

## Chapter 6

# CCT In Non-Metropolitan Victoria

This Chapter examines the impact - both positive and negative - of CCT in non-metropolitan Municipalities throughout Victoria.

### Councils

### QUESTIONNAIRE

## Council Questionnaire

A questionnaire was prepared by the consultants and forwarded to 38 *non-metropolitan* municipalities in Victoria (including most provincial cities and rural LGAs) seeking responses in relation to the implementation of CCT.

Metropolitan municipalities were not surveyed as this was considered beyond the scope of this Study.

## Notes On Responses

A total of 18 responses were received, representing a 47% response rate. Approximately two thirds were rural LGAs and approximately one third provincial centres of varying sizes.

For confidentiality reasons, the identity of respondent Councils has not been revealed.

Some Councils verbally declined to respond (even with the assurance of confidentiality) since documents could be obtained under Freedom Of Information provisions and there was a fear of retribution by the State Government against Councils which were seen to be critical of the government's implementation of CCT.

The survey questions were deliberately open-ended to encourage responses and in recognition of the complexity of the issues. This also places some limitations on the precision of the data, but does serve as a valuable insight into the key issues being encountered by non-metropolitan Councils in the implementation of CCT.

## Summary of Survey Questions:

### ■ Question 1

*Are you able to determine at this stage whether CCT has delivered savings of any kind to your Council? If so, are you able to quantify (even approximately) what they are?*

### ■ Question 2

*Does your Council's experience suggest any impact - either real or perceived - on the nature of external tenders where an in-house bid is made?*

### ■ Question 3

*Has the implementation of CCT imposed any costs on your Council? (eg: additional contract management staff, CCT managers, documentation preparation, legal processes, advertising, staff redundancies due to failure of in-house bids, duplication or co-ordination difficulties caused by separation of purchaser/provider roles etc)? If so, can you quantify these and indicate what are the most significant cost factors?*

### ■ Question 4

*Can you indicate the percentage of contracts let to date (since the introduction of CCT) which have been won by firms from outside the municipality? Where this has occurred, has this resulted in any loss of jobs within your municipality (either from local firms or from Council itself)?*

### ■ Question 5

*Where tenders have been won by firms outside your municipality, has this had any observable impact on the economic or social fabric of any towns in your Shire?*

### ■ Question 6

*How well equipped are businesses generally in your Shire to bid for*

## **Councils**

### **QUESTIONNAIRE**

tenders your Council is letting? Where tenders have been won by firms in other locations in preference to local firms, what were the factors or reasons? Is CCT providing a challenge to local firms to increase their quality, service levels and general level of competitiveness?

#### ■ Question 7

Is CCT enabling your Council to provide better services to your constituents than was previously the case? If so, how? And in what way are the services better? (eg: quality, price, customer orientation, flexibility etc).

■ If CCT is not enabling your Council to provide better services, can you tell us why?

#### ■ Question 8

Is CCT having any impact (either positive or negative) on your Council's capacity to undertake the broader functions of governance. (eg: economic and regional development, social and cultural development, quality and cost-effective services tailored to the needs of your particular community?)

#### ■ Question 9

Is CCT having any impacts (either positive or negative) on the internal operations of your Council as an organisation?

#### ■ Question 10

Any other comments?

## **Key Findings and Issues**

In virtually all cases, CCT has imposed additional costs on Councils. In 40% of cases these costs are outweighed by definite overall savings from CCT, but in around 50% of cases these costs exceed the savings (at least at present) resulting in a nett cost to Councils.

The most prevalent and largest savings are to be found in some - but not all - of the larger provincial cities.

There is no overwhelming pattern of in-house bids influencing the competitiveness of external tenders, but 16% of respondents report in-house bids being significantly cheaper than external tenderers or clearly resulting in more cost-competitive bids from external tenderers.

At this stage there is no significant picture of local job losses resulting from CCT, however many "big ticket" contracts have not yet been let by rural councils and the full social and economic impacts are yet to occur, much less be noted or analysed. (See Chapter 10 for further discussion.)

Although CCT is forcing businesses to "lift their game", the large majority of local firms are not well equipped to compete under CCT, with firms in urban areas having an advantage. (See Chapter 9 for further discussion.)

Around two thirds of respondents reported being able to provide better services through CCT (expressed through quality, efficiency, price, industrial relations, flexibility, customer focus, specification of standards) with one third reporting no improvement (principally because of lack of competition, excessive focus on cost reduction resulting in unsustainable prices and likelihood of service failure; and reduced flexibility of Council organisation).

25% of respondents reported overall positive impacts of CCT. Overall negative impacts were cited by 65% of respondents.

## Councils QUESTIONNAIRE

***an overall pattern of the responses is that both the negative impacts of CCT and the inability of it to produce savings are significantly more prevalent amongst rural Councils; whilst the positive impacts of CCT and the frequency and size of the savings are significantly more prevalent amongst larger provincial cities (though not all).***

***When coupled with other evidence and findings compiled throughout the study, it forms one component of a strong case for a modified approach to CCT implementation in rural Shires.***

The positive impacts of CCT are seen to be improved focus on core business and outcomes, more money for capital works, appreciation of cost, corporate efficiency, better business planning, reporting, benchmarking and performance measures, cultural change and access to innovation and technology.

Negative impacts include loss of economies, demarcation and morale problems caused by the client/provider split, deskilling of Councils, excessively pressured implementation time frames and performance targets, cumbersome processes, excessive paperwork and government reporting, organisational stress, low morale, dual accounting systems and inappropriateness of percentage targets as an implementation tool.

*Most importantly however, an overall pattern of the responses is that both the negative impacts of CCT and the inability of it to produce savings are significantly more prevalent amongst rural Councils; whilst the positive impacts of CCT and the frequency and size of the savings are significantly more prevalent amongst larger provincial cities (though not all). When coupled with other evidence and findings compiled throughout the study, it forms one component of a strong case for a modified approach to CCT implementation in rural Shires.*

### Analysis of Individual Questions

#### ■ Question 1

**Are you able to determine at this stage whether CCT has delivered savings of any kind to your Council? If so, are you able to quantify (even approximately) what they are?**

Just under 40% of respondents claimed definite savings compared to previous arrangements.

50% of respondents reported no savings.

10% were unable to say, either because they were insufficiently advanced in tendering or because costs of predecessor Councils were unknown, making comparison impossible.

Those experiencing savings sometimes claimed amounts in the order of \$200,000 pa on a single contract - a not insignificant sum for many rural Councils and a major boost for achieving government-enforced rate reductions. Some larger Councils quoted significantly larger overall savings.

However it should be noted that savings quoted are gross figures and will be reduced by the additional costs incurred by CCT.

Of the 50% reporting no savings, around three quarters of these said CCT had been a NETT COST to Council, with significant costs in bid preparation, documentation, administration, staff redundancies, supervision, training, policy development and the like.

Staff time and lost productivity must be added to these costs. Some of these costs are off establishment costs and will reduce over time. Some contracts contain variations clauses, making future savings less predictable.

#### ■ Question 2

**Does your Council's experience suggest any impact - either real or perceived - on the nature of external tenders where an in-house bid is made?**

Around 40% of respondents reported no impact or influence.

16% of respondents reported the existence of in-house bids clearly causing external tenders to be more competitive and "sharpen their

## Councils QUESTIONNAIRE

***Cost imposed by CCT were in a number of cases offset by improved services, a stronger focus on planning and priority setting and a healthy questioning of past practices.***

pencils". In one case Council claimed external tenderers add 20% to their price if they know there is no in-house bid.

