The impact of compulsory competitive tendering on the organisational culture of local government in Victoria

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THE IMPACT OF COMPULSORY COMPETITIVE TENDERING ON THE ORGANISATIONAL CULTURE OF LOCAL GOVERNMENT IN VICTORIA

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Abstract

A central feature of public sector reform in Australia in the past decade or so has been the introduction of competition into service markets that were previously monopolised by public agencies. The adoption of more competitive strategies by these agencies has usually been accompanied by changes in their organisational culture - found in their structures, modes of operation and in internal and external relationships, as well as in the underlying values orientation of the organisation.

The introduction of compulsory competitive tendering (CCT) in local government in the state of Victoria reflected criticisms of the performance of traditional local government bureaucracies and a determination by the state government to secure a change in local government culture. This study investigates the impact of CCT on local authorities in Victoria, and explores the changes to organisational culture that have occurred. It assesses the extent to which the changes are consistent with a 'post-bureaucratic' conception of public organisations.

The study presents evidence that cultural change has occurred in Victorian local authorities, particularly in the establishment of new organisation structures, a more entrepreneurial or outward focused orientation, and the development of more market focused and customer oriented service delivery systems. While cultural changes may not have progressed as far as intended by the Victorian government, they represent a more radical approach to local government reform than in other Australian states - so radical that they present a serious challenge to long-held views of the role of local government in the community.

The thesis reveals that the new competitive environment may itself generate new problems such as transactions costs and erosion of trust within local councils and enables senior managers to assert stronger control over the council. It is this control, together with the technocratic or top-down approach to reform taken by the state government, which has constrained the development of model post-bureaucratic local government organisations in Victoria. In particular, it seems that senior

managers are more intent on reshaping their organisations than in encouraging the greater market responsiveness anticipated in the post-bureaucratic model.

Acknowledgments

This study has been undertaken over more than four years, during which time it has competed with a range of life's passages for time and focus. Where it has been successful in this competition, the opportunity costs are typically born by those closest and I hope that some of these costs might be repaid as I take time over the next few years to again smell the roses with them.

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This study involved more than 90 hours of interviews and I am grateful for the assistance given by my primary contacts in the Victorian councils that served as case studies - Peter Dudley, Peter Marshall, Bernie Cronin, Mark Searle and Tim Brown. They organised the interview schedules, provided initial briefings, answered my telephone follow up questions and opened council papers for scrutiny. I was impressed with their willingness to cooperate, and their hospitality and patience in answering what often must have appeared to be silly questions from an 'outsider'. I am especially grateful to the many workers in the four councils who took time away from turbulent working environments to provide personal reflections of the impact of CCT on them and on their organisations. I hope that my study accurately reflects their views, and that the working environment has become less threatening for those who have survived the tremendous changes that have accompanied reform in Victoria.

Declaration

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment is made in the text.

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CHAPTER 1: INTRODUCTION

In comparison with its counterparts overseas, local government in Australia is less powerful and expends a smaller percentage of total public sector revenues. This is probably a reflection of its limited powers, described as the weakest range of functions of any western country (Gyford 1986:15). Finn (1990:49) asserts that,

> Local Government was, and I venture to suggest still is, the Cinderella of our public administration. It simply has not won for itself that place in our polity which a long history has given it in Britain.

Despite this low status, local government still has a significant role in this nation's public administration - it accounts for about seven per cent of the total public sector outlays; spends over $12b per year, collects about four per cent of the total taxation revenue, employs nearly 148,000 staff or 10 per cent of the total government civilian workforce, and is responsible for more than a quarter of the public sector capital formation. Local government participates strongly in the construction activity of the public sector undertaking 30-40 per cent of all construction on electricity distribution, roads and highways, water distribution and sewer systems (ABS 1997a; ALGA 1990:5). It is this contribution which has encouraged state governments to include local government within the ambit of their contemporary reform packages.

While this role at the macro level in public administration is important, so also is local government's role at the micro level as a marked and ongoing influence on the lives of those in local communities. Corbett (1992:18) is not alone in making the observation about local governments that,

> it is often said that among the services they provide and the controls they exercise are some of those which most immediately and intimately affect the well being of citizens.

Sharpe (1981:29) places a great premium on the importance of this sphere of government when he makes the extravagant assertion that local government is an ‘almost primordial feature of the landscape’ and that ‘the case for local government

is clear almost beyond the need for discussion'. In the light of these perspectives, the importance of documenting and explaining the impact of the current reform processes at local government level becomes clearer.

Federal and state government public sector reform policies have focused strongly on microeconomic reform and privatisation as key objectives and have extended their scope to include local government. Pressures have been applied on this sphere of government to do more with less:

> Pressures to cut back significantly on real public sector spending have had important implications for Local Government. It has resulted in reduced direct financial support from the Federal Government, but more particularly from State Governments. It has seen a shift of responsibilities from State to Local Government and ... increased pressures from communities for Local Government to expand the range of local services (Cutts & Osborn in Fraser 1992:2).

Most state governments have approached the issue of local government reform by encouraging the introduction of more business-like methods, competition and market mechanisms. Councils have been encouraged to adopt more performance oriented management and to include market testing by competitive tendering in their array of management options. Most state governments have adopted a policy of facilitating greater use of competitive tendering and contracting (CTC) at local government level, but it is only in Victoria that competitive tendering has been mandated (compulsory competitive tendering or CCT).

As a result of greater competition, privatisation, and quasi-privatisation, services that have traditionally been seen as the province of local governments to provide, such as refuse collection or building certification, are now provided by private enterprises as well. New commercial activities have been established, often in competition with private enterprises or with other local authorities and many previously free or subsidised services now operate on a full cost recovery basis (Aulich 1997).

These approaches to reforming local government have emphasised the 'structural efficiency' role of local government (Parkin & Patience 1992:130), whereby local government is conceived primarily as an industry which produces goods and services which can be managed like those in any other industry. In most states this has presented a tension with the traditional 'local democracy' role and its primary concerns for the values of access, diversity, local representativeness and responsiveness (Aulich 1997b; 1999).

The structural efficiency role has been embraced most strongly in Victoria, highlighted by the replacement of elected councillors with appointed commissioners during the introduction of CCT, the formation of larger councils through amalgamation, the concern for contestable service delivery and the reduction in local government's capacity to raise own finances with the introduction of budget cuts and rate capping. Reform has been so focused on structural efficiency in Victoria that it is argued that

> local government bodies could be interpreted simply as state-created corporations like any other statutory authorities, as part of the State's administrative apparatus ... and ultimately accountable to the State government, and to its political agenda, rather than to the local community (Parkin & Patience 1992:129).

The adoption by public sector organisations of more competitive strategies for the performance of their responsibilities is often accompanied by changes to the organisational culture. This can include both the external manifestations of culture found in their structures, modes of operation and in internal and external relationships, as well as in the underlying values orientation of the organisation. This study investigates the impact of the introduction of compulsory competitive tendering on local authorities in Victoria. It explores the changes to organisational culture that have occurred and assesses the extent to which the changes are consistent with a 'post-bureaucratic' conception of public organisations.

The primary data for this research was collected through a series of interviews with elected councillors and appointed commissioners and a cross section of local government employees, drawn from four local authorities. Cross check and confirmation was provided through data from other studies of CCT in Victoria and from official government reports and publications.

The study presents evidence that cultural change has occurred in Victorian local authorities, particularly in the establishment of new organisation structures, a more entrepreneurial or outward focused orientation, and the development of more market focused and customer oriented service delivery systems. While cultural changes may not have progressed as far as intended by the Victorian government, they represent a more radical approach to local government reform than in other Australian state; so radical, that the nature of traditional local governance may have been challenged.

The importance of the senior managers in the overall reform process in Victoria has been noted in the study, as has their apparent capacity to exercise greater control over the management of their organisations, in general, and over the CCT process, in particular. However, it is this control, together with the technocratic or top-down approach to reform taken by the state government, which has constrained the development of the pure post-bureaucratic organisational model in Victoria. It seems that senior managers are more intent on reshaping their organisations than in encouraging the greater market responsiveness predicted in the post-bureaucratic model.

Contents

This first chapter outlines the context for local government reform in Victoria, and provides an overview of the study. The next chapter develops further the context for this study by describing the features of ‘new public management’ and the more market-oriented approaches taken in delivering public services by governments worldwide. It defines and details three conceptual approaches to CTC, and then

focuses attention on reform in Victorian local government and the place of compulsory competitive tendering in that reform program. Finally, it identifies the research problem for this study.

Chapter 3 presents a review of the literature concerning CTC and its impact on the internal arrangements in public organisations. The literature reviewed is drawn from a range of source material including individual research studies, meta-analysis and government reports.

Chapter 4 establishes the explanatory framework being used in the study by examining the characteristics of the post-bureaucratic organisation and by constructing a template against which the case study councils can be matched. The methodology for the research is described in Chapter 5, which also develops the link between the theoretical framework and the type of evidence to be gathered. Details of each of the case study councils are provided in this chapter.

Chapters 6 - 9 present and analyse the data from each of the four case study councils. Each of these chapters provides an overview of how councils have responded to CCT. Data are provided in relation to each of the characteristics of the post-bureaucratic organisation and patterns are matched against the five theoretical characteristics developed in Chapter 4. A summary of the main features of each case study is provided at the conclusion of each chapter.

In Chapter 10, the data gathered are considered against the theoretical construct of the post-bureaucratic organisation and a judgement is made as to the extent to which the patterns are matched. Chapter 11 considers the issue of local government reform in Victoria and the role played by CCT; the chapter concludes by suggesting areas for further study.

CHAPTER 2: COMPETITIVE TENDERING AND CONTRACTING

New Public Management

The past decade has seen the emergence of new public management (NPM) as the dominant paradigm in public sector reform. In the various iterations of NPM, 'the role of the state was to be reduced and what remained was to be subject to enhanced political direction, increased management discipline and greater responsiveness to citizens' (Aucoin 1995:2) or as the US National Performance Review demanded, ‘government that works better and costs less' (Gore 1993). The Thatcher government’s more radical interpretation has proved particularly influential with its three-fold focus: first, the power of the civil service was to be diminished to make the state apparatus more responsive to political direction; second, private sector management practices were to be introduced to promote efficiency and economy in government; and third, freedom of individual citizens was to be enhanced to counter the dominance of state control over the design and delivery of public services (Hughes 1994).

Pollitt (1995) provides a listing of characteristics found variously in public sector reform programs (Table 2.1); while each may be relatively benign, taken as a group they represent a radical approach to public sector reform. Underpinning the list are a set of values or cultures which are transmitted with the acceptance and adoption of the NPM paradigm of public sector reform. As Aucoin comments, ‘the contours of change to public management are shaped not only by ideas about best practices but also, and more important, by normative visions and guiding philosophies for administering public affairs' (Aucoin 1995:3).

The mechanisms used to give voice to these values have both resurrected and generated a number of measures to privatise government operations, to import private sector approaches into the public sector, to shift the focus from concern for process to concern for outcomes or performance, and to deregulate public economic

enterprises. Two agendas appear to dominate these mechanisms: privatisation and competition:

> In almost all Western political systems ... changes in public policy have encompassed the privatization, or at least the commercialization, of public enterprises; increased contracting out of public services; an expansion of user charges for public services; and, more generally, a wide variety of expenditure restraint initiatives, including those that seek to reduce the size of the public service as well as the public service payroll (Aucoin 1995:2-3).

Table 2.1: Elements of New Public Management

• Capping budgets and achieving greater transparency in resource allocation
• Disaggregating traditional bureaucracies into separate agencies, often related to the parent by a contract or quasi-contract
• Decentralisation of management authority within public agencies
• Separating the function of providing public services from that of purchasing them
• Introducing market and quasi-market mechanisms
• Requiring staff to work to performance targets, indicators and output objectives
• Shifting the basis of public employment from permanency and standard national pay and conditions towards term contracts, performance-related pay and local determination of pay and conditions
• Increasing emphasis on service 'quality', standards setting and customer responsiveness.

Source: Pollitt 1995.

Privatisation is an elusive term as it has been broadened by usage to include, at one extreme, the selling of public enterprises to the private sector and on the other, activities that 'dilute the public sector' or 'curb state powers'. Heald and Morris' typology breaks privatisation activity into four classes (Ascher 1987). The first, denationalisation, involves the selling off of public industries and the withdrawal from full public provision of services. The second involves substitution of customer

fees for tax finance and is usually referred to as user-pays. The third, liberalisation, involves the abolition or relaxation of monopoly powers of public companies. The fourth, contracting out, is the private provision of public services; it may be distinguished from the first and third approaches in that it does not signal an end to public sector control as government retains decision making power over what is produced and provides the necessary resources for producing it. It is distinguished from the second class by the involvement of other organisations (either private or quasi-private) in delivering the services on a contracted basis and may be referred to as quasi-privatisation. Decisions to contract out public services often follows the calling of bids or tenders from alternative providers (competitive tendering).

The introduction of the National Competition Policy in Australia provided a strong underpinning for a shift towards a market-driven public sector in all levels of government. In accepting the *Competition Principles Agreement*, commonwealth and state governments agreed not to restrict competition in any way unless it could be shown that those restrictions were in the public interest. This marks a change from the past where governments have ensured some measure of protection for particular interests. Under the *Competition Principles Agreement*, it is now necessary to show that there is no other way of achieving the objective than restricting competition.

The competition agenda has been imported to the public sector from the private sector and involves a belief that by comparing the cost and quality of services with those of competitors, it provides a basis for management to make informed decisions with respect to the continued delivery of services. Techniques such as benchmarking, using performance indicators based on industry standards, competitive tendering and contracting are tools and processes consistent with this agenda.

Competitive tendering and contracting (CTC) have typically been linked and are integral strategies in the process of contemporary public sector reform in Australia whether influenced by the privatisation or the competition agendas. Such a linkage is, however, not a necessary one as contracting (either ‘out’ or to an inhouse group) may occur without utilising competitive tendering mechanisms; the CTC linkage in

Australia probably reflects the current dominance of competition as a key value in Australian public sector reform. As defined by Rimmer (1994:79) 'CTC involves governments using a competitive bidding process to help decide who should have the right to produce or deliver goods and services'. This view, however, ignores other perspectives on CTC.

Competitive Tendering and Contracting

Conceptually, CTC may be viewed from three different perspectives: first, as a mechanism or tool for organisations to procure services which are unable or unwilling to be provided internally; second, as a process of competition; and, third, as a mechanism to advance the privatisation of public services.

CTC as Procurement

Most firms contract to buy goods and services from other firms, either as an input for their production processes, or as a complement to their products. Traditionally, this form of contracting has been used in both private and public sector organisations for goods and services to assist in smoothing workflows or to engage expertise which is absent or too expensive to provide inhouse. It can also reflect decisions to transfer from inhouse to external provision, that is, contracting out or 'outsourcing'. According to Rehfuss (1989),

> Federal contracts are usually designed to meet staff short-falls, which are often caused by personnel ceilings, shortages of time to complete tasks, shortages of expertise among current staff, and the need for an 'outside' viewpoint.

Contracting and contracting out as procurement tools (both with and without competitive tendering) have been used as a means of providing many public services, especially at municipal level, both in Australia and overseas (Fraser 1992). Reflecting traditional service delivery approaches of the 1980s, the Evatt Foundation reports that 55 per cent of Australian councils contract out at least one service, such as road construction and maintenance, collection of household refuse and glass

recycling (Evatt Research Centre 1990:49); this was valued at $2b annually (Industry Commission 1996).

Metcalfe and Richards observe that 'there is nothing fundamentally new about contracting out' (1990:106) and there are many examples to support this claim. For instance, the British fleet that defeated the Great Armada reflected the use of private provision to meet shortfalls in government capacity - 163 out of the 197 vessels engaged were privately owned (Welsh 1982:4). It was the many similar examples that prompted Hood's comment that 'most ideas in public administration have an earlier life and times, and return and recurrence is an important feature of its intellectual dynamic' (Hood 1995).

Coltheart provides evidence of this 'earlier life and times' in her research on contracting in New South Wales in the last century. Apart from the larger public works contracts, there is evidence of contracting in many smaller ways. For example, the Colonial Architects Office was the repository for many miscellaneous duties, including the letting and supervision of contracts for cleaning windows in buildings, winding the clocks at public buildings, chimney sweeping, emptying the latrines at the military barracks, providing coffins for pauper funerals, furniture repairs and building ballot boxes (Coltheart 1991:33). The contract system was subsequently challenged by the hiring of 'day labour' - the direct use of government labour. This trend may have reflected growing concerns about the quality of contractors who 'lacked capacity, energy and experience, as well as skilled labour' (McIntosh, Shauness & Wettenhall 1997:15).

The debate between the employment of day labour and contract employment has continued since, especially since the emergence of organised labour. In particular periods, such as the 1890s, the use of day labour was favoured and in other periods, such as at the end of the second world war, there has been a trend towards greater use of contract employment. The ebb and flow of the argument has reflected various pressures, such as those applied by the labour movement, including greater attention to safety procedures, improvement in wages and more stable and fair employment; so too have particular government policies such as the preference for

public employment during the depression; also labour shortages, as in the immediate post-second world war period; and particular events such as the 1896 Royal Commission which reported so unfavourably on the performance of tenders on public works (Sheldon 1989:140).

The use of CTC as procurement has a long history in local government in Australia as a tool for prudent managers, and owes its intellectual origins to the disciplines of management. Contracting or contracting out decisions are not necessarily accompanied by competitive tendering; the focus of management is on work flows, marshalling appropriate levels of expertise and on one of the enduring questions of economic organisation - the 'make or buy' decision.

CTC as Competition

CTC has emerged as a key dimension of new public management, used more as a tool to assist in organisational reform by testing inhouse providers against competition in the market place. It is believed that the process of market testing will not only enhance contestability of the markets by encouraging new entrants, but importantly will act as a lever for public sector managers to initiate change to reduce input costs and develop more innovative ways of delivering services in order to compete with alternative providers. While the market testing processes of CTC have traditionally involved testing public services against private sector organisations, recent experience in Australia, Britain and New Zealand has shown an increase in the number of bids from other public sector providers.

Unlike the procurement perspective, market testing is usually associated with the removal of constraints to inhouse providers to enable a 'level playing field' to be achieved with external competitors; it is also associated with the development of procedures to ensure high levels of probity and competitive neutrality, in order to minimise any advantages accruing to the public sector tender (the inhouse bid). This perspective, which underpins the National Competition Policy, is based on the view

that the actual or potential threat of competition forces both efficiencies and innovation.

Savings are believed to arise from increased efficiency due to economies of scale, specialisation and the discipline of the competitive market. Competition, or the threat of substitution by private firms, forces inhouse operations to lower their unit costs. Savings emanate from factors such as reduced input costs (for example, wages), improved technical efficiency (for example, factor mix or through access to a wider knowledge base, new ideas and/or new technology) and a redefinition of actual service requirements. Competition forces cost reductions while providing agencies with comparative information on the costs of alternative sources of supply. Through this process, public agencies are said to be more productive.

The application of market disciplines through CTC impact on organisations in a number of ways: the introspection of service delivery processes, the scrutiny of internal cost structures and the introduction of different organisational structures all contribute to significant changes within public organisations and make CTC a powerful tool for organisational change. This is compounded by the addition of other pressures such as those to adopt more customer and market focuses by service providers.

Many public choice writers also see the benefits of competition 'in ending bureaucratic over-supply, by taking away the monopoly of information from bureaucrats, thereby strengthening the hand of government'. Competition leads to 'more open government and the true productivity of state provision is clear' (Dowding 1995:81).

This conceptualisation of CTC owes its intellectual origins to the disciplines of economics and to a confidence in the capacity of markets to lever behavioural changes within organisations. It is competition in the market that is important in redirecting the behaviour of public officials, not whether production is public or private. It is this conceptualisation which underpins the introduction of CCT in Victoria and which forms the basis of this study.

CTC as Privatisation

The influence of new public management has involved, *inter alia*, a reconsideration of what constitutes the core business of the public sector. Many activities which were previously perceived as the sole provenance of local authorities have now been opened up to the private sector, especially through the CTC process. This process can be a powerful tool in enhancing private ownership by tactics such as refusal to allow inhouse bids in the competitive process (such as the case of IT outsourcing at commonwealth government level) or by providing impediments to bids from the public sector.

For some in pursuit of privatisation as a public policy goal, contracting has become an agenda item in its own right, even elevated 'to the rank of a first-order policy agenda item' (McIntosh et al 1997). This notion is built on contentious assumptions that the private sector is more efficient and effective than the public sector.

While privatisation and quasi-privatisation seek to raise public sector efficiency through achieving higher productivity and lower cost of services, there is no common view on the mechanisms that explain the perceived differences in productivity between private and public owned enterprises. The principal-agent literature (Bos 1991; Boston, Pallot, Martin & Walsh 1991) relates differences in managerial performance to differences in contracts, incentives and information and argues that the principal-agent relationship is more blurred and thus less efficient in the state sector. The public choice literature suggests that differences in behaviour between public and private sector managers are inevitable - in the absence of markets, public sector organisations are said to be more bureaucratic, more rigid and hierarchal, less consumer oriented and subject to capture by special interest groups (Parker 1995a:44). Public choice writers claim that market transactions are superior to bureaucratic transfers because bureaux have a tendency to oversupply outputs under government production. They argue that competition between tenderers is responsible for the efficiencies claimed to result from contracting arrangements. Further, the lower costs which result from contracting out leads to an increase in consumer surplus, thereby making the public better off. If these

arguments are accepted, it is a small step to then assert that production reliant on market transactions and private ownership produces results which are more congruent with public interest; in other words, CTC (or, at least, contracting out) can be a vital tool in enhancing the privatisation of public services.

Many of the neo-classical economists make the assumption that the quality of management is homogenous in the long run, but this is probably not realistic given that management as a variable is 'probably the most critical to the performance of business and industries' (Howard 1989:87-88). The 'private good, public bad' argument, has been contested although Ascher warns that

> both sides have supported their claims by documenting the experiences of organisations that have shifted from public to private provision but the data employed in these exercises is uniformly partisan and highly suspect (Ascher 1987:2).

The evidence from studies is equivocal - literature on 'property rights' suggests that ownership affects performance (Boardman & Vining 1989; Vining & Boardman 1992; Miranda 1994). Other studies (for example, Bocherding, Pommerehne & Schneider 1982) found no significant differences between the behaviour of public and private firms, while others showed that public owned businesses are more efficient (for example, Pescatrice & Trapani 1980).

Parker argues that simplistic views of privatisation which suggest that it leads automatically to improved efficiency ignore organisational adaptation or strategic implementation as critical constraints on the success of privatisation (1995a). Similarly, research by Dunsire et al map results on tests of performance in productivity, employment and financial ratios against change in ownership status, competition and internal management. They concluded that the data 'failed in most cases to support the thesis that change in ownership improves enterprise performance' (Dunsire, Hartley & Parker 1991:21).

Vining and Weimer (1990) note the capacity of successful organisations to adopt characteristics of particular market situations, more than those generally attributed to their ownership status. They conclude that,

> the nominal distinction between government and private production provides an inadequate basis for predicting comparative efficiency. For example, state owned enterprises selling in competitive markets are likely to be more similar to private firms than to bureaus while highly regulated monopolies, even though privately owned, may appear more like bureaus than unregulated private firms (Vining & Weimer 1990:4).

Lane (1993:195) concludes that the issue of ownership is less important than contestability:

> When it is possible to make well-judged productivity comparisons between public and private programs for similar goods and services, then the overall conclusion from a number of studies in various countries appears to be that private provision is more efficient than public provision, all other things being equal. The general findings to the effect that private provision tends to be more efficient and also more effective do not warrant the conclusion that the privatisation option is the single relevant alternative in public sector reform. What gives private provision an advantage over public provision is not the ownership factor, but the existence of competition in allocation. Thus, if more competitive mechanisms could be introduced into the public sector, then productivity and efficiency would be enhanced without abolishing the public principle.

Finally, Rainey (1997:57) concludes that ‘studies of variables such as size, task, and technology in government agencies show that these variables may influence public organizations more than anything related to their status as a government entity’.

The work by Lane, Rainey and others suggests a greater complexity to the relationship between ownership status and performance than is implied by many who seek privatisation as a policy goal. Even if ownership status and competition do provide increased incentives to operate efficiently, this must occur in terms of managerial decision making and business organisation within the firm.

The privatisation agenda betrays a deep distrust of traditional public sector management, especially of the size of the public sector in general and local government expenditure, in particular (Knox 1993:209). Often, this is characterised as a 'failure of bureaucracy', a notion influenced by a series of market-based theories which provide both justification for, and further impetus to, the public sector reform process [for example, public choice theory (Tullock 1965; Niskanen 1971), agency theory (Bos 1991), transactions cost analysis (Donovan 1995) and managerialism (Boston et al 1991; Laffin & Painter 1996)]. CTC (especially contracting out) has been a pivotal tool in the reform agendas influenced by these theories, as managers and politicians reconceptualise traditional public sector agencies as 'post-bureaucratic organisations' with lean organisational cores and externalised provision of services. At its most extreme form, the 'enabling council' (Leach, Davis & Associates 1996) or the 'Lakewood model' of local government (Rehfuss 1989) provides no or few services directly and relies on contracts with agents to provide services to their communities. This is no futuristic organisational form, but already in existence in the U.K. and in a number of local communities in Australia, such as Pittwater (NSW), Palmerston (NT), Clare (SA) and, to some extent, in Mosman and Manly (NSW) (Aulich 1997).

CTC as a tool to serve the privatisation agenda owes its intellectual origins to the political view that the public sector is inherently less efficient than the private sector, and that it is, therefore, in the public interest to accelerate the contracting out of public services to the private sector. While this conceptualisation of CTC may have contributed to the introduction of CCT in Victorian local government, it has been less overtly significant than the notion of CTC as competition.

Compulsory Competitive Tendering (CCT) in Victoria

Current reforms in Victoria, including the introduction of CCT, have been driven by the perception on the part of the state government that local government was poorly managed and needed exceptional external leverage to improve its performance - this leverage was to be provided by making compulsory the introduction of competition for local government services. In a pamphlet issued to the community to explain the CCT process, and authorised by the Minister for Local Government, the Office of Local Government explained that,

> Before these reforms, local government had been operating in ways which encouraged many examples of overstaffing, inefficiency and waste. Ratepayers were not getting the most out of their rate dollar, in terms of quality services or value for money (‘Competitive Tendering’, Office of Local Government).

This was reinforced by statements from the Institute of Public Affairs, a strong supporter of the reform program:

> The operation of local government has to an extent been ‘captured’ by those municipal employees, councillors, and local government activists whose main interest is seeing an expansion in or preservation of existing local government ‘empires’ (Moore 1993).

The introduction of CCT was engineered through the passage of the *Local Government Compliance Act 1994*, a series of regulations, a Code of Tendering, as well as revisions to the *Local Government Act 1989*. While CCT was the centrepiece of reform, it was supplemented by other mechanisms (see Table 2.2 for details). These included the introduction of new financial management and reporting requirements, the imposition of budget cuts of 20 per cent, rate capping, new borrowing requirements, the abolition of the local government monopoly in building regulation, and the introduction of senior executive contracts. Rate capping was not lifted until 1998 when an eight per cent ceiling for rises was allowed by the state government.

Table 2.2: Chronology of Major Local Government Reforms in Victoria Since 1993

- 1993 *Local Government (Amendment) Act* introduced to establish a Local Government Board to advise the Minister for Local Government on measures to improve the performance of local government;
- 1993-94 Amalgamations of 210 local government units into 78; conducted in five rounds by region. Accompanied by 20 per cent reduction in rates and the introduction of rate capping;
- 1993-94 Replacement of elected councillors by government-appointed commissioners for a two year term;
- 1994 Introduction of CCT through the *Local Government Compliance Act 1994*, a series of regulations, and a Code of Tendering. Councils required to market test, through CTC, an increasing proportion of their services. From 1994-95 services to the value of 20 per cent of the council's total operating expenditure were to be competitively tendered, and increased to 30 per cent by the end of 1995-96 and to 50 per cent by the end of 1996-97 and for each year thereafter;
- 1994 Revisions to the *Local Government Act 1989* to include new financial management and reporting requirements, new borrowing requirements and a deregulated labour market through the introduction of senior executive contracts;
- 1996: From March, councils were to conduct elections for councillors to replace the commissioners;
- 1998 State government lifts rate capping to enable a maximum rate rise of eight per cent from 1998-99.

The Local Government Board, under direction of the state government, radically amalgamated the 210 local government units to 78, in a process conducted in five rounds, by region from December 1993 to February 1995. The final round was completed four months before the end of the first year of CCT, giving some councils very little time to cope both with restructuring and in complying with the CCT legislation.

For their first two years, the newly amalgamated councils were managed by commissioners, appointed by the state government. It was during this period that the first responses to the CCT legislation were required - Victorian councils were to

subject an increasing proportion of their services over a period of three years to 'competitive arrangements'. By the end of the 1994-95 financial year, services to the value of 20 per cent of a council's total operating expenditure (TOE) were to be competitively tendered; this was to increase to 30 per cent by the end of 1995-96 and to 50 per cent by the end of 1996-97 and thereafter.

The 'proportion of budget' approach was intended to give councils flexibility and local choice in determining which services were exposed to CCT. However, as the calculation of a council's TOE includes items which are unable to be exposed to competitive tendering, such as depreciation and some of the costs of the representational functions of local government (for example, fees for councillors, conduct of council meetings, managing community consultation and responsiveness), the 'real' proportion of council services exposed to competitive tendering was invariably higher than the minimum 50 per cent required by government. In reality, councils are expected to adopt competitive practices in the delivery of most of their services, giving very little local choice.

Elected councillors were returned in some councils just before the end of the second year of CCT (March, 1996) but in most councils not until March, 1997. This was several months before the third year of CCT when services to the value of 50 per cent of TOE were required to be market tested.

One of the immediate concerns of returning councillors was the loss of jobs through amalgamation and the introduction of CCT (17,000 in Victoria to January, 1997). This had a marked impact on the Local Authority Superannuation Benefit (LASB) when the Superannuation Board reported that it could no longer afford to pay full superannuation entitlements. The Board required all councils in Victoria to assume responsibility for 45.88 per cent of the unfunded superannuation liability, to be factored into consequential costs of losing an inhouse tender (together with redundancy payments). Further, if another council were to win a contract, the Board determined that the unfunded liability would be transferred to that council for all current local government workers they employ in the new contract.

The Victorian legislation seeks more than an improvement in efficiency and effectiveness, rather it is attempting to make the culture of local government more businesslike by subjecting it to the disciplines of the marketplace, a clear intention to use competition through CTC as a stimulus for organisational change. In introducing the CCT legislation to Parliament, 19th of April 1994, the Hon. Roger Hallam, Minister for Local Government argued that,

> The Bill has one clear aim - to introduce competition to require councils to look hard at their own operations and improve efficiency ... This Bill heralds a cultural change which goes to the very core of the way councils operate ... Councils will be compelled to review and specify just what they do, and to test those specifications in the market place.

Reform in Victoria was aimed at inculcating a culture of efficiency, competition and accountability, was broad ranging in direction and uncompromisingly implemented (Ernst, Glanville & Murfitt 1998; Kiss 1997). It was supported by a range of organisations who provided powerful advocacy for the total reform agenda - these included the Victorian Chamber of Commerce and Industry, the Property Council of Australia, the Housing Industry Association and the Institute of Public Affairs (Murphy & Nathan 1997).

While procedures manuals and other documents and models were circulated by the state government to local authorities to assist them to undertake commercial activities, develop user-pays approaches and introduce CCT, the overall approach has been technocratic rather than collaborative or participative (see Mascarenhas 1990).

The Victorian government has proclaimed the reforms as successful. At the end of the first year it reported that,

> the great majority of Victorian councils not only reached but exceeded their first year competitive tendering target. In other words they out performed the

> minimum standard set in the Act. Overall, in 1994-95 just under $500 million worth of local government work had been tendered on the open market (Office of Local Government 1995:10).

To support its contention that service quality had improved with CCT, the state government published the results of a survey of Victorian local authorities which found that nearly half of the respondents believe that the services had improved with tendering, with only 22 per cent disagreeing (Office of Local Government 1995:5). At this stage, however, there has not been any systematic or comprehensive research to support these assertions and little examination of the cultural changes to local government which have been the goals of the reform package. It is a continuing paradox that the NPM paradigm focuses public sector agencies so heavily on measurable outputs and outcomes, yet the overall reform program generally remains immune from such requirements.

The Research Problem

There is no clear evidence that efficiency and productivity of public sector organisations relate to ownership (public or private) or whether services are provided inhouse or by contractors. However, some research suggests that by introducing competitive strategies into organisations, cultural changes can be generated which can influence efficiency and productivity - a clear intention of the Victorian government in its reform agenda for local government in that state.

These cultural changes can include changes to both internal and external relationships. Internal relationships include potential changes in the political-bureaucratic interface, especially in regards to the setting of organisational objectives, managerial structure and responsibility, organisation and methods of production, personnel policy, the nature and role of trade unions and the structure and determinants of rewards. External relationships include those with customers, suppliers, competitors and regulatory and other constraints.

A number of studies suggest that the culture of traditional public organisations has generally been more inward focused while private organisations more outward looking. It is argued that the introduction of competition allows inward-looking organisations to shift along the continuum towards outward looking behaviour. These more externally focused public sector organisations have been labelled 'post-bureaucratic' (Barzelay 1992).

Two research questions arise from this: what, if any, changes to organisational culture have accompanied the introduction of competition (and, in particular, CCT) in Victorian local government? And, are these changes congruent with the notion of the post-bureaucratic organisation?

The thesis examines the extent to which the core values, structures, relationships and operations (ie the culture) of a selected group of Victorian local authorities have been influenced by the introduction of CCT to the delivery of local government services. It explores the internal changes that occur in councils and assesses the extent to which these changes reshape local authorities more towards being outward looking organisations. The thesis identifies the nature of these shifts and considers the extent to which the organisations may be identified as post-bureaucratic.

The thesis also investigates whether the provider units that directly deliver services respond differently from the client sides of organisations whose roles are to define more precisely the needs of the organisation, to manage the contracts established and to evaluate the performance of the providers. While the organisation as a whole may shift along the inwards-outwards continuum, differences in responses at sub-unit level between provider and client units have been examined to determine whether or not provider units shift further along the continuum than client units.

Considerations of cultural change through the introduction of competitive strategies typically focus on individual organisations and the alternative cultures from which they can select their preferred position. In this study, the compulsory aspect of competitive tendering and its extent of coverage (the 'real' level of market testing), the tight timeframes within which councils were forced to operate, strict state

government control over the process through guidelines, sanctions, reporting and auditing procedures have all contributed to a systemic, unrelenting pressure for change. It is this environment of external leverage which distinguishes the cultural changes expected in Victoria from those made by choice by individual councils elsewhere to introduce competition as a mechanism for organisational change.

CHAPTER 3: LITERATURE REVIEW

This literature review focuses on research which views CTC as a lever for organisational change through injecting greater competition into organisations; it does not specifically sample the literature on procurement (of which there are long traditions in both the US and Australia) nor that which examines contracting out as a means of privatising public services. However, it is recognised that it is sometimes difficult to disentangle the motives for some public policy which may have multiple aims, for example, procurement, competition and privatisation. The literature review includes studies of CCT, as a more radical public policy prescription than CTC for engineering organisational change.

It is hardly surprising that CTC has been long surrounded by controversy - those advocating CTC typically highlight particular aspects such as the benefits of competition for public service delivery, while opponents of the policy will emphasise others, such as falling standards or problems with contracts. Evidence has often been of an anecdotal nature amounting to 'casual empiricism' (Knox 1993:210) and has resulted in the intrusion of highly subjective elements into research and the analysis and interpretation of research (Aulich & Reynolds 1993:400). A number of contributions of this kind have been made to the debate on CCT in Victoria, typically written as reflections by key players such as CEOs or state government officials, and these have not been included in this literature review.

The review identifies three broad approaches to research into CTC as a process of organisational change. It assesses the gaps in the literature which may limit understanding of changes which occur in public organisations as they adopt more competitive strategies. The literature has been largely drawn from the U.K. and Australian experience where CTC and CCT have more typically been used as levers for organisational change.

The review considers a range of research data drawn from case studies of individual or groups of organisations, meta-analysis and other material such as government

reports. Each section makes particular reference to studies at local government level, including those conducted in Victoria.

The research is discussed in three broad groupings (Table 3.1): first, studies that are concerned about 'value for money' outcomes concerning decisions whether or not to contract out public services. These studies focus on competitive tendering as a mechanism for choosing a preferred service deliverer and invariably use an accounting frame of reference to measure the level of financial savings achieved through the use of CTC, usually weighed against changes in the quality of services subsequently provided. CTC is primarily seen as a process of selecting the least cost provider, determined largely transaction by transaction. While most of the studies do not explicitly consider the question of organisational change, they do assume that competition for the right to provide goods and services will engender certain changes within organisations consistent with the pressures from competition; that is, organisational changes aimed at reducing input costs and/or developing more innovative solutions to service delivery issues.

Table 3.1: Approaches to CTC Studies

APPROACHES TO CTC STUDIES	ANALYTICAL FRAMEWORK	FOCUS	DESCRIPTION
Value for money	accounting	Decisions whether or not to contract out	Assessment of the costs saved by the organisation against the quality of services provided under CTC
Impact studies	cost-benefit analysis or evaluation	As above, but considers broader impact of decisions	Analysis of the social and economic impacts of CTC in the organisation and its environment
Organisational culture	organisational analysis	Organisational change	Analysis of the impact of CTC on the culture of organisations adopting a CTC regime

The second area of research has been categorised as 'impact studies', using a cost-benefit or evaluation frame of reference to assess the impact on organisations, systems of organisations and communities, of decisions to adopt CTC. Impact studies may be distinguished from the accounting based studies in three ways: first, by the inclusion in the analysis, of broader social and economic factors which assist in determining who gains and who loses from decisions to contract out services; second, by the typically longer time frame of analysis; and third, by explicitly recognising competitive tendering as a process which has the capacity to impact both on the organisation and its environment.

The third group of studies focus on organisational change and the 'cultural' transformation which is induced by the introduction of CTC strategies. These studies reflect a view of CTC as an active, powerful tool of organisational change.

Value for Money Studies

Given the concern for economy and downsizing public sectors in the 1980s it is not surprising that CTC studies at the time focused the CTC debate on issues concerning the decision whether or not to contract out; specifically, whether there were cost savings to be made and whether the quality of services might be impaired by contracting.

There are numerous papers which argue that there are indisputable cost savings to be had from contracting out government services, although the magnitude of the savings is often contested (Domberger 1988; Walsh 1991; Knox 1993; Walsh & Davis 1993; Domberger & Hall 1996). The Australian Chamber of Commerce (ACC 1988:2) quotes the US Academy of Political Science view that 'the real issue seems to be not whether the city will save money but how much it will save by contracting out'. Domberger's work in Britain and in Australia in the 1980s led to the confident prediction that,

> the Australian evidence on the use of contractors in Local Government suggests that savings are in the region of 20-30 per cent, and similar estimates

> are provided by State and Commonwealth Government Departments which have been consulted on this matter (Domberger 1989:4).

While Rimmer concedes that the magnitude of cost savings accruing from competitive tendering may not necessarily be as high as those claimed by Domberger, that significant savings are achieved is no longer a matter for serious debate (Rimmer 1991), a conclusion supported in the Industry Commission's view that contracting of government services generally results in cost savings (Industry Commission 1996).

While often not the primary focus of this type of research, the mechanisms by which savings are generated are usually assumed to be the competition aspect of the CTC process. Savings are believed to arise from increased efficiency due to economies of scale, specialisation and the discipline of the competitive market. Competition, or the threat of substitution by private firms, forces inhouse operations to lower their unit costs, especially if they are 'invited' to tender for the work. Savings emanate from factors such as reduced input costs (for example, wages), improved technical efficiency (for example, factor mix or through access to a wider knowledge base, new ideas and/or new technology) and a redefinition of actual service requirements. Competition forces cost reductions while providing agencies with comparative information on the costs of alternative sources of supply (Uttley & Hooper 1993); from this examination, employers will attempt to minimise total transaction-costs (Coase 1937; Williamson 1979; Rimmer 1991). However, little of this literature unravels the complex processes at work whereby organisations are re-engineered to respond to the competitive environment. It has been suggested by Lee (1991) that often these studies are simplistic by not recognising the complexities of organisations nor the historic reasons for organisational decisions to undertake a variety of activities inhouse which may, or may not be, directly efficient in terms of costs and outcome.

There are, also, significant discrepancies between research findings concerning the extent of savings from the introduction of CTC. The earlier optimistic work of Domberger and others has been modified by subsequent careful scrutiny of the

transactions costs and the realisation that outcomes can be distorted by both market failure and the selection of particular accounting frameworks. They also reveal a failure to understand what organisational changes occur with the introduction of CTC strategies. For example, the importance and, therefore, the costs of contract monitoring and increased agency costs incurred through higher levels of formalisation and complexity are often underestimated (Paddon 1991), as are the behavioural responses to more competitive environments, for example, loss leader tactics, the need for contract variations, 'winners' curse' and contractor opportunism such as predatory pricing (Ascher 1987; Aulich 1997a). Hidden costs of these changes are often not factored into the accounting frameworks for analysis (Walsh 1991; Vining & Weimer 1990; Grayson, Hobson & Walsh 1990).

A majority of the accounting-type studies treat decisions as one-off, static and short term and do not consider ongoing or longitudinal issues which may also be relevant for present time decisions. For instance, a decision to contract out a service may have a negative impact on future decisions concerning CTC if these present decisions result in a less contestable environment in the future. Generally, the studies have been cross sectional or 'snapshot' in nature. Rimmer (1994) notes that while there is likely to be short term savings from CTC, long term savings are more doubtful. King (1994) speculates that this is a spillover effect where improvements in efficiency brought about by competitive tendering in one jurisdiction are incorporated into inhouse provisions in other jurisdictions over time - behavioural responses which have generally not been included in the earlier accounting-type analysis of CTC.

The major factors governing whether or not savings can be made from adopting more competitive practices appear to be (a) the contestability of the environment (Industry Commission 1996; Vining & Weimer 1990; Globerman & Vining 1996; Hodge 1996; Lane 1993), (b) task complexity (Borland 1994; Globerman & Vining 1996) and (c) asset specificity (Williamson 1979; Globerman & Vining 1996).

Despite the increasing appreciation of the complexity of the cost savings studies in CTC, the Victorian government is convinced that its CCT approach to competitive tendering has and will yield savings, across the board. The state premier claims that the reform of local government has generated large savings and by stepping up the process of competitive tendering to test the effectiveness of all the services provided by state and local government it will achieve further economy (Kennett 1995). In his Annual Review of CCT in 1995, the Minister for Local Government trumpeted that CCT was already increasing efficiency and saving costs and claimed that 'international research confirms that Competitive Tendering can deliver major cost savings' (Hallam 1995:9). At the same time, an independent Review of CCT claimed that 'it is still too early to clearly assess the full extent to which ratepayers are receiving better value-for-money services under CCT arrangements' (Hinds & Robson 1996:10).

Ernst, Glanville and Murphy (1997:14) conclude that in Victoria,

> the majority of CEOs and senior managers believed that CCT produced cost savings and argued that in many instances these savings were being tangibly realised in the new contracts and service agreements being drawn up following the market testing.

However, the respondents explain this phenomenon, and the perception that the next phase of CCT would yield mixed savings results, by the selection of services by councils for exposure to tendering. Ernst et al argue that councils initially chose services in areas 'most amenable to efficiency, productivity and technological improvements, and where an active competitive market was already in place' (Ernst et al 1997:14). They suggest that those services which are more complex and intangible and markets which are more immature will yield fewer savings and have been left for later market testing. They also note that in rural areas, weaknesses in the market environment served as barriers to the delivery of 'appreciable cost savings'.

There are some important unanswered questions concerning costs savings from competitive tendering both in the literature and in the few studies of CCT in Victoria. That savings might occur is problematic and the process of organisational change which impact on this is not yet well understood.

Quality of Services

CTC does not, by itself, bring about changes in service quality, however, there is broad agreement that the competitive environment can focus organisations more on quality issues. It is, therefore, not surprising to see the popularity of CTC rise as part of the new public management agenda of improving organisational performance. However, there is a lack of substantial and comparable data regarding the impact of CTC on the quality of public services. In part, this reflects past practices in public sector management which focused more on inputs than on outputs or outcomes and, in part, a failure to appreciate the importance of the monitoring processes involved in contract management (Domberger, Hensher & Wedde 1993). Few organisations had performance evaluation mechanisms in place prior to adopting CTC, consequently, before and after comparisons are difficult to determine:

> Without a clearer picture of the actual standards achieved and a sound understanding of which contract design and implementation factors influence performance, the debate about the quality-cost trade-off will remain unresolved (Hall & Rimmer 1994:454).

This may partly relate to the inherent difficulties in specifying quality outcomes in some areas of local government responsibility, particularly in the community and social services. Gatehouse concludes that,

> if ever a subject was shrouded in mystery, fantasy and unreal goals it is quality in the personal social services. It is even more difficult to define than quality within the health service or education where there are at least a few yardsticks which may be reasonably reliable pointers (in Allen 1992:34)

Proper studies of quality outcome have been limited and the findings of improved quality may

> be over-generalised because of problems over the definition of quality, a lack of expert knowledge of service characteristics and because of the vested interests of those on the client side to demonstrate their own effective performance through improving quality standards (Reilly & Tamkin 1996:62).

The application of the market model to the delivery of welfare services has been argued as flawed by a number of writers (Smith & Lipsky 1993; Paddon & Thanki 1995; ACOSS 1997) and competitive tendering is rejected as a appropriate mechanism for providing these services:

> The problem of producing human services of high quality on a sustained basis is so different from the problem of producing standardised products at a fixed price as to call into question the simple proposition that government will increase its general effectiveness by stimulating competition through purchase of services (Smith & Lipsky 1993:193).

This concern extends to the voluntary sector, in particular, where 'more and more voluntary organisations are expressing their dissatisfaction with the contract culture' (Francis 1996). Complaints have been raised about the threats posed by competition to the traditional partnership between welfare agencies and government (Ernst et al 1997; Francis 1996) and to the issue of 'mission drift' where agencies are manoeuvred into areas or client groups preferred by funding agencies but not necessarily central to the mission of the providers (Etherington 1996).

It appears that this has influenced the British government not to include human services in their list of services to be exposed to CCT. In particular, the decision not to apply CCT to library services was taken on the basis that output in these services were difficult to measure and performance difficult to monitor, the limited nature of the market place and the threat posed by competitive processes to the collaborative

and integrated nature of the service (Murfitt 1996:36). Murfitt cites a number of councils in Victoria which have taken decisions to exclude some of their community services from CCT, even though this has caused major disagreement with the state government when overall CCT targets have not been met (see Mowbray 1996).

Critics of contracting out have stressed the trade-off between cost and quality of service, by asserting that savings from competitive tendering are only achieved at the expense of quality. However, the Industry Commission's analysis of empirical studies across all spheres of government found only two studies which suggested that lower costs may be at the expense of service quality and that all other studies have found either no evidence of quality deterioration or an improvement (Industry Commission 1996:107). This is supported by others (Domberger 1988; Rimmer 1994) who argue that that there is no evidence of systematic deterioration in service quality resulting from contracting out. Walsh and Davis (1993:129-143) cite instances where quality of service actually improved while still achieving cost savings.

The Evatt Research Centre (1990:48-49) presents differing conclusions from survey research they conducted. They suggest that deterioration in the quality of service was the second most reported disadvantage of contracts. In the area of public works for instance, only nine councils considered the quality of service high, compared to 63 who thought it had declined. Similarly, in sanitation services, again nine were pleased while 52 were unhappy. It seemed that one of the contractor's motivating factors was a desire to cut corners in order to minimise costs, especially if supervision was not adequate (Evatt Research Centre 1990:53). Ernst et al note the difference in perception of quality issues between senior managers and program staff in Victoria. The former were 'more circumspect or non-committal on the question of quality' while the latter saw quality as the 'first casualty of the CCT process' (Ernst et al 1997:17). Clearly, more research needs to be done to illuminate this issue.

While there may be disagreement about whether the introduction of CTC improves the quality of services, there have been a number of studies which claim to have isolated the mechanisms of organisational change by which improvements occur. Uttley and Hooper (1993) adopt a simple value for money approach in concluding that competitive tendering appears to have improved the performance aspects of service provision, measured by the average costs of given service outputs. Competition, or the threat of substitution by private firms, has forced inhouse operations to lower their unit costs, therefore providing improved value for money. Walsh suggests that improvements derive from a cost and service consciousness which accompanies the process of specifying services for tender. Though standards have largely stayed the same when services have been put out to tender, they are now clearer and better known (Walsh 1991:135). This is supported in the Review of CCT in Victoria which claims that 'for local government one of the positive outcomes of CCT has been the necessity to specify service outcomes' (Hinds & Robson 1996:10).

Hall and Rimmer (1994) argue that there should be little diminution in the quality of services, provided that the specification process is effective and that appropriate contract monitoring mechanisms are in place. However, Paddon (1993) argues that the necessity to write specifications in contracts and monitor performance against them is not a guarantee that quality will improve. The extent to which the quality problem can be resolved by the adoption of better management strategies (especially at the tender specification and contract monitoring stages) is not clear. Nor is it likely to become any clearer given that few benchmarks for previous service levels have been established.

The introduction of CTC can change behaviour in organisations by focusing attention more on quality and performance. Whether this focus will actually deliver quality improvements is contested - clearly it is difficult to measure, especially with regard to social and community services.

Impact Studies

These studies attempt to develop a broader framework for analysing CTC decisions, usually based around the concept of 'social efficiency' which adds dimensions such as equity and accountability to the value for money framework. In advocating such approaches, Knox (1993) queries the apparent abandonment of government social and political objectives in the light of the dominance of the accounting paradigm:

> Financial criteria are accorded priority in assessing the work of DSOs [direct service organisations] and questions of employment practice, democratic control over services, social desirability and effectiveness are subordinated to those of financial efficiency (Knox 1993:218).

Impact studies typically include an audit of social and equity issues in a broader cost-benefit calculus, for example, the assessment of costs to government rather than simply examining costs to organisations (Whitfield 1995). Some raise the issue of social costs, especially the reduction in social welfare if wages and conditions are driven below the optimal levels (Quiggin 1994). While the organisational changes are invariably documented, like the value for money studies, however, the mechanisms by which CTC and CCT can influence organisations (and communities) are often given less prominence.

Despite King's (1994:75) assertion that moving to CTC 'appears to offer a potential Pareto improvement - a way to make some people better off without harming anyone else', there is a growing body of evidence which suggests that job losses and deterioration of terms and conditions is almost inevitable with the introduction of competitive tendering, and that these impacts do not fall equally on all groups affected.

The most detailed studies of the employment effects of competitive tendering have been conducted in the U.K. Surveys of contracts awarded after CCT indicate that in over 50 per cent of contracts, there were job cuts, in 12 per cent pay cuts and 17 per cent, a reduction in hours worked. While the cuts lead to an overall deterioration in

conditions for all workers, the impacts fall hardest on women workers in the lowest paid, predominantly part time jobs (Labour Research Department 1990). The ill-effects of competition on pay and conditions and/or job security were found to be marked in some services, notably building cleaning (Walsh & Davis 1993), for manual workers (Escott & Whitfield 1995) and minority groups such as part time workers, ethnic minority groups and women (Centre for Public Services 1993; Whitfield 1995; Escott & Whitfield 1995; Hodge 1996; EOC 1996). This related firstly to the choice of services selected for tendering (female dominated) and secondly to the gender differential in the reduction of employment, hours of work and wages brought about by the process competitive tendering.

In their review of the 'Antipodean experience' of CTC, Domberger and Hall (1996:143) argue that the employment implications of CTC in Australia are not clear and that there are few empirical studies which consider the long term employment effects of CTC. However, recent research appears to confirm similar processes to those documented in the U.K. with both NESB and Australian born workers encountering reductions in their conditions and entitlements as well as experiencing a loss of job security (Fraser 1997; Bessant & Emslie 1997). In their extensive survey of the experience of CCT in Victorian councils, Ernst et al (1997) noted a general reduction in both full time and part time employment between 1994-95 and 1995-96, although in a number of councils there has been a significant increase in the use of casual staff. The authors identify many changes in staff wages and conditions relating to lower base wage rates, the elimination of penalty payments and allowances and a reduction in training opportunities.

As with the U.K. research, the burdens seem to fall more heavily on female workers who are less protected by unions. Competition has been used as a device for levering down the wages and/or conditions of home care staff, which has, in turn, lead to disruptions to the services. It can be accompanied by a perception that female workers feel let down by their unions, more concerned with shoring up membership through entering deals with private sector providers than with

protecting the jobs and conditions of their public sector membership (Ernst et al 1997:21).

Competitive tendering has often been accompanied by the process of 'pattern bargaining' whereby employers, in the interests of making their inhouse teams 'more competitive', seek the abolition of overtime rates, planning time, reduction in sick leave entitlements and extended hours of operation, including weekends. The impacts of this pressure falls unevenly on those least equipped to cope, which is usually those less protected by unions.

These studies have also examined the impact of CTC on business and small communities. External contractors are more typically the larger and more established firms, which can have a serious impact on rural areas where 'the large majority of local firms are not well equipped to compete under CCT, with firms in urban areas having an advantage' (Tesdorpf & Associates 1997:62). In Victoria it seems that 'business is taken from small business in rural communities ... and transferred to larger concerns in provincial cities and capital cities' (Tesdorpf et al 1997:45) and that 'the spending losses and their multipliers ... will inevitably result in widespread job losses both directly and indirectly in smaller communities' (Tesdorpf et al 1997:63). Given that 65 per cent of their sample reported overall negative impacts of CCT, the researchers argued that modifications to the legislation needed to be made to account for the less competitive rural environments. These conclusions were broadly endorsed by Ernst et al (1997:37) who also noted the adverse impacts on local economy and employment, which they describe as the 'economic hollowing of country Victoria'. Given the dual role of local governments not only to provide cost effective services to their communities but also for the ongoing economic and cultural development of their communities, this presents a public policy tension for local governments; pressured by state government to follow the competition principles, but often in conflict with a role to represent local community interests.

While the impact on communities, especially on rural ones, was explicitly included in the terms of reference for the Review of CCT in Victoria, the final report to the

Minister did not find any adverse effects. Despite considering both submissions from rural communities and Tesdorpf 's research, the review panel explained differences in performance between rural and other councils as the result of inexperience, resistance to change and a desire to protect local jobs. While concerned that councils followed the process of tendering in an open, accountable and flexible manner, the final report indicated that costs savings and improved service specifications have been realised by most councils (Hinds & Robson 1996) (see Table 3.1) - hardly surprising results from a value for money-type enquiry.

Table 3.1: Summary of the Report of the Review Panel to the Minister for Planning & Local Government (1996)

1	the effects of CCT implementation experienced by small rural shires are experienced by all councils;
2	self-regulation by local government has not resulted in adequate financial and performance monitoring systems and auditing arrangements for CCT, particularly for inhouse units;
3	the organisational structures of councils are not adequate in all cases to separate client and provider functions in accordance with CCT and National Competition Policy principles;
4	that the competitive process and competitive arrangement as currently defined for the purposes of CCT require public tendering and do not assist councils to optimise the benefits of CCT;
5	ratepayers' interests will not be protected unless councils are held accountable for the higher risks and are required to provide a rate of return on the assets involved in any external tendering;
6	the Victorian Local Government Code of Tendering has been effective in guiding good tendering practice.

Source: Hinds & Robson 1996

Many questions have been raised of accountability and the potential weakening of democratic governance structures (Domberger & Hall 1996); Paddon (1993) discusses public accountability concerns with issues of privacy and restricting information flows in relation to commercially sensitive information. Hodge cites studies where contracting was seen as often being associated with 'cosy politics'

where the business sector can exert undue influence on government decisions and public policy processes (Hodge 1996:55). He laments the higher values placed on market mechanisms, commercial decisions and consumer orientation above collective political choice, openness and citizenship. This theme has also been echoed in other studies (Aulich 1999; Ranald 1997; Kiss 1997) as well as in the reports from government agencies.

In her 1995-96 Annual Report, the Commonwealth Ombudsman expressed concern that:

> as a direct result of these new contractual arrangements, the Ombudsman's office has been receiving a new range of complaints from suppliers of contracted services and the consumers of those services (Commonwealth Ombudsman 1996:9).

Typically, complaints to the Ombudsman involved situations where consumers were frustrated in their efforts to seek redress where they had suffered some losses from contractors. Subsequent reports from the Ombudsman's office also raised concerns about accountability, specifically the lack of administrative law remedies for aggrieved clients, lack of transparency and clarity in contracts and conflict between profit maximisation for contractors and the interests of citizens (Commonwealth Ombudsman 1996). These matters became the focus of the Senate Finance and Public Administration References Committee (1997; 1998) which discussed issues of accountability for the expenditure of public money and the provision of services, protection of privacy, probity of the contracting process and the impact of IT outsourcing on employment and local industry. However, in his Annual Report of 1997-98, the Ombudsman suggested that the Senate Committee's recommendations had not gone far enough and proposed amendments to the Ombudsman Act so that 'departments and agencies will be deemed to have anything which is done on their behalf, for example, the work of contractors delivering government services' (Commonwealth Ombudsman 1998). The Administrative Review Council (ARC 1998:vii) also warned of the 'loss or diminution of government accountability or the ability of members of the public to

seek redress where they have been affected by the actions of a contractor delivering a public service'. Clearly, this matter of the impact of CTC on public sector accountability has yet to be resolved to the satisfaction of all interested parties.

Some of these accountability implications have been raised with respect to the Victorian experience. Specifically, these have concerned two primary issues: first, transparency because of 'protective attitudes around the exchange of information' (Ernst et al 1997:28); and second, the displacement of local decision making into the state government arena (Russell, quoted in Rance 1998). It is this second issue, which Zifcak describes as the 'democratic deficit' (in Schroder 1998) which is of particular significance in jurisdictions where CTC has been compulsory as it is imposed by one tier of government on another. However, there is little empirical work to really illuminate this discussion.

Impact studies require both a longer timeframe and a broader consideration of cost and benefits than the value for money studies. While they often provide insights into the types of changes which occur within organisations, like value for money studies, they are primarily undertaken to illuminate the 'make or buy' decision faced by public sector organisations, that is, should they use inhouse production or contract out. Organisational changes are acknowledged, but the mechanisms through which they occur are not the primary focus of the studies.

Competitive Tendering and Changes to Internal Organisation

A number of studies have examined the internal changes which have followed the introduction of competitive tendering within organisations and privatisation of the whole organisation. Some conclude that management has been opportunistic in seeking to re-engineer the public organisations, while others ascribe the changes to the inevitability of dealing in a more commercial environment. Most agree with the

conclusions reached by Walsh and Davis (1993:165) that 'the major gain from competition has been the impetus for organisational change and service review'.

Bureau Shaping Behaviour of Managers

It seems that the British experience, in both privatisation and in quasi-privatisation, has indicated that bureaux are reshaped, and may well reshape along a continuum from more inward looking to more outward looking organisations. The particular outcome seems to be controlled by those in senior positions; instead of contracting out being a mechanism to further public interest, it can become a tool to enable senior officials in organisations to further their own interests, however defined (Dunleavy 1986; Dowding 1995). This bureau-shaping predicts that

> policy level staff will try to shift their agency as far as possible to an ideal type of a pure control agency, hiving off implementation functions, automating routine jobs in order to liberate resources and insulating key decision areas from public scrutiny or participation (Dunleavy 1986:21).

Albin's study of waste collection by councils in Melbourne found bureau shaping by managers influenced decisions about which services would be subjected to CTC and allowed transfers to occur within the councils which captured any savings generated from the decision to contract to external agencies (Albin 1992).

The tendering that took place as a result of the initial CCT legislation in the U.K. was manipulated by employers to ensure continued inhouse provision, though on new terms which enhanced the ability of authorities to obtain their own preferred result (Colling 1991:2). Walsh found that the introduction of competition was officer-led with elected members 'only becoming involved at the level of general oversight and when particular problems and issues arise' (Walsh 1991:135). Similarly, in Victoria Ernst et al suggest that CCT in Victoria has 'been used as a coercive instrument to drive through (often long-sought after) changes in work practices' (Ernst et al

1997:17). In short, there is evidence that the CTC processes have been used as powerful tools for organisational change by management.

While there may be improvements in technical efficiency (cost savings are able to be achieved in contestable circumstances), competition has no necessary impact on allocative efficiency. Supporters of competitive tendering often argue that savings are returned either as tax cuts or in the form of a greater range of services provided. However, Albin warns that taxpayers do not necessarily benefit from lower rate outcomes, nor do they necessarily achieve a greater range of services if their council chooses to contract out functions. Albin argues that any savings which might accrue from contracting out are captured by bureaucrats in the form of higher wage costs for the increased number of professionals required to supervise the contracting process. In a local government context this could mean the replacement of highly unionised outdoor labour with more professional staff to supervise the contracting arrangements. Any cost savings which might accrue from contracting out would not be redistributed to the consumers of government services, rather they would be utilised by senior officers in reshaping their bureau into an administrative control unit (Albin 1992:15-17). Empirical evidence supporting the notion that the benefits of cheaper contracted services necessarily result in these cost savings being passed onto rate payers is 'remarkably weak' (Hodge 1996:v).

Organisational Restructure

As governments have moved further into the areas of commercialisation, corporatisation and privatisation the complexity of government administration has increased and it is not surprising that organisational configurations have also become more complex. Of particular relevance to this study is the introduction of the client-provider model of organisational structure which has been implemented throughout public sectors in many countries, most notably the U.K. and New Zealand and more recently in France and Australia (DoF 1995). This client-provider organisational split not only develops from government preferences for more

competitive public services but also assists in establishing internal markets for some services such as health services in the U.K. (Snape 1994).

