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REPORT BY
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REPORT ON NEW ZEALAND EXCHANGE PROGRAM

I was fortunate enough to be selected by the NSW IMM to participate in this program in 1996. In September 1996 I travelled to New Zealand with my wife Megan and visited a number of New Zealand Local Government organisations as well as attending the New Zealand Society of Local Government Managers Annual Conference in Auckland.

The topics I selected to examine in New Zealand were as follows:

- Competition in Local Government**
- Performance Measurement and Benchmarking**
- Enterprise Bargaining and Employee Reward**
- Effects on Organisation Culture**

This report covers the findings of my study tour relative to the above topics.

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COMPETITION IN LOCAL GOVERNMENT IN NEW ZEALAND

The Local Government reforms in New Zealand of 1989 did not introduce compulsory competitive tendering for service delivery, but empowered local authorities to utilise a variety of methods for delivering their services.

A major influence on the method of service delivery determined by Councils is the Transit NZ Act which requires competitive pricing of all works and services that are subject to a government subsidy. This requirement applied to professional services including planning, investigation, design and supervision of works as well as physical works being maintenance, rehabilitation and construction of the road system.

Councils were faced with the prospect of losing subsidies for roadworks or contract out. As a result most Local Government Authorities in New Zealand have contracted out their roadworks. This trend to contracting out has also extended to the other functions of Councils.

In carrying out a function the Council has a number of alternatives as follows:

- Use own resources in traditional structures
- Form in house business units
- Form a Local Authority Trading Enterprise (LATE)
- Divest the function - contract out to private sector

These alternatives all have advantages and disadvantages. The Councils I visited in New Zealand have adopted a range of approaches with some great success and others with some problems.

The underlying challenge for contracting out whether it be a LATE or other contractor is to get the specification and the contract right. Obviously the notion of contracting Councils services is a new experience to the uninitiated and the documentation of the task can be a very difficult exercise. Discussions with all Councils on this issue produced this common challenge.

This challenge is one for both the Council and the contractor. For example in the initial stages of contracting out Councillors and staff had difficulty in not having the flexibility to respond to problems on a needs basis due to there being no provision in the contract. The contractor Council relationship can be threatened by this process.

The process of setting up a LATE involves the establishment of a holding company where the shares are generally 100% owned by the Council, although it is a separate entity. There is usually a transitional period for the LATE as a business unit.

Some of the problems of LATEs according to interviews I conducted can be summarised as follows:

- ⇒ Transition traumatic for staff could not grasp separation - still settling down after 5 to 6 years.
- ⇒ Need to introduce new resources to monitor performance of LATE.
- ⇒ New layer of overheads in system (Directors payroll etc)
- ⇒ The LATE could be subject to takeover by other contractors.

- ⇒ The LATE receives preferential treatment in early stages so it is not pure competition (sometimes politicised local preference).
- ⇒ The LATE takes a lot of local knowledge from the Council organisation (eg infrastructure knowledge).
- ⇒ LATE moves into other areas at expense of the Council core business.
- ⇒ Not able to quantify improvements as a result of LATE establishment.
- ⇒ LATE can maintain old Council culture.
- ⇒ The transition to a LATE from Council day labour is difficult to manage in terms of resource cash equipment requirements.

Some of the benefits of LATEs included the following:

- ⇒ Staff no longer regarded as Council employees (no stigma)
- ⇒ Councillors out of day to day affairs
- ⇒ Avoids Council direct redundancies.
- ⇒ Once LATE successful staff become hungrier for more contracts.
- ⇒ Organisation learns how to contract out progressively due to the first few years being negotiated contracts.
- ⇒ Reduces transactions of Council payroll, purchasing, etc.

Business Units

Advantages

- ⇒ Can ease into contracting in a co-operative way similar to LATE.

Disadvantages

- ⇒ Difficult to ring fence employees by function unless very large organisation.
- ⇒ Market will not be tested unless work competitively compared or tendered.
- ⇒ Local authority still liable for debts.
- ⇒ Relies on Council control.
- ⇒ No “real change” just a little more transparency.

