

## **Rural Health Information Paper No: 3**

**“Community Service Obligations: Meaning, Impact and Application”**

**June 1998**

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**“Community  
Service  
Obligations:  
Meaning, Impact  
and Application”**

*June 1998*

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# Introduction

The National Rural Health Alliance is the peak non-government body involved in action to improve the health of people living and working in rural and remote Australia. It has nineteen Member Bodies, each of which is a national organisation in its own right. They represent the consumers of rural and remote health services and most of the professions involved directly with health services in country areas.

One of the aims of the Alliance's work is to increase the profile of issues that matter for rural and remote health, and the level of discussion and understanding about them. One such issue is the question of Community Service Obligations (CSOs) and the role they play in determining the quality of life in rural and remote areas, including their impact on health outcomes and health services.

CSOs have become a hot topic of debate among those concerned with services to rural Australians. The proposal to fully privatise Telstra has moved CSOs nearer to centre-stage of the national political debate.

At that political centre-stage, however, there is more heat than light. The National Rural Health Alliance believes that it is in the interests of all rural Australians for more light to be cast on this important issue. Rural Australians can best contribute to national policy debates, and to their own community and individual responses to national developments, with a good understanding of the issue.

What are CSOs? Why have they suddenly become so important? What benefits do they provide? What costs do they impose? If they are such a good idea, should they be extended to other areas?

These questions are the subjects of this Paper.

John Lawrence  
Chairperson, NRHA

# **Community Service Obligations: Meaning, Impact and Application**

## **Executive Summary**

Community Service Obligations are a device used by government in pursuit of its policy objectives. They are a legislative requirement on an organisation to provide a benefit to an identified group beyond that which the organisation would provide of its own volition. They are used where governments believe they are the least-cost way of achieving a policy objective, with that cost less than the benefits so provided.

As direct provision of services has been replaced by a more market-based approach, including corporatisation and privatisation, CSOs have become essential to ensure that many policy objectives are achieved.

As policy instruments, clear and explicit CSOs have the advantage of transparency, a high standard of accountability, and of outcome-orientation. Where financed by cross-subsidies from other users of the service concerned, they are less transparent than direct government subsidies. This is an advantage from the point of view of beneficiaries, but can provide more efficient outcomes than subsidies because service providers have a stronger incentive to achieve CSO outcomes at minimum cost.

All other things being equal, privatisation increases the need for CSOs. Its effects on the achievement of a given CSO are, however, ambiguous. On the one hand, management of the privatising organisation may feel the need to be more active in achieving CSOs in order to garner support for the privatisation process. On the other hand, private sector investors and managements are less willing to countenance the intrusion into managerial prerogatives and the operation of low-paying assets inherently involved in CSOs.

Deregulation can remove the capacity to implement a CSO that involves a cross-subsidy between classes of users. In this case, at a minimum, a CSO needs to be financed from other taxation sources, which can include a tax-transfer mechanism to maintain the structure of the previous cross-subsidy. An alternative is to replace the CSO altogether with a direct subsidy.

CSOs have been applied in the provision of a range of services, including communications at the Federal level, and utilities such as electricity and water at the State and local level. There has generally been, however, some lack of clarity in the expression of some CSOs and hence some loss of the potential provided by CSOs for transparent, accountable achievement of desired social outcomes.

There is a case for considering other sectors where CSOs could usefully be imposed. A CSO can most usefully be considered in respect of sectors where:

- corporatisation/privatisation is removing the capacity of a public sector organisation to directly provide the sought-after service;
- the sector concerned must be primarily commercial in operation, but with an important social need not being met by market forces alone;
- there must be a capacity to finance the CSO, either from a cross-subsidy from other users where the firm(s) involved have sufficient market power protected by significant barriers to entry to be able to enforce the cross-subsidy, or from a direct public subsidy; and
- the cost of that cross-subsidy must be considered to be less than the benefit arising from the achievement of the policy objective.