CTC brings into focus the dual roles of government. Governments are clients with the following roles:

(1) defining desired levels in the quality of provision;

(2) assessing consumer demand and satisfaction;

(3) planning and providing for appropriate resources to support that provision;

(4) managing the tendering process; and

(5) monitoring achievement and reporting.

Government is also a provider:

(1) bidding for tendered work;

(2) providing and managing a service;

(3) monitoring costs and quality; and

(4) reporting to the client.

There are a number of arguments for separation (Boyd & Cronin 1994). Firstly, there are differing goals between the sides which may be in conflict: clients are concerned with the quality of service standards and value for money whereas suppliers are primarily concerned about winning contracts. Secondly, it seems that inhouse suppliers are more likely to operate more competitively if separated from the client (Walsh 1991). Thirdly, the separation represents a public statement that the local authority is serious about giving open, equal and fair treatment to all contractors. Fourthly, separation may enable the authority, especially through the elected members, to focus more on key strategic issues of determining the mix and the standard of services they wish to provide to their communities (Walsh 1991:135). Fifthly, it provides the opportunity for agencies to better clarify user needs by

reducing the possibility of client capture (Allen 1992:6) and through the process of contract specification (Walsh 1991).

The impact of this separation has seen the establishment of business units and other mechanisms which mark a major deviation from the traditional bureaucratic model of local government organisational structure. While the new structures in Australia generally have not proceeded as far as their New Zealand counterparts (the local area trading enterprises or LATEs) many of which are incorporated under companies legislation, they represent such a movement away from normal practices that issues such as accountability, control and coordination are being challenged (Aulich 1997).

The acceptance of the client-provider split has a number of ramifications. Firstly, it may increase agency costs which have to be offset against any savings which come from contracting out the service. These might include transaction and compliance costs (DoF 1995) or organisational restructure costs (Walsh & Davis 1993; Vining & Weimer 1990).

Secondly, the uncoupling of provider from client roles has further challenged the conventions about what services need be provided inhouse by local authorities. Services previously unchallenged, even many of those considered as core activities, have now been exposed to market pressures and there seem to be few limits on the types of services which can be delivered more competitively. This has sometimes raised concerns in the areas of community and social service provision to a system that appears 'to treat dependent and vulnerable people as commodities, to be traded through contracts in the market place' (Allen 1992:7).

Thirdly, the concepts are not as simple as they might first appear and experience seems to reveal more subtle implications. For example, Browning defines the concept from several perspectives: it can be a professional concept involving a shift from a service dominated regime to one which puts user needs first; a managerial concept of management of organisations and their resources; and a political concept involving competition and privatisation (quoted in Allen 1992). There may well be

tensions between these conceptualisations of the organisational division, the resolution of which may lead to differing experiences between organisations of the organisation restructure process.

Fourthly, the division may lead to fragmentation and the loss of identity of the local authority as a whole (Walsh 1991:134). This fragmentation will lead to a weakening of the corporate policy function and the cumulative effects of current and future developments in CCT are likely to accentuate this (Fenwick, Shaw & Foreman 1994). The divergence of interests between sections need not always be problematic, especially if it means a closer relationship between client management and the public, a conclusion supported by the U.K. Audit Commission (1993).

Initial research into the impacts of separation indicate that client side management has fewer staff, less line management responsibility, more resource management responsibility and greater communication with the public (Fenwick et al 1994). By contrast, the researchers found that the provider managers need to put in a 'major cultural shift from council to commercial organisation'. They make the tentative conclusion that

> it is likely then that competition in general, and CCT in particular, are leading to distinct client and contractor forms of management, with styles and methods of their own. The question is raised of whether this diversity enriches local government, or is just another element in its continuing fragmentation (Fenwick et al 1994:9).

In Victoria, the restructuring for competition has certainly 'shaken (sometimes violently) the web of established networks and relationships in local government' (Ernst et al 1997:20). It has seen the separation of client and provider functions in

> old unitary and integrated structure of local government organisation is progressively being displaced by variations on a binary model based around the client-provider split (Ernst et al 1997:18).

While the Office of Local Government has actively promoted the need for a clear separation, the

> cogency of the argument has not been matched by performance, for councils across the state have struggled over the phase-in period to give organisational expression to the core idea of separation (Ernst et al 1997:18).

Although the separation is not fully implemented in all councils, Ernst et al (1997:35) conclude that

> there is emerging evidence from the research that the client-provider split contributes to the atomisation of council organisations into competing and, in some cases, hostile 'service territories'.

They warn that this 'could lead to the dissolution of corporate identity, sense of common purpose and the ethos of collaboration'. This conclusion is challenged by Hinds and Robson who argue that in Victorian local government 'organisational structures of councils are not adequate in all cases to separate client and provider functions in accordance with CCT and National Competition Policy principles' (Hinds & Robson 1996:3) to ensure that probity is maintained.

This discussion is still conjectural as the literature on the client-provider arrangements is new and it has been difficult to make conclusive comments about their long term effects or the likely success. In reviewing a large range of case studies, the commonwealth Department of Finance has concluded that

> the precise results of client-provider arrangements are difficult to assess as evaluative data is scant and it is difficult to assess the impact(s) of such arrangements separately and apart from other measures (DoF 1995:ii).

Organisational Culture

These studies examine the internal changes in public organisations within a framework of 'organisation culture', variously defined, but generally concerned with the set of relationships which operate both within the organisation and with other entities which assist the making of key decisions.

Most of these studies have been described as 'one-dimensional' by Ernst et al (1997) as they emanate primarily from the perspective of senior managers. Few give expression to the voice of stakeholders in local government other than senior management, including middle-level managers and front-line staff:

> the picture that is drawn of CCT, as a result, is far more complex and multi-coloured than that usually conveyed in either official reports or the extant literature (Ernst et al 1997:1-2).

Walsh claims that the U.K. experience of moving towards competition has led to fundamental shifts in attitudes and values in the way that local authorities are managed. He concluded that the 'major change that is being brought about by the introduction of competition is in attitude and culture' (Walsh 1991:136). In making an early assessment of the impact of competitive tendering he predicted that 'it was likely that the most significant changes will be in management structure, processes and attitudes and in the approach to service' (Walsh 1991:133).

A number of attempts have been made to identify the nature of these cultural changes. Uttley and Hooper (1993) develop a continuum between inward looking and outward looking organisations, with the former characterising public bureaucracies supplying goods and services and the latter, the private company in the market place. They argue that the increased use of competitive strategies to deliver services shifts the corporate culture of public organisations more towards an outwards looking focus. Snape (1994) concludes that changes reflect a shift from traditional service provision based on principles of equity and uniformity of standards, to one which emphasises consumerism.

Parker argues that management in privatised companies are clear about the general way that government expects them to change, in particular to be completely self-financing, entrepreneurial and consumer-oriented (Parker 1995a:45). He believes that privatisation is about strategic choices or the direction in which the organisation is to move, and like Uttley and Hooper, assumes that the process of cultural change is a deliberative one.

Organisational change based on business management models has tended to develop a new organisational culture which is favourable to CTC. As one Dutch senior manager puts it,

> Public service managers become entrepreneurs. Entrepreneurs who look critically at the product their colleagues make and the price they want to pay for it. If the government manager can obtain something cheaper elsewhere, for instance on the private market, he will try to change the supplier (Snape 1994:38).

Ernst et al (1997:13) argue that in Victoria cultural change is evident after only two years of CCT:

> the sweep of change being generated by CCT is likely to completely overshadow the changes produced by council amalgamations ... Among other things CCT changes the operating philosophy and core values of local government, its organisational structure and external relationships and its model of industrial relations and human resource management.

Finally, there is need to note the importance of anticipated or threatened changes on the culture of organisations. Vining and Weimer (1990) conclude that the incentives of oversight bodies to monitor management behaviour within an organisation is positively related to contestability of ownership. As ownership becomes more contestable, the organisational arrangements will exhibit behaviours less like government departments and more like the idealised competitive firm. They argue that

> even increasing the threat of ownership transfer among public owners may be one approach ... to increase efficiency somewhat without bearing the political costs of decontrolling prices (Vining & Weimer 1990:10).

Hodge (1996) also cites the threat of competition, combined with the increasing awareness of the need for achieving efficiencies, as a catalyst for performance improvements both within the public sector and within outside service agencies operating nearby.

Conclusions from the Literature Review

Questions such as whether or not to adopt CTC are being bypassed by governments at all levels in Australia as they apply relentless pressures on public organisations within their jurisdictions to become more competitive. This underlines a shift in the use of 'competitive tendering' as procurement towards its use as a powerful management tool for organisational change, especially to organisational structure and culture. In this context, CTC as a process of competition, has become associated with the reforms of new public management.

Yet, despite this shift, CTC 'has been advocated with surprisingly little exploration of the internal environment changes that are likely to be necessary if performance is to improve as expected' (Parker 1995a:57). This is not surprising given the impatience of so many governments to hasten the reform process - studies of organisational change are invariably longitudinal and broad ranging in scope to capture the full extent of the impacts of CTC, research which inevitably takes considerable time to complete.

Despite the preference for CTC (and CCT) by many governments, there are few studies which give such a comprehensive analysis of these impacts, both through time and by incorporating the views of actors at all levels of organisations in which competitive strategies have been introduced. This study aims to contribute to redressing this by focusing on the changes in organisational culture which are associated with the adoption of a CTC regime in Victoria. It aims to identify the

organisational changes which have occurred since the introduction of CCT and to gain insights into the mechanisms which may lead to those organisational changes.

CHAPTER 4: ANALYTICAL FRAMEWORK

This chapter develops a theoretical framework for the study of Victorian councils and of the changes to their organisational culture associated with the introduction of CCT. The chapter first identifies the intellectual paradigm within which the study is located; it then defines and elaborates the concept of 'organisational culture' as it is used in the study and considers changes to organisational culture which have accompanied the introduction of new public management into public services in the past decade or so. A profile of the organisational culture in post-bureaucratic organisations is then constructed, to serve as a template against which the changes in Victorian councils can be compared.

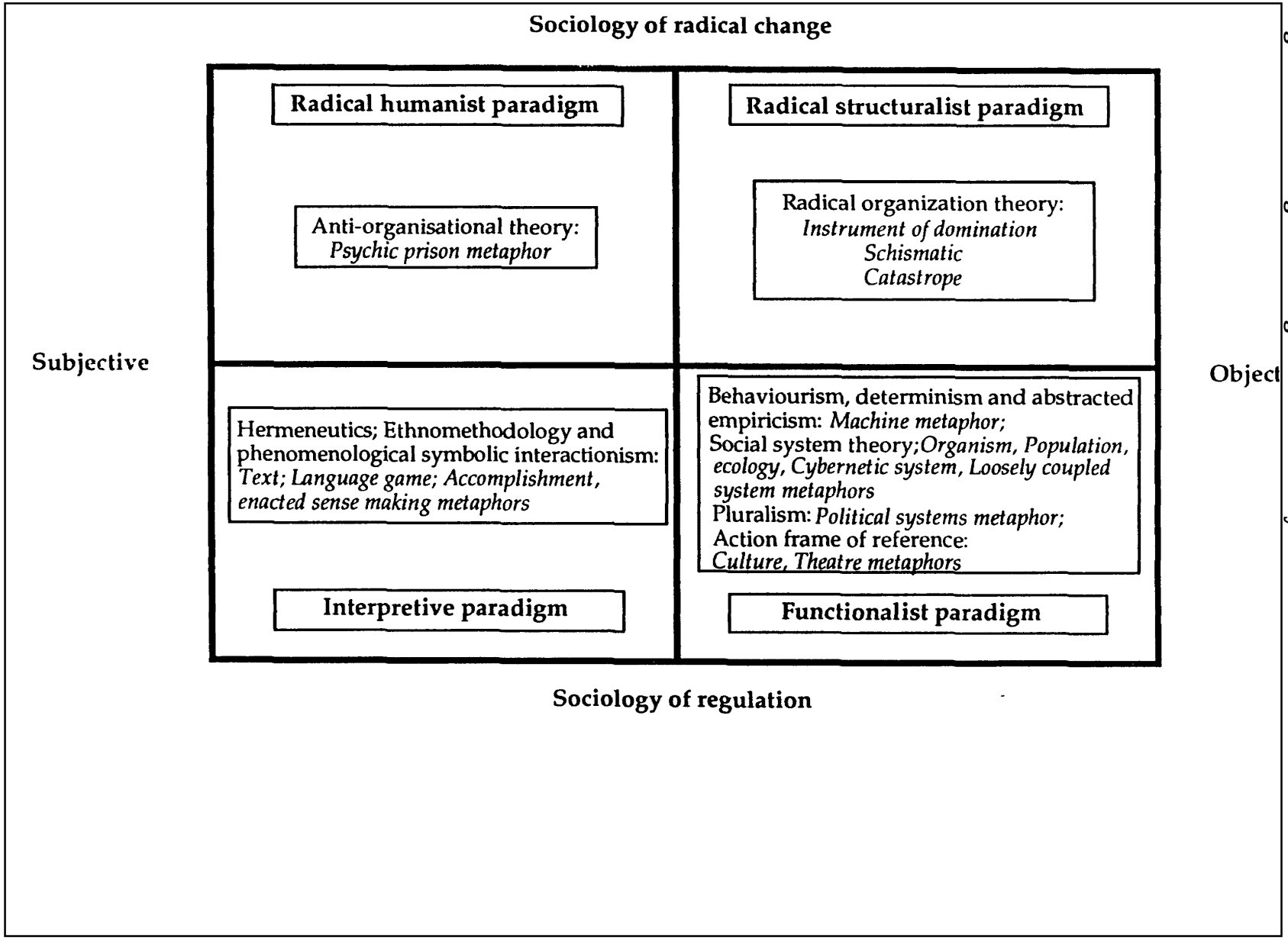
Ways of Looking at Organisations

There are a number of lenses through which the researcher can view an organisation, each reflecting particular views of the organisation and of ways of studying it. The purpose of this section is to make clear the perspective from which this study has been undertaken and to identify the assumptions which flow from this choice.

Morgan's framework (Figure 4.1) is helpful in identifying the paradigms, or 'alternate realities', in which the research can be embedded. It also includes a range of metaphors with which we can associate particular schools of thought about organisations. These paradigms are differentiated by their views of the nature of science (the subjective-objective dimension), and the nature of society (the dimension of regulation-radical change). Each of the four paradigms 'reflect a network of related schools of thought, differentiated in approach and perspective, but sharing common fundamental assumptions about the nature of reality that they address' (Morgan 1980:608).

Morgan's functionalist paradigm is based on the assumption that society has a 'concrete, real existence and a systemic character oriented to produce an ordered and regulated state of affairs' (Morgan 1980:610). Its assumptions

Figure 4.1: Paradigms for Organisational Analysis



Source: Morgan 1980.

encourage a belief in the possibility of an objective and value-free social science in which the researcher can distance from the scene under analysis through the rigour and technique of the scientific method. Society can be studied in a way which generates useful empirical knowledge.

Alternative views from the interpretive and radical paradigms challenge these assumptions in fundamental ways. The interpretive paradigm is based on the notion that society can only be understood from the standpoint of the participant in action rather than the observer. While there is a belief that an underlying pattern and order exists, it is best understood as a 'product of the subjective and inter-subjective experience of individuals'. It rejects attempts at establishing an objective social science as unattainable, as 'science is a network of language games, based on sets of subjectively determined concepts and rules' (Morgan 1980: 610). Radical approaches are predicated on the view of organisations as oppressive and exploitative. Order comes from the process of social domination and as this reflects forces beyond the organisation itself, studies of organisations must be linked to the wider mode of societal organisation.

As these four paradigms are 'alternate realities', choice is made on the basis of the researcher's belief systems concerning the two dimensions of the matrix, and an assessment of the suitability of a particular paradigm for the specific research task to be undertaken. To make an assessment of the patterns of change in multiple local authorities in order to gauge the impact of CCT, the thesis is considering data which have broad public policy implications. This requires comparability and the formation of generalisations, both of which are difficult when it is assumed that there are no objective realities; interpretative analysis has, therefore, been rejected as inappropriate for the study. Radical approaches require an assessment of issues and tensions within the broader social environment, a difficult task for any thesis with limited time and resources. Pragmatically and conceptually, the study has been located within the functionalist paradigm.

Morgan demonstrates that through the use of metaphors, researchers reflect the assumptions inherent in the particular paradigms. He argues that the schools of

thought on organisation theory are based on the insights associated with different metaphors about organisations and that the use of a metaphor serves to generate an image for studying the subject. Within the functionalist paradigm, metaphors attempt to capture and articulate aspects of an underlying view of reality, but from different angles and in different ways.

However, he also recognises that the use of metaphors can only provide a 'partial and one-sided view of the phenomenon', and organisational analysis, as a consequence, becomes an essentially subjective enterprise. He notes,

> that scientists in their detailed research are usually attempting to operationalize a metaphor [which] serves as a sobering influence on the commitment to empirical research and detailed puzzle-solving as an end in itself (Morgan 1980:613).

For the purposes of this study, both the machine and social systems metaphors, within the functionalist paradigm, are rejected (Figure 4.1) primarily because of their limited conception of workers in organisations. Conceived either as extensions of machines, or as just one of the inputs in a system, the role of workers is assumed to be passive and able to be manipulated by management. This betrays an heroic view of management as those who have a monopoly of the rights and skills to determine what happens within organisations.

The machine conceptualisation sees workers motivated solely by economic rewards and manipulated by management in achieving optimum productivity. It also does not cope with circumstances where logical economic decisions are not made; where strategies emerge through a series of one-off decisions and only become clear afterwards or where decisions emerge from the use of power or the prevailing culture (Reilly & Tamkin 1996). The social systems theories assume a form of environmental determinism in which workers, together with other input elements,

supposedly respond to stimuli from internal and external environmental factors, with limited capacity for an active role in management.

The theatre, political and cultural metaphors introduce an explicit social dimension to the study of organisations and give some credence to the capacity of humans (especially to those not in management positions) to shape organisations. These approaches challenge other functionalist approaches which conceive organisations narrowly as goal oriented and management driven. The political system metaphor focuses on the conflicts of interest and the role of power in organisations while the theatre metaphor highlights the roles played in particular 'performances' in the organisation. The culture metaphor draws attention to the symbolic aspects of organisational life, where language, rituals, stories and myths 'embody networks of subjective meaning which are crucial for understanding how organisational realities are created and sustained' (Morgan 1980:616). The culture is identified through examination of these symbolic aspects and of behaviours which are reflective of the same meanings and assumptions.

Selection of the cultural metaphor (that is, the organisational culture perspective) is preferred for this study as it incorporates the purposive nature of organisations, often neglected when using the theatre metaphor. As a more inclusive approach, it can also subsume political behaviour as one of the sets of behaviour which are observable as a dominant culture in an organisation. Indeed, Ott (1989:167) predicts that he 'would not be surprised to see a merging of the power and politics and organizational culture perspectives in the future. Their similarities exceed their differences'. The culture perspective also has particular relevance in this study as one of the stated goals of the reform process in Victorian local government has been to change the culture of local government.

Organisational Culture

In this study, the concept of 'organisational culture' has been constructed with the following characteristics:

- it consists of a pattern of basic assumptions containing shared meanings and values;
- these shared meanings and values are manifested in observable features such as the internal and external organisational relationships, organisational structures, climate, rules and procedures;
- cultures can be 'discovered' through analysis of these observable features;
- organisational culture is a powerful tool capable of 'values engineering' and exercising control over organisation outputs;
- culture can be 'enacted' and transmitted, a process in which managers and dominant coalitions have pivotal roles; and
- the processes of cultural formation and transmission operate in both public and private sector organisations.

There is no generally agreed term, 'organisational culture'. It has been described by Bower as 'the way things are done around here'; by Deal and Kennedy as 'the dominant values espoused by an organisation'; and by Schein as a 'system of shared meanings' (Robbins, Bergman & Stagg 1997). Uttley and Hooper (1993) define corporate culture more simply as a series of relationships within the organisation and between the organisation and other entities. Managers (or 'entrepreneurs') will establish those relationships and give emphasis more to some than to others as part of a search process associated with competition; this search may include some or all of the relationships identified in Table 4.1.

Schein elaborates his definition to include notions of dominant values, by describing organisational culture as,

> A pattern of basic assumptions invented, discovered or developed by a particular group as it learns to cope with its problems of external adaptation and internal integration - that has worked well enough to be considered valid

and therefore to be taught to new members as the correct way to perceive, think and feel in relation to those problems (Schein 1987:385).

Table 4.1: Organisational Relationships

INTERNAL RELATIONSHIPS	EXTERNAL RELATIONSHIPS
Objectives of the enterprise eg profit maximisation, growth, increasing market share	Regulatory and other constraints eg the regulations under which firms operate and the nature and scope of government in constraining or encouraging areas of economic activity
Managerial structure and responsibility eg the degree to which authority is delegated, flexibility of management	Customers eg whether customers are seen as an essential part of the business, providing goals and objectives for the business to meet
Organisation and methods of production eg factor mix	Suppliers eg whether suppliers are treated as adversaries or partners
Personnel policy eg recruitment and promotions policy	Competitors eg whether competition is viewed as a process to be avoided or central to meeting customer needs
Nature and role of trade unions eg whether the workforce is unionised, bargaining procedures	
Structure and determinants of rewards eg profit sharing schemes	

Source: adapted from Uttley & Hooper 1993:41

The ‘pattern of basic assumptions’ includes the following: observable behavioural regularities, norms and values (especially those espoused by the dominant coalitions), philosophy, informal rules and the climate (that is, feeling, ambience and tone) of the organisation. Kotter and Heskett (1992) divide these basic assumptions into two types: the invisible, or values, which are harder to change; and the visible, or behaviours, which are generally easier to change. This is consistent with Rainey’s view of culture as comprising the ‘symbols and core values’ of the organization (Rainey 1997:273). Both persist over time, even when group membership changes,

because they have repeatedly led people to make decisions that usually worked for the organisation. With repeated use, the assumptions slowly drop out of people's consciousness but continue to influence organisational decisions and behaviours; that is, they continue to provide control on organisational behaviour.

The issue of 'embeddedness' arises in exposing the assumptions underpinning the organisational culture perspective. Embeddedness assumes that actors do not 'behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by a particular intersection of social categories that they happen to occupy' (Granovetter 1985:487). By contrast, in the neoclassical tradition, which serves as a base for new public management, actors are assumed to behave independently; indeed, Granovetter argues that they are treated as 'a frictional drag that impedes competitive markets'. Alternative traditions are often labelled as 'oversocialised conceptions' of human behaviour in which actors acquire 'customs, habits, or norms that are followed mechanically and automatically, irrespective of their bearing on rational choice' (Granovetter 1985:485). In this thesis, the theoretical extremes of under- and over-socialisation are rejected in favour of the assumption that actors are influenced by organisational culture yet are still free to make rational decisions; their behaviour is embedded in 'concrete, ongoing systems of social relations'. In this way, while they are influenced by the developing organisational culture, they retain the capacity to deliberately re-engineer that culture.

Creating and Sustaining Organisational Culture

Establishing culture can be a process of competitive search for relationships which give voice to the preferred meanings and values of the organisation; they are developed considering the internal and external pressures faced by the organisation and then transmitted and sustained by the organisation. This process can be seen in contemporary public organisations faced with acute pressures for change; in particular, with local councils caught in the pincers of state government reform agendas and community pressures for enhanced services and reduced tax burdens. The various theories and techniques which surface under these high pressures offer the possibility of public organisations establishing new mind-sets and new values

for undertaking their business, 'backed by a detailed language and protocols through which organisation members could begin to think, talk and act in new ways' (Morgan 1997:142).

It is a process of 'reality construction' that allows people to see and understand particular events, actions, objects, utterances, or situations in distinctive ways (Morgan 1997:138). These distinctive ways are generally those conceived and transmitted by the dominant coalitions in the organisation and its environment. In this study, the dominant coalitions must include the powerful state government of Victoria which has exercised such a strong role in the development and sustaining of the cultural changes in both state and local government.

Successful organisations build cohesive cultures around common sets of norms, values, and ideas that create an appropriate focus for doing business (Peters & Waterman 1982; Denison 1990). There are numerous examples of organisations which have consciously established new cultures, the ideas for which have come from external sources. The concept of the service-driven organisation found a fertile bed at IBM, continual innovation at 3M, and the total quality and customer service movements of the 1980s and 1990s not only influenced many individual organisations but have created a cultural change in management at large.

This assumes that cultures can be manipulated, and that there is some choice involved in the process of cultural development and change. As Siehl and Martin (1987:433) reflect:

> The formation of an institution is marked by the making of value commitments, that is, choices which fix the assumptions of policy makers as to the nature of the enterprise, its distinctive aims, methods and roles.

This study assumes that culture can be created, sustained and transmitted, an assumption generally conceded in the literature (Weick 1979; Cummings & Huse 1989; Uttley & Hooper 1993; Morgan 1997). Weick (1979) uses the term, 'enactment',

to describe the way that organisations shape and structure their realities, giving particularly consciousness to pressures emanating from the organisation's environments. Culture is assumed to be an 'ongoing, active process of reality construction' with clearly defined mechanisms of transmission - organisational structure, rules, policies, goals, missions, job descriptions and operating procedures, all of which are cultural artefacts shaping this ongoing reality (Morgan 1997:144). Specifically, the study accepts the importance of structural variables in ensuring effective change (Stace & Dunphy 1996).

As a tool of control, culture is potentially superior to other mechanisms such as economic rewards or formalised rules, because it appears to be more inclusive, more pervasive and less identifiable (Anthony 1990). Paradoxically, for those who exhort the control of cultures as a tool of change, it tends to be highly resistant to change because it is so deeply rooted (Sinclair 1991). Schein (1985) treats culture as an adaptable and tangible process, emphasising the way in which an organisation propagates its culture to new members via a rational process of teaching and learning.

Writers on organisational culture describe the key roles leaders play in forming, maintaining, and changing those cultures (Rainey 1997). The leader's position of power may lend him or her a special advantage in developing corporate value systems and codes of behaviour because formal leaders often have important sources of power through which they can encourage, reward, or punish those who follow their lead (Morgan 1997:137). They have a pivotal role in the reframing of organisations also through selection of staff, their own behaviour as a role model, through the rites and rituals, symbols and artefacts and stories they generate and sustain.

While formal leaders do not have a monopoly on the ability to generate shared meaning, a number of studies have recognised that the most visible factor that distinguishes major cultural changes that succeed from those that fail is competent leadership (Kotter & Heskett 1992; Burnes 1992). Indeed, Schein (1987:381) argues that the 'only thing of real importance that leaders do is to create and manage

culture'. This role is often easier at some times than others. For example, during periods of crisis, change and dislocation or when there is a new leader or where the organisation does not have a coherent and longstanding culture; all situations typical of those faced by most Victorian local councils in the period which began with amalgamation and included the appointment of new CEOs and commissioners.

Further, organisations with strong cultures are usually more successful than those without, because of behavioural consistency and because culture can act as a substitute for formalisation; however, culture can also be a source of resistance to change. For example, the aim of the quality and service 'movements' were to create a new kind of cultural revolution to replace the old bureaucratic ways. Seventy per cent of firms were unsuccessful largely because they failed to replace the bureaucratic logic covering the old mode of operation. The re-engineering and empowerment movements have encountered a similar experience (Morgan 1997:142).

Throughout the preceding discussion the assumption has been made that private and public sector organisations operate similarly in terms of cultural enactment and transmission, an assumption which is difficult to challenge in the light of Parker's note that,

> in the organizational theory, organizational behaviour and strategic management literatures in particular, the idea that there are fundamental differences between public and private sector organizations has tended to be discounted (Parker 1995a:5).

Cultural Change in Public Sector Agencies

Parker (1994, 1995, 1995a) uses a number of key characteristics to describe the cultural changes which have occurred in public sector organisations moving towards privatisation. Though related to ownership change and the concept of CTC as privatisation, Parker's conclusions becomes relevant to this study when there is a goal to import private sector cultures to the public sector. The cultural changes noted by Parker included the following:

(1) Goals more commercial and customer focused: freed from political intervention, the emphasis switches towards commercial roles associated with a renewed concern for meeting consumer needs. Changing goals may also reflect a change in power in the organisation involving the introduction of a new managerialism which challenges the previous professional domination.

(2) Management implementing organisational and other changes which signal the new culture: in a shift from public to private, a form of discontinuous change is needed involving double learning where existing practices, indeed existing thinking, needs to be challenged. For this reason, new management which does not carry the baggage of the past may have to be imported.

(3) Labour flexibility: challenges to the existing contract of employment from life time or long term tenure to one based on a contract, and especially a contract with performance criteria. Privatisation has generally been associated with more labour flexibility, the spread of personal contracts of employment, new performance related pay, widened pay relativities, decentralised negotiations and perhaps even derecognition of trade unions.

(4) More flexible communication and reporting systems: where environmental uncertainty, task complexity and task interdependence increase with privatisation, there will be an increasing need for information processing capabilities. Less slack and few excess resources mean that the organisation must react more quickly to adverse environmental conditions. Privatisation may well alter the type and form of information that management wants to receive and transmit around the organisation. For instance, we might expect a movement away from the rule book and an emphasis on reporting and checking on the operation of procedures and a greater emphasis on success in achieving commercial targets or outcomes.

(5) Organisational structure: we might expect both privatisation and quasi-privatisation to lead to significant changes in organisational form, away from more bureaucratic, mechanistic and functional structures towards more organic and decentralised organisation forms. It may involve the introduction of profit centres

managed by their own senior management and judged by their ability to achieve targets. There may also be an increased use of CTC for services and supplies previously provided inhouse as management searches for means to reduce costs. There may be an expectation that there will be a flattening of the management pyramid and the pushing of decision making and accountability down the line. However, this decentralisation is likely to be within the context of more carefully defined performance outcomes and/or greater contract arrangements between senior management and the management of decentralised units.

Uttley and Hooper (1993) studied the changes in corporate culture of public sector organisations which have increased their use of competitive tendering. They argue that differences between the cultures of public sector bureaucracies and private firms in the supply of goods and services relate to organisational objectives, assessment of performance and the relationship with the customer. They see a continuum between inward looking and outward looking organisations with the former characterising public bureaucracies supplying goods and services and the latter, the private company in the market place.

The cultural facets of inward looking organisations are described as:

(1) objectives determined by reference to the organisation, not to the customer;

(2) motivation related to achieving bureaucratic objectives;

(3) performance assessed by comparison with pre-determined and fixed norms set by the organisation itself; there is little incentive to exceed or improve these norms; and

(4) customer needs determined by the organisation and the providers rather than by the search process (which Uttley and Hooper define as ‘competition’) and customer response.

These cultural characteristics can be contrasted with those of outward looking organisations or firms operating in a profit maximising environment with the following characteristics:

(1) objectives determined by reference to the customer through a search process;

(2) motivation related to criteria which reflect satisfying customer needs as customers see them;

(3) performance by comparison with achievements of competitors with incentives to exceed or improve these norms; and

(4) customers needs determined by the search process and customer responses measured against alternatives offered by competitors.

The above continuum is consistent with the characterisation of the bureaucratic/post-bureaucratic 'rhetorical battle lines' advanced by Barzelay (1992:8-9) who sees bureaucratic agencies as focused on their own needs and perspectives with the customer-driven agency focused on customer needs and perspectives.

However, Uttley and Hooper acknowledge that public sector organisations could have outward looking cultures and likewise that some private sector companies may well have inward looking cultures. They suggest that the general inward looking tendency of monopoly supply bureaucracies emanates from extreme entry barriers to potential competitors. Importantly, they argue that competition shifts inward looking organisations along the continuum towards outward looking behaviour, a means of changing culture by introducing the entrepreneurial function.

They argue that a number of changes (to corporate culture) occurred in organisations because of the environment of compulsion associated with the introduction of CCT in the U.K. First, compulsory tendering forced authorities to redefine their objectives, increasingly by reference to customer preferences rather than in terms of internal bureaucratic factors. This required the preparation of tender specifications

with services measured in terms of outputs instead of the historic measurement of inputs. Because the tendering process necessitates detailed specifications of output requirements, authority cultures have been forced to adapt in the context of organisational objectives. This view is supported by others who conclude that the initial response of U.K. local authorities to CCT involved an emphasis on performance with managers having clearer objectives (Walsh 1991:133) and better knowledge of services and costs (Walsh & Davis 1993:165).

Second, competitive tendering appears to have improved the performance aspects of service provision, measured by the average costs of given service outputs. Competition, or the threat of substitution by private firms, forces inhouse operations to lower their unit costs, whilst providing councils with comparative information on the costs of alternative sources of supply.

Third, the experience of competitive tendering displays a shift in the motivation of authorities from achieving bureaucratic objectives towards satisfying customer needs. As Walsh acknowledges this has an impact on the setting of priorities:

> A major gain from the introduction of competition [has been] that it [has] led authorities to take a fresh view of the service that they delivered and particularly at services that had received little attention and sometimes little management in the past (Walsh 1991:134).

It is the linkage between competition or market-orientation and performance which characterises most variants of new public management and post-bureaucratic organisation. As Barzelay notes, many commentators 'argue for utilizing competition as a device for holding operating units of government accountable to their customers' (Barzelay 1992:115).

Contemporary organisations with an outwards focus are often described as 'post-bureaucratic' in the sense that by adopting particular cultural changes, a preference is being expressed for less bureaucratic interference and for more controls over bureaucratic and political discretion. The analyses by Parker and Uttley and Hooper, provide a starting point for establishing a template of a post-bureaucratic

organisation, although two important dimensions have been omitted: first, they do not give prominence to the increasing use of contracts to mediate behaviour within new public organisations; and second, they make little reference to the local democracy elements which have been part of the long traditions of local government in both the U.K. and Australia.

The issue of contracts as a medium of behavioural control is addressed by Harden (1992:vii) who describes the increasing importance of contracts in the U.K. public sector to an extent that it is 'nothing less than what might be seen as fundamental attempts to reorganise the structures of our public institutions'. Stewart (in Snape 1994:3) argues that 'government by contract has become a dominant element in the emerging pattern of public management' (see also Alford & O'Neill 1994) and that the change from hierarchical bureaucratic processes to management by contract is being driven by CCT and voluntary contracting out. While recognising that the move to contracts for public service delivery has increased responsiveness to, and consultation with, clients, in many cases 'contracts deal poorly with ambiguity in the policy process and inhibit the exercise of judgement which is based on dialogue rather than measurement' (Deakin & Walsh 1996)

In a number of other countries, notably New Zealand and the Netherlands (and also in the state of Victoria), contracts are being increasingly used to regulate different relations within and between organisations, replacing the traditional modes of regulation such as rules and regulation, custom and duty, and professional practice, typical of bureaucratic organisations. Given the identification of culture with relationships, the processes involved in mediating relationships become particularly relevant to any discussion on organisational culture.

The greater use of contracts has clearly been influenced by agency theory and by public choice theory and its concern to minimise discretion available to 'budget maximising bureaucrats and politicians' (Niskanen 1971). In the Netherlands, internal performance contracts are established between political leadership and directors of divisions; contracts are made between directors and their own divisional staff; contracts are made between divisions if one division provides a service for

another. Externally, some authorities also establish contracts to regulate their relations with community or voluntary groups which they financially support. There are also examples of contracts being used to regulate relationships with joint authorities and boards (Snape 1994:35). So important has the contract mechanism become in contemporary public sector management, that Sneddon (1995:6) argues that

> contract has become the most significant mechanism for ordering of public resources and the delivery of services ... it has replaced public administration in significant areas of government.

Uttley and Hooper's analysis pays little attention to the long traditions of governance at local level and, especially, of the dynamics of the bureaucrat-elected member relationship. Their approach ignores the significance of the tension between actors, and between the corporate and representative roles of elected members. Public choice proponents generally prefer to limit discretionary activity in organisations by mechanisms such as the use of contracts and by drawing sharp distinctions between policy and administration roles, in particular. Administration is seen as an instrumental activity and appropriately the domain of managers; this ignores the political dimensions of the way choices are made, the way policies are devised and administered, the way programs are managed (Hughes 1994).

Parker's work has focused largely on statutory authorities and government business enterprises where direct accountability to the community and representativeness have not been crucial organisational values. In the light of the strengthening of executive power and the increasing politicisation of public services in most contemporary public sector reform programs (see, for example, Halligan & Power 1992), the omission of governance issues in both Uttley and Hooper and Parker's models is significant. Any model of post-bureaucracy appropriate to the public sector at large must consider the issues of governance, policy formation and administration, and the politician-elected member nexus.

The values or cultures associated with the more radical NPM agenda find expression in the emergence of the 'post-bureaucratic' state which includes a shift away from the traditional model of government as a set of monolithic bureaucracies, largely professionally driven, towards a model of government as a pattern of politically tightly controlled small, policy focused 'core' departments supervising decentralised mission-centred organisations, inside and outside the public service, and which are driven, to some extent, by competition and customer expectations (Barzelay 1992; Laffin & Painter 1995). The post-bureaucratic state also places considerable value on the use of contract mechanisms to mediate relationships (Alford & O'Neill 1994), that is, to help to define organisational culture, preferring this to more traditional means such as custom and convention, rules and regulation, and guidelines.

Traditional Local Government Culture

Given the paucity of robust research on this topic, especially as it relates to Victoria, the outline below is not a detailed one. Given the thrust of the reform agenda, it might be assumed that a stereotypical traditional council culture has the following characteristics:

(a) opaque and undifferentiated roles and responsibilities between elected members and officials in relation to policy and administration;

(b) a centralised, hierarchical bureaucratic structure, with management primarily concerned for process and attention focused on inputs more than on outcomes and performance;

(c) behaviour is mediated through rules and regulations, custom and practice and through the codes of conduct for particular professions represented in the council for example, accounting, community services, municipal management, engineering and so on;

(d) most services are delivered by inhouse work groups, decisions about which were made by reference to political criteria rather than to markets and competitors; and

(e) it has communications and reporting systems which focus on checking and following guidelines and rule books more than on outcomes and targets.

This picture of bureaucratic local government culture has been supported by research undertaken by the National Review of Local Government Labour Markets (NRLGLM), nearly a decade ago. At the time, and in contrast with the downsizing of commonwealth and state public sectors, the total local government workforce had grown as a result of the additional responsibilities assumed especially in the area of community services.

Howard argues (1988:39) that the opportunities that were presented for change and improvement, however, were stunted by the allocation from other spheres of government of additional resources to fund the new functions. This may have encouraged both an incremental approach to management and a management culture which was more reliant on external sources of funding.

Howard also identified other impediments to reform such as the requirement for senior managers to be 'qualified' for office by holding municipal certification.

> [This] meant that local government administration has tended to remain inward looking with a style that stresses differences rather than similarities between local government administration and public administration in general and between public and private administration. Local government tends to be staffed by traditional managers, predominantly men, trained in 'municipal administration'. (Howard 1988:39).

He argued that the certification process provided a barrier to entry for able and well qualified 'outsiders' which not only increased the bargaining power of senior managers within local government but also had the effect of not renewing the overall standards of management. In particular, Howard’s research found that personnel

management in local government was poorly developed and with the notable exception of a small number of larger councils, 'few [authorities] have established staff development programs and instituted equal opportunity programs and industrial democracy arrangements' (Howard 1988:42). He suggested that senior managers needed to become more aware of changes and developments in public sector management practices, particularly in management improvement.

These rigid employment patterns were endorsed by Gerritsen and Whyard (1998:7) who argue that, traditionally,

> the labour force [in local government] was in narrowly defined categories, with wages, awards and salaried positions being strictly defined under the Local Government Acts. Local Governments were administered by Shire/Council clerks, who were appointed on clearly defined, industry-specific, and statutorily-determined formal qualifications.

The issue of gender segmentation in the local government industry and the continuing concerns for employment equity in local government was also considered by the NRLGLM. It had previously been asserted that local government was traditionally a male-dominated industry to a degree not equalled in the commonwealth and the states (Corbett 1992:148); historically a male preserve (Gerritsen & Whyard 1998:7). Jones (1988:88) explains this:

> Historically, the under representation of women in local government employment reflected the nature of the services it provided. Activities such as kerb guttering, garbage disposal, drainage and road maintenance are non-traditional jobs for women in Australia. The expanding role of local government into the areas of public health, town and social planning and human services has provided increased employment opportunities for women in local government ... However, there are many barriers to women's progress into these positions, and once in, upwards in the pecking order.

The Review also concluded (NRLGLM 1989:1) that there were other aspects of local government employment which were also proving to be impediments to greater

economic and social efficiency. Barriers preventing employment flexibility and efficient human resource management in local government included outmoded recruitment and staff development practices; few clear career paths because of the large range of job classifications and barriers preventing internal mobility; inappropriate internal structures; lack of training opportunities and a planned approach to human resource development; lack of portability of superannuation and other benefits; and legislative requirements for statutory positions.

What little research is available has exposed inefficiencies in local government management and an organisational culture which was not focused on performance, employment equity, and openness to competition, especially in regard to the appointment of senior staff. Despite efforts initiated through the commonwealth and state Ministers for Local Government and at state government level in all local government systems, earlier reforms to local government were clearly inadequate, certainly from the perspective of the Victorian state government.

Culture in Post Bureaucratic Organisations

The post-bureaucratic paradigm is 'a new generation of the extended family of ideas about how to make government operations productive and accountable' (Barzelay 1992:117). Five features of this multi-faceted concept have been discussed above and identified for this study. Their characteristics and underpinning values are outlined below.

Clearer Distinctions between Policy and Administration Roles

In post-bureaucratic organisations there is an attempt to clarify and separate the roles of policy formation and administration: the CEO and staff are to translate policy and operational goals made by elected members acting as a 'board of directors'. The slogans 'management by objectives' and 'let the managers manage' refer to a process whereby managers 'get on with the job by implementing these operational goals in relation to agreed resource constraints, and without further interference by government' (Yeatman 1987).

The policy-administration separation reflects a long and continuing debate in public administration. It has re-emerged in the 1990s under the influence of public choice theory where the separation is aimed at guaranteeing less biased advice to government and to avoid capture of the policy process by 'budget-maximising bureaucrats' (Niskanen 1971).

Disaggregation of Bureaucracies

This involves the replacement of monolithic and mechanistic bureaucracies with smaller, more organic core-based organisations and associated decentralised satellite business units. This decentralisation is usually within the context of more carefully defined performance outcomes and/or greater contract arrangements between senior management and the management of satellite units (more often known as 'business units') and reflect a shift from operational to strategic control.

Post-bureaucratic organisations use strategies such as CTC, flattening of hierarchies and liberalisation, to disaggregate their bureaucratic structures. The decentralisation which follows recognises that the rate of change 'demands that those who operate closest to the action ... be empowered to take decisions that allow a quick and effective organizational response' (Stace & Dunphy 1996).

There is evidence that public organisations have become more aware and appreciative of the division of roles in government between client and provider; as a client purchasing services for its community and, secondly, as a provider of services to its own and to other communities. This client-provider split has meant that many public authorities have taken on very different structures with the introduction of business units or incorporated businesses coexisting with the traditional bureaucratic organisational structure.

The assumptions and values reflected in the disaggregation of bureaucracies concern a shift towards strategic control (especially by reasserting control over bureaucracies by elected representatives); developing a structure which facilitates competition for public sector goods and services; and a reconsideration of the question of what public services represent the core business of government.

Use of Contracts to Mediate Behaviour

The contract mechanism replaces rules, duty statements, custom and other similar mechanisms to mediate behaviour and relationships in organisations. The contract device is typically used in (a) establishing employment contracts, and (b) in service delivery, specifically in developing service contracts with clients and customers, and in formalising contracts with service providers.

This challenges the existing contract of employment from life-time or long term tenure to one based on a contract, and especially a contract with performance criteria. In terms of labour market changes, this is typically associated with more labour flexibility, the spread of personal contracts of employment, new performance related pay, widened pay relativities, decentralised negotiations and, perhaps, derecognition of trade unions.

In terms of service delivery, it is associated with the processes of specifying service outputs especially in defining desired levels of service for recipients, monitoring the performance of service providers, and in clarifying rights and responsibilities of providers and clients in providing particular public services. This mechanism is designed to increase accountability, reduce discretion by clients and providers, and focus the organisation more on performance.

Replacement of Political with Market-based Decisions

Barzelay (1992) sees post-bureaucratic organisations concerned with ‘results citizens value’, replacing ‘public interest’, that is, concern for greater market orientation and customer focus. Performance is no longer assessed by comparison with pre-determined and fixed norms set by the organisation itself but by comparison with competitors. The preference for, and faith in, market mechanisms include privatisation, contracting out and exposing government funded activities to competition where possible. Competition forces cost reductions whilst providing councils with comparative information on the costs of alternative sources of supply,

that is, it makes public organisations more 'outwards' or market focused in their behaviours.

In post-bureaucratic organisations, objectives are no longer determined solely by reference to the organisation, but redefined increasingly by reference to customer preferences, leading to a stronger sense of customer centredness or focus. This is achieved through the use of service contracts, benchmarking and the like to gauge and better satisfy customer demand.

Increased Flexibility, Especially in Communications and Reporting Systems

The performance or outcomes orientation of post-bureaucratic organisations shifts the focus of communications and reporting systems. Detailed input scrutiny (especially by elected members) and the use of guidelines, rule books on procedures and systems of checking are replaced by a greater emphasis on success in achieving previously agreed commercial targets or outcomes. This promotes 'mission driven' operations, flexible responses and a focus on performance more than on process. The emphasis towards reporting on outcomes or on meeting of targets is also connected with enhanced accountability regimes.

The five characteristics represent a significant shift in the nature of relationships between: elected members and officers (policy-administration divide); the organisation and its community (citizen to client); the organisation and its workers (tenure to contract); the organisation and state government (performance oversight rather than rules compliance); and between senior officers and more junior staff (management-operations).

The characteristics are not independent as a number of themes (mirroring particular values) permeate them, for example, the issue of enhanced role clarification can be found in each. The client-provider split aims to clarify roles within organisations; the policy-administration divide attempts to clarify primary roles and demarcation of responsibilities between elected members and senior officers in the organisation;

contracts specify more precisely what is expected of each party; a focus on market-based decisions and on the outcomes reporting represent attempts to redirect the focus of elected members, in particular, towards strategic issues and away from the minutiae of service provision. Similarly, the values of performance management, economy in the use of resources and the adoption of more 'business-like' approaches to service delivery are expressed in each of the characteristics.

The values of the post-bureaucratic organisation reflect a genuine divergence from the culture of the past. The power of this change can be seen by using just one, relatively small, example. The transformation of 'service units' into 'cost centres' is more than a simple change in nomenclature as it typically embodies a preference for decentralisation of financial management, an enhanced concern for unit costs and, perhaps, a reduced concern for service entitlement by promoting cost recovery through a user-pays regime. In similar vein, CTC has emerged as one of the critical tools which post-bureaucratic organisations can use to re-engineer their culture. While it remains important as a means of procurement, the power of CTC as a lever of change has been explicitly recognised in the discussion above on a number of the characteristics of the post-bureaucratic organisation.

The five characteristics of the post-bureaucratic organisation have considerable congruence with the most comprehensive statement of the Victorian government's model for public sector reform, enshrined in the Management Improvement Initiative announced in 1993 (Table 4.2). The initiative promotes clear separation between client and provider functions, refocussing agencies on core business, greater use of market mechanisms, improved customer focus, the use of contract mechanisms and improved reporting and accountability mechanisms. Clearly, the Victorian government was intending that its agencies, including local government, would develop organisational cultures consistent with the post-bureaucratic model, even if that particular term was not used to describe the desired transformation.

Table 4.2: Management Improvement Initiatives of the Victorian Government

1	Focus on clear responsibility and accountability for results emphasising outputs and transparent contracts;
2	Empowering consumers through use of service commitments;
3	Minimising government bureaucracy by focusing on core business and separating client and provider roles;
4	Preference for market mechanisms;
5	Professional and business-like management of public agencies including devolution of managerial responsibility, performance incentives and improved financial management and reporting systems.

Source: from Alford & O'Neill 1994

CHAPTER 5: METHODOLOGY

This chapter outlines and justifies the methodology utilised in the research undertaken as the basis for this thesis. The chapter first outlines the theory testing design that has been adopted; it then discusses the choice of the case study approach selected for the research together with the protocols established to ensure that the research has greater validity and reliability. Finally, the chapter raises some of the theoretical issues which arise from the particular methodology chosen for this study.

Theory Testing

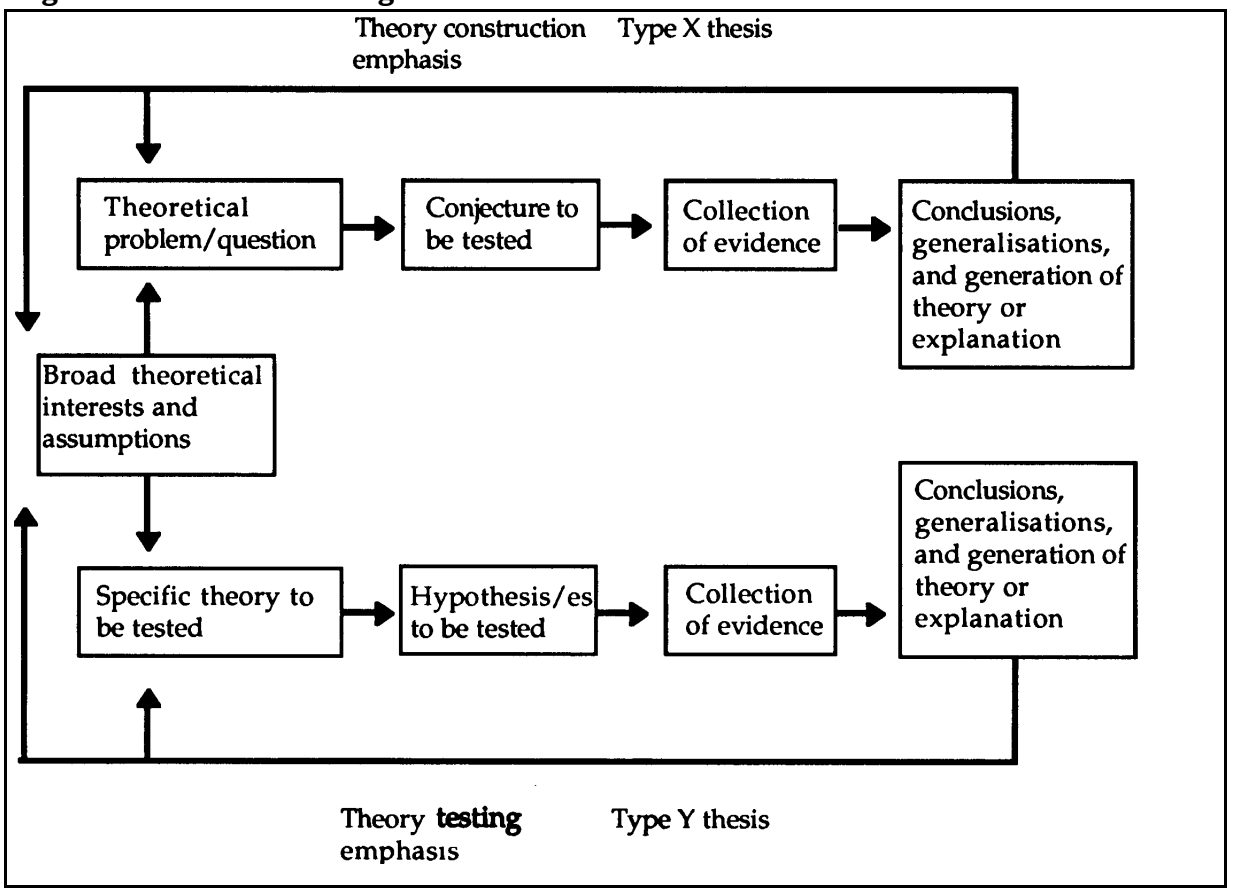
Most social science research may be labelled as either 'theory testing' or 'theory construction' (Lewins 1993), although Lewins concedes that research activity can be described as a circular enterprise in which one could start with a theory or by ending up with a theory. This thesis has been developed as a Type Y thesis (Figure 5.1) with the researcher intent on testing the proposition that the introduction of competitive strategies (specifically, CCT) would encourage Victorian councils to become more outwardly focused, post-bureaucratic organisations.

This thesis proceeds largely as anticipated by Lewins (Figure 5.1): (1) the hypothesis has been constructed from a study of the literature from the fields of privatisation, competition, local government reform and new public management; (2) data have been collected from various sources, including fieldwork interview, document study and other related research; (3) the data were interrogated and results determined; and (4) the conclusions were tested against the hypothesis and confirmed or, at least, qualified.

Research designs are concerned with organising the research activity, including the collection of data, in ways that are most likely to achieve the research aims. Easterby-Smith, Thorpe and Lowe (1992:33) argue that this process involves making choices which reflect different philosophical positions between positivism and social constructionism (see Table 5.1). The dichotomy between these has been well

documented and need not be argued here, however, it may be useful to locate this particular study within the polar extremes.

Figure 5.1: Research Design



Source: Lewins 1993:21.

Table 5.1: Key Choices in Research Design

POSITIVIST APPROACHES	SOCIAL CONSTRUCTIONIST APPROACHES
researcher is independent	researcher is involved
large samples	small numbers
testing theories	generating theories
experimental design	fieldwork methods
verification	falsification

Source: adapted from Easterby-Smith et al 1992.

The approach used in this study is largely consistent with the positivist or functionalist approaches (elaborated in Chapter 4), in relation to issues such as maintaining researcher independence, in assuming a theory testing orientation and in accepting the values of detachment and objectivity. However, it falls between the two extremes in respect of using small samples and in using fieldwork methods. These divergences from the positivist model relate more to the nature of case study approaches in general, rather than to any philosophical differences.

Two further elements of research design need to be included to link the data with the theory (Yin 1994; Lewins 1993). First, the design should indicate what is to be done after the data have been collected, as indicated by the logic linking the data to the propositions. In this case, the process of 'pattern matching' has been used, where the patterns discovered in the case studies are matched to the theoretical proposition, a template of characteristics of the post-bureaucratic organisation. Second, the extent to which the patterns are matched determines the extent to which the theory tested actually holds. Given that we are dealing with multiple characteristics in multiple case studies and that the data are essentially qualitative, this usually reduces to an issue of judgement (Yin 1994:26-27).

It should be noted that the cases are not sampling units and are not chosen primarily for this reason. Multiple cases, like multiple experiments or multiple surveys, are used where previously developed theory is compared with the empirical results of each case study (Yin 1994:31). If two or more cases support the same theory, replication may be claimed. Yin argues that the empirical results may be considered more potent if two or more cases support the same theory but do not support an equally plausible rival theory (a level two inference).

Selection of the Case Study Approach

Yin (1994) has developed a clear summary of the options for researchers and the appropriate circumstances in which each option should be adopted (Table 5.2). The three conditions for choice of strategy surround (a) the type of research question

posed, (b) the extent of control an investigator has over events, and (c) the degree of focus on contemporary rather than historical events. Yin argues that, 'in general, case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life context' (Yin 1994:1). These conditions all point towards the case study approach being most appropriate for the research around which this thesis has been developed.

Table 5.2: Relevant Situations for Different Research Strategies

STRATEGY	FORM OF RESEARCH QUESTION	REQUIRES CONTROL OVER BEHAVIOURAL EVENTS	FOCUSES ON CONTEMPORARY EVENTS
experiment	how, why	yes	yes
survey	who, what, where, how many, how much	no	yes
archival analysis	who, what, where, how many, how much	no	yes / no
history	how, why	no	no
case study	how, why	no	yes

Source: Yin 1994:6.

The research questions in this thesis are mainly explanatory as they are concerned with the issue of how and why councils have responded to the introduction of CCT. These questions deal with 'operational links needing to be traced over time, rather than mere frequencies or incidence' (Yin 1994:6), questions which are likely to favour the use of case studies, experiments or histories.

Although case studies and historical studies overlap, case studies have the unique advantage of dealing better with a full variety of evidence - documents, artefacts,

interviews and observations - beyond what might be available in the conventional historical study. The case study method is often preferred in examining contemporary events, particularly when the relevant behaviours cannot be manipulated (as in experimental research) or where the views of present actors are critical to the analysis (not always available in historical studies).

In experimental research, the context and the phenomenon are sufficiently divorced to enable a focus on a limited set of variables over which the researcher has strong control. In researching the impact of CCT on Victorian councils, this researcher was clearly unable to control the variables, of which there were many. The survey approach, while able to canvas a wide range of data from many sources, was also rejected as unsuitable, because of its limited analytical capacity to illuminate questions such as why particular decisions were taken by the various actors in responding to CCT.

Case study enquiry copes with multiples variables of interest, and does not require the researcher to control them. The case study is an empirical enquiry that 'investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident' (Yin 1994:13). The case study approach has a distinctive place in evaluation research. It explains causal links in real-life intervention which are too complex for survey or experimental strategies, for example, the complexities which arose from multiple changes for local authorities (amalgamations, new senior management, an alien political-bureaucratic relationship with the appointment of commissioners, the introduction of rate capping, budget reductions of 20 per cent, reduced service functions, and more organisational complexity) would have been difficult to unravel by survey methods.

Case study approaches have not been without their critics. It has been asserted that they lack rigour or that they are too often based on equivocal evidence or that biased views intrude. While these cannot be entirely designed out of the research, steps can be taken to minimise their effects. In this study, the triangulation of data (Patton

1987; Denzin 1988) by using structured interviews, documents and other research has been used in an attempt to cross check the data.

It has been argued that case studies offer a limited basis for scientific generalisation, although this criticism is muted in situations such as in this research where multiple case studies are used. Case studies, like experiments, are generalisable to theoretical propositions although not to populations or universes. 'The investigator's goal is to expand and generalise theories (analytic generalisations) and not to enumerate frequencies (statistical generalisations)' (Yin 1994:10).

A third criticism is that they take too long and result in massive, unreadable documents. This need not be the case and may reflect a confusion with ethnographic research or participant-observation research. The former requires long periods in the field and emphasise detailed, observational evidence. There is usually an attempt to avoid prior commitment to any theoretical model in such approaches. Participant-observation also requires a hefty investment of field efforts. As indicated earlier, case studies do not just depend on field data as with this present research.

The data need not be as unfocused or lacking in rigour as this criticism suggests. The research design again contributes to focusing the study and by indicating specifically what data are to be collected through (a) the study's questions, for example, how and why do local authorities in Victoria change with the introduction of CCT?; (b) its propositions, that local authorities will respond in a similar way to other public sector organisations affected by the introduction of competitive strategies, that is, that their organisational culture will become more externally focused, and that they are likely to adopt characteristics of the post-bureaucratic organisation; and (c) units of analysis, in this study, it is restricted to an existing organisation.

In selecting a case study approach, the possible designs can be displayed as a matrix with one dimension the number of cases to be used, the other dimension being the unit of analysis, either the organisation as a whole or aspects or dimensions within the organisation (Figure 5.2). This study can clearly be identified as Type 3.

While single cases often have a rationale of their own (it may represent a critical case, an extreme or unique case or a particularly revealing case) multiple cases allow the researcher to make analytical generalisations with greater confidence, as the evidence is more compelling and conclusions more robust (Herriott & Firestone, quoted in Yin 1994). The logic follows from the replication of the experimental design more than from sampling. Each case is selected so that it either predicts similar results (literal replication) or produces contrasting results but for predictable reasons (theoretical replication). If the cases all turn out as predicted, they provide more compelling support for the original set of propositions. The researcher recognises that in this study, the cases do not represent a sample in the accepted statistical sense, and consequently, the potential for generalising across the class of council represented is far less than the potential for literal replication.

Figure 5.2: Basic Types of Research Designs for Case Studies

	single-case designs	multiple-case designs
holistic	TYPE 1	TYPE 3
embedded	TYPE 2	TYPE 4

Source: Yin 1994:39.

For this study, cases were drawn from different environments including metropolitan, metropolitan fringe, provincial city and rural areas, selected primarily on the basis of guaranteed access. To conduct interviews with a large number of staff was potentially intrusive and the researcher relied on trusted contacts in particular councils to arrange permission and the interview schedules. Only one council of the six approached, was not prepared to participate, with one being excluded by the researcher on the basis of difficulty in geographical access. The four cases chosen agreed on the basis that their anonymity and that of their informants would be protected. Conscious of this condition, the case study councils have been labelled according to their geographical area and informants by their position titles. However, to ensure that data can be confirmed, the original interview tapes with named councils and sources are available for scrutiny.

The unit of analysis selected for this study was at the holistic level - an attempt to gauge the cultural shifts at organisational level to match against the template established in Chapter 4. At the same time, there are layers of internal analysis which recognise the contributions of various organisational members in the formation and identification of organisational culture.

The Case Study Councils

The picture of local government culture in Victoria before the introduction of CCT and associated reforms is remarkably sketchy and inadequate beyond generalities. So too are many of the details of the original councils which form the basis for the case studies. The radical changes wrought through amalgamation, staff losses and transfers and changes in physical locations have conspired to obliterate some of the past history and organisational memory and make it difficult to develop a baseline against which current arrangements and performance can be compared.

Geographical characteristics and a brief recent history of each of the case studies are outlined below and summarised as Table 5.3.

Rural Shire

Rural Shire is a typical Victorian rural municipality in terms of size, population distribution, industrial base and local government arrangements. Located about 260 kilometres from Melbourne it is among the more distant rural areas in the state. It has an area of 4,058 square kilometres and a population of 27,014 with no township having more than 4,000 residents. The council's revenue is $18,533,000, broadly within the median size for rural shires in Victoria (ABS 1997). The secondary industry base is narrow, limited largely to primary products processing industries and tourism.

