiative what percentage each is putting in?

**Mr KINNEAR** — At the moment the total project cost is \$60 million, of which Victoria is contributing \$30 million and the commonwealth is contributing \$20 million, and there are some land sales of about \$10 million as part of the project which are expected to fund the balance of the program. The regional fast rail project — —

**Mr McQUILTEN** — Can I take you back to that land sale in Albury. Could that be land under the control of the Albury–Wodonga Development Corporation?

**Prof. NEILSON** — It is Victrack land, so it may be developed after the rail is ---

**Mr McQUILTEN** — That is Victrack?

**Mr KINNEAR** — The regional fast rail project is recognising the significance of the regional centres of Geelong, Ballarat, Bendigo and the collection of towns that make up the Latrobe Valley. The idea is to bring them all within a much more convenient access time of central Melbourne by operating trains at speeds of the order of 160 kilometres per hour. There is \$550 million worth of state funding which has been allocated to that project. It is a project for delivery over a five-year time scale.

The final one that I would make mention of here is the reintroduction of country passenger rail services. Ararat, Mildura, Bairnsdale and South Gippsland are currently served by road coach services. Funding of \$32.7 million has been allocated to reintroduce train services to each of those centres. That is a project to be delivered over a three-year time period from here.

**The CHAIRMAN** — Thank you, Mr Kinnear. If one looks at our terms of reference, we are asked to look at the impact on the Victorian economy of changes, in this case in public transport, and assess the impact of the withdrawal of certain services on small and medium-sized towns. What you have given to us is where we are at now — where we are at in relation to the year which is going to end in June 2002. There is in our reference an underlying fact: that we have to consider what has happened in the last five or six years so we can assess the impact. We know where we are now because you have, very well I think, told us where we are at.

I suppose the first question I would want to ask is where were we, say, four or five years ago, because we need to be able to compare the public transport system in Victoria in 1994–95 with what we have now, so that we can say, ‘This is the impact of certain things happening’. So we have the end of the equation, but we have not got the start of

it. I should not think it is possible now, but are you able to provide to us in the next week or two a document which shows where we were then and what happened along the way, to get us to where we are now?

**Mr McMILLAN** — Yes, I believe we can. Very briefly in response to that question, there have been three distinct stages of things that have happened in public transport in the period you are talking about. I guess we commenced in the early 1990s with a completely government-owned arrangement for the provision of services. In the period between 1992 and 1999 we went through the process of preparing for franchising and the removal from public ownership of all of the public transport services, either by way of franchise or sale. The third element was where we are at now, in the early stages of that franchising arrangement. We can certainly provide the committee with details on those three stages of where we were and how we got to where we are today.

**The CHAIRMAN** — I think it is a fact that the government itself has given us this reference to look at these things, so presumably it wants us to look at that information. I think we need to formally ask you to provide it to us. We need to have the detail of what services were provided at the start — the original system that was in force or provided to the community in 1992–93 in terms of buses, trains, trams and taxis, I suppose, as to where they went and how frequently they ran. Then we need to be able to track the changes that occurred up to where we are at present. That is what the government has asked us to do, as I see it, so we will need to get that information from you.

**Mr McMILLAN** — It is really the services through each of those periods, from that commencement point?

**The CHAIRMAN** — I think it is all of the information in here — when we started and how it changed to get us to here, not just the services.

**Mr THEOPHANOUS** — Could I supplement what the Chairman has asked for?

**The CHAIRMAN** — Certainly.

**Mr THEOPHANOUS** — We want this particular inquiry to as much as possible be one which delivers some positive stuff for the future. We do not want to get into a slanging match over it. I think we have done enough of that on this committee. There is no doubt there were some country services that were removed and you are reintroducing those. That is fine. We need to know what the impact of the removal of those was in your estimation, because that is directly what our reference is asking, and then what you expect to gain from reintroducing them and how that will impact on other services that might be provided.

The reforms introduced by the previous government were not all bad reforms, as it were. In fact some of it has presumably improved the system in a variety of ways. We need to know what the impact of those reforms was in terms of improving the efficiency and effectiveness of the transport system. Obviously there has been the introduction of the private sector in trams, trains and things of that nature. You can take an individual service like the one going down to Warrnambool, and we would want to know whether the changes that were introduced improved the service — in other words, there is a better service now going down to Warrnambool as a result of those changes, just as much as the other issues that I have mentioned. That is really the sort of information that we need. I think that is fairly accurate.

**The CHAIRMAN** — I agree with all of that.

**Mr THEOPHANOUS** — We need to garner that so we can point to the future. The other thing I would ask you is as follows. I know that one of the driving factors in this is competition. When you establish three providers of trams or buses — I cannot remember how many you have got — but a number of different private sector companies that are providing a service, part of it is in order to allow competition to improve the service. I presume that is one of the aims. If that is the case, could you also provide to the committee what evidence you have of how those competitive forces operate, especially in the context that each of those services has its own area of location? So how does Yarra Trams really compete with Swanston Trams since they have different areas? Is it by publicising the different levels and trying to use that method? What sort of mechanism have you got in place to ensure that competition actually works to improve the system, because that was one of the major aspects of the changes? Can you come back to with us some of that material?

**Mr McMILLAN** — We can. Sorry, Chairman, in terms of time frame?

**The CHAIRMAN** — We do not want to cause too many traumas for you, but what if we say in the next few weeks? We are heading around rural Victoria over the next month or two taking evidence, and to have the basic evidence from you earlier on would obviously be an advantage, because we would be working off base quality information when we know what is going to happen. But we do not want to pressure you to get it to us tomorrow, that is for sure. We want to be reasonable about the whole thing, but what if we say the next few weeks?

