MUNICIPAL REFORMS IN TASMANIA: THE IMPACT OF THE PURCHASER-PROVIDER SPLIT ON SERVICE DELIVERY IN HOBART AND SORELL COUNCILS

BY

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DECLARATION

This thesis contains no material which has been accepted for a degree or diploma by the University or any other institution, except by way of background information and duly acknowledged in the thesis. To the best of my knowledge and belief, this thesis contains no material previously published or written by another person except where due acknowledgement is made in the text.

Abdulai Kuyini Mohammed

September 2007

Date
AUTHORITY OF ACCESS

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Abdulai Kuyini Mohammed

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September 2007

Date
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Abstract

This thesis examines the purchaser-provider split in the contexts of two Tasmanian local government areas – Hobart and Sorell. In particular, it addresses whether the focus of the purchaser has been redirected in a way that prioritises the assessment and meeting of the needs of public service customers over the hitherto preoccupation with service production. This implies a clear shift of emphasis from inputs and processes to outputs and outcomes. In proceeding with that assessment, other research is reviewed along with the presentation of the results of the council case studies.

The study investigates whether that split has had an effect on councils’ total service spending, employment and organisational culture and practices. The behaviour of these variables over time then provides the basis for determining whether there is an asymmetry in outcomes between the two councils as a result of the introduction of the purchaser-provider split. The thesis uses a longitudinal research design to analyse data collected from interviews and secondary sources such as reports, strategic and annual plans, and newsletters.

This thesis finds that local governments in Tasmania are still preoccupied with inputs and processes regardless of whether services are delivered by internal or external providers. The purchaser-provider split has been found to be unrelated to service category-level spending. The introduction of the model has not led to reductions in total municipal service spending but has decreased employment. The impact of the split on quality of services is unknown. Concern with outputs is evident although this has a weak relation to outcomes. The purchaser’s attention has been drawn more to achieving outputs than outcomes, even though both are supposedly its responsibility. This evidence, although mixed, does serve to qualify earlier research results which posited improvements in delivery outcome through the split for some services.
INTRODUCTION

Local government is not constitutionally recognised as a level of government in Australia. This lack of recognition together with the establishment of new state governments following Australia federation in 1901 has, arguably contributed to the low esteem in which that sphere of government has been held. Local government has been considered as a creature of the state government and a convenient administrative arrangement to which it could delegate part of its functions. Thus, the overriding philosophy for local government was one of regulation and stewardship of certain public assets rather than ensuring that local communities were provided with the full range of services and facilities required for a reasonable quality of life.

Over the past two decades, however, local government has emerged from its traditional origins as a provider and maintainer of infrastructure works programs to become a form of government with increasing responsibility for residents’ well being, the overall quality of life of its local communities and the delivery of a wide range of services. Subsequently, the social, economic and environmental concerns of local residents now find their place alongside physical infrastructure development imperatives as important responsibilities of Australia’s local governments.

Municipal governments could not, however, have developed in these directions if they had not embraced changes that were necessary to overcome the problems of limited autonomy and a lack of power of general competence that were hampering the effective conduct of local government business. These changes to which local government in all Australian states have been subjected, were launched as part of the national reform agenda which was aimed at ensuring the highest possible levels of
efficiency through programs of management reform, targeting better use of resources, and productivity increases to enable more to be done with less. The national reform agenda was in turn informed by an international menu of reform initiatives collectively referred to as the new public management.

No state and territory in Australia has been left untouched by these waves of reform which came under three headings: legislative, managerial and microeconomic. These policy-induced changes have substantially altered the nature and form of local government. Legislative reforms have changed the essential elements of councils’ operations: granted them wider competence powers, improved accountability mechanisms, reduced detailed prescriptions and changed planning and other delegated powers. Managerial reforms saw the major and continuous change for local government in its functional responsibilities, in the level of expenditure not covered by rates and borrowings, in the demands placed on its professional officers, and in the need for councillors to be adaptable and change attitude to their tasks. Microeconomic reform demanded economy, efficiency and effectiveness in the conduct of council business; it drew attention to ownership, outputs, costs, structures and systems; and it located public provision in relation to markets.

This thesis focuses one of these three broad categories of reform, that of microeconomic reform, and narrows down to the study of one of its aspects known as the purchaser-provider split and its impact on service delivery, employment and organisational culture and practices in two Tasmanian local government areas – Hobart and Sorell councils. Although two Tasmanian local government areas are the focus of analysis the investigation makes comparison with the experiences of other
Australian municipal governments with the purchaser-provider split. In particular the impact of the purchaser-provider split on service spending in the Council of Sydney and Mornington Peninsula Council in the states of New South Wales and Victoria respectively have been examined in such service areas as property management, parks maintenance, light fleet management, street cleaning, road construction, and maintenance of physical infrastructure. The study also draws on research literature on the impact of the purchaser-provider split on local governments in the UK and New Zealand. A service specific approach to the evaluation of the impact of the purchaser-provider split has not been attempted (even though selected individual services for which performance indicators were developed since 1999 have been examined). Instead all services which organisation has been affected, in terms of policy and delivery by the purchaser-provider split, have been considered.