Contracting Out

Advantages

- ⇒ Savings of 10-20% claimed
- ⇒ Totally transparent
- ⇒ Competitive forces drive costs down and efficiency upward.
- ⇒ Some successes in creating new markets, eg green waste.
- ⇒ No need for benchmarking price is the benchmark.
- ⇒ Contract focuses on outputs rather than inputs.
- ⇒ Pay once for redundancies and no ongoing staff commitments.
- ⇒ Sale of plant could cover redundancy costs.

Disadvantages

- ⇒ Difficult to co-ordinate different contractors, eg road maintenance v rehabilitation.
- ⇒ No incentive for maintenance contractor to identify rehabilitation issues - could be a waste on maintenance expenditure.
- ⇒ Quality and standard improvements questionable.
- ⇒ Reliance on contractors performance systems rather than internal systems.
- ⇒ Can be a lack of competition in the market place.
- ⇒ Move to large companies eg only possibly 2 to 3 companies in New Zealand for road works in future years.
- ⇒ Some Councils regret loss of autonomy.
- ⇒ Can be viewed as a loss of democracy.
- ⇒ Limited markets in rural and remote areas.
- ⇒ Often wrong services are chosen for contracting out.
- ⇒ Need a process to determine contestibility.
- ⇒ Loss of ability by a Council to respond in emergency situations - (Earth Slump Dunedin).
- ⇒ Service delivery can miss customer demand focus.
- ⇒ Communication chain increases.
- ⇒ Prices are being driven by demand, if not enough contractors available price can go up.
- ⇒ Planning and scheduling of work an issue as contractor generally plans the work.
- ⇒ Possible establishment of Cartels by contractors with a result that price is driven up.
- ⇒ Must pay redundancies.
- ⇒ Contractors do not understand Local Government environment.
- ⇒ Sale of plant may only realise fire sale prices.

Within the process of contracting out in New Zealand there has been a real push to separate service delivery from the core Local Government entity. As a result most of the traditional services such as roads, parks and gardens, waste disposal, have been contracted out.

At this stage in new Zealand Local Government authorities have not moved into contracting out functions such as payroll, accounting, administration and information technology management. These functions are seen as information sensitive. However, one Council I visited was looking to contract out its building inspection services.

The philosophy behind the contracting out of Council functions related to the issue of contestibility and that Councils should not compete unfairly with the private sector. However, the function must have some kind of market testing process prior to contracting. One view was that a market will develop if the function is contracted out.

There were two (2) Councils I visited that had very successful LATEs being Tauranga District Council and Manukau City Council. Their LATEs are Aspen Contracting Ltd and Manukau Works Ltd. These two (2) companies have been winning contracts with other Councils even in Victoria, Australia. Manukau Works in fact have won some contracts to manage parks and swimming pools in Melbourne. These functions in its own Council are not contracted out and due to legislation the internal department cannot manage external contracts. The internal department now have a fear of eventual takeover by Manukau Works and as a result communication channels that were previously open have been closed. This seems contrary to an open system approach to organisations.

CONCLUSION AND APPLICATION

In Australia and in NSW Local Government the principals of the National Competition Policy will have an impact. The NSW Department of Local Government is to issue guidelines on the application of the policy by the end of 1996 with a view to implementation by 1 July 1997.

The most common comment passed on to me from Local Government personnel in New Zealand was to be sure to take a horses for courses approach in implementing competition policies. This is a view that I support strongly.

It was obvious in my visit to New Zealand that the success of Local Authorities in delivering services to Local Government was not related to the model of Local Government that had been forced upon it. The success, or in some cases failure is more related to the way in which each organisation adopts the model for its organisation and the individual leadership of Council and General Managers. One question I continued to ask about contracting out and the keenness for private companies to take over Council works is, *if there is profit in the function for private enterprise why is there not profit for the community in having their company, the Council undertake the function.* This is where the real leadership is required to create a culture that ensures maximum return to the community.

Murray Shire Council has been successful in winning contracts from other neighbouring Councils in the area of road stabilisation. Council and the staff are beginning to develop a competitive culture as a result. Other functions such as garbage services and street sweeping have traditionally been carried to by Council. Opportunity be taken to experiment with contracting out as new services develop or existing services expand.