**Mr McMILLAN** — That is fine.

**The CHAIRMAN** — Are you happy with that?

**Mr McMILLAN** — Yes.

**The CHAIRMAN** — Just as an example, the Leongatha situation, where the train came out because it was running at a huge loss and there were all sorts of difficulties providing that service: the bus service that went in, as I understand it, provided a lot more services, a lot more buses than there were trains, which meant that the opportunity for people to use it increased. If we are going to say whether that was good or bad, or what was the result of all that, we would need to have the figures on who was using the train — the passenger statistics — compared with what happened when the bus service went in, and whether that went down because people preferred to ride on a train or whether it went up because there was more frequency. That sort of information is certainly of interest to us.

**Mrs COOTE** — I have something specific dealing with the fast train services that you have mentioned on page 4, and the fast rail links to regional centres, and particularly the Bendigo line. My understanding was that if you put in this fast train the freight has to go off the line while the fast train goes through. Could you give us some indication of what the logistics of all of this are because presumably that is going to be the same with the fast rail services right across the state, and how does that impact on the delivery of the freight?

**Mr McMILLAN** — Perhaps I can commence the answer and Ray can give some further detail. Generally how the freight and passenger services work is that passenger has priority over a freight train, because it is just more critical for people to be on time rather than generally for freight. Generally the network tends to fall largely into a freight network and a passenger network. I think we have about 1200 passenger trains per week and about 400 freight trains per week on average, and a great number of freight trains actually operate on the grain lines and so forth where there are no passenger trains. But in terms of the actual projects for the regional fast trains, perhaps Ray could expand.

**Mr KINNEAR** — The detail of exactly what infrastructure changes will be made are exactly what the work is being done on at the moment. The number of conflicts between freight and passenger services are not all that great in the cases we are talking about, and the detail of exactly how the project would be implemented is what is being done in the detailed planning and design.

**Mrs COOTE** — With the emphasis still on the passengers rather than the freight?

**Mr McMILLAN** — That sort of standard is applied nationally and internationally. Normally under train management arrangements, passenger trains do take priority over freight trains. Normally with a freight train the time constraints are much wider than for a passenger train. Normally you have to have the grain to a port within a certain number of hours, whereas for passengers it is much more time critical, for timetables to be actually delivered to the minute. As I said, that is a feature nationally and internationally of train control and path allocation arrangements.

There is very little freight at the moment, for instance, on the Ballarat line. There is some on the Bendigo line. There is a super-freighter service that operates on a daily basis to the freight gate at Bendigo and you would find that, with one service a day, its capacity to conflict with the passenger service — even the upgraded fast passenger service — would be very small.

**Mrs COOTE** — Can you explain something to me about the fast train. Let's again use Bendigo as the example: will this very fast train stop at Kyneton, Woodend and those sorts of places, or will it just go shooting through?

**Mr McMILLAN** — The detailed timetable arrangements are being worked through, as Mr Kinnear mentioned. Obviously at the key spots where a number of people are wanting to travel by train there could be

intermediate stops, and there could also be a mixture of through-passenger and fast connector services. All those things are yet to be finalised, to my knowledge.

**Mr CRAIGE** — I think you are avoiding the question. I want to know clearly here today: will the fast train between Bendigo and Melbourne be stopping at any stations on the way through?

**Prof. NEILSON** — That is what is being worked on at the moment. What we are asking the private sector people to do in expressing their interest in these projects is to come up with what they believe would be the optimum mix of services as well as the actual physical construction of the projects. That might mean, for example, that you could get an 8 o'clock train that goes from Ballarat straight to Melbourne and an 8.15 a.m. train that stops at a number of places along the way. That mix is open to the operator, and it is very important.

**Mr CRAIGE** — What work has the department done in respect of the times travelled between Bendigo and Melbourne and the speed at which the train will have to travel if it stops per your so-called mix of services? Have you done any work?

**Prof. NEILSON** — In the initial feasibility studies combinations of operating regimes have been looked at. The more important thing at the moment is to look at the potential passenger responses to the introduction of new services. One of the things being done at present is to survey people's travel patterns today and their travel intentions to try to work out the demand patterns for these new services.

**Mr CRAIGE** — We already know what their travel patterns are — well, most people do. They would know what their travel patterns are on these lines in particular. In my view you are fudging the question, because clearly the department would have done work and there would be evidence within the department of what stopping along the way would mean for travel times. What is the anticipated travel time of a train travelling at 160 kilometres per hour from Bendigo to Spencer Street station?

**Mr KINNEAR** — You are asking how long it would take theoretically if you travel over a 120-kilometre distance at 160 kilometres an hour non-stop from end to end?

**Mr CRAIGE** — Yes.

**Mr KINNEAR** — On my arithmetic, that would be a bit under an hour.

**Mr CRAIGE** — What if it were travelling at 120 kilometres an hour?

**Mr KINNEAR** — It would take longer.

**Mr CRAIGE** — How much longer? You have done the work.

**Mr KINNEAR** — Yes. I do not have that material in front of me.

**Prof. NEILSON** — The consolidated feasibility study we have done is public and I am happy to give the committee a copy. It contains the consolidated analysis. It is a rather large document.

**Mr CRAIGE** — I am just wanting confirmation of some of the evidence in those reports. Does that travel time take into account the interlinking of rural fast-train networks into the metropolitan system and the historic delays that have occurred over time with country rail services coming into the metropolitan system? Does that travel time take into account delays, or have you reached an agreement that those delays will not occur?

**Mr KINNEAR** — There is an element of intended works within the program to provide extra track in the metropolitan area to be able to overtake the much slower-moving suburban trains.