Other observations included:

- external tenderers being suspicious of how they will be treated vis-a-vis the in-house team;
- difficulty for external tenderers to win tenders first time because of Council redundancy costs and tax exemptions enjoyed by Council business units.
- there is a tendency for external tenderers in civil engineering, works etc. to be higher quality and better prepared than others, reflecting the long established history of local government contracting in this field.
- in some cases local firms were not willing to tender.

### ■ Question 3

**Has the implementation of CCT imposed any costs on your Council? (eg: additional contract management staff, CCT managers, documentation preparation, legal processes, advertising, staff redundancies due to failure of in-house bids, duplication or co-ordination difficulties caused by separation of purchaser/provider roles etc)?**

**If so, can you quantify these and indicate what are the most significant cost factors?**

95% of respondents reported the imposition of costs on Council as a result of CCT. 5% said it was difficult to judge.

The extent of additional costs varied from \$60,000 to over \$4million, with the majority between \$150,000 and \$200,000 (not including redundancies)..

Increased costs include coordination of staff, advertising, postage, staff time, consultants, contract supervision, staff training, policy development, redundancy payments, new computer software, bid preparation, specification writing, loss of organisational synergy, lost productivity, duplication of accounting and finance functions, and vast amounts of state government paperwork and reporting requirements.

A number of respondents noted that such costs were offset by improved services, stronger focus on planning and priority setting and a healthy questioning of past practices.

### ■ Question 4

**Can you indicate the percentage of contracts let to date (since the introduction of CCT) which have been won by firms from outside the municipality? Where this has occurred, has this resulted in any loss of jobs within your municipality (either from local firms or from Council itself)?**

There was no observable pattern in the proportion of contracts won by firms outside the municipality. Responses varied from "minimal" to "many" with examples of percentages being 8, 15, 20, 25, 33 and 48.

In virtually all responses, Councils were unaware of local job losses as a result of contracts being won by firms from outside the region or locality. Some Councils cited job losses through restructuring however, pointing up the difficulty in distinguishing CCT impacts from amalgamation impacts.

## Councils QUESTIONNAIRE

***the full cycle of implementation of current CCT policies has yet to work through in most communities (for example, in many cases Councils have not yet let their most substantial contracts, such as road construction & maintenance and parks & gardens) and the full social and economic impacts are yet to occur, much less be noted or analysed.***

***Although CCT is forcing businesses to "lift their game", 60% of respondents reported that local firms were definitely not well equipped to bid for tenders under CCT.***

In several cases where outside firms had won sizable contracts, they were intending to employ local labour. In other (few) cases, previously external contracts have been won by in-house teams, resulting in jobs actually being created.

It needs to be noted, however, that many rural Councils have not yet placed the "big ticket" items (such as road construction and maintenance, parks and gardens etc) to tender at this stage. Therefore there remains enormous potential for local job losses which cannot as yet be predicted or documented.

### ■ Question 5

**Where tenders have been won by firms outside your municipality, has this had any observable impact on the economic or social fabric of any towns in your Shire?**

85% of respondents reported no impact or no observable impact. 7% said it was too early to tell; and 8% reported an impact.

However, it is important to note that the full cycle of implementation of current CCT policies has yet to work through in most communities (for example, in many cases Councils have not yet let their most substantial contracts, such as road construction & maintenance and parks & gardens) and the full social and economic impacts are yet to occur, much less be noted or analysed.

One Shire in the wheatbelt reported that, whilst only two jobs had been lost to date, morale in one town had dropped due to perceived lack of support. The town has a population of 750 including 20 Council works crew members, most with families. Job losses would be devastating for the town, causing house prices to fall further and there are no alternative jobs.

### ■ Question 6

**How well equipped are businesses generally in your Shire to bid for tenders your Council is letting?**

**Where tenders have been won by firms in other locations in preference to local firms, what were the factors or reasons? Is CCT providing a challenge to local firms to increase their quality, service levels and general level of competitiveness?**

60% of respondents reported that local firms were definitely not well equipped to bid for tenders under CCT. A further 20% indicated that firms were improving under pressure, but still lacked the appropriate skills and were on a steep learning curve.

Reasons included firms being too small, not being "in the market", unable to meet Council's standards, not having the necessary skills, not having suitable products. In one case there were no local bids for 80% of the work.

Firms in urban areas appear to have a definite advantage over rural firms, partly because of their greater capacity to cope with documentation, paperwork and tendering processes generally.

One respondent commented that if small firms combine to bid they can be accused of collusive tendering under NCP guidelines.

Some Councils believe local firms still have an attitude that they have a right to win the work simply because they are local. In a number of cases local firms were adequately equipped but were not bidding because they were content with existing workload and lifestyle.

In many cases outside firms were seen as having better management



**Councils**  
**QUESTIONNAIRE**

**Approximately two thirds of respondents reported better services...**

and back-up; and a "window on the world" enabling them to bring new ideas, techniques and quality levels not available locally.

It appears CCT is forcing firms generally to "lift their game"

### ■ Question 7

**Is CCT enabling your Council to provide better services to your constituents than was previously the case? If so, how? And in what way are the services better? (eg: quality, price, customer orientation, flexibility etc).**

Approximately two thirds of respondents reported better services, with around one third saying there as no improvement or too difficult to say at this stage.

In this context, the term "better" has several dimensions:-

Improvements brought by CCT were not necessarily in tangibly improved services, but centred on features such as greater customer orientation and service, greater efficiency (but the same level of service as previously), lower prices, greater flexibility, higher quality, being able to specify the service standards so everyone knows exactly what they are getting, being forced to examine the best way of delivering services that have traditionally been delivered in the same way for years (often without any thought or review), local area work agreements which enable more flexibility than the old industrial awards, consistent service standards throughout the municipality; and "knowing where we spend our money".

Doubts were expressed by some as to whether contractors would be able to deliver on the quoted costs without sacrificing quality - "only time will tell".

### ■ If CCT is not enabling your Council to provide better services, can you tell us why?

Those that indicated CCT was not enabling them to provide better services cited the following reasons:

The most common reason cited was that the CCT process is focussed on driving down costs, contracts are usually let to the lowest tenderer and firms will do the minimum they can get away with to satisfy the specification and maximise profits, or they will be unable to put in extra work because their costs have been shaved.

Some respondents claim evidence of contractors bidding at a price that they know will win them the tender, not at a realistic price for delivering the quality actually required by the specification. Contractors aim to succeed in this tactic by relying on the Council not having the resources to supervise and follow up properly.

This is especially so in rural areas, where geographic dispersion makes check-up work even harder.

Limited or no competition, prevalent in rural areas, will not improve services and in fact costs the Council considerably in administrative effort and costs, for little if any gain.

There is a concern that CCT will have negative effect on some services, especially human services where there is a big community input. The transfer of the admin costs from Council to the contractor will result in reduction of service for same cost or require greater community contribution.

Loss of flexibility within the Council organisation was seen as a major problem, especially in smaller Councils.



**Councils**  
**QUESTIONNAIRE**

Some Councils cited poor quality of specifications as a reason for not achieving better services (clearly a problem that can be overcome with time and experience).