**Research questions**

A number of questions are posed in this study about the applicability of the purchaser-provider split to the public sector. Some commentators view the application of the model to the public sector as appropriate, while others are doubtful about its usefulness for the conduct of public business. The answers to these questions should furnish some insights about the appropriateness or otherwise of the purchaser-provider split as a model for the public sector.

Because public sector goods and services are varied and wide-ranging alternative mechanisms are required to deliver them efficiently and effectively. Governments may employ bureaucracy, policy networks or contracting regimes to provide its citizens with goods, services, rules and money. Considered against the backdrop of
the inherent limitations of the purchaser-provider split, the multiplicity of, and preference for, different approaches for public provision of goods and services, a question arises. That is, whether the purchaser-provider split is a preferred and effective management tool for implementation in many countries. This question is especially relevant in an era where resources globally are becoming scarcer and any attempt at experimentation with this paradigm shift in management will entail the consumption of the already scarce resources while the experiments are not guaranteed positive outcomes.

Another point is that the public sector today faces challenging times. Throughout the world, governments are under challenge to deliver services with fewer resources in an atmosphere of increasing demand for more accountability. Driving the taxpayers’ dollars further, while at the same time ensuring high standards of service delivery, is the task that must be met by those who operate the public sector. A dilemma is therefore faced: that of avoiding waste of resources which trial and error under the purchaser-provider split entails, and meeting citizens’ demands for improved service delivery with accountability, which the purchaser-provider split promises. One therefore wonders how this dilemma is resolved in countries that are experimenting with the purchaser-provider split, especially how those who operate the public sector are able to gain a clear understanding of the context and framework within which they operate, up to the minute knowledge of international best practice, and a variety of skills needed to manage a complex array of interfaces.

A third point is that implementation of a policy as Pressman and Wildavsky argue, will become less and less effective as the links between all the various agencies
involved in carrying out a policy form an ‘implementation deficit’. Goals have to be clearly defined and understood, resources made available, the chain of command be capable of assembling and controlling resources and the system able to communicate effectively and control those individuals involved in the performance of the tasks (Pressman and Wildavsky 1973). Obviously, the purchaser-provider split entails differing modes and layers of separation. This means several different departments, agencies and units - both public and private, in-house or external, may be playing roles as owners/funders, purchasers, providers or policy advisers. The different players will pursue different aims and objectives. While some organisations, agencies and providers, especially private ones, may be concerned with the commercial and/or efficiency objectives, others such as the owners and purchasers, may endeavour to strike a balance between efficiency and equity concerns. It will also mean that different strategies will be employed in pursuit of the different aims and objectives. In such a situation, establishing a link between the mosaic of organisations, agencies and units, assembling resources for them and building an effective control as well as chain of command and communication among them in order to avoid an ‘implementation deficit’ should be a formidable task indeed. Such implementation challenges must prove quite difficult to overcome by public organisations which are implementing the purchaser-provider split.

A fourth argument is that the adoption of the purchaser-provider split may force the emergence of new patterns of relationships between in-house departments, agencies and units. This shift may come about because agencies, departments and units which hitherto cooperated and collaborated in efforts to achieve common organisational goals may now be locked in keen competition with one another for contracts to
provide a good or service for their client. The competition obviously will breed tension and secrecy between in-house business units. And yet these agencies and units are expected to hang together to accomplish the mission of the organisation. One therefore wonders whether the co-existence of competition with collaboration is possible in organisations which are experimenting with the purchaser-provider split. And whether this is done in a way that achieves integration and effectiveness in the formulation and implementation of projects, programs and schemes under the purchaser-provider split at the district, sub-district and sectoral levels.

In addition, the introduction of the purchaser-provider split as an alternative mechanism for public provision of goods and services may raise important questions about public accountability. If large amounts of public expenditure are diverted through private suppliers, how are these bodies to be held to account for their actions? This question is relevant because if governments insist on elaborate procedures of formal accountability it will not only have implications for the market interest in delivering these supplies but also the price quoted for delivery. Hence, governments, in seeking to reduce the costs of providing services determined in the broader public interest, will face up to commercial pressures to tailor decisions toward financial rates of return. One is therefore left to contemplate how governments are able to strike a balance between their costs reduction and accountability concerns and the commercial incentives they must provide to attract suppliers to deliver services under the purchaser-provider split.