**Mr CRAIGE** — Thank you.

**Mr McQUILTEN** — In relation to that last point, on my reading of the issue about achieving the times talked about in the documents Professor Neilson referred to, one of the major problems would be in handling the fast-train network through the metropolitan area. As I understand it, by fixing up those logjams in the metropolitan system for the country trains we may well be able to make the time lines for metropolitan services better. My question relates to whether one of the trains in my area will run from Mildura down to Maryborough and then on to Ballarat. When we bring back that train service, will it go from Maryborough to Ballarat and then on to Melbourne or over to Castlemaine and then on to Melbourne? I am not quite sure.

**Mr KINNEAR** — It will be the former of those options: from Mildura to Maryborough, then to Ballarat and on to Melbourne.

**The CHAIRMAN** — It is important that we get this information from you so we can track it through. We have a number of issues we could ask you about now, but I do not think you will have the answers because they will need a bit of research. We may not have indicated to you sufficiently clearly what information we will be needing, so I will articulate that again to ensure that we are all on the same wavelength and to give you the opportunity to query it. We need the routes and services that were provided on all forms of public transport in, say, 1994, which is the date we have set for most of these other things — that is, when local government reform commenced. We need to be able to track the usage of public transport down the years for different services in rural and metropolitan areas as a result of the changes as they occurred. If we are to look at the impact, we certainly need that information.

There may well be other public transport areas that have changed, such as the provision of information; new services for the transport of goods from rural areas to the central business district (CBD); and different forms of transport provided — for example, buses instead of trains. You are professionals in this area and you will know a lot more things than I am suggesting here that relate to the quality, safety and comfort of public transport and all those sorts of issues.

**Prof. NEILSON** — Presumably you want to know something about the price of tickets?

**The CHAIRMAN** — Yes, certainly. Pricing was a real eye-opener with our last witness; prices had not gone up at all. Subsidisation of public transport by government is relevant, but its impact in Victoria is another issue. We need to look in particular at how the changes have affected customers or potential customers living in rural areas — for example, are there more trains or buses, are they more frequent or more accessible now than they used to be, and how have those changes occurred over the past five or six years. Are there any other suggestions?

**Prof. NEILSON** — I suggest that you look at employment in country towns.

**The CHAIRMAN** — Absolutely. One of the issues we are certainly looking at is the effect on country towns of all these changes, particularly where there is no footy team or cricket team or where the supermarket cannot continue for some reason. It all gets back to the number of employees in the different services previously provided in country towns. That side of it can be compared with the actual service to the community to determine whether they are better or worse off. They are the two key issues we have to balance. Are we all on the same wavelength?

**Mr THEOPHANOUS** — I support what the Chairman said, and to summarise that from my perspective it is about service provision and how that has changed; employment in these regions; and whether there has been enhanced competition as a result of the introduction of private services, which is an important component.

**The CHAIRMAN** — It has been worth while saying those things.

**Mr THEOPHANOUS** — I want to ask about rail gauge standardisation. I have the map here and I am trying to understand it. A few questions emerge when you look at it from the perspective of long-term planning, if you like. Why was the decision made in the case of the two most frequent rail services — that is, Bendigo and Ballarat — to keep the broad gauge? Also, why would you keep the broad gauge from Seymour down to Melbourne when you are going to convert a whole range of broad-gauge services up through Shepparton and so forth into standard gauge? Can you explain the thinking or rationale behind that?

**Mr KINNEAR** — The metropolitan rail network is really the constraint on all of this. There is a limit to the number of standard-gauge trains you can bring into central Melbourne. There is one entry only for all of the west and north of Melbourne and there is no entry at all for anything coming in from South Gippsland, so it would require a very major change and investment in metropolitan Melbourne to bring a lot more country passenger trains onto standard gauge. Where there are many passenger trains coming from places like Geelong, Ballarat and Bendigo, it is extremely difficult to do that at this stage. The focus has been on those parts of the network where you could change the gauge without adding to those sorts of problems.

Our particular argument in relation to Seymour is to say that if one is thinking in the longer term about the suburban train system expanding out beyond its current boundaries, if we change some of those hinterland areas to standard gauge then it will make it that much more difficult and expensive in the future to incorporate them as part of a suburban system.



**Prof. NEILSON** — There is already a standard gauge from Seymour to Melbourne.

**Mr THEOPHANOUS** — What I do not understand is that you have a green line going from Melbourne right through to Wodonga, which is presumably the existing standard-gauge line to Sydney, and then you have a blue line going down from Seymour. Does that mean there are two tracks at the moment?

**Mr KINNEAR** — There is a standard gauge and broad gauge, and both those would be maintained.

**Mr THEOPHANOUS** — There must also be a second track going from Seymour to Wodonga which you are changing?

**Mr McMILLAN** — That is right, yes.

**Mr THEOPHANOUS** — What is the logic of having both a standard gauge and a broad gauge, or even two standard-gauge lines, going from Seymour to Wodonga?

**Mr KINNEAR** — From Seymour to Wodonga you have both standard gauge and broad gauge sitting side by side at the moment.

**Mr THEOPHANOUS** — Yes, but what you will have in future is two standard gauge lines sitting side by side.

**Mr KINNEAR** — Yes. That provides the extra capacity for the movement of trains in that corridor into the future.

**Mr McMILLAN** — That is part of the main interstate national track.

**Mr McQUILTEN** — My last question is more of a comment. One of the advantages of the Ararat extension over the next three years is if we can bring together all the local buses in the area at that point it could be really useful to a much larger area. Is that concept in your heads at the moment?