On these criteria, there are additional areas where CSOs could be considered. A particularly prominent possibility is in respect of financial services. The higher education market is another area where CSO-like arrangements will be required if current policy proposals are acted upon.

CSOs are not an unknown phenomenon in the health area - community rating amounts to a CSO. There is an increased role for private sector provision of health services but this is inevitably constrained by government licensing conditions and other barriers to entry. There could therefore be a role for adding CSO mechanisms to the existing subsidy arrangements for ensuring access to appropriate health services for all Australians.

# Community Service Obligations: Meaning, Impact and Application

## WHAT ARE COMMUNITY SERVICE OBLIGATIONS?

### Definition of Community Service Obligations

Before discussing the application and impact of CSOs, it is necessary to have a clear understanding of what they are - and what they are not.

For the purposes of this Information Paper

*A Community Service Obligation is an ongoing legislative requirement placed on an organisation by government to provide a benefit to an identified group that would not otherwise be provided by that organisation in the pursuit of its other objectives.*

It is necessary to adopt such a definition in order to be quite clear about what a CSO is and what it is not.

First, a CSO is where an organisation is required to behave in a way that it would not otherwise behave - it is an *obligation*.

- The prime objective of commercial organisations is profitability. In achieving this objective, firms provide goods and services which are of value to individuals and hence to society as a whole. They may also voluntarily undertake charitable activities for a variety of motives, some altruistic, some less altruistic such as corporate promotion. It would obviously be absurd to regard any of these activities as a CSO.
- Similarly, a public organisation with a basic charter to provide a public service cannot be said to be subject to a CSO in the provision of that public service.
- Where organisations are offered a subsidy as an *incentive* to provide a service, a CSO cannot be said to exist; however, where the subsidy accompanies an *obligation* to provide the service, a CSO may exist. The distinction between the two circumstances may not always be clear cut.

Secondly, the provision of a service to a group that would not be provided at all under the organisation's charter is a separate issue from the *standard* by which the organisation's charter is met. Hence the definition does not encompass, for example, the Government's announcement of a Customer Service Guarantee on communications carriers

- which is not to say that service standards are not important. Indeed, a number of public sector organisations have adopted explicit service standards in recent years - just that it would not be tenable to describe these standards as a CSO.

Thirdly, a CSO can only be truly said to exist when it is in explicit legislative form

- “legislative form” covering not only Acts of Parliament, but also delegated legislation and Ministerial determinations made with explicit legislative authority.

From an organisation’s point of view, a legislated CSO might look little different from a Ministerial direction or statement of government policy that the organisation is bound to follow. For the purposes of this discussion, however, there are very important differences, both of:

- principle, in that a legislated CSO provides a transparent standard by which the organisation can be held to account externally; and
- practice, in that all public service departments, for example, act under Ministerial direction. These may or may not be called “community service obligations” (as they are, for example, in the Australian Quarantine and Inspection Service), but do not involve the standard of transparency and accountability involved in a formal CSO.

Of course, the relationships between a public organisation and its clients on the one hand and its Minister on the other are never that simple. An organisation’s charter, a formal CSO, and informal pressure on an organisation are all inter-related ways in which a government can achieve its policy objectives, where the exact contribution of each can be difficult to determine.

Finally, it should be noted that the proper definition of a CSO is much narrower than that often used in common discussion, where “obligation” is often held to refer to the moral obligation a government or its agency has to service the public. A CSO, on the other hand, is an explicit legislative obligation to provide a service over and above that which the organisation would otherwise provide.

### **Examples of CSOs**

Formal CSOs as defined above are relatively few in number.