Furthermore, the purchaser-provider arrangement is promulgated as best practice in many OECD countries. Yet for lower levels of government in these countries
together with developing nations, even if they now recognise the efficiency gains that derive from the adoption of the model, they face acute shortage of resources and bureaucratic support and capacity to effect a transformation of the policy into concrete projects and programs for the benefit of their people. One therefore wonders how effective implementation of the model is achieved without adequate resources and the skilled manpower at the local level in the developed countries and at all levels of government in the developing countries.

Finally, the purchaser-provider split is built around notions of efficiency gains, which may be achieved at the expense of equity. However, the huge efforts in the public sector are driven by equity considerations which can only be attained, at a cost in terms of total output. This implies achieving a balance between efficiency and equity objectives obviously is not an easy task. This is because governments are constrained by scarcity of resources in meeting the needs of their citizens, meaning the simultaneous attainment of efficiency and equity objectives within the budget constraints should be a formidable undertaking indeed.

**Aims and objectives of the thesis**

The purpose of this study is to appraise the implementation of the purchaser-provider split in Hobart and Sorell councils in the State of Tasmania in comparative perspective. The thesis has pursued the following objectives:

1. To examine the modes of the purchaser-provider split which are adopted and implemented in Hobart and Sorell councils.

2. To examine the projects, programs and services which are provided under the purchaser-provider split in Hobart and Sorell Councils.
3. To determine the nature of government-citizen connectedness as it relates to the roles, strengths and wider contribution of the community sector under the purchaser-provider arrangement.

4. To evaluate the impact on the services which are provided under the purchaser-provider split in Hobart and Sorell councils in comparative perspective. In particular it has been investigated whether the purchaser-provider split has led to:
   - councils shifting emphasis from inputs and processes to outputs and outcomes and so are able to concentrate on strategic policy issues;
   - reduction in service expenditure and improvement in quality of product;
   - the creation of internal markets that relate to particular councils sub units, agencies and departments and sectors in specialising with the provision of goods and services.

5. To assess the effect of the purchaser-provider split on employment of Hobart and Sorell Councils.

6. To determine the impact of the purchaser-provider split on the organisational culture and practices of Hobart and Sorell Councils

7. To find out the problems that are encountered in the implementation of the purchaser-provider model

**Significance of the study**

The focus on municipal government is predicated on the notion that what occurs at the local level has much more direct impact on the everyday lives of ordinary people than national level activities. Scant attention has been paid to local government activities compared to the coverage of events at the upper tiers of government. This
thesis therefore represents an attempt to highlight the importance of community level activities and government, and the promises and challenges of implementing government policies at that level.

Secondly, the project is considered appropriate and relevant to current development trends globally and in Australia in particular. Like many other countries, Australia has embarked on a bold public sector reform program since the late 1980s and early 1990s to date. Australian local government reforms in all the states and territories were vigorously pursued during the 1990s. And in the case of the state of Tasmanian, the statewide local government modernisation process, and the purchaser-provider split in the two study councils (Hobart and Sorell) were respectively launched in 1990/93 and 1996. However, the modernisation process and the purchaser-provider split have not been able to achieve all of their objectives because of what has become known as the 'implementation deficit'. This thesis can make an important contribution to the literature on the on-going debate on policy implementation and public sector reform.

Thirdly, it would contribute to the literature on the purchaser-provider split as an alternative governance mechanism, and perhaps add a new dimension - its significance at the local level. In addition, the study can establish a platform for rethinking on the state of the purchaser-provider split to gear towards the furnishing of new insights and collective measures for improvements at the local level in Australia and other countries. Moreover, the study may encourage other researchers to examine other policies that have been implemented at the local level in Australia.
This may be necessary in order to furnish inputs that may inform implementation reforms or policy reform altogether.

**Hypotheses of the study**

A hypothesis is a tentative answer to a research problem, expressed in the form of clearly stated relation between the independent and dependent variables. Hypotheses are tentative answers because they can be verified after they have been tested (Frank-Nachmias and Nachmias 1996).

The hypotheses that have been tested in this study are:

- **H1:** The use of the purchaser-provider split will be unrelated to service category level spending.
- **H2:** The incidence of the purchaser-provide split will be negatively related to total municipal service spending.
- **H3:** The incidence of the purchaser provider split will be negatively related to total municipal employment

**Research design and methods**

The research design of the study involves the analysis of the impact of the purchaser-provider split on three functional areas: service delivery, employment and organisational culture and practices in two Tasmanian local government areas – Hobart and Sorell. Each council adopted and implemented the purchaser-provider split to the extent that fitted its context. Hence, the project used a structured focused comparative case study methodology (George 1979; Sartori 1991) by examining the same sectors in each municipality. This approach adopts what has been described as
the 'most similar' systems approach (Roberts 1978). According to Roberts 'where the problem is one of identification and accounting for specific differences, selection of units of analysis which possess many similarities in terms of relevant variables makes easier the identification of variables which do differ' (Roberts 1978: 293). The 'structured, focused comparison' (George 1979) puts emphasis on specification of research problem and objectives; case study research; and drawing out theoretical implications of the case studies.