There are many negatives that can be cited in this paper in respect of contracting out. In the Murray Shire experience it is intended that these negatives will be taken into account in any transition.

The process for Murray Shire Council will be one of continuous improvement and situational management to eventually transform the organisation to one that is both providing and obtaining services competitively for its community and the region.

PERFORMANCE MEASUREMENT AND BENCHMARKING

Local Government in New Zealand has revolved its performance measurement around its Annual Plan. This is very similar to the NSW situation.

The Councils I visited consider a quarterly report on the annual plan which is referred to as an exception report. Generally each responsible Director or Senior Officer lists items where performance targets have not been met and declares all others are generally in accordance with the plan and within 10% or \$10,000 of the budget.

The combination of these quarterly reports form an Organisation "Report to the Public on the Annual Plan". The performance measures have generally been tailored to suit the function of Council. Some examples are listed below:

Function - Community Health

Performance Target **Ensure that all health applications are processed within 10 working days of receipt**

Performance Achieved **97% of all applications were completed within 10 days**

Function - Halls

Performance Target **To operate within the approved budget**

Performance Achieved **3% over budget - costs greater than anticipated.**

Function - Parks and Gardens

Performance Target **To upgrade Park X by June 1995**

Performance Achieved **Upgrade was completed by June 1995**

Function - Museum

Performance Target **To achieve a user satisfaction rating of greater than 82%**

Performance Achieved **A rating of 85% was achieved**

These type of measures are very similar to the way in which measures have been developed in the NSW Local Government Management Plan process. Perhaps the most startling issue of performance measurement was the degree of reliance on the community survey and the resources that were devoted to this task.

(a) Contracting

With the emergence of contracting as the alternative method of service delivery there has had to be a corresponding emergence of performance measurement of the contractor. This measurement has not only been price alone but measuring that the essential elements of the contract are carried out.

I have previously pointed out that there has been an underlying problem in getting contract and specification documentation right. There has been just as many problems in managing these contracts to ensure performance is achieved to the required standard.

For example one Council I visited had only introduced a management technique for its parks contracts since December 1995. The technique involves inspection of parks subject to the contract and auditing the standard required against the standard achieved. Many factors were taken into account including safety, turf height, rubbish, trees, etc. The first audit produced a 20% failure rate. Following consultation with the contractor in a period of 6 months the failure rate had improved to 9.3%. There was no such mechanism prior to this new system.

Some of the examples of contracting out has revealed the inadequacies of the previous Local Government administrations. One particular example that was quoted to me was one Councils efforts to contract out the maintenance of sewerage pump stations. The difficulty stemmed from the fact that there has previously been no asset management of these assets. As a result no real records existed to determine the asset maintenance requirements. The previous management process was on a reactive basis. In some cases pump stations could not even be found let alone documented. One pump station was found under the verandah decking of a private house. When the function was put to tender the prices received were way off the anticipated prices due to the high risk involved and the uncertainty of what would be required to maintain the system.

The point of this example is to demonstrate the need to be ready for contracting out by knowing what is really required. This involves the measurement of the assets and their current standards so that a realistic maintenance schedule can be prepared. In NSW I believe the solution to these sort of problems are being addressed by the NSW Strategic Business Plan process driven by NSW Public Works together with Maintenance Management Systems and Asset Management.

I have examined a number of contracts and specifications for various works undertaken by contract for New Zealand Local Government. In such documentation a number of important appendices are attached which prescribe performance and measurement. These include Contractors Performance where there is capacity to assess the contractor on complaints from the public, observation by Council staff, quality control and reporting. The assessment can equate to demerit points which in turn can be deductions from claimed amounts on the contract.

It must be said that the management and measurement of the contractor can be a very sophisticated process. In New Zealand this process has evolved over a six (6) year period with still much room for improvement. The degree of success achieved in this area varies from Council to Council.

(b) Benchmarking

Benchmarking of Council functions in New Zealand seems to have been a passing trend with small pockets undertaken. The most common view taken is that benchmarking has little relevance unless there are meaningful comparisons. The view has been taken that there is not much use comparing Local Government authorities by function when they are all unique and there are too many variables. "Not comparing apples with apples".

