

# Chapter 1

## Introduction and Background

### 1.1 Origins

Structural reforms in government and public utilities are having a marked impact on smaller communities in Australia's hinterland, with possible impacts on levels of employment and economic viability in some centres.

Mindful of this situation and its own experience; and being particularly concerned at the possible impacts of contracting out on the economic and social fabric of small rural towns and the capacity of Councils to effectively govern in the interest of their communities, the Loddon Shire Council sought funding from the then Commonwealth Department of Housing and Regional Development under the Local Government Development Program to undertake a study into the impact of Compulsory Competitive Tendering, with a particular emphasis on smaller rural communities.

Loddon was joined in the project by its westerly neighbour, Buloke Shire Council, and later by the remote north-eastern Victorian Shire of Towong.

### 1.2 Purpose of the Study

The Study Brief is contained in Appendix A and the Study Steering Committee members in Appendix B.

In commissioning this study, the Loddon Shire, together with the Shires of Buloke and Towong, are seeking to:

- ◇ provide valuable feedback and advice to governments - both State and Commonwealth - on the effects of National Competition Policy on rural communities in line with their published policies;
- ◇ take greater control of their destiny as governing bodies and as stewards of the economic and social resources of their communities;
- ◇ strengthen their capacity (and that of Local Government generally) to effectively reconcile their responsibilities for providing cost-efficient services on the one hand and fostering equitable economic and social development of their municipalities on the other;

The Study has sought to do this by providing:

- **An assessment** of the likely impact and effects of CCT on the economic and social fabric of the municipalities and the viability of the Shires.
- **A process** for linking CCT requirements into the broader local Government roles including economic and social development, environmental management and community governance.
- **Recommendations** to assist in measuring, reducing or eliminating some of the negative impacts of CCT on the local economy and community;
- **Alternative ways** of improving the cost-effectiveness of services;
- **Support for the Commonwealth and State Governments** general objective of micro-economic reform in building a competitive nation;
- **The basis for a submission to government** highlighting the impact of CCT on the viability of rural Victorian communities and advocating changes to the legislated efficiency mechanisms.

### **Lack of Information on the Broader Impact of CCT**

There is a noticeable absence of any analysis of the broader external effects of CCT (eg: broader regional and local economic and social effects) to date. The analysis that has been done on contracting out has tended to focus on more direct issues such as the internal impacts of CCT on the Council organisation, the impact on service quality and choice; and whether cost savings have been delivered.

The Study reviewed some of the reform experience from Victoria to better understand the relevant effects and impacts of CCT, and looked at how CCT was working in practice and how it might impact on rural areas. It is put forward to advance the privatisation debate and influence national and state governments in their attitude and policies towards rural areas and Local Government.

## **1.3 Consultants' Preliminary Comments**

### **A Sensitive Issue**

As consultants we approached this exercise mindful of the highly polarised and political debate which the the CCT agenda has generated. We were particularly conscious of the risk that a Study such as this could easily be interpreted as having a predetermined outcome or agenda.

### **CCT: A Means to an End**

We take the view that CCT in itself is neither intrinsically good nor bad. One could say it is "morally neutral". Like most policy instruments, it is likely to have both positive impacts (many of which are highly desirable) and some negative consequences.

We also consider it essential for such mechanisms to be used as tools for delivering good government - for the ultimate well-being of society and the advancement of the nation's prosperity, rather than becoming ends in themselves.

The challenge in all these situations is to ensure that mechanisms like CCT deliver positive benefits to society whilst eliminating or reducing negative side-effects.

### **A Broader Framework of Government**

This Study was approached from the view that privatisation and competition need to be assessed within a framework which recognises our expectations of government. That framework needs to have economic, social, democratic, political and legal performance dimensions. The importance of such a multi-dimensional framework cannot be over-emphasised, since the criteria for assessing government effectiveness is much more complex than that for assessing private sector effectiveness.

### **The Challenges in Analysing CCT**

A key challenge of this Study has been that, as a policy instrument, CCT is somewhat complex and difficult to analyse.

□ *Firstly,*  
it has been acknowledged by the State Government as a bold experiment in redefining the relationship and relative roles of the

## Summary Box

### About CCT

- CCT should be a tool for good government - not an end in itself.
- There is no exact parallel elsewhere to Victorian CCT, so its impact is unpredictable.
- CCT challenges us to think hard about the role of the public and private sectors, and about the role of government itself.
- Other parallel Local Government reforms make assessment of CCT impacts difficult to isolate.
- Because rural communities are facing a multitude of challenges, rural CCT impacts need to be monitored more carefully than elsewhere.

public and private sectors; indeed it has no parallel in Australia and few if any internationally.

In this respect, former Local Government Minister Roger Hallam is on record as saying that CCT is the key to delivering the benefits of Local Government reform, but also acknowledging the need to monitor its impact, especially in rural shires.

- **Secondly,** its impact is potentially significant in terms of challenging traditional views of what the respective roles of government and the non-government sectors are.
- **Thirdly,** it has been introduced in parallel with other reforms such as Local Government restructure, making it difficult to quarantine its impact from that of other reforms.
- **Finally,** there are many powerful forces impacting on the viability of rural communities, again making it difficult to attribute with certainty the impacts of CCT.

## 1.4 Information Sources

In addition to general research, a number of other data sources were used to inform the Study:

- **A detailed analysis was undertaken of CCT experience** to date at the Loddon and Buloke Shire Councils;
- **A survey was conducted of all non-metropolitan Victorian Councils** to gain an up-to-date picture of how Local Government is handling issues arising from the implementation of CCT. The findings of this are in Chapter 6;
- Interviews were conducted with a range of people in the State and Commonwealth Government, local government associations, peak bodies, businesses, community groups, academics and others;
- A detailed Case Study was undertaken of Towong Shire Council's experience with CCT, documented in Chapter 7.
- A number of Victorian Government policies were examined to identify consistency with CCT implementation policy;
- A review and analysis of current literature pertaining to the issues was undertaken. The literature is listed in the Appendices;
- Qualitative investigation was made into the actual and potential social and economic impact in some small towns in the subject shires.

## Chapter 2

# The International Context

### 2.1 A Time of Radical Change

The 1990's have provided an environment of radical change for Governments. Throughout the world, public sector organisations are being reformed. All levels of government are under scrutiny, with the community looking to major improvements in both economic efficiency and service delivery.

Many improvements expected of the public sector are based on private sector practices. The "customer focus" movement has permeated public sector service delivery over the past decade, and has resulted in major improvements. In providing services, there is also now a requirement to benchmark, and to openly demonstrate competition and efficiency.

#### A Questioning of the Very Role of Government

In addition to service delivery practices and standards being reviewed in line with an increased "business ethos", however, there is also a deeper questioning of the public sector itself. The very roles and responsibilities of government are being opened up, along with established structures and processes.

Such challenges to the roles and services provided by the public sector are not limited to any one part of the world. The trend is clearly international. Government reforms are also now big business, with management advisors and experts participating in restructuring efforts.

#### Laudable Objectives...Mixed Results

The past two decades have seen a series of reforms being tried by the business sector and government alike.

Some, such as the trend to improve customer service, or the acceptance of methods which enable leaders to "manage by objectives" have clearly stood the test of time and have provided major benefits to public and private operations alike.

The adoption of other trends, such as "program budgeting", total quality management or "downsizing" have been the subject of strong questioning, however. By most accounts, these reforms seem to have delivered real benefits in some areas but have fallen far short in others, whilst also often having undesirable side effects. Although the goals of such reforms were usually desirable, the mechanisms themselves were often far from perfect. The promised benefits of the reform were theoretical - the actual implementation impacts were not.