The rationale that guides the selection of cases in the controlled comparison (comparative) approach is not numbers but variety that is, cases belonging to the same class that differ from each other (George 1979). Hobart and Sorell Councils have dissimilar characteristics in terms of size, population, revenue raising capacity, leadership style, bureaucratic support and capacity, as well as outlays on services, just to mention a few. For example, Sorell Council has 7.5 times the area of the HCC, but its population is 4.3 times less than that of the HCC. It raises almost 7 times less the revenue of the HCC, has 12.5 times less the net asset of the latter, and possesses 3.1 times less the number of rateable properties of the HCC. Twenty three percent of its revenue comes from grants while 60 percent derives from rates (KPIC 2004). Compared with the 6 percent and 69 percent respectively for grants and rates in the case of the HCC, it can be concluded that the HCC has greater capacity for own-source revenue generation than Sorell Council. Sorell Council employs a total of 66 people and lacks many of the requisite professional staff for the efficient discharge of its responsibilities (KPIC 2004). In contrast, the total workforce of the HCC is 584 and this relatively larger workforce enables it to be better served by the requisite professional staff than almost all the other councils in the state of Tasmania.
– an advantage that has enabled it to adopt more quickly to microeconomic reform notions such as commercialisation, corporatisation and the purchaser-provider split.

By investigating the impact of the purchaser-provider split on the same sectors in these characteristically different municipalities, symmetries and/or asymmetries in response outcomes can easily be determined. This view is supported by George when he argues that ‘a simultaneous comparison of two or more cases if each comprises an instance of the same class of events can be an excellent research strategy for the cumulative development of theory’ (George 1979: 52).

The pace of reforms in Australian local government can make it difficult for practitioners and scholars alike to keep abreast of all these changes. A meaningful strategy is to track and evaluate these shifts based on a few case studies since this approach is seen as a more rewarding exercise than a more superficial analysis of many cases (Lijphart 1971). Lijphart contends further that in general, the problems of reliability and validity may be smaller for the investigator working with the comparable cases approach. ‘He can analyse his smaller number of cases more thoroughly, and he is less dependent on data that he cannot properly evaluate’ (Lijphart 1971: 171). Lijphart’s view is supported by the use of specific cases in some studies of local government (Chapman 1995; LGB 1997; Ryan 1997; Aulich 1997; Haward and Zwart 2000). For these reasons, two Tasmanian local government cases – Hobart and Sorell Councils, are used to evaluate in detail the impact of the purchaser-provider split on service delivery, employment and organisational culture and practices.
Even one-shot case studies have been undertaken. For example, Head Start (a preschool program) which was introduced as part of the Community Action Program and later became a permanent part of the Antipoverty Program in the US, was evaluated for its effectiveness using the one-shot case design (Frankfort-Nachmias and Nachmias 1996; Anderson 1984). Similarly, the Cuban Missile Crisis had been studied as a single historical case that offered useful material for the development of many theories (Allison 1971). Thus, it had been investigated as an instance of deterrence failure by George and Smoke (1974); coercive diplomacy by George et al (1971); and crisis management by Holsti (1972).

This project involves a combination of primary (qualitative analysis) and secondary data analysis methods. The secondary data sources for the project included annual reports, strategic and annual plans, and newsletters as well as media releases of the two councils. The reports of the general reviews of the HCC and Sorell Council by the Local Government Board (LGB) as well as the reports of the Tasmanian Local Government Office, Department of Premier and Cabinet, on the key performance indicators of councils also proved invaluable as sources of secondary data for the study. So too did reports of the National Office of Local Government, Tasmanian Department of Treasury and Finance, and the Tasmanian Local Government Association as well as the Australian Bureau of Statistics.

These secondary data were used to complement the primary data because it enabled the investigator to better understand the historical context. By analysing data collected in different times on similar issues, the researcher was able to describe and explain change in relation to efficiency and effectiveness in service delivery,
employment and management in the pre-purchaser-provider split era compared to the period since the introduction of the purchaser-provider split. As Heyman (1987) points out, in research on more contemporary issues, the investigator searches through a wide range of materials covering different areas and eras, which may result in greater scope and depth than is possible when using a single primary data research project.

The secondary data was also employed for comparative purposes. Comparisons between the two study councils enlarged the scope of generalisations or conclusions and provided additional insight. For example, data on employment, service spending and service levels enabled the investigator to measure variables such as efficiency, economy and effectiveness in service delivery in the two councils in comparative perspective. As Heyman suggests, particularly in relation to survey research:

Secondary analysis of a series of comparable surveys from different points in time provides one of the rare avenues for the empirical description of long-term changes and for examining the way phenomena vary under the contrasted conditions operative in one or several societies at several points (Heyman 1987: 17).