The most prominent is, of course, the legislative “universal service obligation” on Telstra to ensure that:

- all people in Australia, wherever they reside or carry on business, should have reasonable access, on an equitable basis, to*
- *standard telephone services;*
  - *payphones; and*
  - *prescribed carriage services.*<sup>1</sup>

Under the Australian Postal Corporation Act, Australia Post is required to provide a service that:

- *reasonably meets the social, industrial and commercial needs of the community*
- *is reasonably accessible to all on an equitable basis*
- *ensures that standard letters carried by ordinary post are uniformly priced from anywhere to anywhere within Australia.<sup>ii</sup>*

Another example is the requirement on electricity authorities in States such as Queensland to provide services on a uniform pricing basis across the States.

## **Nature of Community Service Obligations**

It is instructive to examine the nature of some existing CSOs.

Telstra's CSO - or Universal Service Obligation (USO) - requires it to offer all Australians, regardless of location, access to a standard telephone service on a "reasonable" and "equitable" basis. These words are not necessarily explicit.

The "standard telephone service" is defined quite clearly to relate to voice telephony. In technical terms, this means a data flow rate of at least 2,400 bits per second (bps). This is (barely) adequate for voice communications, but totally inadequate for data transmission, such as facsimile or Internet services. The Government has before it one report recommending an upgrade of this standard to either 9,600 bps, which is with modern compression technology, comparable to data access rates available in metropolitan areas.<sup>iii</sup> It also has before it another report recommending higher standard, viz, digital access.<sup>iv</sup> It has already announced extension of digital capability to 96% of the population - the issue it now faces is whether to raise this to universality.

"Reasonable" and "equitable" access are less clear. They clearly do not mean that every Australian should have a telephone - one million Australian households do not.<sup>v</sup> Similarly, they do not mean that every Australian should have access at equal cost - quite clearly they do not. (Indeed, the only way to impose absolute equality in this sense would be for the whole of Australia to be one local call zone).

The requirement on Australia Post for a delivery of a "standard letter" by "ordinary post" in a manner that is "uniformly priced" is quite clear and explicit. Access to the service, however, has to be "reasonably accessible to all on an equitable basis" - an issue that raises many arguments, such as about rural postal services.

## **HISTORY OF COMMUNITY SERVICE OBLIGATIONS**

Historically in Australia, public services were delivered through public service departments subject to Ministerial direction. The delivery of what are now described as CSOs, therefore, was substantially achieved through the implementation of government policy. The prime accountability standard was that of the Government to the Parliament, and through it to the people.

In more recent decades, however, it was considered that many public services could be better delivered through statutory authorities, and so a process of corporatisation

commenced. An example was the creation of Telecom and Australia Post out of the old Post-Master General's Department in 1975.

In the first wave of corporatisation, commercial objectives were included in legislation, but were not considered to be over-riding. What are now regarded as CSOs were therefore included in legislation in quite general terms, such as Telecom's 1975 requirement to recognise

*the special needs for telecommunications services of Australian people who reside or carry on business outside the cities.*<sup>vi</sup>

However, subsequent corporatisations - and now of course privatisation - have placed commercial objectives more prominently in the charter of Telstra, like other organisations.

It is this emerging predominance of commercial objectives in the governing legislation of organisations such as Telstra that requires governments to think about how their other policy objectives can be met, and to contemplate CSOs as one way of meeting those objectives. As discussed below, privatisation extends this principle further, without fundamentally altering the picture.

Fully defined CSOs were only really introduced in the telecommunications arena, for example, with the 1991 Act.

National competition principles are extending this process into other areas. Under these principles, CSOs should not be used to thwart competitive neutrality. Where this requires full deregulation, it may mean the replacement of a CSO with a subsidy incentive for the provision of the service. Where there is less than full deregulation, these principles require that CSOs be financed out of general revenue rather than a cross-subsidy mechanism

## **POLICY ISSUES CONCERNING COMMUNITY SERVICE OBLIGATIONS**

### **Advantages of Community Service Obligations**

The attractions of CSOs to governments in the pursuit of policy objectives are threefold.

The first is that formal CSOs are transparent and outcome-oriented. If imposed in a sufficiently explicit manner, they set a standard by which organisational performance can be measured. They can, therefore, enhance accountability.