The public sector needs to carefully review the experiences of recent reform initiatives. It certainly faces a clear imperative to review its role and services. However, it is also subject to an accountability to the community to adopt those reforms which clearly do lead to enhanced performance. Since the objectives of governments are multiple, including economic, social, political, environmental and cultural, any benefits or impacts in these areas should be explicit.

#### Competition and Privatisation

The pursuit of "competition" and "privatisation" are two of the most recent reforms to be adopted internationally.

Such reforms have featured heavily in the reform platforms of governments in the United Kingdom, and New Zealand for instance, prior to the more recent emphasis in Australia. Ensuring that a range of government services were contestable with suppliers from the

private sector has been a major element of these platforms.

In Australia, the desire to ensure contestability of Local Government services has been associated with calls for reforms at the national level by the Hilmer Committee and through the subsequent enactment of National Competition legislation. These drivers have been followed up most ardently by the Coalition government in Victoria.

## 2.2 Findings of International Research

The effectiveness of contracting government services has been the subject of much research and review over the past two decades. A range of findings has been reported for this area.

Comprehensive reviews of the international evidence (such as Hodge 1996) have concluded as follows:

1. Economic assessments from Local Government form most of the available empirical evidence;
2. Social impacts of contracting out are rarely reported or analysed;
3. Employment reductions and minority groups are more often than not affected by contracting efficiencies - with women, part-time workers and blacks bearing the brunt. The risk of corruption to the democratic process in the systematic sense existed;
4. The traditionally accepted openness of government can also be progressively closed off from public scrutiny and accountability, resulting in "cosy politics" where the business sector exerted undue influence on government decisions and public policy processes;
5. It is also possible that political leaders can mask any reduction in the levels of services offered through the guise of service levels "now being a contractor's responsibility";
6. The contracting literature was predominantly US in origin, and mainly from the economics, finance and business disciplines over the period 1974 to 1995;

### **Reviewing empirical measurements reported in the International research literature revealed the following findings:**

1. The average cost reduction found for all services analysed was around 6% to 12%, with a combined sample size of 20,131;
2. Looking at the types of services contracted, significant cost reductions were detected for maintenance, cleaning, and refuse collection services. Other services were found to have performance changes which were not significantly different to zero, including corporate services, police/security, health, parks and recreation, engineering, training and transport services. Thus there is only weak international evidence supporting the notion that contracting out services such as health or other human services results in significant cost savings. The argument that savings in these areas will occur with contracting relies on the presumption that either less work than previously undertaken will be required in future, or the logic that since savings were found in garbage collection they must also be available in other areas;
3. When the average cost impact for "contracting out" was compared to that for "contracting in", it was found that contracting with either sector resulted in cost savings. Looking at all international study results combined, there was no statistical

## Summary Box

### What International Research Tells Us

- Contracting delivers sizable savings in maintenance, cleaning and refuse collection, but negligible savings in all other services;
- "Contracting in" delivers around two thirds of the savings of "contracting out" for cleaning and refuse collection but almost identical savings for other services.
- Quality change under contracting out is negligible.
- The threat of competition and the acquisition of new financial performance data alone leads to real performance improvements.
- There is only weak international evidence supporting the notion that contracting out services such as health or other human services results in significant cost savings.
- Contracting out does deliver an average cost saving: its amount is from 6 to 12%.
- Social impacts of contracting out are rarely reported or analysed.
- Contracting out can reduce the openness, public scrutiny and accountability of government.
- Contracting out can permit service reductions to be more easily disguised.
- Job losses and wage reductions through contracting out tend to affect the weaker groups in society most.

4. difference between the extent to which each sector provided cost savings through contracts;
5. When focusing only on the cleaning and refuse collection services, however, some evidence of smaller cost savings through contracting with the public sector were evident. For this case, reported savings by the public sector were around two thirds of those reported for the private sector;
6. Studies undertaken more recently had much smaller impacts, around one seventh, compared to earlier studies;
7. More sophisticated studies, where controls for many variables were present, also yielded effect sizes around one half of simpler studies;
8. Cost impacts for Local Government services appeared to be smaller than those for higher levels of government;
9. In terms of country studied, Australian studies also appeared to show results not different from a statistical perspective to those from Britain. Both Australian and British results were, however, significantly different to results from the United States;
10. As best we can tell from the currently available international literature, average quality changes under contracting are not significantly different to zero;
11. Cost impacts for agency costs in areas adjacent to those areas actually contracting services showed effect sizes of around two thirds that of those areas contracting out, implying that the threat of competition and the acquisition of new financial performance knowledge itself also led to real performance improvements.

These findings were somewhat more cautious and measured than those of the former Industry Commission, which recently undertook a separate narrative review of the effectiveness of contracting-out government services.

Much of the Commission's evidence was from Australian experience. Recognising the difficulties in applying international experience to the Australian context, confirmation of the cost savings usually available through contracting services was reassuring. However, because most of the Australian findings were from studies of unknown integrity, such evidence, although local, needs to be regarded with a healthy degree of uncertainty.

## Chapter 3

# The Australian and Victorian Context

***"...Competitive neutrality is one of a range of policy tools designed to help governments achieve a more efficient allocation of society's resources..."***

***"...these efficiency objectives are not intended to override other economic, social or environmental policy goals..."***

"Competitive Neutrality"- Victorian Government Statement on National Competition Policy.

### 3.1 National Competition Policy

In April 1995 the Council of Australian Governments (COAG) reached an historic agreement to implement a National Competition Policy, a key aspect of which is agreement by all State Governments to apply principles of competitive neutrality to their significant business activities.

The Victorian government is a supporter of and party to the National Competition Policy; and has proceeded to implement a number of reforms consistent with NCP since its election in October 1992.

The State Government has recently published a *Statement of Victorian Government Policy* outlining how it intends to implement NCP. Consistent with the COAG agreement, the statement sets out the Victorian Government's policy and implementation timetable for extending competitive neutrality policies to other areas of State and Local Government business activity to ensure that those businesses do not enjoy net competitive advantages over the private sector simply as a result of public sector ownership.

One of the key rationales behind NCP is that competition, or the threat of it, can create powerful incentives for management to improve internal efficiency and to become more responsive to customers.

To quote the Victorian Statement, "...Competitive neutrality is one of a range of policy tools designed to help governments achieve a more efficient allocation of society's resources."

The Victorian Statement makes the following salient point (from Page 7):

*"...it should be stressed that the principle of competitive neutrality is concerned not with cost recovery but with the efficient allocation of resources.*

***Moreover, these efficiency objectives are not intended to override other economic, social or environmental policy goals. (our emphasis). It is in pursuit of these wider public policy goals that governments seek to ensure the provision of certain goods and services free, or at less than full cost, which the market would not otherwise provide in sufficient quantities or at a price affordable to all.***

*Where the supply of these goods and services is subject to competitive tender, the primary consideration for government, as purchaser, should be the selection of the supplier best able to deliver the specified good or service to the standard required. Only once these criteria are satisfied should considerations of relative efficiency come into play. (it is at this point that the application of competitive neutrality principles can help to ensure that competing bids are assessed on a comparable basis..."*

The NCP and the subsequent *Competition Principles Agreement* state that ***(our emphasis) the application of competition should be selective and take into account considerations such as:***

- ***ecologically sustainable development;***
- ***social welfare and equity;***
- ***economic and regional growth; and***
- ***the interests of consumers generally;***

and that these aspects should form part of a "public benefit" analysis prior to instituting structural changes related to the introduction of competition.