There were methodological reasons, aside the conceptual-substantive ones outlined above, for the extensive use of secondary data analysis in this project. Rather than conduct several studies, the investigator used data collected by others in addition to his and thereby saved time and efforts as well as other resources that would have been committed to the many studies. Second, the availability of data over time enabled the researcher to employ a longitudinal research design. This design permitted some assessment of the cause and effect relationships among key variables. Baseline measurements a decade or two ago in relation to relevant variables of this project were found, and similar data collected more recently were
also located. Indeed, ‘when researchers compare their primary data with those collected in earlier studies, they essentially conduct a follow-up to the original research’ (Frankfort-Nachmias and Nachmias 1996: 306). Third, the analysis of the secondary data improved measurement by expanding the scope of independent variables in the operationalisation of concepts. For example, in the ‘Planning and Development Service’ area the investigator compared the average number of calendar days for the HCC and Sorell Council to process planning and buildings approvals, noting the influencing factors on the figures catalogued in the reports of the Tasmanian Office of Local Government, Department of Premier and Cabinet. In Heyman’s words, the secondary analyst:

Must examine the diverse array of concrete indicators, assorted specific manifestations of behaviour...He is likely to be more exhaustive in his definition of a concept, to think about it not only in his accustomed way, but in all sort of odd ways (Heyman 1987: 24)

A semi-structured in-depth interview model was employed. This model involved a small number of key questions which allowed respondents to add information or amplify issues that led to further elaboration of the topic. These questions addressed each of the key points outlined under the research problem and objectives section of this study that were designed to assess the effectiveness of the introduction of the purchaser-provider split into Hobart and Sorell Councils.

In-depth interviews were held with key informants, with these informants in each council initially identified by their professional responsibilities and interests in relation to the purchaser-provider split policy development and implementation. This approach provided a means for exploring complexity and detail of process that could not be examined by alternate, more structured survey instruments such as
questionnaires or analysed using quantitative methods (see Liamputtong and Ezzy 2005). It also provided information on policy development that complemented the formal documentary content analysis. The use of a semi-structured interview allowed comparability of the council case studies, recognising the pitfalls of such in-depth interviewing without this structured focus (see Devine 1995).

Different interview schedules were employed for the two councils. These differences reflected the relative extent of the difficulty encountered in negotiating access and participation in each jurisdiction. The authorities in the HCC agreed to the investigator's request to hold individual separate interviews on different dates with respondents. The request was granted perhaps because other researchers in the past had studied the council and had conducted separate individual interviews with no attendant problems. The publication of the results of those studies either in newsletters, reports or academic documentary material would have boosted the profile of the council. Hence, separate individual interviews for the purpose of producing yet another academic document on the council was in order. Studies that have been done on the HCC, and known to the investigator, are Ryan (1997) and Noga (1997).

Moreover, management built experience and skills as informants over time and was therefore receptive to the suggestion for separate individual interviews. Further, as a capital city council, the HCC is the state of Tasmania's focus of the tourist industry, and its face for the visitor. It also occupies a strong leadership position in local government. These tourism focus, and leadership status have given the council a particular responsibility in promoting and marketing itself and the state (LGB 2002).
It would therefore not undermine these goals by preventing access, or putting obstacles on the way, of those who want to conduct studies on the council. Rather it would like to be seen as a local government that encourages and facilitates access and participation in its activities.

The individual interviews were held with senior managers who had responsibilities and interests in terms of policy making and implementation connected to the purchaser-provider split. Four directors comprising two each from the client and provider sides of the council were interviewed. Separate dates were arranged for the four directors to ensure that each director gave an independent perspective and assessment of the impact of the purchaser-provider split on the council. These interviews not only afforded opportunity for multiple perceptions about the implementation and outcome of the purchaser-provider split to be gathered, but it also ensured that the views that were expressed were not skewed by one side of the split.

In contrast, management of Sorell Council agreed to a group interview instead of the individual interviews that were much sought after by the investigator. The reason for the decision was not accessible to the researcher. Even though the investigator was aware of some of the pitfalls of such an interview approach with the possibility of groupthink responses, the approach provided the only opportunity to gain information. A possible explanation for the decision could be that such a project was novel (unlike for the HCC) in Sorell Council, and management was uncertain about what the attendant problems of granting individual interviews would be. This fear was probably heightened because respondents may not have had past experience and
skills, unlike their counterparts in the HCC, with such a process. The concern in a situation like that probably will be that some of the utterances of participants may conflict with the official position of the council.