### ■ Question 8

**Is CCT having any impact (either positive or negative) on your Council's capacity to undertake the broader functions of governance. (eg: economic and regional development, social and cultural development, quality and cost-effective services tailored to the needs of your particular community?)**

Around 40% of respondents said there was no observable impact one way or the other.

Around 30% of respondents said CCT was having a positive impact (for example, in making the Council focus on what it wants to achieve, its objectives and core business, enabling senior staff to focus more on governance functions, enabling council to run a larger capital works program, and in specifications enabling services to be more tailored to the community than before).

25% of respondents said CCT was having a negative impact on these functions (for example: losing the economies of multi-skilling through tendering out, over-emphasis on the CCT process at expense of getting on with the job, the cumbersome CCT process slowing down the overall operations of Council, staff efforts being diverted away from core business to CCT matters).

5% said it was too early to tell.

Some respondents noted that rate capping was having a much more significant impact than CCT on Council's ability to govern.

### ■ Question 9

**Is CCT having any impacts (either positive or negative) on the internal operations of your Council as an organisation?**

Around 65% of respondents claimed negative impacts.

25% cited positive impacts.

Around 15% made observations that were neither positive nor negative.

Positive impacts included:

- appreciation of cost and effectiveness;
- unravelling of "black holes" in the organisation (better corporate efficiency);
- focussing better on outcomes (thinking through what we do);
- better business planning.
- clear separation of client and provider
- increased efficiency and lower costs
- improved reporting, costing, benchmarking and performance measures and an appreciation by staff of the costs of every action taken.

Negative impacts included:

- *The Client/Provider Split: Over 80% of the negative replies mentioned the client/provider split as a key problem, citing it as creating two separate organisations, demarcation problems, lack*

## Councils QUESTIONNAIRE

***“CCT should provide significant cost savings for metro and provincial centres, but may be just an additional cost in rural areas where there is no competition. If you don't have competition, CCT won't work.”***

A provincial city based respondent to the survey.

- of cooperation between staff, making the organisation less flexible; and managers having to “wear two hats”
- because staff numbers are now minimal, it gives Council less flexibility to reallocate resources internally when needed;
- deskilling of the organisation (what will this mean in future?)
- takes up a large amount of Council resources and ties Council into long commitments (3 to 5 years);
- stressful for the organisation (but many have coped and grown through the experience);
- reduction in staff;
- low morale and anxiety over job security
- costs
- dual accounting mechanisms

It was noted that in some cases, training had turned around negative staff attitudes.

### ■ Question 10

#### Any other comments?

A number of comments were made, reproduced below unsummarised:

- CCT is not delivering enough savings to maintain or even improve assets to compensate for decreased revenue in rates and state and commonwealth grants.
- Question: if Council enters into a contract for child care services and the federal govt. withdraws operational subsidies mid-way through, where does that leave Council?;
- Very hard to see CCT having overall benefits in remote areas - considerable stress and pain generated in the process. All of the benefits of CCT could be achieved in other ways;
- CCT has brought cultural benefits but no financial benefits at this stage;
- Time frame for introduction of CCT does not allow poorly resourced Councils to take full advantage of it
- May cause problems because Councils are forced to rush through decisions because of legislative timeframes;
- CCT has given Council access to firms it previously did not have; and improved quality of services;
- Council's success with CCT has only been possible through application of quality management
- CCT is fair because it makes Council play the same rules (of competition) as the region's major firms;
- Impacts of CCT are complex: “There must be a better way to improve the quality and efficiency of services”
- Activity based costing and benchmarking are useful methods to ensure awareness of competitive position.
- (From a provincial city): “CCT should provide significant cost



The logo consists of a rectangular box with horizontal lines. The word "Councils" is written in a bold, italicized serif font in the upper right portion of the box. Below it, the word "QUESTIONNAIRE" is written in a bold, sans-serif font, all in capital letters, within a solid black rectangular area.

- savings for metro and provincial centres, but may be just an additional cost in rural areas where there is no competition. If you don't have competition, CCT won't work."
- CCT is not working in our municipality, because of lack of competition.
- We are confident savings will be made in future, after we have got over the transitional costs.
- Apart from minor irritations, CCT has been good, but the Government should measure it by some other means than percentage expenditure targets.

## Chapter 7

### Towong Shire: Case Study

This chapter examines in more detail the impact of and response to CCT in a remote Victorian Municipality - the Shire of Towong.

#### General Description

Towong Shire is situated in a relatively remote part of north-eastern Victoria, generally east of Albury-Wodonga. Covering an area of 6635 sq kms and a population of 6,700, it includes the towns of Corryong, Tallangatta, Walwa, Cudgewa and several other settlements.

The Shire has a total annual cash budget of \$8.3m, a rate base of \$1.87m and 100 staff (65 EFT). Its "rural remote" character is emphasised by the fact that it is the eleventh largest Victorian Shire in area but the third smallest in population and has the second lowest rate income in Victoria (the Borough of Queenscliffe has the lowest). Some 60 to 70% of land in the Shire is Crown land (mainly forest) and therefore unrateable.

#### The Influence of Topography and Remoteness on Local Attitudes

In the Commissioners' view, the Shire's topography has had the biggest impact on CCT. A series of small isolated valley communities, each with their own unique cultures, separated by mountain ranges and generally a significant distance from any substantial towns except for perhaps Tallangatta which is 45 mins drive from Albury-Wodonga.

This geographical remoteness and settlement pattern has influenced not only the number of available firms to tender, but shaped a local culture less receptive and understanding of the CCT approach.

According to Towong Commissioners, the two previous Councils maintained a high rates policy, generally kept jobs local and had no economic development policy. The Commissioners feel this approach stultified entrepreneurial activity, held the area back and reinforced the prevailing "anti-change" attitude of the people.

#### CCT: Mixed Results To Date

The implementation of CCT in Towong Shire has delivered mixed results. Whilst it has improved accountability, focussed on quality improvement, forced the close examination of existing services and improved efficiencies, the generation of competition has been difficult if not impossible and the CCT process as currently legislated has increased rather than reduced costs to Council.

#### Problems:

- ◇ Market Failure
- ◇ Time and Cost
- ◇ Client/Provider Split
- ◇ Packaging Tenders

The Shire has experienced difficulty implementing CCT primarily because of "market failure" which is prevalent in remote areas. Frequently they have gone to considerable expense to prepare tender documentation, only to find no response from the market. This is despite Council having run a series of seminars to inform and train local firms in tendering for work.

For example, the private road contractors in the Towong area were not interested in Council tenders because they already had sufficient work and no desire to expand, mainly for lifestyle reasons.

A second major problem has been the time and expense put into implementing CCT for little if any gain to date. Typically the Chief Executive spends 5 to 10% of his time on CCT matters. The Council estimates it has spent around \$80,000 in the last twelve months on CCT, including CEO's time, appointment of a CCT officer, advertising

**Towong Shire**

**At a Glance**

- One person per sq. kilometre.
- Eleventh largest Victorian Shire in area.
- Third smallest in population.
- Second lowest rate income in Victoria (ahead of Queenscliffe).
- 60 to 70% of land in the Shire is Crown land (mainly forest) and therefore unrateable.

***“...In these (remote) types of areas in particular, CCT cannot be separated artificially from issues like economic and social development and municipal restructure....”***

Towong Shire Commissioners.

and evaluating tender specifications and the like.

A third problem is the client-provider role split in the CCT legislation, particularly for rural shires with low staff levels. It adds costs to small organisations.