In the amalgamation process, five former shires were combined to form Rural Shire, arranged in the second last round of amalgamations in November, 1994. This meant that Rural Shire had just eight months in which to respond to the first year's CCT target of exposing for market testing 20 per cent of its total operating expenditure.

The amalgamation process at Rural Shire became highly politicised with respect to the number of shires to be included in the amalgamation, the choice of council headquarters and the number of commissioners appointed. The region has a strong National Party presence and these contentious issues were apparently determined at Cabinet level after direct intervention of the Premier, over-ruling the then Minister for Local Government, a National Party member of parliament. The outcomes for Rural Shire were replete with compromises: the council headquarters were located in the second largest town (a strong National Party centre), five shires were amalgamated to form Rural Shire (contrary to the preferences of the Minister for Local Government) and four commissioners appointed, one of only two councils in Victoria to have more than three.

After a two year period where the new council was managed by the four commissioners, seven councillors were elected in March, 1997, just three months prior to the third year of CCT. All the incoming councillors defined themselves as 'independents'. The turbulence which marked the period of the commissioners has continued and the shire has been the subject of parliamentary debate and local

community meetings which have aired concerns about the impact of CCT in the district.

Provincial City

Provincial City consists of an urban area, surrounded by a small rural area totalling 432 square kilometres. Located about 300 kms from Melbourne with a population of 30,730, it has a small secondary industry base which includes several companies attracted by regional development incentives provided by state and commonwealth governments. The council's total revenue of $20,427,000 places it 16th in rank size of Victoria's 47 rural shires. This is a fairly typical profile of a Provincial City in Victoria, although it was not subject to the amalgamation pressures faced by others. Although involved in the fourth round of amalgamations, Provincial City's boundaries were little changed. Without the need for major reorganisation, they were able to formulate a response to the first year of CCT almost as soon as the new city was proclaimed.

The five person council was elected in March, 1997, and like Rural Shire, there are no party political representatives. Both the period of the commissioners and the transfer of responsibility to the elected councillors have been characterised by goodwill and positive relationships within the council.

Fringe City

Fringe City is located on the outskirts of the Melbourne metropolitan area. Being near to Victoria's two largest urban centres provides both markets and a contestable basis for most services exposed to CCT. Fringe City is the largest of the metropolitan fringe councils with an area of 538 square kilometres. However, its population of 75,405 (ABS 1997) is relatively small for an urban fringe council although it has a high annual growth rate, currently at three to four per cent. Fringe City is expected to have a population of 150,000 by 2015 which will continue to focus council on the primary problem of providing infrastructure for its community. Council revenue is

$54,519,000 of which rate income is $22,600,000, broadly congruent with the median incomes for urban fringe councils (ABS 1997).

The city is well endowed with secondary industries, many of which were relocated from the inner city to the greenfields developments offered by Fringe City and its original council. Major industries in the area include chemicals manufacturing, processing of animal byproducts, construction materials manufacturing, warehouse distribution centres and food and packaging industries.

Fringe City was included in the second round of amalgamation and became one of the few Victorian councils to become smaller as a result of the process, losing rate revenue of about $1.6m p.a. This revenue loss was compounded by the 20 per cent rate cut ordered by the state government. The commissioners were concerned that council could not meet the rate cut in the light of the need to maintain infrastructure development without adversely effecting service levels to the community. They met with the Minister for Local Government who agreed to limit the rate cut to 12.5 per cent. This resulted in a total net revenue loss of $2.7 million from council's previous budget.

The new council was elected in March, 1997. While council is dominated by independents, there are several Labor Party councillors. Given the strength of the strategic approach to managing CCT, the transition to elected local government has been relatively seamless.

Metropolitan City

Metropolitan City is an inner Melbourne city council formed by the amalgamation of three councils together with small segments from two other councils. It is small by comparison with other inner city councils, both in area (19 square kilometres) and population (64,100). Council income is $57,557,000 of which rate income is $24,000,000 (ABS 1997). Major industries have traditionally included manufacturing, clothing, textile and footwear and service industries, so the national program of microeconomic reform has seriously affected the area leaving it with high unemployment. Paradoxically, one in five people in Metropolitan City have an

annual income in excess of $60,000 and 'residents are known to be well educated and very articulate' (Manager, CT). Almost one third of residents in Metropolitan City are from non-English speaking backgrounds, especially from SouthEast Asia. Metropolitan City has a very high proportion of persons in the 18-34 year age groups and correspondingly lower percentages of aged persons and children.

Amalgamation was completed in the state's first phase of structural reform, giving Metropolitan City more time than was available to most other councils in which to reorganise prior to the first year of CCT; time which was needed given the difficult task of melding the operations of long standing, fiercely parochial councils and their communities. This included the co-location of geographically isolated staff from 20 locations in the new city.

In addition, several of the original councils had historically experienced difficult periods in their relations both with their own communities and with the state government. Just prior to amalgamations, one had been the subject of a state government inquiry into the standard of governance in the council. Another had faced a major inquiry in the 1980s when *The Report of a Board of Inquiry Relating to Certain Matters within the City of [...] (1982)* concluded that the outdoor staff were 'negligent, uncontrollable, and taking excess sick leave and workers' compensation. In addition, the shop steward of the MEU ... intimidated and terrorised Council employees and others not conforming to the wishes of the ruling group' (McCalman 1984:298). The Board 'exposed a pattern of incompetence, negligence, secrecy and suspicions of actual corruption' and 'expressed concerns about the special arrangements with a private firm running the council abattoirs and raised serious questions about the probity of senior officers and councillors and the quality of services offered to the community, especially in relation to meals-on-wheels and other community services' (McCalman 1984:298). A number of staff at Metropolitan City commented that some of the practices, and the underlying organisational culture, which had been so strongly criticised by the Board had remained through

the amalgamation period and that CCT had provided an opportunity for the remnant culture to be finally eradicated.

The nine councillors elected in March, 1996 reflect the long history of left wing and trade union influence in the area - seven are aligned to the Labor Party and two are independents. Given the experience of some other metropolitan councils, the transition to elected local government has, surprisingly, not been accompanied by industrial unrest or tensions with the state government.

While not selected randomly, the details outlined above indicate that the four case study councils are broadly representative of their environmental type. However, the next four chapters reveal that their responses to CCT have been markedly different, only in small part explained by their external environments. The differences which have become evident relate primarily to factors such as leadership and management, including the management and planning of the CCT process.

Table 5.3: Profile of Case Study Councils

	RURAL SHIRE	PROVINCIAL CITY	FRINGE CITY	METROPOLITAN CITY
AREA (SQ. KM.)	4058	432	538	19
AMALGAMATION	Five rural shires	Addition of two small rural areas to original council	Loss of small area from original council	Three city councils with several other small additions
POPULATION	27,014	30,730	75,405	64,100
REVENUE ($M) 1997	18.5	20.4	54.5	57.6
COMPLIANCE WITH CCT TARGETS	Year 1 only	All three years	All three years	Year 1 & 2

Other Aspects of Research Design

There are several conventional means of judging the quality of research designs, including validity, reliability and generalisability. From a positivist viewpoint, these notions are, respectively, concerned with the questions: (a) does an instrument

measure what it is supposed to measure? (b) will the measure yield the same results on different occasions (assuming no real change in what is to be measured)? (c) what is the probability that patterns observed in a sample will also be present in the wider population from which the sample is drawn? (Easterby-Smith et al 1992:41).

Table 5.4: Case Study Tactics for Four Design Tests

TESTS	CASE STUDY TACTIC	PHASE OF RESEARCH IN WHICH TACTIC OCCURS
construct validity	• use of multiple sources of evidence • establish chain of evidence • have key informants review draft case study report	data collection data collection composition
internal validity	• do pattern-matching • do explanation building • do time-series analysis	data analysis data analysis data analysis
external validity	• use replication logic in multiple-case studies	research design
reliability	• use case study protocol • develop case study data base	data collection data collection

Source: Yin 1994:33.

Yin has developed this further (Table 5.4) to specifically target tactics which, if used, will enhance validity and reliability of case study approaches to research, and this study has formally incorporated many of these tactics. To improve construct validity may require tactics to establish correct operational measures for the concepts being studied. These might include triangulation with other studies and with reports, the use of multiple cases, or interviewing those at different levels of the organisation. In the present study, all of the above were included, and the last included representatives from groups such as commissioners and elected members, CEOs, senior managers, and workers at various levels, a total of 95 informants (see Table 5.5). While subjective measures were often used to collect data through the

interview process, concerns for construct validity are largely offset by (a) use of multiple sources of evidence, (b) a chain of evidence (both presented in the thesis and filed for external scrutiny), (c) review of draft results by key informants in each case study council. Case studies need to be concerned with the rigorous and fair presentation of empirical data. It relies on triangulation and convergence of data and 'benefits from prior development of theoretical propositions to guide data collection and analysis' (Yin 1994:13). These elements of this study have been discussed earlier.

Internal validity is concerned about establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as opposed to spurious relationships. This concerns the making of inferences: is the inference correct? Have all rival explanations been considered? Is the evidence convergent? Does it appear to be airtight? This study has used pattern matching techniques, spread data collection over two or three visits, often re-interviewing key informants about views expressed or explanations given in previous interview rounds. The second round of interviews was conducted with a primary aim of testing some of the propositions and explanations raised during the first round of interviews (Table 5.6).

External validity establishes the domain to which a study's findings can be generalised. Replication makes more confident generalisations and is an important part of the multiple case study logic employed in this study.

Reliability demonstrates that the operations of the study for example, the data collection, can be repeated with the same results. One of the difficulties in case study research is that the context may change, for example, the interviews of outside workers at Rural Shire occurred the day after they had been advised that their bid had been unsuccessful. Had the interviews been conducted on the previous day, the workers may well have responded differently; however, on the day in question they were feeling quite hostile to the senior managers of the council, who they blamed for the failed tender bid. Two aspects of research design have been included to increase reliability: first, a protocol was prepared and developed during the data collection phase of the study (Table 5.7) and (b) a database has been established for external

scrutiny of the data and for further interrogations. The protocols included the methods of gaining access, developing the questions for structured interviews, opportunities provided for open ended responses, selection of staff to represent as wide a group of organisation members as possible and tape recording of all interviews. The database consists of recorded tapes, a nonjudgmental summary of the data from each case study, and a final version of the material which includes both analysis and comments from the key informant in each of three of the four case study councils.

The figures below summarise key aspects of the research design used in this study. Table 5.5 lists the informants for both rounds of interview at each of the case study councils; and Table 5.6 provides details of the focus developed for the second round of interviews, designed to test and elaborate propositions and explanations developed from the first round of interviews; Table 5.7 details the protocols used to steer data collection and analysis; and a summary of the overall research design is included as Table 5.8 at the conclusion of this chapter.

Limitations

In most theses of this type methodological problems arise which cannot be completely eradicated through the design process. The researcher needs to recognise these difficulties and ensure that they do not intrude to the extent that they severely limit the effectiveness of the study. However sensitively handled, however, they do represent limits to the study and need to be identified.

Generalisability

It is recognised that key issues such as contestability for services will vary between councils (and, indeed within councils for particular services), as will their relative experiences of the radical restructuring through amalgamation which preceded the introduction of CCT, the relative capacity of senior officers especially with respect to the relationship between them

Table 5.5: Informants for Formal Interviews

- **Rural Shire**

First Round (13 interviews, 22 informants)

Commissioners (3 - group interview); CEO; Director, Client Services; Director, RuralWorks; Manager, Competitive Tendering & Assets; Executive Manager, Finance & IT; Team Leader, Finance and Revenue Coordinator (joint); Contract Supervisor; Family Day Care Workers (two - joint); Business Manager, Physical Services; Roads Crew (three - group); Parks and Reserves Crew (three - group); Building Controller.

Second Round (4 interviews; 5 informants)

Mayor; CEO (telephone); Director, Client Services; Director, RuralWorks and Contract Supervisor.

- **Provincial City**

First Round (12 interviews, 15 informants)

Commissioners (two - joint); CEO; Director, Ostek; Executive Assistant; Manager, Financial Services; Manager, Marketing & Customer Relations; Manager, Operational & Environmental Services; Contracts Officer; Homecare Worker; Works Officer, Roads; Roads Crew (two - joint); Parks Supervisor and Parks Technical Officer (joint).

Second Round (5 interviews, 9 informants)

Councillors (five - group); CEO; Executive Assistant; Finance Officer; Director, Ostek (telephone).

- **Fringe City**

First Round (13 interviews, 22 informants)

Commissioners (three - group); Group Manager, Economic Development; Group Manager, Corporate & Client Services; Group Manager, Development & Technical Services; Group Manager, Business & Community Services; Manager, Community Access; Coordinator, Direct Services; Family Services Team (three - group); Contract Managers, Physical Services (three - group); Operations Engineer; Fleet Coordinator; Homecare Quality Team (four - group); Grading Crew Member.

Second Round (4 interviews, 4 informants)

Mayor (telephone); Councillor; Group Manager, Business & Community Services; Manager, Civic Services.

- **Metropolitan City**

First Round (10 interviews, 14 informants)

Mayor; Councillor; Director, Finance & Assets; Manager, Physical Services (Client); Manager, Community Services (Client); Manager, Competitive Tendering and Special Projects Officer, CT (joint); Manager and Officer, Business Unit Support Branch (joint); Manager, Human Resources; Coordinator and Officer, Maternal & Child Health (joint); Team Leaders, Revenue Management and Leisure Centres (joint); Leader, Parks Unit.

Second Round (4 interviews, 4 informants)

Director, Finance & Assets; Director, Corporate Services; Manager, CT; Special Projects Officer, CT.

Table 5.6: Focus of Second Round Interviews

Issues Requiring Further Elaboration
(1) assessing whether or not the return of elected members has influenced the relative control of the CCT process between senior bureaucrats and elected members;
(2) determining whether a more strategic approach has now been developed in relation to CCT, especially by the elected councillors;
(3) examining the contract monitoring function to determine (i) whether or not costs are greater than anticipated and (ii) if it affects the relationship between purchase and provider;
(4) where customer responses have been included in the contract specifications for providers, whether there is a perception of quality change on the part of service receivers;
(5) determining whether or not there are more 'new' entrants to the tender process and whether or not the success rate of external contractors has changed;
(6) assessing changes in provider units towards greater corporatisation and other organisation changes;
(7) examining the relationship between purchaser and provider sides and roles;
(8) reviewing the issue of overall costs of the CCT process.

and elected councillors and appointed commissioners, and most importantly, the extent to which councils interpret state government policy in determining their own approaches to implementing CCT. Each of these variables will to some degree or other weaken the researcher's capacity to draw generalisations from the case study data, especially to that class of council represented by the case.

As the study focuses on four councils, drawn from different environments and locations in the state, the experiences of the case study local authorities cannot easily be generalised to the populations that they represent (for example, rural councils) unless the data can be triangulated. However, if the data from each successive case supports broader theoretical propositions then the use of multiple cases does allow for generalisations to be made about those propositions to be made with some confidence.

Table 5.7: Protocols for Data Collection and Analysis

• Access to councils based on

(a) personal contacts,

(b) discussion with contacts,

(c) formal permission sought from CEO,

(d) interview with CEO to explain research and secure agreement on confidentiality and use of data (two personally, two by telephone),

(e) key informant nominated for each council (CEO at Provincial City, second level manager at Rural Shire and Fringe City and third level manager at Metropolitan City);

• Schedule of interviews agreed with key informant in each council based on briefing from researcher concerning the range of interviewees required;

• For each interview:

(a) all interviewees briefed on the nature of the research, issues of confidentiality and use of the data by the researcher,

(b) interviewees outlined their roles in the organisation and the impact of CCT in their workplace,

(c) open-ended questions used to enable interviewees to comment on each of the characteristics of post-bureaucratic organisations,

(d) all interviews taped;

• Documents sought from key informant in each council;

• Summary of interviews made without analysis; Each case study written up with analysis;

• Preliminary findings from first round of interviews developed into a paper prepared for conference and subsequent publication (see Aulich 1997a);

• Further details requested from all case study councils, primarily financial and contracts data;

• Issues for further elaboration identified for second round interviews and provided for PhD Review Panel, UNSW;

• Second round of interviews conducted six months later with selected informants on a narrow range of issues requiring elaboration and further explanation or for testing propositions;

• Draft case study reviewed by key informant in three of the case study councils.

This study provides a cross section or a snapshot of the state of local authorities over a period of three years. It is recognised that the environment in Victorian local government has been remarkably turbulent, a function of external pressures such as amalgamation and the lack of experience faced by many in Victorian councils faced with such enormous changes. The Victorian government has increased the level of turbulence by its more technocratic or top-down approach to reform. Any cross sectional study, then, runs a risk that the environment may change rapidly and that generalisations from the research may not be generalisable over time. Further, there is often a 'Hawthorne effect' with the introduction of new changes and without longitudinal studies, snapshot approaches provide a less robust basis for generalisations.

Qualitative Data

This study relies primarily on qualitative data, which contains the limitations usually associated with determining any kind of objective truth. These limitations include the 'Rashomon Problem' (Polsby 1984) where everybody has a more or less coherent, but slightly different version of the same sequence of events. By contrast, Ott (1989) argues that in all cultures, facts, realities, beliefs and values are what members agree they are, that is perceptions that members come to agreement on slowly, implicitly and, perhaps, subconsciously. This infers that organisational culture itself may be a source of some theory ladenness as beliefs and assumptions about what has occurred (and what is occurring) in the organisation become constructed as part of the organisation myth making. This is enhanced by cognitive dissonance where the actors' perspectives of events are hardened, especially when challenged by alternative explanations of reality.

The researcher must also contend with respondents couching their responses in terms of what is 'acceptable' as language and idea. For example, downsizing of the local government workforce may be discussed by some managers in terms of necessary cost reduction but rarely as an opportunity to rid the organisation of under-performers or those who present as threats to industrial harmony. The researcher must be familiar with the environment and aware of the tension between

the need to often reinterpret responses with the tendency to impose personal perspectives on those responses. Experience, knowledge of the particular environment and a rigorous insistence on applying the highest ethical standards to the research are all required to minimise the limitations inherent in dealing with subjective data.

The impact of these types of limitations may also be reduced in the research design by using triangulation to cross check and confirm views, which combines survey with structured interview, together with several intensive case studies (Denzin 1988). Triangulation has been incorporated into the design for this study wherever possible, although the paucity of other research data has been acknowledged elsewhere.

Studies which rely on interview and survey tools as primary means of data collection must assume that the key issues have been identified and that there is a logical link between the actual question asked and the data generated and that the data is a sufficient basis on which to make reliable generalisations. Not only do the 'right' questions need to be asked, they must be asked of the 'right' people; those who are in a position to be provide responses which can best assist the researcher. While the study has mainly used as informants the ‘survivors’ of a downsizing which has led to 17,000 redundancies in its first three years of reform, the concern to interview participants across the council spectrum (Table 5.5) minimises this limitation. The research protocols (Table 5.7) combined more open-ended questions for the first round of interviews with more closed questions for the second round, and further contact with key informants for elaboration and clarification all assisted in reducing the impact of this limitation.

Knowledge of an organisation’s structure, information systems, strategic planning process, technologies, markets, goals and so on provide clues about an organisation’s culture, but not always accurately or reliably. As a consequence, an organisation’s behaviour cannot be understood or predicted by studying its structural or systems elements; its organisational culture must be studied. A number of researchers (for example, Ott 1989; Schein 1992) have argued that researchers who

study organisational cultures often use methods similar to those used by anthropologists to study the cultures of different societies. 'These methods provide deeper, more sensitive understanding of the realities of organizational life' (Rainey 1997:273). Typically, they rely on the perceptions of organisation members who are best placed to comment on 'observable practices and procedures which are closer to the surface of organisational life' (Denison 1996).

Ott (1989:3-4) argues that the quantitative, quasi-experimental research methods used by the structural and systems perspectives cannot identify or measure unconscious, virtually forgotten basic assumptions:

> quantitative research using quasi-experimentation designs, control groups, computers, multivariate analyses, heuristic models, and the like are the essential 'tools' of the structural and systems perspectives. More and more the organizational cultural perspective is turning to qualitative research methods such as ethnography and participant observation.

Ott argues that the organisational culture perspective is especially useful in describing, explaining and, to a limited extent, predicting behaviour when organisations are facing fundamental change. It is also helpful in understanding and predicting other types of 'holistic organisational phenomena and behaviours involving employee commitment and loyalty, leadership effectiveness, leadership succession, creativity and innovation and organisational survival strategies' (Ott ibid).

The capacity of the open-ended questionnaire used in the first round of interviews, coupled with the more focused questionnaires in the second round, to generate meaningful data about the cultures of the organisations studied must also be recognised. Perry's (1996) study of methods of assessing organisational culture lists a number of approaches: all rely on qualitative data, using various strategies such as group interviews, analysis of 'surprises and critical incidents', interview and self-assessment questions, survey research questionnaires and the like. Like this study,

all rely on valid and reliable research designs and the integrity and capacity of the researcher to deliver high quality research.

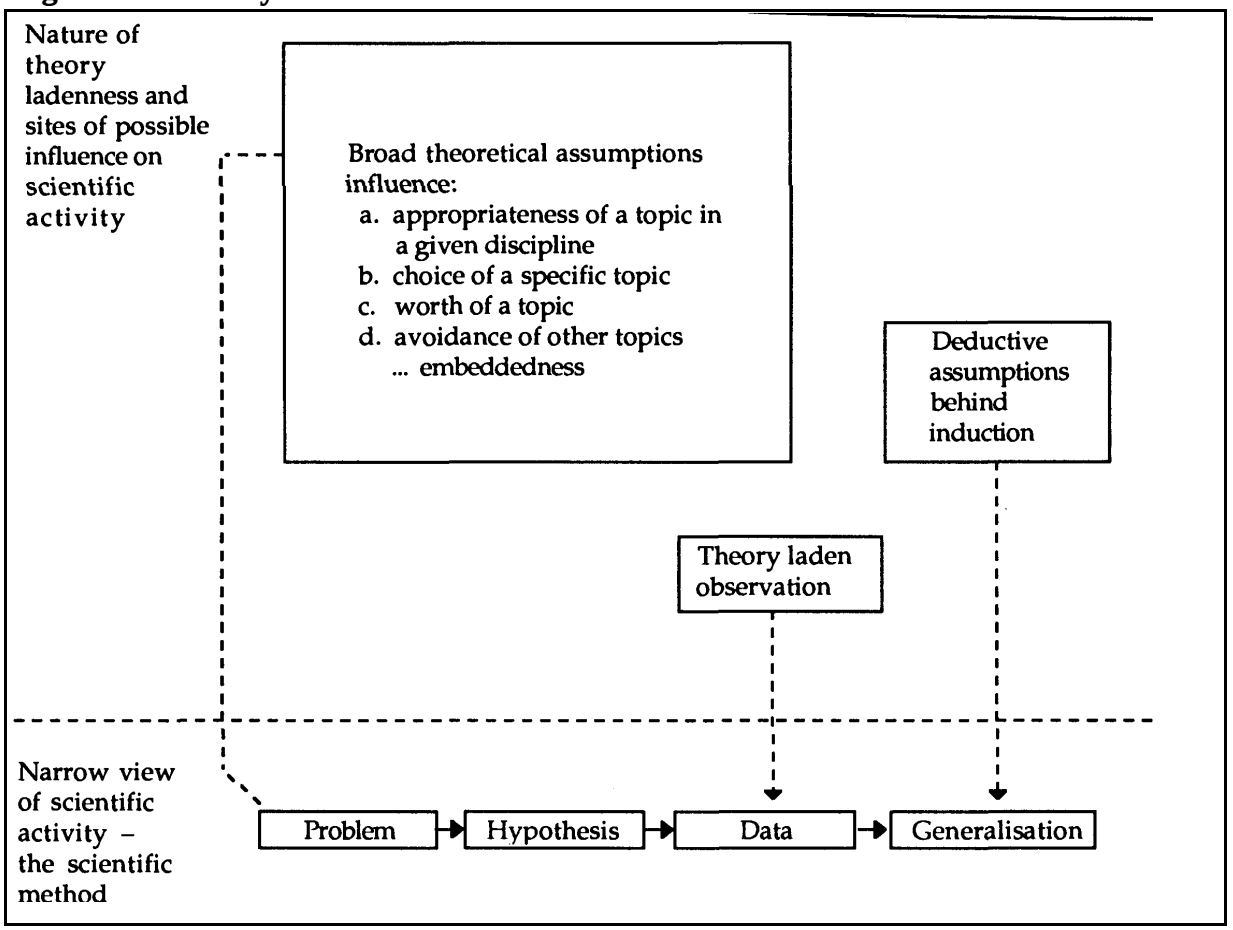
While there are some inherent difficulties with the reliance on qualitative data, the choice of the organisational culture perspective and the use of interview techniques over time may be particularly effective in discovering how organisations actually operate, and can be seen as most appropriate for this study.

Theory Ladenness

Theory ladenness is the implicit, unrecognised influence of theoretical assumptions both in and among a variety of disciplines. It is not that researchers should be unobjective and biased but that attaining objectivity and freedom are not that straightforward (Lewins 1993:11). Theory ladenness needs to be distinguished from bias which produces deception, distortion or grossly unreasonable conclusions. The type of acceptable bias in theory ladenness begins with the selection of topic or issue which often carries certain assumptions related to the discipline with which it is associated. These choices do not occur in a vacuum because there is a propensity of all scientific disciplines to adhere to paradigms from which the questions of significance will emanate.

Theory ladenness surfaces with the questions that are not asked because of the beliefs, assumptions and ways of seeing the world are so embedded that they prevent scholars from seriously asking questions of a contrary nature. Theory ladenness also occurs in the selection of data and evidence with which to test a theory or address a research question. 'Within the broad, theoretical, disciplinary framework one is operating from and given the particular theory or concepts in the intellectual foreground, it is not the case that all events are capable of being perceived as evidence' (Lewins 1993:14). For example, before observers imagined plague was transmitted by rats, they did not perceive rat infestations as evidence. The influence of theory ladenness at various stages of research is shown as Figure 5.3.

Figure 5.3: Theory Ladenness



Source: Lewins 1993:17.

Theory ladenness arises from assumptions made through the paradigm or the perspective from which a thesis is developed. In this study a number of assumptions have been made which reflect the organisational culture perspective from which the case studies have been examined. This perspective assumes that:

1 organisational culture exists, that there is an identifiable 'umbrella' culture for an organisation;

2 such a culture can be discovered through research;

3 organisational culture is a socially constructed concept and is shaped by many factors including societal culture in which it resides, its technologies, markets and competition and the influence of the personalities of its founders or dominant coalitions;

4 organisational culture provides members with a way of understanding and making sense of events and symbols;

5 organisational culture is a powerful lever for guiding organisational behaviour (adapted from Ott 1989:3-4).

It is acknowledged that the organisational culture perspective is only one of many ways of looking at organisations and that the perspective is relatively new. This youthfulness suggests a more limited consensus about the nature of organisational culture - its nature and components and the appropriate situations and methods for applying the perspective. When we observe behaviours we don't know whether these are symptomatic of organisational culture - they could be responses to the environment rather than reflecting the cultures within organisations.

Relationship Between Researcher and Informant

A further limitation may arise from the relationship between researcher and informant. Schein (1987:394) distinguishes between clinician and ethnographic approaches:

> While the ethnographer must be faithful to the observed and experienced data, he brings to the situation a set of concepts or models that motivated the research in the first place. The group members studied are often willing to participate but usually have no particular stake in the intellectual issues that may have motivated the study. By contrast a clinical perspective is one where group members are clients who have their own interests as the prime motivator for the involvement of the outsider.

The implications of this are significant for the researcher. In the former case, while informants are less likely to have formulated their own agendas from which perspective their responses will be ordered, effective data collection is likely to be related to the personal skills and capacity of the researcher and to the rapport that the researcher can establish with each informant. Lampshire and Rolfe believe that it is not always possible for external researchers to truly understand the culture of an

organisation if they have not lived long enough within that culture so that they can learn the 'semantic nuances, how categories of nuances connect, how meanings are translated into behaviour, and how such behavioural rules apply situationally' (1994:98).

Summary

Social research has moved to a greater acceptance of data collection which relies on what people tell or write for the researcher. A greater acceptance of Cardinal Newman's maxim that 'from symbols and shadows to the truth' (quoted in Kellehear 1993) has paved the way for social researchers to more readily accept that the views of participants in organisations provide a fertile data base for their work. The research for this thesis has been consciously based on qualitative primary data gathered from a series of interviews with many informants from multiple case studies.

Care has been taken to ameliorate the research problems of validity, reliability and generalisability by mechanisms such as developing the research design, constructing and operating under research protocols and in making transparent the processes of data collection and analysis. While these mechanisms will not altogether assuage the concerns of some research purists, they contribute to an overall methodology package (Table 5.8) which has included considerable checks and balances to ensure that the results of the research have integrity. It is also significant that potential limitations have been identified and the research undertaken in the knowledge of their existence and of their potential to intrude. It is through this knowledge, that their impacts can then be minimised.

Table 5.8: Summary of Research Design

- theory testing type:
  - based on pattern matching;
  - the extent of the match determined by judgement.
- case study methodology, involving:
  - multiple cases (four) selected on the basis of guaranteed access to councils from across four differing environments (rural, provincial, metropolitan fringe and metropolitan);
  - holistic focus on the organisation as a whole (although internal differences in responses between client and provider sides were noted);
  - data collection and analysis protocols established and elaborated as study progressed;
  - triangulation of data with interviews, documents and other research;
  - interviews with personnel across all parts of the organisation (65 separate interviews with a total of 95 informants including elected and appointed members, managers and workers, client and provider sides);
  - database formed, consisting of tapes and summary of all interviews in each council;
  - opportunity for key informant in three of the four case study councils to comment on draft outline of case study.

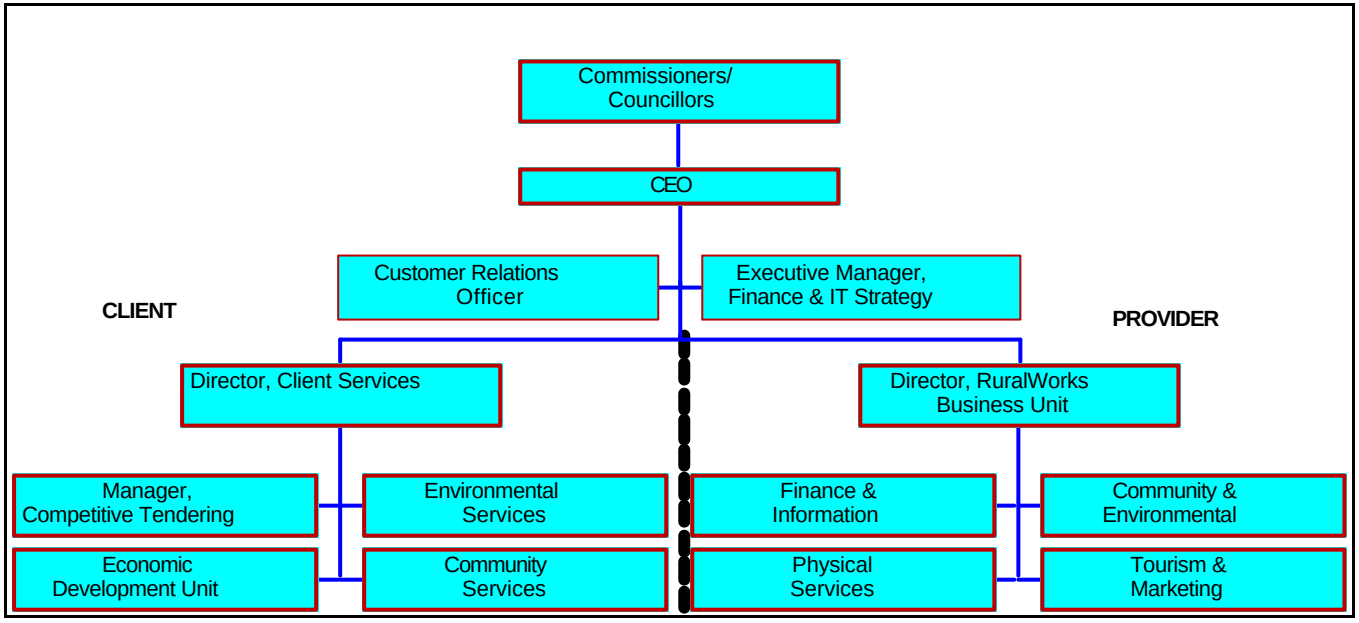
CHAPTER 6: RURAL SHIRE

The CCT Experience at Rural Shire

The amalgamation process had a significant impact on Rural Shire - not only were tensions exposed between local communities within the new shire, but two new problems arose. First, the amalgamation timetable meant that little time was given to preparation for the first year of CCT, and second, council employment was immediately reduced by one-quarter of the total employment in the previous five councils. This reduction was borne largely by the physical services areas of council operations (road construction and maintenance, street cleaning, refuse collection, parks and gardens). It was this same group who also bore the brunt of downsizing as a result of unsuccessful bids in the first rounds of CCT.

In part to quell the local bickering, the CEO took the opportunity to split the client and provider sides geographically: 'I realised that to separate the offices geographically would not only solve the political problem but would also work for CCT' (CEO). Rural Shire, then, has separate headquarters for each of the client and provider sides of the organisation, located 40 kilometres apart. The provider units subsequently merged operations into a single business unit, called RuralWorks (see Figure 6.1). Given the closer links expected between the client side and the elected members, it is unusual that RuralWorks is located in the shire headquarters, which is also home for important functions of the new council (such as most council meetings), the mayor's office and some key administrative functions (for example, mail delivery, finance department and records). The client side and the CEO's office are located in the largest town in the shire and district offices have been established in three other town centres, all four towns being shire headquarters prior to amalgamation.

Figure 6.1: Organisational Structure, Rural Shire at 20/8/96.



The difficult start for the new council was compounded by a series of setbacks during the CCT process which caused further dislocations within the council. By the end of the third year of CCT, the inaugural CEO, the first two directors of RuralWorks and the Manager, Finance & IT, were pressured to resign, and within a year they were followed by the remaining Director. The financial situation of the council was the subject of debate in state parliament and the cause of well attended local community meetings seeking an explanation for what the community described as a financial crisis.

The Victorian parliament passed a motion congratulating the councillors for 'their efforts in making local government a leader within its region'. The debate on the motion, however, revealed a number of concerns and allegations about Rural Shire. Following turbulent times, the council was described as developing a 'recovery plan', the commissioners were accused of 'managing the municipality in the best interests of the coalition' and of failing to manage change, concerns were raised of inappropriate conduct by the CEO and the Manager, Finance & IT, and that some ratepayers were trying to 'sabotage some things the new council wanted to do' (Adams 1998). Coupled with the Shire's failure to meet the CCT targets, the picture is one of severe discord within the council and its community (see summary of events at Table 6.3).

State Government Targets

Rural Shire failed to meet the state government targets for the second and third years of CCT (see Table 6.1). In the second year, the council believed that it had exposed 36 per cent of its services to CCT, but the state Auditor-General examined the financial returns and reduced the figure to 28.37 per cent, rejecting several contracts as ineligible, including a number entered into by the previous five councils. The Manager, Competitive Tendering, argued that the redefinition by state government of 'total operating expenditure' (TOE) to include infrastructure depreciation from the third year has meant that, despite an increase in the value of services exposed to CCT of around 30 per cent from the previous year, council only managed to expose

43.52 per cent of its services. In their submission to the state government, council's auditors argued that this failure was the result of three factors:

1 the changes to the superannuation liability arrangements which led to the withdrawal of the preferred tenderer for the road maintenance contract which then necessitated re-tendering;

2 the unexpected changeover of key personnel, including the Manager, Competitive Tendering caused a pause in the CCT program; and

3 because of the above two issues, the second round of contracts were not advertised until 19 July 1997 and could not, therefore, be considered in the 1996-97 financial year calculations.

Table 6.1: CCT Compliance, Rural Shire

	YEAR 1	YEAR 2	YEAR 3
Period	18/11/94 - 30/6/95	1/7/95 - 30/6/96	1/7/96 - 30/6/97
Total Operating Expenditure	$14,937,460	$20,178,209	$22,165,675
Contracts Exposed to CCT	$3,137,000 (estimate for part year effects)	$5,724,484	$9,646,464
CCT Compliance	21 % (+1 %)	28.37 % (-1.63 %)	43.52 % (-6.48 %)

Sources: Annual returns to state government by Rural Shire.

Despite the headline in a regional paper that 'Shire fails tender test' (Hipwell 1997), some cynicism was expressed by the first Director of RuralWorks about not meeting state government targets:

> The world doesn't stop if you don't get 50 per cent. You get named in Parliament, who reads Hansard anyway? And I don't think the local community would give a shit!

This is an interesting comment from one who was shortly after to lose his job following the performance of RuralWorks in unsuccessfully bidding for council work.

Results of CCT at Rural Shire

Despite the belated start to the first year of CCT, in 1994-95 most contracts that were tendered and let confirmed past service delivery arrangements indicating that competitive tendering as procurement was already in the order of 20 per cent. In the subsequent two years, services traditionally delivered inhouse, such as maintenance of roads, parks and gardens management and community services, were exposed to competitive tendering. In the third year (1996-97), the award of contracts resulted in major shifts from inhouse to external provision (see Table 6.2) leading to a further reduction in outside staff by 55.

Table 6.2: Results of CCT, Rural Shire 1996-97

Service	No. of External Bids	Successful Bid
Building Control	1 (private company)	Inhouse
Animal control	0	Inhouse
Family Day Care	0	Inhouse
Roads (Western)	1 (neighbouring council)	External
Roads (Eastern)	3 (neighbouring council and 2 private contractors)	External
Parks (Central)	1 (private company)	External
Parks (Eastern)	1 (private company)	External
Parks (Western)	1 (private company)	External

At a special meeting on Tuesday, 28 January 1997, council decided to accept 10 of the 14 tenders recommended by the Tender Evaluation Committee. The four tenders that were not accepted were for roads and parks maintenance, which were to be re-advertised. A decision was also made to restructure RuralWorks with the first

Director to be retrenched and replaced by the previous Manager, Competitive Tendering. All physical services positions were declared open and advertised, so that outdoor staff were to reapply for their own jobs. This was intended as a precursor to changing work practices to remove over-award conditions which had played an important role in contracts not being awarded inhouse.

These decisions also signalled a time for recriminations and management introspection. The CEO had previously expressed concern about decisions to award contracts to external bidders: 'if the preferred tenderers get up it will be catastrophic'. While he accepted some responsibility for the failed inhouse bids, he blamed some of it on decisions of the commissioners not to give the provider side sufficient assistance and guidance.

Despite renegotiating the local area work agreements (LAWAs), the inhouse bids were again unsuccessful in the readvertised round. The Manager, Client Services claimed that the 'flexible' staffing arrangements offered by an external private sector company were superior to those offered by RuralWorks. They had based their bid on a small core staff using temporary labour to cover peak work periods while the inhouse bid was based on staff levels required to manage the work at peak times. After the failure of RuralWorks in the readvertised bids, pressure was exerted on the second Director, RuralWorks to resign.

Impact on Staff

One who was successful in winning his own tender commented that:

> I could say honestly the tendering process brought people together. There was a sense that RuralWorks thought we've all got to all get together and work together here to do the best for RuralWorks as a business unit. I can honestly say it was a good experience to go through the tendering process (Building Controller).

However, this worker also recognised the flow-on effects of lost contracts in other areas of the organisation: 'the results of all the inhouse tenders, like the physical

services losses, impact on morale generally, it tends to filter through the organisation as a whole' (Building Controller). 'It destroys staff morale, it's just devastating' (Revenue Coordinator). These comments were more typical of staff response to the CCT process at Rural Shire, particularly to job losses.

During the three years following amalgamation, Rural Shire's employment levels have actually risen (see Annual Reports). However, this masks the initial decline in employment of outdoors workers and the concern for their future employment possibilities:

> 25 to 30 per cent of our outdoor staff are semi-literate, or illiterate, a lot of them have few skills, a lot of them really don't have any alternative employment opportunities. The majority of them are long-term employees, they've had the majority of their lives working with us or with councils in some form or another (first Director , RuralWorks).

The outside workforce was initially downsized through three factors: first, many contracts were outsourced as RuralWorks failed to win most of their bids for physical services contracts; second, corporate services staff were made redundant, having less work to do in supporting a declining provider side; third, council reviewed its core business and shed services such as tourism support, economic development and recreation and leisure services. The pressure for this reconsideration of core business has been the parlous state of council finances.

The members of losing bid teams are embittered by the experience. They blame lack of support from senior management, especially on the client side, citing the decision to publish a budget figure for the contract which assisted outside bidders by signalling the 'bottom line' for bids. Concern was also expressed about the quality of specifications:

> some of the stupid things called for in the specification. When you grade a road they [the specifications] say you have to maintain suppression of dust for 48 hours. There is 1000 kms of unsealed road on each side of the Shire and you would need about five water carts for six months of the year to comply with

> this. We had to build the cost of this into the tenders just in case they enforced it, which cost thousands of dollars. There's probably an extra $500,000 on the bid there (Business Manager, Physical Services).

Costs of CCT

Impact studies of the type developed by Whitfield (see Chapter 3) are beyond the scope of this thesis, although a number of informants were prepared to make some estimates of the broader consequences of the CCT process. The assessment of the costs has been taken from an accounting perspective, and indicate that in the first three years of CCT, there has been a net cost to council.

This has been the result of high costs of establishing the Competitive Tendering (CT) unit and the lack of economies of scale available to smaller councils. This was compounded by the Local Authorities' Superannuation Board (LASB) decision to require councils to accept 45.88 per cent of unfunded superannuation liabilities for redundant workers. In the case of the roads contracts at Rural Shire, this would have amounted to about $2.1 million if the external bid were accepted. Following the LASB announcement, the preferred tenderer for roads maintenance (the neighbouring council) withdrew its tender, and did not compete in the readvertised round.

The Executive Manager, Finance & IT was concerned about the impact of these superannuation decisions for contracts awarded to external contractors:

> The rate payers have now got a potential liability of quite large proportions. Based on the advice we have at moment, commercial outlay will be about $4 million dollars cash outflow. However, Rural Shire's rate revenue is only $6.4 million ... Things will suffer in this community if that decision proceeds, as our capacity to perform a capital works program is gone until after the year 2000.

He raised concerns about the significance of decisions to contract out services:

> The decisions the organisation makes in the next two to three weeks is going to seriously impact on our capacity to service this community over the four to five years. I've already done a five-year cash flow based on those decisions and it's quite horrific if we go down the path of worse case scenario. If we were to proceed down the path we are now, based on the information we have at the moment, it would be a commercially wrong decision to outsource that work because of the cash flow consequence on our capacity to provide that long term sustainability. It's a question now do we fall back into damage control or do we go down a path of bloody mindedness and achieve the result but at the price of sacrificing the long term quality of life of the community.

This prediction proved prescient, although the Executive Manager, Finance & IT, was asked to resign shortly afterwards. Within a year, Rural Shire's financial crisis became public knowledge in the local community. The adverse community reaction to the downsizing of staff had been anticipated by the first Director of RuralWorks:

> Wait for the next couple of weeks when they get wind of what's actually happening and the fact that we will be getting rid of 70 odd staff. It will have a significant effect on them, particularly in the smaller towns. The community will be very vocal.

There is little doubt that in the first three years, CCT has actually cost the council rather than saved money. In large part, this has been because of higher than expected transactions costs of the process and, perhaps, because of the enhanced level of quality required in the specifications:

> CCT has cost the council, this and last financial year 6.75 per cent of the total budget. We had to bear that administrative cost at the same time as we had our rates reduced by 20 per cent, we've had staff ceilings put on us and we've had rate-cappings. At the same time we have to maintain service levels. I don't see the 6.75 per cent diminishing even though the set-up costs are now over. The costs are going to shift to contract administering as the need for more contract managers increases. They will have to be quite technically skilled people and

> the cost of those people will be quite high and also the specifications will always be on an evolving and continually improving course. In the end the 6.75 per cent may be quite conservative (Executive Manager, Finance & IT)
>
> Probity costs you money and tendering costs you money. Tendering doesn't save you money, it costs you more. It clearly does because of the duplication in structure and the cost of tendering and contract administration (Manager, Competitive Tendering).

This was also recognised by the commissioners:

> In a country municipality with a rate-cap, the amount of money we've had to spend to implement CCT is huge, up to a million dollars on drawing up tenders. As a proportion of a country council's budget, it's enormous. We've now got no money for capital works (Commissioner).
>
> One of the things I think, in the country, that we are going to have to be very careful of, is that CCT for CCT's sake is not going to be 'the be all and end all'. The cost of specifications and administration are high. I think you could well start to question whether it's worth that extra sort of effort and whether the community is going to gain substantially by it (Commissioner).

The impact on the community as a whole was recognised by others:

> As a rate-payer and employee of the council we're copping it both ways: we're not only going to lose our jobs but our local amenities are going to go down. You've got to understand that they're all small country towns and to lose ten or twelve, even fifteen people in the workforce is almost going to be devastating. It works out to be ten families and everybody loses, the baker, the butcher, a lot of people will move away because they can't get other jobs. If they don't move they end up on social security (Roads Crew Worker).
>
> Councils employed the long-term unemployed and vacancies were often created for these people. Councils, in the past, accepted an obligation for community employment and social responsibility. All the federal governments

> ... cock-eyed approach to unemployment relief programs and so on would never have got a bloody foot in the door if it wasn't for local government doing all the hack work. That ethic has now changed. There's not much of a future for redundant staff if they don't pick up jobs with the contractors (Manager, Competitive Tendering).

Some have argued that there was little surplus capacity in local government, especially in rural areas prior to the introduction of CCT:

> The introduction of CCT has increased the cost of administration and the management of council. I think it's obviously going to be at the expense of lower level staff and probably socially it's going to effect the smaller communities (first Director, RuralWorks).

The costs and difficulties of monitoring contracts is emerging at Rural Shire:

> We are really looking at strategic control rather than day to day control. We're in trouble if we have to go to day to day. We haven't got the resources. I've got two contract supervisors and its a big municipality and we've got lots of contracts (Director, Client Services).

There is also a belief by some providers that the client side does not have the expertise to monitor the contracts: 'At the current moment, I don't think there'd be anyone with either the expertise or qualifications to supervise my particular building control contract' (Building Controller). Park and reserves employees believe that 'the contract managers don't have the expertise to supervise the contract'. The roads crew complained that there is 'only one engineer on the client side' and question how he is going to supervise all contracts.

The issue of whether the incoming contractors can deliver according to the specifications has been highly contentious; in short, whether there has been an improvement in value for money. Parks and gardens workers argued that if the incoming people can actually fulfil the specifications it would lead to a superior service, however:

> We don't think they can do it, it's a physical impossibility. I can't see how they can do the work in our sector cheaper than us at the same standard of quality. We get complaints all the time because we are short-staffed and they're going to have less.

The roads crew agreed:

> The unfortunate thing is, we know from experience, that they will not be able to meet those standards and 12 months down the track, we'll sit back and hopefully laugh at them and say 'we told you so' but we're basically going to be unemployed. It's too late, we've lost our jobs, the gear's gone, everything's gone. The people I feel sorry for are the rate payers because they're the people who are going to be the big losers. Service levels are going to drop by 50 per cent.
>
> If the tenderers do actually perform and comply with the specifications entirely, then the council will have saved a lot of money because our guys have put a price in to comply with the same specifications and it obviously costs a lot more money (second Director, RuralWorks).

However, the Director, Client Services claimed that council was satisfied that the preferred tenderers would be able to meet the standards set in the specifications. 'We visited the site, we visited their operations, we've been to their depots, talked to them about how they are going to achieve it and we're satisfied they can achieve it.' At the second round of interviews, the Director extolled the success of the contractor, and claimed that a higher level of service had eventuated.

It is apparent that the overall impact of the CCT process has been a fairly negative one for Rural Shire and its community in terms of costs, organisational disruption and its impact on services. The following sections examine the extent to which the organisational culture of Rural Shire has been influenced by the adoption of competitive strategies.

Clearer Distinction Between Policy and Administration

This section examines key policy decisions concerned with the introduction of CCT. It identifies the various players involved in the decision process and assesses their roles to determine whether or not there has been a clear separation between policy and administration.

Overall CCT Policy

The basis for Rural Shire's CCT strategy has been explicitly influenced by the state government's two steering documents, the Code of Tendering and the government's interpretation of the National Competition Policy. Rural Shire developed and approved a 'Statement of Intent' based on these documents, in the form of a set of guidelines to assist in the implementation of CCT in the shire. The statement is underpinned by key values of transparency and competition and promises that 'every effort shall be made to ensure that the process is transparent' and 'council shall structure its tendering arrangements to ensure that there is a truly competitive process' (Statement of Intent 1994:1,2). The Manager, Competitive Tendering made it clear in all negotiations with preferred tenderers he opens and closes the meeting with the statement: 'I won't recommend to council that we sign a contract unless I'm sure there's been a truly competitive process and secondly, unless we're offering net savings to council and improved levels of service'.

Rural Shire's strategy for tackling CCT was influenced by the program of community consultation undertaken by the commissioners and senior staff prior to the first round of CCT. These consultations resulted in a demand by commissioners for smaller contracts aimed at encouraging more local bids:

> The council here was committed to having a truly competitive outcome and also attracting small bids because there were a lot of small contractors that were adversely affected by the rationalisation of council. They hurt bad. The people that turned up at those meetings were very vocal. It swayed the

> commissioners because 'they pay rates, they pay our wage' (Manager, Competitive Tendering).

The concern for ensuring a more contestable environment was also reflected in the CEO's decision to establish an Economic Development Team in council to, *inter alia*, assist private sector contractors to prepare bids to compete against RuralWorks. Assistance was given to small businesses to form consortiums with other businesses for contracts that were too large for their individual businesses.

Procedures were made transparent and arrangements introduced to assure potential tenderers that council was serious about competition and would provide no special advantage to inhouse bid teams, consistent with the notion of competitive neutrality incorporated in the National Competition Policy. The concern for probity was summarised by the Manager, Competitive Tendering:

> At first some people thought I was paranoid about some of the systems I put in place to protect the probity of the arrangement but in retrospect, I would have been even more paranoid. Probity is like a very fragile crystal vase sitting on the bumper bar of a fast truck that will fall off and shatter at any moment.

Concern for probity has been reflected in other decisions concerning the CCT process: first, to geographically separate client and the provider sides; second, to establish a two month embargo period between the drafting of specifications and the calling of tenders, during which time no inside information could be provided to inhouse bidders; third, to establish tender security systems and comprehensive tender evaluation guidelines.

Council's intention was to treat inhouse teams exactly like external tenderers. While council provided an initial grant of $200,000 for training inhouse teams to develop the necessary skills and competitive work practices, that training was to be 'coordinated and arranged by the Director, [RuralWorks] within the budget provision for that purpose' (Statement of Intent 1994:1). In other words,

responsibility for preparing RuralWorks for competition was placed squarely with the management of the provider side.

Some believed that probity has been taken too far with one team leader commenting that 'there's been an overkill on probity. It's just been a total overkill.' The first Director, RuralWorks believes that 'probity seems to have been the driving force in the strategy.'

Notwithstanding their involvement in the decision to provide assistance to small local potential contractors, all commissioners confirmed that the CCT goals were set by the management team as commissioners took a very hands-off approach:

> We, as commissioners, didn't have a lot to do with the strategy, we left that to the senior staff. They came and told us what they were doing but we didn't have a lot of input. The government wants us to say OK just like a board of directors (Commissioner).

A second commissioner agreed: 'We haven't really been involved in [developing strategy]. It was a conscious decision made early by the commissioners, that management managed'. The third commissioner commented:

> We've stood back from hands on operations deliberately. The management team were given the reins. We didn't want to be breathing down their necks all the time. In retrospect I think we probably could have had a compromise situation where we might have been a little more hands-on. I think they may have had their heads a little bit too much.

The commissioners were concerned that it took them a long time to get to know and understand what was happening. While they 'edited' some of the specifications, 'it was virtually decided by the time we got to look at them'. 'The time frame that we were given to consider some of what I believe are pretty important issues, wasn't quite long enough'. 'The senior management now run the shop. These fellows run it, a council meeting may run 15 minutes now, the old days we used to meet all day.'

The CEO agreed that CCT management and strategy had been management driven although he argued that the commissioners formally endorsed the policy and processes followed by council. He agreed that the commissioners really only intervened in the policy concerning the packaging of contracts to ensure that more smaller local contractors would be encouraged to submit bids.

According to the two senior directors at Rural Shire, since the election of the new council, councillors were keen to reassert control, but had to realise that with only five councillors covering an area serviced by five previous councils and nearly 60 councillors, their role as representatives of particular communities needed to change more towards a 'board of directors' role. As the Director, Client Services indicated, 'they used to ring up the foreman or grader driver and say "look, come round here" but they can't any more'. The second Director, RuralWorks complained that 'there's some real old timers there who still want to tell us what to do'.

The first attempt to change the evaluation weightings proved a test of strength between senior bureaucrat and councillor. Councillors unsuccessfully sought to add to the evaluation criteria, the provision of 'net benefit to the community', but the Director, Client Services argued that,

> councillors can't change the evaluation weightings because management has decided on that policy separately ... and the processes we've put in place won't allow that. But, if they want to change the whole system, then it's up to them.

The mayor agreed that the CCT process was essentially a management responsibility and, given that 'only a few months had elapsed since council was elected', the incoming council was adopting a 'watching brief' on CCT. At the same time, both senior directors indicated that management was now reviewing the CCT process and adopting a more strategic approach, especially on the provider side. Clearly, Rural Shire defined CCT as a management level responsibility, rather than as an integral element of the council's broad strategic policy and, as such, was to be directed by officials. Policy and administration were not clearly separated with respect to most CCT decisions, such as the selection of services for exposure to CCT,

packaging or bundling of services, determination of local preference policy and development of specifications.

Selection of Services for Exposure to CCT

The choice of services to be exposed to CCT has important strategic implications for councils, yet this was approved by commissioners and councillors on the advice of senior staff, without first establishing policy parameters and considering the strategic implications. The decisions concerning selection of services were made by management, largely driven by the urgency to comply with the CCT targets.

Before CCT, Rural Shire was already tendering about 10-15 per cent of its budget and the historic approaches were used as the basis for selecting services for the first round of CCT.

> We picked some of the bigger ones to get as many points up as we could. We've done a lot of the simple ones, a lot of the ones that have been done before. The more difficult services like finance have been left to last (Director, Client Services).

The Manager, Competitive Tendering made the point that there was little time and scope for developing a strategy:

> When the budgets were a little more flush with funds we were able to plan and be strategic about things but now it's so tight you've haven't got any choice about what you tender. It's like being in an air ship that's slowly sinking. You throw out whatever you can and gold watches sometimes get thrown out with cardboard boxes.

However, in the second year a more considered approach was taken:

> You started to tender out things you didn't want to tender out, that probably cost more to tender than you could ever potentially save. In my view, it's not economic to tender out things under a value about $100,000. You try and bunch

> things up into big lumps so that you can afford to manage the contracts (Manager, Competitive Tendering)

Although staff did not articulate the 'enabling council' concept (Leach et al 1996), they were conscious of the possibility that such arrangements might flow from the steady outsourcing of services. It was significant that none of the commissioners or councillors raised this strategic policy matter during interviews.

Packaging or Bundling of Services for CCT

While the commissioners did provide some policy guidance in this matter, the choice of bundling services was initiated by the client side. The guiding principles of contestability and probity were evident in decisions as was the emerging tension between client and provider sides of the organisation. The first Director, RuralWorks, a member of the corporate management team, complained that the corporate management team didn't have any say in the packaging of contracts. 'It was a Client Services decision, purely and only. RuralWorks didn't have any input'.

Consistent with council's broad policy, Rural Shire tried to break up the contracts to encourage smaller, local contractors to make bids. For example, there were three contracts for parks and reserves maintenance and a range of sizes in the roads maintenance contracts. This provides a tension with the goal of reducing transactions costs of CCT as set out in the Statement of Intent:

> To assure the viability of the tendering process and subsequent contract administration, service contracts shall be packaged to desirably have a minimum total annual value of $100,000. Project or capital works based contracts shall be structured to have a minimum desirable value of $50,000 (Statement of Intent 1994:2).

The Director, Client Services commented that,

> it's about weighing up what's manageable and what's competitive. There's always a balance between the degree to which we package them, like how

> small they are, to the number of contracts we have to manage. We didn't get as much local competition as we had hoped. We probably still went too big.

This view was supported by the Executive Manager, Finance & IT, who argued that there was only one other competitor for the building control tender because 'of the actual size of the contract. A lot of small operators really couldn't compete with us to provide the service to Rural Shire.'

Local Preference Policy

The state government was clear that local preference policies are inconsistent with their interpretation of the National Competition Policy; Rural Shire has followed this interpretation closely, despite a stated willingness to assist the inhouse bids as much as possible.

RuralWorks was given a $200,000 development grant from council to use to help the inhouse teams prepare for CCT. The grant was designed to fund training for areas such as cultural change in the organisation, commercial strategy development, tender submission preparations, consultants or any legal advice they may require. It was significant that at the conclusion of the first round of tenders, only $35,000 had been spent.

The opportunity for training was taken up by some on the provider side. 'The shire did, I believe, especially talking to other councils, provide a reasonable amount of training and understanding of the process and what was going on' (Family Day Care Worker). The roads team hired professional consultants to help them put their bid together.

However, the parks and reserves team complained that they didn't get any training or help with their bid:

> The way it is structured here is extremely poor. In other places there's been a lot of support and resources made available, not here, it's them and us (Revenue Coordinator).

Commissioners were critical of the failure to spend the allocation on training. 'We can only do so much. We can give them every possible opportunity which we did, we gave $200,000 to the business unit and I see that they have failed' (Commissioner). She believed that the commissioners would have preferred to use local suppliers 'but it really is up to the provider side'. [We said to them] 'we want to look after you but remember it's up to you ultimately in the end, your job is your responsibility.'

Commissioners also indicated a preference for selecting local providers: 'If the inhouse teams were within five to 10 per cent I would certainly be tempted to give them a go but I wouldn't be as sympathetic in rounds two, three and four' (Commissioner).

> I think you need to give everyone the best encouragement and training to do what they're supposed to do. Before I would be prepared to give the nod to outsiders, I would want to be satisfied that we have explored and critically looked at every issue to ensure that the inhouse team have been given a fair go. Right from day one we were well aware of the impact we could have in human terms, on our smaller communities. Sixty percent of the people in [town] had a job with the shire (Commissioner).

He argued that local preference could not enter the decision about the roads and parks tenders because in terms of price, the inhouse bid was 'not even close to the preferred tenderer'.

Local preference has little place in a policy regime based so strongly on competition and probity; local preference was rejected by the Director, Client Services, in relation to the physical services contracts:

> We're protecting the interests of rate-payers, 27,000 of them, against 55 jobs, and the cost of giving it to RuralWorks and retaining those jobs is hundreds of thousands of dollars. It's significant over the number of contracts. It becomes a very hard decision in local communities. However, they swim or sink on tenders.

The second Director, RuralWorks claimed that,

> we've been treated exactly like any other tenderer in that we've been kept totally out of the picture with no influence whatsoever. If the client side get taken to court by an external contractor alleging that they weren't treated fairly, they will be able to quite clearly demonstrate that there was no one else given any special treatment.

One of the roads crew argued that 'there should have been a margin [favouring the inhouse bid]. They said all along they were supporting the locals, the inhouse bids, but then they dropped a bombshell on Tuesday' [the decision to award the physical services contracts to external contractors]. Another commented that 'right through the whole process you got the feeling they were definitely behind us'.

The first Director, RuralWorks complained that the balance had actually been tilted away from inhouse bids. Apart from the assistance given to potential bidders by the Economic Development Unit,

> from an outside contractor's point of view it would appear to be a level playing field in that the client services people are in one location and [RuralWorks] is in another and that we haven't received any additional benefits. However, I don't believe it's been level in that there's been restrictions placed on [RuralWorks] with respect to how much money you've got; to borrow money for additional plant equipment, you're stuck with the existing plant. We may have been able to take on leases but we couldn't actually borrow money, which a business could do. At the same time as we're trying to prepare bids and do everything else, we're still actually providing the service on the ground and every other activity the commissioners want done. You couldn't devote your full time into actually preparing the bid. Nor could a private company either, but on the same basis, they probably wouldn't involve their staff in trying to prepare bids, they'd do that at the management level.

Developing Service Specifications

The process of preparing service specifications exposed two important relationships in the council: the policy-administration delineation and the client-provider separation (discussed in the next section).

A significant result of the commissioners' responses to the community consultation conducted prior to the first round of CCT was the goal of ensuring current service levels to the community. Commissioners were able to influence the development of policy so that specifications would

> reflect existing service levels in those contracts in such a way that, where possible, we would improve services to the highest possible existing level rather than reduce them to a common denominator. This was done to overcome community cynicism which extended to the point, 'oh you won't be mowing our lawns any more, or you won't be grading my road any more' (Manager, Competitive Tendering).

There was some concern expressed by officials that service levels enshrined in the specifications may have been too high for some services. The strategy was to increase service levels by '20 per cent, or even more, to what we currently offer people and we decided we were going to focus on outcomes, not process' (Manager, Competitive Tendering). 'The specifications actually require a higher level of service than what was previously provided in most areas' (second Director, RuralWorks). 'We knew that would attract a higher price than we could afford but we were always able to negotiate down in price' (Director, Client Services). 'Some of the providers were convinced that these increased services could never be funded' (Manager, Competitive Tendering). This approach was best summarised by the Building Surveyor,

> In my experience the levels have been set perhaps a little but higher than what's been done in the past. They are certainly asking for more but will we in fact deliver more or will we continue on our merry way at about the level that we are doing now? It gets back to how tightly they will actually monitor it.