The general manager and two out of the three departmental managers sat in for the group interview. Sorell Council while it has appointed a general manager had not adopted a full purchaser-provider split since the client and provider sides are still integrated. So there was no concern about managers’ views, unlike in the HCC, being skewed by one side of the split. However, it could not be completely guaranteed that the presence of, and/or responses by, other managers did not influence or bias the views of the manager whose turn it was to respond. Nevertheless, the interview process was structured so that no manager was interrupted at the beginning, middle or end of his responses.

The combination of primary data and secondary data analysis enabled the investigator to make a more credible and comprehensive comparative evaluation of the impact of the purchaser-provider split on service delivery, employment and organisational culture and practices in the HCC and Sorell Council, while noting the influence of other factors such as the modernisation process.

**Scope and limitations of the study**

The project is concerned with the analysis of the impact of the purchaser-provider split on service delivery, employment and organisational culture and practices in two Tasmanian local government areas — Hobart and Sorell Councils. It compares and contrasts the outcomes of the implementation of the model in the two municipalities.
It sharpens the analysis by comparing the experiences of some Australian mainland councils with the purchaser-provider split with the evidence of the Tasmanian council case studies. This then enabled the implications of the analysis for the conceptual underpinnings of the purchaser-provider split to be assessed.

The limitations of this thesis are that its findings cannot be used to generalise to larger populations and applied to different social and political settings. Most research is concerned not only with the effect of one variable on another in a particular setting studied but also with its effect in other natural settings and on larger populations.

These weaknesses however, are compensated for through an in-depth analysis of the cases. The advantage of this in-depth analysis is that it is suited for the development of what Diesing (1971: 196) describes as typological theory and what George (1979: 59) refers to as "rich, differentiated theory", which in contrast to a general explanatory theory, is cast in the form of contingent generalisations and has the capability for more discriminating explanation (George and Simons 1971: 511). George elucidates this point clearly by contrasting a general explanatory theory such as "war is the result of miscalculation" with a richer, more differentiated theory comprised of contingent generalisations that identify the different conditions under which different types of miscalculations lead to different types of war outbreaks. He then concludes that obviously the:

Second type of differentiated theory not only has greater explanatory power, it also has greater practical value for policy makers because it enables them to make more discriminating diagnoses of emerging situations in which some kind of miscalculation might lead to outbreak of violence (George 1979: 59).
Indeed investigators who prefer the controlled comparison (comparative) research strategy are often attracted to it precisely because it enables the development of this type of differentiated policy-relevant theory (Dieseng 1971: 195-6). Thus political scientists who use the controlled comparison method of analysing cases have in common with historians and clinicians generally an interest in developing the kind of theory that enriches understanding of each particular case — that is, each instance of the class of events in question (George 1979: 59). Hence, the researcher by selecting, investigating and comparing the two councils in terms of the impact of the purchaser-provider split on three functional areas: service delivery, employment and organisational culture and practices was able to develop an enriched understanding of each particular case — that is, each instance of service delivery, employment and management.

Modernisation process

Australian local governments have been subjected to unprecedented reforms over the past decade. Gerritsen (1996) distinguishes two waves of reforms within local government over the past three decades. The first wave began in 1973 and some of its aspects are still at various stages of implementation. The components of this phase include a myriad of structural, economic, legislative and industrial shifts that have reshaped councils' internal practices, their modes of service delivery and their jurisdictional boundaries (Gerritsen 1996: 33). The second wave was ushered in the early 1990s, and 'emphasised a broad program of microeconomic reform, including national benchmarking and national competition policy' (Dolley and Worthington 2000: 3). This second phase has continued more or less unabated in all states and
territories irrespective of the political colour of state and Commonwealth governments.

For Tasmania, these waves of municipal government reform have been wide-ranging and far-reaching as to warrant an umbrella label known as the Modernisation Process. The elements of the modernisation process are legislative reform, review of the financial relationship between the state and local government, rationalisation of roles and functions between the two spheres of government and amalgamations. The evaluation of these four categories of reform in this thesis is done with respect to efficiency, democracy and accountability. These components of the modernisation process have not been implemented to the same extent, with the same vigour and over the same length of time. The rationalisation of roles and functions, and the review of the relative revenue capacities available to each level of government have lagged behind legislative and boundary changes.

The consequences of these shifts on the autonomy and general competence power of councils to appropriately respond to the needs of their communities are explicated. Also examined is the extent to which these reforms have affected accountability of local governments towards their communities. The driving force behind council amalgamations was the quest for greater efficiency through economies of scale. Secondary considerations were fostering some sense of community or community of interest, and representation and participation. These topics are explored by comparing the outcomes of the 1990/93 boundary changes with the 1997 amalgamation proposals. Finally, the consequences of these reforms in terms of
providing an enabling environment for councils to adopt the purchaser-provider split are examined.

Outline of the thesis

This thesis is divided into eight chapters and organised such that chapters one to six are devoted to the discussion of public sector reforms at the international, national and state levels as well as the local sphere of government. The last two chapters focus on analysis relating to the outcomes of the implementation of the purchaser-provider split in two Tasmanian local government areas, Hobart and Sorell.