**Mr McMILLAN** — Yes, it certainly is. If you go back in history, the train used to run through from Dimboola, Horsham and Ararat, and that was replaced essentially with coaches, most of which operate through to Melbourne. With the passenger train going back into Ararat, the bus and coach services would then be tailored to service the train returning.

**Mr CRAIGE** — How much will the reintroduction of the passenger rail service to Ararat cost?

**Mr McMILLAN** — It is part of that 32 — —

**Mr CRAIGE** — No, that is not the question.

**Prof. NEILSON** — It is about \$5.4 million.

**Mr CRAIGE** — How much will the Mildura rail service cost?

**Mr KINNEAR** — I do not have that information in front of me.

**Mr CRAIGE** — I want the answers in relation to each of the following, individually: Ararat, Mildura and Bairnsdale.

**Mr McMILLAN** — Yes, all right.

**Mr CRAIGE** — You indicated, Mr Kinnear, \$96 million for the rail standardisation over a four-year period; when will that work commence? Can I also have a breakdown of the standardisation costs versus the work you will be doing to upgrade other facilities, and in particular the ones you talked about being for integration — I think you mentioned that word — into the metropolitan system? Is all of the \$96 million state-committed funds?

**Mr KINNEAR** — That is right.

**Mr CRAIGE** — It is all out of state revenue?

**Mr KINNEAR** — Yes.

**Mr CRAIGE** — Okay. When will the work on the upgrade of the standardisation commence?

**Mr KINNEAR** — The intention is to start in the north-west, and the idea is to move in as soon as the —

**Mr CRAIGE** — When in the north-west — what year?

**Mr KINNEAR** — Next year.

**Mr CRAIGE** — In 2002?

**Mr KINNEAR** — As soon as the grain is cleared from most of the storage facilities through that area, which is likely to be about September or October next year, depending on the grain season.

**Mr THEOPHANOUS** — Can you also provide the direct employment that will be created by all the things you are undertaking — that is, the upgrades and the changes?

**Mr KINNEAR** — We have certainly prepared that estimate for the gauge standardisation program, which we can provide to you.

**The CHAIRMAN** — We have run out of time. We have discussed today the need for further information and I think generally we all have in our minds what we need. We might have some specific questions, which we will send to you in writing; that is normally how we operate. I assume that if we send you a letter with a few more questions you will be happy to provide some answers rather than us having to hold formal hearings every week and bring you back here. We may well invite you back at some later date. We are learning as we go along. We are not experts in transportation, apart from Mr Theophanous and his school buses, and Mr Craige's previous experience.

We are going to Horsham on 27 August and it would be extremely helpful if we could receive a few days before that whatever you have done in the past, if at all possible. I do not want to cause a dilemma for you, but if you have some base information do not hesitate to send that to us and you can finish the rest after that date. The more information we can have by way of background the better.

I thank John McMillan and Ray Kinnear for coming along. I understand Professor Neilson is staying with us. Thank you for your time. We will probably see you again. We look forward to obtaining that information from you in due course.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into structural changes in Victorian economy

Melbourne – 13 August 2001

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craigie  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Ms Ellingford

#### Witnesses

Prof. L. Neilson, Secretary;  
Ms P. Digby, Executive Director, Local Government Division;  
Mr J. Watson, Director, Governance and Legislation, Department of Infrastructure.

**The CHAIRMAN** — I re-open the hearing and re-welcome to the hearing Professor Neilson, the Secretary of the Department of Infrastructure. We are also joined by Prue Digby, the executive director of the Local Government Division, and Mr John Watson, the director of governance and legislation. The reference that we have from the government in this case is in relation to restructure, particularly in rural areas, and the structural changes which have occurred in the past five or six years. The government has asked us to look at what has occurred in a number of areas, including local government, to work out the impact of the changes which have occurred, particularly in rural areas, and to report back to the Parliament, which we hope to do by the end of next year. I initially want to welcome you and say thanks for coming and to offer you the opportunity to make an opening submission to us. During the course of today's hearing we will probably ask you some questions and it may well be that we will ask you to collect some information for us and come back to us in due course on some issues.

**Ms DIGBY** — I apologise that not everybody has a colour copy of our presentation as the colour printer went down on us — only the Chairman has a colour copy. What I was going to do in my submission was briefly address the profile of Victorian local government as it stands today, talk about the Local Government Division and its work, and further talk about the government's local government policy framework and the initiatives that flow from that which the division is implementing.

The second slide that you have before you outlines the boundaries of the 78 councils. As we know, there was a reduction in councils from 210 to 78 so we have 78 entities there and we also have 17 regional library boards which cover 53 councils. The next slide depicts the metropolitan council boundaries. There are 31 metropolitan councils and 47 rural councils so the slide before shows you the boundaries of the rural councils and this is a presentation of the metropolitan councils.

With respect to the profile of local government you have a fairly significant range in the size both geographic and also population and rate and expenditure base. I have given you some examples here. The annual expenditure profile ranges from \$150 million at Melbourne to \$3 million at the Borough of Queenscliffe, which is the smallest council. Rate revenue ranges from \$95 million at Melbourne to \$2 million at Queenscliffe. Population ranges from 191 000 at Geelong down to a much smaller council at Queenscliffe of 3400. The number of councillors range from 5 to 11. Under the act you can have a total of up to 12 but that is the current range of councillors and there are 593 councillors across Victoria. In staff you have once again a fairly significant range between Melbourne and Queenscliffe.

**Mr THEOPHANOUS** — Melbourne makes it a bit difficult to make comparisons. Is Geelong the next?

**Ms DIGBY** — On most of the indicators Melbourne and Geelong are the two largest in terms of expenditure, staffing and rate revenue.