While it is clear that much of the strategic and operational levels of Rural Shire's response to CCT have been orchestrated by management, influenced heavily by the state government's guidelines, and endorsed by commissioners and councillors, the policy-administration division has not been clearcut. Where policies have been influenced by commissioners, such as in bundling of contracts and determination of quality levels, it has often been difficult to disaggregate the respective roles and responsibilities. This may reflect traditional modes of operating in rural local government because of the small size of the council or the usually higher levels of transparency.

Disaggregation of Bureaucracy

Of all the four case study councils, Rural Shire has the strictest client-provider split. The split is vertical and not only organisational but also geographical:

> They are physically separated for the purpose of establishing probity and making sure there is seen to be a clean organisation. The provider side ... registered a trading name as [RuralWorks]. The two sides of the organisation function as very separate entities. We decided to establish one business entity basically as a cross-subsidy between the various sub-units, because there is so much inter-relationship between each of the business units, rather than having each business unit then having to negotiate with other members of the service provision team for the provision of services, we said 'righto, one in, all in, it's all part of RuralWorks' (second Director, RuralWorks).

Only three officers, the CEO, Customer Relations Officer and Executive Manager Finance & IT, sit in 'the wall' between client and provider. This presents some problems of 'two-hattedness' for the CEO who reflects that 'it's hard to keep client and provider information from each other. You feel like you're deceiving each side' (see Figure 6.1).

Initially, the intention was to restrict the client side to about six people, but because of the enormous work load in policy development, managing the CCT process, contract development, contract monitoring and budget management, the numbers have not been reduced as anticipated. This has been resented by some, especially those whose positions are threatened:

> The indoors people lost some people but have since rebuilt their little empire and are still building it up. Their numbers must be up, we weren't allowed to do that. Their numbers have just escalated beyond belief (Member of Roads Crew).

Client-Provider Separation

The strictness of Rural Shire's client-provider split has nearly created two separate organisations. Yet the Manager, Competitive Tendering feels that 'it's not strict enough, I'd like it even stricter if I could.' The well-defined separation has been reinforced by the Statement of Intent which has laid the ground rules and formalised many arrangements that now regulate relationships, especially between client and provider units. These cover areas such as:

- provisions to give the service providers advanced notice of intention to call tenders;
- the embargo period prior to advertising of contracts;
- performance requirements of the business unit;
- profit sharing arrangements with a third each to council, the business unit and the staff involved in the successful bid.

There are some areas where the separation is not complete. For example, the Director, RuralWorks spends about 10 per cent of his time on corporate matters, for which the business unit receives no remuneration. The finance department is located on the provider side and it provides services to both sides of the organisation. The Team Leader, Finance commented that 'I'm treated more as a council employee than

a service provision employee. Even though I'm on the provider side, I'm there awaiting that day when my role's tendered out.'

The sense of shared culture at RuralWorks is not yet strong. Family Day Care workers say they don't feel any strong allegiance to RuralWorks. 'We don't actually work in the building, we're part of them but not. I actually forget that it's [RuralWorks] I would actually say I work for [Rural] Shire.'

However, there is evidence to suggest that client and provider do function separately:

> Effectively what was once a single entity, is really two separate entities in their own right and this is something not understood by the community. The client side is the council is reality, the other side is just a body you have to provide the services to you (Executive Manager, Finance & IT).

'We're like two separate companies. The terms and conditions are the same, it's our tasks that are totally different and we're working towards a different goal' (Team Leader, Finance). 'There's a definite them and us syndrome since CCT started. Rural Shire may not be big enough to have a client-provider split' (Animal Controller). 'One half of the organisation is against the other, it's like another world' (Business Manager, Physical Services).

One commissioner believes that there 'is an attitudinal problem and not enough cooperation between the client and provider sides. They're at loggerheads.' It is very difficult for some to sustain the notion that RuralWorks is part of the same organisation as the client side. 'How can they be a single organisation when RuralWorks is treated like any other external contractor?', asked the first Director, RuralWorks.

The antagonism between the provider and client sides was particularly evident in the remarks of one of the roads crew who had just found out that the inhouse bidders were not the preferred tenderers:

> I thought it was a total insult yesterday, they got a consultant up from Melbourne to chair the meeting, and the first thing he did is introduce two guys at the back of the rooms with ties on. They are psychologists from Melbourne, they work for me and if any of you feel you need to speak to them after this meeting, they'll be here for three days'. Now these blokes are getting paid by the council and they wouldn't exactly be on small dough. That bloody hurts.

RuralWorks has a flattened hierarchy in that teams have been established with Team Leaders appointed. There is a heightened sense of cooperative activity reflecting a sense that the future of all members of the business unit are consequent on their mounting successful bids. The client side appeared to be operating in more traditional, hierarchical ways with greater complexity and formalisation.

This contrast between client and provider sides was more evident at the second round of interviews. The second Director, RuralWorks concluded that, 'you can't really talk about a single organisation any more, especially after this next round of tenders'. After the approval to proceed towards corporatisation is given,

> the people in [Rural Shire] will know that there are two classes of council employees. It will draw a black line between the two and cut the apron strings ... We're being treated as if we're lepers anyway, so we might as well cut the fingers off (second Director, RuralWorks).

The cultural shift undertaken by RuralWorks was most noticeable during the second interviews. Under the first Director, RuralWorks did not bid for external work but the second Director 'actively tendered for 20 or 25 projects, mostly in adjoining municipalities, which had yielded over $800,000 in additional revenue for Rural Shire'. This new approach was described by the second Director as a 'fully commercialised, gung-ho competitive, private sector type business'. The second Director, RuralWorks was described by his client side counterpart as 'very aggressive, very, very aggressive, very, very, successful' (Director, Client Services).

The emerging contrast between the two sides of the organisation underpinned the description of the client side as 'too busy covering their arse ... they're just excessively careful concerned mainly with procedure and process' (second Director, RuralWorks). And this from the former Manager, Competitive Tendering who had established the initial procedures for the CCT process!!

The tensions between client and provider sides were underlined during the process of establishing specifications. The provider side generally had little part to play as specifications were written by the client side, often assisted by external consultants. 'There was no cross-fertilisation on the specifications' (CEO). This view was supported by the teams: 'Totally independent people have prepared the specifications with very little input from the actual providers' (Executive Manager, Finance & IT). 'The people who actually do the job have had very little involvement. People who don't know, and I mean don't know what's going on, are writing specifications' (Revenue Coordinator).

The first Director, RuralWorks was concerned about the process of drafting specifications:

> There was a certain amount of investigation done. It varied between the different managers in the client services area. For instance in community services and building and planning, those client services managers did a fair amount of investigation into how the services are currently being provided and have written the specification around that probably trying to improve that level of service. But in particular, in the roads maintenance and parks and gardens services, there's been some observations carried out by the client services people about how the service is being provided but they haven't actually asked the business providers is this what you do, tell us how you actually do it and why you do it. They actually had some inexperienced people doing the observations.'

The lack of consultation with the provider side created antagonism:

> What we're bitter about is the way they've gone about it without getting the specifications written in the first place and drafted by the service provision people or having the specifications checked and if they were, they didn't make any changes anyway (first Director, RuralWorks).

The following comments from members of the physical services teams confirmed the view that the process was not consultative and that it had caused friction between client and provider sides:

> As far as the tenders go we had very little input, the tenders were compiled by the [client side]. We had heaps of information kept as to service levels we'd been doing on the roads ... and I was not approached at all and I'm the works officer. They hired a consultant that knew [little].
>
> They wouldn't listen, they never consulted us. The consultant may have asked one or two questions at times, but very little as far as information went. At times when we had pre-tender meetings where we offered him information he wasn't interested in our input anyway. They cut us off when they didn't hear what they wanted to hear.
>
> We got the impression from the consultant and [Manager, Competitive Tendering] that input from us wasn't all that relevant, and they really didn't care. They had already set out an agenda for themselves and they were going to stick to that rain, hail or shine.
>
> The guy that they employed to be in charge of the tendering process is a very arrogant and pig-headed sort of guy. He'd picked up a consultant that will run with him and say 'yes sir, you're right sir'. Everybody else calls this guy 'the warden' ... There's just two guys there who said this is what we're giving them and this is what they'll get, like or lump it.
>
> When the specifications came out for the first time you nearly fell through the floor reading them. For example, we may grade a particular dirt road say four to five times a year to keep them up to a reasonable standard and we know

> from local knowledge we have to do that and yet they are trying to tell us from an office with no local knowledge whatsoever, from a consultant that was hired outside the organisation, that they only needed to be graded once or twice a year.
>
> We felt all along that we weren't consulted on what service levels were required and the consultant that they got in was from a shire that is one or two shires away from us with totally different terrain and working conditions and everything.
>
> They've written the specification around what they think it should be, having no real reflection necessary, on the way things have actually been carried out (first Director, RuralWorks).

In relation to animal control:

> Initially approaches were made as to what the thoughts were in relation to the animal control side, day to day procedures and what's involved in the job and also what the legalities were. But very little notice was taken. They went their own way anyway (Animal Controller).

The tension went both ways: in the parks and reserves department, workers made the comment that 'we had consultants come and ask us what we actually did and we were told by management [of RuralWorks] not to let them know too much'.

The inhouse teams believed that the lack of consultation resulted in flawed specifications. 'A consultant they hired from Coopers and Lybrand said "it's the worst set of specifications I've ever seen"' (Team Leader, Finance). 'It appears to show in the specifications documents that perhaps there isn't a real good understanding of what's actually required to deliver the service' (Executive Manager, Finance & IT). 'We had 18 roads in the western area alone that weren't even on the tender document. They'd completely missed them. They didn't know they were there' (Member, Roads and Physical Services Team).

> They didn't do their homework, they only had to come to me, I had a list of all those roads there, and ask for them, but they never did, they compiled them all themselves. They worked from VICROADS guidelines but they are only a rough guide for main roads and highways (Member, Roads and Physical Services Team).

Other concerns with the intervention levels set in the specifications were raised:

> They set an intervention level on the left hand side and then a minimum service level on the right hand side. This made it particularly hard for the guys to put the bid together. It cost us our jobs, to be honest (Member, Roads and Physical Services Team).

Park and reserves workers were concerned when they saw the final specifications: 'there was some stupidity in there for sure, such as mowing areas they'd never done before, irrigating areas we don't currently irrigate'. 'We weren't allowed to have 10 leaves per square metre at any time in some areas, ridiculous things like that.' It was also specified that they had to pick up all the grass after mowing: 'we've got areas probably half a kilometre long ... you'd have truck loads and truck loads and we had to quote on that.'

The Director, Client Services also noted the concerns with the specification process for when the announcement was made that the inhouse team was not the preferred tenderer, he recalled that 'one of our staff got pretty agitated and immediately blamed the specifications'. The selection of the neighbouring council's business unit as the preferred tenderer caused concern in RuralWorks:

> We're pretty bitter about the outcome. If people have actually tendered on what's been specified ... the municipality would have a really good maintenance system, both in roads and parks and gardens. However, I don't believe they could afford it because it was too luxurious, what they've actually asked for. It's my firm belief that those that have tendered at a significantly lower price are doing so on the basis they are not going to comply with all the requirements (first Director, RuralWorks).

The tendering of the Family Day Care program was, however, handled differently. Staff reported that they had considerable input:

> There were several meetings held with the client side and our side, with care providers, and an extensive survey went out to parents. So there was consultation and that basically was: 'what are you doing now, how do you feel about it, what could we do better?' The client side then went away and wrote the specification and we were quite happy with the specification. There's minor glitches but that's all they are. The people on the client side had a good understanding of family day care and were willing to listen (Family Day Care Worker).

However, this group reported loss of efficiency through compliance costs:

> If anything, during the process our service level dropped because we were so busy doing the process. We had a whole month where no care provider was even visited because we were so busy trying to understand the tender (Family Day Care Worker).

Although the Director, Client Services argued that 'it's very important that we work with the provider because they've actually got to tell us what they do, we don't know it all', it is obvious that that has not happened in most cases. The Business Manager (Physical Services) believed that:

> it's very interesting because if you match up the outcomes of the tenders and consultation levels, they line up remarkably well. Where there was a perceived lack of consultation the tenders have gone out, where there appears to be good consultation the tenders have gone inhouse. This may mean the specifications were closer to the mark of what was required.

Whether or not the results of the tendering process biased the responses to the process is difficult to determine. However, the development of specifications at Rural Shire has been a source of much antagonism; it has exposed the client-

provider tensions and shown that policy has largely been set by the senior management on the client side of council.

Decision-Making

Many workers at Rural Shire felt that decision-making has been more decentralised:

> I'm much more autonomous. As opposed to the old system where it really had to go right through to council who would talk about the colour you might paint the brick wall for four hours at one council meeting. Now, on a day to day basis I make decisions I believe, perhaps I shouldn't make sometimes, but I fly by the seat of my pants and perhaps don't report things up to the higher levels that I used to (Building Controller).

For others nothing much had changed. The local laws enforcement officer believed that he was 'never really part of the bureaucracy because decision-making is out in the field':

> When you're dealing with complaints and statutes you've got to have the answer there and then or a solution, you can't go running back and say I'll just have to check that with my boss before we can do anything. Next thing you know, the dog's latched on to someone's leg (Animal Controller)

Similarly in Family Day Care: 'we've always been autonomous. I guess if we wanted to change our training programs, our manuals etc, yes, they would have to be run by the other side' (Family Day Care Worker). The 'old' ways also persist in other areas:

> I find there's a lot of interference. We've got a certain amount of autonomy but it's because of things that were done in the past. I find that a bit annoying, things that we should be able to move on and fix up and clear up (Revenue Coordinator).

Provider staff were involved in bid preparation. 'This gives staff ownership of the bid and if they win they know they have a commitment to perform and if they lose, they know why they lost and be hopefully contented with that decision' (second Director, RuralWorks).

Corporatisation

Discussion of corporatisation was only in its initial stages during the first round of interviews:

> I could see it happening within about five years. It could perhaps go to a management buy out or it could be sold off as a private company or whatever else. If we're going to go down this track of actually having everything tendered out and all the rest of it, then you might as well go the whole hog (first Director, RuralWorks).

The Director believed that 'municipal amalgamation or restructure in Victoria wasn't about reducing the number of councils, it was about changing the culture' and making the organisations big enough so they could eventually become corporatised.

Since his replacement, the move towards corporatisation has accelerated. The incoming Director, RuralWorks argued that corporatisation was his goal because 'National Competition Policy leaves me no option if the public sector is to have any future at all'. His aim was to make RuralWorks the second corporatised council arm in Victoria and a draft service agreement had already been prepared for discussion by council. This service agreement aimed to provide a corporatised structure for RuralWorks and define the business relationship between council and RuralWorks to enable RuralWorks to operate as an 'independent commercial entity of council'. The tenor of this document is to place high value on commercial service delivery and to clarify (by agreement or in 'contract' form) the respective roles of council as client and RuralWorks as provider. This further underlines the growing distance between client and provider sides of the organisation, best summed as a distinction in goals between compliance and probity on the one hand and commercial focus on the other.

Use of Contracts to Mediate Behaviour

The Shire is a hybrid of contract approaches and bureaucratic rule. On the client side there has been an increase in rules and regulations with more manuals (for example,

Statement of Intent, Tender Evaluation Guidelines, Quality Assurance Procedures Manual). 'Red tape is being built into the system by having to have all these checks and balances, outside independents all that sort stuff, it all adds to the costs' (Commissioner). 'They are building a bloated bureaucracy; we are tending to get too top-heavy and virtually all that rate revenue that we raise is going in administration' (Commissioner). Although it reflects the overall strategy of maintaining high levels of probity, this high level of formalisation has led to greater inflexibility in the process. 'They've gone to the nth degree to follow the legislation, the way the organisation has been set up' (Team Leader, Finance).

On the other hand, however, there has been a move away from traditional bureaucratic modes of operation. For example, the specifications do not focus on input and processes rather they specify outcomes. 'Contracts are more outcome driven rather than being prescriptive. As long as the end product is up to the standard' (Contract Supervisor).

Contracts are used for employment of senior staff, although protections for staff are not strong with the resignations and dismissals of all senior staff at levels one and two in the four years since CCT was introduced. There are no moves to extend contracts below senior level, although the LAWAs may be seen as significant shifts away from the award system that existed prior to CCT. However, there is no pressure for inhouse bidders to have completed the LAWA before submitting their bids, and the second Director, RuralWorks complained that the contracts had sat on his desk unsigned for far too long after the tenders had been evaluated. At this stage service agreements with the community have not been considered at Rural Shire.

On balance there has been a higher degree of formalisation introduced as a result of CCT and the contract mechanism has not been a major feature of the operations at Rural Shire.

Replacement of Political With Market-Based Decisions

The Commissioners at Rural Shire were willing to allow decisions to be made within the market context and did little to intervene politically or managerially in the tender process to influence outcomes. Despite some preference being expressed for local contractors, the inhouse bids were given little, if any advantage, nor were the few local private sector bidders. The message to bid teams was clear: the tenders would be let on a competitive basis and if inhouse teams were unable or unwilling to reconsider their costs structure, then council would not featherbed them from the consequences. It was the consequences of job losses which generated so such angst both in the community and within the organisation that finally led to the dismissal of senior staff. The market had delivered few new entrants and was dominated by established, external tenderers to the cost of the local community in terms of jobs lost.

Operating More Competitively

RuralWorks did not initially adopt a competitive attitude, because they 'were flat out providing what they believed to be a satisfactory level of service within their own municipality' (first Director, RuralWorks). The building control and family day care workers indicated that since they won their own tenders, they would then look further afield. In family day care, they aimed to seek outside work 'so that we're not gobbled up, we'll have to do the gobbling' (Family Day Care Worker).

The opportunity to operate in a more market oriented environment was welcomed by some:

> It makes you more accountable in terms of how you perform your daily tasks. Your service is actually exposed to the market place and you're competing against direct competition therefore you need to be able to compete in that environment (Executive Manager, Finance & IT).

The initial enthusiasm for the opportunity faded quickly for the provider side, in particular:

> Initially, I thought it was a great opportunity for council employees to demonstrate they could provide that service at a competitive rate to anybody else ... They would have won a tender for instance to provide a specific service at a particular level of service which they had all been intimately involved in ie the bid preparation They would have known what was expected of them on a day to day, year to year basis. Under the previous type council structure, you never quite knew from one month to the next, what was going to be required of you next. The reality was none of these (first Director, RuralWorks).

It was argued that CCT added additional burdens for workers but conditions and hours remained unchanged:

> The only thing that is going to change is the added work load. We're struggling and have been since amalgamation to keep our heads above water. We're going to go well under with this added workload [of compounding outside the shire] (Animal Controller).

> We did monthly home visits to care providers, but they've stated four-weekly home visits, which actually gets one extra visit in a year and that makes a big difference because Rural Shire is such a huge council. The increase in travelling distance put our costs up for the tender (Family Day Care Worker).

The roads crew did not cut their wages or conditions in their LAWAs although they banked their hours at 'time for time' with no overtime rates:

> Some of us were prepared to put the bid in with a drop in wages to make sure we keep our jobs ... But everyone else said 'no'. Also just before CCT we negotiated an EBA [enterprise bargaining agreement] in which people got pay rises for doing certain things and people started, at long last, to get paid what they should have been paid years ago and then all of a sudden CCT came and

> to win our bid we've virtually got to cut our wages and conditions again and go back to even lower than before we started (Member, Roads Crew).

However, the Manager, Competitive Tendering, believed that the physical services teams were enjoying conditions over and above the award. Concern for the impact of this on a competitive bid was raised by the Team Leader, Finance:

> With the enterprise bargaining agreement by the end of July next year, there will have been an increase in salaries by 10 per cent. That's about $600,000 right on the time when CCT's getting into full swing. In the short-term we didn't need that sort of cost especially when we're going to be market tested for the first time.

The Director, Client Services claimed that the wage rate quoted for the road and parks contracts were,

> very high in comparison to their competitors. Our bandings are also very high in comparison to the industry standard. We know that the preferred tenderer in this area, their bandings are much lower.

The Director, Client Services blamed the failure to win the contracts on an inability to accept the changing culture in local government:

> The whole philosophy of this, they haven't absorbed it. They haven't absorbed that they may have to give something up in order to make themselves competitive, in order to keep their jobs. In their local area workplace agreements they wouldn't take concessions but management accepted that. If they made a profit they would have shared the profit. They would have enjoyed the fruits of their labour.

The preferred tenderer made substantial adjustments to the conditions they enjoyed in their LAWA. 'From what I can understand, guys are actually prepared to work extra hours without any additional money just to get into a contract' (Team Leader, Finance).

The initial failure to accept the cultural change was lamented:

> In Rural Shire there is still that old attitude and old culture and that frustrates me to hell. Coming here was like going back 10 to 15 years. In the country, you haven't got the competition and the attitudes are not really up to what the people in the city have. The culture isn't right to compete here. I'm not surprised at all. We haven't got the attitude and culture here (Commissioner).

> We did believe my people were given appropriate support and training at the time but I think in reality they may not have had enough commercial acumen. The lesson is you don't have to be honest, what you've got to do is just win (first Director, RuralWorks).

However, the Director, RuralWorks commented that in preparation for the LAWAs it was made very clear to the workers that there was

> a fine line between what they were prepared to work for and what they were prepared to go home and say to their families, 'I no longer have a job because we missed out'. They were very aware of that. I don't believe the issue of wage levels or salaries had anything to do with the winning or losing on this current round of tenders. It been entirely related to the amount of work that has been promised to be done.

The parks and reserves crew were concerned about options to join the new contractors. 'We'll be working for a lot less money if we go with the other mob. That's what made them more competitive'. 'They're not going to pay us as much'. 'They'll put you on the minimum wage so if you're going to drop $4 an hour you wouldn't be that keen to work would you? You're better off on the dole.'

The perception that input costs need to be reduced was raised by other bid groups:

> The people that are in my team, basically since I've come here, I've been trying to get them to think about work practices and asking them what are you prepared to give up? And I can tell you quite frankly right now, that if they're not prepared to give anything up, which is to an extent, one of the blues that our outdoor guys made. We're dead before we start. My team are still working

> a nine day fortnight. I say to them, 'do you really want a nine day fortnight', and they look at me horrified (Revenue Coordinator).

The Director, Client Services argued that the bids from the physical services teams failed because,

> the external tenderers have looked at the specification and just priced on the specification, RuralWorks may have looked at the speci but also knew the other things that they do and priced on the other things that weren't in the speci. It may have disadvantaged them because they haven't looked at it as a true private enterprise approach. They have quoted on previous experience. But the reality was, and they've been told all the way along, as far as I understand by the CEO, the providers needed to look at the specification and only the information that was in there and price accordingly. In every instance they were the highest price.

However, he claimed that the difference in price was substantial and if the preferred tenderers did not accept the contract, 'they [the inhouse team] are so far away in price, that we couldn't realistically enter negotiations because they would have to almost re-write their tender' (Director, Client Services). This comment proved prescient as the withdrawal of the preferred tenderers lead to restructuring of RuralWorks rather than awarding the contract to the second placed inhouse tender.

He continued: 'The problem is they were not being managed as a competitive private sector industry.' The Executive Manager, Finance & IT concurred with this assessment and argued that provider side management was not leading the way and was not commercially focused. 'I believe the director of RuralWorks was too busy being a traditional municipal engineer rather than a director of a commercial operation.' Their failure is,

> I suspect too much of a dependence and a traditional local government mentality as in not being commercially focused enough. They hadn't got their mindsets away from being council employees to a commercial enterprise. They

> were too much tied to the mother. They hadn't cut themselves loose to be a true commercial entity.

The Executive Manager, Finance & IT cited an example of attempts to rationalise the heavy equipment managed by RuralWorks:

> I said they should have no more than five or six graders on their books because they can't afford any more and they would not listen to the concept of double-shifting, or even triple-shifting their graders and working a $250,000 piece of equipment around the clock. They could not shift from a traditional local government approach into how a commercial enterprise would look at driving their investment as hard as possible.

'Those councils that don't pursue innovative and efficiency gains will find themselves falling by the wayside. That's primarily where I think RuralWorks has come undone.' He believes that RuralWorks was naive from the outset because,

> they did not first of all go out and test the water and secondly, they did not go out and try to achieve the commercial reality of minimising their exposure to council's decisions. They should have gone out and found alternative revenue sources so they did not expose themselves to a wipeout.

However, there is some evidence that RuralWorks has since become more market driven:

> There's no doubt in my area, in building control, which is a deregulated industry in Victoria anyway, people don't need to come to council to get their building permits, there are private people out there in the market place that they can go to. Certainly, there's a more market-based approach, we're more focused on marketing ourselves and certainly doing our best for the clients to attract business. That's a major, major change. Traditionally, if a builder called me and I was having a bad day, I'd say 'well you'll have to wait two weeks to get your building permit'. You certainly don't treat them that way now. You've got to provide a service and hopefully, turn that application around in as quick

> a time as possible. If you don't, he takes his business elsewhere (Building Controller).
>
> We are more competitive and sharper, aware of the marketplace. We realise we've got real competitors. One of the biggest changes in my area's been I can go out and sell things. People that I deal with like real estate agents and valuers, they ring me up and say I want you to tell me this, I'm now saying 'well I'll tell you, but this is what it's going to cost you. If we're successful we'll go out and market information that we can sell that won't effect the ratepayers but private companies we'll sell to and we'll take that money. We can prove, when we go to tender and when we are talking to council that we can go out and bring more money in for council (Revenue Coordinator).

The growing outwards focus of some programs is now more evident: 'I think we've got a strong case against our competitor, particularly in the country that we know our client, we know rural people, we know what they want' (Revenue Coordinator). They also claim they have a feel for where they benchmark with others (Team Leader, Finance). However, cultural change was initially slow and not universally evident throughout the business unit.

Since the appointment of the second Director, RuralWorks, there has been a clear adoption of more competitive strategies. Not only has more external work been sought, a more outwards focus has been evident in the engagement of a consultant to provide information on adjoining councils and their tenders to RuralWorks. The second Director, RuralWorks has intensified the process of reducing input costs through the LAWAs and argued for further changes in work practices and bandings. He wanted to abolish outdated work practices,

> that do not exist in the private sector and which adversely affect [RuralWorks] competitiveness in the market. In this day and age we simply cannot afford a nine day fortnight.

Local Competition/Contestability

Although the contracts were packaged to attract local bidders, CCT has not yielded many new local entrants at Rural Shire. Reasons advanced for this include the lack of time for contractors to prepare their bids, inexperience and lack of expertise in mounting bids, the absence of genuine competitors for some regulatory services (for example, animal control), and that country areas historically have little competition. As one commissioner remarked:

> The contracts are so detailed and sophisticated they scare the Be-Jesus out of people. It tends to favour bigger organisations that have the technical people and who can run it past their legal-eagle to put it into place.

This provided the justification for council to assist the private sector: 'you've got to understand a lot of our local people are very unfamiliar with this whole new culture and this process too, and it's all a bit frightening' (Director, Client Services). It may also explain why the external contracts were won by larger organisations, including one from Melbourne.

Most commissioners and staff anticipated that there would be greater competition in subsequent rounds, both from other councils and from private enterprise:

> I think the contractors will lift their game, maybe join together to make bigger organisations and you're going to get the big contractors coming up from a Melbourne and monopolising the whole area (Contract Supervisor).

A main concern for the next rounds was whether physical services groups would be able re-mount a bid. A roads crew employee lamented that '12 months down the track, we're all gone, we can't compete again can we? There will be no competition. There won't be any body at RuralWorks to do it next time round.'

While Rural Shire has been able to secure some sub-contracting work for their existing employees as part of the contract with the large external contractor, the above observation is likely to be a realistic one. Of the 65 staff currently employed in the physical services area, Rural Shire will be retaining about 10 to undertake those

works that currently aren't covered in the existing tenders. One worker saw a bleak future:

> The physical services mob that have lost their staff, well their future, any sort of future, there isn't one. They can't really tender for their similar positions anywhere else because where's the staff and the equipment coming from? Its virtually eliminated the physical services section of this Shire. It's gone, you can kiss it goodbye and never see it again while CCT's around anyway.

Future re-entry may depend on decisions about retaining plant and equipment:

> Depending on whether that is kept or not, your capacity then to respond to future projects just isn't there. There would be huge re-entry costs if they sell off all the equipment. It's going to put the council back 50 years. We've been through the process where originally the smaller councils hired contractors in because they didn't have plant equipment. Over that period of time they found the contractors being private enterprise based, didn't provide the services that the public thought they should so they built up their own plant and equipment and staff to do it. Now we're going back the other way again. It's going to be a cycle (first Director, RuralWorks).

The Contracts Manager believes that after external contractors have been selected, there will be little inhouse capacity to re-mount a bid and the only hope would be to get consultants in and gear up again if they won the tender. The Director, Client Services disagrees:

> We've been trying to ask ourselves 'what does private enterprise do in this situation?' We're going to be keeping our most competitive people, we've got ten of them for a start. There's lot of work out there, we identified last Saturday in the Age a number of jobs these people could be bidding for. It comes down to their attitude towards that, if they roll over and die now, well they're not really giving themselves much hope and they probably won't attract much support from the council, but if they're out there being aggressive in the private sector, in the backyards of those that have just taken work off them,

> well I think the councillors will support them. But I think the reality is that we can't afford to have the plant itself, we'll have to look at rationalising the plant.

This view was shared by the Executive Manager, Finance & IT, who also saw the need for a change in attitude from the provider side:

> The capacity for RuralWorks to gear back up is very real and I would suggest that it is commercially naive for them to suggest they can't. It's a question of them actually having the energy to get the work to make sure they can keep their expertise on tap. You don't see the private companies in the tendering game shutting up shop and going home to Mum, just because they lose one tender do you? And effectively that's what they are looking to do and to me that's bullshit, to me it's almost childish.

Client Focus and Customer Centredness

The community played a small but effective role in contributing to the council's overall CCT strategy and continues to be involved as a public meeting is held to discuss new tenders. Although the community has also been surveyed in a number of areas for input into specifications it is difficult to conclude that Rural Shire is significantly more client focused.

Rural Shire introduced a formal quality assurance program where staff were involved in identifying exactly what they did and looking at quality practices. 'It identified some of the things we do now such as the customer complaints processes' (Building Controller). A Quality Assurance Procedural Manual and Checklists document were produced as a result of the process.

While staff may see a greater customer focus, this perception was not shared by commissioners. 'I would think we are a long way off people grasping the importance of what the community and the customer is all about' (Commissioner). Another commissioner was trying to get more quality and customer focussed programs in place, such as 'the mystery shopper program'. He commented that,

> I'm far from satisfied that we've achieved in our workforce and our indoor staff. While complaints are less frequent there's a long way to go. The message we've been trying to get through to them is that they are here to solve problems, not to further add to people's problems but we don't have that mindset in place yet, not by a long shot.

Family Day Care is the only program that has conducted client surveys as part of the process of developing specifications. Family Day Care workers, however, argue though, that they haven't become more client-focused as a result of CCT as this approach is part of the normal process in their profession:

> You would hope that people are always looking at how they are offering a service and how they can make it more streamlined, run more efficient and be better. We've always had to deal with people (Family Day Care Worker)

The concern that programs were yet to be genuinely customer focused was shared by the Director, Client Services. He noted that:

> our guys haven't picked up on the new culture expectation. They are still thinking more what we can get out the process rather than what we can give. The preferred tenderer for the roads contracts [the neighbouring council] identified that they were substantially more advanced in this area with some of the systems they've got in place.

Flexibility in Communication and Reporting Systems

Increased reporting requirements, and thus workloads, have been included in the specifications for contracts, whether won inhouse or externally. 'There's a squillion more reports than we've ever had to do' (Family Day Care Worker). For example, all providers now have to provide the client side with a monthly report.

The requirement associated with the introduction of the Action Management System for complaints management and the need for interchangeable data has also increased communication and reporting levels:

> The contractor is required to deal with complaints on the spot even though they may not be in their particular area. It's written into the specifications that the contractor must politely take the person's details and assure them that the matter will be looked into. He is required to then forward that on through the Action Management System, that was the idea of having that integrated approach (Manager, Competitive Tendering).

The reporting requirements and the performance measures are different from those used in the past. The main change is 'being accountable and being able to actually show that you are achieving certain performance criteria' (Executive Manager, Finance & IT). Despite the complaints about preparing reports, this performance rather than process focused approach represents a significant change for local government. At Rural Shire this has been accompanied by a considerable increase in the level of formalisation with new guidelines, regulations and restrictions on free exchange of information (especially between client and provider sides of the organisation).

Other Issues

The enhanced pressures for dual accountability to both state government and the community was raised by many at Rural Shire. They were particularly critical of the pressures imposed by the state government:

> Since I've become a commissioner, the thing that's come up loud and clear to me is that local government is only an arm of state government, you're at the whim of state government, they just do what they like and state government's

> at the whim of the party in power. Local government hasn't been involved in any of these changes, they've just received it (Commissioner).

Another commissioner was concerned that the state government had threatened that if the 'new council doesn't behave or perform, they're going to sack you and put administrators in'. He continued,

> that's not democracy. I am awfully worried about the future of local government. It's made me aware of just how much power the state government always had but never been able to use it. No one's been game as they haven't had such an overwhelming majority like Kennett.

The overwhelming view of the CCT process in Rural Shire is that the timing could have been better:

> To put CCT in at the same time as we were consolidating our new legal entity was inappropriate. I agree it had to happen but the thing that I don't necessary think was correct, was to do it as the same time we were trying to bed down a new entity, from the predecessor authorities that had been in existence for over a hundred years (Executive Manager, Finance & IT).

> The amount of change that's taken place in the last two or three years, it's made some of our people sharper and well-prepared and all the rest of it but some of them have gone a bit numb. They've got information overload. They really have had trouble adjusting to it (Manager, Competitive Tendering)

Others shared this view: 'It has created the many community misconceptions, with CCT, amalgamations, rate cappings etc. all hit at once' (Business Manager, Physical Services). With the amalgamations in November, 1994 the first round of CCT was in the same financial year so that 'it's been a constant race against the clock. Like swimming with bricks around your waist' (second Director, RuralWorks). This concern was supported by one of the commissioners:

> If you ask any of outside staff they're all as nervous as hell and they have been since day one. Probably for two and a half years we have people who haven't been producing as well. Many have lost faith in the organisation (Commissioner).

Concerns were also raised about maintaining the quality of services and the development of a 'compliance focus' in responding to the state government CCT targets:

> I've got fairly serious concerns about a lowering of quality of service and even a lowering of professional standards in a lot of areas. I have a lot of concerns, that certainly the extra little bits will not get done. Whatever's not included in the specifications really doesn't get a look in. There will not be the amount of people left in the organisation that can do those things that council always considered as part of their duty (Building Controller).

This compliance orientation was also raised by others, together with doubts about the sharpness of the CCT tool in generating real cultural change:

> Under the legislation there's nothing to stop you going and setting up coat-hanger arrangements. Setting up a number of business units all fully owned by council and having them bid against each other. It's a competitive arrangement, all you're doing is round robin transactions. You could comply with the legislation that way without actually market-testing any area of your business. I have to say the percentage nomination figure is a nonsense because all it does is encourage that behaviour, rather than pursue the culture shift (Executive Manager, Finance & IT).

Table 6.3: Summary of Key Events, Rural Shire

November, 1994	Amalgamation of five rural councils into one; appointment of Commissioners to replace elected Councillors.
November 1994-June 1995	First round of CCT. Compliance 21% of TOE, above state government requirements.
December, 1994	Establishment of RuralWorks as council provider unit.
June 1996	Adoption by Commissioners of "Competitive Tendering Policy and Providers Manual", including Council's "Statement of Intent".
July 1995-June 1996	Second round of CCT: 140 contracts let but only 28% compliance, below state government requirement of 30%.
January 1997	FIRST ROUND OF INTERVIEWS
January 1997	Commissioners accept recommendations for letting 10 contracts (see Table 6.2) with four to be readvertised; first Director, RuralWorks retrenched and replaced by Manager, Competitive Tendering.
March 1997	Elected Councillors returned.
by July 1997	Executive Manager Finance and IT retrenched.
July 1996-June 1997	Third round of CCT: 44% compliance, below state government requirement of 50%.
October, 1997	CEO resigns.
January, 1998	SECOND ROUND OF INTERVIEWS
by March, 1998	Director, Client Services and second Director, RuralWorks both retrenched.
May 1998	Debate in Victorian State parliament re Rural Shire.

Summary

1 The rural environment of Rural Shire is not particularly contestable for many local government services, despite efforts by council to encourage more local competition. There is little evidence of competition stimulating local economic development;

2 CCT was reported as having net costs at Rural Shire, both in monetary and community terms. The costs to council, in the main, have not been anticipated and include the higher costs of compliance with the probity requirements of state government (and council's interpretations of these), expenses relating to the cost of managing the CCT process and the impact of the state government's decision to pass part of the unfunded superannuation liability from the LASB to councils;

3 The downsizing of 'outside' services which accompanied CCT has had its most negative impacts on the lowest educated and skilled workers at Rural Shire - generally those in work teams with more limited capacity to mount competitive bids;

4 To be able to mount successful bids, it appears that workers must accept a reduction in their working conditions, lower than the existing award payments and conditions;

5 Even though CCT has the capacity to change fundamentally the nature of the organisation, the CCT process at Rural Shire has been seen by both management and councillors as essentially at operational rather than strategic level, and consequently it has been largely left to the senior management to determine overall strategy and implementation for the council. Most policy decisions concerning CCT have, therefore, been displaced to officials and a clear policy-administration divide has not been evident;

6 The CCT process at Rural Shire has resulted in a disaggregated bureaucracy and more decentralised decision making, but the cost has been in greater fracturing of the organisation between client and provider sides. Tensions between client and

provider sides of the organisation were evident in many of the dealings between them, but especially through the process of developing specifications;

7 Some areas of Rural Shire, notably more recently in the business unit, have embraced the cultural change which has accompanied the introduction of CCT. However, the shift towards a more market driven organisation has been slow and limited by the short timetable for CCT compliance, a 'hands-off' approach to RuralWorks by the CEO, decisions concerning unfunded superannuation liability and the low level of contestability in the shire;

8 The acceptance of CCT as a management level responsibility, the compliance-oriented response to CCT from Rural Shire, the high degree of formalisation adopted, have all contributed to the enhanced level of bureaucratic control at Rural Shire;

9 Notwithstanding this bureaucratisation, Rural Shire has disaggregated its bureaucracy and begun to shift its focus more externally both to stimulate local competition and to seek opportunities for council to extend its operations beyond the traditional local government boundaries. Its provider side, in particular, with new leadership initiated a more competitive culture which increased tensions with the client side. The client oriented activities are conducted within a value system of enhanced competition and freedom from bureaucratic constraints, yet operate within more formalised arrangements than in the past;

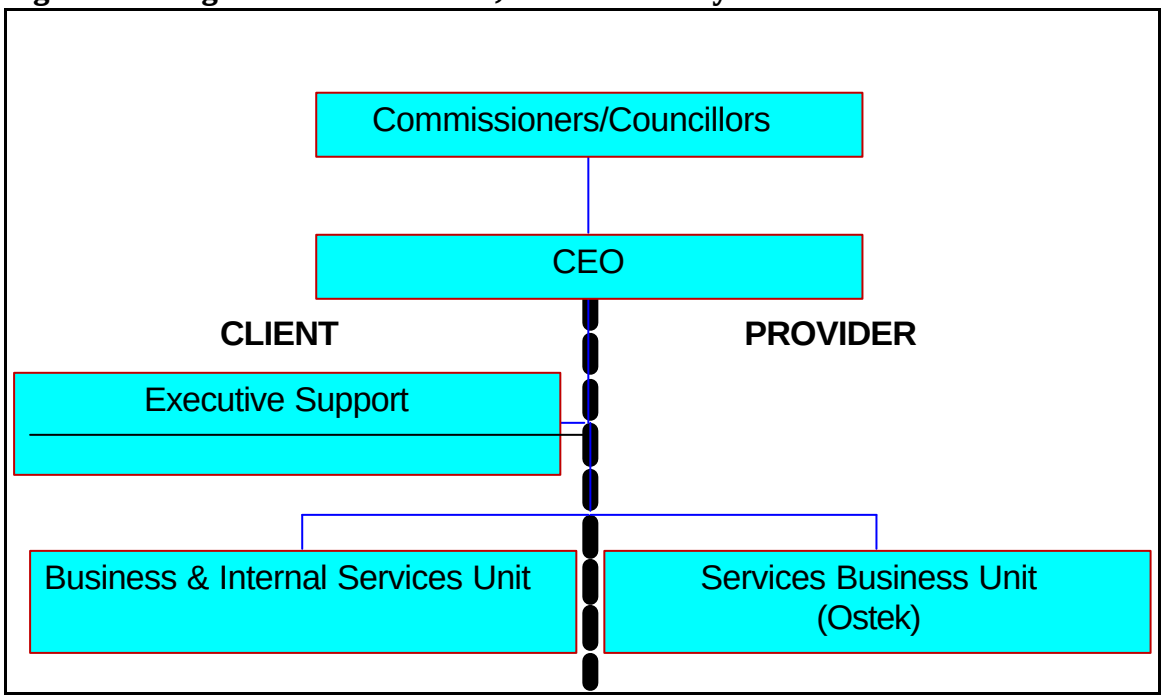
10 This case study illustrates problems of adopting hands-off or laissez-faire management in situations where change is demanded of staff. The absence of a carefully planned training and development program for staff confronted with CCT has had dramatic effects on the capacity of staff to respond to the required changes. Neither laissez-faire management approaches nor punctilious adherence to rules and guidelines appear to be adequate levers for cultural change in an organisation.

CHAPTER 7: PROVINCIAL CITY

The CCT Experience at Provincial City

While the city was not formed until the fifth and last round of amalgamations, the changes were minimal with the addition of small areas from two neighbouring rural shires. This gave the council the advantages of being able to prepare for CCT with few problems in 'bedding down' the organisation following amalgamation, an opportunity which was not wasted in Provincial City. Nevertheless, the re-structuring which did occur as a result of the amalgamation process, the selection of a new CEO and the preparation for CCT resulted in a significant overhaul of the organisational structure and methods, based firmly on a client-provider split. The structure changed again within a year as the council adjusted to accommodate CCT. This second restructure involved the merging of the 12 business units on the provider side to form Ostek, a single business unit, placed under management of one of the senior directors (see Figure 7.1) (also summary of key events at table 7.3).

Figure 7.1: Organisation Structure, Provincial City at 1/6/96



The council prepared a submission to the Victorian government's inquiry into the impacts of CCT (the Hinds-Robson Report) which provides a summary of the first two years experience of CCT. The submission cited the following benefits from the introduction of CCT:

1 Competition had provided a stimulus and a driver for many cultural changes, particularly through the development of Local Work Area Agreements;

2 There was now a greater focus on customer service with the introduction of customer satisfaction surveys and improved request and complaint handling;

3 Council was now more accepting of technology as a means of increasing productivity;

4 There was an increased emphasis on improved management of many traditional council services for example, more focused monitoring of service delivery teams;

5 Staff were far more adaptable and flexible;

6 Change has become part of the culture in the council.

Concerns were raised about a number of aspects of the CCT process including the rigidity of rules relating to targets and compliance and the added administrative burden (especially the increased costs of administration). The submission concluded that the 'cost of staff training, preparation of business plans, and the preparation of specifications and bids has been high ... and not repaid in savings through competitive bidding' (Provincial City's submission to the CCT Implementation Review, November 1996).

Most of those interviewed agreed that changes had been significant since the introduction of CCT. 'People in here feel that two rounds of re-structuring has really caused people to change. But if you have a closer look at that, particularly the second re-structure we had in April last year, that was all CCT driven' (CEO).

The issue of cultural change at the council was raised:

> The cultural change has been the single greatest change in local government in Victoria ... It hasn't been the fact that we've amalgamated councils. It's been we've gone from a bureaucratic culture to one of 'hey, we can compete, we are good at what we do, and there's no reason why we can't continue to do that in whatever environment you put us in' (Manager, Ostek).

However, one of the commissioners does not believe that this has yet permeated throughout the organisation:

> The culture of the people and the people who supervise the cutting of the grass haven't changed yet. Three-quarters have picked up on the cultural change. The older serving members of staff are the slowest to change.

One of the client side managers believes that this cultural change is greater on the provider side: 'They are much more focused, business orientated, looking at doing things a better way, they're open to Quality Assurance and better results. That means more jobs and more work' (Manager, Marketing and Customer Relations).

Staff commented on the business-like approach now being taken by council:

> Councils are big businesses. They carry a lot of money, they've got a big responsibility and they should be run under more business-like ways. I think if having commissioners is the way to do that, then I'm all for it (Parks Technical Officer).

At the same time, there was still some concern about retaining the concept of local government as a service provider: 'I don't think we want to get to that stage where the dollar is the only criteria for doing work' (Parks Technical Officer). 'We like to think we're aware of certain social responsibilities.' (Parks Supervisor). Concerns also related to the reduced levels of funding for programs: 'the lack of resources to be able to better the service' (Homecare Worker). Another worker argued that the CCT process had increased the level of stress because 'working with lot leaner

resources, you are working in a competitive situation and the axe is always over your head' (Works Officer, Roads).

The lack of flexibility in choosing strategies other than CCT was lamented by both the CEO and commissioners. 'In some areas where we haven't achieved a lot in savings, I think we would just be better off going down the path of Continuous Process Improvement' (CEO).

> While we needed the cultural change and some of the things we've done to set up for CCT have been very good, the results at this stage are not really there. We do accept probably the next time round, in three years time we are going to see some real benefits of it. But from what we've seen of the quality improvement process and what that can offer, I think that's where our future is ... That's the answers we've been looking for in local government (CEO).

> Enshrining percentages in legislation is a negative. A lot of people developed a percentage target mentality. People were over-concerned with achieving the target rather than say looking at the quality of specifications. There was a focus on what can we do to reach the targets, what services can we get out quick enough, easy enough etc' (Executive Assistant).

The councillors indicated that they only had a 'vague idea about CCT prior to the election and saw it in terms of making savings through competition'. They now believe that things are not as simple as that and 'there's not always competition, particularly in rural areas' (Councillor). They acknowledge that CCT has reduced the 'fat' in the council and that work practices have improved, as has the work ethic. They believe that Provincial City has become more customer focused and that now they have 'an outstanding, dedicated workforce. It has created a lean and mean local government and has changed cultures, leadership and motivation' (Councillor).

State Government Targets

Provincial City reached the targets in each of the three years of CCT (see Table 7.1). In the first two years, depreciation (not including infrastructure) was included in the council's total operating expenses, therefore inflating the minimum compliance requirements beyond the state government minimums. In the third year, depreciation also included infrastructure depreciation, further increasing the compliance requirements, with the 50 per cent target more likely to be in the area of 70-80 per cent of the real budget (ie the actual Total Operating Expenditure minus depreciation). The Manager, Financial Services believes that this adds about $400,000 to the operating budget making it that much harder for council to meet CCT targets. Nevertheless, Provincial City met the third year targets comfortably, while also increasing the total budget with added income from external contracts won by Ostek.

Table 7.1: CCT Compliance, Provincial City

	YEAR 1	YEAR 2	YEAR 3
Period	18/11/94 - 30/6/95	1/7/95 - 30/6/96	1/7/96 - 30/6/97
TOE	$11,128,000	$16,536,000	$17,007,000
Contracts Exposed to CCT	$2,475,803	$6,335,000	$10,317,000
CCT Compliance	22.25 % (+2.25 %)	38 % (+8 %)	61 % (+11 %)

Sources: Annual Reports of Provincial City

Results of CCT at Provincial City

The majority of tenders have been won inhouse. 'They haven't won all of them, they've lost some of the smaller ones, but in essence all the main teams have got up' (CEO). Of the contracts that have been outsourced, all have been to private sector companies, and none to other councils.

Although Ostek won most of the contracts, according to the CEO during the first round of interviews, 'It's going to be interesting because the current lot of bids are

very close.' Subsequently, one of the larger contracts, sports and leisure, was won by an external contractor. Nevertheless, a majority of contracts have been won inhouse, generating some negative responses from local contractors:

> Despite this expenditure [of $500,000 in two years on the CCT management] and that council has conducted all evaluations in a proper and transparent manner, there is still a perception, particularly among the contractors, that inhouse teams received an unfair advantage (Provincial City's submission to the CCT Implementation Review, November 1996).

Impact on Staff

The downsizing process associated with amalgamation and preparation for inhouse bids, according to some staff, improved the quality of remaining staff. 'Of the thirty staff we had we've ended up with the people that are best able to do the work, adapt and do new things' (Parks Supervisor). 'I think it has got rid of a lot of dead-wood in the place, I worked with people who didn't want to work' (Homecare Worker). 'I think it made us all look at ourselves and our jobs and what we were doing' (Homecare Worker). 'We expect now the person to be customer focused, to be accountable and have that ability to be flexible, not entrenched in one particular job' (Executive Assistant).

The Parks Supervisor also indicated that since the introduction of CCT

> work practices have improved. Used to do things traditionally, no one gave too much thought to them they were always done that way so you continued to do them that way. Looking now at what are the most effective means of doing them.
>
> 'Anyone who expects to get a job with the council and have a nice bludge, they're in for a big shock. All of a sudden, ten or twenty years they've been just leaning on a shovel, now they've got to do something, they're not used to it, but if they've got to work hard they want to see something out of it (Works Officer, Roads).

Ostek's greater independence seems to have developed team work and pride. 'There's a certain pride in having our own little business group. We are our own people.' (Parks Supervisor). 'Team work has improved a 100 per cent, people feel more involved ...That survival mentality has pushed people into teams' (Executive Assistant). There is evidence that most units are starting to advocate for the other units in Ostek when fulfilling their own contracts with external clients. The pride in the unit was evident:

> There's a lot more respect for people in the workplace, for each other, for management. More 'we're all in this together so what are we going to do about it, how are we going to fix this, what do you think we should do' (Parks Supervisor).

The major losers were those employed in council's leisure centres. While three-quarters of these staff found employment with the new contractor, the CEO acknowledges that the arrangements could have been managed better.

> There's a few lessons there about how to deal with people in transition from council employment across to the contractor ... he lost us some good people and it resulted in some bitterness.

Costs of CCT

The CCT process has not yielded savings for the council. 'For us there hasn't been any real savings. We've got a slightly higher level of service and no extra savings' (CEO). The CEO estimates that the whole CCT program has cost council about $500,000. 'The bids we have received have resulted in very little savings for us. CCT hasn't saved money at all.' He argued that this should not continue to be the case. The expense of preparing the organisation for competition, such as business planning, training and so on are not recurrent costs. 'The cost of the tendering exercise will also be cheaper because the specifications are already developed and they'll be improved over the contract period' (CEO). However, he predicted that there will be new costs associated with monitoring and refining processes:

> At the end of the contract periods we will have to re-set up the tendering team. I think next time it won't be anywhere near as expensive. The big cost was the up-front cost (CEO).

The client-provider split also accounts for additional costs through duplication in what is a small to medium size council:

> While you have a clear split between client and provider you've got a bit of duplication there as well. You've got people who are actually overseeing the contract from the client perspective, making sure the client gets what's in the specifications, then you've got people managing the work teams and actually delivering them. So there is a bit of a cost there but in theory what you are getting is a better product (CEO).

The decision to lift the overall quality of services has also cost:

> Our problem has been when we've tendered is when the bids come in they're actually higher than what we have budgeted for and what we have been doing it for. What we've finding is the quality is higher, generally when we've put the specifications together we've asked for more things (CEO).

> One of the big pluses is while we haven't saved money, what we've got is people who are very much more aware of how to do work more efficiently. The Local Work Area Agreements that these teams have brought in now is actually enabling them to do more work, it's increased productivity for the same value. So while we're not saving money, we're certainly getting better value for our money (CEO).

The CEO anticipated the costs of monitoring will also play a part in maintaining higher than expected CCT costs:

> I think over time we'll learn that it's really difficult to have 20 or 30 contracts that you've got to administer. We might start to package more [contracts together] even though the Minister has really boo-hooed packaging because it can be anti-competitive.

Clearer Distinction Between Policy and Administration

At Provincial City the adoption of the policy-administration division has been a deliberate strategy by both the commissioners and, subsequently, by the councillors. The overall CCT strategy was guided firmly by the commissioners with the implementation left largely to senior management. However, during the transition to elected councillors, the process was redefined by senior officers as 'administrative' and control was largely displaced towards officials.

Overall CCT Strategy

As at Rural Shire, Provincial City's strategy was based strongly on the Office of Local Government's Code of Tendering (1995a):

> That was the bible we all went by and that spelt out early in the process that we had to be fair dinkum about probity and the whole process and we weren't to create any bias towards the internal teams. We also got a lot of assistance from the Municipal Association of Victoria and training sessions from the Office of Local Government. And, of course, the legislation (Executive Assistant).

The first objective for council was to structure the organisation to accommodate CCT and initiate an autonomous specialist unit to manage the tendering and contracting out process. Within this structure, the council aimed to prepare staff before the tender process started, and to that end all staff were involved in a CCT training program. As the Executive Assistant commented, 'a lot of staff, particularly in the service areas, the non-engineering areas, hadn't had any experience in bids or specifications.'

With the establishment of 12 business units in May 1995, staff were briefed on their role and on the expectation that their continuing employment at Provincial City was dependent on their capacity to operate commercially. Training programs for provider functions focused on operating autonomously, preparing tenders and costing issues. For client functions, the focus was on preparing specifications. Staff also undertook 'quality training' including benchmarking and quality assurance,

and were briefed on the enterprise bargaining process and the concept of Local Area Work Agreements (where individual teams would have greater responsibility to negotiate their own pay and work conditions so they could maximise their competitiveness). Consultants were engaged to assist Ostek to prepare business plans and tenders.

The CEO admitted that this approach to preparing staff for the introduction of CCT was built on his understanding of local government changes in New Zealand and the U.K. The approach of accepting corporate responsibility to retrain staff contrasts starkly with the 'hands-off' management of the preparation phase at Rural Shire.

Commissioners played a significant role in the determination of overall CCT policy: 'council's CCT strategy was very much driven by the commissioners initially and the acting CEO' (Executive Assistant) and 'the commissioners were far more involved in the general policy and philosophical approaches to CCT and in developing the organisational structure which they saw as actually driving CCT in due course' (Commissioner). Commissioners enunciated a clear vision of the cultural change they were wanting which included the development of the 'enabling council', a client-side council with a commercial provider arm. A strong market influence was evident in decisions not to exempt from CCT any service, except emergency management. As one commissioner commented, 'CCT will not be the end of the cultural changes we want'.

One commissioner's vision is that 'one day the council will be a manager of contracts. Inhouse or external has no relevance. Who really cares if its an external or internal contractor. As long as the service is done'. He argues that 'the real driving target of CCT is to change the culture. You could never ever change the culture of local government with elected councillors. And I say that having been an elected councillor for 26 years.'

The focus on strategy rather than on detail was evident in the way commissioners dealt with complaints, by referring them to the customer service desk. As one commissioner noted,

> I believe the staff will no longer accept councillors wandering around within their work confines. We are not hands-on, have nothing to do with the everyday running of work. We have a more policy and broad strategic approach.

For example, Commissioners have been instrumental in encouraging the introduction of continuous process improvement and quality assurance programs by establishing policy and leaving implementation details to staff.

The commissioners received praise for their focus on strategic and policy matters rather than for some of the electoral matters which appeared to occupy the focus of some of the previous councillors:

> Instead of having councillors and having a lot of personal goals that filtered through to the work place, having the commissioners meant there were more policy motivated things, where policy applied to everybody. You didn't send Joe Bloggs off to scrub Mrs. X's pavement because she was a friend of the councillors (Parks Technical Officer).

'I suspect, despite our best endeavours the calibre of incoming councillors across the state will not match that of the commissioners we've been blessed with for the last two years. If I had my way we'd have commissioners forever' (Manager, Ostek).

The strategic focus of the commissioners was underlined by the CEO, who anticipated that the situation would change little with the return of elected councillors:

> I'm confident that we will achieve a similar situation because the commissioners had the common sense to keep it like a board of directors, in other words five councillors. The CEO has most of the power under the Local Government Act anyway. It would have been hard to get this sort of change if we had councillors in, they wouldn't have driven it as hard as the

> commissioners. I don't think the councillors will mess with the CCT strategy already in place. The 50 per cent target makes it almost impossible for them to do that anyway.

One commissioner argued that CCT is going to make it difficult for many people to get elected to council. He raised the questions: 'How are you going to get people to vote for you if you haven't got single-issues, anyone to swipe at, like the services?' 'How are they going to create the notoriety to get people over the line? The vision becomes limited without all these services being contracted out'.

Clearly the councillors approved of the progress made by the commissioners, and in contrast with the transition in many other councils in Victoria, the incoming councillors gave a civic reception to the outgoing commissioners and publicly recorded their appreciation of the achievements of the previous two years. They indicated that they were ' grateful that we've received a well-oiled machine' (CEO).

It was clear that the CEO and the management team have made significant contributions to the strategic process, even during the period of the commissioners: 'the administration were the ones who chose the actual services which were achievable to meet targets the most quickly' (Commissioner). This was underlined by the CEO:

> The commissioners said 'well you guys go and do it' and we got stuck into it and we got to the point where we needed some tough decisions they backed us up. In essence, CCT has been determined by the senior management team.

Since the return of councillors, the control of the policy process has further shifted towards the senior staff, largely as a result of information asymmetry with councillors admitting that they knew little about CCT before being elected. The transition period required a large number of briefing sessions during which the CCT process has been redefined by staff as essentially an administrative one. As the CEO says, 'The main bulk of the tendering process is finished now', 'it's very much an administrative thing as they [the councillors] see it' and, after the briefings, 'the

councillors were reassured by those sessions that the processes in place were good ones'.

The CEO argued that this is congruent with the intentions of the state government:

> Elected councillors and commissioners haven't been well placed to take a strategic role in the process. It's management that is meant to be in control and that's the way things are operating in Provincial City. The goals, decisions and impetus basically comes from senior management and not the councillors.

None of the CCT recommendations made to council, including decisions to award contracts externally, have been overturned, and the CEO commented that councillors 'have not interfered or tried to change the strategic direction'.

Selection of Services for Exposure to CCT

As at Rural Shire, the selection of services for exposure to CCT was a pragmatic one, and within the policy framework determined by the commissioners that no services were to be exempt, was largely determined by management. In the first rounds of CCT, Provincial City exposed services which were easiest to market test:

> The type of service and the length of time it would take to prepare a specification was a key component. For the first twenty per cent it was fairly obvious to concentrate on the engineering type specifications. We were a little bit wary of the community services type functions where we knew there were no real examples of specifications and they'd take a long time to develop (Executive Assistant).

Criteria used to select the initial services were: previous experience in developing specifications (engineering services), service areas which the council already had specifications for or could obtain from other councils (waste management) and services already under contract. Provincial City also brought forward several larger contracts in order to meet the state government targets.

While council had initiated a thorough preparation for CCT, Provincial City was only formed in the fifth round of amalgamation giving other councils up to 18 months more preparation time. Officers believed that this underpinned the decision to initially focus on exposing services which caused least disruption to council operations.

It also lead to the decision not to 'ring fence' any services - that is, to accept that all council services were able to be exposed at some time or other.

> We made a decision at the outset that nothing was sacred, everything had to be brought into the process because depreciation was part of the equation and in actual fact to reach the 50 per cent we were probably looking at something like 70-75 per cent (Executive Assistant).

After three years, there are many services on the client side that have not been market-tested, including finance, marketing, public relations, personnel management, information systems and the customer service team. The CEO explained that this is not because they have been protected, rather that they are core services which are absolutely necessary for the organisation to function, especially in supporting those other services which are being exposed. The CEO also wanted to see if Ostek performed well because if they contracted out finance and Ostek lost many of their bids then the finance contractor may only have a small proportion of the business identified in the specification.

However, council intends to market-test some of the core services in the future. It has prepared a forward plan ('A Strategic Approach to CCT') which sets out the program council has adopted to comply with the CCT targets.

Packaging or Bundling of Services for CCT

Provincial City has packaged its contracts largely in the way they have traditionally been delivered, that is, in discreet service areas like parks and gardens, roads and so on. Many of these are quite large packages, for example roads, which includes street-sweeping, road patching etc while parks and gardens includes tree-lopping,

spraying, grass-cutting etc. The maintenance contract is also wide-ranging. As the Manager, Operational and Environmental Services believes, 'a little bloke can't come in, it has to be a pretty big company.'

However, with some of the bigger packages that include a number of services, the council has allowed external contractors to either bid for individual components or for the whole contract. For example, the children's services contract includes pre-schools, long day-care, occasional care, out of school hours care and maternal and child health and individual contractors may bid for all or some of these. This approach has enabled the council to better manage the trade-off between encouraging competition and limiting the transactions costs of managing a large number of contracts and has largely been orchestrated by staff.

Considering Oncosts

The determination and attribution of oncosts were a contentious issue at Provincial City. Some of the business teams complained that they were being 'ripped off' while others became more cost conscious. 'All of a sudden people were saying I don't think I need that extra terminal. People start getting really efficient in terms of analysing their own overheads' (CEO).