Chapter one examines public sector reforms as a universal phenomenon that reflects the ideology of the new public management which swept through many western democracies with the aim of improving efficiency and effectiveness in the conduct of public business. Some of its components include measures such as decentralisation, privatisation, incorporation, deregulation, introduction of executive agencies, internal markets or the use of purchaser-provider split, and tendering and bidding schemes. The chapter contends that the wave of public sector reforms represented a steep learning curve in that western democratic governments, irrespective of political colour, sought to learn from one another, and in a number of instances deliberately adopted and adapted structural models from one or more jurisdictions.

Chapter two discusses the doctrines, strengths and weaknesses of the theories that underpin the purchaser-provider split. These are public choice theory, agency theory and the new public management. It also explores the influences these theoretical traditions had on the Australian model of public sector reform, including the
The chapter concludes, acknowledging that although many other ideas, theories and perceptions as well as economic pressures and political imperatives played roles in the reform process, public choice theory, agency theory and the new public management have had significant impact on the Australian as well as other western democracies' models of public sector reform.

The third chapter is devoted to the discussion of the purchaser-provider split. The model's principle and goals together with the conceptual frameworks that undergird it (public choice theory, agency theory and the new public management) are explicated. How the model is expressed in the Australian local government sector, and the theoretical budgetary effects of its implementation in this sphere of government are examined. This is followed by an outline of the Australian National Competition Policy (NCP). Then the relation of the NCP to both the purchaser-provider split and compulsory competitive tendering (CCT) are sketched. The chapter provides the framework upon which subsequent chapters of this thesis are built.

The consequences of globalisation for governments as they attempt to enhance the competitiveness of their national economies, have made gaining up to the minute knowledge of international best practice critical. Hence, it is important to highlight the aspects of the new public management that Australia has imported from abroad in order to enhance good public management at home. Chapter four does just that by reviewing public sector reforms at all levels of government in Australia. The reform agenda the Australian government adopted can be grouped under mainly three headings: microeconomic, managerial and legislative. These policy-induced changes
were first implemented at the upper tiers of government and local government was instigated to follow suit. The chapter looks at these three broad categories of reform at all levels of government, and particularly in detail at the local government sphere. It is discernible from the chapter that the reform agenda has substantially altered the nature and form of Australian local government.

In the fifth chapter, the three broad categories of reforms identified in the preceding chapter are explored in detail in respect of their impact on local government in the State of Tasmania. First, changes that occurred at the state level are sketched, after which the outcomes of the implementation of the local government reforms are presented. The changes introduced by the State Government included among others, reform of state authorities, a restructuring of state service, budgetary and management reform, and changes in the policy process and the statutory framework within which the state public sector operates. In the local government sector, the modernisation process is the umbrella term for the three broad categories of reforms identified in the preceding chapter. The reform program focused on structural change, legislative change affecting the powers local government may exercise, and procedural changes to the manner in which they operate. The outcomes of the reforms are appraised along lines of efficiency, democracy and accountability.

The purpose of chapter six is to capture in detail the implications of these far-reaching local government reforms for the Hobart City Council (HCC) and Sorell Council (that is, the impact of the modernisation process). The evaluation of the outcomes of the reforms, like in the preceding chapter, is conducted in respect to criteria of efficiency, democracy and accountability. The chapter compares and
contrasts the outcomes of the reform in the two councils. The comparison has revealed that differential outcomes have attended the reform efforts and these asymmetries are attributable in part to resource differentials and the level of bureaucratic support and capacity towards the change process. Chapter seven concentrates on the institutional changes in the HCC and Sorell Council that resulted from the introduction of the purchaser-provider split and the NCP. The examination has shown that the purchaser-provider split has changed the councils' organisational structures, behaviours and practices. The chapter then provides the backdrop against which the final chapter is able to evaluate the impact of the purchaser-provider split on service delivery, employment and organisational culture and practices in the HCC and Sorell Council. The analysis has revealed that the effects of the implementation of the purchaser-provider split are different for the two councils.
CHAPTER ONE
PUBLIC SECTOR REFORM

During the 1980s orthodoxy arose that the state needed to be 'rolled back'. Governments had grown too large with sprawling bureaucracies consuming ever more resources but failing to make significant improvements in service delivery. The need to rein in budget expenditure coupled with rhetoric about efficiency led to pressure to 'downsize' government. While reform programs in one form or another have been around since the inception of 'development administration' in the 1950s, their most recent manifestation has been far more radical than the incremental efforts of earlier years. The present menu of reform initiatives includes a list of measures which are a very difficult bundle to wrap together neatly. Some countries have experimented with one or two of these kinds of reforms while others have adopted all of them: decentralisation, privatisation, incorporation, deregulation, introduction of executive agencies, internal markets or the use of the purchaser-provider split as well as tendering or bidding schemes.