Their outcome-orientation means that this standard of performance can be measured in terms directly related to the policy objectives. It will be possible for all to see whether those objectives are actually achieved.

The second attraction is that the beneficiary group is likely to most warmly welcome a CSO because it provides a guaranteed outcome in their favour. It is important, however, that the beneficiary group understand the nature and extent of this outcome,

given that both governments and provider organisations have an incentive to over-state the extent of the benefit provided.

It is important to note, therefore, that these advantages are only fully reaped when the CSO is expressed in explicit, measurable, terms. As noted in the section above on the nature of CSOs, Telstra's CSO, for example, is not entirely explicit in all relevant respects.

The third attraction to government relates to the limited transparency of a CSO financed by a cross-subsidy on other users of the service. This can amount to a hidden tax - but one that is not included in fiscal accounts. In conjunction with some competitive pressure, however, the CSO arrangement can also act to minimise the extent of this hidden tax.

### **Alternatives to Community Service Obligations?**

Logically, government should choose a CSO when that is the least-cost way of meeting its policy objectives when compared with alternative policy instruments

- and, of course, when the benefits of achieving that objective outweigh the costs. (The question of appropriate policy objectives is beyond the scope of this Paper.)

A CSO is just one policy instrument.

**Commercially-oriented** alternatives (eg, deregulation) may be available if it is believed that an appropriately constructed market mechanism can achieve the objective sought. Most essential goods and services (eg, food, clothing) are provided through normal commercial activity without a requirement for a "CSO". Some people clearly believe that deregulation of the telecommunications market, for example, will improve telecommunications services to rural Australia quite aside from CSO considerations.

Indeed, it has been argued<sup>vii</sup> that on a proper accounting, rural telecommunications investments are in fact sufficiently profitable as to be worthwhile. This is because telecommunications investments in rural areas are less subject to technological and market obsolescence, and so should be written-off over a longer period than comparable investments in metropolitan areas. The implication of this argument is that one alternative to imposing a CSO is to ensure that telecommunications providers do, in fact, conduct their project appraisals on such a basis. This is not necessarily an argument against imposing a CSO - on the contrary, it means that the costs of the CSO may be very much less than commonly believed, or even that the CSO involves no real cost at all.

A CSO can, therefore, be a useful adjunct to a market-oriented approach, as well as being a direct instrument to be used in achieving a policy objective where the market would not otherwise do so.

At the other extreme, government could establish a **dedicated organisation** with an explicit charter to deliver the required service. This was the traditional Australian approach which, as indicated above, governments have been moving away from. It

remains, however, the main method of achieving policy objectives in a wide range of services such as health and education. This would, obviously, discard the perceived benefits of corporatisation and privatisation - and hence is appropriate where those benefits are not substantial.

Where, however, a primarily commercial activity is involved, with a relatively minor but still significant social component that is best delivered in conjunction with the commercial activity, then a CSO could be appropriate. This is clearly the case in telecommunications, and possibly some other areas.

The third alternative open to government is to provide an explicit **subsidy** for the delivery of the required service. Subsidies have the advantage of transparency, in that they have to be explicitly identified in annual budget statements, and are reviewed regularly (usually annually) through government budget processes. Subsidies can also have an efficiency advantage in injecting an element of competition into the provision of the service, such as where the government calls tenders for the provision of the service. The Government is introducing such arrangements into the provision of employment services, for example.

From a Government's point of view, however, this transparency can be a problem as much as an advantage. A subsidy has to be financed, with an overt impact either on taxation levels or the budget deficit/surplus. If these are constrained, such as for fiscal policy or political reasons, then a CSO can play the role of a hidden tax and subsidy.

Quite apart from questions of fiscal cosmetics, however, a CSO can still be preferable to a subsidy in that it has a different impact on the behaviour of the organisation concerned. In general, an organisation will attempt to meet a CSO obligation in a least-cost manner - a subsidy can remove the incentive for cost-control, and can actually provide the organisation with an incentive to inflate costs in order to qualify for the maximum subsidy possible.