It became such an issue at Provincial City that Ostek started seeking suppliers other than the client side, a move which had implications for the scale economies on the client side, and, potentially, for the maintenance of client staff levels in crucial areas such as payroll and accounts. The issue was resolved by senior management in favour of using inhouse suppliers, however, 'if they can get an apples for apples price outside that is better than what our team can deliver it, we'll deliver it at that price. This puts pressure on the client side to become more efficient' (CEO). The Manager, Financial Services indicated that the client side now benchmark their oncosts (for example, the cost of a cheque) with other councils and attributed this to

pressure from Ostek. 'We need to provide a good service at a good rate to help them and us ... it's a two way road' (Manager, Financial Services).

Some of the larger service deliverers are not unduly concerned about the question of oncosts. For the roads services, oncosts only amounted to one per cent of their bid:

> You have to expect to pay for it. If we were a separate organisation altogether we'd have to either employ someone to do it or sub-contract it. You'd end up paying for it any way (Manager, Operational and Environmental Services).

Tender Evaluation

The CEO enunciated a number of principles on which Provincial City's tender evaluation process was based. The primary concern was that price was not to be the only arbiter and that the process would have high consideration for probity. The latter reflected problems experienced by a neighbouring council in having to account through the audit process for certain CCT decisions:

> One of the things we've made sure of in this structure is the evaluation process is very clear cut and very strongly founded. Certainly the contracting industry has been pretty forward on keeping the heat on government about probity in the whole process. With the Office of Local Government if anything's a bit shonky they have the opportunity to complain (CEO).

The evaluation panel involves two external, independent experts in the particular area being tendered to support inhouse officers. The CEO argued that it was 'a very balanced and what we'd call an objective evaluation panel.' The evaluation was based on a 'Two Envelope System' which separates and independently assesses price from other selection criteria such as quality. The CEO chose to do it this way:

> because what we don't want is price having any bearing on anybody's assessment of the quality of the bids. When people know the price it really plays on their minds. It biases them even if they're trying not to.

The panel score the tenderers according to set evaluation criteria such as quality, ability of the contractor to fulfil the contract, their experience and the risk to the council if it takes them on, and weightings are applied. A ratio is determined by dividing the price by the score out of 100 with the lowest ratio considered the best value for money.

At this stage, management considers the recommendations of the panel, especially if an inhouse bid is to be unsuccessful because of the potential redundancy costs. Redundancies are amortised over five years and worked into the value for money equation. The costing of redundancies is especially difficult when an external contractor takes on council staff as the redundancy costs to the council are less (it is written into Provincial City's enterprise agreement, that if staff transfer across to the contractor they don't get a full redundancy payment). However, the CEO argued that 'it is very hard to know how many of the staff the contractor is going to take on'.

Clearly, the tender evaluation process has been defined as 'administration' and left largely to officers to undertake. Yet, the process has significant ramifications for the council and community. When redundancy costs are factored into the last stages of the evaluation process and weighed against the savings, few contracts were actually awarded to external contractors. Both commissioners and councillors accepted all recommendations without amendment.

Local Preference Policy

Commissioners set the policy framework of a 'level playing field' giving no particular advantage to inhouse teams or bids from local contractors. According to the CEO, local preference does not come into the evaluation of tenders at any stage: 'We're not allowed to do that, it's a no, no, it's anti-competitive practice.' And in the evaluation process, Provincial City treats its inhouse teams as if they were any other

contractor: 'We're not given any favours or special concessions' (Works Officer, Roads).

The CEO was concerned that the commissioners would favour private sector bids, but believes that this did not occur:

> Commissioners were brought in to go for the hard-nose business approach. Our blokes here said straight out if the external bids are better, that's it, we're not going to protect them but at the same time though they certainly put a lot of effort in helping our teams become competitive.

The Manager, Ostek complained that,

> we are getting no favouritism, in fact I would argue strongly that to be seen that justice is prevailing, my fellow directors are giving me a bloody hard time and my troops an even harder time.

He reported that in the interview process, the almost amiable approach of the evaluation panel to the inhouse team in the first month or two,

> changed dramatically to a point to where some of the members of my team that have been to those interviews in recent times have come out feeling quite stressed. They feel they've been harassed and they've made comments to me that they felt that they'd been singled out and that an external contractor wouldn't have been put under that sort of pressure and that sort of questioning. Some of the questions, I have personally felt have bordered on discriminatory.

While Provincial City intended to introduce a clear separation between policy and administration, it was only followed in the initial stages where commissioners were strong enough to impose some policy parameters on the process. As the CCT process proceeded, the contributions of senior staff to policy increased to an extent that by the time the councillors had been elected, most of CCT had been redefined as management and operational level activity, into which councillor input was insignificant.

Disaggregation of Bureaucracy

Initially, Provincial City established 12 business units and 'didn't go the full hog in terms of setting up a clear client-provider split' (CEO). The opaque client-provider split caused many problems because,

> people really didn't know on which side they sat. In effect the third line, or the managers, felt they had a foot in each camp. It started to get to a point where they couldn't work out where the split was for them, whether their role was client side or managing their teams (Manager, Ostek).

A decision was made by the executive team that:

> if we are genuinely going to comply with the spirit of the legislation there are no half measures, we have to go to the next step and separate the organisation physically and it has to be demonstrated to be transparent to the wider community (Manager, Ostek).

After examining other council structures such as at Melbourne, Surf Coast, Melton, Ballarat and Shepparton a new structure was formed in April, 1996. It established a clear vertical client-provider split with a small Executive Support Unit developed to manage the contract arrangements. A horizontal split has been formed on the client side between the Executive Support Unit and the Business and Internal Services Unit, which allows the client and provider sides to collaborate and share expertise without jeopardising probity (see Figure 7.1).

At the same time, it was decided that the twelve business units would be merged into one as each was too small and isolated. The synergy and partnership with other work groups was eroding and many may not have been viable in genuinely competitive environments. The merger was designed to capture economies of scale and enable cross subsidisation of less successful units by the more successful:

> Of the twelve business units, you might have seven or eight that would be reasonably successful in their own right and four or five that were going to fail

> and then those four or five were on their own. By combining the lot you have the ability, as one single entity, to offset losses (Manager, Ostek).

As the Manager, Operational and Environmental Services explained:

> When the business unit is all together it doesn't matter who works on what as long as the contract is completed. The expertise and resources are shared right across all the teams and they can move people around and mix and match. Also the whole team may not be down the tube if they lose a contract. It allows much more flexibility.

There are definite cleavages in the once monolithic organisation. The obvious division is between the client and provider sides which are now quite separate and independent entities within the same organisation. 'More of us are starting to see Ostek as their employer rather than council. We have our own uniform and corporate pride' (Manager, Operational and Environmental Services). The CEO argues that 'Ostek is being run as if it was a corporation. It has its own name, logo and separate bank account'. The Executive Assistant agreed:

> I think certainly since the re-structure ... they feel they've been cut adrift to a degree. I think they wanted that, to be recognised that they are acting as a contractor to the client. I think they relish that, it's almost a sense of freedom, like their running their own ship.

The Manager, Ostek saw his role clearly:

> I don't want to be just Ostek and in five years time have the same services that we have today. I want us to be striving to be a national and ultimately an international company. I believe that's achievable.

Another indicator of Ostek's increasing independence is that its director and managers often begrudged spending time on corporate or client side activities. The Manager, Ostek complained,

> I find it an aberration that on the one hand I am tendering for contracts and on the other hand I attend a weekly executive meetings, I attend council meetings,

> I am called on for strategic, financial and management advice, for the corporate entity. I believe my days are numbered for that sort of luxury to continue.

Indeed, during the second round of interviews the Manager's relationship with council had been redefined: he no longer attended council meetings and his corporate contributions were being charged to the client side.

In similar vein, the Manager, Operational and Environmental Services:

> We're still performing some client functions, and all those jobs are no dollars for us, they're just time ... What we're trying to do as a business unit is to get the client side of council to recognise that we are still doing some of these client functions and get an allowance in our wages for that. I question a lot more who pays for what. There's still a lot of grey areas in the interim period while we completely sort out whether it's a client or provider function. It comes down to looking at their role in specification. You really have to get to the bottom of everything, what it is costing you and who's actually responsible for the cost, in relation to your spec.

There was a belief that Ostek would gradually become more independent of council: 'We may be more self-sufficient and not totally reliant of council work come round two. It's going that way now' (Manager, Operational and Environmental Services). Both sides have separate planning workshops and there was further movement of staff from client to provider sides, leaving a small group on the client side with primary responsibility for contracts management and corporate support.

The client-provider split has not been without tension.

> It's a difficult balance, to on the one hand encourage my team to go from a dead bureaucratic stop as of April last year, to a flat out competitive, commercialised, private industry type operation without developing an 'us and them' syndrome ... I am walking a tightrope (Manager, Ostek).

Many on the provider side were concerned that client side staff gave them no particular consideration, and felt that it was the providers who had most to lose in the new arrangement. 'We're doing out bit, but I don't know if they're doing theirs' (Works Officer, Roads). The client side 'bend over backwards and give who ever else may want to put in a bid whatever information they want whereas if we were a business entity we'd tell them to go out and find their own information' (Parks Technical Officer).

> I know when this contract was advertised the tender documents were actually given to one of the people who were applying, on a disk. And that was making it real easy for them instead of having to flick through hundreds of pages. It was trying to be seen to be providing information to be fair and so on. Only one tenderer got the disk because they asked for it. It was the actual contract document in disk form which for someone who was set up it would make it a hell of a lot easier to work out the costs involved (Parks Supervisor).

The council's need to be publicly accountable means that budget figures are released to the public, thus making it easier for external contractors to gain some commercial advantage in knowing the broad price parameters. The Manager, Financial Services reported that they have been conscious of the need to 'blur the figures' so as not to expose all of Ostek's budgets. 'The public still get to see what they need to know in terms of expenditure, they just don't get to see each line of the program.'

The CEO agreed that the inhouse unit is exposed:

> There is a certain degree of protection. You don't have to make available all the details. The successful contract price and what we spent on the program has to be made available for public scrutiny but we're not expected to give all the details.

With more contract monitoring the tension between the two sides is anticipated to increase. Some provider staff reported that they feel 'the client side is continuously looking over my shoulder and there's a lack of trust' (Homecare Worker). 'If the

carers discuss a client and offer suggestions they usually get held down fairly well. The client side thinks that they're providing the service' (Homecare Worker).

The CEO believed that there was little real tension between client and provider sides, because the split evolved over three years rather than the separation being made firmly at the outset. However, while there was much evidence of independence, the client and provider sides were still somewhat intertwined. Provincial City is still one organisation and there is some overall cohesion, particularly at the executive level. 'I think we have a happy medium. We've got the client and providers separated in the building, but we're still sort of working together' (CEO). Currently, 'the two directors and the CEO look at the corporate initiatives and how the corporate plan relates to the whole organisation' (Executive Assistant). As the Executive Assistant concluded, 'that's probably one of the most difficult parts. To get people thinking the corporate way and yet still have their individual goals in terms of competition.'

There is a corporate view that the disaggregation of their bureaucracy improved the organisation. 'It has resulted in greater attention to the evaluation of service delivery by both client and provider teams' (Provincial City's submission to the CCT Implementation Review, November 1996).

Client-Provider Separation

As at Rural Shire, the development of specifications was defined as administrative work although the introduction of quality assurance programs for services was determined by the commissioners. Again, as at Rural Shire, the process revealed some tensions between client and provider sides, although to a much lesser degree at Provincial City.

Specification writing was a collaborative effort between the client and provider sides. With 80-90 per cent of the staff on the provider side, there was concern about both workloads and the requisite expertise on that side. According to the Executive Assistant, the service delivery teams did the first draft of the specifications 'because they're the ones on the job.' This was collaboratively managed by the Business and

Internal Services Unit of the client side. The parks and gardens crews reported that they were heavily involved in writing the specification, although the roads crew had no input (as VICROADS puts out a standard specification). A homecare worker indicated that her bid team used the Home and Community Care (HACC) and Quality of Care guidelines formulated by state and commonwealth governments.

The split between client and provider roles is secured at Provincial City within the client side, with draft specifications being passed from the Business and Internal Services Unit to the Executive Services Unit for finalisation. This division of responsibilities within the client side is an attempt to maintain probity through separating the contract management role from the provider role, while retaining the input of provider expertise into the development of service specifications:

> When they [provider and client] were both happy with the specification (often after pretty solid and in-depth discussions) it was given to the Executive Services Unit who then put in all the contract components (CEO).

However, the Manager, Ostek was critical of the client side performance:

> In the early days they didn't just fine tune them they consulted heavily with us. But increasingly, that consultation diminished to a point where for a couple of the major tenders, we gave them a draft and when the contract was advertised and we got the specification it was absolutely nothing like our draft.

He anticipated that this would occur more often in the future. After the specifications are completed, there is little collaboration between the client and provider sides concerning the tender. The Executive Services Unit get the,

> 'speci' delivered to them, they put all the contractual documentation in it, then they call the tenders (usually after the contract is advertised there is a pre-tender briefing for prospective tenderers. Any questions about the specification

> are answered), they manage the tendering process, they manage the evaluation process (CEO).

Sometimes the client side called in independent experts to read through the specifications, especially when some services are harder to specify than others, especially in community services such as the 'Meals on Wheels' and aged care.

The concern to retain and engage inhouse expertise is a key element in the development of specifications and blurs the client-provider split. At Provincial City it is written into some specifications that the provider (whether inhouse or external) must share their expertise with the client side, for example, the contract for development services involves planning and building functions in which provider staff have particular expertise in strategic planning. The contract specifies that the successful contractor must assist the client side in social planning decisions.

However, some concerns were expressed that if external contractors won contracts they would be less willing to share their expertise and participate in corporate activities:

> I think it will be more difficult to get external contractors to do it because when you write a speci you can specify certain things to be done but in a partnering arrangement, especially if there's a close association with an internal unit, you are going to get better results (CEO).

The perception was strong that the specification process afforded workers and management the opportunity for self-examination. 'People had to examine what they were doing, why they were doing it, was it even necessary to do it? People understand a lot more about the job they're doing' (Executive Assistant). 'One of the good things that came out of that process was until we started to specify things we didn't have recorded anywhere how many sites we had, we didn't have any idea what the area was, we didn't have any idea whatsoever' (Parks Supervisor). 'We've had to re-evaluate why we do things, we've had to look at different ways of doing the same things and see if the old practices are still worth continuing. I don't think

that would have happened if CCT hadn't been introduced' (Parks Technical Officer). As the Manager, Ostek commented,

> Most of this has never been specified before, it's just happened and been up to the individuals involved to set the standards. Now it's in a document. You've got a clearer picture of the quality you're getting. Just the fact that people are now focusing on the specifications for what they do means they're thinking a lot more about what they're doing and the quality level and the way they're going about it. I think it is a better set-up.

'All the internal services such as payroll, personnel management, finance, records management, office accommodation are now all built in as standard charges in the contracts' (Executive Assistant). 'While we use to have those expenses, they are now all clearly before our eyes so we can see what the overheads, the costs are for those teams' (CEO).

Decision-Making

There has been a conscious commitment to more open and decentralised decision-making. When the commissioners arrived there were 48 council committees, and they were all abolished, with more decision making delegated to the respective levels. There were no in-camera council meetings with the commissioners, who also conducted regular discussion groups with residents.

The commissioners made a conscious decision to flatten hierarchies. 'We took out one whole level basically' (CEO). Clearly, this restructure was aimed at saving salary costs, estimated at about $700,000, but has also had the effect of enhancing decentralised decision making, a consequence applauded by one of the commissioners:

> One of the things that really stunned me was the fact that there were so many staff that didn't make a decision of any sort. CCT very quickly turned that around (Commissioner).

> There was a definite culture in the executive to make delegated powers work. Since we started the quality process there is more power, more involvement down at the working level. They have the power to make decisions about the quality of the service, even the cost of the service, how it shall be provided. You're really given that ability to get on and run the service without interference (Executive Assistant).

The change has been obvious to other staff: 'If the guys want to have a say now, they are trying to be more open, whereas before they weren't paid from the shoulders up, now they are' (Works Officer, Roads). 'It's probably one of the best things that have come out of this. Everyone gets listened to now, that wasn't the case before. It's a lot more satisfying. The crews are appreciating that' (Parks Supervisor). 'We have more of a direct say in what machinery they purchase' (Works Officer, Roads). 'It's just marvellous, we run our own show' (Homecare Worker). 'We have the freedom to make our own decisions and accept responsibility for them' (Homecare Worker).

A number of workers indicated that previously they had to get approval from further up in the hierarchy for most decisions, but now they were encouraged to make decisions and take an active role in the organisation. They have been given more responsibility and are accountable for those decisions:

> Where once they could say 'I did this because the boss told me' they now have to take responsibility for their decisions. They say having increased responsibility and say in what is going on has increased their job satisfaction (Parks Technical Officer).

> We have less interference in what we do now because the change in culture. People further down the line have got more responsibility for their own actions and just more of a say in the way we do things day-to-day (Parks Supervisor)

With more decentralised decision making has come greater accountability. 'Before you could just say the boss told me to do it and because of this the guys are having to keep records more, which they never did before. Never had to prove that we had

done the job or how we had done the job (Works Officer, Roads). 'I don't think self-monitoring, self-evaluation was ever part of the system before' (Homecare Worker).

Corporatisation

The Manager, Ostek saw corporatisation of the business unit as an important goal. 'Yes, I'm all for it. I suspect it's inevitable. If we're good we'll become corporatised, if we're bad we're dead.' He saw no reason why they could not get to a point 'where the organisation says to us, well you've done a good job, you've build up a good business, now do you want to buy it or shall we sell it.'

While the intention was to proceed towards corporatisation by December, 1998, a new strategy developed in the third year of CCT, the use of strategic alliances. As Ostek was bidding and winning more external work, its management became more aware of the business environment and the competition (ie more outwards focused). The Manager, Ostek, held discussions with the management of the business unit in the neighbouring council with a view to merging some of their services. This was aimed at securing a greater market share and raising the scale of the two councils' businesses to achieve scale economies (especially in providing internal support services such as payroll, accounts payable, human resource management and so on). Other alliances have also been made with nearby councils for specific contracts and to enhance subcontracting arrangements.

The CEO argued that fewer players is a likely outcome of these arrangements:

> it's whether one starts to cannibalise the others or pull big contracts off the others or whether they just say, 'look, the writing's on the wall, we'll look at merging'.

Use of Contracts to Mediate Behaviour

The Manager, Ostek argued that the employment contract between council and Ostek was based on good faith, trust, mutual respect and understanding. Although they are Operational Guidelines and Memorandum of Understandings, he claimed they are,

> not worth the paper they're printed on. What contract is in local government? The reality is if the commissioners and the CEO or the new councillors change their minds and say 'we want to restructure this,' they'd do it.

At Provincial City most senior staff have been placed on contract. The CEO indicated a preference for contracts for anyone above band five (middle management). 'We try to avoid permanent employment, it gives us an option to change things.' The managers (three levels down) are all on performance-based contracts.

Staff believed that they have less job security. 'There's no such thing as job security any more, it doesn't matter who you're working for' (Works Officer, Roads). 'You're only living five years at a time. There's no long-term security any more' (Parks Supervisor). As a homecare worker commented,

> I don't look at this job as being my job until I'm sixty, I don't think that's reality anywhere, in any job. You're lucky if you've got a commitment for a set period of time. It makes it difficult to plan ahead.

At this stage, contracts with customers (service charters) have not been considered although customer satisfaction surveys have become a formal part of the contract regime. Provincial City was seeking alternatives to contract arrangements with some of its customers and business partners, including alliances and partnering. It does not appear that there is a strong belief in contracts as the primary means of regulating behaviour.

Replacement of Political With Market-Based Decisions

It is clear that Provincial City has complied with the CCT legislation and exposed services to the market. At the same time, it has adopted a number of strategies which constrain market-based decisions. For example, a decision was made to place an intermediate step between the recommendations of tender evaluation panels and council decisions to award contracts. This allows council to weigh the potential impact of market based decisions against the implications of unsuccessful inhouse bids on the local community, giving council the potential to override market decisions with political ones.

Attitudes have yet to shift towards complete acceptance of market-based, commercial focused operations. The notion of 'predator' councils was raised by some workers, 'I'm not in full agreement. I don't really want to price some other council's work and put them out of a job. We'll have to do it' (Works Officer, Roads). Some noted that they had had good working relationships with other councils, but now were finding themselves in competition with them. Previously, 'we would ring each other for advice, but now its becoming more cut throat, it's all for yourself now' (Director, Ostek).

A preference for partnering and other less strictly contract-based relationships is also emerging. This form of partnering would involve holding meetings with potential contractors, 'getting them on board' and saying 'we want to work with you even though Ostek may be in competition. It is more a mentality of working together, collaborating' (Executive Assistant).

Operating More Competitively

The consensus view was that CCT has forced units to operate more competitively:

> On the business side it is like nothing the staff have ever done before. When they go in for interviews they know that if they miss out, they're unemployed. And if they miss out, all their team is unemployed and they're representing their team (Manager, Ostek).

The CEO acknowledged this change:

> If we didn't demonstrate that we were fair dinkum about how it all happened, then the Ostek people would have got the wrong idea and not taken it seriously enough ... We wouldn't have got the change. It would have been too cosy. The CCT targets pushed us hard and also the rate cuts forced us in the restructuring process to be 'lean and mean.' They had to save $700,000 mostly in labour. When bids are being put up that's when the shed staff.
>
> Generally, the exercise where a team will put a bid together and they will say for this bid to get up there's going to be two or three staff go. They work it out before they put their bid in. They realise if they don't do it all of them are out (CEO).

Ostek adopted commercial strategies which involve competing for outside work both in other councils and in the private sector. So far they have had a reasonable success rate, for example, the leisure centre team won the contract for the pools in the neighbouring rural shire and the works team won a number of private sector jobs. The homecare team also undertake other contract work on a fee for service basis. The Manager, Operational and Environmental Services reported that since CCT was introduced, capital works expenditure has been severely cut and to keep the capital crew in work he had to actively seek external work for council. He estimated that he spent one-and-a-half days per week pricing capital works. Ostek also entered into partnering arrangements with private sector contractors to gain more work, for example, Ostek was not set up to do sewerage work so they formed an alliance with a company that could.

Incentives are in place to encourage profits for the business unit. A gain-sharing arrangement was introduced where 40 per cent of the profit was returned to council,

40 per cent to the business unit to split up as bonuses amongst the staff and 20 per cent to a reserve to buffer against future contract losses.

Many of the senior officers at Ostek believed that one of the significant cultural changes that had occurred was the increasing cost consciousness of workers:

> They are becoming more aware that there is not an endless pit of money. What they actually do has an impact on how much other things are costing them ... and that it's eating into their profit basically (Manager, Operational and Environmental Services).
>
> It's a matter of making them aware that everything they do has a cost. They all know what a job should be costing now, they never had to worry about that in the past ... When they go out on a job they know how much we bid on it and how much they have to do in a day to cover those costs (Manager, Operational and Environmental Services).

The increasing outwards focus was also evident: 'We've continuously got one eye on what our competitors are doing' (Executive Assistant). The Manager, Ostek noted the increasing importance of commercial intelligence and that he got his intelligence 'the same way that all contractors get their information':

> We have to keep a constant eye on the competitors. We gain our information through networks and common sense. We have done things like ring up job advertisement and say "look I'm interested, how much would I get paid", knowing full well they will competing with us for tenders. You just do whatever you can (Manager, Operational and Environmental Services).

An enterprise agreement covering the period to March 1998 was finalised and certified by the Industrial Relations Commission. The agreement makes provision for productivity improvements and benchmarking of council's services, and facilitated the development of Local Work Area Agreements (LAWAs) which are required as part of the market testing process.

LAWAs have changed behaviour as well as being tools for driving cultural change. For example, the outdoor staff are now banking hours:

> While work is there, the busy times of the year for us are spring and autumn, you work longer hours, and in the slacker times of the year or when it rains or weather conditions stop you from doing what you want to do, you take the time off. It's making the most effective use of the time that's available. And that seems to be accepted by most people as a good thing (Parks Supervisor).

Although there was some resistance early on, workers no longer receive overtime payments, except for 'call outs' or weekends. They have lost their rostered days off (RDOs) and are now working similar conditions to their private sector counterparts. The Manager, Operational and Environmental Services reported less sick leave abuse under the new system. There was a perception that working practices had to change for people to retain their jobs:

> In terms of hours you have to work when your client wants. If they want an inspection at seven o'clock in the morning that's what you do because there are private building surveyors out there now competing with them (Executive Assistant).

> I don't expect them to have smoko when smoko's due or lunch, they have it when they suit the jobs. Some days they don't even have smoko. There's a lot more willingness to finish a job rather than sticking strictly to knock off times. Some staff believe there's generally a squeeze to get people to work for less money (Parks Supervisor).

The parks crew stayed on the same banding levels as they were before the contract:

> We've heard a lot of councils haven't. They've been dropped down. We actually had consultants telling us that our wages were too high here and there's no way known you'll ever win a contract. We didn't believe that was true and we stuck to our guns and won the contract (Parks Supervisor).

'We work longer hours. It's long days and you don't really see the benefit in your pay packet' (Works Officer, Roads). As a result of their Local Area Work Agreement 'actual wages and conditions have probably got worse than better' (Homecare Worker).

> It is a better arrangement because you get more done. We're a lot more work wise now but we haven't felt the benefit yet. The council's got it all their side. They getting things done cheaper and quicker. We've got no benefit out of it except maybe keeping our jobs. We have gain-sharing but we're not making any profit yet. If we find when it comes gain-sharing if we've busted our arses all year and finally get nothing, I think, I dunno (Works Officer, Roads).

Some concerns were raised by those in homecare programs where the workers had gone through the CCT process, only to find that there was no real competitors, and the reduction in services needed to ensure a competitive bid and the transactions costs had reduced program funds. 'We don't follow through with clients any more. There was only one competitor and we had slimmed our staff before putting in the bid' (Homecare Worker).

She believed that it was 'not really fair on the outsiders because we have a lot more knowledge of our programs and everything else than what they do, and we think we can write our specifications to fit.' (Homecare Worker). Her colleague agreed, 'We know what those specifications are and we've been working in the field for umpteen years' (Homecare Worker).

Despite these complaints about working conditions, there has been very little industrial disputation at Provincial City:

> I think the unions have seen it coming and they've just tried to set up the enterprise agreements so they protect the staff. I got the feeling when we were negotiating with the unions over a year ago they were just resigned to the fact that staff were going to be out the door. And so what they were pushing for in the enterprise agreements was pay increases and maximum redundancies pay outs (CEO).

Local Competition/Contestability

Local competition has not been stimulated with established businesses and people in the area not tendering. 'We're pretty disappointed with the external competition here. In a regional centre like this we would have expected to get better competition' (CEO).

Provincial City was concerned about this lack of competition and in its submission to the state government's CCT Implementation Review (January 1997), the council lamented the 'lack of competition', despite the option for contractors to bid for selected parts of contracts. The submission questioned the value of competition in an environment which may not be highly contestable for many services (see Table 7.2).

Table 7.2: Number of External Bids for Selected Services, Provincial City 1996

SERVICE	ANNUAL VALUE	EXTERNAL BIDS
Home Care	$1.1m	1
Roads Maintenance	$1.4m	2
Parks and Gardens	$1m	2
Building and Planning	$300,000	1

The CEO argued that the lesson for the government is not only did the council teams need to be geared up for competition but so too the private sector. 'They weren't ready for competing in some of the specialist services such as Library services'. He acknowledged, though, that 'in two or three years time there will be a lot more competition. It will be harder for the inhouse teams to get up.'

Client Focus and Customer Centredness

Community input into the council's CCT strategy has occurred through the commissioners:

> They've made themselves available at any time through their weekly or fortnightly sessions for any input from the community. We tended to try and publicise CCT through the local press and media and ask for comments' (Executive Assistant).

The council held two widely advertised sessions to explain CCT, one for the general community, the other for contractors, but responses were generally poor. Council has also attempted to keep the community informed and gives regular bulletins on CCT progress in their City Life newsletter.

Since the introduction of CCT, customer or client considerations are given higher priorities than previously. Staff argued that CCT has led to a culture change with customer needs now driving services, not organisational or bureaucratic goals. Staff argued that there was a much greater focus on customer needs and satisfaction as it has been realised the council must be responsive to community needs in an increasingly competitive environment and wider market place. Research and investigation into client wants is now an integral part of council functions and customer surveys have become regular elements in the council's approach to quality services. These surveys ask questions such as, where would you like to pay your rates? How effective is the garbage collection? Are you happy with the tip hours? Do you use the leisure centre? If not, why not? Do you use the library?

A number of specialist user-group surveys have also been undertaken. The Manager, Marketing and Customer Relations understood that 'it's the first time anything like this has been done.' An across-the-board, major survey is to be conducted each year, and it is a requirement that all specifications include a customer satisfaction survey to be undertaken once a year by council but at a cost to the contractor. The results of the surveys go to the contract managers, the directors and CEO and are to be incorporated into the specifications for the next round of contracts.

For example, the specifications for the provision of children's services lists as a responsibility of the provider the 'need to establish and monitor customer feed back

mechanisms'. Council responsibilities are to include the provision of 'independent, random monitoring of customer satisfaction in relation to the provision of services'. The service plans must include 'a brief outline of the methodology, structure and content areas to be utilised in customer surveys required by the contract as well as proposed appeals and complaints procedures'.

The move towards a more commercial and customer-focused approach was largely driven by the commissioners and the CEO. All staff were trained in quality awareness while 'all managers have been trained in continuous process improvement and how to manage quality and achieve best practice' (Executive Assistant). This strategy is a formal attempt to enhance competitiveness: 'We realised quality was the way to go in terms of the service we provide and if you've got a quality service you've got a greater chance of winning your tenders' (Executive Assistant). 'The quality has been raised because everything we do now gets tested, we're being looked upon as an outside contractor' (Works Officer, Roads). 'The standard has raised, but not very significantly. We're certainly doing more with less people as we lost about a third of our staff' (Parks Supervisor).

Provincial City has placed great faith in the adoption of quality control methods to achieve goals of maintaining or enhancing the quality of services. It involves training to the standards set by the Australian Quality Council, and was driven mostly by one commissioner with the full support of the CEO. The CEO notes that the inclusion of the quality focus has contributed to 'culture change, the biggest change here.'

Staff agree that people's needs figure more in the management of council services. 'We seem to look at people's needs in monitoring the services, we're listening to people a lot more than we used to. There's a system for complaints' (Executive Assistant). Complaints are directed to the area in question straight away. The commissioners determined that staff must respond by letter within a week of receiving the complaint. While there was some initial resistance, a commissioner says staff are grasping the concept: 'We say to the community, please complain, we value complaints, if you don't tell us what's wrong we can't fix it'.

> Now that the staff are going through quality training they can see the strong benefits of partnering, not treating your supplier like a servant. It's very important you get the tight type of product, you get it on time etc. You are also partnering with the customer on the other side ie what they want, need, feedback (Executive Assistant).

While the customer-focus approach was apparent at the management and senior staff levels, it was not as noticeable among the staff at lower levels. Supervisors indicated that while they were trying to get their workers to think of customer satisfaction, they admitted that it was difficult. As one worker commented, 'I don't care if they complain or pat me on the back, as long as I know I'm doing a good job' (Works Officer, Roads, Roads).

> Some of the crew members feel that as long as they do their job it doesn't matter what the residents in the area think. We like to think we are pretty customer focused, but we're not sure all of the crews share our vision (Parks Technical Officer).

Others felt nothing had changed: 'We've always been client-orientated because of the nature of our work, we've had to be' (Homecare Worker). Some lower level staff were critical of the quality training program:

> That sort of thing ... doesn't fit in all that well with the way we do things in Australia, it's more American ... and a lot of people resisted for that reason. It's not the be-all-and-end-all that people make it out to be. For the amount of time we spent on it, I didn't think all that came out of it (Parks Supervisor).

While it is taking time for the new culture to become embedded, the increased concern for clients has been obvious. However, Provincial City has yet to become as market focused as was intended by the state government.

Flexibility in Communication and Reporting Systems

The new culture has been characterised by quicker, more decentralised decision making and a shift away from rules and regulations. However, there has been an increase in the amount of reporting and communication required, with terms of payments and invoices reports, status reports and quality reports required monthly. For example, the Specification for Provision of Children's Services requires a quarterly report from the provider, including at least the following:

a) A summary of service trends for the quarter.

b) Information and marketing initiatives for the quarter.

c) Complaints received and action taken.

d) Reconciliation of actual performance against performance targets including financial targets.

e) A statistical summary of direct contact staff movements to include resignations, terminations and new staff appointments.

f) Maintenance items in relation to council assets that may require council attention.

g) Extent of coordination and interaction with other service providers.

h) Staff training and development for the quarter with documented outcomes of the training.

Source information used to compile reports is to be kept on a data base approved by the council's representative and will be made available to council representatives at all times. Further, all records to be kept by the provider are to be (a) in a form consistent with the information systems utilised by the Council; and (b) available for inspection by the Council's representative at all times[1].

[1] Source: Provincial City Council Specification for Provision of Children's Services, November 1996

The focus of these reports is not on inputs and processes, rather it is on outputs and outcomes. The client side determines certain outcomes but does not dictate how they should be achieved. In relation to the Specification for Provision of Child Services, this is expressed as follows:

> Tenderers should note that the performance indicators and targets detailed below will be used in conjunction with all of the requirements outlined in the Contract to measure and evaluate the performance of the provider. For this contract all services will be required to meet at least a 90 per cent utilisation rate. Failure to meet this rate will result in a pro rata reduction to the lump sum payment (Provincial City Council Specification for Provision of Children's Services, November 1996).

Additional reporting is required by the state government concerning CCT compliance and also from the quality program installed at council. Despite this additional load, few complaints were registered with the interviewer. Indeed, one staff member reported that communications had improved:

> It is more flexible, invariably because there is more involvement in making decisions, you get better communication from all levels ultimately and that has to mean in the end that you have a comprehensive organisation working for a common goal. That gives you a lot more satisfaction than being on the end of a chain where you carry out instructions and you're not expected to think (Parks Supervisor).

Other comments on communication in the organisation were equally supportive of the changes: 'Workers are asked to give ideas and opinions whereas before you got a message from management to do it' (Works Officer, Roads). 'You had very little involvement in how something got done.' 'The opportunity to have information passed along is there, whereas I don't think it was before' (Parks Technical Officer). 'There is better circulation of information around the council'. 'There's a lot more telling the staff actually what is going to happen. There's not much holding back at all' (Parks Supervisor).

CCT has, however, exposed limitations in the capacity and capabilities of council's financial systems:

> while additional demands, such as transparency and full costings of all overheads, are being met to varying degrees by our existing systems, supplemented with a considerable amount of additional effort, we are concerned that neither the adequacy of the information available nor the cost of the additional administrative effort is sustainable over the longer term (Provincial City's submission to the CCT Implementation Review, November 1996).

Other Issues

Senior staff are aware of the scale of local government reform and the pivotal role of cultural change within that:

> Jeff Kennett's reforms will revolutionise Australian Local Government. CCT is the major change. Amalgamation, AAS27 they're nothing. Amalgamation is just one of the periphery issues. The real agenda is reform of the culture (Manager, Ostek).

> I have days when I do think Jeff Kennett is a visionary ... He's probably one of the few individuals in my lifetime that are ever going to put this state in a situation where it could legitimately take steps toward eliminating state government. I think this is part of it. Kennett's approach is so bloody-minded, pig-headed, dogmatic and arrogant it might just work (Manager, Ostek).

'You look across the border and shudder, they are appalling. Kennett has turned it around here. There's been a lot of pain, but a lot of gain' (Manager, Marketing and Customer Relations). 'The change is magic ... its been able to cure the ills of local government ... the smaller the pothole the larger the argument, that's the old culture of the old government' (Commissioner). 'At this stage CCT is not a success in bottom line dollars, but as a means of culture change it's worth its weight in gold' (Commissioner).

The CEO was optimistic about the changes to local government:

> When you look at it, the comment that has been made is local government has changed pretty well more than any other industry in the last two years. It's been tipped upside down and if we can retain quality of service through that whole process then that's an achievement in itself (CEO).

He believed that the state government has changed its approach during the CCT process and is now more concerned about quality of service than about council compliance:

> The state government is now pushing the quality management stuff very hard and instead of taking the policeman inspectoral role they're actually now into developing the industry itself ... They've introduced the Charter of Service idea ... and are involving more of the CEOs in partnering projects.

He also saw the direction as one which conceives of local government as,

> service delivery agents that they will use and strengthen and build up. Once they get us bigger and stronger, more and more of the service delivery stuff will come onto local government to do.

Several councillors were concerned that there has been a 'destruction of local government by the state government'. They argued that the government placed too many pressures on local government, such as rate capping and an inordinate amount of rules and regulations. The view was expressed that these additional rules were imposed following some problems which had arisen in a small minority of cases. Councillors acknowledged that local government is now seen more as a business than as a representative institution (Group interview with councillors).

Table 7.3: Summary of Key Events, Provincial City

November, 1994 Amalgamation of previous provincial city with some smaller, adjacent rural areas; appointment of Commissioners and new CEO.
April 1995 First restructure to separate client and provider units.
November 1994-June 1995 First round of CCT; compliance 22%, above state government requirements.
April 1996 Second restructure to form Ostek as a consolidated business unit.
July 1995-June 1996 Second round of CCT; compliance 38%.
January 1997 FIRST ROUND OF INTERVIEWS
March 1997 Election of Councillors.
July 1996-June 1997 Third round of CCT; compliance 61%.
January 1998 SECOND ROUND OF INTERVIEWS

Summary

1 Staff, management and both the commissioners and councillors are unanimous in believing that there has been a culture shift at Provincial City. This has been manifest in the adoption of more 'business-like' approaches to service delivery and increased focus on customers and the quality of service delivery to them. This appears stronger on the provider side where Ostek has become much more outwards focused;

2 CCT has also not been as dislocating at Provincial City as elsewhere because inhouse teams have won most of the contracts and downsizing has, in large part, been the result of re-engineering as a consequence of amalgamation or in preparation for the bid process. This has minimised tensions within council and reduced the negative views of CCT overall;

3 Conditions of employment for many workers have been reduced, in line with those in the private sector. CCT has lead to a 'levelling down of working conditions;

4 The CCT process, and particularly the stage of developing specifications, encouraged self examination of service delivery and work practices. The process enabled improvements to be made to both;

5 Provincial City had a strong group of commissioners, valued by staff and the community (as indicated by the response from incoming councillors). This helped to mute criticisms of CCT, heard in other councils;

6 During the formation of Provincial City's response to the CCT legislation, CCT was characterised as having both policy and administration dimensions, which were resolved largely through separation of roles between commissioners and management. Information asymmetry between councillors and staff was exposed following the elections, and senior management took the opportunity to redefine the CCT process as largely administrative, subsequently capturing control of the process;

7 The monolithic bureaucracy has been disaggregated so that the provider side business unit is now operating quite independently from the client side. This disaggregation has not been accompanied by the tensions and dysfunctions found in some other councils, probably because the client-provider split has evolved gradually and has undertaken several iterations before its present shape has been formed. This has largely been due to management capacity to resolve the tensions between separation for probity and collaboration for more effective management outcomes (especially in the specifications writing and tender evaluation stages);

8 The rigidity of CCT and its compliance requirements has been frustrating for Provincial City. The state government has been criticised by Provincial City for the increased formalisation in managing CCT and for its lack of flexibility in encouraging other management strategies to achieve local government reform;

9 While some contracts have been generated with external contractors and employment contracts have permeated to middle management, Provincial City does not regulate other relationships with contracts. Indeed, Ostek is seeking partnering and alliances as alternatives to contracts in service delivery;

10 As at Rural Shire, there are serious issues arising from the lower level of contestability in rural Victoria. The CCT process has not generated many new entrants in rural areas, other than established contractors from the larger centres. Provincial City has become one of the larger players in its district and is adopting strategies to secure market share for many services, which may further reduce contestability in the region;

11 CCT has not yielded savings for Provincial City. This may reflect the lower level of contestability in the region, the increased quality of service levels, some initial duplication arising from the client-provider split, and the added transactions costs of the process. There have been savings generated from downsizing, new conditions of service established under the LAWAs and improvements in work practices, but insufficient to offset the additional costs;

12 This case study illustrates the importance of engaging staff in systematic training and development activities in order for them to respond appropriately to change of the magnitude of the introduction of CCT in Victorian local government. A staff-centred, flexible and evolutionary approach to change has ensured that Provincial City has been able to adapt to the requirements of CCT with less internal dislocation than other case study councils. In particular, it contrasts strongly with the more laissez-faire management approach to the introduction of CCT taken at Rural Shire.

CHAPTER 8: FRINGE CITY

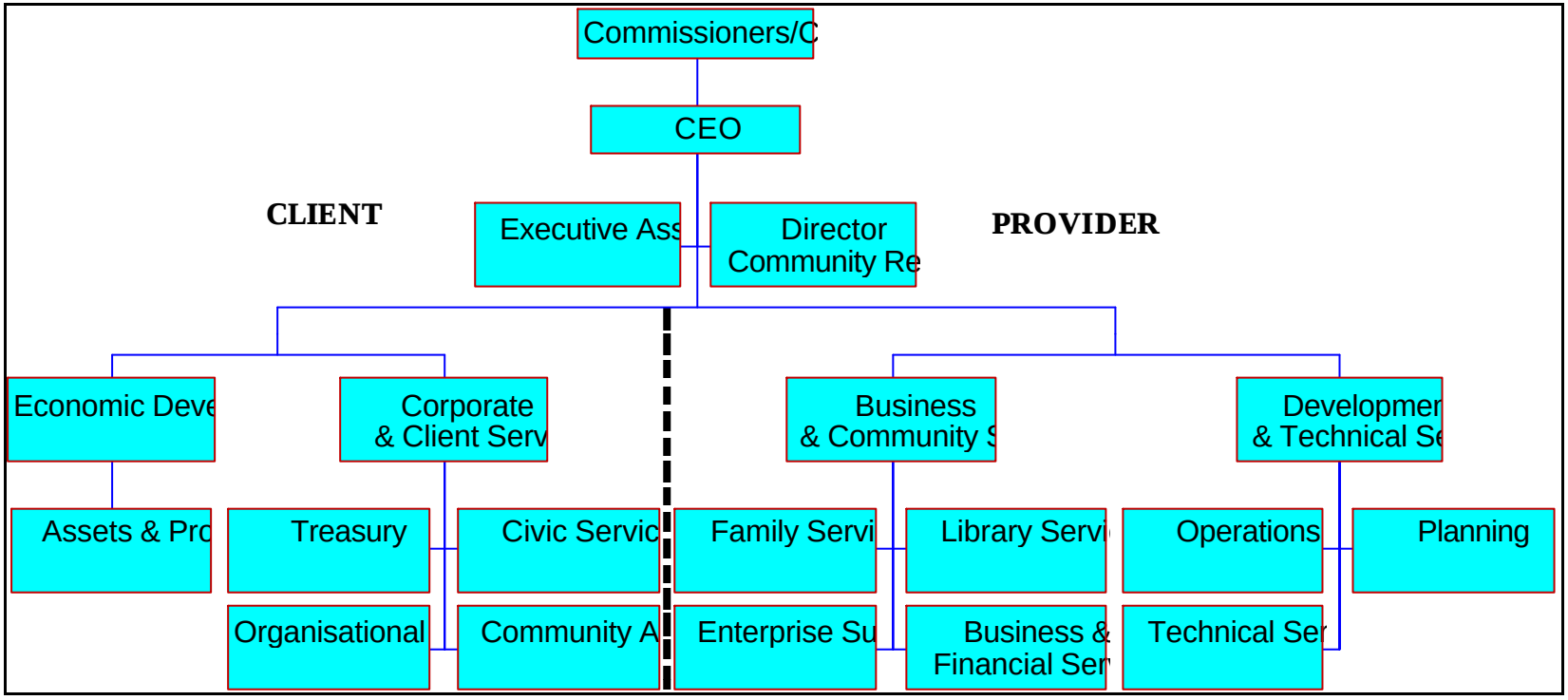
The CCT Experience at Fringe City

As one of the few councils to actually lose area during amalgamations, the consequent budget cuts proved to be especially difficult for Fringe City. The Group Manager, Corporate and Client Services recalled that council 'looked for cuts, whether they were staff or material cuts, that would have no negative impact on the service we were providing externally'. Fifty staff (about 10 per cent) were retrenched and the senior management structure reorganised and streamlined. At the same time, unlike most other councils, they avoided the problems of rationalising many services and service expectations into one.

Fringe City's organisational structure is based on a client-provider split (Figure 8.1) with 15 per cent of staff employed on the client side and 85 per cent on the provider side. There are two client side units, one concerned with economic development and asset management, the other with corporate and client services (including primary responsibility for managing the CCT process). The two provider side business units reflect the traditional local government division between physical services (Wyncom) and community services (Wyncare).

After the commissioners had completed their duties they prepared a transition document for the in-coming councillors, in which their message about CCT was generally positive. They urged the incoming councillors 'to accept it because it's legislated for and that they cannot get rid of the process'. 'Staff are running with it and they are prepared to work the hours and can see some of the benefits'. 'It's good and it's going to get better in terms of value for money for the community. It's a winner, there's no question' and 'CCT is driving cultural change' (Group interview with commissioners). It is clear that most staff believe that significant change has occurred with CCT and many have articulated this as cultural change. 'It's a new era, a new way of doing things. A change in how we did things, getting away from

Figure 8.1: Organisational Structure, Fringe City at 1/8/96



routine, as of right allocated work, to competing for work' (Fleet Coordinator).

> In one sense [CCT] made people become more efficient in what they do. In the quality they're putting out. The changes have made people more conscious of what's going on and they're probably under the spotlight more from ratepayers and other contractors (Contract Development Coordinator)

> The staff have certainly had their consciousness raised. I've heard more political conversation than ever. It's been a vehicle for getting people to become aware of commonwealth and state government policy issues that are on the agenda, to be heard differently and discussed. Instead of just the management worrying about policy things, all staff are bringing the issues together and thinking more specifically about the issues for us here (Direct Services Coordinator).

The outwards focus of staff was also been noted. 'The staff out there in the field have had a taste of a bigger world' (Direct Services Coordinator). 'The fear element has led people to be more involved. Mostly they've turned the fear into involvement. It's resulted in greater commitment to their work and thus better service delivery' (Direct Services Coordinator). 'It's been positive in that we know where we're going now ' (Homecare Coordinator).

The teams feel better equipped now to take up the commercial challenge. They have the confidence that they,

> can actually match the private sector and do better than the private sector. Certainly there was a feeling of elation when we actually won it without the resort to the redundancy offsets that could be used to enhance our prospects. We did it without that in our case, in two of the three tenders. It was a good feeling to beat them on a level playing field (Group Manager, Development).

Many noted the improvements in service delivery since the introduction of CCT. They cite reasons such as the introspection prompted by the exercise of setting

specifications, efficiencies in work practices, improved accountability and concern for quality. 'I think the fact that there are less people doing the same volume of work, there is an heightened awareness of accountability' (Group Manager, Economic Development). 'It's driven the change to modern-management and to quality. All of a sudden we're all mumbling best practice and empowerment' (Commissioner). 'The big gain was looking at a service very very carefully and very very critically and completely reviewing it and doing it at speed' (Manager, Community Access). 'People are coming up with ideas on how they could be more efficient and ways of helping out when there's sick leave and work has to be covered' (Direct Services Coordinator).

The shift to a more business-like focus was also noted. 'There is a real focus on the bottom line and the dollar' (Commissioner). 'For once we really are looking financially at something ... They've have to build a market economy into how they're thinking about programs and services' (Family Services Officer). People are more careful about the resources they consume: 'I am more cautious in consuming resources that aren't in my direct control and budget because I know it's eating into provider profits' (Group Manager, Economic Development).

While there is substantial agreement that change has occurred, there is less agreement about the causes of the change - some attribute it to CCT while others argue that the major changes occurred during the re-engineering process which accompanied the establishment of the new council after amalgamation.

> I don't think CCT has made much difference. It has speeded up a process that was already happening. It got the changes in six months where we may have taken 18. It certainly would've been a lot less painful but if you've got something to cut off, you should cut it off quickly and get on with your life. But that's easy for me to say, I'm still here. There's a lot of people who aren't here and they went through a lot of pain and they're still going through it (Operations Engineer).

'If CCT has promised a higher level of service it has failed miserably' (Homecare Worker). 'CCT has lead to a diminution of standards because you can't adjust hours, there are no emergency arrangements, there's twice as much bureaucracy, and management is very top heavy' (Homecare Worker).

There is also resentment over lost conditions.

> Do you know what I would like? I'd like someone from top management here in [Fringe City] to come and say to us girls 'We really appreciate what you've done. We appreciate you've put your clients first, we appreciate the work you've put in. We thank you for the cuts you've taken. We appreciate the extra the work and the courses you are doing. We appreciate your loyalty, we just appreciate what you're doing'. Nobody's done that and I'm hurt (Homecare Worker).

Results of CCT

Fringe City has exceeded the state government targets in each of the three years (see Table 8.1) and 80-90 per cent of contracts have been awarded to inhouse bid teams. The exceptions have been cleaning, management of the Events Centre and a number of construction contracts, all won by the private sector. Fringe City has had other councils put in tenders for some services but none have been successful. The Group Manager, Business and Community Services reported that in his area of responsibility, 'with the exception of two contracts, we've come in not only at the best quality but also the lowest price'. In his area, 12 contracts were exposed to tender, all of which the inhouse teams won (see Table 9.3 for summary of key events).

Impact on Staff

Downsizing occurred in most areas of council operations during the amalgamation process and in preparation for the first rounds of CCT. This had an impact on the workloads of staff, with one Group Manager claiming that it has 'increased the propensity to work hard ... In many ways that is a function of a mindshift but in

others it's just the reality that there are less people. They've probably got a work force two-thirds to three-quarters than it was' (Group Manager, Economic Development).

Table 8.1: CCT Compliance, Fringe City

	YEAR 1	YEAR 2	YEAR 3
Period	18/11/94 - 30/6/95	1/7/95 - 30/6/96	1/7/96 - 30/6/97
TOE	$21,401,000	$39,218,000	$44,443,000
Contracts Exposed to CCT	$7,166,000	$14,060,000	$27,577,000
CCT Compliance	23 % (+3 %)	36 % (+6 %)	62 % (+12 %)

Sources: Annual Reports of Fringe City

The Operations Engineer commented that downsizing was occurring well before CCT and has partly been the result of devolution of responsibility. In his area, the number of field supervisors was reduced from six to four with amalgamation, and then to three in preparation for the bid. 'It happened because, for the past four years, we've been putting more and more responsibility of managing the field requirements on the field staff. We don't want supervisors we want leaders' (Operations Engineer).

Concerns noted by staff related to workloads and stress. 'My staff are out there working six o'clock in the morning until six o'clock at night, but they're not getting the benefits' (Homecare Coordinator). 'It's alright to ask people to do more but then they say "well what's in it for me?" There needs to be a more meaningful ongoing reward system that somehow breaks through that culture' (Group Manager, Development). He believed that uncertainty was manifested in more sick leave being taken, particularly in the blue-collar areas.

The impact seems to have affected some sections of the workforce more than others. Blue-collar jobs seem to have been hardest hit with the grading crew losing nine staff with amalgamation and fleet management reduced from six to three mechanics at

the same time. 'There's people out there who have been in the same position all their lives who have not been prepared for a competitive environment, didn't ask for it and their ability to adapt is just not there' (Contracts Manager). 'Some people have just failed to accept that legislation has been bought down on us. There's been some definite resistance and people actually writing to say: "we don't want our services to be tendered out, please" '. (Direct Services Coordinator). 'The people who couldn't change are no longer here' (Operations Engineer). 'It's had a terrible impact on employees ... There was a lot of fear, terrible fear' (Fleet Coordinator).

Some staff complained of the huge work load in preparing bids. 'It ruins their family for a couple of months as the bid gets prepared' (Group Manager, Economic Development). He was concerned that there have been family breakdowns as a result of the new pressures. Bids were prepared late at night, on weekends, all while trying to maintain services. 'There's an incredible emotional drama in getting a bid together' (Manager, Community Access). 'I told my husband pre-Christmas, don't expect me to be around for the next six months, and I wasn't, to the detriment to my family' (Homecare Coordinator).

It has also created stress. 'I remember the evaluation panel for the Young Families contract. It was worse than being in labour or going for a new job, it really was. I've got 60 staff, I was responsible for their jobs and their livelihood' (Homecare Coordinator). 'Without a doubt, people were nervous about the municipal restructure but the message we were giving to staff was that it was not the major issue, CCT was' (Group Manager, Corporate and Client Services). This seems to have been borne out by Fringe City's experience. The MEU delegate argues that since CCT, staff now have far less job security and are living from contract to contract.

> I wouldn't give CCT a positive mark because you had to have an interview to get your job, then all of a sudden you've all got to tender for the job and basically re-apply for your job every couple of years. Basically long-term employees are a thing of the past and to me that's sad because people look for security in a job. You want to bring up a family, you want to have a mortgage,

you want stability (Contract Development Coordinator and MEU Representative).

Costs of CCT

While one commissioner asserted that ‘we saved somewhere in the vicinity of a million dollars through the CCT process and believe the service levels are still being provided at, if not above, historic levels‘ (Commissioner), the claim was not repeated by any other interviewee. Rather, respondents claimed that the process may not have saved much money but had resulted in superior levels of service being provided. ‘There have been gains in efficiencies. The first tender, something like 20 per cent improvement in productivity as a result’ (Group Manager, Development). The Mayor agreed that while CCT had yet to deliver ‘cost benefits’ he is convinced that ‘operations are now much more streamlined and efficient than in the old days’.

Clearer Distinction Between Policy and Administration

Most of the interviewees were clear in their belief that senior management had orchestrated the CCT from the outset, and had maintained control over it throughout the transition from commissioners to councillors. ‘Since the return of councillors the relative control of the CCT process has not altered. The senior management team are the ones in control’ (Group Manager, Business and Community Services). The mayor was more blunt in asserting that ‘the officers run the place’.

An experienced and competent senior executive developed the CCT guidelines and practices, outlining them in a series of policy documents (CCT Policy and the ‘Win Strategy‘) for approval by the commissioners as a blueprint for Fringe City’s response to CCT. The preparation phase was managed strategically by senior staff who acknowledged that the minimal impact of amalgamation had enabled them time to search for appropriate materials, policies and guidelines.

The Group Manager, Corporate and Client Services recorded that the Win Strategy started prior to the commissioners being appointed. 'We recognised that coming into the CCT environment, there were numerous issues that we would need to be clear on in a policy sense and a procedural sense, to successfully manage the transition'. In developing Fringe City 's CCT strategy the management team was able to focus on some of the key strategic issues facing local government and build appropriate responses to them into their guidelines:

> These included issues such as 'Where was CCT taking local government? What sort of pressures and forces was it placing on it, and what would be an ideal local government authority, three years, five years out, in terms of all the hot issues that were running?' We had a lot of discussion with the whole 16 or 17 of us, the three tiers of management, about where the whole process was going, and how to position ourselves to succeed (Group Manager, Corporate and Client Services).

Before the commissioners were appointed, the then acting CEO distributed the 'Win Strategy' document which outlined Fringe City 's plan for dealing with CCT. The Win Strategy aims 'to provide the staff and employees of Fringe City with the knowledge, training, resources, encouragement and support necessary to maximise their competitiveness when openly competing for the opportunity to deliver works and services' (Win Strategy: 1). The document is comprehensive and covers subjects such as benchmarking, partnering, oncosts, training and the like. It outlines 'the actions to ensure the competitiveness of staff and the framework for the competitive tendering response. Council's policy on the competitive tendering practices and procedures is reflected in the CCT Policy' (Win Strategy: 2).

The Group Manager, Corporate and Client Services reported that council was very keen to make the inhouse teams competitive and successful because the provider side of the organisation was,

> the business that the council currently owned. To stand back and watch the business that the council owned go down in value is not in the best interests of the local rate payer. From the provider side, we were very keen to see that business become extremely competitive because it's a substantial investment with people, skills, history, resources, the whole box and dice and we were seeing that as a potential income stream for the municipality. We were very keen to protect that investment.

The Group Manager, Corporate and Client Services summarised the council's strategy in six key points, all being heavily influenced by a model of strategic change developed by a Deakin University academic.

> First, we had to establish a clear client-provider split. That really became one of the key tasks ... We recognised that in three, four years out, the benefit to the ratepayer would be realised through a strong sense of clarity in our client-provider split, and strong organisational capacity in both. The sooner we separated those roles, the sooner we would be able to position our people, help our people come to grips with the new roles we required of them, and very importantly enable our people to undertake training in two quite distinct areas.

Second, they initiated a number of staff training programs in order to familiarise staff with the changes towards a competitive environment. A commissioner argued that 'readiness' was a key part of the strategy: 'We gave them consultants, a lot of resources, a lot of support'. This included training in decision-making, specification writing, contract management and supervision, understanding council policy, finance, quality management, public speaking, customer service and marketing. 'We embarked on a consultative strategy that underpinned the document. It was a small task group run in consultation across the organisation' (Group Manager, Corporate and Client Services).

An external consultant was hired to resource and prepare the provider teams for their bids.

> In the three or four months pre the tender deadline, we sat him down with the team, worked through what skills they had and put together the systems and he guided them through the process. It was really targeted at 'How on earth could we win this? What do we have to do?' and making sure we had the resources to do it (Group Manager, Corporate and Client Services).

On the client side, a model from a private consulting firm was implemented. 'They had an evaluation and contract model which we liked the rigidity of. It stood the test of scrutiny and seemed to be well tested' (Group Manager, Corporate and Client Services). The council bought the model and hired consultants from the company to improve the skills of client side staff.

Third, it was decided that 'no part of the organisation was, at the start of this strategy, protected from [exposure to the CCT process]. Nothing was sacred at all'. Council's CCT Policy enshrines this: 'Council is committed to competitively assess all aspects of the organisation. No Business Unit will be exempt from proving its competitiveness, notwithstanding that some services may not actually be competitively market tested externally, such as those with a significant volunteer labour component'. The Group Manager, Corporate and Client Services argued that this has been more difficult to put into practice, as the more difficult or controversial services have been left to last.

The fourth point in Fringe City 's strategy is one of pragmatism. The Group Manager, Corporate and Client Services describes the attitude as 'Let's tackle the ones that are quite straight forward first'. Council stayed away from exposing internal services because it was hard to gauge the scope of the work they would be required to do.

> If we lost major parts of our external services then that would have a major bearing. We also left to last the areas which required a fair bit more work to identify where the client-provider separation was (Group Manager, Corporate and Client Services).

Fifth, and influenced by the commissioners, a clear directive was issued to ensure that current service levels were to be preserved in the specifications.

> Our managers and staff only had authority to specify as is. Under no circumstances were they to specify less, and they were not to specify more ... If we're going to provide services above our current level, there would invariably be a cost to that and our capacity to pay has been reduced (Group Manager, Corporate and Client Services).

The sixth element of Fringe City 's strategy was to expose services in as large a bundle as possible.

> We chose to bundle large, and that's really a cost issue. We haven't been interested in managing numerous contracts because the costs to the council of managing a large number of contracts is certainly a lot more. By and large, 90 per cent or more of our services have gone out exactly the way they've been running (Group Manager, Corporate and Client Services).

Although the Group Manager, Corporate and Client Services reported that council decided to 'package to benefit the community and the primary way to achieve that was through strong competition', the large packaging was going to limit competition. The Group Manager, Business and Community Services acknowledged that 'some things could be broken down into smaller parts to allow your smaller operators to have a go at it'. Yet he argued that 'we haven't been like some councils in Melbourne which have packaged up three or four large areas together. That's clearly uncompetitive. Ours were and are competitive'.

The intention of commissioners was to adopt a clear policy-administration division, but they did not appear to recognise the strategic dimensions and consequences of the CCT process. 'When the commissioners first arrived they believed their role was to put good managers in place and that management was essentially not their job' (Group Manager, Corporate and Client Services). They selected the CEO who had served on the state government task force examining the CCT proposals. One commissioner reported that the selection of the CEO 'was a great bonus' and that the

‘CEO put forward a CCT proposal which they [commissioners] largely accepted’. The strong leadership of the CEO was also noted by senior staff. ‘The Chief Executive ... keeps the whole organisation on its toes. He pushes things very hard and fast towards the strategic goals’ (Group Manager, Business and Community Services).

The commissioners believed that they had provided the policy framework for staff. ‘When we first got here, we gave the management some guidelines’. However, they were unable to provide a very extensive account of the details of that framework: ‘the very first thing was we took the decision that the benchmark of services we were going to provide were what prevailed in the city at the time. We weren’t prepared to accept anything less than what was currently available‘ (Commissioner). This is enshrined in Fringe City’s CCT Policy: ‘The initial development of tender specifications will identify the current level of service and quality standards’ (CCT Policy: 9).

When the commissioners assumed duty, staff were

> working through [CCT], they were identifying the targets, they were identifying the various areas they were going to put out for CCT in terms of the various contracts. That was already well under way. We were somewhere in the 20 per cent figure range when we arrived ... Management really were and are the drivers and initiators of the strategy (Commissioner).

Another commissioner indicated that commissioners,

> sat with the senior officer group and identified with them what they saw as the contracts that would go out in the next twelve months and the following twelve months to bring us up to date and fall into line with the percentages as identified under the Act.

The Group Manager, Business and Community Services supported the view that strategic considerations were dominated by senior staff. ‘The weekly management meetings are forums for strategic decision-making’. Senior staff recommend which

services should be exposed and set the targets and time frames which the commissioners then approve, or very occasionally, amend. Even the CCT Policy states that 'the Executive has responsibility for, and may adjust, the CCT timetable' (CCT Policy: 10).