Most that I discussed the issue with felt the most important way of benchmarking was internally via the management plan measures with a push for continuous improvement. Another view was that benchmarking should only be used when quality is the main issue why benchmark when the ultimate test is the market; - contract it out. Discussion with the General Manager of a LATE indicated his benchmark was his bottom line - profit.

Manukau City Council have done some work in benchmarking but have experienced some dilemmas particularly as to what costs to include in functions. However, with the drive towards ISO9000 and Quality Assurance some informal partnerships have been established by process. For example the Leisure Services Department of Manukau have partnered with Leisure Australia for various functions.

Some other Councils claimed to be benchmarking by examining certain functions and comparing them to other Councils. This process was described as one which has been undertaken on an informal basis for years which is also the case for Local Government in NSW.

(c) Performance Comparison of Local Government Authorities

Deloitte Touche Tohmatsu undertake an annual evaluation of all New Zealand Councils based on information provided in annual reports or direct from Councils. This evaluation looks at such measures as expenditure per head of population and for various functions, debt to income ratios, rates per head of population. These types of measures are quantitative and have little regard for the qualitative aspects of a Councils operation. It is much like the NSW Local Government Departments publication *Comparative Information on Local Government Councils*. However, there are only two categories of Council that being City and District.

A second part of the evaluation is a qualitative evaluation relating to long term strategic plans, annual plans and annual reports. Questions such as the following are answered in the consultants evaluation:

How well have the regions needs been assessed?

To what extent has the Council satisfied these needs?

I would suggest that this qualitative issue of Council performance is one that the NSW Department of Local Government might wish to address in its annual review and publication.

Conclusion

It is obvious to me that performance as opposed to performance measurement varies from Council to Council in New Zealand as it does in Australia and NSW. President of the New Zealand Society of Local Government Managers, Colin Dale, can be quoted at the 1996 annual conference:

“It is clear that local authorities will be increasingly concerned with demonstrating top class performance to national agencies but even more importantly meeting the strategic priorities and needs of their own communities. Local choices will always be a paramount issue. Ultimately however, the gauge on the accountability and success of a local government unit will rest with the community it serves; its customers.”

Murray Shire Council uses as a measure of performance the number of formal complaints and formal compliments. In 1995/96 Council recorded 5 formal complaints and 46 formal compliments. There is merit in carrying out more detailed surveys of Council's customers and this will be investigated in the near future.

Local Government does have difficulty comparing performance particularly as the accounting procedures vary from organisation to organisation. Murray Shire has a plan to investigate the “real” costs of functions during 1996/97 with a view to real comparisons with other local governments and the private sector. In addition at least one major function in each department is to be subject to a benchmarking exercise in the current year.

The push for asset management in NSW after viewing some poor examples in New Zealand is certainly a positive direction. The process of Strategic Business Plans for water and sewerage functions, asset management for other infrastructure assets and maintenance management systems will be tools able to well place NSW Local Government in performance management.

ENTERPRISE BARGAINING AND EMPLOYEE REWARD

In New Zealand the industrial relations framework revolves around the Employment Contracts Act. This Act provides for individual contracts between each employee and the Council. However, most Councils have opted for collective contracts similar to an award in NSW for groups of workers.

These collective contracts cover hours of work, meals and teabreaks, overtime, holidays, sick leave, other leave, payment of wages, termination, redundancy, travelling, clothing and safety among other issues. Most Councils also have a salary system attached to the contract to determine the pay scales relative to the value of the job in the market place.

At first I was under the impression that these contracts gave each Council significant flexibility in dealing with employees. However, I can conclude that this Act is very similar to the Award system in NSW with the exception that there are variations from Council to Council and within each Council relative to the occupations.

There are still procedures to go through in dealing with poor performers. One requirement in this area is that a letter or formal warning of poor performance can only be current for six months. After this time elapses there is no value of the document for termination and the like. In questioning New Zealand Local Government personnel on how they deal with poor performers the common response was to restructure to remove.