Packaging of tenders has been difficult in Towong. Larger contractors in Albury-Wodonga were generally not interested in tendering for small contracts, but will bid for the larger jobs. Therefore the Shire has had to package or “bundle” functions together into large tenders to attract the competition, but sometimes this type of packaging is inappropriate in terms of the particular delivery or quality requirements. At this stage the jury is still out on this matter.

From the Council’s point of view, it is useless tendering out individual services - they must be packaged, because some are too small to count for even one staff member.

**Telecommunications Inadequate**

The absence of mobile telephone infrastructure within the Shire is thought to be a deterrent to contractors tendering for work throughout the municipality.

**Employment Impact**

The Commissioners have differing views as to whether CCT will result in job losses for local people. If the successful contractors are locals they will almost inevitably employ local people, but if larger firms from outside the Shire (eg: Albury Wodonga) are successful, local jobs may well be lost.

The local progress association claims the awarding of the roads contract to an outside firm will result in a loss of 35 local jobs - significant for towns of this size. Tallangatta residents will be better placed to pick up work in Albury Wodonga, but those living in Corryong have few opportunities if they lose their jobs because of its isolation.

It should be noted that the recent road maintenance tender was awarded to the in-house bid, resulting in no job losses to the district.

**CCT Benefits:**

- ◊ Major Cost Savings
- ◊ Culture Change
- ◊ Work Practices

Despite market failure problems on many of the early tenders, Towong Shire has had “successful” CCT outcomes with two recent major contracts:

- road maintenance at \$2.0m, down from \$2.2m prior to contracting out; and
- parks and gardens at \$130,000, down from \$195,000 when the job was performed in house.

Together these two contracts represent 25% of the Shire’s total cash expenditure. In gross terms the contracts are expected to save \$250,000 to \$300,000 per annum less the set-up and ongoing running costs imposed by CCT.

On the positive side, CCT has been helpful in changing the culture of the Council staff. For example, the Shire’s parks and gardens staff failed in their in-house bid for that particular tender, which made the other staff “sit up and take notice” and realise change in attitude,

***The impact of local government reform on small rural and remote communities has been underestimated.***

Towong Shire Commissioners.

***Councils are locked into double standard policies which require improved services with a 20% cut in rate income, preventing them from acting in the best interests of their communities.***

Towong Shire Commissioners.

culture and work practices was needed.

At this stage, the Commissioners are comfortable with the 50% CCT target.

**Particular Issues Facing Remote Areas**

Generally, Towong Shire believes the present CCT system needs to be reviewed to address the needs of remote rural areas and smaller municipalities generally.

In these types of areas in particular, CCT cannot be separated artificially from issues like economic and social development and municipal restructure.

Commissioners believe that even the new Shire of Towong is too small to attract government grants for economic development projects. The additional lobbying and advocacy effectiveness since restructure is, they consider, due more to the capacity of the Commissioners than the size of the municipality.

The social impact of Local Government reform on small rural and remote communities has also been underestimated by the State Government. A study of its impact would likely reveal the impacts to be profound.

Much of the Shire's analysis of the difficulties in achieving CCT targets has been undertaken in the broader context of the difficulty in achieving the Government's 20% rate reductions over a three year period, targets which appear unrealistic for municipalities like Towong.

The Shire has prepared a detailed case study outlining its CCT experience with a number of recent contracts. This Study is contained in Appendix D.

**Recommended Changes to CCT**

The Shire has made a number of recommendations to the Victorian Office of Local Government for changing the CCT legislation and operating methods. These include:

- Flexibility to prepare a preliminary EOI to test the market prior to preparing and issuing formal tender documentation; and the ability to treat the market responses to the EOI as eligible CCT expenditure to avoid the added expense and duplication of formal tendering. (This would require an amendment to Section 208F and 208C of the Local Government Act in accordance with the proposals outlined in the Shire of Towong's Case Study. (Towong has drafted the wording for this amendment.)
- Simplification of the monthly reporting requirements to the Victorian Office of Local Government which are far too onerous.

**The Remote Local Government Assistance Policy - a Towong Initiative**

Towong Shire has prepared a "Remote Rural Local government Assistance Policy" in an attempt to deal with the problems of remote rural Local Government areas not fully addressed in the Victorian Local Government restructuring.

These problems include:

- ◊ lack of competition through remoteness has not delivered savings through CCT;
- ◊ low rate income from a low population base is an endemic problem not fixed by amalgamations;
- ◊ further compulsory savings and cuts would reduce service and further create unemployment and undermine small country towns and villages;
- ◊ the geography, distance and isolation of towns within these Shires creates management and economic difficulties particular to the area;
- ◊ the dependence upon State and Federal government funding for the continued economic viability of the Shire;
- ◊ additional travelling times and costs for Council staff having to move constantly between different parts of the new Shires, spending time in different municipal offices, and attending state, regional and other important meetings. (Much of this time was halved or greatly less under the old municipalities and is an additional cost on the new LGAs.)

Towong highlights the problem of Councils being locked into double standard policies which require no diminution of services but require a cut in rate income (20% over three years) and government-imposed rate capping.

These requirements will inevitably reduce service delivery and cause harm to small towns. Isolated rural communities need sustenance and a continued advocacy, not further unemployment and reduced services, which will now happen with a reduced income.

This issue needs attention in order to preserve the socio-economic well-being of isolated rural communities and their fabric.

### **Possible Scenarios**

Possible policy scenarios include:

- ◊ Complying with government policies, reducing savings, resulting in unemployment, reduced services, economic damage and poor relations between the Shire and country towns;
- ◊ Retaining employment and service delivery at current levels and increase budget deficit, met by an offsetting State Government grant;
- ◊ Increase redundancies and reduce services;
- ◊ Increase Shire loans and borrowings;
- ◊ Establish new income earning programs for the Shires;
- ◊ Seeking changes to VGC formulae to reflect disability factors of remote rural municipalities.

## Chapter 8-

# Benchmarking The Services

This chapter deals with the benchmarking of specific services in the Loddon and Buloke Shires.

### 8.1 Introduction

As part of this study, a basic benchmarking study was undertaken of two services across the Loddon and Buloke Shire Councils.

Services benchmarked were:

- \* sealed and unsealed road maintenance;
- \* town planning services.

Results were compared with other appropriate non-metropolitan Councils and Statewide figures where available.

The purpose of this exercise was to help determine whether the cost and quality of the Shires' services in these fields match the overall market.

### 8.2 The Benchmarking Process

The Benchmarking process requires at the very least two values to be determined in order to compare how any particular service performs relative to the market. Those values are:

- (i) the calculation of an indicator (or indicators) which describes the amount of resources required to provide one unit of a service. Typically the resources are expressed in terms of dollars expended or employees utilised. The unit of a service however, is limited only to measurable quantities and will vary depending on the specific services being examined. For example, for road maintenance, the total kilometres of sealed and unsealed roads would provide a measure of the scale of the task requiring the service.
- (ii) a benchmark to compare the calculated service indicator against.

Benchmarks can rarely be expressed as a specific numeric value<sup>1</sup> which would enable an 'absolute' comparison between the service performance and the benchmark. In order to obtain a specific benchmark value, it would be necessary to have a large data base of results in areas where there is a significant market involving both public and private sector entities delivering similar services. In addition it is important that local or other factors are not so variable that the individual values which go to make up the data base cannot be validly compared.