This Study can serve as a contribution to such "public benefit analysis".

### 3.2 Contracting in Australia

Contracting by public sector agencies in Australia is not new, with refuse collection and road maintenance having been contracted since the turn of the century.

There is nevertheless no doubt that the adoption of contracting and competitive tendering is growing throughout the nation. The 1995 Industry Commission's report on this topic estimated that around \$4.5 billion of the Commonwealth budget was contracted out in the 1994/5 year (excluding road construction activities), though much of this contracting related to contracted staff resources.

The Commission's report documents a wide range of experience with contracting, and reports much anecdotal evidence from around Australia. Contracting and competitive tendering are both playing a major part in the management reforms currently underway throughout all levels of government in Australia.

Little reliable information exists as to the extent of contracting in Australian States. Estimates of the proportion of local government expenditures contracted have ranged from as low as 7% to around 18%, with a range of service types being contracted. These estimates, made over the period 1988 to 1992, appear to be lower than those quoted by the Commission for the United States. In the USA, the average city was reported as now contracting out some 27% of its municipal services, although the source of this figure is uncertain.

### 3.3 Victorian Local Government Reform

Competitive neutrality principles underlie the introduction of CCT to Victorian Local Government, where Councils are being required to "market test" their services by exposing them to competitive tender.

But CCT is just one important element of a broad State Government program for reform of Local Government, a program which commenced with the election of the Kennett Government in 1992.

Other elements of the program include:

- Comprehensive boundary restructure, reducing the number of municipalities from 211 to 78;
- Introduction of new financial reporting procedures including requirements for Councils to depreciate assets as part of their accounting process;
- Redefining the role and function of Councillors to focus more on long term strategic and policy matters and less on day to day administration, including revised guidelines for the roles of Councillors and Chief Executive Officers;
- Revamped electoral procedures including introduction of optional postal voting;
- Compulsory reduction of rates by 20% and rate capping for the subsequent three years;
- Requirements for councils to submit their corporate plans and annual reports to the Minister for Local Government for approval;
- Introduction of a *Charter of Service*, which must be included in all Councils' business plans as a "contract of good service between a Council and its community";
- Use by State government of benchmarking and other performance indicators to compare the performance of Councils;



**In practice, the scope for local determination about which services to tender is restricted by the way the percentage targets are calculated and by direction of the Office of Local Government and the Minister.**

**The heavy impact of recent micro-economic reforms on rural communities is a policy issue of fundamental importance to Australia's future, and one which is urgent and vital for each rural community affected.**

**The fact that this impact is resulting from disaggregated decisions without regard to the combined social impact is a matter for profound concern.**

- A review of local laws.

These reforms have been complemented by others such as the privatisation of State-owned facilities including, for example, electricity and ports.

### 3.4 CCT in Victoria

The Victorian CCT legislation passed in June 1994 requires Councils to put at least 50% of their operating expenditure through a process of "market testing" via the use of competitive tendering.

The purposes are to introduce competition, produce efficiency gains and oblige Councils to define service benefits. In the 1994/5 financial year Councils must tender at least 20% of expenditure, rising to 30% in the following year and 50% in 1996/7.

The Victorian CCT program is only the second to be implemented amongst OECD countries (the first being in Britain under the Thatcher government) and is more radical in that it exposes all services to competition - including human services and town planning services. Not surprisingly, the impacts and complexities of the program are largely unknown and only just beginning to be understood.

The Victorian legislation allows each Council to determine which services it will tender (in contrast to the prescriptive British approach which lists specific services). However in practice the scope for local determination about which services to tender is considerably less due to:

- a) the new AAS27 accounting standards which require Councils to include depreciation and interest costs in "operating expenditure" the consequence of which is to raise the minimum target of 50% to well over 70%, requiring some Councils to tender virtually every service to comply; and
- b) recent statements by the Minister and the Office of Local Government to the effect that, while not specified in legislation, it is the government's intent that all services be exposed to market testing.

During the initial phase the government has decided not to introduce detailed regulations, opting instead for an industry code and guidelines and reporting measures, including a requirement for Councils to produce an annual competitive tendering statement to be submitted to the Minister within three months of the end of the financial year; however the Local Government Act gives the Minister wide powers to introduce directives.

### 3.5 Rural Communities at a Critical Point

Given the particular focus of this Study on the impacts of CCT on rural communities, it is appropriate to note the prevailing situation.

Rural communities are very much at an historic turning point in Australia.

The depopulation of Australia's hinterland as a result of economic forces and technological developments coupled with implementation of significant reforms such as the Hilmer Competition report and reform of Local Government is placing considerable pressure on the very survival of many smaller towns.

The heavy impact of recent micro-economic reforms on rural

***“Communities affected are entitled to expect that their right to exist, their contribution to the fabric of Australian life and the Victorian economy, and their future, will be taken seriously; and that a multiplicity of diverse social impacts will not be dismissed as “inevitable consequences of rural restructuring”.***

***During the Study, individuals in several Shires communicated their perception that parliamentary representatives appeared to have an “attitude of inevitability” about rural decline.***

***This attitude was said to be serving to increase the sense of pessimism amongst country people, lower morale, and reinforce the sense of cynicism towards the government as not caring about rural communities.***

communities is a policy issue of fundamental importance to Australia's future, and one which is urgent and vital for each rural community affected. The fact that this impact is resulting from disaggregated decisions without regard to the combined social impact is a matter for profound concern.

### **Powerful Forces**

Many commentators in geography, economics and regional development would take the view that the global forces impacting on rural and regional Australia are many times greater than the likely impact of policy reforms such as CCT. These changes include:

- advanced telecommunications;
- globalisation of the economy;
- continual rationalisation of business enterprises in the quest for greater efficiencies and competitive advantage;
- faster transport;
- longer shopping hours;
- more flexible working hours;
- the demand by consumers for more sophisticated goods, services and lifestyles;
- reform of the banking and financial services industry;
- reforms and efficiencies in agricultural practices;
- rationalisation of government services;

and many others.

### **Symptoms**

The effects of these forces are being manifested in rural areas through symptoms such as:

- highway bypasses;
- loss of passenger rail services (and often rail services totally);
- closure of banks;
- rationalisation of schools and hospitals;
- farmers being forced financially off the land or having to rationalise holdings into much larger units;
- the exodus of doctors and health specialists from rural areas to the city and an inability of country towns to attract doctors (partly due to the stress they are placed under with inadequate resources).

### **Fatalistic Attitudes**

Although these forces are impacting rural life so profoundly, they do not mean that the decline of all small rural communities is inevitable. Communities affected are entitled to expect that their right to exist, their contribution to the fabric of Australian life and the Victorian economy, and their future, will be taken seriously; and that a multiplicity of diverse social impacts will not be dismissed as

## Summary Box

### Chapter 3

- National Competition Policy and competitive neutrality principles form an important foundation for CCT.
- Little reliable data exists on contracting in Australian States. Estimates of average national contracted Local Government expenditure are around 7 to 18%.
- CCT is just one (important) element of a broad program for reform of Victorian Local Government.
- Legislative and policy provisions effectively mean Councils must market test virtually every part of their operations.
- CCT is the latest in a range of forces impacting on small rural communities and its potential impact needs to be clearly understood.
- Decline of small rural communities should not be dismissed as an inevitable consequence of economic restructuring.

"inevitable consequences of rural restructuring".

During the Study, individuals in several Shires communicated their perception that parliamentary representatives appeared to have an "attitude of inevitability" about rural decline. This attitude was said to be serving to increase the sense of pessimism amongst country people, lower morale, and reinforce the sense of cynicism towards the government as not caring about rural communities.