**Mr THEOPHANOUS** — If you exclude those two, what is the range for the other 76 councils?

**Ms DIGBY** — In terms of?

**Mr THEOPHANOUS** — Expenditure, rate revenue, and so forth.

**Mr CRAIGE** — And staff.

**Ms DIGBY** — I would have to take that on notice and get those figures to you. There are a number of categories which they fall into. You have Melbourne and Geelong at the top end and then you have a group of councils which would include the Mornington Peninsula.

**The CHAIRMAN** — Do you have a chart of the 78 with that base information on it?

**Ms DIGBY** — I can produce that chart.

**The CHAIRMAN** — Just send us that.

**Mr McQUILTEN** — I have a question about Queenscliffe. Is it true that in all the amalgamations that took place this was the only council that was not altered? I think I am right.

**The CHAIRMAN** — The answer is yes, as far as I am aware.

**Ms DIGBY** — Wodonga had very minor alterations to its boundaries, as did Melton, but in terms of being technically the only one that did not have any change, Queenscliffe is it.

**Mr McQUILTEN** — Is there any reason for that? I find that a bit interesting.

**Ms DIGBY** — I think that was probably a government decision of the day.

**Mr McQUILTEN** — A political decision.

**Ms DIGBY** — As I have said, there are 593 councillors across the state of Victoria. I have given you a gender breakdown there.

**Mrs COOTE** — It is not good enough; we have to work on this.

**Ms DIGBY** — The Minister for Local Government has a commitment to increasing the participation in local government through all of the groups. There is a rolling election cycle with five elections in 2001, including Melbourne, and Melton goes to election this year, 18 in 2002, and 55 in 2003.

In terms of the representational structures allowed under the act, 14 of the 78 councils are unsubdivided, 62 have a combination of wards and Nillumbik is the only council remaining that operates with a two-tier system — an election at large and a ward system. As I said earlier, Melton is going to election this year.

**Mr McQUILTEN** — What will that be? Is it wards or unsubdivided?

**Ms DIGBY** — Melton will be wards.

**Mr THEOPHANOUS** — Is this question of subdivided or not up to the council itself? How does that work?

**Ms DIGBY** — Unsubdivided versus wards? Yes.

**Mr McQUILTEN** — It was the commissioners at the time, I think, that made the recommendations.

**Mr THEOPHANOUS** — But the councils can change that if they want.

**Ms DIGBY** — They can apply to change it; the representational structure is approved by the Minister for Local Government. The council actually does the work to determine what is the most appropriate structure for its municipality, and it applies to the minister, who takes it through an order-of-council process.

With respect to the division, following the framework of the government's policy the objectives of the division are the effective management of the local government system for the government, and that includes the effective administration of the Local Government Act 1989 and to further implement the government's policy by working in partnership with local government associations and individual councils in encouraging best practice in governance and service delivery. The government's policy framework is, as the minister outlined at the Public Accounts and Estimates Committee, to build local government capacity, to recognise local government as the third tier of government, and to sustain strong partnerships with the 78 councils.

**The CHAIRMAN** — We might go through this bit rather quickly, if you would.

**Ms DIGBY** — The initiatives?

**The CHAIRMAN** — Yes.

**Ms DIGBY** — There are a number of initiatives. Best value is a major policy plank of the government. It is designed to give councils flexibility in terms of how they approach the issue of their services and governance. It is designed to ensure the provision of high-quality local government services and facilities as well as value for money. The Best Value Commission was established last December and commenced meeting in April this year. Fundamentally the commission's role is to advise the minister on the implementation of best-value principles across Victoria and advise on the capacity of local councils to actually deliver enhanced and affordable services that are responsive to the needs of their communities. I do not know whether you wish me to go through the actual principles; you might like to ask to ask some questions.

**The CHAIRMAN** — Given the time, I think we need to flick through these pages. That is good information for us to have. The fact that our reference talks about the effects of change over a period of time means the current initiatives of the government are less relevant to us. It is more what has happened in the 4, 5 or 6 years and the results of that, particularly in rural areas, that we want to home in on. Maybe we could just flick through

pretty quickly unless there are any specific items on those initiatives that you are hell-bent on drawing to our attention.

**Ms DIGBY** — I will just provide it as information.

**The CHAIRMAN** — The indicators on the second last-page — could you talk about them for a second?

**Ms DIGBY** — One of the concerns of the sector over a number of years was the nature of the local government indicators program. The sector expressed concern that the purpose of the indicators was not clear and that in some respects the collection of them was onerous. We set up a performance management sector reference group where we looked at the issue of the indicators, of which there were a considerable number, and fundamentally broke them into two categories. The first category was a set of indicators that would essentially be for the purpose of the Victorian government and for the community which measured the health of the sector, and the councils would be required to collect this information and publish it in their annual reports, and there is a set of 10 indicators there. They are listed on your slide.

**The CHAIRMAN** — If we wanted to go back a number of years to compare the indicators one against another, how far can we go back?

**Prof. NEILSON** — It depends in part on which particular indicators. Some of the more straightforward ones may exist in the past and others may not because of their composition.

**Ms DIGBY** — There was basically a set of indicators that measured service performance: they were called the comparative indicators, and then there were another 26 or 27 — I am not sure of the number — that were called annual indicators. The comparative indicators remain and are being collected. These indicators we have here replace the annual indicators. This is the first year that they will be reported on.

**The CHAIRMAN** — If we wanted to go back and track through whatever information you have in relation to indicators, I assume there would be some information in relation to particular areas?