More typically, benchmarking involves a 'relative' comparison by calculating the same indicator for other similar entities. In these circumstances, the performance of any particular service can be compared in a relative manner and an assessment can be made as to whether the service is similar or dissimilar to other providers of the same service.

Where such a comparison yields similar results, it can be concluded that while improvement to the service may be possible, there is no reason to suspect the service is significantly better or significantly worse than the market.

On the other hand, where a comparison for a particular service indicates a dissimilar level of performance, it requires explanation either by identifying special local factors or in their absence, a suspicion that service delivery is out-of-step with the market.

<sup>1</sup> Such as, for example, a benchmark of 1000 tonnes per employee per year in refuse collection is considered an appropriate benchmark and enables absolute comparisons.

### 8.3 Methodology

Neither of the selected services has an established industry benchmark which could be used as an 'absolute' comparison.

The technology involved in optimising the programming of road maintenance is undergoing significant development with Pavement Management Systems (PMS) and Maintenance Management Systems (MMS) becoming available as computer programs. There seems to be little doubt that such technology will be widespread and will enable over time, as the database increases, the specification of unit rates which could serve as benchmarks.

Local Government statutory town planning, on the other hand, has never had a private sector participation and because of its high intellectual content, does not easily lend itself to measurable service outputs and the definition of service indicators.

Given the above, benchmarking in this instance involved a 'relative' comparison with other local governments. On enquiry, the only available source of consistently collected local government data since amalgamation is the data held by the Victorian Grants Commission for the municipal year ending June 1995.

However, before presenting the results, it is important to add one further qualification. As can be seen in Tables 8.1 and 8.2, the size of the tasks and the corresponding expenditures on road maintenance are in the order of ten or more times greater than those in connection with Town Planning services.

Accordingly, any conclusions derived from the analysis of the road maintenance statistics should take on relatively greater importance and town planning services relatively lesser importance given the relative expenditure of each.

In respect of this data, a number of factors should be clearly stated:

- (i) the data relates to only the 9 month period 1/9/94 to 30/6/95, given the change in the defined fiscal year; and
- (ii) many Councils on amalgamation inherited a number of former municipalities and sometimes part-municipalities. In those circumstances, they inherited different systems including different accounting and record-keeping systems.

As a consequence of the above, the quality of the data must be viewed with some suspicion and we note that the Australian Bureau of Statistics is unwilling to rely on that data at this stage.

Accordingly, any conclusions implied by an analysis of the data would have to be regarded as preliminary and should be verified independently.

Notwithstanding the above, the Consultants sought and obtained an electronic copy of all the data held by the Victorian Grants Commission for Road Construction and Maintenance and Planning and Development for all Victorian Councils for the 1995 fiscal year.

After a review of the data, Tables 8.1 and 8.2 (shown in Appendix E) were prepared for Road Maintenance and Town Planning Services respectively which summarise the key information used for the benchmarking.

Of particular importance is the ratios shown in the right-hand columns. Table 8.1 has ratios labelled as:

- Cost per kilometre (Local Roads); and
- Cost per kilometre (Main Roads)

Similarly, Table 8.2 shows ratios labelled as

- Cost per capita;

***The only available source of consistently collected Local Government data since amalgamation is that held by the Victorian Grants Commission for the municipal year ending June 1995...***

***...as a consequence, the quality of the data must be viewed with some suspicion; and we note that the Australian Bureau of Statistics is unwilling to rely on that data at this stage.***

***“In terms of road maintenance services, Loddon and Buloke Shires’ performance is broadly consistent with the current market.”***

*...But current information suggests a closer examination of the data should be undertaken to reassure the Shires that services are in fact in line with the market.*

- Cost per unit area; and
- Cost per population density<sup>2</sup>

These respective ratios form the basis of the benchmarking comparison described in Section 8.4.

## **8.4 Results: Assessment of the Shires’ Competitive Position**

### **Road Maintenance**

Figures 8.1 and 8.2 show histograms comparing the cost per kilometre of Local and Main Roads respectively for each of Victoria’s North Western Municipalities.

From the figures, it can be seen that the services that Loddon and Buloke Shires provide fall slightly under the average result but are nevertheless very central to expectations if the more extreme results are discounted.

As a consequence, the conclusion is that the current service is broadly consistent with the market at this time.

### **Town Planning Services**

Figures 8.3 and 8.4 show a comparison of service cost per head of population and service cost per square kilometre respectively. On the available information, Loddon appears to be high and Buloke low when compared on a per capita basis but both are at the lower end of the scale when area is used as a measure of the overall service requirement.

In addition, Figure 8.5 has been prepared which shows the cost per population density. That ratio overcomes the distorting effect of the more urban municipalities (particularly Greater Bendigo). That comparison nevertheless still shows Loddon as relatively high and Buloke relatively low.

As another measure, the number of Town Planning Applications at both Loddon and Buloke were obtained with the respective numbers shown below:

Loddon:	120 (approximate)
Buloke:	27 <sup>3</sup>

Given the above, even though the Shires have similar populations and areas, there is a marked difference in the level of demand for town planning services and this largely explains the differences between the two Shires.

Nevertheless, the results for both Shires are at the edge rather than the centre of expectations and current information suggests a closer examination of the data should be undertaken to reassure the Shires that services are in fact in line with the market.

<sup>2</sup> Population density defined as the average population per square kilometre.

<sup>3</sup> Nine months to June 30, 1995.



## 8.5 Conclusions

Benchmarking using techniques such as those contained in this report can be undertaken for all services performed by the shires and enables "relative" comparisons with comparable municipalities.

At Loddon and Buloke the overwhelming proportion of expenditure and employment is in connection with road construction and maintenance. The continued or discontinued delivery of this service by the Shires may not only have an impact on the viability of the local community but also on the feasible organisational structure of the Shire administration.

Consequently, it is these services where most effort needs to be directed in terms of responding to CCT.

Notwithstanding the important conclusions on the veracity of the Victorian Grants Commission data, the delivery of road maintenance services at both Shires appears to be generally consistent with the market and, as such, there is no reason to be apprehensive of market testing per se.

Furthermore, given that road maintenance is such a crucial service, it is worth noting that there is nothing in the benchmarking results which would indicate that either Shire would be unable to readily compete with the private sector.

### Alternatives to Benchmarking

The Study Brief sought the development of alternative approaches to benchmarking.

At the outset, we would say that if a Council wishes to test its services against the market, there is fundamentally no alternative to benchmarking. The benchmarking techniques or methodology may vary, but the comparison must be made.

One alternative to CCT could be for the services to be retained by the Shire but independently benchmarked to ensure performance at market levels.

Such alternatives would not be available to all municipalities, but rather those where total populations are small or where the number of Shire/Council employees plus their families represents a significant proportion of a rural community's population.