*The relationship between rural decline and CCT is discussed more fully in Chapter 10.*

# Chapter 4

## The Region and the Shires

### Regional Setting

- Agriculturally based economy.
- One person per sq. km. in parts.
- Small towns declining.
- Large towns dominate growth.
- Economic growth impeded by:
  - ageing population
  - exodus of young people
  - high unemployment
  - low incomes
  - decline in services - public and private
  - inadequate infrastructure
  - remote location
  - water quality and quantity issues
- But the region is a significant contributor to Australia's and Victoria's export wealth.

### 4.1 The Regional Setting

Loddon and Buloke Shires are located within what is variously known as the *North-Western* region of Victoria, the *Murray-Mallee Region* (the definition used by the Victorian Department of Infrastructure) and the *Western Murray Region* (the region established under the former Commonwealth Regional Development Program). For statistical purposes, the Shires are part of the *Loddon-Campaspe, Wimmera and Mallee Regions*.

Whilst Buloke Shire is more clearly characterised by its "remote dryland farming" location, the Loddon Shire straddles part of this remote country to the north and west plus relatively more populated territory closer to Bendigo.

The Interim Regional Strategy prepared for the Western Murray Regional Development Organisation indicates that the region (covering all of north-western Victoria and parts of south-western NSW):

- has an economy based on export-oriented agricultural and horticultural industries, with 30% of the workforce employed in this sector;

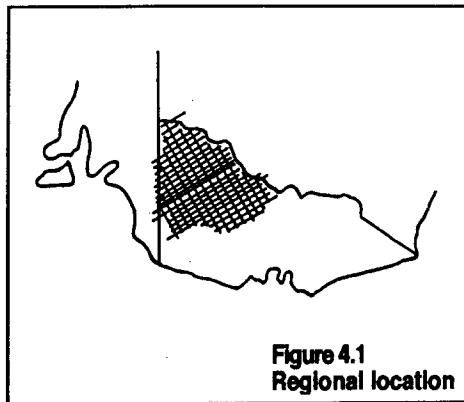


Figure 4.1 Regional location

- has a population growing slowly overall (2.5% between 1986 and 1991), but with declining populations in dryland cropping areas (15 to 25% between 1981 and 1991) and growth along the rivers;

- has an average population density of around one person per square kilometre (104,000 people in 97,000 sq kms);

- has a relatively small manufacturing and services sector, with most enterprises associated with agricultural production;

- the region's further growth and development is impeded by:
  - ageing population (due to young people leaving for work in the city and retirees moving into the region);
  - low level of skills and education;
  - water quality and quantity;
  - high unemployment levels in some centres;
  - low average incomes;
  - decline in services provided by the public sector, especially social services;
  - less than adequate quality of infrastructure (including irrigation infrastructure, education, training opportunities, transport, telecommunications, electricity and gas).

Many of the rural areas and dryland farming areas have lost population over the last decade while some of the larger centres such as Bendigo, Swan Hill and Mildura have grown significantly.

**The region is highly significant as a contributor to the nation's - and Victoria's - export income.**

There are few internal linkages between industries compared to regions such as the Goulburn Valley.

Relative to the rest of south-eastern Australia, the region is relatively remote from the capitals and gaining access to services within the capitals is difficult.

The amalgamation of Councils has resulted in rationalisation of some services in remote areas; and similar changes are evident within the state and Commonwealth public sector.

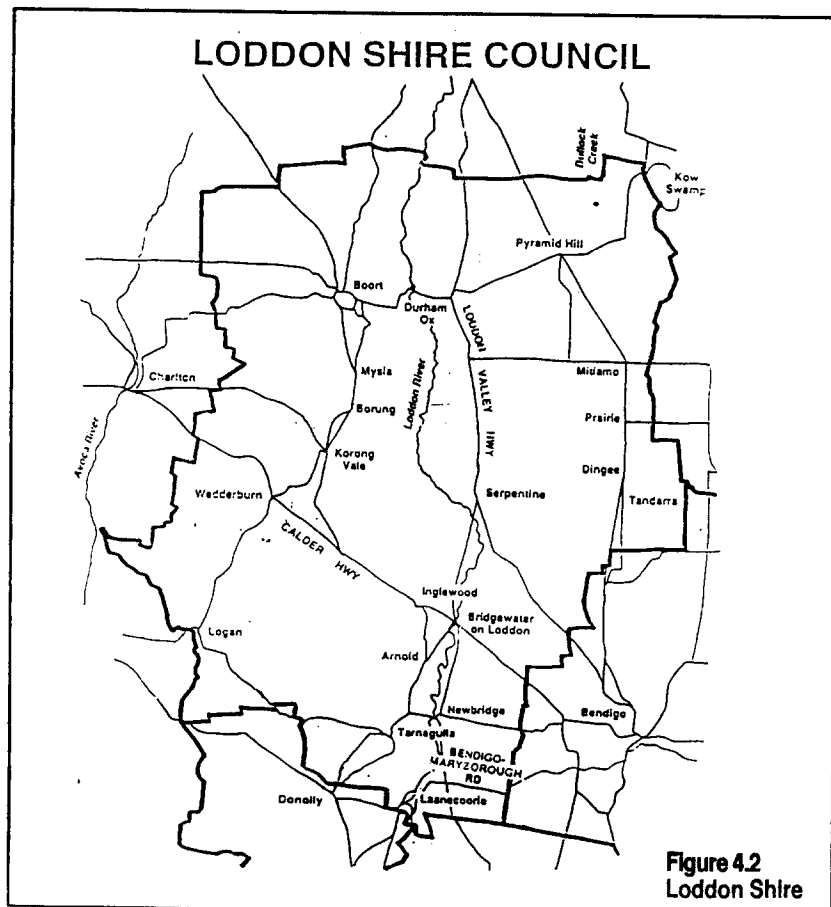
**A Significant Region Economically**

Paradoxically however, the Western Murray region is highly significant as a contributor to the nation's - and Victoria's - export income. It produces over a billion dollars of agricultural commodities each year, is the nation's largest producer of grapes and grape products, one of Australia's largest producers of dryland cereals and produces over 90% of Australia's dried vine fruits. As well, there is significant production in meat, vegetables and other commodities.

**4.2 The Shire of Loddon**

**General Description**

Loddon Shire is one of the new Victorian municipalities created in January 1995 as part of the restructure of Local Government, by amalgamation of the former Shires of East Loddon, Gordon, Korong and parts of Bet Bet, Tullaroop, Maldon, the Rural City of Marong, and the north Marong sector of the City of Greater Bendigo..



**Figure 4.2**  
**Loddon Shire**

## Loddon Shire

### Highlights

- No towns have more than 1000 people.
- Agriculture is the foundation of the economy.
- Growth potential in the south-east due to proximity to Bendigo.
- Retailing is under threat from Bendigo.
- Unemployment at around 14% is a key problem.
- High proportion of employed residents are on low incomes.
- Social infrastructure is declining; and physical infrastructure is deficient in parts.
- Agriculture, tourism, gold mining, residential growth and retirement are key economic opportunities.
- Despite major infrastructure investment needs, the Shire is required to reduce its overall rate income by 20% over a three year period and direct three quarters of the saving into rate reductions.

It is located just north-west of and adjacent to the City of Greater Bendigo, generally within a 2.5 and 3.5 hour drive from Melbourne, has a population of 9,500 and covers an area of 6500 sq kms.