**Ms DIGBY** — Yes, the annual plan indicators will have been collected up until the end of the last financial year.

**The CHAIRMAN** — Could we go back to 1994–95?

**Ms DIGBY** — Approximately four years — I will have to take the actual year on notice.

**The CHAIRMAN** — You can understand our dilemma. One of the issues that we need to get our heads around is the performance of local government in Victoria by councils prior to local government reform. We need to be able to say as a result of reform whether the economic improvements that were hoped for were achieved. We need to be able to track the rates over those years and any other indicators that will give us a handle on the results of the reform.

The government has asked the committee to determine the impact of structural changes. In local government, as I well know, there were significant changes across the board. The government is asking us to find out the results of those changes.

There are two questions. Firstly, will you provide the committee with whatever indicators you have of councils' performances in any area over that time? Secondly, are you aware of any study carried out by governments — plural — or by private organisations — maybe universities — that looked at the results of local government reform in Victoria? Any copies of such studies or references as to where those documents could be found would be of extreme interest to the committee.

**Ms DIGBY** — Yes, of course we will make available whatever material we have. In looking at the issue of performance, the local government board's documentation is one source of information in terms of councils' positions pre-amalgamation; it will have some information in it. It will not have the level of information that was collected post-reform through the annual and service indicator process. We can certainly look through our records to see what sort of data was held on councils' pre-amalgamation.

**The CHAIRMAN** — It would be great if that could be forwarded to the committee in the next few weeks.



**Ms DIGBY** — In terms of the other material, the research that has been done post-amalgamation, I am not aware of any extensive research that has been done within the department but I will take that on notice. A couple of pieces of work have been undertaken through academic institutions that I will deliver to you.

**Prof. NEILSON** — Work has been done by the Centre for Local and Regional Government Studies at the University of Canberra. I know of at least one piece of work that is explicitly about the impact of change on Victorian local government, so I can certainly track that down for the committee. In earlier years, in the 1990s, there would have been a number of commonwealth-funded examinations of local government in Victoria in comparison with other states. That may well also contain some base data of value that we could get for the committee.

**Ms DIGBY** — We can provide the Grants Commission base data to the committee as well.

**The CHAIRMAN** — We are not interested in its formulae, though.

**Mr THEOPHANOUS** — The amalgamation of local councils has been supported by both sides of government at various times. We may have had some issue with the previous government about the way it was brought about, but the need for amalgamation has been supported by both sides. We are trying to look at what the impact was and what the impact is likely to continue to be; I know there is some stuff about various efficiency savings and so forth. There must have been some examinations by the department itself about the improvements in efficiency and effectiveness in terms of delivery of services. I think that is what the chairman has been talking about. We also need employment changes, particularly in regional Victoria.

**Mr McQUILTEN** — Medium and small-sized towns in particular.

**Mr THEOPHANOUS** — We need to know pre-amalgamation what they were, what the effect was in terms of the amalgamations and how much shedding there may have been. We need to know about service delivery and whether that changed, and perhaps the mix of services that councils provided directly, and what they contracted out as a result of the CCT arrangements.

I am interested in electoral change and electoral issues, which I think is an issue. You have mentioned it here but I do not know why there is no consistent approach across local government in terms of elections. There are different methods. I refer to a recent example — I think it was in Queenscliff — where a single candidate got 40 per cent of the vote and did not get elected — I think you might know what I am referring to — because of the system where you get 51 per cent and you take everything. It seems that there are some considerable issues surrounding that in terms of the electoral processes in each of those country towns. I do not know whether you want to comment on any of that or whether you will come back the committee.

**Ms DIGBY** — As I said earlier to the chairman, certainly we will bring forth data that we have, but I believe there would be gaps in that data, especially with respect to employment data within councils pre-amalgamation and post-amalgamation, and certainly with service data as I do not believe the level of detail you are asking for is actually captured as data within the government.

**Mr THEOPHANOUS** — We do not want to be misleading either. We do not want to say there was a reduction in employment of X amount without their being able to say that these services were then provided by private contractors, so the service level may or may not have changed. We need access to all that to be able to make any meaningful statements.

**Ms DIGBY** — Whatever we have we will provide to the committee.

**Mr CRAIGE** — Where there is a service provider, there may have been through increased subsidies for the services more people employed by the private provider, or less. We need to know that. Obviously councils would have all those figures available to them on the provision of those services.

**The CHAIRMAN** — They might find it difficult pre-amalgamation.

**Prof. NEILSON** — You may find that the records have not have been well kept during that transition period.

**Mr CRAIGE** — I do not believe that of local government. I would never say that.

**Mr THEOPHANOUS** — Even post-amalgamation, at the starting date of post-amalgamations, the councils made a range of decisions about how many people they would continue to employ. The starting date has to be different in terms of the number of people employed, and also what services they were to contract out, so they must have the information at any starting date.

**Ms DIGBY** — The issue, though, is the extent to which as a state government we collected that information. That is what I have to do quite a lot of detailed research on, because there are no immediate reports that we have sitting around that say what the impact of CCT was, or what the impact on services was, so we will have to go back to whatever base data was kept. Certainly councils may have stronger databases than us, but the issue is what we have as a state.

**The CHAIRMAN** — Time will tell. I recall there was one bit of work done pre-amalgamation which predicted how many staff would be required in a new municipality, which was an amalgamated entity, compared with what was there before. There might be something in the board's records because the board, when it came up with those drafts, indicated savings from staffing. It would be good if the committee could get hold of that.