***At Loddon and Buloke the overwhelming proportion of expenditure and employment is in connection with road construction and maintenance.***

***The continued or discontinued delivery of this service by the Shires may not only have an impact on the viability of the local community but also on the feasible organisational structure of the Shire administration.***

FIGURE 9.1: COSTS (\$) PER KM OF LOCAL ROAD - NORTH WESTERN MUNICIPALITIES

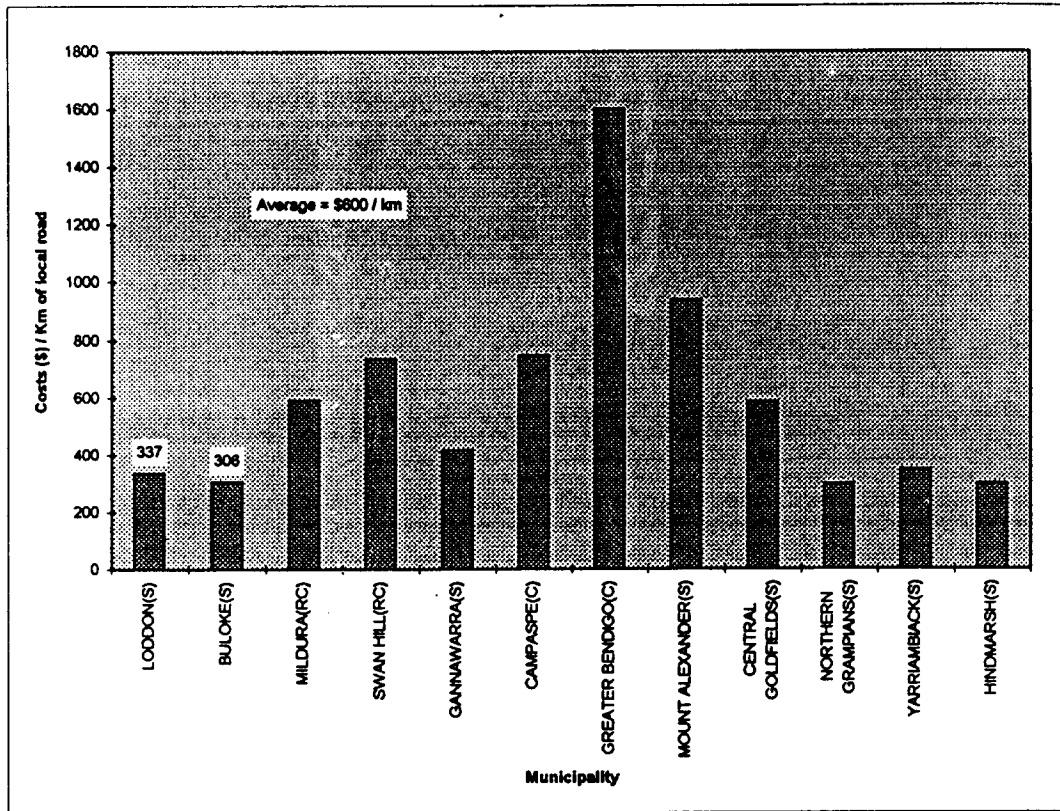


FIGURE 9.2: COSTS (\$) PER KM OF MAIN ROAD - NORTH WESTERN MUNICIPALITIES

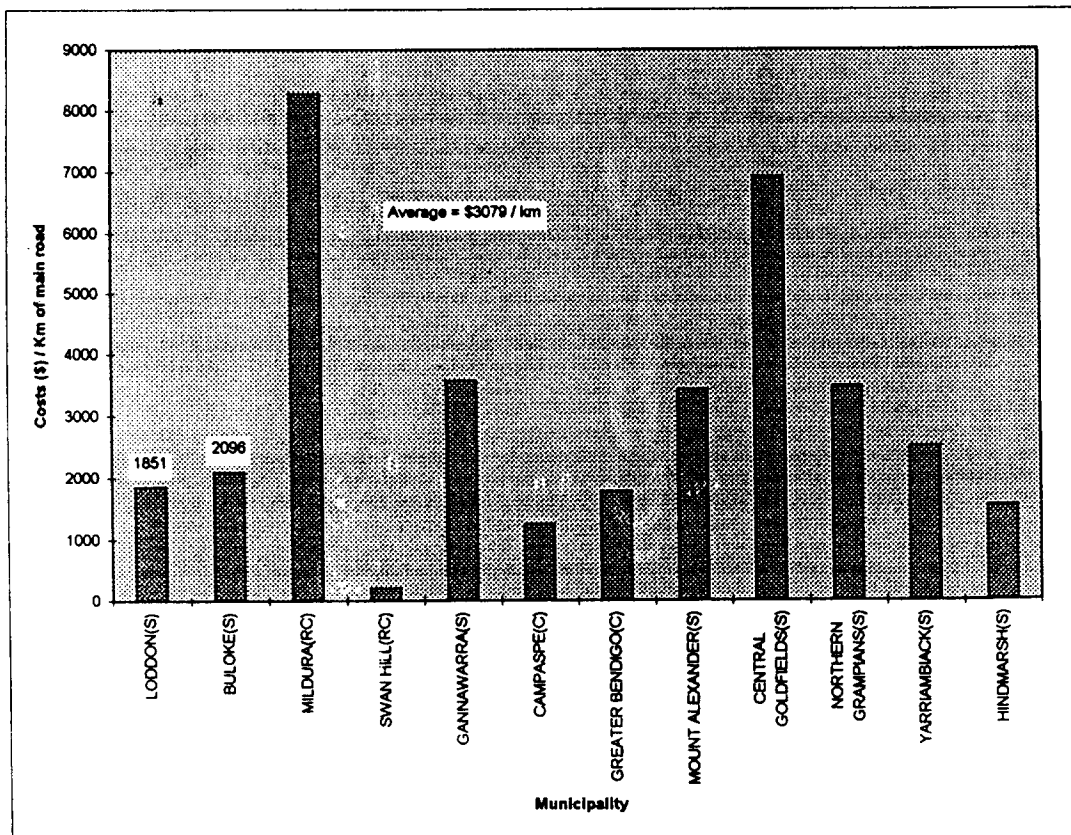


FIGURE 9.3: PLANNING AND DEVELOPMENT COSTS (\$) PER HEAD OF POPULATION - NORTH WESTERN MUNICIPALITIES

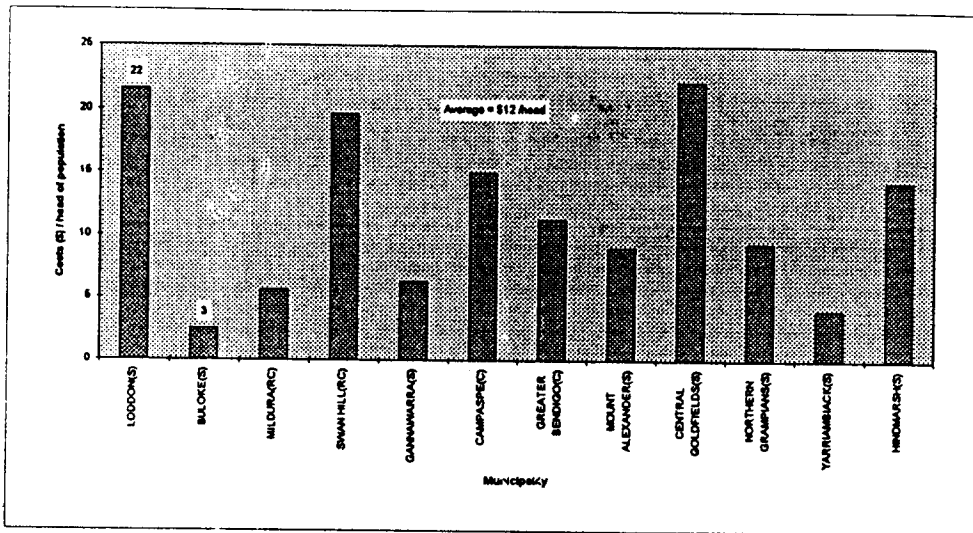


FIGURE 9.4: PLANNING AND DEVELOPMENT COSTS (\$) PER KM<sup>2</sup> OF AREA - NORTH WESTERN MUNICIPALITIES

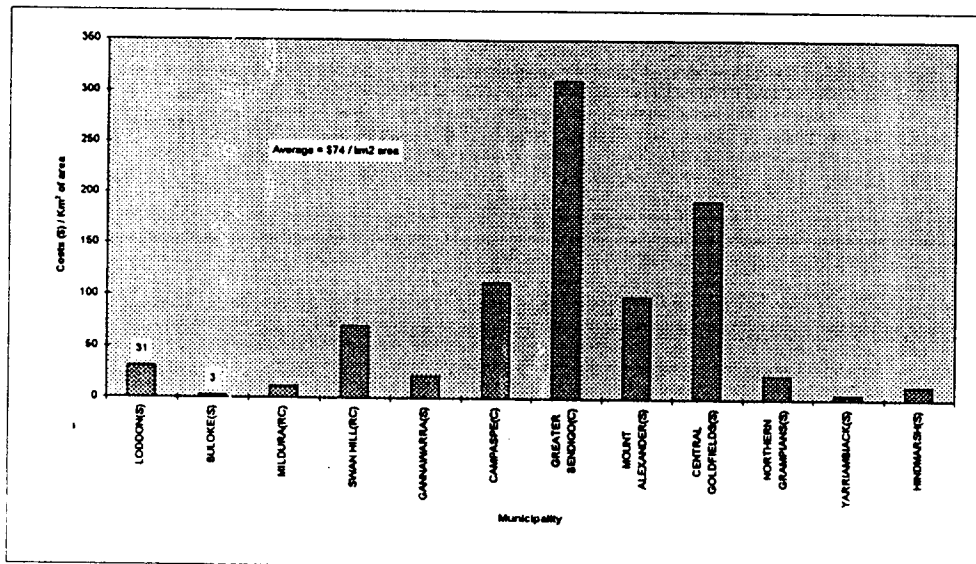
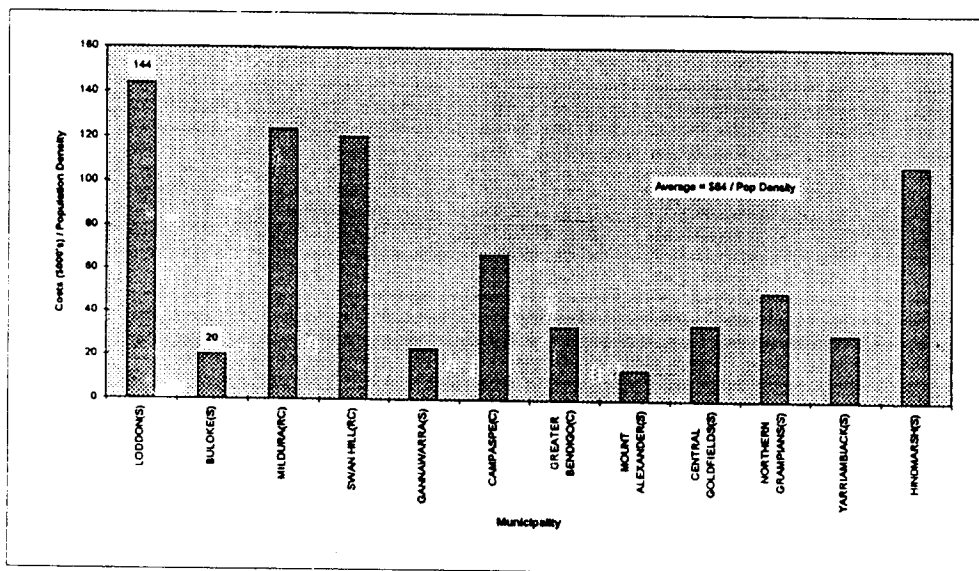


FIGURE 9.5: PLANNING AND DEVELOPMENT COSTS (\$000's) PER POPULATION DENSITY - NORTH WESTERN MUNICIPALITIES



## Chapter 9

# CCT and Small Business

**A key rationale for the introduction of CCT has been to improve opportunities for the private sector in innovating and delivering services. Small business has been cited as a particular beneficiary...**

**...but (in rural areas at least) small businesses are being particularly disadvantaged by aspects of CCT and, in addition, are inadequately prepared - in organisation, attitude, culture and quality - to participate in the new system.**

**Because of the particular factors facing small rural towns, small businesses in those towns face multiple disadvantages.**

## 9.1 Introduction

A key rationale for the introduction of CCT has been to improve opportunities for the private sector in innovating and delivering services. Small business has been cited as a particular beneficiary.

Our investigations showed, however, that small businesses are being particularly disadvantaged by aspects of CCT and, in addition, are inadequately prepared - in organisation, attitude, culture and quality - to participate in the new system. Because of the particular factors facing small rural towns, small businesses in those towns face multiple disadvantages. It is far from a level playing field.

Officers at the Loddon Shires reported significant lack of awareness and cultural readiness for competition by many of the Shire's small businesses. Many do not want to compete or are unaware of the quality of service being offered by competitors in the larger towns, and some are "just not up to scratch".