One advantage CSOs have over all these policy instruments is their outcome-orientation. The other instruments tend to focus attention on the attempt to meet policy objectives - eg, how much money is being provided under the subsidy. A sufficiently explicit CSO, on the other hand, focuses attention on whether the objectives are actually being met.

### **Constraints on Using Community Service Obligations**

The above discussion on CSOs suggests that there is only a relatively narrow range of areas where a CSO is an appropriate instrument for meeting a policy objective.

In particular, a CSO only makes sense where the service in question is primarily of a commercial nature, but with an important social dimension that would not otherwise be met by the market.

Secondly, a CSO should be used where, and only where, it meets the policy objective in a least-cost manner. In general, subsidies would be more appropriate from this point of view. The exception is where a competitive tendering process for a subsidy would not

work because of the market power of the organisations concerned, in which case a CSO might provide a better incentive for least-cost delivery of the service.

In particular, a CSO financed by a cross-subsidy is only implementable at all where the organisation concerned has the market power to enforce the “hidden tax” component of the cross-subsidy. In general, this means there is some barrier to entry, particularly a government-imposed condition on entry such as a license.

Where there is no such market power, the Government can impose a CSO and make-up the costs thereof out of general revenue, - either explicitly, or implicitly through accepting a less-than-commercial rate of return from a publicly owned enterprise.

There are, however, additional constraints on the use of CSOs:

- it can be regarded as a fundamental rule of organisational behaviour that organisations seek to minimise limitations on their institutional autonomy. Private sector enterprises in particular regard a CSO as an infringement on their managerial prerogatives - even where the CSO is only in return for a privileged position granted by government licence. Even public sector organisations can be expected to seek to avoid the imposition of CSOs to the extent possible. Where an organisation cannot avoid a CSO, it will seek as vague a statement of the CSO as possible;
- the legislative nature of CSOs means that they can be inflexible. An example is the detailed specification of the Standard Telephone Service in Telstra’s CSO - a specification that has become outdated with rapid technological development in the communications sector. There is, therefore, a trade-off between transparency and accountability on the one hand and flexibility on the other; and
- in a policy environment where deregulation is generally considered the first-best alternative (“economic rationalism”), there is likely to be a mind-set against a relatively interventionist approach such as CSOs.

The transparency of an explicit CSO can also be a disadvantage from the point of view of beneficiaries. In particular, an explicit CSO is likely to be expressed more narrowly than the multiple policy objectives that govern more traditional departmental forms of public service provision. In particular, it is less likely to cover - at least adequately cover - relatively unmeasurable requirements which are, therefore, likely to lose out to the more explicit commercial objectives of the providing organisation.<sup>viii</sup>

### **Cost of Community Service Obligations**

As already noted, there can be occasions where a CSO represents a “free lunch”, that is, where it actually directs an organisation to behave in a more properly commercial manner than it otherwise would. In this case, there is no real “cost” imposed on anybody. This, however, must be considered to be the exception rather than the rule.

In general, however, a CSO must be financed, either from general government revenue or from a cross-subsidy between classes of users of the service

- it is worth noting that a cross-subsidy can exist without a CSO. This occurs where an organisation with market power chooses to cross-subsidise some customers at the expense of others without a formal obligation to do so. Examples include the pricing behaviour of the Federal Airports Corporation (euphemistically called “network pricing”) before airport privatisation and of State grain transport and handling authorities prior to deregulation.

A cross-subsidy inherently imposes a cost on the other users of the organisation’s service. In the case of Telstra, these are metropolitan telephone users - both household and business. This is a hidden indirect tax on those users but, unlike other indirect taxes, it lacks transparency. Moreover, the imposition of the tax on business use means that it cascades on business cost structures and hence national economic competitiveness.