The municipality's settlement pattern is characterised by a series of small towns and settlements including Boort, Wedderburn, Inglewood, Korong Vale, Pyramid Hill, Mitiamo, Dingee, Serpentine, Tarnagulla and Bridgewater on Loddon. Significantly, there are no towns of more than 1000 population in the municipality.

Climate is attractive and enables a diversity of agricultural pursuits which form the foundation of the Shire's economy. Agricultural activities include cropping, dairying, grazing, horticulture, and viticulture. Gold exploration and mining is an ongoing activity with expansion potential; whilst heritage and tourism also provide significant input into the Shire's economic base. Secondary industries including pet food, stock feed, salt and machinery manufacture play an important role in some towns.

#### Social and Economic Characteristics

The Shire has a static population with slow growth rates, typical of rural areas with increasing aged populations and younger people moving away. The influence of Bendigo is affecting the south-eastern section of the municipality where residential growth is occurring at a greater rate.

The Shire's employment profile is heavily influenced by small businesses - mainly farms and retailers - and there are few major employers. Figures reveal a higher than normal percentage of business owners. A reasonable percentage of local residents work outside the municipality, with many younger people leaving the area for work opportunities.

Unemployment in the Shire is 13.8% and regarded as too high by the Council. It is one of the biggest problems facing the community in this area and; whilst largely driven by national conditions, there are initiatives the Council can take to reduce it.

Significantly, the relative importance of retail services provided by local towns is under threat with competition from Bendigo. Many businesses in the Shire's small towns are needing to reassess their "niche" for survival.

Plentiful, competitively priced water is available. Other utility services are available, although some parts of the Shire are under-provided in terms of town water supply. Sewerage is not available to any towns; and telecommunications quality is variable in many parts of the municipality - the mobile network is particularly poor quality.

The social infrastructure of the Shire is declining, causing concern for local residents. Rationalisation of health services has reduced access in some areas.

The Council has capitalised on the high level of community involvement in assisting the formation of community and economic development committees in a number of towns in the municipality; and linked these into an overall network focussed on the Loddon Shire Development Committee. These networks provide an excellent basis for developing community and economic initiatives and for measuring the impact of CCT.

The recent *Economic Profile and Prospects* Report prepared for the Shire identifies the following economic development opportunities:

- Agricultural expansion (several opportunities documented);
- Tourism development (including events-based tourism in small towns);

**Buloke Shire**

**Highlights**

- Dryland agricultural and pastoral industries.
- Customer service approach by Council in retaining district offices.
- Southern Mallee - Northern Wimmera diversity.
- Rural development focus on value-adding and diversity.
- Council facilitation and support for community development and networking.
- Council expenditure reduced by around 10% over two years through organisational restructure, improved work practices and strategic planning.
- High Council priority on economic development.

- Gold mining;
- Residential development in towns close to Bendigo (Tarnagulla, Inglewood, Bridgewater, Serpentine and Dingee);
- Better utilisation of harness racing facilities;
- Emu abattoirs at Pyramid Hill;
- Attraction of retired persons to towns such as Inglewood and Boort;

**Financial Position**

The Shire began its existence with substantial financial liabilities and is required to achieve a savings target of \$1.13m from a total budget of around \$12m. It expects this to be found from:

- organisational structure review \$450,000 (40%)
- operating efficiencies \$250,000 (22%)
- lease payments \$150,000 (13%)
- loan servicing \$150,000 (13%)
- capital works efficiencies \$130,000 (12%)

This is compounded by the infrastructure assets of parts of the municipality being considerably run down and requiring a major capital funding injection.

Council plans to allocate 73% of its \$1.13m savings into rate reductions and the remaining 27% into asset and infrastructure preservation.

The Shire has responded positively to the government's requirement for rate pegging and rate reductions, committing to staff and asset rationalisation, modern technology, better utilisation of existing resources and multi-skilling of staff.

Improvement in quality and quantity of services will be pursued concurrently. It also expects the larger Shire size will enable greater purchasing power. Council plans to completely eliminate its loan liability by December 1997.

**4.3 The Shire of Buloke**

**General Description**

Buloke Shire lies immediately adjacent to the west of Loddon Shire but extends further to the north of the State and was formed out of an amalgamation of the former Shires of Birchip, Charlton, Donald and Wycheproof.

With a population of 8020 and an area of 8600 sq kms, it is a large and sparsely populated area. Predominantly a wheat farming area situated between the northern Wimmera and Southern Mallee regions, the Shire comprises towns such as Charlton, Wycheproof, Donald, Sea Lake and Birchip which have an average population of 1,000 each; as well as a number of smaller settlements such as Berriwillock, Culgoa, Nandaly, Nullawil and Watchem.

**Social and Economic Characteristics**

The Shire's economy is driven by the dryland agricultural and pastoral industries and the gross value of agricultural production in the Shire is over \$200 million. Nevertheless, the Shire is the largest

single employer in the municipality, injecting almost \$2 million annually into the local economy in the form of "take home pay" for Council employees.

The area is one of the State's most important production areas for cereals, pulses and oilseed crops. 18% of Victoria's pulse production and 17.5% of Victoria's cereal grains production comes from within the Shire.

Cereals comprise over 50% of the Shire's agricultural production, with the balance consisting of (in descending order) legumes, cattle, pigs, wool, sheep and lambs and other produce. The salt works in Sea Lake is an example of recent efforts to broaden and deepen the economic base of the area.

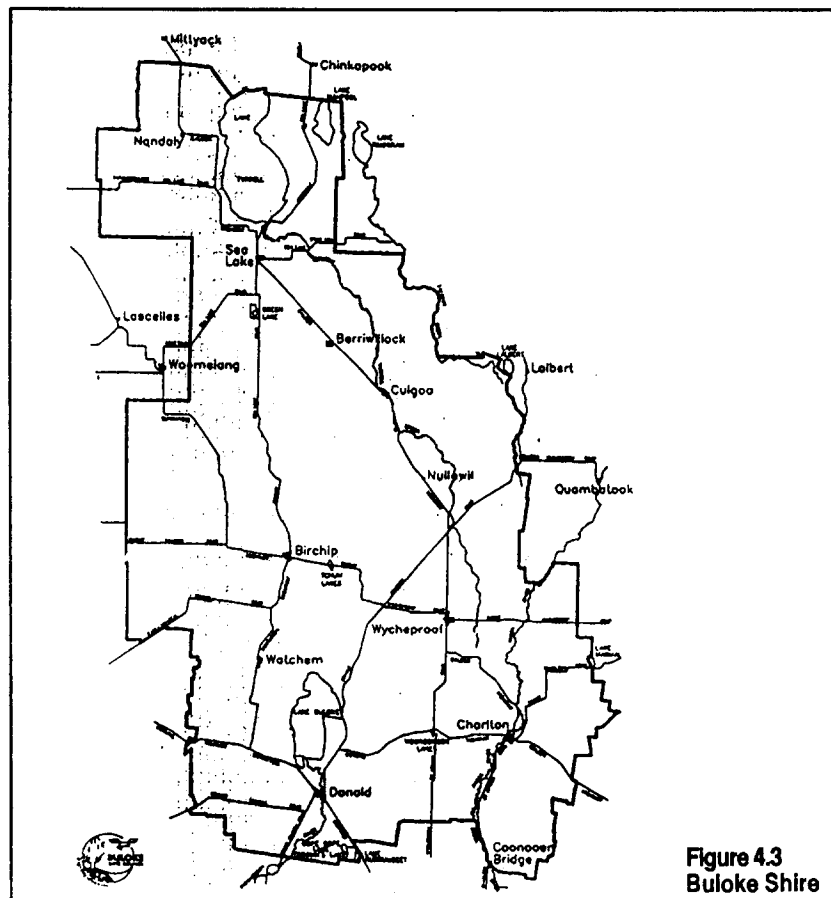
**Corporate and Financial Position**

The new Buloke Shire Council has decided to retain the existing five offices inherited from the previous Councils and provide a wide range of services from each.