In Towong, similar observations were made. In addition there is the phenomenon of local firms or contractors being quite satisfied with their current level of work and (for quite legitimate lifestyle reasons) not wishing to bid for additional work.

All these observations were confirmed with further information gained through interviews, Council questionnaire results and other literature

## 9.2 Impacts of CCT on Small Business

How is the CCT system indirectly impacting on small firms? The following observations were made:

### □ Lack of Skills in Tendering

Bidding for tenders often involves a different set of skills to those needed by the firm to actually undertake the work. Successful tendering requires skilful submission writing, costing, financial planning, marketing and a range of other skills. They are not the skills typically held by small firms specialising in trades and services.

Take cleaning for example. A small business may perform first rate cleaning services and have a history of successful work for a municipality, but lose out under CCT because they are not geared up to cope with the tendering process.

### □ Contract Managers Are More Conscious of Risk

Because contracting out is becoming so prevalent, a new "profession" is emerging of contract managers and purchasing and tendering specialists. These people are becoming more highly trained and occupying increasingly influential and senior positions in organisations, dealing with increasingly large amounts of money and extensive purchasing responsibilities.

This increased responsibility and accountability drives contract managers to apply much higher scrutiny and tougher standards in awarding tenders (partly for their own protection) with the result that larger, more established firms have an advantage over smaller firms.

### □ Complexity of Tendering Process Discourages Small Operators

Psychologically, small operators tend to be daunted, confused and discouraged by the large amount of paperwork associated with

## The Issue of Local Supplier Preference in Tendering

One course of action rural Councils could take to support local businesses is to give them preference in the tendering process. However there are conflicting views as to the legality of this approach.

The Victorian Office of Local Government takes the view that Councils are free to award contracts to bidders on factors other than lowest price, provided they justify the decision and demonstrate that these factors outweigh the issue of lowest price; but that a Council cannot indicate in a tender specification that it intends to give preference to local suppliers since this would be contrary to National Competition Policy.