It is unclear, however, just what the extent of this subsidy is. The “true” level of cross-subsidy would require the calculation of some theoretical ideal price structure, raising a number of complex theoretical and measurement issues. For example, the extent of Telstra’s cross-subsidy of rural customers has been variously estimated at \$150 million and \$600 million on the basis of different assumptions of the theoretical ideal; for Australia Post, estimates range from \$60 million to over \$120 million.<sup>ix</sup>

Any and all calculations are fraught with difficulty, such as in the coverage of cost items to be attributed (which explains the difference in the above estimates), and in which activities particular cost items should be attributed to. An example of the latter is in the usual method of cost attribution in calculating Telstra’s cross-subsidies, which is to allocate all costs to the *source* of a telephone call. It would be nearly as valid to allocate costs to the *destination* of the call, and more valid to allocate partly to both. Where there are any differences in the pattern of call sources and destinations, this would have a significant impact on the cost estimates.

Moreover, organisations subject to a CSO have an incentive to over-estimate the cost of the CSO to them, in order to limit pressures for additional obligations. At the same time, they have an incentive to actually deliver the CSO at minimum cost. It is very difficult, therefore, to regard any estimate of the cost of a CSO with absolute credibility. They can, however, clearly be quite substantial.

### **Implications of Privatisation and Deregulation for Community Service Obligations**

The direct effect of privatisation on CSOs is to enhance their importance. With governments losing the capacity to direct organisations informally in the pursuit of their policy objectives, they must resort more to explicit CSOs.

As noted above, this has its advantages in this greater transparency and accountability, but its disadvantages in that a CSO is likely to be narrower, and more concentrated on measurable aspects of an organisation’s performance.

In the short-term, privatisation may make an organisation more willing to meet its CSO. Telstra’s senior management, for example, supports full privatisation in the belief that

this will have the effect of enhancing its own autonomy (and possibly remuneration) - a large number shareholder base provides greater autonomy for senior management than a single shareholder, particularly one with complex accountability requirements such as Parliamentary Committees. In the short-term, therefore, Telstra's senior management is quite likely to take its CSO responsibilities more seriously than it otherwise would in order to help gather support for privatisation.

In the long run, however, a privatised organisation is more likely to resist CSOs. Privatised managements, spurred on by their investors, are more likely to take a hardheaded view on the need for all assets to generate a commercial return, and the culture of private enterprise is more resistant to government interference in management. Few organisations may have the political power to prevent a CSO being imposed, but they are ultimately responsible for its administration, and so can choose to implement the CSO to the minimum extent possible. Unmeasurable aspects of a CSO may not be implemented at all; measurable aspects can become maximum, rather than minimum, performance standards.

Genuine deregulation diminishes the capacity of a CSO to be financed through a cross-subsidy. Such a cross-subsidy is only practicable in a deregulated market, therefore, when sufficient market power to implement the cross subsidy remains. Otherwise, the cross-subsidy needs to be replaced by a subsidy from general revenue. It is, however, possible to convert the cross-subsidy into a tax-transfer while retaining the distributional impact of the cross-subsidy, with little apparent difference to customers. Such a switch is being implemented to support telecommunications market deregulation. It is then further possible to replace the *obligation* inherent in the CSO, and hence the CSO itself, with the subsidy remaining as an *incentive* to provide the service.

This suggests that there will be both commercial and political pressure to replace cross-subsidies with subsidies, and then to replace the CSO itself with the subsidy - albeit accompanied by new tax arrangements to maintain existing structures of cross-subsidies. From a public policy point of view, this has the advantage of even greater transparency and accountability, given the annual budget processes both within government and between the government and the Parliament, but the disadvantage of some increased complexity of the taxation system.

From the point of view of those who benefit from the CSO, however, a subsidy is inherently less certain precisely because of these annual review processes. They require lobbying and related political activity on virtually an annual basis, whereas CSO reviews tend to be substantially less frequent.