Senior management control of CCT has continued since the return of councillors. Several councillors indicated their lack of understanding of the full ramifications of CCT. One councillor believed that 'it didn't take her long to get up to speed on CCT because some of it had been happening through our local papers, so you read a lot of it'. However, she admitted that 'whether I fully understand it now or not, I'm not sure'. Some staff believed that council assented to the process because it was working well: 'councillors were and are probably happy with the way in which CCT was and is being managed and have not interfered' (Group Manager, Business and Community Services). Others felt that councillors were unwilling to make changes considering that council 'was financially sound as well' (Manager, Civic Services) or that 'the councillors have felt locked into the processes and as though they really can't change things' (Manager, Civic Services).

> The Corporate Plan had been published not long before the councillors came back ... There had been a long process of consultation involved ... Our councillors have taken the attitude that there is just too much to be done in the community to worry about trying to look back into the past (Group Manager, Business and Community Services).

Perhaps the usual concerns with electoral matters rather than strategic issues has also contributed to the 'hands-off' approach taken by councillors. The Mayor commented that 'councillors are mainly concerned with ward issues rather than strategic issues' and that important strategic questions such as what should be council's core activities, which core activities should be delivered inhouse, and matters relating to corporatisation 'have not really been discussed at council level at this stage'. Council 'has only looked at CCT on a case-by-case basis so far' and 'we really haven't had many so far, luckily' (Councillor).

> The senior management team has not burdened the councillors with the strategic issues such as corporatisation because they have had more than enough on their plates coming in and having to cope with corporate plans, corporate direction, budget and all the spin off committees and community involvements (Group Manager, Business and Community Services).

By contrast, senior managers have recently turned their attention to strategic issues in service delivery. Group Managers agreed that since state government compliance targets had been met and the culture of the organisation was changing, time was then being spent on developing the strategic plan and the future direction of the business units:

> CT up to date has just been the external driver and a bit of a shock therapy to realign people. That's still there but we're actually not being driven by the legislation anymore, we're really being driven by our own plan around CT, in my case, our own business plan (Group Manager, Business and Community Services).

In relation to specific CCT operational policy, most have been defined as 'administration' and fall to staff to determine. This included the preparation of specifications, the question of oncosts, tender evaluation and local preference policy. In relation to tender evaluation, the commissioners once intervened to overturn a recommendation from the evaluation panel, but other than that have accepted all recommendations of the staff.

In relation to local preference policy, the council has nurtured and assisted the inhouse teams as much as possible. 'It was a very steep learning curve for all of us together but we were very well supported' (Direct Services Coordinator). 'I think the way this council is handling putting out to tender community services is they're supporting the inhouse people with resources to attempt to win' (Direct Services Coordinator). 'Where there has been tight deadlines, consultants were engaged to assist' (Operations Engineer). The Homecare Team acknowledge that the training they received has been 'very useful. We came in blind'.

While the council has made clear its preference for inhouse delivery, probity matters have not been ignored. The Group Manager, Corporate and Client Services argued that 'there's a feeling that you need to be actually squeaky clean when you're dealing with an internal contractor. We've erred on the more stringent side. They have to be dealt with like external contractors'. The Group Manager, Development reported that there has been some tough dealings with inhouse teams. For example, they re-tendered the swimming pool contract after the inhouse team was the only tenderer in the initial round, and council believed that the tender did not represent value for money. In relation to one contract, the inhouse team put in a bid seven minutes after the close of tenders and it was refused. 'There was much internal pain and anguish over it but in terms of probity it has to be a level playing field' (Group Manager, Corporate and Client Services).

The commissioners saw their role as one of protecting inhouse teams, where appropriate. 'All things being equal we'd go locally' (Commissioner). The commissioners intervened in the evaluation process to overturn a recommendation from the evaluation panel to award a contract to a private contractor. They adjusted the evaluation weightings after examining the previous record of the preferred tenderer. 'As it balanced out, our team came out certainly very high in quality, their price was a little bit above, but the other team were well down in quality. We felt it was more important to take quality. We put more weight on the quality' (Commissioner).

> By and large, the inhouse teams have won on their own merits. And where we have intervened they have still won on their own merits because we believe they deserved to win it and it was the best tender. It delivered value for money to the community (Commissioner).

While the CCT process has largely been orchestrated by the senior management, commissioners have, at times, intervened, for example, in exempting emergency management from the CCT process and in awarding the swimming pool contract to the inhouse team when it was not the Evaluation Committee's preferred tenderer. These examples, however, represent a minimal level of councillor and commissioner

involvement and reflect capture of both CCT policy and operational activity by senior staff.

Disaggregation of Bureaucracy

Fringe City has a clear client-provider split. The provider side formed two registered business units because of the 'size of the operational area and also some of the differences between services that are there' (Group Manager, Business and Community Services). 'They are very different areas and they do require different management styles and different ways of delivering the service' (Group Manager, Development). There was a view that too many units would lose synergy and economies of scale but one large unit would have combined services which are not easy to integrate. It is still open for the units to merge or disaggregate further, to seek partners outside the council or to enter into other arrangements. 'The decision will be based on good financial analysis, good financial projection and good market research' (Group Manager, Business and Community Services).

Each of the four units is managed by a Group Manager who is expected to be 'two-hatted' as corporate responsibilities take primacy over unit management. For example, the Group Manager, Development estimates that he spends 70 per cent of his time undertaking corporate duties such as strategic planning and projects such as CBD development. The Group Manager, Business and Community Services, however, claimed that he spent 15 per cent of his time on corporate matters such as decision-making, formulating operational policies, goal-setting and so on.

Client-Provider Separation

The client-provider split initially created a dilemma for the organisation:

> Do you put your skills in the client side who are going to manage it on behalf on the council and the community, or do you put them in the side that is delivering the service? We have developed the people with both skills over decades. There are a number of people that effectively acted as both a client

> and a provider and now have to choose (Group Manager, Economic Development).

The separation is not complete in that Group Managers are primarily corporate focused at present, client and provider side financial systems haven't been separated, fleet management is on the provider side and it provides cars to management as part of its service, a cost which is not billed to the client side. 'The way we've set it up, it's not a trading enterprise, nor a quasi-trading enterprise although the business units are heading in that direction' (Group Manager, Economic Development). It was admitted that the incomplete separation can impact on probity: 'I could lever out, just from personal friendships or something like that, benefits which I couldn't out of an external contractor. It's not right that I ask and it's not right that they give' (Group Manager, Economic Development).

The Group Manager, Business and Community Services reported that the two business units were 'progressively moving to become more autonomous'. He anticipated that council will 'finish up with a smaller client and quite strong business operation ... and a higher degree of separation'. The business names, the logos, newsletters and special seminars are all 'symbolic things to help cultural change and create some identity within my group' but there 'are also some practical reasons for it such as public probity and to have quite clear separate financial accountability of work so you can ring-fence the costs involved in those services' (Group Manager, Business and Community Services).

Some tension between client and provider were exposed, especially a resentment from many providers that the client side was mostly exempt from the CCT process. 'There's a certain resentment that the client side people are in a secure position versus they who have to fight for their jobs and then on top of that they are getting a hard time from these people. We feel they are looking over our shoulders' (Contract Manager). 'I don't feel as secure as I sense my opposite number is on the client side. I find myself saying I've got 50 per cent of a job now because two contracts [of four]

are definite' (Direct Services Coordinator). 'There is also a sense from people who are on the provider side that they're the ones that are really doing the work and we on the client side just sit around on our bums' (Manager, Community Access).

Where once they worked together, professional dealings and relationships have been affected by the separation:

> It's like an estrangement and people don't quite know what to do because they're still married. People are perhaps trying to test out what the rules might to be in the relationship, and the rules aren't that clear. It's a bit of trial and error (Direct Services Coordinator).
>
> I think if there's one problem that come out of [CCT], it's the client-provider split within the organisation. It's gone from everyone working together to everyone having their own budgets and they can't cooperate with each other. How it works and how it delivers the services to the community is still causing some concerns. It creates an 'them and us' situation (Commissioner).

In the later stages of CCT, contract monitoring has assumed greater importance, and with it, new antagonisms have arisen. A perception that the client side did not have the expertise necessary to supervise the contract was apparent from many on the provider side. 'Our contract manager is a kindergarten teacher and her manager is a librarian!' (Homecare Coordinator).

> The contract management side of things is a real, absolute pain in the butt, to put it politely. It's administered by perhaps someone who is perfectly competent of the administration stuff, but doesn't understand the implications of it. By the contract management side, we're not really considered council workers, we're their workers and so therefore we can be fired, or we have to do this because it's written down' (Homecare Coordinator).

'The client side, while they have the qualifications, they do not have the practical experience. The assessment officer does not know what we go into' (Homecare

Worker). ‘The client side don’t have a detailed knowledge about what we do in the field‘ (Operations Engineer). ‘Unfortunately, I think the people supervising the bid and the tender really have no idea on what we’re on about‘ (Homecare Coordinator). The Manager, Community Access believes that there is an organisation perception that the ‘academic’ components of the council have been fenced off and put on the client side and all the practical components have been put on the provider side. ‘That is not healthy’.

Having the contract management inhouse causes conflict in itself ‘because two years ago you’re working side by side with that person and in very much an informal and cooperative arrangement. Now you’ve got a very much a structured arrangement and that causes some friction’ (Group Manager, Development). The Contract Manager believed that it is very difficult to administer a contract the way that you would a private contract: ‘The contracts with the inhouse teams are not legally binding. It’s hard when the council is the client, the contractor, the contract manager and even the auditor, all in one’.

‘There is a difficulty where people have been colleagues, on an equal footing, and are now answerable for the performance of the contract’ (Contract Manager). ‘There is a perception in some units that the contract manager represents all-power‘ (Contract Development Coordinator).

> Neither side are used to working in a contract situation and there is a sense where the people on the client side who are doing the contract management are trying desperately hard to get it right and make sure it is all working and I think they can be probably slightly inflexible. The same thing is happening on the provider side where they think they are being screwed all the time. It’s not such a positive relationship as I have seen with other contractors and contract manager roles. The person who’s actually providing that service knows it’s their business to get on terribly well with the person that they are selling to. I don’t think we’ve developed that here (Manager, Community Access).

Nevertheless, some inhouse relationships,

> are quite good, healthy, robust and open. If there's any tension it's usually created simply because someone else looks like being somewhere else in control. It depends on people skills, initial working relationship, the maturity of the parties involved and the degree of concurrence in terms of the view of the future (Contract Development Coordinator).

The level of tension may also have to do with the type and extent of previous supervision. For example, the maternal and child health workers have never had any type of surveillance before and have the attitude 'we know what you are doing, we don't want you in ' (Family Services Officer).

Contract monitoring has put the provider side under the spotlight and the fear is that 'the contract management will over step the mark and won't see clearly that they're not actually managing me and my staff but they're managing a contract. I'm not sure that is totally clear' (Direct Services Coordinator).

> Essentially the people who are managing the contracts have never managed a contract before and that's got difficulties whether it's an inhouse or external contract. There's that immaturity where you actually become pedantic about the contract such as looking at the words rather than the spirit and on the provider side, understanding that they're not trying to screw you (Group Manager, Economic Development).

This friction between client and provider was causing sufficient concern that an inservice course was held for contracts people on both sides of the organisation, to improve the understanding of contract obligations and how to deal with each other. The Direct Services Coordinator said it made her realise that 'the client side has the same interest in getting good outcomes of provision of services as the provider. There was a misunderstanding previously, on the part of some, that it was their role was to check us out ' (Direct Services Coordinator). It also assisted in better clarifying roles. 'You've got to realise you're actually administering a contract and

you're not actually there to give advice or to get involved in what's going on' (Contract Manager).

The process of specifications writing was, unlike some other councils, managed in a way to minimise conflict between client and provider sides. While ultimate responsibility for preparing specifications rested with the client side, the scope of the works component of the specification were developed in consultation with the provider side. 'It's recognising the organisation has a significant investment in the provider side. We've got a lot of knowledge there, we've got to get that knowledge out on paper to understand exactly what that business is delivering' (Group Manager, Corporate and Client Services).

The need to meld probity with utilisation of provider skills has been managed carefully. 'The provider side will write up what their job involves, how they do it, what they are delivering, what outcomes they are achieving' (Direct Services Coordinator).

> The standard practice here is for a contractual sandwich to be made that consists of standard contractual clauses, contractual clauses relevant to the particular contract and a scoping of works. The scoping of works is what the council wants to happen in the contract. That's done initially by the provider side. They create the scope in a draft form and hand it across to the client side. Then there comes a probity point after which we don't communicate anything from the client side to the provider side. There is a great deal of communication up to that point. After that probity point when the draft is handed across, it's really only ever tweaked to make sure the client side or council's interest are protected and what it wants is really going to happen. From there on in, all the provider side of the organisation sees are questions for clarification or further information. The next time the provider side sees the specification is when it is given out to all tenders. Meanwhile the client side may seek outside help ie have it checked around the sector or bring in consultants (Contract Development Coordinator).

Interviewees acknowledged that some specifications, such as the physical services, are much easier to prepare than community services. 'From the engineering point of view, it was a lot easier to sit and write down scoping documents of what it is we do. We've always had more industry standards whereas for the community services people it was a whole new process' (Physical Services Contract Managers). Some expressed the view that the client side didn't have the necessary technical expertise: 'Specifications didn't change much because we did an excellent job. I wasn't surprised because the client knew less about it than we' (Operations Engineer).

On a few occasions the final specifications have upset the provider side. 'At the end of the day, the final specification looked totally different' (Group Manager, Development). 'Our scope of service wasn't used because the client side employed a consultant' (Direct Services Coordinator). Where there was tension between client side specification writers and the provider side, it has not been at management level, rather at the lower staff levels. 'They're concerned that the specification that is being prepared won't cover the full range of activities that they are currently providing' (Group Manager, Business and Community Services). 'They are concerned that they will have to provide the service even though it's not in the specification' (Contract Development Coordinator).

Decision Making

Responsibilities for mounting bids was 'very much a collective'. 'Field staff previously would never have been involved in a meeting with the general management. It gives an ownership and it empowers people and I've just seen people totally take off and be creative' (Direct Services Coordinator). She made the point, however, that 'I don't know whether it's because of CCT or the management we have at the minute'.

The Homecare Team 'had the opportunity in December to meet with two of our big bosses. They were very good. They listened' (Homecare Worker). The Manager, Community Access believes that the devolution of responsibility downwards is

‘typical of post CCT bodies’. The Operations Engineer reported that in writing the specifications and mounting their bids, everyone had a say and were consulted.

> The [staff training] that they ran, part of the process to do all that defining, involved people with shovels and graders and on mowers. We already had that culture coming through. We went back to those groups when we were doing the bid to consult with them about resources to meet this definition of quality.
>
> The staff have been given much more responsibility. They are now given a task and have to complete it making their own decisions. It has delegated responsibility and empowered people to do the job the way they feel it should be done (Fleet Coordinator).

One commissioner believed that people were more enthusiastic and ‘talking about team work and things they never talked about two years ago’. ‘They really felt they were team and working towards something and they felt they had more empowerment. You could see them feeling as though they were part of the action rather than just doing what they were told’.

The change in management decision making was noted by many of those interviewed:

> Before CCT my previous boss had the attitude “you’re here to do what you’re told, you’re not here to think”‘. Now we don’t have much industrial unrest because we can go up and front the management with issues. In the last three or four years we’ve had two bans on (Member, Grader Crew).

The devolution of decision making has accompanied CCT because ‘you’ve got to be more efficient and competitive with CCT. And unless you’ve got the people who are doing the job on side, it’s not going to work. It gives you greater ownership. This is massive cultural change’ (Member, Grader Crew).

Lines of management are not always clear:

> The Homecare Coordinator had to put out a form to give a line of authority, who was responsible for what because it was no longer clear. The girls didn't know, who's the boss, who do we answer to? The girls were totally confused and they still are (Homecare Worker).

> All their formalised structures were taken away. All the foundations were eroded to the point where they lost even the confidence in knowing where to go. We've been left to our own devices so we've had a double whammy to pick up and move on and it's been hard (Homecare Coordinator).

The Homecare Team argued that the client-provider split has actually made some decisions harder to make. They are required to get permission from the client side for contract variations concerning operational matters:

> The tender pricing is based on providing so many hours of certain types of care to clients. Once staff would ring their team leader and say Mrs Brown or such and such needs an extra hour today, and their team leader would make an instant decision because she knew the client, she knew her staff and she knew her capabilities. Now if Mrs Brown needs an extra hour the carer has to ring up the team leader who then has to contact the client side, who then has to contact somebody else, who then gets back to [client homecare worker], who then gets back to me and by this stage poor old Mrs Brown says 'forget it I'm not in the mood' or the client side aren't available, and tomorrow's too late (Homecare Coordinator).

'It even gets to a stage where clients are told "you can't have any more hours because we're running out of money"'(Homecare Worker). The Fleet Coordinator agreed that decision lines are now more complex: 'If an item costs more than $1,000 I have to ring the client side and ask for their permission to proceed'. He described this as very frustrating and argued that it caused 'considerable delays'. 'CCT has streamlined some of the processes but we are constantly constipated by the rest of council. The split hasn't been enough in some ways, we're being pulled back' (Homecare Coordinator).

The MEU representative argued that hierarchies have not been flattened and that the structure is still too top heavy. He thought that the issue had arisen because many workers felt that too much money was being spent on management overheads, which had to be carried in bids. The Fleet Coordinator agreed that his team was 'carrying management' in their bids.

Corporatisation

Fringe City was investigating the corporatisation of its provider units, either on their own or in conjunction with nearby councils.

> We've done the separation, I think, reasonably successfully and we're progressively moving towards more separation. At the other end of the spectrum is the fully corporatised thing and we've got that under discussion right at the moment (Group Manager, Business and Community Services).

'We're looking at either going alone, or in conjunction' (Manager, Community Access). 'We see the benefits of going in conjunction, in terms of we've got a bigger cooperative base from which to launch' (Group Manager, Corporate and Client Services).

The three options being considered were (a) fully corporatised publicly listed company, (b) a fully council owned business or (c) a partnership with another council's business unit. The Group Manager, Development believed that 'economies of scale are there to be had but there's a limited market. If we get involved on a much greater basis we could save on overheads by spreading them over a larger organisation and thus become more competitive'.

The physical services contract managers also believed that corporatisation is a good idea because 'the client-provider split isn't separated enough. They have all the risks associated with being a private contractor but are actually not getting any of the benefits, such as profit sharing'.

While there is a separation between client and provider, current discussions about further separation and disaggregation, the organisation has not separated as clearly

as in Rural Shire and Provincial City. While there has been separation and decentralisation of tasks, control is maintained at a strategic level through strong management leadership, policy formulation and formalisation through guidelines.

Use of Contracts to Mediate Behaviour

Fringe City has yet to use contract mechanisms as a primary tool to mediate behaviour. Employment contracts are only used at senior management level and community charters have not been introduced. It has been the service specifications which have had an influence on behaviour, both of providers and of councillors.

The specifications have influenced providers by specifying certain outcomes and service levels. For example, 'the definition of intervention levels for grass cutting have altered from a time frequency (for example, every first Wednesday of every month) to an outcomes basis for example, 'how long the grass is' (Operations Engineer). The same outcomes-based contracts apply to other services such as the emptying of litter bins or road grading based on the rutting or potholing in the shoulder of a particular size. 'I think much of the public took a long time to learn it and much of the public are still learning it' (Operations Engineer). The Homecare Quality Team reported that their specifications have re-drawn the Home and Community Care guidelines:

> it specifies that they have to clean up teenagers' bedrooms, cut branches back, clean up dog and cat excrements. Things our boss wouldn't let us do for years. This has all come out since we found out we won the bid, we didn't know it was in the specification before (Homecare Worker).

Tightly structured specifications also mean the inhouse teams will no longer do the 'added extras'.

> It comes down to providing what's in the specifications and nothing more. Our guys are looking at billable hours like a lawyer, or they're heading in that direction. I think that's sad from the community perspective. They are trying to get hard-nosed about it but the pendulum has swung too far. In some

> municipalities you can't get furniture moved without getting billed (Group Manager, Economic Development).

At the same time the specifications have reduced the capacity of councillors to intervene in the services.

> One of the huge pluses for the contractor is that there is a specification. Councillor Bloggs can't come and say fix up this or that for Granny down the street if it's not within the specification. It's always been the traditional means of a politician gaining public kudos. The specification is a protection for the crews (Operations Engineer).

Replacement of Political With Market-Based Decisions

The contestability of the local market has been questioned by many staff and the clear preference for inhouse provision for the first round of CCT meant that political decision making has often overridden market considerations. At the same time, providers have become more market focused and customer oriented in their approaches to service delivery.

Operating More Competitively

The business units are currently competing for work in the private sector and in other municipalities. Wyncom has been bidding for car parks construction, school ovals and other private sector work that they previously wouldn't have bid for, as well as tendering for work in other councils.

> As an income stream it's not substantial yet. The timing in relation to the construction industry is difficult because the competition in that particular industry, in this particular point in the economic cycle, is absolutely fierce (Group Manager, Corporate and Client Services).

Wyncare has also bid for a number of external contracts in the environmental health, library, swimming pool services with some limited success. The Group Manager, Business and Community Services claimed that he and his managers are continually

looking for external opportunities. ‘A lot depends on just how entrepreneurial those individual managers are. But I’m always looking for them and if there are any that are worthwhile then we order the documentation’.

This outwards focus was noted by others in the business units. ‘You start to think of business opportunities now. You find yourself reading the advertisements, it makes you wonder what you did in the past’ (Group Manager, Development). The Operations Engineer has also been searching through newspapers looking for opportunities for his units. Yet the Group Manager, Development believes that the units have not done as much as they could.

> We’ve got to do a lot more work on our competitor analysis. At this stage obviously it’s a case of inspection of the municipality, finding out what their conditions and assets are like, going through their annual budgets, establishing what you think is their resource level at the moment, but at the end of the day you’ve got to determine in your own mind exactly what you need to be able to deliver that service.

There was still some resistance to bidding for contracts in other council areas - the perjorative ‘predator’ is given to such behaviour. The Contract Development Coordinator indicated that the official MEU policy is that the union will not give any support to a predator council. ‘Unfortunately, some councils are being forced to do this for survival. Unfortunately, that’s the way they’ve changed the system‘. The value of competing for work in other councils was also been questioned,

> I sometimes wonder what councils have to gain from it. No one has unused capacity. There may be some economies of scale in the management side but you might save $10,000 and it’s just not worth it. There’s no profit (Manager, Community Access).

Political decisions have often restricted the operations of the market. For example, the Group Manager, Business and Community Services reported that being part of

the council structure and having an umbrella enterprise agreement can be a disadvantage,

> as you are bound by all the relevant employment conditions and protocols that apply, such as federal awards and the provision for unlimited sick leave (which is costed into their bids). This is a real budgetary constraint as the private sector can pay people less for certain functions.

However, he argued that

> the local government award in itself doesn't make us uncompetitive ... There are some pluses in that having the award, particularly with very large numbers of employees, you've got a basis for stability in your employee relations and also you've got a basis for actually being able to fairly accurately predict the prices from year to year ... In terms of costings for bids, umbrella agreements give you a framework for actually predicting your increases over time with periodic wage rises built in.

In most areas, LAWAs were negotiated with the staff and unions. These recognise minimum award conditions but introduce flexibilities appropriate to the competitive needs of particular work groups.

> We've managed to get in considerable flexibilities, reductions in penalty rates, banking of RDOs, redesign jobs so people are becoming more multi-skilled in the true sense of working across a whole range of areas. That's actually, in a number of areas, reduced staff, we've made redundancies. (Group Manager, Business and Community Services).

Workers involved in fleet management now work from six a.m. to six p.m. without overtime and are banking hours. While they lost some conditions 'we've taken the three-musketeers approach, all-for-one. It's been very much a team effort' (Fleet Coordinator).

Some of the biggest changes occurred in the Homecare Unit. ‘We were told that we would probably lose our jobs unless we trimmed everything down. So we trimmed and trimmed before the bid was put in’ (Homecare Coordinator). The Contract Development Coordinator reported that they were under ‘a lot of pressure from management with them saying “your competitors are only paying this, you’ll have to cut back”’. The Group Manager, Business and Community Services argued that ‘the main point of pressure is brought about by coming to grips with your own financials but also by knowing what your competitors might be doing’. The Homecare Team lost benefits as a result of their LAWA. As members reported: ‘we have gone from seven a.m. to six p.m. being normal working hours, to seven a.m. to eight p.m. After eight p.m. you only get time-and-a-half where we used to get double time’. ‘Travel rates have dropped from 58 cents to 32 cents a kilometre, they’ve lost travel time and all public holidays except three’. ‘It works out to be a loss of $50-60 a week’. ‘The unions just keep pushing us to accept anything the council offered us, anything to keep your jobs. The unions wanted us to accept weekends at normal Monday to Friday rates. We were disgusted’ (Homecare Workers).

> Management were so insistent that we needed to reduce our costs when in fact the workers are on the lowest banding anyway. Two days before the close of the bids, it was to put to ... the team leader and myself, what could we do in order to reduce administrative costs? We went away and seriously thought about it, stupidly in retrospect, and came up with a suggestion based on what was given to us. Consequently we all work an 80 hour week, simple (Homecare Coordinator).

The Homecare workers reported that the night before the bid was to be submitted, the team was called to an unexpected meeting and told that some things in the bid they hadn’t discussed, had been changed. ‘We lost two of our office staff which angered us very much‘ (Homecare Worker). ‘Staff in the office are now constantly

run off their feet. We're dealing here with people in crisis, and we need back up and support and we can't always get it' (Homecare Worker).

Considerable resentment was expressed by the team because they had given up conditions to be 'competitive ' and then found that there were no other bidders.

> That was a terrible day. Everyone came back at us and said we should have what we had before. Why did we surrender our conditions? We lost an awful lot in our unit and I keep asking management what did they lose? Nothing. We won the bid by cutting our throats ... We're damned if we do and we're damned if we don't. We used to look at each other and say what have we done? I've worked for Council for almost ten years. I like to think I've given my all and I feel as though I've been slapped in the face (Homecare Workers).

Some concerns were raised about the potential for anti-competitive behaviour on the part of private contractors.

> If you're a private contractor one of your strategies can be 'I will take the loss leader at the start, and three down the track, I can name my price, I'm the only provider'. I'm sure there are people out there who have taken that strategy. It's a sound strategy (Group Manager, Economic Development).

However, the Group Manager, Business and Community Services disagrees as 'he doesn't think they could do that here because of corporate constraints as virtually every decision is audited in its own right. I don't think would stack up against our strict accounting controls'.

There is some evidence of a private sector, competitive, business culture developing. 'There's a sense where people reckon they know their environment very well. We're more aware of the competition and the standards other people are producing' (Direct Services Coordinator). The Operations Engineer argued that 'it's certainly made us more aggressive'. He summed it up:

> There were two hunters caught in the woods by a bear and one of the hunters was putting on his runners and the other guy said, 'You can't possibly out run a bear.' The other guy said, 'I don't have to outrun the bear, I have to outrun you'. That's what's going on.

There were dissenting voices at Fringe City:

> In some cases, when a group of staff think of themselves as a business they are less likely then to give to the organisation whereas where you are actually developing the staff as a team, as a complete team with strong direction from the CEO, then there is a trickle down effect (Manager, Community Access).

Fleet Management had one of the more dramatic workplace re-designs, aimed at making the group more competitive. A new Fleet Coordinator was appointed from the private sector to reform the fleet management services by restaffing, 'by starting again from scratch'. The Fleet Coordinator felt that there 'were far too many people there and morale was low'. His predecessor 'didn't have the balls to manage people, there were too many overheads and inefficiencies'. The new Fleet Coordinator retrenched three mechanics and replaced them with people from the private sector. He believed that the new regime has 'delegated responsibility and empowered people to do the job the way they feel it should be done'. More importantly, 'they have a very good chance of winning the contract for their work, as their bid has a strong focus on customer service and quality and they have benchmarked with various companies such as Holden and Ford'.

Fringe City does not have a profit-sharing arrangement in place yet.

> There's a draft profit-sharing policy that's in the organisation but it seems to have been stagnated for a couple of months. I think it's with the unions at the moment. Basically it's 50 per cent back to the council, 30 per cent back to the business unit to invest in itself, and 20 per cent to the employees (Group Manager, Business and Community Services).

The Group Manager, Business and Community Services argued for the 30 per cent to be retained by the business unit 'because it's vital to have some floating capital'. 'Profit-sharing offers some hope to buy some fat in order to mount bids'. However, it caused some tensions: 'incentives and profit-sharing are creating tensions for those people who aren't in a position to have access to it, the client' (Group Manager, Economic Development).

Significant corporate matters are usually referred to the Staff Relations Consultative Committee (SRCC), which represents the council as a whole, not just the interests of the business units. It was difficult to secure SRCC agreement for moves to introduce a profit-sharing for the business units.

> It's been one of those things that has been approached on a corporate basis, as opposed to a business unit group basis. It's the sort of thing that really illustrates the point we are in time where we're still one corporate organisation but operationally and in competitive tendering terms, my groups are forced to act as external contractors and go through exactly the same rigour, but in decision-making such as this, which is a critical one in terms of success and growth of the business unit, it is very much subject to the corporate regime. That's part of the thing for pushing down the path for further separation (Group Manager, Business and Community Services).

Some were concerned about restrictions to competitiveness through 'interference' by commissioners:

> The ability of councillors and commissioners to manipulate the quality/cost mix is of real concern. As happened with the swimming pool contract. In open council the commissioners said 'we've read the recommendation but we think the weightings are incorrect.' They altered them by 10 per cent there which meant the inhouse team won. It didn't even make the paper. It puts 'competitiveness' on the backburner (Group Manager, Economic Development).

Community services have traditionally been exempt from an orientation to the market, a situation which has continued since CCT because so few of the inhouse service providers have been faced with external competitors:

> The commercial world's had a bigger impact on physical services than we've seen in community services up until this process started. They've always had to be competitive. They've always had to go shopping in the market place whereas community services have been protected and developed up a life of its own really (Direct Services Coordinator).

> While it's not organisational policy to ring-fence some services, in the long run that is what I would recommend. Really you just need to look at what's being achieved and it's very little, in terms of savings. CCT has been successful in some areas. I think there is some logic behind exposing areas like roads, garbage, swimming pools to tender, where there is actually some kind of market out there. There can be enormous benefits. But in others areas, such as some of the community services, there are very few. There's no point in having competition, if there's no competition (Manager, Community Access).

The Group Manager, Economic Development argued that while the competitive spirit and skills are available to tender elsewhere it is a question of being able to devote the necessary time and energy. 'Our financial abilities are somewhat limited'. The Operations Engineer agreed,

> I don't think we've learned yet that that aspect of our endeavours [mounting bids] needs resourcing. We've cut ourselves to the bone to fulfil a specification and we haven't got the resources to do more than that. For a major tender, two of us need to put in a solid fortnight of twelve hour days and it's too exhausting.

The market orientation of the business units increased over the CCT period. Environmental scanning has been used to examine the market situation of six current services, with a view to determining whether they are viable in the longer term.

> Basically I've taken a portfolio management approach to the strategic management of the business unit searching for opportunities to grow ... What services we will stay in will be dictated by the market (Group Manager, Business and Community Services).

However, the Group Manager acknowledged that political decisions could provide constraints to operating more competitively, for example, if council determined that particular services were to be offered or not offered or if they decided a particular rate of return from use of council assets or council staff.

Current policy is that 'a CCT timetable has been prepared and includes the aim to bring internal providers of service to a competitive position to ensure that externally focused Business Units are not disadvantaged by non-competitive internal services' (CCT Policy: 10). Services now on the client side such as payroll, information technology, financial services and the like are progressively being exposed to tendering. Before this they are 'being taken through benchmarking exercises to try to establish how they do rate and they are also doing a lot of process reviews to get the efficiencies in there' (Group Manager, Business and Community Services).

The effectiveness of this is contested. 'With the overheads of the council being included in our bids, it impacts on our competitiveness. In fact by about $3 an hour' (Fleet Coordinator). The possibility of purchasing these corporate services externally has yet to be addressed at Fringe City.

> At this point in time, it's an unwritten corporate approach to derive the services internally but that won't last for long. The time will come when I think the flag will be dropped and people will have the chance to go outside (Group Manager, Business and Community Services)

Local Competition/Contestability

Despite their location near to the two largest urban areas in the state, 'we haven't been pleased with the level of contestability. It's been low' (Group Manager, Corporate and Client Services) (see Table 8.2).

A number of reasons were advanced for this: first, there were a large number of tenders exposed at the same time, especially in urban areas, and 'the private sector may be having difficulty keeping up with it' (Manager, Civic Services). This was exacerbated by the short timeframes allowed for responding to tenders. 'Perhaps our time-frame was a bit quick and that was a deliberate ploy to get out there early before the private sector got too experienced in lodging bids' (Group Manager, Development).

Second, the private sector is not always familiar with a large number of traditional council businesses. 'We've got a competitive starting point in that we know the business, if you're not competing in that area of business then it's very difficult' (Group Manager, Corporate and Client Services). There has been strong competition in areas traditionally undertaken by the private sector, such as construction and cleaning. The Direct Services Coordinator believes the vast expertise of council staff and their proven track record may have 'scared other competitors off. Council's got the monopoly really and the community see the council as the provider ... If I were a private contractor I would have been a very reluctant bidder'. 'Like most inhouse bids we would have a distinct advantage in having a gut feel for frequencies required in order to met the intervention levels' (Operations Engineer). 'Always the contractor currently doing the job has the inside running. They know what the work is, they know that although the specification says this ... essentially they know what the true interpretation is of the specification' (Contract Manager).

Third, it may have been the result of council's packaging strategy because 'some specifications are very broad and cover a variety of services' (Contracts Manager). Although the municipality was divided for the grading, parks and gardens and maintenance contracts, the Grader Driver thinks that,

> you'd be too big for the small operators and too small for the larger ones. I think that was their main train of thought. There's quite a few smaller competitors but because it's linked with grading, the parks, the ovals, grass-

> cutting, the whole outside operations it cuts back on your competitors. How many other competitors have got grading and grass cutting?

Fourth, the private sector was not experienced in the process. The Group Manager, Development commented that,

> the private sector wasn't really geared up for it. I think the size of the specifications and their detail was a turn off to a lot of people. The smaller operators, even the bigger ones, felt they had to put a lot of effort to just lodge the tender.

One commissioner concurred:

> when the tender document came out they said 'Oh shit!' because a lot of detail had gone into them and because we are dealing with public money, it's much more complicated than private enterprise would ever give consideration to.

It was reported that the private sector had trouble understanding exactly what was required, despite the briefing sessions for prospective tenderers.

> In my opinion they are of limited value because most of the questions asked are quite detailed and the people who are providing the briefing haven't got the experience or knowledge or sufficient skill to go and answer those questions. What happens is they all get taken on notice and a week or two down the track they come out. I've got a cynical streak in me and I reckon there's a deliberate strategy in that (Group Manager, Development).

Finally, some believed that the private sector wasn't bidding because they felt that they couldn't win.

> If they are winning on price, the councillors evoke quality which sees the inhouse bid win because they say 'you can't do the job, you've never done it before'. If they are high, they lose out on price. With those scenarios, which ever way you go, you can't win, you quickly get rid of the competitive aspect of it (Group Manager, Economic Development).

The Contract Development Coordinator reported that he had received letters from private contractors who could do the jobs but 'we're not going to tender simply because we don't think the situation is right at the moment where you can factor in redundancies' (Contract Development Coordinator). The Group Manager, Economic Development calls CCT in its present state 'CUT', Compulsory Uncompetitive Tendering 'because the private sector has to be more efficient by profit and redundancy. In essence it's difficult for them to win it'. He argued that this gives the inhouse team the period of the contract to work out what it is to be a contractor and the bid next time there should be much more robust competition. 'Next time I'm sure it will be competitive tendering, in the true sense of the word' (Group Manager, Economic Development).

Table 8.2: External Bids, Fringe City 1996-97

Service	No. of External Bids (Source)
Fleet Management	1 (private company)
Swimming Pool Management	3 (Neighbouring council and private companies)
Community Transport	2 (private companies)
Environmental Health	2 (private companies)
Nursing Service	0
Kindergartens	0

This view of second round competitiveness was shared by others:

> There'll be more competition in round two without a doubt. You'll see a stronger client side capacity, a further refining of specifications, and attempts to bring more competition into the area ... On the provider side, you'll see our capacity to compete will improve. There's a lot of work going on, continuous improvement in particular ... You'll also see a number of our businesses where we aren't competitive, or are really not seen as one of our core businesses, fall by the wayside. We're also actively involved in discussions with a number of

> municipalities about forming a joined venture trading enterprise (Group Manager, Corporate and Client Services).

The process may well be more open as well as more competitive:

> I think the organisational support for the first inhouse tender is not going to be there the second time round. I think that's probably right. I think that if we're going to overcome perceptions or cries of unfair play by the private sector it has to happen that way (Group Manager, Development).

The contracting industry will also be much more prepared second time round and will have 'observed very, very closely exactly how we do things' (Group Manager, Economic Development). 'Private contactors will have more time to really prepare, and companies in the area, such as Boral, will come in' (Commissioner). 'Many are forming partnerships. For instance, Boral has joined a consortium with a parks and garden company. Big companies such as Serco are all out benchmarking and they'll all have their act together by round two' (Commissioner).

Clearly, council policy to provide little time for external bidders to respond, the size and complexity of the contracts, their bundling into contracts aligned with current services, as well as perceptions of the evaluation process have contributed to reducing the number of external bidders and, consequently, to a limited contestability in the process. This may be seen as a tactical response to CCT by council management to ensure that inhouse teams have won first round tenders, in return for which council was able to conduct a powerful re-engineering of its organisation.

Client Focus and Customer Centredness

All of the documentation which forms part of the council's CCT strategy makes much of the need to become more customer focused. The Win Strategy states that 'researching community / ratepayers / customer needs to define service requirements is essential to ensuring the effectiveness of council's services; and the focus must

always be upon the interests of the community and enhancing community benefit' (Win Strategy: 3). The CCT Policy includes a Competitive Tendering Community Consultation Strategy which proclaims that 'Fringe City Council recognises the importance of involving the community in the competitive tendering of council services. Residents and ratepayers have the right to make clear what they need and expect from Council services' (CCT Policy: 29). The 1996 Corporate Plan outlines as a key focus, 'creating relationships with the community based on consultation, facilitating the community's goals and harnessing the skills of community leaders' (Corporate Plan: 3).

The council surveyed over 2,000 residents to 'gain information about how satisfied they are with council in terms of customer service. The results of the survey will be evaluated and included in council's strategy for providing service excellence - a key focus of the Council's Corporate Plan' (Fringe City News, Issue No. 8). The council plans to continue these customer service surveys in order to gauge improvements in service delivery.

> We actually have quite a lot of community consultation, in many of the community services areas. Kindergarten, in particular, is an area where parents have an enormous involvement. They are key stakeholders and this is reflected in the kindergarten specification. It is documented in the specification that parents and teachers must be consulted ie parents are involved in the evaluation of the staff (Manager, Community Access).

In the same newsletter, the council also sought residents' views on how Fringe City should develop over the next 18 years. Two public workshops were held as part of the Quality Community Plan which 'discussed community values and the issues to be tackled for Fringe City to succeed in its aim of being a quality community in the year 2015' (Fringe City News, Issue No 8: 3).

> Culturally we are trying to go from a point where we said 'this is good for you and we are providing it' to a point where we are saying 'we'll continue to show

> leadership but we also want you to contribute to our direction' (Group Manager, Economic Development).

While community surveys are not new for Fringe City, the Group Manager, Economic Development acknowledged the importance of council's new customer services department:

> As the community gets more articulate and the dollars are contracting, they will look at new strategies to interact better in the community and actually engage them in a way we've never done before. There's a concerted effort to get their sweat and equity into the process. It's just an absolute necessity.

Customer service is a key component of the Win Strategy.

> The importance of customer service to the Win Strategy is reflected in the decision to release a separate detailed customer service strategy. While council employs an officer with direct responsibility for the development of ensuring that customer service objectives are achieved, actual responsibility for the delivery of quality customer service rests with the staff (Win Strategy: 16).

Fringe City also implemented formal Total Quality Management and Continuous Quality Improvement Programs and the Operations Department and the Child Care Accreditation Program use the Maintenance Management System (MMS). They also have a staff member employed as a corporate resource in quality management. Consistent with Fringe City 's CCT Policy, 'all business units will be expected to implement a quality plan, and an appropriate procedure such as continuous improvement, Total Quality Management or Quality Assurance' (CCT Policy: 9). Virtually all services, including internal client services, have been through the benchmarking process as a result of CCT (Group Manager, Business and Community Services). 'Competition will make you more client focused provided it is in a business way. You are going to put your business first' (Manager, Community Access).

Several examples were given to support this new customer focus. The Fleet Coordinator saw a major shift towards customer service and satisfaction in his area. Customers are regularly surveyed which 'gives people the opportunity to really stick the boot in'. He argued that service levels were improved, for example, they 'now spend an extra half hour cleaning peoples' cars, they put a new sticker of the windscreen telling them when their next service is due and call people a month before their next service is due to remind them'. They also tell people 'what they have done to their cars and trucks and have introduced a tyre policy'. 'It's all about people getting confidence in us and the feedback we get in the questionnaires now reflects that'.

In relation to community services,

> old hands in the game of teaching and nursing can sometimes forget that their Rolls Royce service may not actually be what the people want. It's about asking the people and checking out if they've got what they came for. Sometimes what they came for might be a far cry from your own professional standard. That's been an interesting exercise (Direct Services Coordinator).

She argues that her staff have realised,

> the banner overall is always customer service and quality. I've sensed in the two services that have gone through the tender preparation process that there's a shift. The evidence of it is people's willingness in meetings to discuss say evaluating the curriculum in Kindergarten or having a look at whether in fact working parents can get to see a nurse during the hours we offer and perhaps we can do something about that. There's a preparedness to sit around and (a) talk about the issues, and they're not just management's problems any more and (b) to actually be involved in changing practice and coming up with suggestions in how to do it.

She acknowledged though, that not

> everyone is at the same place and there are still some people lagging behind ... They can't now slacken up on the developmental work that has begun with the staff, in terms of their re-orientation towards the business culture because they are not totally there (Direct Services Coordinator).

Now that most of the inhouse teams have won their bids, there is a realisation that quality and performance will need to improve for the next round. 'While we are doing the work now, they are starting to focus on value-adding so as to make sure that in two or three years time, they are better equipped'. 'Gee we can do this a little bit better and we can be more competitive'. That sharpening of the edge will be very evident in two to three years time' (Commissioners).

Some of the credit for the customer focus lies with the commissioners. They took an approach 'that, where possible, we would assume the role that historically councillors have done, that is, someone who had community interfacing' (Commissioner). 'That's the other plus, the community consultation process. We've done it from day one' (Commissioner).

The results of the first customer surveys support the contention that service levels have been maintained during CCT. 'There's been improvement in some areas and it's been steady in others. We haven't had many complaints, people being unhappy with services, or levels of service going down' (Manager, Civic Services). 'There's no evidence [of a drop], there hasn't been any political furore' (Group Manager, Business and Community Services). 'The quality of service is better because it is being run like a business and everyone seems to be more answerable to how things are done' (Councillor).

Flexibility in Communication and Reporting Systems

As in all case study councils, there has been an increase in report writing as monthly reporting requirements were designed into the specifications.

> It certainly feels like there's going to be greater accountability than we've experienced. Just monthly meetings and monthly reports for a start, are many

> per cent greater than what we've been doing. It will be a demand of the staff who, in many cases, will have to pull out manual records to provide the information (Direct Services Coordinator).

She estimates that for the team leaders of each of the programs, it could amount to a 10 per cent increase in workload. Previously, some areas were not required to report very often, for example, the maternal and child health services were only required to produce one annual report to the state government.

As with all councils, Fringe City has to provide a monthly CCT report to the Minister for Local Government, which in turn triggers more internal reports. 'We have a monthly report from our staff, quite often weekly reports, where they are telling us where they are with each tendering document' (Group Manager, Economic Development).

The focus for all reports is now on outputs and outcomes, not inputs and processes with performance indicators formally included in the specifications.

> Performance indicators will be established during the development of specifications and will clearly demonstrate linkages between the Corporate Plan, the Annual Plan and the contract. The performance indicators will be used as a critical component of performance evaluation by the Client in overseeing the service provider's obligation in fulfilling the contract (CCT Policy: 12).

The council's CCT Policy also contains a comprehensive Competitive Tendering Internal Communications Strategy which, inter alia, prescribes turn around times. This was developed in response to complaints about the long delays in processing the homecare contract. 'On the day it closed, we didn't hear for six weeks as to whether we had won or not and yet we were the only bid. We were left in limbo' (Homecare Coordinator). The new policy mandates a maximum of four weeks for the evaluation process and decision.

CCT has probably created duplication in reporting and administration.

> There is a lot of duplication in reporting, in accountability, in the number of people that need to know what's going on. The management structure of the contractor needs to know what's going on and you've got a equivalent set up over on the client side. There used to be only one of those structures and now there's two. That's an inherent fault I see with the system (Operations Engineer).

The Homecare Team believed that there is not enough communication between the client and themselves on some things. 'These young girls [on the client side] make an assessment of the older people who do not tell them that they're incontinent or whatever. This means these people are ranked in the wrong level of care' (Homecare Worker). The homecare workers were concerned that the client-provider split has made communications between those responsible for particular services much more difficult.

The commercial-in-confidence issue was also raised, especially in relation to the fear that inhouse groups have about transparency of public sector activities and the need for providers to remain competitive.

> Our policy is to report the information which the public would otherwise be able to get hold of anyway through the Annual Report the total figure for the cost of running a service, that's basically what we report and make known to outside tenderers. But the breakdown beyond that, no, that shouldn't available. Really externals are lucky to get the total price because that gives them a benchmark. I'm pushing for a separation of accounts. My view is we should have a corporate Fringe City Council budget and a [business units] budget. The corporate budget really only needs to show one expenditure figure, that is, the contract price (Group Manager, Business and Community Services).

He continued that, 'we've just made the decision not to report up to council at that sub-program level which shows that sort of degree of financial information which is commercial in-confidence'.

Other Issues

The state government received considerable criticism from staff, commissioners and councillors for its approach to introducing CCT as a lever for local government reform. One commissioner

> can't see the logic in an across the board political decision to impose percentages rather than take into considerations that in some councils it's going to devastate rather than help. There are country councils that just can't, if they followed it strictly, it would decimate those councils totally.
>
> The inclusion of depreciation is just wrong. I just think it was a smokescreen to give private enterprise a better opportunity You really have to get 80 per cent out there to achieve 50. I just thinks that stinks' (Commissioner).

However, the Mayor and councillors thought that the council's relationships with the state government was good. 'Local government is more under the microscope than before and the state government's expectations of local government are much higher' (Mayor). The tensions between serving the local community and serving the state government were also raised:

> In some decisions we make we think we're doing it for the community but [the state government] look at it in a completely different way. All the directives force you to look at the decisions from all angles. This may even result in better decisions being made (Councillor).

Others argued that successes at Fringe City are the result of that council's activities rather than an endorsement of CCT as a management strategy. 'The fact that's it's working, in the sense that people are meeting the percentages, should not signal to the government it's an ideal system' (Group Manager, Economic Development).

Many in Fringe City saw the future of local government largely in terms of an agency for state and commonwealth government services.

> The trend is increasingly 'More responsibility to local government with less resources'. I believe local government is the most efficient form of government in this country. There is no question about that. What local government do with their money compared to state and commonwealth ... they [the state government] should be ashamed of themselves (Commissioner).

The role as an agent of other spheres of government has already increased for Fringe City, where there are instances of client sides bidding for commonwealth grants and then tendering it out to the provider side of the council. The Resident Access Coordinator predicted that the provider side will bid directly to the state or commonwealth and that they will become the contract managers. This will mean that the contract will not go through the client side, which will wither to the roles of providing support to the elected council and managing contracts.

Table 8.3: Summary of Key Events, Fringe City

December 1994	Amalgamation which reduced the size of the previous city. First CEO appointed.
November 1994-June 1995	First round of CCT. Compliance 23% of TOE.
July 1995-June 1996	Second round of CCT. Compliance 36%.
By December, 1995	Appointment of second CEO.
November 1996	Adoption of CCT Policy and, soon after, 'Win Strategy'.
January 1997	FIRST ROUND OF INTERVIEWS.
March 1997	Election of Councillors.
July 1996-June 1997	Third round of CCT. Compliance 62%.
January 1998	SECOND ROUND OF INTERVIEWS.

Summary

1 Amalgamation did not impact as significantly on Fringe City as elsewhere, so staff had time in which to prepare for CCT. The opportunity was not wasted as three detailed documents were prepared which, together, outlined the policies and procedures for council to follow;

2 The preparation phase was thorough both in terms of the skilling required and in re-engineering the organisation to make it more competitive for the first round of tenders;

3 Fringe City's tactical response to CCT saw it develop procedures and policies which provided advantages to the inhouse teams to ensure that, largely, their bids would be successful. The trade off for staff was in the re-engineering process being completed before the bids were prepared;

4 Although the geographical area would be expected to be contestable for most services, there were few new entrants to the market in the first round of tendering, perhaps as a result of council's CCT policies and procedures more than as an indicator of real contestability within the environment;

5 Fringe City demonstrated the powerful effects of bureau capture. Control of the CCT process was won by senior management largely as a result of information and expertise asymmetry with commissioners and councillors. Senior managers exercised leadership and control of the process, and in large measure set the key strategic issues for council. Strategic issues were typically managed by staff with councillors concerned mainly with electoral and community matters;

6 Fringe City has not developed characteristics of a post-bureaucratic organisation to a large degree. There is little segregation between policy and administration and policy, especially relating to CCT, has been displaced to officials; while the bureaucracy has formally been disaggregated with some decentralisation of tasks, control is retained by senior managers, in part through high levels of formalisation; few new contract mechanisms have been installed to

mediate behaviour within the organisation; there is little evidence of faith in market-based determinations, with political (mainly bureaucratic) decision making dominant; and, communication systems have become more intrusive and demanding than previously. However, there is some evidence of cultural change in terms of staff thinking more competitively with a greater focus on matters outside the council and in becoming more customer oriented;

7 CCT has not saved costs for Fringe City, but it has benefited from improved quality of services. While the CCT process is partly responsible, through the introspection accompanying the specification of service levels, concern for quality outcomes has been one of the dimensions of the council's change or re-engineering program;

8 Fringe City is a demonstration case of rationally planned and controlled change. CCT has impacted on the staff of the council in a number of important ways but the primary lever of change has been through organisational re-engineering. CCT presented an opportunity for such changes to be introduced but, of itself, is not primarily responsible for the cultural changes which have occurred as a result of its implementation.

CHAPTER 9: METROPOLITAN CITY

The CCT Experience at Metropolitan City

Metropolitan City approached CCT more cautiously than others in the case study group, reflecting the strong Labor influences in the community and among staff or, perhaps, a primary focus on bedding down the new council after amalgamation.

> This hasn't been an easy birth. Three very strong Labor councils in amalgamation, very diverse in many ways, a lot of different policies, a lot of different levels of service and that's the problem (Manager, Physical Services (Client)).

Organisational restructuring was not based on a strong client-provider split and inhouse bid teams were provided with training and development support in preparing their bids. Officers spent considerable time in briefing the incoming council, during which the CCT process was effectively frozen. While first bids were mainly won inhouse, later bids, especially in the physical services, have mostly been lost. It is, perhaps, the result of the cautious and supportive approach that these losses have not lead to industrial disputation nor to exceptional tensions between councillors and staff (see Table 9.4 for summary of key events).

While there were significant changes from amalgamation, staff and councillors agreed that CCT brought a number of changes to Metropolitan City. It generated an introspection of service delivery through the writing of specifications, engagement of greater community input, the opportunity for re-engineering through the process of preparing bids and the development of a more business oriented culture in many service teams. At the same time, concerns were expressed about the stress generated by continual change, the impact of the client-provider split on the unity of the organisation, the diminution of hard-won conditions of service and the erosion of some traditional local government values.

The Manager, Physical Services (Client) argued that amalgamation had an impact but 'CCT has really been the main driving force for cultural change, basically putting us in the market place and I think that has been the biggest influence'. He saw this as positive as 'the workplace is now a very exciting place. This place doesn't stop'.

This was not universally accepted. 'Staff have been thrown into a state of uncertainty which followed on the back of the amalgamation uncertainty. All up they have been living in this sort of environment for about three years' (Special Projects Officer, CT). 'There's been anxiety and nervousness right the way through the whole process and still is. They have had 18 months of working with that and thinking through "should I stay on or take a package?"' (Team Leader, Parks). 'Change is now the constant and that's very difficult for people to deal with' (Manager, HRM). 'The more overworked you are, the less sharp you are' (Councillor). The Team Leader, Parks reported that the 'hours put into this is astronomical, our family lives have been out on hold for six weeks while we've been finalising the tender'. One wag quipped that the acronym CCT really meant 'Chronic Career Trauma'.

'There are pockets of great resistance still, within this organisation that are so heavily unionised' (Director, Finance). 'Some people haven't got out of the typical council mindset of doing the absolute minimum. The people that are coming up are very much the new way of thinking' (Manager, Physical Services (Client)). However, he anticipated that the 'old ways will not go away for maybe another half a generation'.

The industrial relations culture has changed. 'Staff thought they had jobs for life on a 35 hour week, nine day fortnight. Staff now value their jobs more as they see the impact on many of those left by the wayside' (Director, Finance). 'I think we are breaking down that "us and them" that existed between management and staff' (Manager, Business Support Unit). She continued 'that's where the unions were very strong, as a third party that the two groups could communicate through. In

particular, in physical services there was so much distrust, cynicism, antagonism towards managers'.

Redundancies have been a major issue at Metropolitan City, arising from both re-organisation and CCT, especially since the recent losses of physical services contracts. 'We have spent at least $6 million on redundancies' (Manager, CT). 'The next six months is going to be awful for the councillors, it's going to be awful for the staff because we are going to be shedding people. We might be shedding more if we lose contracts as well. It's going to be pretty bad' (Mayor).

However, some have seen the introduction of CCT as an opportunity.

> It gave us a new staff structure. Through this we actually multi-skilled people, redesigned their job descriptions and changed their working conditions to suit them... We found we could actually operate a lot cheaper, a lot more efficiently and people were actually happier than the way it was before. It was an opportunity rather than a threat (Team Leader, Revenue Management).

'Local government is beginning to do what the private sector did seven or eight years ago such as customer centredness, customer surveys' (Special Projects Officer, CT). 'CCT has forced some councils, some more than others, to focus more on the dollar' (Manager, Physical Services (Client)).

Results of CCT

The Manager, CT claimed that reaching the targets for the first two years was quite easy (see Table 9.1).

> [Metropolitan City] got to its compliance targets in the first two years, mainly through capital works spending, which was generally always done by the private sector, and by outsourcing things such as buying stationary and vehicles and we got into some new things like we called tenders for legal services, or banking, even for taxi services to run elderly residents around under the Home and Community Care program.

Table 9.1: CCT Compliance, Metropolitan City

	YEAR 1	YEAR 2	YEAR 3
Period	18/11/94 - 30/6/95	1/7/95 - 30/6/96	1/7/96 - 30/6/97
TOE ($)	43,260,000	53,440,000	53,670,000
Contracts Exposed to CCT ($)	8,921,000	18,920,000	26,290,000
CCT Compliance	20.6 % (+0.6%)	35.4 % (+5.4%)	48.99 % (-1%)

Sources: Annual Reports of Metropolitan City

Metropolitan City fell just short of the 50 per cent target in the third year of CCT, because they did not get the full year benefit of all the contracts let, 'but the following year will probably more like 60 per cent' (Manager, CT).

In the first stages of CCT, inhouse bids were generally successful (see Table 9.2), probably because one of the criteria for selection of services for CCT was the 'readiness of the inhouse bid team' (CCT Policy, p. 5).

Table 9.2: Success of Inhouse Tenders, Metropolitan City

PROGRAM	**SUCCESSFUL TENDERER (no of bids)**
Refuse collection	Inhouse team (sole bid)
Building control	Inhouse team (sole bid)
Leisure services	Inhouse team (sole bid)
Immunisation	Inhouse team (two bids)
Maternal & child health	Inhouse team (two bids)
Revenue management	Inhouse team (three bids)
Aged & disability services	No contract awarded. Inhouse team was the sole bid but bid rejected as unsatisfactory.
Open space maintenance	Citywide Services (Melbourne City Council) in competition with two other bids, including the inhouse team.

Source: Council Memorandum 25/7/97

While the inhouse rate revenue tender was more expensive than one of the other companies 'it was probably the quality of the documentation and our ability to show we could fulfil the requirements of the tender and how we were going to do it, and how we were going to report on it, and flow chart every procedure' (Team Leader, Revenue Management).

Subsequently, however, a number of physical services contracts have been lost. Refuse collection was won by Citywide Services, the corporatised arm of the City of Melbourne, the City of Port Phillip won the contract for parking meter maintenance and also part of the design services. Despite reservations about selecting external providers, council was prepared to relinquish garbage collection 'because the savings were are so substantial they couldn't ignore them despite 26 people becoming redundant' (Director, Corporate Resources). With parks also being lost, most of Metropolitan City's physical services have now been outsourced.

Costs of CCT

Metropolitan City was unsure that the introduction of CCT had generated savings for the city. 'You can't put a cost on the introduction of CCT because you can't separate it from amalgamation, restructure and organisational change' (Director, Finance). However, there was agreement with her view that,

> in the long-term there are going to be significant savings. In the short-term it's a break even situation, may be even costing us but that's because it can't be separated from organisational change, understanding the level of service that we provide and that sort of thing. There is absolutely no doubt in my mind that long-term there are savings.

She argued that savings will result once the redundancy costs have been paid back and from the increase in competition in subsequent rounds.

Any savings from the CCT process have been countered by increased transactions costs and duplication through the client-provider split. 'At any one time we have about 12 people working on CCT' (Manager, CT). 'The only place where we have

extra costs is that duplication of structure in [the corporate services] division' (Corporate Director, Services). She did not include the preparation of specifications as a cost of CCT, rather it is something local government needed to do because previously it had no clear view of service levels and delivery arrangements.

Clearer Distinction Between Policy and Administration

Broad CCT policy and strategy was formulated by senior officers and endorsed by the commissioners ('updated' according to the Manager, CT), shortly after their appointment. The policy was outlined in a council publication and was implemented largely as drafted by staff. Since the return of council, goal setting and strategic planning for CCT is still being orchestrated by the senior management team, although councillors have both scrutinised the process and have been instrumental in improving community involvement in the process. This has lead to the development of a council policy on community involvement (see Table 9.3) which places a premium on engaging the community at various stages of the CCT process. The policy-administration division has, however, not been a feature of governance at Metropolitan City.

The extent of commissioner involvement in the CCT policy process was not contested either by officers or the incoming councillors. 'The commissioners seemed to go out of their way not to put tacks on the road. They left a lot of things for council to decide' (Human Resources Manager). 'The commissioners didn't make any of the hard decisions. They made the easy decisions and left it up to those "red-ragged socialists" to sack people' (Mayor).

Table 9.3: Model for Community Involvement in CCT Process

MECHANISM	DESCRIPTION	WHO SHOULD BE INVOLVED
Service User Focus Groups	Role: • the Service User Focus Groups will examine, from a service user perspective, any gaps between consumer expectations and current service delivery. Strategies to improve service effectiveness will also be explored within existing resource constraints; • either single or multiple forums depending on level interest and size of service user population; • all data obtained from focus groups fed into service planning and specification development process.	• service users or representatives • peak bodies
Other Service Provider Forums	Role: • as per Service User Forums but for other service providers such as community health centres, community agencies and the Brotherhood of St Laurence; • all data obtained from Service Provider Forums will be fed into service planning and specification development process.	• other service providers • peak bodies • funding bodies & government departments
Competitive Tendering Community Reference Group	Role: • to provide a formal channel for community involvement in the planning and tendering process for a particular area; • this group can be established where there are service users or local service providers with an interest in being more closely involved in the tendering process up to the point of developing the service specifications; • size limit = 8	• service users or representatives • other service providers • peak bodies • community representatives • industry experts
Public Feedback on Service Profile & Plans	Role: • service profiles and plans for each service area will be developed and will incorporate key elements of draft specifications for public comment; • issues raised in feedback from public will be considered in developing final specification.	• general public • funding bodies & government departments
Representation on Specification Working Group	Role: • this internal working group comprising council officers will oversee the development of service specifications for approval by the internal CT Monitoring Group; • a member of the CT Community Reference Group will be invited to participate on the Working Group. The process will be bound by the rules of confidentiality.	• member of the CT Community Reference Group
Representation on Tender Evaluation Panel	Role: • to provide an opportunity for a community member to participate in the tender evaluation process. An independent 'industry expert' will also be invited to participate. The process will be bound by the rules of confidentiality; • the recommendation of this panel will be submitted to	• member of CT Community Reference Group • industry expert

	the council's CT Monitoring Group for recommendation to council.	

> The corporate management team had the reins and basically told them that they we're doing this, this and this on CCT. It would be fair to say that the commissioners had a watching brief rather than a strategic brief. There were no times when they intervened (Director, Finance).
>
> By the time the councillors came in we were basically at the end of the corporate planning process, we already had the competitive tendering timetable in place, all our systems were in place, the consultation mechanisms with the community were in place. Basically, at the corporate management team level, the first couple of months were basically briefing councillors who didn't have experience of running a business this big and this diverse, so there were strategic briefings ... We also had to deal the council's political agenda and its political leanings, which were quite different from those of the commissioners, obviously. The commissioners were people appointed by the Kennett government who were supporters of the government (Director, Finance).