In most cases the Councils linked a performance management system with the contracts and salary system. There were a variety of approaches with the common system relating to a performance bonus of up to 5% subject to outstanding performance. These systems were linked to the budget with an overall 2.5% limit with final approval at the discretion of the CEO.

Some other systems provided for merit steps within the Council salary system. Another approach was to undertake an evaluation of each position and then commence the salary at 85% of the position with the possibility of paying a 110% of the valuation based on performance.

The common view in respect of performance was that money was not the only motivator. There was a view that pay and performance should be divorced as there is a process of stress put on the manager - subordinate relationship due to the process. This was particularly an issue where no proper training had been undertaken by those involved in performance management and appraisal. A lack of training in this area was a common problem.

However, some Councils are well developed in this area and have introduced 360° performance reviews. One Council is developing a competency based system with a high level of input from staff at all levels where they actually assess their own positions.

The documentation for performance review and appraisal varied considerably from quite simply and unsophisticated to quite the opposite. The most successful seemed to be the documentation that was flexible and could be tailor made for the position assessed.

It must be said that one Council appeared to have no consistent salary system attached to contracts which seemed to affect the morale of employees. The same Council also used the appraisal for disciplinary reasons. The affect on morale was negative.

Manukau City Council have introduced a "Staff Recognition Program" which formalises how staff will be recognised for their efforts. The methods of recognition include on the spot recognition such as a phone call, personal note or face to face thanks. Others include movie passes, team lunch/dinners and gift vouchers. The more structured recognition is also included which are pay related.

I believe this system is an excellent vehicle for employee reward which can enhance manager employee relationships and improve productivity and efficiency.

CONCLUSION AND APPLICATION

There are some differing approaches to the topic of Enterprise Bargaining and Employee Reward in New Zealand. Murray Shire Council currently is using consultants Ferguson Wise \Strategic Solutions to improve its performance in this area.

Performance reviews of all staff were introduced into this Council two years ago without much training or documentation. It can be concluded that the process has been positive for Council and a proportion of Councils staff have been rewarded by merit step pay increases. The current consultancy will address the issue of documentation for the reviews and at this stage it is proposed there be high employee involvement in developing same for their own positions. The training issue will also be addressed in the process.

A previous consultancy identified that in Murray Shire Council there was not enough recognition of good performance. The Manukau City Council "Staff Recognition Program" seems to be an excellent vehicle to address this and the Council Consultative Committee is already considering adopting a similar process.

Council has also introduced a "productivity improvement scheme" where the consultative committee provides a periodic prize of \$50.00 for the best suggestion. As part of the performance review process suggestions are sought for the improvement of performance for referral onto the consultative committee and senior staff for assessment, consideration and implementation.

EFFECTS ON ORGANISATIONAL CULTURES

Any form of change to an organisation will have an effect on the culture of it whether it be positive or negative. The New Zealand Local Government reforms resulted in almost 800 local authorities being amalgamated to form 74 new Councils. This major change alone without contracting out and LATE formation meant that organisation cultures were turned on their head.

Discussions with various officers of New Zealand Local Government revealed that staff morale in most organisations has suffered significantly. Interestingly, redundancies did not seem to be an issue for most of the Councils I visited. However, the review of salaries and conditions certainly were. The basic problem seems to be the number of changes that the Council staff have had to endure since 1989. Some Councils have had up to four (4) different CEOs and sometimes as many or more organisational restructures. It can be viewed that a period of stabilisation is warranted, particularly for these Councils.

Some of the Councils have taken significant steps to involve the staff in the processes but all have had failures in keeping the staff on board in the process. Staff have felt uncertain as to the future and that changes do not happen quick enough. One Council conducted a survey of staff where the main issue was that management did not deal with poor performers well enough.

Team meetings, staff newsletters, celebration of milestones and achievements have been common tools used to ensure employee involvement and that staff assist in evolution of change. One comment has been that with the emergence of consultants that many Council officers see a more glamorous career in the private sector as a result staff are less loyal and more mobile.

It seems the larger the organisation the less direct involvement staff can have. The staff feel distant to the changes that are taking place even though they are integral to the changes. In one Council I visited a survey revealed that it was among the most unpopular in New Zealand which was not good for staff morale. The same Council won a local government award for achievement which had the opposite effect.