**Ms DIGBY** — Yes, and then there is the issue of where the reality — —

**The CHAIRMAN** — Yes, we can find out what happened quite easily.

**Mrs COOTE** — We skipped over the initiatives at the Chairman's request, but I want to elaborate on the rural and regional summit. Given what you have just said about record keeping, et cetera, can you reassure the committee that there will be procedures in place to monitor all those issues for best value, particularly in the rural and regional towns? I know there is a commissioner, but with the record keeping I hope we will not have this problem into the future. Do you feel confident about that?

**Ms DIGBY** — The government is clear about where it wishes to keep records and where records actually belong, and what information belongs to local government in the context of recognising local government as a third tier of government. An example would be with respect to best value. In essence there will be two avenues of data. One will be the annual report of the Best Value Commission in terms of its analysis of how local government is managing the implementation of best value and the extent to which it believes it is delivering service improvements.

The other key source of data will be the reports that councils are required to produce on the implementation of best value, their service reviews and the outcomes of their service reviews. Over time we will have a picture of the agreement between councils and their communities on what they will deliver and to what standard, and their performance against that standard. It will be a very clear view of what information we want to collect.

Another process that we have embarked on is an update of the Local Government Act. One of the key areas in that act is a restructuring of the accountability requirements and framework for local government and looking at ways in which the financial information that councils produce — and produce in a very public way so that it is not only available to the government but is available to the community — shows a consistent set of data around the introduction of the budget and the accountability at the end of year. That will provide another source of data.

The third area of data we are collecting is the indicators, and they will be published as well. As part of those indicators, the constituent satisfaction survey results are published.

**Mrs COOTE** — Can you elaborate on the rural and regional summit as an initiative: the community building and environmental issues, and the economic issues? Why is this an initiative?

**Mr McQUILTEN** — Because it has not been done before.

**Mrs COOTE** — What are they expecting to get out of this? Once again you have community building and environmental issues. Will there be in place natural resource management procedures, or under the economic issues have you got infrastructure, transport, health services? What will the summit do?

**Ms DIGBY** — The summit and the holding of the summit was part of the government's election policy platform. That is why we are doing it. A summit was held last year and the second summit will be held in September of this year. It is aimed at providing a place where state government and local government can discuss issues that are of common interest. It is designed to ensure that there is a shared understanding of where we are trying to go with particular issues and the role that respective governments will play. That is the focus.

The agenda for the summit is put together in collaboration with my division, the Department of State and Regional Development and the local government peak bodies. We identify the issues under basically the headings of the economic environment and social or community building that are of interest to both state and local government.

**Mr CRAIGE** — I want to talk about the best-value principles in particular. I notice on page 20 you have listed local government indicators and then services, and then other indicators. It says, 'Best value to be developed'. Will you tell the committee when those indicators will be developed for best value?

**Ms DIGBY** — We believe it will be six to eight months before they are developed. The reason for that is we are gradually working through the overall indicators, as I stated earlier. This is their first year of reporting. The governance indicators proved to be quite difficult to define and we are engaging in a process at the moment to do that. We are looking at the comparative indicators. We believe in about six to eight months the work will be informed by the issues that have been raised by the Best Value Commission and the experience of councils in actually implementing best value.

**Mr CRAIGE** — Can you understand then my concern that in fact the Best Value Commission was established in December 2000 and here we are now, eight months later, and we still have not got our indicators established? Now you are telling the committee we have another six to eight months to go before we have indicators on best value established. That is more than a year just to establish those indicators. You would then understand why some councils out there are confused over best value, when it has taken so long.

**Ms DIGBY** — The whole-of-state indicators have been developed essentially to give a broad-based picture of the health of the sector, both to the Victorian community and to the state government. The best-value indicator, and there will probably be only one of them, is to complete that rounded picture. We believe that the most important data source as to the implementation of best value, which commenced from the implementation date of the program, is the data that councils have to report on in terms of the code that the minister has published.

The first is their program and what services they will review over the next five years, and then the outworkings of those service reviews. The outworkings of the service reviews are the first piece of hard data to report on implementation that councils have. The other source of information about best value and its effectiveness is, as I said, the work of the Best Value Commission itself.

**The CHAIRMAN** — If I were to look at some of the results of the amalgamations I would be interested to know the effects of those amalgamations on somebody's rates — whether Mr and Mrs Fred Nerks who live in Dunolly are paying more or less to whichever is their council now. That is one key indicator. I would be keen, if possible, for us to get some information from you showing what the rates were in, say, 1993-94 and to track that down over a number of different-sized properties and different types of properties — commercial, residential, et cetera.

It is my understanding — correct me if I am wrong — that as a result of amalgamations there was a push into economic development where councils were encouraged to put people on to encourage economic development within the municipalities. As a second key indicator, I would be interested to know whether there is any information on what was there before and what is there now and the results of that economic development — people working in local government. That is the second key indicator.

One of the goals of amalgamations was to try to provide councils with less overheads to make them more efficient so they could spend more money on capital works. It would be interesting to see whether that has occurred, particularly in rural areas where, as we are all aware, there is a backlog on roads and bridges; and whether amalgamations have resulted in more money being spent in that area. That is a third key indicator.

The fourth indicator is that of debt. Many of the previous 211 councils had substantial debts and could not afford to borrow any more; they could not afford to undertake capital works because of the huge overheads they were having to sustain. What is the debt position now in Victorian local government compared with where it was before?

There is nothing wrong with debt. Debt is all right if you can service it, but there have been some changes in that area.