## **SHOULD THERE BE ADDITIONAL COMMUNITY SERVICE OBLIGATIONS?**

As noted above, CSOs are an appropriate vehicle for the achievement of policy objectives where those objectives relate to commercial delivery of a service and where a subsidy or cross-subsidy is available to finance the CSO. Moreover, corporatisation and privatisation makes CSOs more necessary if social policy objectives are to be achieved.

This raises the question of whether there are any additional areas where CSOs should be considered. The following comments move from the immediate issues concerning telecommunications and into some blue-sky speculation in respect of the finance, education and health sectors.

### **Finance**

One area which seems ripe for imposition of a CSO is the finance sector. There has been widespread opposition to the wave of bank closures in country Australians, and concerns about access issues such as the effect on low-income earners of bank fees and charges and the effect on the aged and disabled of the move to electronic banking.

The major banks are few in number, operating under government licence, with obvious market power. Privatisation has eliminated the public banking sector. Access to financial services is a basic social service. All the conditions discussed above are met.

A CSO on the banking sector, requiring a standard of access to rural, aged, disabled and low-income Australians is, therefore, worth considering.

### **Higher Education**

Higher education services in Australia have traditionally been delivered by public organisations with an explicit charter to provide those services, with few commercial requirements. Access issues have always been of concern, and in the late 1980s-early 1990s, a range of active measures were introduced to expand access to a range of groups, including disadvantaged, migrant, Aboriginal and rural Australians. In particular, a large number of regional campuses, and satellite campuses and other access facilities in country towns, were opened up.

Now, however, there is a major Government report suggesting very substantial policy changes to provide a greater role for market forces in the form of student choice.<sup>x</sup> Implementation of policies along these lines would create in higher education much the same conditions required for successful application of CSOs in other sectors, including:

- an impact akin to corporatisation in reducing the scope for direct application of other social objectives on the system. In particular, unless handled carefully, it could be a particular threat to regional campuses and hence rural access. This is because student choice will be based as much on “prestige” as on actual course quality;
- the social importance of education objectives, including access, will not be diminished;

- substantial barriers to entry will remain, not least State Government restrictions on the commercial use of the word “university”. This means that all institutions will continue to have some market power, and the more prestigious universities will have substantial market power, thereby fulfilling the fundamental requirement for successful application of a CSO financed by a cross-subsidy. In addition, explicit government subsidies for the CSO aspects of the operation of the system, as well as its more basic operation, can be expected to be available; and
- given the traditions of “academic freedom” in higher education, giving rise to substantial internal pressures in the system to disperse resources in ways that may or may not bear any relationship to social objectives, formalised CSOs might be particularly essential in this new environment.

## Health

Given the primary interest of the National Rural Health Alliance in the field of health, the Paper now turns to the question of whether CSOs have a role to play in the health field. In the USA, “community service obligations” are imposed on public hospitals as a condition of Federal funding - but this is more akin to a subsidy arrangement than to a true CSO.

While not normally discussed in such terms, community rating is an example of a CSO currently in operation in the health area. Indeed, it is one of the few examples of a CSO currently applied to a largely private sector activity. It can only be enforced because of government controls over entry to the health insurance industry as it involves a cross-subsidy among subscribers to private health insurance funds.

Traditionally, however, most social objectives in the health field have been met by way of subsidy (eg, Medicare, nursing homes, Pharmaceutical Benefits Scheme) or by direct provision of services (eg, public hospitals).

However, public sector reform in the form of corporatisation and purchaser-provider arrangements has included the health sector. In addition, there has been some growth in the private hospital sector, which reached 32% of all “hospital episodes” in Australia in 1995-96.<sup>xi</sup> Government licensing will, however, always imply a barrier to entry and hence some capacity to impose a CSO on private health service providers.

To date, governments have sought to ensure access to private health services, including private hospitals, through subsidy arrangements. The question arises as to whether licensing conditions could not be used more actively, for example, to guarantee more access to disadvantaged groups to some private health care services - in short, whether a CSO would not be appropriate.