Some Councils have organisation salary systems and others have relied on individual contracts with no real job evaluation. The latter has had what I consider devastating effects for one Council, combined with a number of other factors resulting in an annual staff turnover of 22%.

One Council has taken a confrontationist approach to restructuring the organisation where the unions have taken Council to court. Some restructures appear to happen overnight with no training of staff in the process and without consultation. The new culture is to start from the top.

Quality assurance has been an issue for some Councils and have proceeded down that course with mixed results. Officers of two Councils stated that their organisation was not ready for Quality Assurance training.

Other forms of employee involvement was the use of 360° appraisal systems as well as the development of competency standards at the worker level. One Council that seemed particularly successful in developing a team culture was Manukau City. One section I visited had a very well developed structure to promote teamwork with a view to problem solving and continuous improvement at the various levels. This section has had decision making and accountability transferred down to the lower level managers who are in charge of recruitment annual planning development of business plan etc. The staff in this section of the Council have become hungry to compete against private enterprise.

Some of the Councils that were amalgamated have retained old Council factions.

The manager of one LATE that I dealt with stated that the culture of his new organisation was cultivated prior to its establishment. Therefore, there was a quick transition into the LATE as the staff were prepared. He believed his staff have become more business like and have higher self esteem due to the fact that they are no longer regarded as Council workers.

This organisation seemed to have a culture for performance improvement. One tool that was used was an "OPPORTUNITY FOR IMPROVEMENT FORM" similar to the suggestion box concept. However, the reward was that the General Manager did the employees job for the day if the suggestion was considered to be meritorious. This mechanism provided an element of fun to improvement in the organisation.

Some of the Councils still operate under work arrangements that can be described as prehistoric. For example one Council had a practice for all employees to return to the Council depot for morning tea, despite where the worksite was.

CONCLUSION AND APPLICATION

I believe the success of organisations is deeply rooted in the culture that it has and develops. It was obvious to me that in the different authorities that I visited that the cultures of each were all different with some positives and negatives in each. Some organisation cultures were more negative than others.

There is no prescriptive formula to right cultural problems. Despite wholesale restructuring and reform in New Zealand Local Government, the success of an organisation will be determined by the organisation itself and the leaders in the organisation. However, I witnessed some highly motivated leaders with high ideals and clear vision but with no one who was really willing to follow them.

A situational approach to organisations can be a remedy to cultural problems. Using this approach can help the organisation learn and develop. In the case of Murray Shire Council the competitiveness of the Council in the area of road stabilisation has brought with it the ability of employees to observe work practices of other organisations. These employees compare themselves with others which has lead to greater self esteem and a will to be more competitive. This process is a preparation for further development including the possibility of contracting out. The organisation is a learning one.

There are a number of issues that come through my New Zealand experience to keep up front in managing my own organisation. These issues include fair and transparent salary and reward systems, communication, empowerment and employee involvement.

Major changes will have an adverse affect on organisation cultures. New Zealand has had major changes. In NSW Local Government still has the opportunity to be pro-active with change and reform without having it prescribed, and have the organisation culture turned upside down. However, we cannot leave our head in the sand.

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I found the New Zealand Manager Exchange Program a very rewarding experience. I take this opportunity to thank the NSW Institute of Municipal Management and the New Zealand Society of Local Government Managers for arranging the program.

The sponsors National Mutual Funds Manager should be commended on its initiative as the program will have benefits for the participant and his Council as well as Local Government generally.

In New Zealand I visited the following Councils as well as the documentation provided, much of which has been used as a source:

Tauranga District Council
Gisborne District Council
Hamilton City Council
Manukau City Council
Far North District Council
Whangarei District Council

I would like to acknowledge the co-operation that I was afforded by the many individuals who assisted me from these Councils as well as the documentation provided, much of which has been used as a source for this paper.

My Exchange Partner is Diane Maloney, Manager Leisure Services at Manukau City Council, who put together an excellent program and generous hospitality.

I would also acknowledge the support my wife Megan who accompanied me through the duration of the program.

I can recommend any Local Government Manager to take advantage of this program in the future as it is a great experience.