The Council's Charter, corporate objectives and priorities outlined in its Corporate Plan are consistent with the overall directions of the State Government in municipal reform. In particular, it places a high priority on economic development.

The Council's three year financial forecast provides for:

- a \$500,000 reduction in annual rate income
- a 12.5% reduction in rates
- a reduction in total annual Council income from \$12.57m to \$11.25m (\$1.32m reduction)



**Figure 4.3  
Buloke Shire**

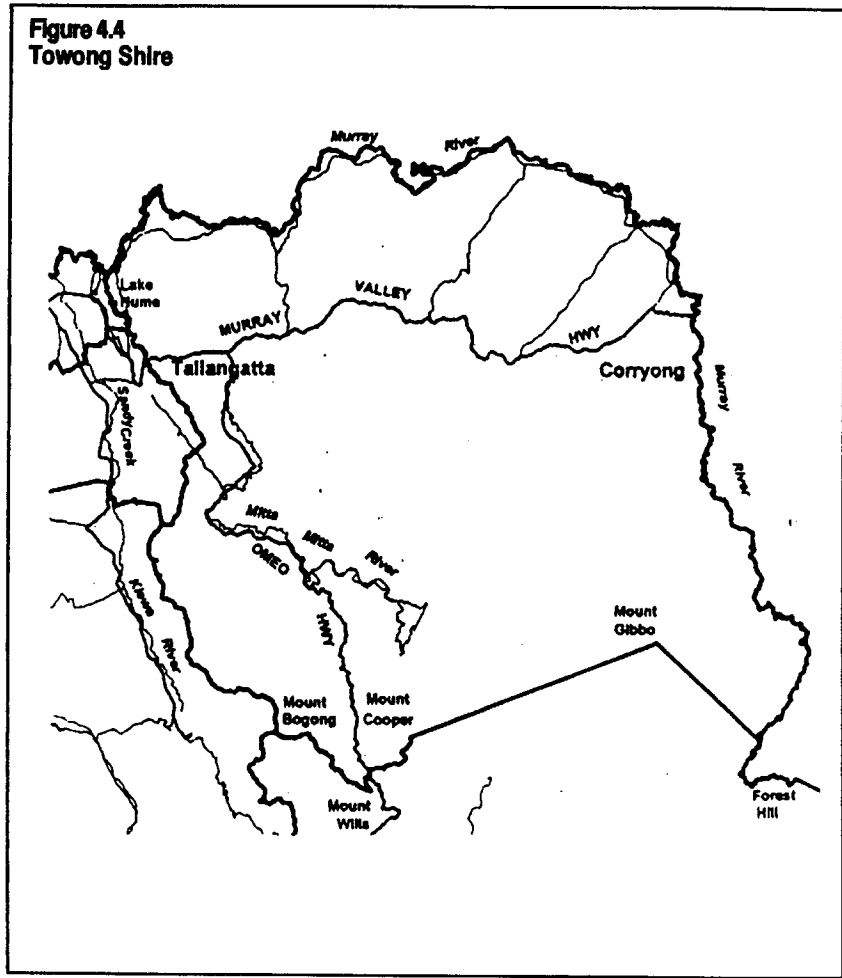


- a decrease in annual Council expenditure from \$12.55m to \$11.21m (\$1.34m reduction)

The Council is committed to at least 50% of its total operating budget being exposed to Compulsory Competitive Tendering processes by 1996/7.

#### 4.4 The Shire of Towong

Towong Shire is located in the remote north-eastern Victorian highlands, and is described in the *Case Study* in Chapter 7.



## Chapter 5

# CCT In Loddon and Buloke

This Chapter focusses on the anatomy of contracting out within the Loddon and Buloke Shires since the introduction of CCT.

### 5.1 Current CCT Position in Loddon and Buloke

The consultants examined some 150 tenders prepared in the Shires of Loddon and Buloke since the introduction of Compulsory Competitive Tendering, and examined the processes involved in preparing, specifying, advertising and awarding these tenders. The tenders awarded to date have a value of \$4.295 million.

Officers at Buloke Shire advise that, to date, CCT has resulted in a nett cost to the Shire; that is, costs of implementing CCT have exceeded financial benefits.

Details of all the tenders are set out in Appendix C.

In the course of this process we have noticed the need to distinguish between roads contracts and those for general goods and services, and we will discuss these separately in the following section.

### 5.2 Targets

Both Shires are formally achieving the Victorian Government's mandatory 1995/96 target of 30% of expenditure budget externally tested.

### 5.3 Procedures

Both Shires have established procedures to ensure the Victorian Government's CCT guidelines are observed. These include:

- introduction of a purchaser-provider split within the Council structure;
- establishing and maintaining a computerised contract register;
- clear provision of tender specifications including outcome definitions;
- advertising of contracts in regional newspapers and major contracts in statewide newspapers;
- procedures with integrity for decision-making including the use of outsiders, formal allocation of points to criteria, reporting of results to Council.

As required by the Guidelines, Council staff have taken steps to ensure a competitive climate is established, for example, a schedule of bids is provided by the Shire of Buloke to all tenderers so that the process is transparent.

### 5.4 Decision Making

In the course of reviewing contract documentation, a high integrity of decision making was observed. Criteria are formally specified in advance, and decisions for each contract criteria for selection are explicit, and are independently scored by each selection team member.

A number of criteria are specified, and in most cases the criterion of lowest cost has been the basis of selection. Other criteria which have been important have included availability of after sales service, technical excellence and anticipated trade-in value in future years.

In some areas, we noted that a contract has been split among several competing bidders, for example in relation to the supply of trees, the supply of road making materials, and the supply of trucking capacity to haul road paving materials.

In these cases, the reasons for splitting the contract seem to relate to unpredictable local requirements of various categories of supply, rather than any attempt to divide the contract for non-competitive reasons. In these instances, tenderers are required to provide a schedule of rates for the supply of services in the coming year, and it is of course open to Council to reject any schedule of rates offered in this way.

The Shire of Buloke has introduced an *Expressions of Interest Process* to streamline its motor vehicle acquisition tendering. Under this procedure, prospective tenderers are required to lodge an expression of interest following requests for such expressions published in a metropolitan newspaper. Following such registration, such tenderers are automatically provided with specifications of forthcoming tenders.

This seems to us a technique which will enhance the competitive process since it ensures a free flow of information to some 18 relevant car dealers, and the possibility of them not noticing particular newspaper advertisements during the year is overcome.

### 5.5 Pattern of Contracts Awarded

The Government's CCT guidelines require certain categories of tender to be advertised in statewide newspapers - i.e. tenders likely to be over \$100,000 in value.

As a result, many tenders are now being received by the two Shires from distant suppliers. In particular tenders for specialised services (ranging from specialised legal services through to specialised road making plant such as the *jet patcher*) are likely to come from capital cities; while in many categories of tender such as printing and the supply of vehicles, tenders come from many parts of Victoria.

#### Internal vs External

In the two Shires, contracts of a total value of \$4.925 million were awarded, divided as follows between externally awarded contracts and those awarded in-house. The breakdown is shown in Table 5.1.

Table 5.1 shows that around one third (31.8%) of Loddon contracts (on the basis of dollar value) were awarded to the Shire; and two thirds (68.2%) were awarded externally. In Buloke, only a very small proportion (2%) of the value of contracts analysed were awarded internally with the vast majority of contract value (98%) being awarded externally.