**Mr THEOPHANOUS** — I was going to ask whether that was the experience in your council, Mr Chairman, but I will not!

**Mr McQUILTEN** — I believe that St Arnaud and Stawell, which are the two municipalities that were brought together to form the Northern Grampians Shire, are having problems with IT and links of communication between the two towns. I hoped that they would put some more of their operations in St Arnaud than was currently happening, but because of the bits of information going between the two towns it is a major problem. Do you know whether the lack of technology infrastructure — in this case because Telecom does not have the right links between the two towns — is causing problems in other municipalities in country Victoria?

**Ms DIGBY** — I need to answer that question in more general terms. Infrastructure is an issue for many councils. A number of years ago a report entitled *Facing the Renewal Challenge* showed there was a gap in the overall expenditure that local government was investing and the expenditure that was required for infrastructure renewal. A number of rural councils see telecommunications as a major issue and are working on a range of initiatives to address that.

**Mr THEOPHANOUS** — I wanted to follow up on what Mr Craige asked about best value. The change to best value from compulsory competitive tendering is an important change, and I am not sure that you have adequately addressed what Mr Craige was asking.

If a decision is made by a council on the basis of what is the best value that can be got in delivering a service either by contracting it out or by doing it in house or by some mix in between, the issue is that the previous policy was pretty straightforward — you put it out to tender and it was decided on whoever made the best tender. The new policy means that you have to have a way of determining what the best value is. What Mr Craige was getting at was: how do you determine what the best value is? Is it simply left up to the council? Are you able to give us any indication of how it has worked for the past eight months or so that it has been in operation? What sort of decisions have been made and are you confident that this new system will result in a more efficient delivery of services?

**Ms DIGBY** — The short answer is yes, it is left up to the councils to make the decision about what is best value. The best value policy and the framework through the legislation identify a number of principles that councils need to deliver in order to show that they have been through a best value process and that the service they have at the end of the day conforms with these principles.

In articulating and looking at the legislation, the division, along with peak bodies, produced a best value framework which was a guide to councils. The thrust of best value is to give local government the flexibility to deliver the services that it believes it needs to deliver and that a community needs and wants, and to put the decision making about that back into council's hands. The framework is a guide to enable councils to implement best value. There is a recognition that councils will need support over the next 12 to 24 months as they move down this new policy path. The division is undertaking a series of initiatives with the peak bodies that are aimed at providing training and development for councils so they have the capability to implement best value. It is seen as a developmental process.

**Mr CRAIGE** — In our reference we refer strongly to the issue of amalgamations. I raise Delatite shire in particular, and the work that the local government division has done on the changes that will occur in two small towns — Benalla and Mansfield. In view of the proposed trial of the two towns operating separately that is about to take place, has the division done any cost analysis of the impact of the proposed trial on those two towns?

**Ms DIGBY** — The division itself has not done any cost analysis of the trial. The minister has articulated that the trial is to be undertaken by the council, not by the government.

**Mr CRAIGE** — I appreciate that. In view of that, and because of the impact on both of those towns, has there been any indication from the local government division at any stage during the process that has been occurring for some considerable time in Delatite that the staff levels at Benalla under the new arrangements are not to be reduced?

**Ms DIGBY** — In attempting to answer that question, I will say that I believe the minister has made some comments on that issue — but we are not actively doing any analysis of what a break-up would look like. The shire itself has done some work and we have looked at the work that it has done.

**Mr CRAIGE** — Will you put in place a monitoring process for the commencement and the conclusion of the trial?

**Ms DIGBY** — At this stage the council is working on a proposal only. If it goes ahead we would wish the shire to keep the government informed at critical points on what the trial was showing and where it proposes to go into the future.

**Mrs COOTE** — La Trobe University at Bendigo put out a report from the Centre for Sustainable Regional Communities on the impact of reforms under the Kennett government. Are you aware of that report?

**Ms DIGBY** — I am aware that it exists. I am not familiar with the details.

**Mrs COOTE** — I would like some clarification on one aspect of that. Among the things they said were impacted upon were jobs and resource losses across rural and regional councils particularly. We have asked you for considerable information, but could you also give us as a committee some information on the specific job and resource losses?

**Ms DIGBY** — In answer to the Chair's comment along these lines before, I said we would look to see what data we had. To date, from my understanding of what the department has collected, I believe there is insufficient data to address that question, but there may be some individual council information that has been returned to the department over that period which I will certainly look at and submit to the committee.

**The CHAIRMAN** — I will sum up by saying, firstly, you are aware that we are keen to get some comparative information from whatever you have available so we can report to Parliament what the results, effects and consequences of amalgamations have been. In our report we will rely on information which we get from you, on information we get from independent studies that we are tracking down — you might be able to advise us of some we are not aware of — relying on face-to-face evidence from people in rural areas and people in councils in rural areas and their views, and on any other sources of information that we see to be relevant. So the information you will send to us will be valuable, and we look forward to getting that.

Secondly, how we usually operate with this committee is that we might send you a letter every now and then with a few questions. They might ask a few things that come to our mind and our research staff will assist us in preparing them. It is more efficient to do it that way than to have you called back for hearings every week or two when we think of something else. There will not be a heap of them, but you should expect that we might write you a letter or two.

Thirdly, I want to underline the fact that we will be going out to rural areas on at least five occasions that I am aware of, talking to people about this inquiry, and that will include some of the local councils. I wanted you to be aware of that.

Fourthly, our first country visit will be to Horsham on 27 August. If possible, would you please send to us whatever you have a few days before then. It might not be the lot, but if you could send to us whatever you have together by then it would provide us with a bit more base information, which would be of real value to us.

I thank you for coming in. This is an extremely interesting reference from my point of view, having worked in local government for 30 years. We hope that our report to Parliament will be of some value. So Professor Neilson, Ms Digby and Mr Watson, thank you very much for coming along.

**Committee adjourned.**