Officers claimed that they maintained strong control over the process, albeit under closer scrutiny from councillors:

> So far the councillors have had no reason to intervene in decisions relating to CCT. There's been a couple of battles at council meetings but they're usually between the independents and the Labor group rather than with the management team (Director, Finance).
>
> Since the return of councillors, strategic control of the CCT process is now a little different. It is auspiced by council. Our councillors have consciously looked at we're doing and asked pretty hard questions. So what we're doing now could change according to council will. So far the council have, not necessarily agreed with everything but they have understood why it has happened and have not so far intervened (Director, Finance).

> There have been no substantial changes in the way CCT operates or in the relative control of the CCT process as a result of the return of the councillors. On CCT decision-making council accepts all recommendations as put forward by the senior management team (Manager, CT).

> Our councillors, to their credit, they might have come in on a certain political agenda, but that briefing period which we gave them brought an awareness that there are a lot of issues here that we have to bite off and chew. There hasn't been any determination in policy or any other form by which we've had to halt our process. The process has been drawn out a bit because there's a more consultative process mechanism required and there was a delay because the council had to go through external consultants reviewing us personally, our performance and so on. I've got to say that our councillors have been very pragmatic. They started off saying all sorts of things, especially pre-election, but since election they've been very considered in their approach. They still have a distinct agenda, but that agenda hasn't interfered with the process so far (Director, Finance).

However, elected members claim more than a watch-dog role:

> Through the time coming up to being elected, most of us were part of various campaigns against the tendering out of various services such as the libraries. We actually campaigned on the idea that libraries were too important to tender out. We were concerned that the specifications would be wrong and not include the necessity to keep on the shelves unpopular books. We came in with that as an issue. Because we made it so political, the commissioners were told by the state government they had to put out the libraries and get 'the issue off the front pages' (Mayor).

> As a council, we have been looking at each packaged service that has come forward to us. We have held the timetable back. We have looked it very closely, we have asked for the detail. This council has taken a while to crank up the CCT timetable because what we've done is that we've approached it all

> very carefully and logically and had a look at what the ramifications are rather than bursting head-long into it and then dealing with the ramifications (Councillor).

'We stopped the process for close to six months. The timetable was slowed right down while we did an investigation, we actually did our own audit of the state the city and set up some policies for how we would carry out CCT' (Mayor). He was critical that council made decisions 'that we didn't set the ground rules for. For example, we had to tender out the garbage and give it to Citywide yet we didn't start the decision off' (Mayor).

The incoming council expressed reservations about CCT, reflecting its strong Labor leanings. However, apart from enhancing the community input to the process there were few criticisms made of the way the CCT process had been managed prior to their election. 'I don't know that they found anything terribly much to fault ... and I think they were reasonably reassured that staff were being adequately supported through the process' (Director, Corporate Resources).

The incoming council underlined the need for community involvement, reflected in its policy guidelines.

> We did that because, over and above everything else, there was a majority view among councillors that human services were a sticking point. We had no complaint about what had happened up to that date because nothing had gone out except meals-on-wheels. They looked at the specifications for each of the services that were coming up in the timetable. The specifications had gone through a rigorous process of as fuller community consultation that could be had. We then went in for a further bite. They had a group of community people from different backgrounds and different perspectives to look at the specifications again. They called for more detail and information. Some were put back a few months, for instance, the aged and disability contract (one of the most sensitive) while they asked for other council processes to come into place. Their main concerns in this case were continuity of care and we were also

> worried at the changing and deteriorating nature of the aged population in this municipality and the fact that there was a distorted need across the age groups (Councillor).

The establishment of consultative groups provided an opportunity for councillors to review the level of services and the access arrangements.

> It was an opportunity to review the service. It was a catalyst for a going through a full service review and going through a full quality questioning from start to finish and with a philosophical view to make sure that the word quality stayed in through the entire process. That's very hard to deliver on in this changing world. That's probably been the most difficult of them but each of them have their own particular problems (Councillor).

'We [senior management] made a very strong commitment to support the inhouse teams and we've kept that commitment' (Manager, CT).

> Every reasonable opportunity will be given to ensure staff have the skills, resources and opportunities to compete effectively for tenders which are open to competition. As such [Metropolitan] City Council is committed to supporting business unit staff to develop their skills, to improve productivity, and to participate competently in a competitive environment, including a commitment to training by internal staff and external consultants (including skilled assistance in the preparation of tenders) and relevant resources (in financial, computing and administrative resources) (Policy Document, p. 9-10).

This commitment included lifting the skills of the inhouse bid teams through extensive training. 'Staff will be assisted in the preparation of bids by the Business Unit Support Branch' and that 'the timing of the tender process will normally allow three months for the inhouse unit to prepare for, and participate in, the competitive process' (Policy Document, p. 9-10). The Business Unit Support Branch was crucial in assisting and guiding the inhouse teams. 'The basic role of the Business Unit Support Branch is to guide and assist the inhouse services through service integration and tender preparation' (Manager, Business Unit Support) where 'service

integration' means the development of a 'Metropolitan City approach' as distinct from the three different council approaches prior to amalgamation.

The senior management team has used CCT as a strategic tool for encouraging organisational change.

> We see CCT as a reform tool. It's just we would have preferred that it wasn't called CCT and we would have preferred it wasn't enshrined in legislation. But it gives a big stick to bring about major economic change, cultural change, provision of service change. From its introduction the corporate management team have believed the CT process would provide savings and would resolve some of the industrial issues we were faced with because that could not be done through the enterprise agreement process (Director, Finance).

The Director, Finance recognised the important political decisions concerning the type of services that council should offer:

> Local government was jack of all trades, master of nothing. What local government needs to do is streamline itself so that it understands what are the political decisions that need to be made because I don't think local government in history has ever consciously made a decision 'Will we do that, or won't we?' It's picked up a whole lot of services because there is funding by the government such as youth services. What we need to do in local government is streamline. What are we here for? Make sure that we understand what our purpose is and concentrate on doing the things that we should be doing and let those who are best at the other things do those. CCT is forcing self-examination and re-evaluation. Is this a business we should be in? Is this a business that we should actually be carrying out with our own staff? Or doing through contractors? Or is this simply not our business, is it our responsibility? That's where it's a political decision. If other councils want to be in the business of having the all the employees etc. Great, it's good because it means they'll do our work for us and they can become specialists in that and we can become specialists in the strategic thinking and service provision decisions etc. I don't

> think we know, ourselves, if we are experts in things or not yet, we don't know until we've specified what it is that we want, put it out there, and seen what the private enterprise market is like'.

While Metropolitan City supported its inhouse teams, if teams were unable to adopt a more competitive approach, the council was prepared to let them go. In the case of the refuse contract, the inhouse team were reluctant to surrender any conditions. The Manager, HRM reported that,

> by industry standards they [the refuse collectors] were about $10,000 per year each, over the bid. There's a strong resistance and there's a strong position across certain parts of the city that they would rather lose the bid, lose their jobs, collect the redundancies and go out with all flags flying. There was a uniform sigh of relief from the MEU, the delegates and everybody else to do with it. It was very difficult. It was a difficult work group that caused as much pain internally as externally.

In other areas, like finance, senior management was keen that the inhouse team continue to perform the service as they have 'adapted and become very competitive'.

While councillors scrutinised the CCT process at Metropolitan City, CCT has been defined as an administrative mechanism and, therefore, the province of officers to manage. 'The CCT processes are all bureaucratic and councillors are not even involved in the tender evaluation process' (Manager, CT). He argued that this is consistent with the overall diminution of the role and power of councillors with their reduced discretion over financial matters such as rate-capping, reduced reserve funds, limits on borrowings and lower penalties for late payment of rates.

In relation to CCT, policy and administration have not been separated, rather, the process has been captured both in its policy and administration dimensions, by senior officers. This is further illustrated below by decisions concerning two key aspects of CCT, the selection of services for tender and the apportioning of oncosts.

Selection of Services for Exposure to CCT

No services were 'ring-fenced', despite pressure from some of the returning councillors. The possibility of ring-fencing some services was debated at the committee level which then reported back to council.

> Honestly, I can say in the back of my mind, I was looking for reasons to ring-fence some services. But with depreciation being lumped in there and being a small council and our long-term viability being at the forefront of our minds at all times, plus a few economic problems I couldn't recommend anything be ring-fenced (Councillor).

The council has, however, drawn up a document which lists those functions that cannot, or are not proposed to be competitively tendered comprising about $27m or 43 per cent of total expenditure (1996-97). The human resources management (HRM) area, for example, has been quarantined for two years, however, the Manager, HRM advised that the area is tendering some of its functions such as occupational health and safety and training. 'The sensitivity of the work force and the environment is such that there are certain core policy elements you would never contract out' (Manager, HRM). In addition, HRM services have been benchmarked against Australian HRM practices and found to be quite competitive. The Director, Finance added that,

> at this stage we are not tendering out financial services. It isn't even on the list because I think there are some things that are core services at the moment that you are reluctant to put out because you don't know how it could be done by external entities and whether it's worth it.

Apportioning Oncosts

A private consulting firm was engaged by senior management to develop a cost allocation methodology to ensure 'a fair and reasonably accurate basis for the allocation of corporate costs to the various service areas, to assist them set prices for the competitive tendering process' (CCT Policy, p. 6). The client side charges the inhouse teams for rent, car-parking, use of telephones and computers, governance

costs, records and information technology, all of which must be included in the cost of tenders.

> What I didn't like was that we weren't given the opportunity to charge council for the job that we do. It seems to me we get charged for every cheque, every pay slip , every single thing. However, we process 20,000 receipts through our cashier's office not just for rates. Yet we are not allowed to charge council for any of those transactions. Every cent of those transactions is paid for by us. At least half of our budget was corporate overheads (Team Leader, Revenue Management).

'We were expected to reduce our costs, they should be reducing theirs too. Oncosts amount to up to five per cent of our bid [total contract value $2.5 million]' (Team Leader, Parks). In the maternal and child health bid, corporate overheads accounted for 28 per cent of their budget. In buildings, it was nine per cent and in leisure, 'corporate overheads represented a substantial amount of our budget, over $400,000 or about 17 per cent' (Coordinator, Leisure Centres).

Oncosts have been particularly contentious in the human resources area, to the point where the unions have become involved. The Team Leader, Parks argues that they are all being charged too much for HRM overheads: 'It works out to be about $200 a person and what are they getting for it? I really don't know'. 'Our HRM department are charging us $85,000 and all they are is a conduit and holder of information. They do not provide us with anything. All they provide us with is aggravation' (Coordinator, Leisure Centres).

These middle level managers believe that they could purchase many of these corporate services cheaper elsewhere.

> We could employ one of their key people in there and contract them back to the council and make money on it. For the amount of time that we would use it, we would use it once a month, if that. It's the same case with computers. It's costing us $70,000 a year for our computers, multiplied by five years, it's over $350,000 for 10 computers. $70,000 in the first year, we could go and buy brand

> new computers each year and have a person there to service them (Coordinator, Leisure Centres).

While the Manager, CT acknowledges that the leisure centres use HRM less than other departments because of their high proportion of part-time staff, 'our view is if they make a pay roll inquiry it costs us just as much as if a full-time member rang up'. In relation to the concerns about computers, if units purchased externally 'then they wouldn't have the help desk service'. The Manager, Business Unit Support sees the argument in terms of corporate management: 'we are still one organisation, we are responsible for paying you, so the cost of that you will bear'.

The Director, Finance advised that even if the inhouse teams can get services such as HRM cheaper externally, they are 'absolutely not' allowed to impute the cheaper option into their bids.

> You can't have an external HR specialist trying to do an enterprise agreement for the Metropolitan City. They need an internal HR unit because Metropolitan City is a very heavily industrialised, unionised work force and it still has many issues to deal with. The fuss over HR and oncosts in general really is irrelevant. When you look at the total cost of an overall bid, oncosts become such a small proportion, they are usually between five and ten per cent.

The Coordinator, Leisure Centres doesn't consider the oncosts as 'irrelevant'. 'I think the cost is excessive and level of service you're getting is nothing. I'd much prefer a situation where we set up contract or arrangements with them and said this is the level of service we want'.

This debate between staff illustrates the displacement of key CCT policies to senior officials as the council has been silent on such matters. Aiding this capture has been the establishment of a Competitive Tendering Monitoring Group (CTMG). This group of senior managers meets weekly and 'basically monitors everything that's happening with CCT and which involves an inhouse bid' (Manager, CT). The CTMG decisions largely control whether or not inhouse bids are successful:

> [CTMG] monitors and approves the program, it deals with issues like packaging, the client manager has got to present the draft specification for proposed tender and thoroughly brief the committee what's in the specification. It looks at issues like 'should we ask for performance guarantees with this tender?, what sort of levels of insurance cover do we need if it's contracted out? ie professional indemnity and public liability, what's the term of the contract?' (Manager, CT).

Disaggregation of Bureaucracy

Metropolitan City's organisational structure (Figure 9.1) consists of four divisions, each containing a number of branches. The client-provider split is not as physically separate as in other case study councils, although most staff claimed that the split in roles is clear from activity to activity.

Client-Provider Separation

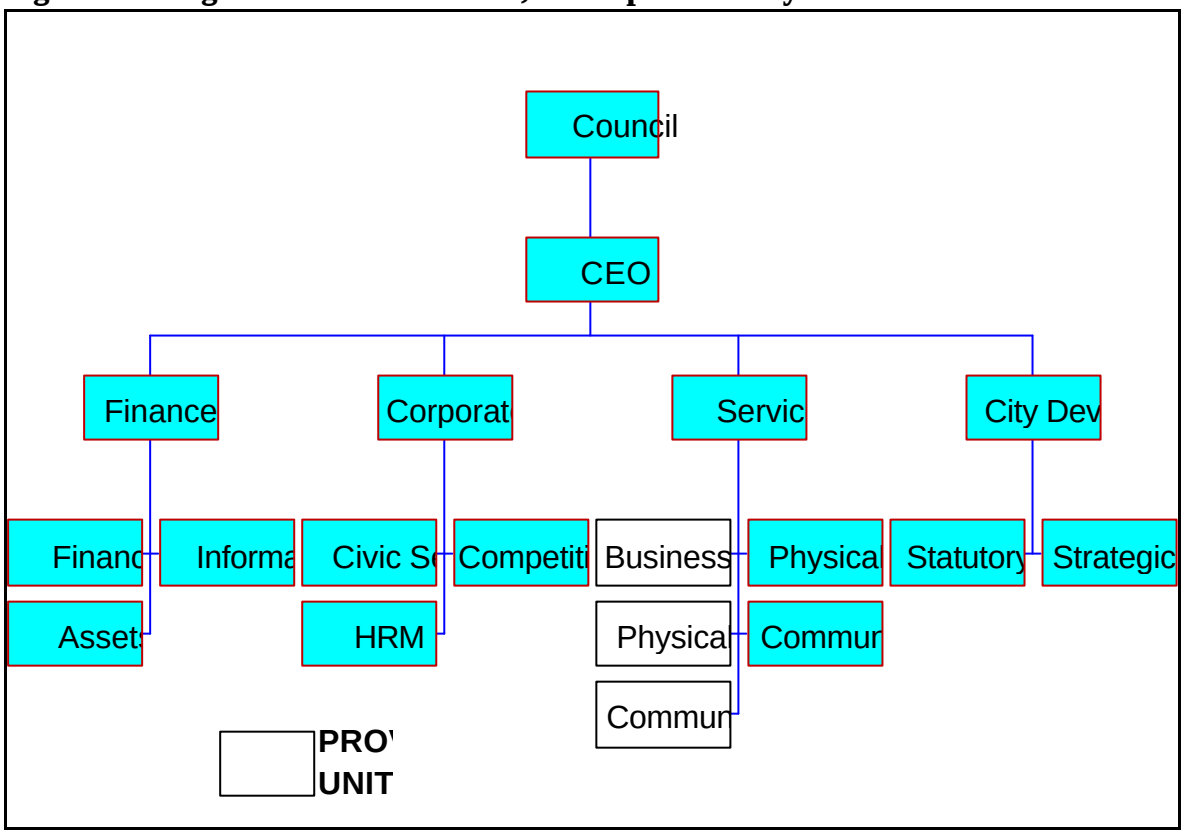
In the services area, there is a clear split at level three because there is a client manager for physical services and a business unit manager for physical services. The same applies in community services. 'The other departments are a lot smaller and the separation there is more difficult' (Manager, CT). The split is more project or activity based rather than organisational and is more often temporary.

However, there is no clear separation at level two, where managers 'wear two hats', for example, the director signs off the specifications but also briefs the CEO on the tender bid coming in from the provider side. 'The director probably wouldn't be on an evaluation panel. However, they would see the report of the panel eventually through the CTMG and the corporate management team' (Manager, CT).

The Directors must choose which hat they are wearing before the process begins and remain with that choice for the duration. 'Admittedly this can cause friction with staff. Some have suggested that they have been advantaged by having me help with a bid or disadvantaged by being on the evaluation side' (Director, Finance). She

argued that her decision is based on the capacity of the individual provider and client side staff and where the need for support is most evident.

Figure 9.1: Organisational Structure, Metropolitan City at 1/3/97



The Director, Finance claimed that although she does have two hats she 'never wears them at the same time for any one contract'.

> The client-provider split is largely driven by procedure but generally speaking, what we're trying to do is keep the directors above the client and provider split where possible, so that we can have communication with both sides but have no final say on either side. It is an unusual structure. I find it difficult to work in, personally. The wearing of two hats is, at times difficult because you can't wear both of them so you've got to choose which one you're going to wear before the whole process starts. We are very conscious of probity issues.

The directors switch between client and provider sides depending on the various bids. 'Sometimes the director will say "the bid team needs some support and I'm going to get very involved here" and he or she will step back from the specifications

process' (Director, Finance). This can impose some difficulties for the CT Branch managing the CCT process.

> We are conscious for instance about the security of documents, we shred a lot of information. We occasionally have provider side staff ringing us for information and often we don't tell them. I have to be careful of things like who I give a draft specification to, I have to be careful about where I distribute minutes of certain meetings, who I take with us to brief the solicitors, just the control of the information. I think we've developed a reputation for giving probity a high priority (Manager, CT).

Tensions between client and provider emerged in some areas.

> Once you unleash this thing called empowerment and competition and the potential to bid for other work, you start to think like a competitive enterprise, you get people saying 'why should I use that inhouse payroll and HR?' (Manager, Business Unit Support).

> We really need to apply the blowtorch to the client side of this organisation. If the client side had been market tested then perhaps oncosts would not be such an issue. A lot of the areas that have been contentious won't be going to tender such as HR, parts of finance and parts of IT (Manager, Business Unit Support).

> There are some feelings on the provider side that they are being put through the wringer and the client side can just sit back and get fat and not have to be tested (Director, Corporate Resources).

The tensions often surrounded the importance of maintaining the competitive edge:

> We got to a stand off. I had information that the client side wanted and they weren't getting it come hell or high water. We were sitting across from the client with us saying 'you're not getting it' because we considered it proprietary information. Our ideas. They were things that we were doing and if an operator was smart enough he could come in and have a look but we

> weren't giving them the nuts and bolts of it. I said we don't want that in the specification as a requirement. These are our ideas (Coordinator, Leisure Centres).

However, the Manager, Business Unit Support indicated that pressure was being applied to those areas not being market tested to be benchmarked against their counterparts in the private and public sector in terms of process as well as performance outcomes. 'The first step is to get them to document their procedures and then get some agreement on that and then actually compare their processes with other places' (Manager, Business Unit Support). In fact, the Manager, HRM has already done this. 'We took out some benchmarks and our costs are very low'. She acknowledged that HRM oncosts are always contentious because there 'is always a lack of understanding about the complexities of service that an HR unit delivers'.

Metropolitan City still functions very much as one organisation. The Special Projects Officer, CT believes that the client-provider split is 'very variable across the organisation' and that 'the lack of a clear vertical split in most areas except for the services branches, and the schizophrenic role many staff play doesn't really lend itself to the development of a "them and us" mentality'.

The movement of staff across the divide also limits the strict disaggregation into client and provider. With maternal and child health services, a member of staff who worked on the provider side wrote the specification.

> For about two months, [the worker] wasn't anywhere near us while she was writing the specification. We got the specification at the same time as the community health centres [a competitor]. Once the specification was sent out, she then came back in and became part of our team again (Coordinator, Maternal & Child Health).

The specification for parks was developed in a similar way.

> If staff are moving backwards and forwards across the divide then it is impossible to get them to see themselves solely as a client or provider

> employee. Essentially they work for the council in whatever capacity that may be (Special Projects Officer, CT).

> In some areas there has always been a 'them and us' management-provider split in the past in council 'and now the 'them and us' has just become a client-provider split in those areas. So in the cases where I think there is a clear split I have a feeling it was always there. It's always been there in physical services. I think in the community services area though, where they have to put in an artificial split, I don't think I can see it (Special Projects Officer, CT).

There are mixed messages on the extent of client-provider tension. 'First of all there was a coolness, then there was a breaking down of all that and we've got on marvellously well and they were very, very supportive' (Maternal & Child Health Worker). 'There was a good relationship during the writing of the specification' (Team Leader, Revenue Management).

> We've had our moments but I'd say overall it's been good. The amount of information we've been able to share has been good and the encouragement they provide has been good. I think they have a feeling that we are doing a pretty good job and that they'd like to see it continue (Coordinator, Leisure Centres).

> Once the tender went out we were told that we would be treated exactly the same as any external tenderer. It was very arm's length and it was very professional and I'm probably glad it was that way, seeing we won in the end. Anything that was referred to me was in writing and a copy went out to anybody else who put in for the tender (Team Leader, Revenue Management).

'The client and provider sides have been too worried about being apart and being seen to be separate' (Team Leader, Parks). He thought that there could have been more cooperation in the early stages and says that he is worried that the client side want control.

> One of the disadvantages of our bid, is that we split off from all the other parts of council we used to work very closely with. We've been isolated, in a way from the other children's services that haven't gone out. We've lost the networking and close working relationships we had with other business units (Coordinator, Maternal & Child Health).

The lack of clear divisions concerned some middle managers.

> The trouble, I think, is that council will still tend to treat us as council staff rather than an inhouse team that have won a tender. I've had requests come in for me to write a policy on this. It's not in my tender to write policies for council. It's in my tender to enact policies that council's puts in (Team Leader, Revenue Management).

Team leaders of the maternal and child health, finance and leisure services all expressed frustration that council didn't seem to have internalised the idea that if an activity is not in the specification then they will not do that job, as they argue that this costs.

> The contract says council can introduce any variations that they like, at any time that they like, at any price that they like. If you don't do the variation at their price then you're in breach of contract and they can terminate the contract (Team Leader, Revenue Management).

The Coordinator, Maternal & Child Health reported that the council accepted their contract in which $150,000 was budgeted for capital works, yet only $75,000 has been provided.

> I said 'what is this?' They've cut our capital works, they can't do that, we've got a contract with them, we've put in a tender, they've accepted the tender, how come they can suddenly say you've only got $75,000 instead of $150,000 capital works, they can't do that. But they have (Maternal & Child Health Worker).

By contrast, the Manager, Physical Services (Client) argued that 'there's a lot of this business about you've got to treat them exactly like another contractor but of course

it won't work like that. They are still employed by the council'. The Mayor also saw the inhouse teams differently from an external contractor.

> A service isn't delivered the same for time in memorial. You adjust the service based on certain requirements. You don't wait five years to adapt a service. How does the contractor feed contact with the public back into the policy setting of council. If it's really a service, you'd be changing it to meet the needs of the community but you're locked into a contract. The cost of the service will go up if there are any variations. With an internal bid, I think it is less of a concern because you can adjust or re-negotiate a bid. When it's an external bid then renegotiation is going to involve money that people can't afford.

> I get sick of everyone using the client-provider split as a hook to hang all the shit on. The literature has shown that the client side has often come to the stage where they wish an external organisation has won it, it is so difficult to manage when it's internal. And it is most difficult when there are divisions along professional lines. When there are white collar people managing blue collar. That what the client-provider split has done is fostered, facilitated, watered, fertilised hostilities that were already there. And people have formed into tribal groups. Where there were good relationships they continued (Manager, Community Services, Client).

The tension is bound to increase as some provider units move into different forms of operation.

> Inhouse teams are going to say 'I have responded to a specification, these are the services you asked for when I responded, my structure, everything is geared to that' and the client side can jump up and down as much as they want and the providers will just say 'get stuffed'. The client side wouldn't get away with that imposition with the private sector so they shouldn't expect it of the inhouse teams. If there are variations the providers may require additional funding. The old days are gone (Manager, Business Unit Support).

One of the sources of tension at other councils has been the perception that client side contract managers have little expertise in the services provided. This is not true of the community services area at Metropolitan City, where,

> none of the contract managers have a background in contract management. They are all human services professionals. Everyone working here on the client side have been providers and thus have a good understanding of what the provider side role is (Manager, Community Services, Client).

She reported that one of her staff who has now left was 'just impossible. She was using her client role to tell the provider what the inputs should be, how she should be doing her job and it was highly conflictual'. To overcome this, the Manager, Community Services (Client) argued that 'it's about continually articulating what our role is. We're about ensuring service provision, who delivers it is immaterial. We just want the highest quality, the most efficient, the most effective'.

The Manager, Community Services (Client) was concerned about staff competence to undertake the new management of contracts.

> We've made a promise to the community that this will deliver outcomes that we can be accountable to the community. My problem is I don't believe we've got the data to do that in some areas such as aged and disability services. To monitor the contract I would want to know things like how often the frequencies were complied with, what are the differences, are our high level clients getting at least 95 per cent compliance in getting the services on time, as specified and matched to their needs. That's very complex. I have to get an order of the staff competencies and make sure that that is an appropriate match.

Some expressed a wish to move from contracts more towards 'partnering'. The Manager, Physical Services (Client) argued that 'we don't want to look at it as us controlling the contractor. In the early days you've got to establish a partnership, it's not just us telling them what to do. That's how you get success'. This is echoed by the Manager, Community Services (Client) who argued that in the contract managing

stage 'relationships become a lot more important and critical in the performance. They are in an equal power relationship and the partnership approach is critical'.

> In order to get things off on the right foot it is necessary that the client and provider absolutely share an agreement on what the goals of the service are. You have to also have an understanding and acceptance of how both parties achieve that goal.

The Manager outlined processes which are put in place to enhance the partnership between council and contractor. These include the running of a planning day after the contract has been won, to develop agreement between the parties:

> Essentially, it's a role clarification and expectations of management exercise. We document it and we make it a Memorandum of Understanding and it is attached to the Service Agreement. These are critically important to capture the spirit of the partnership before we get into conflict (Manager, Community Services, (Client)).

This partnership has also been evident in the process of developing specifications. The Manager, CT argued that,

> writing specifications has been an enormous task. One of the major problems in writing specifications has been that local government in the past, generally hasn't written down what it does, or what outcomes it needs from a program. So it's been a case of starting with a blank sheet of paper and describing what we want.
>
> The CT branch is a bridge that converts the draft into something that is sound grammatically, that can be understood but which our solicitor won't have to spend days and days converting into a document that's enforceable. The writing of specifications has consumed an enormous amount of time at levels three, four and five on the client side. On the provider side, we certainly show our inhouse teams the draft specification. We don't show it to them in order to give them an advantage, we show them to try and get the specifications right

> and in some cases if we've been to an expressions of interest first, we would also show that draft to the other respondents to the expression of interest (Manager, CT).
>
> We decided early on that the only way to go would be to have a consultative process. Mainly because for the first time, we have to put down what we do, we've never done that before. We had to go back to the provider to start with. What we had to come up with was almost a best fit. We had some areas that were very well serviced and others that weren't. We got a chunk of [suburb] that had a silver service and thus some areas have been slightly disadvantaged as a result of amalgamations (Manager, Physical Services, (Client)).
>
> What's tended to happen is that we've lifted every service to the highest quality of the three. It hasn't been a conscious decision. It's been something that's occurred by virtue of groups of people coming together form three different councils and trying to resolve the juxtaposition of the three different approaches and always ending up with the highest service level (Director, Finance).

The Manager, Business Unit Support believes that if the teams can deliver according to the specifications, there should be no diminution of service levels. She believed that,

> the will is there certainly on the part of the business leaders and the supervisors, team leaders and a number of the staff. For the staff on the ground, some of whom have had quite an easy life for a long time and there's been little documentation required, reporting etc it's going to be quite another world for them.

Some teams saw the process of writing specifications as an opportunity to develop innovations in service delivery. 'It's a good catalyst for innovation. I put in twenty pages of new ways of doing a job in the specification. It allowed me to get things into a budget and I've been able to justify expenses' (Team Leader, Revenue Management). 'We were able to develop, not policy, but our procedures. We had to

really look things and in fact document how we did them and say 'OK, we can do them better, we can do them differently'. 'It gave us the opportunity to come up with a terrific procedure manual which gives us direction'. 'It helped the team gel even more' (Coordinator, Maternal & Child Health).

The need for expertise in the process has overwhelmed considerations of client-provider probity. 'With many of the specifications, the contract manager has consulted with the provider side whether they be internal or external providers' (Special Projects Officer, CT).

> It's a practice to go to the people who know what the service is all about but not a policy or directive because sometimes the client side has the knowledge from prior experience of providing the service whereas in other cases the contract manager only has a management knowledge of how to provide it, not the coalface. If the client side had the expertise there was a tendency not to go out to the provider side because of the issue of probity. It was certainly preferred, if a contract manager could write a contract document without getting into any conflict situations of the probity (Manager, CT).

Tensions were, however, sometimes evident. In relation to physical services, the provider side were reluctant to give the client side the information they needed for the specifications as 'they want to give away all their secrets and their competitive edge when they had to put in a tender' (Manager, Physical Services, Client).

In relation to leisure centres,

> the client side prepared the specification and we provided them with as much information as we could provide them with. From my perspective, I didn't feel they had a very good understanding of how leisure centres operate. They were very idealistic about how they should operate. We feed them as much information we could. As a business unit we had heaps of specifications and consultant reports that we had begged, borrowed and stole from other councils so we gave them all that information. They came up with a rough-cut of the specification, we suggested a number of areas where it could be improved. It

> was an on-going process like that until it was getting close to the final version. Early on, there was a consultation process with leisure centre users. Then there was a specification guiding party that was also working on revisions and so forth (Team Coordinator, Leisure Centres).

Maternal and child health services used the library specification as a template for their specifications and,

> got hold of specifications from other councils. I had a very clear picture of the service and the sort of specifications I wanted to write for the service but all the surrounding stuff was very confusing to me. So I got on and wrote the draft of the service specifications and then we had a process whereby community consultation was called for. There was a questionnaire that went out right across service users and they had focus groups where we got input from service users including non-English speaking families. I incorporated that feedback into a further draft and then we had a working party which had two client side members and two provider side members and four mothers (service users from the different centres). So we drafted and redrafted and redrafted with the input from the parents, they were absolutely fabulous, and ended up with what I think was quite a good specification. We were all happy with it. It was very collaborative (Coordinator, Maternal & Child Health Services).

For this group, the client-provider split was hardly relevant to the process. They say they were going 'backwards and forwards across the divide. There was no tension'. Further, 'our competitors also all had the opportunity to see the draft at each stage as well' (Maternal & Child Health Worker).

In the rates revenue area,

> I think, how the client started off, was get a copy of the Port Phillip specifications and white-out everything that said Port Phillip and put in [Metropolitan] City. The first time I saw it, it was 16 pages long and not very

> relevant. There were a lot of things that didn't pertain to us and a lot of things that we did do, that weren't in there. I had a few talks with the Finance Manager who is now the contract manager and told him what should be in there and gave him a few hints and clues along the way and then it ended up being about 96 pages. It is a good speci, it covers everything.

In the parks area, the client side handled the writing of the specification. One of the provider team was seconded to the client side to develop the specification on the understanding that the client-provider roles were separate.

> There was an early draft of the specification developed and we did have a look at that, as a bid team. We virtually took it apart, looked at every item and saw if it related to the job we're doing now, whether it clearly reflected what we were doing or whether it was a new service. There were some new initiatives included. We called a meeting with the client side and told them that there were some areas that needed to be looked at and that there were some weaknesses in the first draft. There were a few areas where the potential saving to council may have been absorbed by the introduction of new services. Then the specification was taken away and worked on again and we didn't see it until the final draft came out (Team Leader, Parks).

Clearly, some tensions were exposed in the processes of tender specification and monitoring, in particular, but the fuzzy client-provider split and the collaborative approach to CCT has generated less tension than in other case study councils.

Decision-Making

The Manager, CT claims that the structure has become more hierarchical. 'In some ways I think there's more management than there ever was. If you think back a few years a person like a building surveyor would have been at level two in council, they now are a level four' (Manager, CT). He argued that this was partly a function of size and partly because roles have changed. 'Perhaps we have less people at level two ... but there's probably more people at the third and fourth levels'. As a result,

‘some people have found themselves much more remote to the CEO than they used to be, for example, the Building Surveyor’

In general, however, there has been a greater devolution of decision-making and responsibility. Crucial decision-making like the development and negotiation of LAWAs and preparation of bids are now left to lower level staff. For example, in the parks bid, all staff were involved in making the crucial decisions such as the number of staff they should include in the bid, something the Team Leader, Parks believes would never have happened previously. The bid team contained a representative from each of the three previous districts, together with another three staff nominated by the team. ‘The staff that were putting in the bid had to own it for it to work’.

The Director, Finance argued that such arrangements are empowering for workers although ‘the groups that are unionised don’t see that because they still see it’s “us versus the management”’. The Team Leader, Revenue Management thought that the process gave him power that he has never had before. He claimed that his staff feel ‘much more empowered because they’ve actually been given titles and been given jobs. We’ve put lots of money in the budget for training and everybody’s happy. It has been a very good thing for our department’.

The business units now have much more control over their destiny and are much more responsible and accountable for matters such as budget control and hiring and firing. ‘We’re our own unit and we virtually do what we like, within the boundaries of the tender. So I think we are empowered somewhat’ (Team Leader, Revenue Management).

The Manager, Business Unit Support was critical of the old style of management, particularly in physical services, where workers were required

> to leave [their] brains at the door, a real controlling management style. That’s breaking down through this process. They are involved in all steps, they have input into specification development, there are a number of corporate

> committees that have been established, there are lots of briefing sessions like road shows on CT and all other sorts of issues. It's the corporate management team ... driving this 'we need to have more of a dialogue and involve people' type approach.

The Manager, Business Unit Support reported that 'you can see the light come on and they run with it and then they start to become more assertive. The ones that have gone to tender are much more advanced than the ones, particularly in physical services, that are still to go to tender'.

For others, however, nothing much has changed: the Coordinator, Leisure Centres says his unit has always been separate from council and that 'we've never had any problems with decision-making, it's just been justifying them afterwards! That's the advantage of the specification. What they've done is clarified the direction of the centres so it's quite clear'. In maternal and child health services, 'our community services manager basically leaves the running of the service to me and the team. We have a lot of the day-to-day responsibilities but that really hasn't changed from pre the contract because we've been so separated from Council anyway, we're an outpost' (Coordinator, Maternal & Child Health).

Corporatisation

Attitudes towards corporatisation reflect the divergent cultures emerging from within the council with client side staff doubtful of the value of corporatisation and provider staff more enthusiastic. 'You have to get approval from the Minister for Local Government and the Treasurer and you need a lot of justification' (Manager, CT). He says that under the National Competition Policy guidelines you would not corporatise unless the turnover was in the order of $10-15 million. 'Now we're not going to have any bid teams with that sort of turnover'. The Director, Finance indicated that Metropolitan City had not thought about corporatisation: 'I don't think it's a likely option at this stage, for [Metropolitan City]. It's a function of size but what's the benefit of doing it too? Why get in a situation where you are paying tax? Why bother?'

However, the Team Leader, Revenue Management would welcome corporatisation as 'we wouldn't be tied down to a local government award'. Also, 'I could see corporatisation happening. But for this corporate management team and council that is too radical at this stage and too difficult to deal with. Certainly for council it would go against a lot of their principles' (Manager, Business Unit Support).

Metropolitan City has disaggregated its bureaucracy, although not to the same degree as in other case study councils. Business units are not as autonomous as elsewhere and corporate policies have yet to be developed in relation to issues of corporatisation, bidding for external work, and, apart from one limited experience, joint partnering or other entrepreneurial approaches to providing services.

Use of Contracts to Mediate Behaviour

As with other case study councils, there is little evidence of increased use of contract mechanisms to mediate behaviour, other than through the CCT process. The development of specifications, the need to complete the LAWA by the bidding teams and use of contracts in the monitoring process are largely as in other councils. There is no evidence of citizen's or service charters or other contract mechanisms to guarantee levels of service delivery.

At Metropolitan City, only staff at level three and above have employment contracts, whereas those at level three and below are engaged as permanent employees, and there are no moves to extend the employment contract below that level.

Replacement of Political With Market-Based Decisions

While many decisions have been made within the parameter of attempting to retain inhouse capacity, there is evidence that Metropolitan City has engineered a more competitive and outward focused attitude among work teams. Certainly, a greater

focus on customer satisfaction has emerged from the CCT process, encouraged and supported by elected councillors.

The decision to adopt a formal training program for bid teams was introduced by the CEO, following her experience in another council, reflecting a view that business skills were lacking in Metropolitan City. 'The CEO was very clear about the sort of backgrounding skills which were needed to drive CCT' (Manager, CT).

> These skills are business skills particularly in relation to business planning, marketing, exposure to costing, computer skills and consultation skills to be able to consult up and down the organisation. It's about the process of getting people to accept CCT for one, but it's more than that, it's the cultural stuff that is different between the three [previous councils], it's all of those issues that you need to deal with, and their people issues. You need to guide and direct, guide and direct and bring them back on track (Manager, Business Unit Support).

'The inhouse teams have been given exemplary support, rigorous to the extreme, time-consuming to the extreme and expensive' (Councillor). The Maternal and Child Health Team feel that council gave them all the necessary assistance to enable them to win the bid.

> The client side paid for a reliever for the specification writing. So financially they were committed because they wanted a good specification. That was fantastic and certainly hasn't been done, to my knowledge anywhere else in the state. The business support team were also fantastic (Coordinator, Maternal & Child Health).

'The Business Unit Support Branch provided all the support we needed. We didn't feel we needed a lot of other support. I was very comfortable with them and the knowledge that they had' (Team Leader, Parks). He continued that the Business Support Unit helped them identify where they were uncompetitive and where they needed to improve. It was 'pretty obvious our weaknesses weren't necessary in

putting the tender together it was more in some of the service levels we were providing' (Team Leader, Parks). He cited the example of tree pruning.

> Our guys were averaging about 15 trees a day and we were getting quotes from external tree pruners at 90 trees a day. To be competitive our guys wouldn't make that grade within the time-span that we had. So, we identified the areas that we really needed to improve on, we gave the staff every opportunity to make those changes in their work practices but they didn't come up to scratch and they haven't been included in the bid. We made them redundant. Instead we formed a strategic alliance with a sub-contactor.

> Our bid was put together by two of us and we got the business support officer to help us, so I suppose in that degree they helped us put a bid together. But there was no help from anyone else in the council. The only help we got the provision of a Business Support Officer and I suppose the ability of me to leave my department for the five weeks (Team Leader, Revenue Management).

The Coordinator, Leisure Centres reported that while there was little help offered in the bid preparation, he felt that the council had been supportive.

> We got some support but we knew what to do and we picked up the ball and ran with it and they more or less, are standing on the side line cheering us on. I think that's mainly because we, as a business unit, we are the most commercial of council's operations. We compete everyday in a commercial market. The whole concept wasn't all that daunting to us as opposed to the maternal and child health area where it's something that is completely foreign.

The Director, Finance indicated that this kind of support and training for the inhouse teams will not be needed next time round. 'They've been treated like mushrooms before, so they needed to be shown the light but once they've seen it and grasped it, they're away'.

In preparing inhouse teams for CCT, Metropolitan City has refocussed them more externally towards their competition (through processes of market analysis),

developed the skills base of inhouse teams, engineered significant efficiency improvements through the specifications process and tried to maintain service quality.

Operating More Competitively

At Metropolitan City decisions were made by the CEO and the CTMG to ensure that no inhouse bid would be accepted unless accompanied by a LAWA. The Manager, HRM says the LAWAs are critical in the CCT process,

> because of the history of the inner city councils whereby the three inner city councils were part of the old Labor group which meant they had an extensive over-award structure which may or may not have been encompassed in an industrial instrument such as an award or a certified agreement.
>
> For our employees to be competitive in any real way in the workforce, and that's not looking at anything that would be regarded as draconian, we have had to enter into Local Work Area Agreements. Obviously we have to change our working hours, there's no way we can get away with 32 and 35 hour weeks (Manager, HRM).

The Manager, HRM claimed that council has been under extreme pressure from the Australian Services Union (ASU) to develop a second enterprise bargain. 'The ASU have been formally involved all the way through from the enterprise negotiation in 1995'. In 1996, the council made it clear that it saw the 38 hour week as necessary and advised the ASU that it would be on their agenda for the second enterprise agreement. 'The ASU doesn't like that democratic approach. They would prefer an imposed solution' (Manager, HRM). The ASU representative argued that the union objection related more to the view that LAWAs fragment conditions so different industries, and even sections of industries, have different conditions. One of the impacts of the LAWA arrangements is that blanket wage negotiations that affect all employees are given lower priority.

The Manager, HRM reported that all of the groups that have gone to 38 hour weeks have rewarded themselves in other ways such as through increases in salary and profit-sharing all of which pass the 'no disadvantage test' used by council management. 'The unions obviously would prefer an across the board solution with a lump sum payment to everyone and we can't afford to look at that one'.

'The refuse collection team were reluctant to give up any of their conditions and consequently were uncompetitive and lost their bid' in the second round of tenders (Manager, HRM). However, she argued that the loss of inhouse garbage capacity was 'a uniform relief across the board. It was one of the parties where no one really objected to putting on the kegs on either side'. The parks bid also lost because 'they were one of the crews that refused to move from a 35 hour week' (Manager, CT).

In relation to maternal and child health services, workers 'didn't make any dramatic changes to disadvantage anyone. We only had to make one small cut to our staffing and it was someone who was willing to take a redundancy' (Maternal & Child Health Worker).

> With the amalgamation, there was a very wide discrepancy with above award payments. We went from a 35 to 38 hour week. We have maintained our RDOs and in our bid we didn't say 'we'll just go to award salaries and that will be it'. We chose to risk it. None of us were financially disadvantaged in any way A gain-sharing system has also been put in place, if we come in under budget as a unit. They'll now also work a Saturday morning and do evening appointments (Coordinator, Maternal & Child Health).

The Manager, Business Unit Support says of the maternal and child health LAWA, 'we brought out their over-awards through the EBA and that now the community is getting a better level of service for slightly less cost'.

In the finance area, staff numbers were not cut but conditions and arrangements were altered.

> At the end of the day they virtually all got a pay rise and we actually wrote into our LAWA that we'd get a five per cent increase each year. But they've gone from 35 to 38 hour weeks and there's no RDOs. I actually changed the structure around and have re-written the job descriptions so the people have more responsibility and we can justify the pay increases. We have flexi time written into our LAWAs. At the end of the day, the savings came from the things that hadn't been done before and me being able to go out and do deals with people like debt collection companies. There's a lot of innovation in there that probably generated a couple of hundred thousand dollars (Team Leader, Revenue Management).

The Team Leader believed that

> if they come in under budget, they have the opportunity to use that extra money either in the next year's budget or to save it up for three years and reduce the cost of our next tender ... At the end of the day we passed the 'no disadvantage test' but in two or three years time we will be much better off because of the five per cent increase each year.

The process of trimming conditions in order to compete with potential competitors, through introspection and analysis of external competitors is well illustrated by the description of the bid process made by the Leisure Centres team:

> When we took over the [suburb] centre, the first thing we did was to put all the staff on the same pay scale. That meant a 15 per cent pay cut to the people at [the centre]. When we started putting our bid together we went out and looked at what our competitor's pay. Very little! We started to understand that we had to get down to that level. As a result we have a dozen full-time staff and another 60-70 part-time staff. The part-time staff at the end day took a cut in pay of about 21 per cent, the full-time took an equivalent cut in terms of giving up conditions such as a 35 hour week. One of the advantages was that no one wants to work for our competitors, they loathe their competitors. We targeted marginally above what our competitors will be paying people. We've put in

> place a management structure that allows staff to develop through the system. We've also put in place an annual 2.5 per cent pay increase. There's another opportunity for a performance based 2.5 per cent. Then there's a salary bonus that if we, as a unit meet our objectives, our bottom line is split up amongst the staff. If we do better than our budget we give that all back to council and we get to spend 30 per cent of that on the Leisure Centres. Our bid saved us around $250,000 a year (Coordinator, Leisure Centres).

The Coordinator, Leisure Centres was frustrated with the outcomes of the first enterprise bargaining process.

> I was trying to cut my staff's wages and conditions when all these wonderful pay increases were just making it more difficult for us to get back down to what we were at. HR were going 'aren't we good, we've negotiated all this stuff for you' and I'm going 'you've just made my job 10 per cent harder'.

In developing the bid for parks and gardens services, severe cuts were made to the numbers to be involved. The Manager, Business Unit Support reported that 'when the councils amalgamated there were 75 people in parks, in the bid there are 25 ... and we'll get a better service'. This illustrates 'the culture prior to this organisation and the ample room for improvement in productivity time' (Business Unit Support Officer). The Team Leader, Parks advised that

> there has been no one in the unit that has been forced to take a redundancy package. It was clearly discussed with each of the staff the direction that we were heading, the work requirements that were required. For example, as already mentioned, the changes the tree pruning section needed to make to be competitive. They couldn't make the changes so they were not included in the bid. I thought we could go in at 22 myself. We've gone in with 25, it may be a

> little high so we've tried to include a few extras within our bid to make it a bit more attractive to Council.

The bid was based on a 35 hour week as workers rejected the move to a 38 hour week. 'I was told there were two or three things that were not negotiable. The reason that they wouldn't even consider it was that their mates in the other services would be dumped with it' (Officer, Business Unit Support). At the same time, the LAWA introduced some new flexibilities: workers can work up to 10 hours a day between the core hours of six a.m. and six p.m. and 'bank' additional hours worked; they have surrendered penalty rates except on Sundays; operational vehicles start and finish on the job and they don't return to the depot for 'smokos'; and each has a geographical area to manage in a multi-skilling arrangement. Despite their optimism and these reductions in conditions, the Parks Team was unsuccessful with its bid.

The Parks Team shared some of the concerns about their competitiveness, even before the tender decision was taken.

> Our competitors are fortunate in that they can set a price and then go out and recruit their staff on lower banding levels. The LAWA is a big constraint. I hope that we have added enough extras to attract Council to them. In the specification, council has identified 140 areas to be maintained, yet currently the provider side maintains 205 areas. If we get the bid we will maintain the extra areas at no cost to council. If we're within the ball park, we'll get the job. If we're taken out of the ball park there's no hope in hell.

The Manager, HRM argued that even these changes made by the Parks Team were inadequate:

> We think it might have been more competitive if there had been a bigger give on the hours. The other thing they haven't done is truly moved to seasonalised wages. And by retaining all these penalties, again, I think their costings are going to be out. They've still got double time on Sundays, they haven't moved

> to a seven day week, they haven't moved to seasonalised working patterns which in Melbourne you would almost think is essential.

The power of threat of competition was recognised by the Manager, Business Unit Support who argued that 'it makes you realise without the CT process and the time frames, none of this would be possible. It's the time frames, the expectations rather than CT itself'. Following the loss of the parks contract 'the roads maintenance crew has now decided it is now prepared to go to a 38 hour week' (Manager, CT).

The Mayor complained of the diminution of conditions of service: 'All CCT's really been about is bringing down conditions'. The erosion of working conditions involved in preparing inhouse bids highlighted the declining influence of centralised unions as bid teams orchestrate their own conditions through the LAWA process. The Manager and Officer, Business Unit Support argued that the industry generally is moving from a 35 to a 38 hour week. 'You just do it as part of your bid because it is part of being competitive. We are copping a lot of flak at the moment from the ASU. They stuffed us around a lot in signing off LAWAs but in the end they signed off' (Officer, Business Unit Support). The Manager, Business Unit Support reported that '[the CEO] and the CTMG and us were quite clear that if they refused to sign the LAWA, well then sorry, but the staff bid is not acceptable'. Failure to sign off a bid by the ASU could 'potentially sink a competitive inhouse bid which is supported by their own members and that's the card we play ... It worked in revenue, it's working with building, and it worked with leisure' (Manager, Business Unit Support).

The Manager, Physical Services (Client) believed that

> the unions have been a bit inconsistent in the way they have approached the LAWAs. In some areas they say 'yeah, fine we'll go along with that, that's your best way of winning', others, they're saying 'no, definitely not, we're not giving the 35 hour week to 38'. This might be driven by the union members in the particular bid group and or the industry. In some areas they want to be seen to make a stand.

> Union resistance has mainly manifested itself in causing delays in the process. When the unions have intervened it has meant tenders have gone out late. The union influence has prevented some people from thinking about how to become competitive and thinking about how they can deliver their service well or better (Special Projects Officer, CT).

There was a belief that union power has been reduced at Metropolitan City. 'I'm amazed there's been no major industrial actions. The unions are having difficulty knowing if they have the industrial muscle' (Special Projects Officer, CT). 'Previously you had on-going continuous fractious nonsense. We have had 18 months of peace and calm. We haven't even had a major grizzle since December 95 which for us is pretty good given what we've been through' (Manager, HRM).

The pivot around which the CCT process has enhanced the competitiveness of work teams has been the establishment of the Business Support Unit, which works with each bid team to ensure that the team has the requisite 'business' skills to compete in the market place.

> In terms of the competitor side we are always one step ahead. We go out and find out who the competitors are likely to be, how they will structure their service, how they pay, the hours etc, competitors' strengths and weaknesses and we do a competitor's bid. That's where the reality sinks in with a lot of them. We look at the gaps between the competitor's bid and ours and the job is whittle it down and get within cooee (Manager, Business Unit Support).

'Our competitor information is usually very good' (Manager, Business Unit Support). 'Although it is their job to suss out the competition, once we get the bid teams thinking about the competition they start using their own networks such as friends and relatives in other councils and the private sector' (Officer, Business Unit Support). 'Next time they will be more outwardly focused and the whole notion of continuous improvement will have really taken hold as well' (Manager, Business Unit Support).

The entrepreneurial approach was reflected in approaches taken to the task of developing specifications.

> I was sure that anything I was going to do was going to go in my tender as an innovation rather than going in the specification for someone else to do. Our specification was good in that in the specification it says you will need a policy for dishonoured cheques. It doesn't say 'We have a policy for dishonoured cheques and you'll have to abide by it'. It says you'll need a policy for this, or you'll need a procedure for this. That way I got to write policies and procedures and show that we could do it whereas our competitors might have said 'I'll comply with that' (Team Leader, Revenue Management).

The Team Leader believed that his group has 'actually changed the face of debt collection in Victoria to where debt collection agencies are actually going out and becoming strategic allies to inhouse teams rather than just someone you employ each year'.

The team responsible for maternal and child health indicated that 'in developing our business plan, part of it was looking ... at our competitors and their strengths and weaknesses' (Coordinator, Maternal & Child Health). The Team Leader, Revenue Management reported on activities to raise revenue:

> the rate notice is going to cost $10,000 to print this year and I rang Aussie Homes loans and asked them if they would like to put a brochure in with the rate notice. They said 'Yes how much would like for it?' I said $30,000 and they said 'Done'. Council didn't accept it at the end of the day because they said it was against their Labor philosophies. But other councils might accept that. $30,000 in one phone call. It's just a matter of grabbing opportunities where you can.

The expression of interest (EOI) process is also used when quality is of paramount importance, for example in the Town Hall construction where council wanted contractors that could work in an occupied environment and had experience in that situation. In the case of parking meter collection, council was concerned that a secure

system of collection was of primary importance and the initial call for an EOI was restricted to the bid for an appropriately secure system, before short-listed firms were then invited to mount price-based bid. 'We had people coming in at the EOI stage who clearly didn't have the experience, they couldn't give us the reliability that we need. There wasn't an inhouse bid for this although council had done it in the past (Special Projects Officer, CT).

At Metropolitan City, the provider teams did not initially pursue external work.

> We've said to our people you are not allowed to bid for work externally, at least, until you've won your inhouse bid. You've got to establish yourself locally before you bid elsewhere. Even if they did win locally, I think it would be sometime before Metropolitan City was ready for them to bid elsewhere. If they cease to be the provider at Metropolitan City and have a contract running somewhere else we'd hardly want to retain them just for servicing that contract (Manager, CT).

The Manager, Business Unit Support said of the council:

> I'm sure they would have difficulty with our inhouse teams bidding for other work because potentially you might put some other council's staff out of work. The reality is if we don't, I mean we're a very small Council ... our inhouse teams won't, in my view, be able to survive on a Metropolitan City contract.

The idea of allowing the inhouse groups to go out and tackle competitors in other environments 'hasn't been brought up amongst councillors at this time' (Councillor). However, she conceded that in the future this will be done, not because they will have become aggressively competitive but 'to try to meet the needs of the community with reduced resources and a crumbling infrastructure, we simply must go out'.

The Mayor argued that Metropolitan City would rather concentrate locally and improve its own services. They didn't want to be seen as a predatory city and by running other people's services 'it diverts the attention away from your own

municipality'. Nevertheless, the importance of competing to survive was recognised:

> We originally decided we weren't going to bid outside but [the CEO] convinced me that we would put the City and the staff at a disadvantage if we didn't. It's all very well if no one else goes out into other areas but at Metropolitan City, it could well get to a stage where Citywide are delivering all their services. So politically why wouldn't you just close us down. Why don't you get rid of the political ring as well?

Local Competition/Contestability

As with other case study councils, the opening of markets, at least in the initial stages, did not generate a significant number of new entrants (see Table 9.2):

> One of the things we've found at Metropolitan City is that the private sector market hasn't matured yet. We are sometimes surprised by how few tenders we get, for example the garbage tender. There was only two tenderers, the inhouse team and one from Citywide Services. The private sector did not bid (Manager, CT).

The Manager, CT cited a number of reasons for this: specifically, the narrow streets, and more generally the disincentive of the 'redundancy factor' and the requirement of a bank guarantee from the successful tenderer.

> We might want a bank guarantee anywhere from $50,000 to a quarter of a million. There is a policy on how the figure is arrived at, but essentially it's a performance guarantee which is written into the tender documents. It's supposed to be in case the contractor falls over and [Metropolitan City] has to run the service themselves for a period of a couple of months before they can re-tender. It is to cover the expense of setting up the infrastructure again (Manager, CT).

The Special Projects Officer, CT was not surprised with the level of competition. 'For things such as road maintenance, the garbage service, street cleaning, they have competitors but there is a limited number as there is a limited market. Big infrastructure and capital are required to do these things'. He continued,

> I think you have to look at this in the context in which it's happened in time. The fact is that we've had amalgamations and CT at the same time and I believe that's influenced it a lot because what might have been a viable business unit in the past in a council has suddenly been thrown up in the air, it's been restructured.

Most expect that competition will increase in the second round of tenders, with the possibility of greater specialisation occurring between providers, including councils:

> Private enterprise will have some financial information for the first time and they will know exactly what they have to deliver ie. specifications will have been fine-tuned. At the moment, it's been a closed market, nobody knew what the market consisted of, the timing of the writing of the specifications and then the tendering doesn't give the market the time to set itself up from scratch but I think next time round there will be a really good understanding of what the services are because every council will have put out the same things, different specifications but you read about three or four of them and you get a very good understanding, you will know what the rough prices are because they're available in the tender registers. If I was out there in the private sector looking at what I can make my money on, there's a huge opportunity to start gearing up a business to run services for local government. It's a unique opportunity to set up a business and go for it! (Director, Finance).

Quite a number of informants agreed that in the second round there would be more competition (Special Projects Officer, CT; Manager, Physical Services (Client); Councillor). 'In some areas, round two will see fierce competition especially with the redundancy factor no longer coming into it' (Manager, Business Unit Support).

'Certainly, with the Community Health Centres next time round, they [the private sector] will be much better prepared' (Coordinator, Maternal & Child Health). 'In round two we'll see councils taking up niche services. A council will see itself as a good provider of the garbage service and another one might see itself as a good provider of a library service and tender for other libraries and not do anything else' (Special Projects Officer, CT).

> The competition is going to get bigger and stronger and it is going to be wiser. Last year I think we had 44 debt agencies tender to get our debt collection. Now those debt collection companies are saying 'we'll tender for the whole rate office to guarantee us getting debt collection' (Team Leader, Revenue Management).

However, the Coordinator, Leisure Centres believed that competition in leisure services may not be much greater next time round.

> Private organisations are becoming very selective about where they are putting in a bid and if the inhouse team is any good they tend to stay away because it costs them six to ten thousand dollars to mount a bid and they talk about only winning one in six. There are no profit margins in it because we know exactly what they pay their staff, the staff represent 70-80 per cent of their expenditure, where are you going to make the savings? If we've doing a good job we've got no worries.

Most inhouse teams also expected that they would be in a position to bid for tenders in other councils during the next round. 'Our structure is set up to enable us to tender for other organisations' (Coordinator, Leisure Centres). 'It will result in economies of scale in management. It would save half my wage for a start by running two offices from one base' (Team Leader, Revenue Management).

While most believe that they will be competitive, the Maternal and Child Health Coordinator argued that the maintenance of some over-award conditions at Metropolitan Council may be a competitive burden although she is confident that they are competitive on the basis of quality of service delivery. 'The inhouse teams

have the expertise and skills to offer. All the teams said when they go outside, they'll be selective in where they bid. They want to be able to maintain services in Metropolitan City' (Manager, Business Unit Support).

Client Focus and Customer Centredness

Community consultation has been formally integrated into the CCT process especially since the return of elected members. 'What we do is survey first and we've got people from the public involved in every step of the process' (Mayor). 'We have a very consultative and deliberative approach. The community has been a source of great information' (Councillor). The Manager, Physical Services (Client) says that the establishment of community committees to work with officers to assist in the development of specifications for services are also used as a sounding board for CCT issues.

A controversy had surrounded one of the local pools during the period of the commissioners and the Mayor argued that this made the newly elected council 'very amenable to having lot of consultation'. He claimed that the councillors have added and improved the consultation process. 'We've sharpened the pencil on it but the consultation process is excellent. I like to think we are unique in how we write the specification'. The Mayor argued that councillors 'are not just a board of directors. You also have an ombudsmen role and a consumer research role. And in collecting that information it's helping us to set a policy for the future. Councillors are market researchers'.

The Special Projects Officer, CT claimed that customer satisfaction is something that they hadn't grappled adequately with in the past and is a recent phenomena which has also lately been acknowledged in the awards. This view was shared by the Manager, Business Unit Support:

> I was struck by (a) the paternalistic attitude. You will get what we deliver to you and we will deliver what we can bearing in mind our roster - the tyranny

> of the roster; and (b) what customers? We don't have customers? There was really no focus on finding out what our customers wanted and that's one of the good things that has come out of the CT process, the specifications side, the focus now on customer feedback. Before it was unheard of, anecdotal, based purely on individuals bearing in mind they're own reference criteria, length of time in this protected environment, no focus on customers at all, except maybe in leisure.

The Special Projects Officer, CT agreed: 'we are now thinking about our customers much more than we have in the past. We're thinking more like a customer organisation, more like a retainer of services'. He says, however, that this attitude is very variable across the organisation. While a new customer - organisation relationship has developed, there are pockets of resistance.

> Some of those at the coal face don't realise that to be competitive they have to be customer orientated otherwise they'll fail. The only reason they will succeed is if they do it as good as other customer-orientated bodies out there, not necessarily council bodies. Some lower level staff are still 'We come here and we have a right to have a job, a right to be paid for it and we're not going to change' (Special Projects Officer, CT).

Consistent with this approach was the decision by the Manager, Community Services (Client) that the need to conduct annual consumer surveys be written in to all community services contracts. 'Previously we never bothered to ask people what they wanted'. She reported that the use of focus groups and questionnaires enabled service users to,

> develop ideas that in many cases cost little but made a significant difference. For example, one suburb appeared to have an abnormally high rate of post-natal depression, so workloads of staff were adjusted to allow for more home visits.

The Manager, Business Unit Support agreed:

> People now are very aware of the need to be customer-focused. It's not just the Business Unit Support and client side, it's corporately as well. Although corporately it's probably happening more slowly than it is on the provider side through the CT process. But you do get this general sense around. The councillors are very concerned about the needs of the rate-payers and satisfying them. But there is this general feeling that customer service, customer focus is something that we all need to focus on. Even internal services are starting to realise that they now have to operate in that way.

While customer satisfaction surveys have not yet provided feedback across the range of council services, the Director, Corporate Resources pointed to the excellent results of surveys about garbage collection. 'The satisfaction index has gone to the top of the pops. Residents are most satisfied with that since it's been tendered out'.

Flexibility in Communication and Reporting Systems

There has been some increase in formalisation at Metropolitan City, for example, the Guide to Client Manual is 81 pages long and documents 29 steps in the tender process. However, generally there has been a shift to focusing on outputs and outcomes rather than inputs and processes. The Director, Finance believes that 'one of the biggest changes in local government is that we no longer concentrate on the inputs but the outputs'. The Manager, Physical Services (Client) agreed: 'we're not telling them how to do the job, we're saying these are the standards we want, you come and tell us how you will do the work'.

The inhouse teams are required to report more often than in the past, usually monthly reports to the client side. The Coordinator, Leisure Centres claims that the number of reports you have to do is 'phenomenal. The classic is you've got to do a report of the number of reports you've done. It's just stupid'. The Team Leader, Revenue Management noted that 'we have like a million reports that we have to do but I think they're probably there as a check and measure against external tenderers rather than us'. The Team Leader, Parks believed that 'the level of reporting they've

asked for is astronomical. I don't think it's necessary and I don't think it is going to achieve anything'.