	Internal (Shire)		External		Totals	
	amount \$000s	%age	amount \$000s	%age	amount \$000s	%age
Loddon	1000.1	31.8	2144.6	68.2	3144.7	100
Buloke	36.3	2.0	1744.1	98.0	1780.4	100
Both Shires	1036.4	21.0	3888.7	79.0	4925.1	100

**Table 5.1: Amounts and Percentages of Contract Funds Won by Shires and External Contractors**

Looking at the rate at which both Shires were winning work, Loddon bid for 19 contracts in this sample. Of these, 11 were awarded to in-house tenderers. In the case of Buloke, the

**The Flow of Money at a Glance:**

- ◇ **51% (\$2.5 million) stays In the local area** (within say 50 kms of Wedderburn or Donald);
- ◇ **a further 16% (\$0.8million) goes to the wider "region"** (ie: within a band between about 50 to 100 kms radius from Wedderburn or Donald) (including regional centres such as Bendigo, Ararat, Horsham, Halls Gap and Cohuna - but not Echuca or Swan Hill);
- ◇ **16% (\$0.8million) goes to Melbourne;**
- ◇ **14% (\$0.7million) goes to the rest of Victoria** - as far away as Bairnsdale;
- ◇ **2% (\$0.1million) goes interstate** - even as far as Toowoomba.

◇ sample contained only three contracts bid for, and of these, two were awarded in-house. It is notable that in both cases, some large contracts were still to go through the CCT process at the time of this analysis.

**Geographic Spread**

Looking now at the geographic spread of dollar values from awarding contracts, it is evident from the sample that 68% of the funds from Loddon contracts were spent within 50km of Wedderburn or 50km from Donald. 31.2% of the funds were spent outside this "region" - and of this, around one third was spent in Bendigo.. However, in the case of the Buloke contracts, only 17.7% of contract funds were spent within this same 50km radius of Wedderburn or Donald.

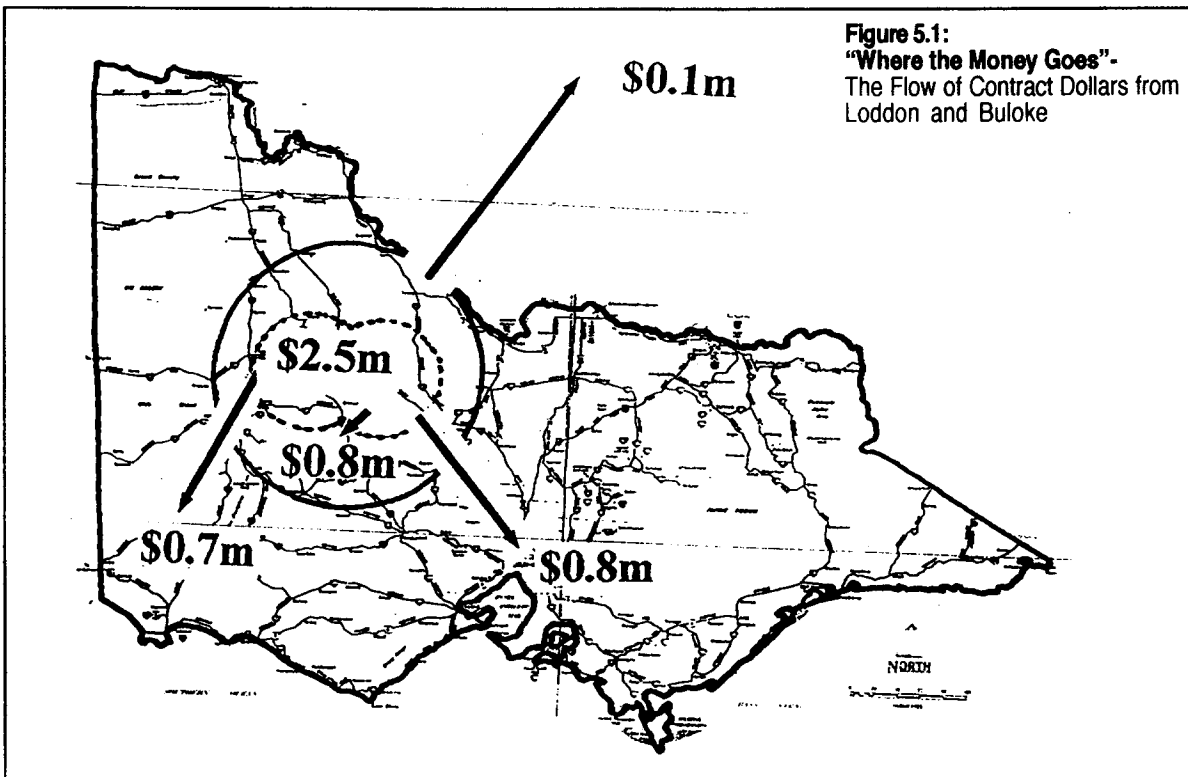
A map illustrating the geographic spread of successful bidders for various types of service is shown in Figure 5.1 below and the summary analysis in the Box on the left hand side of this page.

It must be emphasised that these figures relate only to direct expenditure under CCT. The "multiplier effect" means that each dollar spent in this way effectively ripples through the community: the Council pays the service station, the service station pays the mechanic, the mechanic pays the butcher, and the butcher deposits his money in the bank branch. A small community pays many times over for each dollar it loses under CCT and, in contrast to the position in provincial cities or the Capital, there is no compensating inward flow to make up the loss.

**Local Non-Council Tenderers**

Local non-Council tenderers in the two Shires are obtaining some work through the CCT system, but it is a decided minority in terms of number and value of contracts.

The most significant of such tenders are in the paving materials and roads maintenance areas, although we have noted successful local



**... (road maintenance) raises the issue of what the core role of small Councils in future may be, since if during the next decade the road function is lost to Council employed staff, the remaining activities will be slender indeed and no doubt below critical mass in many instances."**

**"... (therefore) Councils need to consider what their core responsibilities are to be and articulate a plan for viability..."**

**"In the field of road construction and maintenance, we were advised that limited capabilities existed in the municipality because of the absence of resource sharing arrangements..."**

tenderers in relation to printing, general legal services, the supply of motor vehicles and small engines, clothing and footwear, swimming pool maintenance, small building and renovation projects, caretaking services and the like.

It is said that, in some instances, small potential local tenderers such as one-man operations have been deterred from tendering owing to the forbidding nature of specification documents or the need to obtain public liability insurance.

Discussions with personnel revealed some factors relating to the success or otherwise of local firms:

- Some small operators in the field of cleaning had difficulties in understanding the tender documentation and developing the necessary tender bid documents;
- One local car trader could not handle trade-ins and, as a result, lost business to traders further afield;
- One car dealer was reported to have closed his local operations due to his judgment that there was now a lack of Council support for this;
- In the field of road construction and maintenance, we were also advised that limited capabilities existed in the municipality because of the absence of resource sharing arrangements, such as those which exist in Gippsland. Although the existence of the AH Plant operation does complement local activities in road construction and maintenance, it is by no means clear that such roads contracts will be retained after the full implementation of CCT.

## 5.6 Road Maintenance Contracting in Loddon and Buloke

The topic of contracting out in relation to road maintenance requires special attention.

Reasons for this include the fact that road maintenance is the biggest single spending category for these Shires, and because some two thirds of the labour force in each case is employed in this activity.