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## Endnotes

- <sup>i</sup> *Review of the Standard Telephone Service*, December 1996, p 23.
- <sup>ii</sup> Australia Post Web page, <http://www.auspost.com.au/corporate/obligations.htm>, accessed 29 April 1998.
- <sup>iii</sup> R Buckeridge, *Rural Australia OnLine*, report to Australia's Rural Research and Development Corporations, May 1996.
- <sup>iv</sup> *Review of the Standard Telephone Service*.
- <sup>v</sup> Press release by Hon M Lee MP, (then) Minister for Communications and the Arts, 21 June 1995.
- <sup>vi</sup> *Review of the Standard Telephone Service*, p 19.
- <sup>vii</sup> Buckeridge, *op cit*.
- <sup>viii</sup> J Quiggin, *Implementation of Competition Policy in Local Government*, Paper prepared for the Urban Local Government Association of Queensland, December 1996, [http://econ.jcu.edu.au/JCQ\\_Submissions\\_HilmerTCC.html](http://econ.jcu.edu.au/JCQ_Submissions_HilmerTCC.html), accessed 29 April 1998.
- <sup>ix</sup> R Maddock, *Measuring the Postal Community Service Obligation by the Avoidable Cost Method: What are the Issues?*, paper to Bureau of Transport and Communications Economics 1997 forum, <http://www.dot.gov.au/programs/btce/forum/papers/postal.htm>, accessed 29 April 1998.
- <sup>x</sup> *Review of Higher Education Financing and Policy, Learning for Life*, April 1998.
- <sup>xi</sup> Australian Private Hospitals Association, <http://www.aph.gov.au>, accessed 30 April 1998.

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## NRHA Publications

### **Rural Health Information Papers (RHIP):**

Best Practice for Rural and Remote Health Services, RHIP 1, NRHA, Canberra, December 1997.

Fighting Rural Decay - Dental Health in Rural Communities, RHIP 2, NRHA, Canberra, June 1998.

Community Service Obligations - Meaning, Impact and Application, RHIP 3, NRHA, Canberra, June 1998.

Drugs and Alcohol in Rural Australia: Developing Policy Proposals for Young People, Lifestyles and Prevention of Harm, RHIP 4, NRHA, Canberra, forthcoming.

### **Other Publications:**

A Fair Go For Rural Health, Proceedings of the 1<sup>st</sup> National Rural Health Conference, Toowoomba, 14-16 February 1991; Department of Health, Housing and Community Services, Canberra, 1992.

A Fair Go For Rural Health - Forward Together, Proceedings of the 2<sup>nd</sup> National Rural Health Conference, Armidale, 12-14 February 1993; University of New England, Armidale, 1993.

The Politics of Rural Health: How Far Have We Come? Proceedings of the 3<sup>rd</sup> National Rural Health Conference, Mt Beauty, 3-5 February 1995; NRHA, Canberra, May 1995.

Rural and Remote Australia – Health for All by the Year 2000, Proceedings of the 4<sup>th</sup> National Rural Health Conference; NRHA, Canberra, March 1998.

Rural Public Health in Australia 1997, Proceedings of the National Rural Public Health Forum, Adelaide, 12-15 October 1997, NRHA, Canberra, June 1998.

Action On Rural Health: Proposals for the Review and Revision of the National Rural Health Strategy; NRHA, Canberra, June 1997.

Workshop Reports and Communique, National Rural Public Health Forum, Adelaide, October 1997, NRHA, Canberra, December 1997.

Forum Overview, National Rural Public Health Forum, Adelaide, October 1997; NRHA, Canberra, 1998.

Advanced Nursing Practice for Rural and Remote Australia, Final Report, NRHA, Canberra, February 1998.

*The NRHA's Homepage is at <[www.ruralhealth.org.au](http://www.ruralhealth.org.au)> Included on it are details about the NRHA, as well as full texts of some of its publications.*