However, the Coordinator, Maternal & Child Health did not share this view.

> In the specification thou shalt report on these things monthly, these things quarterly, but since it's started, realistically, the client side don't want to know every little thing monthly. We've got to the stage now we're actually providing a very detailed quarterly report but if there are any hiccups along the way, we obviously let the client side know. Within our business unit and with the client side it hasn't been an onerous task.

Other Issues

At Metropolitan City, there is little disagreement with the proposition that local government in Victoria was in need of reform, even of cultural change. There is less agreement with the use by the state government of such blunt instruments with which the reforms and cultural change have been implemented. 'I would have rather that CCT hadn't been enshrined in legislation that set targets which I think are a bit unreasonable' (Director, Finance). 'The historical pressures are appalling. You are doing a real social, cultural change, in terms of 150 years of history' (Manager, HRM).

The Mayor thought that 'CCT's about reducing taxes and unfortunately, looking after business. The actual implementation rules come from a need to make sure more outside tenders win'. However, he conceded that there are some positives to be gained from CCT: 'Not the compulsory, I think that should be taken out. The 50 per cent is just arbitrary bullshit. Some of their rules are quite spectacularly stupid like you can claim redundancies the first time but not the second time. They are designed to help private enterprise win a few bids'.

The Team Leader, Parks has seen many people take packages, and

> a lot of them are spending that money and not necessarily working. I worry, in 10-15 years down the track, what the impact will be on society. I can understand that local government had to be more competitive but I really worry about the social impacts that will occur in future years. I don't think the Kennett Government has thought that through. Maybe the better option is CT without the compulsory or even if it was compulsory, have less stringent time lines. The culture shock of amalgamation and then CCT was a double whammy.

Concern for those displaced by the CCT process was raised by the Mayor and one councillor. 'The people who can't compete, the ones that are in today's world, unemployable, society is just throwing those people away, those people used to have jobs with council' (Mayor). By contrast, 'Council can no longer be an employment agency' (Councillor).

The potential for local government to refashion themselves as enabling councils has been realised by staff and some councillors. However, the difficulties that this presents for effective monitoring of contracts concerned some staff. 'If I have a provider and all I'm doing is managing contracts, I have no idea what's happening' (Manager, Community Services (Client)), a similar complaint to that made by the Home Care Team in Rural Shire. One councillor was concerned about this direction: 'I think we are coming to the recognition that if this experiment goes to the nth degree, then it [local government] will only be contract management' (Councillor).

The issue of monitoring and managing contracts was only beginning to emerge at Metropolitan City and was being anticipated with very mixed expectations. Apart from the Manager, Community Services (Client), there does not yet seem to be a high level of consciousness about contract management at Metropolitan City as it is currently so focussed on bid preparation and team development. As the Manager, Business Unit Support reported 'contract management is a huge issue for this organisation and it really hasn't been addressed yet'.

The Manager, HRM shared some of this concern: 'I'm already concerned about our resources to keep monitoring and delivering because we just don't have the capacity'. She says even to manage 50 to 60 contracts is going to be a handful. One councillor was critical of her fellow councillors as 'nervous Nellies about contract management' and believes that 'our service specifications are good enough to cover the bases'.

Finally, the failure of the Local Government Superannuation Board to fully fund the unfunded component of superannuation for redundancies will impact on CCT decisions now, and on CCT in the future. According to the Director, Finance, 'external contractors will have next to no chance of winning contracts ... External bids can't possibly win against the exit costs that local government has to bear'. She continued that CCT is 'dead in the water' and 'it will be another 12 months before private enterprise realises so we will have to go through the motions of tendering'.

Table 9.4: Summary of Key Events, Metropolitan City.

June 1994	Amalgamation of three inner city councils together with two additional neighbourhoods. Appointment of Commissioners and new CEO.
November 1994	Adoption of first corporate plan.
November 1994-June 1995	First round of CCT. Compliance 21%, 1% above state government targets.
June 1995	Adoption by Commissioners of Policy Document for CCT.
July 1995-June 1996	Second round of CCT. Compliance 35%, 5% above targets.
March 1996	Elected Councillors returned.
January 1997	FIRST ROUND OF INTERVIEWS
July 1996-June 1997	Third round of CCT. Compliance 49%, marginally below targets.
January 1998	SECOND ROUND OF INTERVIEWS

Summary

1 The more gradualist approach taken to reform may reflect a caution that the cultural changes required by council were going to be more dramatic at Metropolitan City than elsewhere, largely due to a workforce entrenched in outmoded work practices;

2 Metropolitan City placed considerable emphasis on preparing inhouse staff for CCT through a process of skill development and support. This preparation, coupled with careful selection of the 'most ready' teams for market testing may account for the initially high level of inhouse bid success. These, in turn, may explain the low level of industrial unrest in an environment where this had been anticipated;

3 Strategic and operational control of the CCT process has remained with senior staff since its introduction. Apart from enhancing community involvement in the CCT process, the return of councillors has not significantly changed this. As a result, both policy and administration roles, with respect to CCT, have largely been assumed by senior officers;

4 The first three years of CCT have yielded few savings in service delivery costs due mainly to the transactions costs of the process;

5 The opening of inhouse markets to competition has not generated many new entrants. Indeed, where competition has been strongest it has come from established local government business units, such as Citywide;

6 The process of developing service specifications has, like in other councils, yielded improved efficiencies through introspection and comparison with others. A number of relevant issues arise from the process of developing specifications: first, the value of introspection which accompanies the process, especially in relation to identifying desired outcomes; second, the importance Metropolitan City attached to including inhouse expertise in the task, blurred the client-provider split; third, the tensions between client and provider sides which accompanied the process, albeit less than in other councils; fourth, the improvement in service levels as specified;

fifth, the definition of CCT tasks as administrative and conducted mainly by officials;

7 While service quality evaluations have yet to be fully integrated into performance management systems, there is some evidence that diminution of service quality will not occur if services are delivered as per specifications;

8 At Metropolitan City the bureaucracy has not been as disaggregated as elsewhere. The client and provider roles have been separated although, apart from several branches, no firm structural split has been formed in the organisation. As elsewhere, the tensions between client and provider have emerged, or, at least, been enhanced through the development of specifications, tender evaluation and monitoring processes;

9 The formal use of LAWAs as part of the tender bid has increased the use of contract mechanisms. Other than this and for the senior two levels, contracts have not been extended to include middle managers or been used for service charters;

10 Inhouse teams are operating more competitively and this has meant a diminution in conditions of service. They have become more conscious of their markets and of competitors through the tender development process; they have also become more customer sensitive, a process abetted by councillors;

11 As in other councils, formalisation has been increased although decision making has become more decentralised. This presents a mixed response to the question of whether communications flexibility has been enhanced through the introduction of CCT at Metropolitan City;

12 As most of the physical services have now been contracted out, it appears that bureau shaping as anticipated by Dunleavy (1986) and Albin (1992) has occurred;

13 CCT has been used as a re-engineering tool at Metropolitan City. Actual or threatened competition has resulted in changes to the ways in which work is undertaken, has generated some innovative and customer sensitive approaches to

service delivery and has reduced input costs especially through the diminution of labour conditions;

14 Capture of the policy process by senior staff and the reshaping of the bureau by these managers has strengthened management control over the council and its operations.

CHAPTER 10: CASE STUDY ANALYSIS

Through the Management Improvement Initiative announced in 1993, the Victorian government intended that its agencies, including local government, would develop organisational cultures consistent with the post-bureaucratic model, even if that particular term was not used to describe the desired transformation. This chapter analyses each of the five characteristics of cultural change across all four case study councils identifying similarities and differences between them. In Chapter 5, it was noted that the logic of the case study is based on replication rather than on sampling so that in this chapter the patterns are generalised across all cases and compared with the theoretical construct to determine congruence between them. An assessment is made of the extent to which cultural change is consistent with that predicted in the post-bureaucratic model and, finally, comments are offered concerning the efficacy of the model.

Just how much change would constitute 'change' is a primary judgement to be made with respect to each of the five characteristics of the post-bureaucratic model. In making such a judgement, it is worth referring to Kanter's comment that substantial progress is needed before cultural change can be claimed:

> A few examples of new practices here and there throughout an organisation do not represent 'cultural change'; they need to be woven into the entire fabric of the system. [It involves not one change but many changes in many cultural elements so that] together they reflect a new pattern of values, norms and expectations (Kanter 1984:196).

Morgan describes cultural change as 'transforming the mind-sets, visions, paradigms, images, metaphors, beliefs, and shared meanings that sustain existing ... realities' and of creating a 'language and code of behaviour through which the desired new reality can be lived on a daily basis' (Morgan 1997:143). In the light of both Morgan and Kanter's views, cultural change has been argued as occurring when it represents a new pattern of values and behaviours, which are heavily embedded in practices.

Clearer Distinction Between the Policy and Administration Functions

The Victorian Minister for Local Government advised commissioners and councillors to adopt a clear policy-administration division 'to reinforce the separation between the CEO's responsibility for administration and the council's responsibility for policy' (Hallam 1994:23).

The policy documents relating to CCT prepared by each of the four case study councils indicate an acceptance of this advice. They make clear the need for policy-administration separation with the elected members functioning as a 'board of directors', developing policy which is the responsibility of staff to implement. However, most councils did not recognise the strategic dimensions and consequences of the CCT process, and policy and administration became blurred as CCT typically became redefined as 'administration' or 'management', and thus the province of senior staff. While commissioners in some councils were able to contribute to the development of some CCT policy parameters, CCT policy was generally displaced into the hands of officials. As the mayor of Fringe City lamented, 'the officers run the place'.

Provincial City provided an exception to this, at least initially. Commissioners played a significant role in the determination of initial CCT policy and in developing the organisational structure which they saw as actually driving CCT. However, on return of the elected councillors, CCT became redefined as an 'administration' task, responsibility for which was located with senior management, just as in the other councils.

This displacement of CCT policy responsibility was made possible by a number of factors. First, the appointment of commissioners 'to oversight' the process for only the first two years shifted the onus of responsibility towards staff, who had long term contracts and career implications for their performance. Commissioners, appointed by the state government, were generally not local citizens and their

'caretaker' role removed longer term responsibility for decisions made and, as a result, their strategic focus.

Second, elected councillors appeared more concerned about electoral and community issues than with policy considerations. To the extent that such electoral issues impacted on policy, for example, in relation to issues such as the quality and level of services offered or packaging in smaller contracts to encourage more bids from smaller local entrepreneurs, councillors have taken a role in policy matters. However, by and large, the role of policy development in relation to CCT (and, by implication, for council's future direction) has been left to senior managers.

Third, the technical aspects of CCT coupled with the intense learning in the first few years of CCT created an information asymmetry between managers and the incoming councillors. Many councillors admitted their comparative ignorance of the full implications of CCT, and so bureau capture of the policy process was easier, although it is not certain that such moves were always deliberate.

Fourth, was the dominant role in CCT policy development and implementation exercised by the Victorian state government. In contrast with public sector reform in other areas both in Australia and overseas, the reforms have not enhanced the power of elected members over officials at local level. However, if the Victorian reforms are recast in terms of enhancing control by the *state* government executive over local authorities, then they are consistent with trends elsewhere. This has been especially clear in respect of broad CCT policy where the state government has seized the policy initiative by establishing the legislative framework, compliance rules and operational guidelines, thereby crowding out some opportunities for local CCT policy initiatives. Significantly, the development of state government policies was heavily influenced by a cadre of local managers further enhancing control of the process by officials. As Mowbray suggests, '[CCT] was primarily introduced by managers from within, or connected to, local government' (Mowbray 1996:31).

The pivotal role of senior managers both in CCT policy formation and in local implementation has been clear. Ernst and Glanville (1995:5) note that the, '[initial]

response to CCT appears to be significantly influenced by the attitude of the incumbent CEO'. Data from the case studies indicate that control of the CCT policy process has largely been exercised by senior managers both during the period of commissioners and, subsequently, accelerated following the return of elected councillors.

The separation of policy and administration has long been an issue in public administration with considerable debate about the appropriateness of such arrangements. Two cautions are relevant here: the first concerns the reality of maintaining separation in practice, and the second concerns what is known as the 'implementation deficit'.

In the first instance, the inability of the case study councils to maintain a strict separation between CCT policy and administration provides a potent illustration of the inherent problem of actually retaining separation in practice. The separation model tends to assume away particular organisational behaviours such as opportunism, power seeking, bureau shaping, management convenience and the like, all of which can apply pressure against separation, especially in highly politicised environments.

Secondly, the separation model 'adheres to the assumption that policies once decided upon will automatically achieve their objectives by means of policy outputs as if implementation was something utterly simple and automatic. The *implementation deficit* implies a rejection of this assumption' (Lane 1993:93) and favours systems of integrated policy formation and administration. Such systems recognise the iterative nature of much policy making and the particular importance of implementation to continuously inform the policy process. The dangers of disjointed policy making would appear to be heightened in situations where agencies have been structurally disaggregated, as in Victoria.

Despite the encouragement of the Victorian state government, the four case study councils were unable to clearly separate policy and administration with respect to CCT. It was evident that responsibility for determining CCT policy was captured by

senior officials, representing a significant shift in overall strategic control of the councils.

The uncoupling of provider from client roles, together with other reforms at local government level, has forced authorities to re-examine the role and responsibilities of local government either as a form of governance or simply as a mechanism for the efficient delivery of services at local level. There is much discussion on the efficacy of the 'enabling' council, however, while reconceptualisation of local government is on the agenda for serious consideration in some councils, it is significant that such discussions seem to have been generated largely by senior officials rather than councillors.

According to one senior manager,

> CCT is forcing self-examination and re-evaluation. We are asking 'is this a business we should be in, is this a business that we should actually be carrying out with our own staff, or doing through contractors, or is this simply not out business, or is it our responsibility?

In this instance, the "we" referred to above has been the senior staff.

Disaggregation of Bureaucracy

CCT has lead to significant changes in organisational form and some changes in management process, involving a movement away from more bureaucratic structures and mechanistic and centralised processes towards more disaggregated and decentralised organisations. Monolithic bureaucratic structures have been replaced, unit separations reinforced and commercial and corporatised units established or are under current consideration. In these respects, the case study councils have all adopted post-bureaucratic structures.

Structural Change

Structural changes may be as limited as in the introduction of profit centres managed internally and judged by their ability to achieve targets; or radical, as in

the establishment of business units or incorporated businesses coexisting with the traditional bureaucratic organisational structure. In all case study councils, management hierarchies have been flattened, sometimes accompanied by greater decentralisation of decision making and accountability, especially relating to operational issues. Management control of decentralised units has, however, been maintained at the strategic level typically using measures such as contract and agreement, performance indicators and increased formalisation such as innumerable operational guidelines. The new structures represent a significant movement away from traditional practices although at this stage issues such as accountability, control and coordination have yet to be challenged or reformulated.

The client-provider split has been explicitly encouraged by the Victorian Office of Local Government through its Code of Tendering and through follow up reviews of CCT implementation (Hinds & Robson 1996). The Code of Tendering advocates a ‘clear separation [for council] in its role as a "purchaser" from that as a "provider" of services’. The separation has been adopted to some extent in all case study councils, although in practice the extent of separation varies significantly.

At one extreme, Rural Shire has a very strict separation, reinforced geographically. Given that this council is particularly concerned about contestability in its environment, it has adopted the strict separation to encourage competition from the private sector by signalling that it will give open, equal and fair treatment to all contractors. This strategy is congruent with other approaches adopted by this council to encourage contestability; for instance, services were exposed to tender in smaller-than-usual parcels to encourage new entrants; the provision of a council advisory service to assist potential external bidders; and the development of strict security arrangements to ensure that inhouse bidders receive no information advantages over external tenderers.

By contrast, Metropolitan City has established several separate specialist units to manage the contract process (client side) and to support inhouse bidders (provider side) but in most other parts of the organisation, the client-provider roles are interchangeable. This represents a more ‘organic’ organisational form with flexible

usage of client-provider separation, the relationships between client and provider being managed as different steps in the same organic process rather than as separate spheres, as in other case studies. The provision for inhouse support reflects this council's concern that inhouse bidders be appropriately skilled before mounting bids against external contractors.

While senior officers at Metropolitan City argue that fluid roles are manageable, especially if either client or provider roles are maintained throughout the tender process, some concern was expressed by bid teams about whether or not such arrangements were always fair to them. As in Rural Shire, there seems to be a tradeoff between high concerns for probity and cross-fertilisation between client and provider. Choices taken by Metropolitan City and Rural Shire reflect distinctly different approaches to resolving the tension.

In the remaining two councils, business units have also been established to undertake the provider functions but these have been brought under control of senior officers who 'have a foot in both camps'. Again, this has caused some role confusion and raised questions such as:

- is there a potential conflict in making corporate decisions about what services are to be tendered?
- should the client side hire the services of provider side managers for corporate activities?
- if bids are unsuccessful, and downsizing occurs, should these 'twin-hatted' managers be insulated from the consequences?
- and, what are the potential impacts for the tenure of these managers if further steps are taken towards corporatising the business units?

It is questions like these which have underlined the different concerns of client and provider units - while both are clearly more outward looking (reflected in greater market and customer sensitivity) the role separation has brought the differing goals of client and provider into focus; that is the prime focus on achieving value-for-

money services (client) and a primary concern for profitability and survival (provider). These goals can be mutually exclusive in some circumstances and have been highlighted by some of the frustrations articulated by the provider side in not being able to pursue further market oriented activities because of constraints applied by the client side.

New tasks in contract management are just beginning for most of the case study councils and some are raising tensions, especially from the provider side. As one officer complained, 'the client-provider split has fostered, facilitated, watered and fertilised hostilities that were already there'. In part, this reflects the greater changes required of the provider side and the greater levels of risk that this side assumes. The following types of concerns were reported:

(a) monitoring of service delivery by contract specialists who may not understand the nature of services involved;

(b) pressure being applied for provider units to undertake services that were not specified in the contract;

(c) providers unwilling to share their expertise in the process of specification setting (to prevent their 'edge' being publicised to competitors);

(d) provider expertise not sufficiently reflected in the specifications;

(e) policies concerning the costing of inhouse services which are to be included in inhouse bids (such as payroll, industrial relations, accounts payable); and

(f) concerns that inhouse bids are disadvantaged because inefficient provider side practices impose a cost burden for bidders.

Cultural differences between the two sides are beginning to emerge: some new professions are developing (for example, contract management) and other professions which have traditionally provided local services are experiencing tensions from increased demands made by the client side. In particular, the health and community services professions complain about the increased controls which now apply to their service provision. This may be seen as a clash between

professional and bureaucratic cultures - the cultures of client focus where performance is judged on the basis of long standing professional behaviours and judgements, with a new culture of more carefully articulated, controlled and formally accountable performance.

Decentralisation

While each of the case study councils have disaggregated their structures the extent of decentralisation of decision making is less clear. Traditionally distinct provider areas such as home and community care, health and recreation have retained their operational decision making powers especially over budgets. However, there have been some complaints of recent 'interference' by contract managers in traditional operational matters such as limiting the hours available for some services, the need to seek permission for some expenditures and in specifying the type and levels of service.

Business unit staff have generally welcomed the greater operational level freedom they have secured, with enhanced control over budgeting and staff recruitment. However, they also complain of operating constraints placed on their activities by client side managers. These relate to such matters as competition policy (the freedom to operate in external markets), pricing policies for internal bids, the development of specifications and other constraints to their operating in a more businesslike manner.

While the extent of real devolution of responsibility to provider units is unclear, the operations within these units have in all cases been more decentralised than in the past. More open and participative management practices are evident in a number of important areas: the establishment of 'bid teams', the collegial development of LAWAs, negotiation of group incentive arrangements (such as profit sharing at Ostek) and more inclusive corporate committees. Clearly, hierarchical decision making typical of local government has given way to more participative forms of management within units, and in some cases, in the organisation as a whole. Such a

cultural shift can be directly linked to the re-engineering of local authorities in responding to the demands of CCT.

Disaggregation

The fragmentation evident in the case study councils represents a marked divergence from the traditional unitary, bureaucratic model. It also goes beyond structural disaggregation to include replacement of unitary cultures by multiple cultures, with particular consequences for coordination and accountability.

The problems of coordinating such a diffuse group of units has already emerged in the case study councils. Some, with complete client-provider separation like Rural Shire, had few formal mechanisms for coordination, a factor which surely contributed to its turbulence; others, such as Metropolitan City and Fringe City, retained traditional approaches with senior management continuing to provide coordination; and provincial City with a hybrid arrangement, with the manager of Ostek negotiating compensation payment for the time spent on corporate activities.

The development of sub-cultures is becoming evident in the provider units, in particular, as the separation between client and provider hardens, often reflecting tensions between bureaucratic and business cultures. Tensions between professionally-based cultures and the business cultures developing in most provider units have already emerged in several of the case study councils. Since the second round of interviews, informants have advised that at both Provincial City and Rural Shire, provider side workers now wear uniforms which carry the business unit name rather than the council name; at Fringe City, one of the provider units has moved some sections into new commercial premises some distance away from the council. These examples underline the formation of new cultures and herald possible future dysfunctions if coordination becomes more tenuous. At its most extreme, it may signal the demise of unitary local government organisations, adding further complexities to the relationship between councils and the communities they are to serve.

The fragmentation of post-bureaucratic organisations reshapes accountability regimes. Contracts generally specify accountability more directly than traditional arrangements, by clarifying roles, obligations and specifying intended outputs. While 'the contracting out of government services should not result in a loss or diminution of government accountability or the ability of members of the public to seek redress' (ARC 1998:vii) it is likely to place accountability at different levels in the organisation. In this respect, there has been a clear shift away from accountability to the elected council (that is, the community representatives) towards senior management, and, often, away from senior managers towards providers or contract managers. Numerous informants argued that they 'were carrying the can' for the successful completion of particular contracts. While some were willing to do so, such a system makes accountability more opaque, especially for 'outsiders', and may allow for accountability shift to more easily occur.

Importantly, it raises questions of the relationship between accountability and governance - can elected members be expected to be accountable for contract arrangements into which they have little input? And what are the consequences for good governance if the answer is equivocal? It is clear that these issues have yet to be dealt with in any formative way in Victoria and in other jurisdictions employing CTC on such a scale.

Use of Contracts to Mediate Behaviour

The introduction of CCT with its specifications, contracts and industrial agreements is consistent with the preference for formal contracts to mediate behaviour in post-bureaucratic organisations. It is seen as a means for exacting more direct accountability and probably reflects an aversion to risk sharing arrangements such as partnering and joint venturing. It is also predicated on the notion that contracts are supposed to reduce opportunities for both political and bureaucratic discretion.

In the case study councils, there was evidence that contracts and similar mechanisms were being increasingly utilised in three broad areas, (i) to mediate relationships between client and provider, (ii) as 'implied' contracts with service users, and (iii) as employment contracts.

The relationships between the councils (through the client side) and external providers are determined through legal contracts but it is too early to assess the nature of these relationships. There is some anecdotal evidence to indicate that the monitoring of contracts may prove to be more difficult than anticipated as several informants made allegations of exploitative contractor behaviour. However, further studies are necessary to provide data on whether the monitoring role will yield experiences similar to those anticipated by Lane (1993:187) who suggests that 'opportunism in the interpretation of the ambiguous terms of the ... contract may be an attractive strategy'; or the findings of the 1896 Royal Commission investigating the performance of tenders on public works in N.S.W. which reported that there was widespread rorting of the system with contractors found to be involved in schedule rigging, cutting corners, deliberately doing inferior work and using second-rate materials as well as frequently completing work well behind schedule (Sheldon 1993:61-62).

While legally enforceable contracts were not used where inhouse bids were successful, quasi-legal mechanisms such as memoranda of understanding and written agreements were. Both client and provider sides argued for their importance as safeguards to ensure that work was carried out according to the specifications or to ensure that client side contract managers did not make unreasonable demands on inhouse providers, demands which would not be made on external providers. In the light of the growing tensions between client and provider outlined above, this quasi-legal arrangement both reflected the tension and probably added to it.

While service contracts included both clients and providers in legal or quasi-legal form, few incorporated contracts with the community of service users (either legal or implied). In contrast with the UK experience, there was little evidence of the use of service charters, although the service specifications act as an implied contract with

the community, particularly when direct community involvement has been sought in the specifications process (as in Metropolitan City). This probably reflects the limited time councils had in which to establish specifications or service levels in the first rounds of CCT rather than a lack of confidence in such mechanisms, given the indications that many councils were beginning to consider service charters by the time elected councillors had been returned. Indeed, in the cases of Metropolitan City and Provincial City it was the returning councillors who pressed for such arrangements to be initiated.

There is evidence that most of the councils have adopted contract arrangements for the hire of senior staff, although unlike the New Zealand experience, performance-based contracts have yet to permeate below senior management level. At senior management level, employment contracts generally did not relate to the progress of particular service contracts, although the managers of some business units were concerned that continued loss of contracts by inhouse teams would eventually have an impact on their own employment contracts.

Below senior management level, the LAWA has provided a short-term supplementary contract to the general conditions of employment, often related to the duration of particular service contracts (although in Rural City, there was little formal linkage between LAWA and particular service contracts). In many cases, the preparation of inhouse bids has been undertaken in the context of recasting industrial agreements, for example, Metropolitan City will not accept an inhouse bid unless it is accompanied by a LAWA. Most LAWAs have resulted in a diminution of working conditions especially the length of the working week, loss of rostered days off, downwards reclassification of jobs, removal of over award and penalty payments and the like. Some LAWAs, however, include enhanced reward provisions where profit sharing has been negotiated. While competition can apply downwards pressure on input costs, it also provides leverage by which senior managers are able to restructure organisations.

The nature of the CCT process predicates the increased use of contracts, for service specifications, employment contracts and industrial relations agreements. However, the extension to performance-based contracts below the top echelons has been limited and there has been few examples of formal contract mechanisms extending to service delivery. In these respects there has not been a significant shift towards contract mechanisms as primary means of mediating behaviour in the case study councils.

The replacement of traditional rule oriented and cultural control systems (including professional standards) by contract mechanisms are, in any event, likely to have several negative consequences. Contracts can be more inflexible and where, contract specification is difficult (such as in the 'soft' services) control over outputs can be problematic. The Sutherland Shire refuse collection case (Domberger & Hall 1995) provides a cautionary tale for overly rigid contracts which seek to tightly control organisation outputs. It would appear that contracts are no more successful than rules and regulation in providing control, especially when compared with organisation culture, good management practices and effective communications networks (Grindle & Hildebrand 1995). This was recognised in Barzelay's iteration of the post-bureaucratic organisation with control by bureaucratic means being replaced by a form of cultural control, 'winning adherence to norms' (Barzelay 1992:118). However, even Barzelay recognised that this loose control was always going to be difficult to translate into the public sector given the constraints of traditional accountability regimes.

The tendency for contractors to exploit contracts by seeking advantage in areas which are not clearly specified, described by Lane (1993:115) as the problem of 'moral hazard', is particularly relevant to areas of activity where specifications cannot easily be drawn. Recent moves towards the use of 'relational' contracts in the U.K. is one means of tackling the problem of control.

However, such faith in the contract mechanism for output control can blind organisations to the advantages of the many alternative approaches to service delivery, for instance partnering. In these alternatives, the locus of trust is different

from that established under contract controls, and are generally less popular under new public management as they typically allow greater discretion for 'budget-maximising bureaucrats'. More importantly, however, as contracts focus on outputs rather than on the achievement of outcomes, successful contract compliance does not necessarily mean that public programs will achieve the outcomes they intend - established contracts may then limit the capacity for the public sector to take corrective action when it is necessary. This can lead to cases where service delivery is efficient but not effective, as public goals have not been achieved.

Replacement of Political With Market-Based Decisions

Post-bureaucratic organisations seek to enhance the operations of the market to allow market forces more influence in determining what services are provided and to allow service levels to be struck in comparison with competitors rather than from internally established benchmarks. While some aspects of market driven culture have emerged from the case studies, an outwards looking, market orientation and a greater customer sensitivity, there is considerable evidence to suggest that organisational rather than market based decision making has dominated the early stages of CCT. Further, the anticipated outcomes of a more market oriented local government in enhancing contestability, and in driving down overall service delivery costs have not been realised.

Choice of Contractor

From the case study councils, the extent to which inhouse bids have been successful seems to relate to three factors. Firstly, council policy concerning support for inhouse bids. For some services, high levels of support have been provided by management, for others clear preferences for external contractors have been made. This variance in 'tactical responses to CCT' was also noted by Ernst and Glanville (1995) who found that some councils aimed to win, others to lose and others to 'let the market determine the outcome', examples of which were found in some case study councils and with respect to some contracts within those councils. Strategies

such as packaging of services for tender, the management of redundancy (especially the length of the amortisation period), the time allowed for bids to be made, policies on the purchase of inhouse services such as payroll and human resource management, assistance and support for inhouse teams to mount their bids, the complexity of tender documents and the evaluation criteria (and their respective weights) all have been used to influence the outcome of the tender evaluation process.

Two of the case study councils showed a preference for continuing inhouse service delivery (Fringe City, Provincial City), and adopted policies to ensure it, while others were more prepared to let the market decide (Rural Shire) while in others, there was some relief expressed when inhouse bids were lost (for example, physical services and parking meter collection at Metropolitan City). Such tactical responses may also be typical of many other local authorities in Victoria: the recent enquiry into Mildura Rural City Council found that 'there is some evidence that the application of the Competitive Tendering process has discouraged some local businesses from participating in the process', and cited examples of weighting ratios in evaluation of tenders and the limited time allowed for tender submission (Walsh 1997:33).

Secondly, is the issue of bureau shaping behaviour of senior managers. Dunleavy (1986) warned that contracting can become a tool to enable senior officials in organisations to further their own interests, rather than allow market forces to have full reign. Contracting enables managers to reshape the organisation by adopting strategies which hive off problematic functions, automate routine jobs in order to liberate resources, replace troublesome work groups with more compliant contract-based external providers and insulate key decision areas from public scrutiny or participation. It is interesting to note that failed inhouse bids in the case study councils typically are in the more traditional outdoor areas where the workplaces

are more heavily unionised, for example, at Metropolitan City and Rural Shire. This provides some support to Albin's contention that bureau-shaping was evident in refuse collection in metropolitan Melbourne (Albin 1992).

Thirdly, the tendering process favours larger organisations with established infrastructure, both in terms of their capacity to mount competitive bids and their ability to 'hit the ground running' with established infrastructure. Some services such as recreation centres, parks and gardens, road maintenance and the like are contestable and contracts are being won by external contractors with prior experience in managing such activities. However, other services, particularly community services and most services in rural areas have generated few competitive bids.

The case studies show little evidence that market decisions have substantially replaced political decisions concerning who delivers services. Choices appear to have been influenced more by council policies and decisions which favour particular outcomes.

Quality of Services

Interviews reveal a greater consciousness of service quality and customer satisfaction in councils. This outwards focus was typical of both client and provider sides of the councils studied, although more evident on the client side in most case study councils. All agreed that the CCT process has for the first time enabled them to understand the extent of their services and the level of customer needs that are to be serviced.

The opportunity to develop tender specifications has generated several important outcomes for Victorian councils. There is a clear focus on services with performance measured in terms of outputs instead of inputs; it has also encouraged councils to formally make decisions in relation to increasing, decreasing or maintaining current service levels. While a small number of contracts explicitly reduced service levels (almost always in the human services area), most informants argued that the specification development process allowed them to develop approaches which

ensured that standards of service would not be diminished. Techniques such as quality assurance, benchmarking and the development of performance indicators assisted councils to at least maintain current levels of services. While a few could point to customer surveys to support their arguments, whether service levels have been sustained cannot be determined until the results of more comprehensive customer satisfaction surveys are completed. Of importance is that the conduct of these types of surveys have typically been included as part of the contract specifications and represent an explicit incorporation of customer needs into the process of establishing service levels.

These conclusions are supported by Tesdorpf's study of rural shires in Victoria (Tesdorpf & Associates 1997) where two-thirds of the respondents argue that there has been an improvement in the quality of services as expressed through quality, efficiency, price, industrial relations, flexibility, customer focus and specification of standards.

It seems that amalgamation has played some role in the determination of service levels in the new councils, with pressure applied from joint council and community groups to retain previous service levels or to adopt the levels achieved by the best of the previous councils. In all case study councils this tendency towards accepting the highest levels of previous councils was observed.

Greater customer centredness is evident in all case study councils. Supporters of new public management see this as an integral part of establishing competitive advantage in service delivery. Others, especially many of the elected members saw it as an opportunity for local voice in council activities. From whatever position, it was clear that most councils had been responsive to their communities in new ways since the introduction of CCT.

Customer centredness may also represent a shift from the 'paradigm of citizenship which traditionally has underpinned local government services [to] be replaced by a

paradigm of consumerism' (Ernst & Glanville 1995). The possibility of such an important shift is recognised but has not been explicitly addressed in this study.

The Outcomes of Market based Decisions

The confidence in markets to send appropriate signals to managers to assist in making decisions about who should deliver services is based on assumptions that markets are generally successful, and certainly more reliable than politicians or officials. The outcomes of market based decision making were anticipated in the forms of costs savings and more contestable markets, both of which have been problematic in the first three years of CCT in Victoria.

While this study has not used the appropriate accounting tools with which to make an unequivocal contribution to the discussion on potential savings from the CTC process, the feedback from all case study councils suggests that, at least in the first rounds of CCT, there have been few net cost savings. This is supported by comments from a spokesman from the Victorian Office of Local Government who says on the savings question, "The jury's still out; it's too early to know either way" (ABC 1996). This appears to result from a number of factors such as higher than expected transactions costs, concern to maintain and, in some cases, improve the level of services offered, costs relating to organisational change and the inability of the private sector to respond to the opportunities which supposedly follow from CCT.

Managers in all case study councils acknowledged that, overall, cost savings have not been generated during this first round of CCT. For example, in Rural Shire, 6.75 per cent of its total budget was expended in managing the CCT process in its first two years. This is consistent with research which suggests that additional costs are associated with the client-provider split resulting from increased complexity and formalisation, the requirement for new management and administration skills and the need to develop contracting procedures and specifications (Vining & Weimer 1990).

However, the case studies do reveal a number of situations where expectations of cost reduction have been fulfilled. Either inhouse bids have been won by teams applying tight costs discipline (explicitly based on cost structures of potential competitors) or, in some instances, lost because that discipline has not been applied. Some service areas have adapted quickly to the new expectations while the managers of others (especially in the human services areas) complain that the sensitivity of their operations are not well understood by others in council (especially the client side). Often these latter services are not contestable as there are few alternative providers and the net financial advantages to councils are doubtful, especially where the total level of service payments are fixed and determined by other spheres of government. Any increased transactions costs of the CCT process are, therefore, likely to be met by a diminution in the service quality.

Although Rural Shire is not a representative of rural local authorities in a strict sampling sense, its experiences may point to the negative impacts that CCT can have on rural communities where contestability is weak. The triangulation of data with research findings by Tesdorpf et al (1997) and Lane (1993) suggests two conclusions: first, that where contestability is low, the introduction of competition is unlikely to yield net benefits to local communities and second, it is very difficult for local governments to stimulate contestability, especially in rural areas. As Tesdorpf concludes, 'in rural areas, the large majority of local firms are not well equipped to compete under CCT, with firms in urban areas having an advantage' (Tesdorpf & Associates 1997:62).

While none of the case study councils reported overall costs savings from CCT, all were convinced that savings can be expected when contracts are re-tendered and transactions costs are predicted to fall. This prediction needs to accepted with considerable caution in the light of research concerning hidden costs that are not always been taken into account in assessing the overall costs of competitive tendering. These include extra expenses, such as the increased costs of supervision, administration and contractor add-ons, as well as the use of loss-leader tactics by

some contractors and price rises due to variations and other unforeseen circumstances (Paddon 1991:78).

There is little evidence of CCT generating new entrants to industry: the cost and formality of the CCT process (some councils even requiring bank guarantees from external bidders), concerns about redundancy payments and the limited time in which external contractors could respond meant that few new businesses were able to respond to the opportunity to bid for government work. Even in the metropolitan council which operated in the most contestable area, the Manager, CT observed that, 'the private sector market hasn't matured yet. We are sometimes surprised by how few tenders we get'. Another senior officer in that same council noted that, 'it has been a closed market, nobody knew what the market consisted of, the [CCT process] doesn't give the market the time to set itself up from scratch'.

While there is some evidence of business units competing outside their council areas, the strict time frames for CCT compliance and concerns to ensure internal management control (for example, pricing of client-side services) have restricted most council business units from competing externally. Again, the exceptions appear to be the business units which were established prior to CCT, such as Citywide (Melbourne City Council).

These examples indicate that in the case study councils political decisions have strongly influenced the choice of preferred contractor and the levels of service offered. While the councils are more market focused and commercially motivated, such market orientation has not yielded the expected benefits of reduction in service costs nor more contestable environments.

Flexibility in Communication and Reporting Systems

Post-bureaucratic organisations need to respond to greater environmental uncertainty, task complexity and task interdependence, where there is usually an increasing need for information processing capabilities (Parker 1995). At the same time, such organisations usually have fewer excess resources with which they can

develop appropriate communications and reporting systems. This leads to the development of systems which rely less on rule books, guidelines and procedures and close checking and supervision towards those which are performance oriented and focused on success in achieving commercial targets or outcomes.

There have been a number of changes in reporting and communications in the case study councils but more often these are not consistent with the expectation of flexibility and performance focus. This may well be due to other concurrent agendas such as the strengthening of control and accountability measures by both the state government and by the client units at council level. Most provider side staff have complained about excessive and over zealous reporting requirements, for example, the Victorian Office of Local Government has insisted on monthly reporting concerning CCT compliance by councils, most contracts have specified higher levels of reporting on performance than previously and some councils have adopted highly regulated contract management arrangements which have increased the level of formalisation. As Walsh et al (1997:34) suggest, 'highly formalistic approaches to contracts may be seen as preventing the development of precisely those social relationships that are necessary to make them work'.

While this may be an attempt to 'catch up' on previous less formal arrangements, it could also be seen as an excessive concern to minimise risk and/or to ensure probity in the process of CCT. Whatever the reason, it represents a hardening of traditional bureaucratic approaches of checking on processes rather than on outcomes, not as predicted in the post-bureaucratic model.

Conclusions

There is a difficulty in distinguishing clearly between the impacts of CCT and the effects of other elements of the reform program, such as amalgamation, rate capping, staff ceilings and the replacement of elected members with appointed commissioners. However, there is little doubt that CCT has been used as a primary

lever for change to workplace culture in Victorian councils. As one senior executive put it:

> We see CCT as a reform tool. It's just we would have preferred that it wasn't called CCT and it wasn't enshrined in legislation. But it gives a big stick to bring about major economic change, cultural change and provision of service change.

The post-bureaucratic organisation has been a model for the cultural change which was to accompany reform of local government in Victoria. It is consistent with values of small government, where the only forms of government needed are 'user-friendly, disaggregated forms that supply the services they [the "customers"] actually require' (Campbell 1998:191). The culture which was to underpin this would be business like, market oriented and customer responsive, flexible, operationally decentralised and free from overt bureaucratic control with the council itself focused primarily on strategic considerations.

The data from case studies indicates that the post-bureaucratic model has yet to fully develop in Victoria. Not only have strategic considerations been dwarfed by the need to respond to the more immediate pressures for reform, but responsibility for CCT policy has been displaced from the 'board of directors' to senior officials. Further, the pressures for radical change from the Victorian government have generated a pragmatic and compliance oriented response from councils. Most councils have, in turn, adopted tighter controls to ensure that units comply with the state government requirements and/or with senior management reform agendas. Far from adopting more flexible and market-oriented policies it seems that control and accountability requirements have lead to the development of procedures which have actually increased the level of formalisation in councils. This raises a major paradox from the Victorian experience: in using CCT as a tool to encourage the development of flexible, market-oriented organisations, it has actually increased uniform rules and compliance and reduced local choice and flexibility. The impact on local governance is pursued in the final chapter of this thesis.

In examining the data from the four case study councils, and matching it to the characteristics of the post-bureaucratic organisation developed in Chapter 4, the hypothesis has only partly been proven. The introduction of competitive strategies in Victorian local authorities has lead to the development of more disaggregated bureaucracies, and a more outwards oriented, market driven and customer focused service delivery culture. However, there has been little evidence of a clear policy-administration separation (especially with respect to CCT), numerous examples of political intrusion into the decision processes through 'tactical responses' to CCT, communications systems have been less flexible than expected and the contract mechanism has yet to fully replace traditional means of mediating relationships within the organisations studied. Following the logic of replication which supports the case study approach, empirical results are more potent if two or more cases support the same theory. In the light of such common experiences with the introduction of CCT in four geographically distinctive case study councils, these conclusions may be considered robust.

Two questions arise from the conclusions: does the incomplete fit reflect endemic problems with the model? Or, has the incomplete implementation been responsible? In this chapter some of the problems with the model have been outlined - these conflate into a series of assumptions which portray actors and their behaviour as 'frictional drag' on the model. For example, while all actors may accept the proposition that policy and administration should be separated, the model fails to consider that some of the actors may engage in behaviours which confound that separation (even unwittingly); while the organisation may actively promote decentralised operational decision making, rules and guidelines imposed externally may serve to undo the overall effectiveness of decentralisation. The post-bureaucratic model assumes away these kinds of organisational behaviours as aberrant or dysfunctional, yet it can be argued that these are typical or regular organisational behaviours and, therefore, should be captured in realistic models. The model appears inappropriate to deal with situations where some of the neoclassical organisational assumptions do not apply, for example, where decisions

are taken not to maximise outputs (such as where community impacts outweigh market considerations), or where there is information asymmetry, or where markets are not contestable, or where the assumption of management competency cannot be sustained. These situations are more likely to be found, but not confined to, rural and remote communities where the model would seem to be least appropriate.

It is clear that the post-bureaucratic model has not been fully implemented in Victoria. The tactical responses to CCT have been largely responsible for the outcomes of the first rounds of CCT - a situation where political intervention (primarily by senior managers) has confounded a shift towards market based decisions. Indeed, the behaviour of senior managers coupled with the pressures imposed by the state government appear responsible for highly constrained markets for local government services. Not only have public organisations controlled the quality agenda but have also made decisions and adopted procedures which are likely to impact on local government markets. For example, the determination of oncosts of inhouse bids, the packaging and timing of tenders, and the evaluation weightings have all contributed to particular decision biases or preferences.

In the absence of markets, public sector organisations are said to be more bureaucratic, more rigid and hierarchal, less consumer oriented and subject to capture by special interest groups (Parker 1995a:44). Since the introduction of a market regime in Victoria, local government is certainly more outwardly focused - establishing service standards, increasing cost consciousness, developing greater customer focus and awareness of competitors. However, the compliance orientation of the processes introduced, the uncertainty of roles through the client-provider split, the pragmatic rather than strategic focus of management and the organisational capture by senior bureaucrats have yet to reshape councils as post-bureaucratic organisations at this stage.

CHAPTER 11: CULTURAL CHANGE AND LOCAL GOVERNMENT REFORM

Victoria's agenda for public sector reform has been consciously influenced by new public management and its post-bureaucratic model of organisation. The case studies have provided data to suggest an incomplete shift towards this model, but also raise questions about the approach being taken by the Victorian government to local government reform and the impact of these reforms on the nature and role of local government in the state. These issues are amplified in this concluding chapter, together with suggestions for further research which have arisen from this study.

Cultural Change

Victoria's approach to reforming local government provides insights into the power of technocratic or top-down change. The combination of reforms such as the introduction of CCT, municipal amalgamations, rate capping and budgetary cuts destabilised local government across the state. Given that the reform process was to be managed by government appointed CEOs and commissioners, potential opposition from local groups was blunted, and was unable to find an alternative voice from that traditionally provided through their local council. The swift and uncompromising manner of reform implementation (Kiss 1997; Costello 1994) was aimed at rapid and permanent cultural change, with CCT as a major tool in the strategy. This is consistent with 'reality construction' or 'enactment' by dominant coalitions (see Morgan 1997 and Weick 1979 in Chapter 4), building change through external leverage.

The case studies illuminate competitive tendering as a powerful tool providing strong leverage for organisational change. Martin's survey of 26 Victorian councils identifies many senior managers using CCT to 'convince employees that if they didn't work hard to win their inhouse bid then they were out of a job' (Martin 1997:9). That competition, or at least the threat of competition, can operate on organisations by reducing input costs and forcing organisations to review their

service delivery to seek more innovative approaches, is beyond question. In each case study, both client and providers, managers and workers, elected and appointed councillors have seen the impact of CCT on the way their organisations now deliver their public services. Organisations have been radically restructured and downsized, workers have surrendered hard won conditions of employment, services are provided more efficiently and, probably, are of higher quality, organisations are more focussed on 'customers' and on the markets in which their services are 'sold'; all of which has been achieved in a period of three years. Given that enactment occurs in a medium to longer term time-frame, this represents a significant change in the three years covered by the study.

Despite very short timeframes, with amalgamation and inexperience with the CCT process, the first year of CCT saw most councils in the state satisfying the CCT targets without diverging greatly from past practices. This indicates that the 20 per cent figure was a fair proxy for establishing the baseline level of CTC used as procurement. Subsequent rounds of CCT saw the exposure of new services, reconsideration by councils of their core businesses and the development of new arrangements to meet state government CCT requirements. It was at this point, in preparing for the second year of CCT that competitive tendering as an organisational change tool became more significant. This is consistent with the bureaumetric analysis of Dunsire and Hood (1989) which suggests that while cosmetic changes provided most of the cutback success in the early stages of reform in the U.K., after continued political pressures the civil service began genuine pruning and reform.

Almost all of the interviewees expressed concern about the pace and extent of reform, the tensions generated and the uncompromising way that the reforms were implemented. Into this highly turbulent and uncertain environment, the Victorian government threw a number of lifelines - the Code of Tendering and other detailed guidelines to assist councils to comply with the legislative demands. These detailed guidelines for the introduction of CCT were welcomed and, in most councils, implemented with little effort to adapt them for local circumstances. In cultural

change terms, the external artefacts were changed immediately giving time for the assumptions and values to change more slowly. These artefacts included the introduction of new rewards and sanctions (for example, state government 'league tables' of CCT compliance figures or the publication of case studies of successful councils), with opposition dealt with ruthlessly (for example, the suspension of Darebin councillors[2]) aimed at engendering a 'climate of fear ... against anybody who speaks out' (Costello 1994:21). This approach is consistent with the view that

> the most powerful way to create significant organizational change is to confront, develop or remould the core cultural values of an organization so that people experience a profound change in their understanding and purpose and act differently as a result (Stace & Dunphy 1996:9).

In such a turbulent situation, that councils have become compliance oriented is hardly surprising. Nor should it surprise that some councils failed to thrive: the difficulties faced by Rural Shire in coping with a structure and procedures developed for a highly competitive environment when their own market was uncontestable for many of their services, where their workers were unprepared for competition and management unable or unwilling to provide appropriate leadership and training, is testimony to the 'bluntness' of a CCT instrument applied across the state irrespective of the nature of individual markets and of differences in management capacity.

The question of 'institutional capacity' has been raised elsewhere, especially in the experiences from developing countries (Bennett & Mills 1998). The problems faced by organisations with lower capacity are exacerbated when contracts for some of the 'softer' services are considered. Such services increase the difficulties of specifying services, the degree of asset specificity and the hardships in gathering performance information, which according to Williamson (1987) are key criteria in determining whether or not to expose services to markets. In any 'one-size-fits-all' public policy

[2] See Inquiry into the Darebin City Council, April 1997, Victorian Government Printer.

relating to CTC, these institutional and situational factors need to be taken into account on an individual basis.

One of the successful outcomes of the change experience has been the enculturation of change itself, or the establishment of self-generating change cultures. In an extensive work on local government in Britain, Foster (1980) argued that the ability of local authorities to use contractors increases cost consciousness of councils. Foster claims that because an authority can decide to supply services in-house or purchase the service from a private supplier or from another local authority this enables the local government to find economies other than by way of internal structure. The threat or actual use of market testing as one mechanism to assist this cost-consciousness has also been documented in Victorian local government (Aulich 1997a). March and Olson (1983) argue that the continual process of reform generates its own improvements. From significant reorganisations, notwithstanding major dislocations, 'returns to persistence' are achieved. This stimulates self inspection on the part of agencies and officers and creates a climate of availability and legitimacy for creative and purposeful change.

> The possibility of reorganization stimulates self-inspection on the part of agencies and offices and sometimes fulfils the intentions of the reorganization without formal structural change (March & Olson 1983:289)

Jones (1989) agrees that broad restructuring is irrelevant as long as local authorities are cost conscious and use private suppliers or cooperate with other government authorities in supplying services where they are too small to reap the economies of scale for particular services. It may be that the cost consciousness referred to both by Foster and Jones relates to March and Olson's conclusions that the benefits from reorganisation (or threatened reorganisation) result from changes in the behaviour of managers rather than from any structural change itself.

The precise nature of this change warrants further examination, beyond the scope of this thesis. However, it seems that under turbulent conditions, organisations are more likely to respond to more competitive environments, rather than choosing to operate in entrepreneurial ways (Limerick 1990). Limerick draws a distinction between competitive organisations which operate in environments where change is continuous, serial and incremental and entrepreneurial organisations which deal with change that is episodic, random and discontinuous. Organisations in competitive environments are goal driven, concerned with optimising profit but still have an intra-firm focus. However, organisations in entrepreneurial environments are opportunity driven and seek to optimise profitability potential. This may account for some of the differences in cultural change between the client side (which deals with constant change) and some of the provider units which deal more with episodic change at times when contracts are negotiated. Several of the business units in the case studies (particularly in Provincial City and Fringe City) have become more opportunity focused although, currently, are constrained by organisational limitations which restrict their capacity to fully seize opportunities in an entrepreneurial way.

Top management has a strong role in creating and sustaining the new organisational culture: providing the new strategic direction by example and by implementing organisational and other changes which signal the new culture. The examples of bureau shaping and tactical responses to CCT which often prevented the full development of the post-bureaucratic culture in the case study councils illuminated the issue of embeddedness (see Granovetter 1985 in Chapter 4). The Victorian government's belief that cultural change could be managed technocratically betrays the assumption that participants are little more than frictional drag which impedes competitive markets. From the case studies, the role of senior managers would appear to be more significant than that. Senior managers demonstrated capacity to both influence organisational change and to re-engineer the cultures of their organisations along lines which were not always congruent with the directions intended by the state government.

Parker (1995) argues that in undertaking radical organisational change (such as a shift in ownership from public to private), a form of discontinuous change is needed. This involves 'double learning' where existing practices, indeed existing thinking, needs to be challenged. He suggests that for this reason new management which does not carry the baggage of the past may have to be imported. It might well be that in Victoria, that as the majority of incoming senior officers were from the existing local government environment, cultural change will inevitably be slower, and assume some different dimensions from that intended by the state government.

The question which most often arose from discussions related to whether or not such a change could have been orchestrated using other tools (such as benchmarking, voluntary market testing, program evaluation and the like) with less painful consequences for the losers. One of the difficulties in making a post-hoc assessment of this is the absence of baseline data and the poor quality of data relevant to the implementation of each of the above tools, especially where they have been introduced simultaneously. Notwithstanding this, there has been an attempt by one of the case study councils to evaluate three years of change by estimating of the cost savings from the various tools employed. Two of the Directors at Fringe City estimated savings of 12 per cent from amalgamation, a net four per cent from CCT and a further 10 per cent from the application of business process re-engineering and other related tools (Data from the second round of interviews). Such anecdotal and council specific data can only be accepted with all of the usual caveats about accuracy and generalisability, but nevertheless is useful in questioning the rhetoric of the Victorian government, among others, who claim that competitive tendering inexorably leads to significant savings, and that these savings are bound to be greater than alternative approaches to performance improvement.

Implicit in this analysis is the concern that competition and competitive strategies need to yield sufficient savings from performance improvement to cover the transactions costs of the activity. Of significance to the question of savings is the point from which the calculation of any savings are made. Contracts let in lean and efficient public sector organisations would yield lesser savings than those let in

organisations with less efficient practices. Those which have been restructured, downsized or re-engineered prior to the introduction of competitive tendering will in all probability yield lesser savings as a result of the CTC process. Savings claimed for the introduction of competitive tendering are, therefore, better attributed to the ending of 'featherbedding' and was evident in the re-engineering at all councils following amalgamation and prior to the introduction of CCT.

Another important question is whether councils would have voluntarily adopted CTC or any of the other performance improvement tools without the need for compulsion. This is more difficult to answer although the encouragement of local government to adopt market testing, among a raft of other management improvement strategies by the New South Wales and Western Australian state governments or the adoption of Best Value approaches by U.K. local authorities may provide some longer term data on voluntary versus compulsory performance improvement.

Local Government Reform

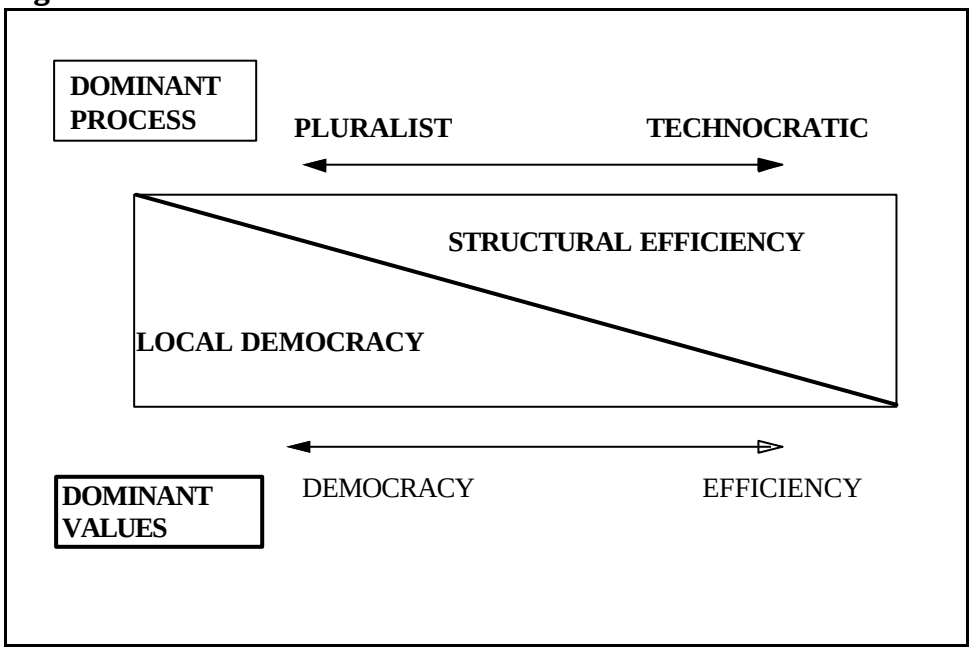
It is clear that CCT (together with other reforms at local government level) has presented challenges to local government to re-examine its role and responsibilities as a form of governance or simply as a mechanism for the efficient delivery of services at local level.

Local government has traditionally played two roles; first, in giving voice to local aspirations for decentralised governance. This democratic role has a long tradition in local government and embodies values such as representativeness and advocacy of local interests, responsiveness and access, probity, transparency and accountability (Maas 1959; Sharpe 1981; Smith 1985; Stewart 1997). Second, local government provides a mechanism for efficient delivery of services to local communities; this efficiency is said to be improved as communities are provided with services better tailored to their needs and to their willingness to pay. These two roles are often at tension: for instance, in relation to the controversial question of municipal

amalgamations, the argument for larger local government units is usually based on the existence of economies of scale in service delivery. The opponents of amalgamations generally claim that there are diseconomies of scale in relation to the democratic values of representativeness, with large municipal units less responsive to community needs and aspirations than smaller ones (Aulich 1993).

The two roles give rise to a model of local government (Aulich 1997b, 1999) which recognises the tensions between them and their underlying values of local democracy and structural efficiency, respectively (see Figure 11.1). Local democracy promotes local differences and system diversity because a council is seen to have both the capacity and the legitimacy for local choice and local voice. A premium is given to traditional democratic notions of responsiveness, representativeness, accountability (especially to the local community) and access. Political or pluralist processes of reform (Mascarenhas 1990) are more congruent with this model.

Figure 11.1: Local Government Models



Source: Aulich 1999.

In relation to structural efficiency, local government is perceived more narrowly as a supplier of goods and services, sometimes described as the commodification and marketisation of local government. In this respect, fiscal and economic issues over-ride other social and political concerns and may be identified with Weber's formal

rationalisation process in which tradition-bound or value-oriented forms of political and social organisation are replaced by purely instrumentally rational institutions (Tucker 1997:3). Such an approach to local government encourages greater state government intervention to assert control over the local sphere of government to ensure that mechanisms are in place to advance efficiency and economy; in short, greater pressures for uniformity and conformity. In this environment, lower value is placed on collaborative processes of reform, giving opportunities for local voice and on diversity of outcomes. The structural efficiency approach and the technocratic mode of reform, are dominant in contemporary local government in Victoria (Aulich 1997b, 1999).

The state of the economy has certainly been used as one of the justifications for more radical local government reform in Victoria (and elsewhere in Tasmania and South Australia). The rhetoric which accompanied recent local government reforms in these 'structural efficiency' states were remarkably similar and related to the parlous condition of state finances. For example, in Victoria, the Minister for Local Government justified the reforms on the basis that they would generate total savings of $500 million, lower rates, increased debt retirement, employment generation, streamlined planning approval processes and provide greater capacity for strategic decision making (Hallam 1994). Significantly, this justification fails to mention the impact of reforms on traditional local democracy issues and values.

The reforms in Victoria, especially the use of CCT as a primary reform tool, have had the effect of shifting the purpose and values of local government towards a more limited role as a supplier of goods and services, and has lead to concerns that the reforms have been dominated by economic matters:

> it simply does not make sense to make economics the bottom line for reform. Local government is about community, about smallness, about grassroots involvement, about democratic choice. We're losing it in all these reforms (Costello 1994:21).

Local government in Victoria was developed under long periods of conservative governments. These 'old Liberal/Conservative governments tended to accord lighter responsibilities to local government, but to leave it largely alone in the discharge of these responsibilities' (Halligan & Power 1992:30). The development of characteristics such as responsiveness to local demands, local autonomy and cautious fiscal policies became typical of such systems. Clearly, this traditional autonomy has been eroded as the current structural efficiency approach assume a ‘one-size fits all’ local government system.

The ’democratic deficit’ or ‘declining legitimacy of local government’ (Andrew & Goldsmith 1998) has been lamented by a number of critics of reform in Victoria. As Russell (quoted in Rance 1998) suggests, perhaps it is time for the state government to step back from their ’excessively directive approach to councils’ and enable local communities to make their own decisions about the ‘trade-offs and whether their local communities gain most from the more expensive direct provision of services and local job preservation than from financial savings achieved by contracting out and associated job losses’.

Unfortunately for such critics, this would be at odds with international trends of local government reform where there is a

> decline ... in the support local government has as a multi-purpose service producing and providing structure. The ability of local governments to change modes of service delivery, to reduce the ever-rising costs of extended welfare provision, or restrict levels of local taxation and expenditure has been challenged in more than one country since the seventies (Andrew & Goldsmith 1998:106).

The basis for this, argues the authors, is the fragmentation of local government systems, increased central government control of local government activities and finance and the more general marketisation of public services. In these respects,

local government reform in Victoria, however uncompromisingly implemented, is congruent with approaches to reform adopted in other jurisdictions.

Future Avenues of Research

This thesis has provided a three-year snapshot of the impact of the introduction of CCT into Victorian councils. Cultural change is inevitably long term in nature, which suggests that it will be some time before it becomes "the way we do things around here" and 'seeps into the very bloodstream of the work unit or corporate body' (Kotter 1996:15). Further research into the same four case study councils would provide a longitudinal map of the changes identified in this thesis - in particular, whether the new behaviours are rooted in social norms and shared values for until so, 'they are always subject to degradation as soon as the pressures associated with a change effort are removed' (Kotter 1996:15). Such research would also investigate whether the second and subsequent rounds of tendering have actually yielded the cost savings so universally anticipated by those in the case study councils; whether the larger and more established contractors have continued to be favoured by the process; whether provider units have become more commercially and entrepreneurially active and whether or not this has lead to decisions to privatise those operations; and finally, whether people in councils have actually learned from the experience and from the research which is currently being undertaken on that experience.

That cultural change has occurred is not doubted, although it is in its extent and in the examination of winners and losers from the change, where disagreements about the efficacy of competitive tendering as a reform tool are debated. Some informants point to the obvious efficiency gains, some to the potential for further efficiencies to be gained through adopting even more competitive strategies, others consider the 17,000 displaced from local government (to January, 1997), while others lament the economic impact on their communities. Few are immune from any changes at all. Kotter (1996) observes that of many contemporary efforts to radically restructure organisations 'in too many situations the improvements have been disappointing

and the carnage has been appalling, with wasted resources and burnt-out, scared, or frustrated employees'. A clear view of the Victorian experience has yet to be developed.

The selection of additional case study councils would provide a greater capacity for generalisation about the key issues identified in this thesis and enable more reliable generalisations to be made about the experience of CCT in particular localities, especially in rural areas where markets are so less contestable for more services. Finally, there is also scope for further studies of the impact type pioneered by Whitfield (1995) which weighs up the winners and losers from CCT in particular localities. This kind of broad social cost-benefit assessment is crucial to enable governments to have a firmer base from which public policy options can genuinely be compared. That such issues and questions are still relevant and unresolved, illustrates how little we really know about a strategy which has become such an integral part of contemporary public sector reform.

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