The activity is also subject to continuing and profound change, including:

- technological change as new high capacity equipment becomes available;
- institutional change as VicRoads increasingly contracts out its own maintenance requirements;
- institutional change as Councils are forced by the CCT guidelines to put their work out to contract;
- the development of a purchaser-provider split within some Councils and in some cases a propensity to bid for the work of other Councils, through business units formed for the purpose; and
- new competition from the private sector as it develops new capacity focussed toward this role, such as the Boral operation in Bendigo.

Contracting out of road maintenance is not new. Councils and the State Government have always used some measure of contracting in

## CCT in Loddon and Buloke

### Key Points

- 150 tenders let to date with a total value of \$4.295 million.
- 1995/6 year 30% CCT target formally being met.
- All procedures comply with Victorian CCT Guidelines.
- High integrity of decision making.
- Requirement for tenders over \$100,000 in value to be published in statewide newspapers means increasing competition from outside the region.
- Two thirds of tenders (\$ value) awarded externally in Loddon; but 98% in Buloke.
- Around 25% of tenders (in dollar value) are going well outside the immediate region.
- CCT savings to date are negligible or a nett cost and overshadowed by impact of government directed rate reductions.

• continued...

road construction, where the discipline of specifying construction requirements inherent in engineering project management creates a setting in which outputs are clearly articulated and contracting can readily be pursued.

Road maintenance on the other hand has more frequently been performed by day labour, reflecting the higher need for discretion and judgment in assessing site requirements. More recently, the contracting disciplines of road construction have extended to routine and periodic maintenance, and as well, a capacity to measure and make objective issues such as road pavement performance, roughness etc. have become developed.

### The VicRoads Relationship

The road functions of Local Government involve a special upward relationship with VicRoads, through which significant state and national roads funds are channelled.

In any Shire, the principal highways will be VicRoads designated main roads, for which VicRoads carries statutory responsibility, but for which VicRoads has traditionally delegated maintenance to Local Government and channelled funds accordingly. The next category of roads, i.e. local roads, are Council responsibilities, but again, have been funded in large measure through VicRoads.

In this important relationship, the underlying model has been changing toward a free market model in which relationships exist for the short term supply of services on a least cost basis.

The former model involved at best a co-operative stewardship between Councils and VicRoads in the public interest, and at worst a narrow territoriality in which expensive plant and assets lay idle for long periods with correspondingly low utilisation.

The new model is likely to lower costs and improve asset utilisation, albeit at some social cost, and with the attendant risks to long term management of road assets.

Councils need to define the role they wish to play under the new model. Do they wish to maintain an involvement in road construction and maintenance into the future? If they do, they should say so - and give their Shire Engineers a clear message as to what is expected of them.

In the future, with substantial contracting out by Shires and VicRoads, Shires will need to be even more skilful in planning projects, using appropriate contractors and in resource sharing. Those Shires which are unsuccessful in doing this may find they lose the greater part of their road construction and maintenance workforce. This in turn could in many cases undermine the viability of the Council and of the towns in which its road workers live and spend.

From a governmental standpoint, the advent in 1977 of the Commonwealth's requirements under the National Highways Program for national highway funding to be contingent on proposed works being subject to competitive bids further set the scene for the application of contracting to road construction and maintenance.

Today, the Municipal Compulsory Competitive Tendering Guidelines require that Councils should put to contract most aspects of the road function which include:

- supply of pavement materials
- hire and supply of construction and maintenance equipment
- road construction

## CCT in Loddon and Buloke

### Key Points

- Road maintenance is the biggest single expenditure category for both Shires and takes in two thirds of the Council workforce.
- Both main and local roads are largely funded through VicRoads by State and National government.
- The contracting of road maintenance raises serious issues as to the future role and viability of Shires such as these.
- Some scope exists to retain further work locally by capability improvement
- Modest changes to CCT guidelines would enable Councils to retain more local employment, thereby strengthening the economic and social fabric of small towns.

*In the future, with substantial contracting out by Shires and VicRoads, Shires will need to be even more skilful in planning projects, using appropriate contractors and in resource sharing. Those Shires which are unsuccessful in doing this may find they lose the greater part of their road construction and maintenance workforce. This in turn could in many cases undermine the viability of the Council and of the towns in which its road workers live and spend.*

- road maintenance

In parallel, VicRoads now contracts significant elements of its road construction, maintenance, and equipment functions.

Therefore we now find the Shires of Loddon and Buloke putting all aspects of the roads function to tender.

### Key Concerns

Key preoccupations at the moment include:

- (1) a sense among Council staff that it is imperative to be successful in securing a significant workload of road contracts in order to maintain staff levels;
- (2) a sense that the private sector specialists and larger Councils with business units developed for the role will be increasingly aggressive competitors for the available work;
- (3) a sense that contracting skills need to be developed quickly so that external work can be won to compensate for local work which may be lost;
- (4) a concern that the reasons for the CCT guidelines being so strict is in order to ensure that government is downsized to the maximum extent, and that in the end it will be futile for Local Government to strive for sustained competitive survival of in-house services as the rules will be changed and tightened whenever such a prospect is in view;
- (5) a tension between the desire of some Commissioners to retain employment within the Shire through encouraging competitive capacity, while Council staff are subject to pressure and audit from State Government to award on the basis of lowest cost bids irrespective of employment considerations.

These preoccupations contribute to a pessimism among Council engineering staff as to the future viability of the functions they manage. In turn this raises the issue of what the core role of small Councils in future may be, since if during the next decade the road function is lost to Council employed staff, the remaining activities will be slender indeed and no doubt below critical mass in many instances.

Councils therefore need to consider and affirm what they now view as their core responsibilities and, associated with this, they need to articulate a plan for viability in the medium term, assuming that the developments in the road function are now unstoppable.

### 5.7 Tentative Conclusions

1. The Shires of Buloke and Loddon have implemented CCT procedures in accordance with Government Guidelines and in a systematic and objective manner;
2. Lowest cost is the prevalent criterion upon which contracts for goods and services within the two Shires are awarded;
3. Competition for the supply of Council services is strong, and has been increased substantially by the CCT process;
4. Significant contracts by number and value have been awarded to businesses outside the two Shires, and indeed outside the North Central region. If local capability were developed, there is some scope to retain work represented by these contracts within the

██████████  
*"There is a perception... that the reasons for the CCT guidelines being so strict is in order to ensure that government is downsized to the maximum extent, and that in the end it will be futile for Councils to strive for sustained competitive survival of in-house services, as the rules will be changed and tightened whenever such a prospect is in view."*

██████████  
*"There is a tension between the desire of some Commissioners to retain employment within the Shire through encouraging competitive capacity, while Council staff are subject to pressure and audit from State Government to award on the basis of lowest cost bids irrespective of employment considerations."*

Shire, particular in respect to non-complex, non-manufactured goods and services such as roadside posts and swimming pool maintenance;

5. With respect to the significant area of the supply of road vehicles, some relaxation of state government policy would allow these contracts to be awarded within the Shires,
6. If local capability were developed, there is some scope to retain work represented by these contracts within the Shire, particular in respect to non-complex, non-manufactured goods and services such as roadside posts and swimming pool maintenance;
7. With respect to the significant area of the supply of road vehicles, some relaxation of state government policy would allow these contracts to be awarded within the Shires, where dealers representing all significant manufacturers exist. However, current guidelines will result in significant tenders in this area being lost to capital city dealers, with corresponding local employment impacts;
8. Commissioners in the Shires have become sensitive to the need to consider local employment implications of the CCT process, and to foster the development of local capabilities, though the scope for them to exercise discretion is limited by the CCT guidelines.