However, the NSW Independent Commission Against Corruption (ICAC) has ruled in a case that, whilst local supplier preference may be an assessment criterion for contractor selection, it should be exercised with caution and it is clearly unfair to use local supplier preference when the tenderers had not been informed of this fact in advance nor been given information about the manner in which it would operate. In summing up its determination on the case, ICAC said *"Government agencies must make their own decision on whether to adopt a local supplier preference policy. Those which decide on a policy of this type should clearly document how the policy will operate in all situations and make it explicit in evaluation criteria. They should estimate the costs and set acceptable limits in advance, and state the policy openly to tenderers and the public. They should also monitor regularly such factors as cost to the agency, impact on competitiveness and success in achieving the policy's objectives, and report their findings to the public."*

**This apparent difference in interpretation should be clarified and an agreed framework developed for the use of local supplier preference policies in rural municipalities.**

The full text of the ICAC Case Study (Chapter 8 in "Pitfalls or Probity: Tendering and Purchasing Case Studies", ICAC, June 1993) is attached in the Appendices.

tendering. One example cited was 80 pages of documentation for a tender involving two hours per week cleaning public toilets.

In many cases, tradespeople who previously performed high quality work for Councils were not bidding under CCT because of the complexity of the system. Simplification of documentation should be a priority.

### □ Local Suppliers Bypassed in Favour of Bulk Purchasing Schemes

Because of the pressure on Councils to meet CCT percentage targets within very tight timelines, many are sourcing supplies through the MAPS and other industry-wide purchasing schemes which qualifies them for CCT points, enabling Councils to quickly and painlessly accrue CCT credits.

But in doing so, local suppliers are being by-passed and thereby losing business, since preferred suppliers to MAPS more commonly are larger city-based firms. In many cases, Councils want to support local businesses, but the time pressures imposed by CCT predominate and already pressured Council staff will tend to take the easier option.

### □ Price Undercutting by Larger Firms

CCT appears to be driving market prices down. Whilst in a global sense, this is good for consumers and customers, there is a risk that many low prices are unsustainable. (A number of Councils indicated in the survey that they feared some contract prices awarded were unsustainable and would result in lower service quality or even failure during the term of the contract.) Where low tender prices are sustainable, this is in part due to the capacity of larger firms to absorb an initial loss in order to win the business, knowing this can be absorbed in subsequent contracts. Smaller firms do not have the capacity to undercut and absorb losses in this way.

### □ Lack of Training and Support Services

There appears to be little if any funding earmarked by government bodies such as Ausindustry, DEETYA, Small Business Victoria, Office of Local Government and Councils themselves for small business training courses and in providing professional assistance to firms in preparing tenders.

### □ Lack of Organisational Structures and Frameworks

Many small firms are disadvantaged in tendering because they do not have systems in place internally to address Equal Employment Opportunity, Quality Assurance, Occupational Health and Safety, Risk Analysis, Project Management and the like. Obtaining Quality Assurance is expensive for small firms.

Furthermore, there appears to be no longer any lobby group specifically directed to representing the interests of small business.

The above observations confirm the tendency of CCT implementation policy to create a dynamic where business is taken from small businesses in rural communities and this portion of the market transferred to larger concerns in provincial cities and capital cities. Smaller businesses (like smaller communities) are losing to larger businesses and larger communities.

One example cited was 80 pages of documentation for a tender involving two hours per week cleaning public toilets.

**“...the tendency of CCT implementation policy is to create a situation where business is taken from small businesses in rural communities and transferred to larger concerns in provincial cities and capital cities.**

**Smaller businesses (like smaller communities) are losing to larger businesses and larger communities.”**

**CCT may be good for the economy...but which economy? Its benefits and impacts are differential.**

A recent report for the Commonwealth Government by Chant Link and Associates on *Small and Medium Enterprises (SMEs) and the Government Marketplace*, highlighted calls by the House of Representatives Standing Committee on Industry, Science and Technology, the Bevis Report and *Working Nation* (the former government's White Paper on Employment and Growth) for government purchasing decision to take greater account of local industry development. It also noted that smaller firms are more reliant on government markets than larger firms; and that the tendering processes were the second most significant barrier to SMEs seeking government business.

### 9.3 Victorian Government Small Business Policy

The Victorian Government's Small Business Policy aims, inter alia, to “...increase jobs, business and educational opportunities for all Victorians, to reduce the cost of living; and to provide quality services at local community level that underpin a secure, safe and stable society”. Contracting out of many government services is said to have created new opportunities for small business.

The Policy recognises that small business remains the most vulnerable sector of the economy, sensitive to external changes, not having the reserves to cope with the demands of growth or changes in market requirements and having a weaker representative voice.

Policy action is focussed on the following categories:

- taking support services to small business in all locations
- cutting the cost of doing business
- cutting red tape
- improving access to finance
- cooperation between small business and government
- achieving excellence in small business
- specialist support to targeted sectors (youth, families, franchisees, home business)
- exporters
- mentoring
- shop trading hours

Of particular relevance to this Study is a stated commitment in the Policy to strengthen the relationship between Local Government and small business, outsourcing government services and the further reform of government purchasing policies to assist small business.

The Government states it intends to:

- facilitate and guide the development by local Councils of *Small Business Statements* (outlining how Councils are able to assist small business development); and
- encourage Councils to strongly promote and support small business development in their municipalities;
- conduct a *Local Government Small Business Forum Series* to promote the development and use by Councils of the Small Business Statements and ensure effective representation of small business concerns. The Forum series will address sector concerns regarding greater equity in municipal rating, Local Government charges and levies on business, experience of competitive tendering and the particular problems faced by small traders in strip shopping centres;
- develop a *Small Business in Government Tendering and Purchasing Program* to improve small business' awareness of government purchasing opportunities, encourage them to respond to Council and government tenders, ensure that government purchasing programs do not set hurdles in the way of

**Undercutting of local firms by city-based businesses.**

**A local excavating contractor:**

An example of this scenario is given in a recent letter to the Shire of Loddon by a local excavating contractor, Bruce Fawcett, from Pyramid Hill:

*"My family and I run an excavating business in the Pyramid Hill area and have done so for 15 years.*

*We are worried about the effects of CCT on local industry and the local government workforce. We had a case recently where we lost a job to a Melbourne company.*

*Our charge rates are a reasonable \$70 per hour, which we view as a fair rate. In this instance we lost the work to a Melbourne company that quoted a low rate of \$35 per hour, in what we believe was a case of the Melbourne company "buying work" to keep their operators on between jobs in Melbourne.*

*While we can see short-term benefits for the Shire in contracting at these low rates, the long term effects on the viability of local contractors must be addressed.*

*I see a potential danger in this type of event happening where the Shire is tendering for its own work with the result being the loss of local jobs."*

- small business responses, provide support to small business in preparing tender documentation; and give preference to small business in government outsourcing to ensure small business are given sufficient opportunities.

**Comment**

The Government's initiatives set out in this policy are intended to strengthen small business and in our view would help significantly. However, given the particular impacts of CCT on small business in rural areas and that sector's unpreparedness of small business to respond to opportunities presented by CCT, the Government should move as a matter of urgency to implement the initiatives outlined in the policy and to make appropriate changes to CCT guidelines.

***A review needs to be undertaken of both CCT and Small Business policies to ensure they are working consistently as an integrated package. At present, on the available evidence they are working in contradiction, with many small businesses at a distinct disadvantage in responding to tenders under CCT.***

**9.4 Possible Responses**

A number of actions could be taken to address the issues raised in this Chapter. These are outlined later in the *Recommendations* chapter.