Because these market mechanisms are interrelated and the effective application of any one of them may require the complement of relevant others, it is important to distinguish between those of them that are used in this thesis. Corporatisation refers to the creation of 'a corporate form, either a company under the general companies legislation, or a statutory authority under its own legislation' (PSC 2003: 5; Willet 2000). Corporations generally have the intent of conducting revenue-generating commercial-type activities. Competitive tendering denotes an arrangement where 'rival agencies submit bids to deliver a specified quantity and quality of service. The lowest bid wins the contract, provided that proposals for service production are
creditable' (Boyne 1998a: 697). Privatisation broadly means the processes by which assets or activities owned and controlled by the public sector are subjected to market forces. These include the competitive tendering for activities once carried out solely by public service organisations; the deregulation of markets; and the transfers of assets to the private sector by share floatation or private sale (Corbett 1996; OECD 2002). Contracting out is the hiring of private sector firms or non-profit organisations to provide goods or services for the government. Under this approach, the government continues to finance the services or goods and has general management and policy control over the type and quality of goods or services to be provided (TCCG n.d).

This chapter discusses public sector reform on the international scene including the purchaser-provider split. It draws together literature on the experiences of many western democracies and concludes that public sector reform is a universal phenomenon affecting all countries irrespective of political system with the aim of enhancing the efficiency and effectiveness in the conduct of public business.

**Public sector reform initiatives**

The first wave of reforms with regard to the business of administering the modern state occurred in Britain in the second half of the nineteenth century with the civil service reforms. In the US reforms were initiated in the second and third decades of the last century with progressivism (United Kingdom 1998; Hughes 1994, 2003)). The main thrust of these reforms was to professionalise the public service by ensuring that selection and promotion were based on merit rather than patronage, rule rather than discretion governed how public process and decisions operated, and
public service was oriented by norms of impersonality, correct procedures and consistency. This type of social organisation was new. It has to be established against an older ethos that emphasised personalised and local loyalties to kin, neighbourhood and political allies (Kamenka 1989; Lane 2000; Hughes 2003).

The bureaucratic model, as the reform was termed, overthrew the first order of personalised and local loyalties to kin, neighbourhood and political allies. The bureaucratic model delivered two basic mechanisms for the conduct of the public sector: the bureau and the public enterprise (Lane 2000; Halligan 2004). The bureau was designed to handle non-economic activities ranging from military matters, police and judiciary to education and health. Whereas the public enterprise was the mechanism recommended for economic activities in so far as the public sector would take care of such activities that is, they could not be entrusted to the market – the market failure argument (Lane 2000). Impersonality was to ensure that public officers carried out their duties without fear or favour and that if the position were separated from the person, office holders would not confuse personal values with official ones.

In short, impersonality was aimed at enhancing continuity and efficiency in the conduct of public business. Rules and regulations, which guided all processes and procedures, were designed at achieving standard service delivery and accountability. Obedience of rules and regulations was one of the yardsticks for measuring performance and progression in the public service, while hierarchy was viewed as an effective means of exerting management's control and supervision over public employees as well as promoting economy and efficiency in the conduct of public
business. The citizens to whom the public sector rendered services were regarded as beneficiaries of government standardised services, and from whom expression of gratefulness was expected. Services were not customised to be responsive to the individual citizen’s preferences and expectations (Guth and Mills 1970; Bozeman 1979; Kemanka 1989; Behn 2001).

By the late 1970s and 1980s the bureaucratic model was challenged. Questions began to emerge as whether the model provided an adequate analysis of its actual mode of functioning, or whether it had really formulated a model for how it could be made to work effectively. ‘Hierarchical structures are not necessarily the most efficient of organisations if comparing outputs with inputs. Bureaucracy may be ideal for control but not necessarily for management’ (Hughes 2003: 32). The bureaucratic model engenders certainty but is usually slow in moving; work may be standardised, but at the cost of innovation (Hughes 2003). These problems certainly seemed to be evident in many public organisations, drawing criticisms that governments had grown too large with sprawling bureaucracies consuming ever more resources but failing to make significant improvement in service delivery or ‘reining’ in budget expenditure. These criticisms were weighty enough to prompt a new wave of public sector reforms (Lane 2000; Emy and Hughes 1991; Hughes 2003).

Although the stated objectives for public sector reform vary across political systems, two major foci have been evident almost everywhere over the past two decades. First, political leaders have sought to assert authority over their bureaucracies and the interests embedded therein, in order to effect greater economy and efficiency in the management of government resources. Second, they have sought to make the
delivery of public services more responsive to the needs and requirements of citizens as clients, consumers, and customers of government operations (Aucoin 1998: 310; Emy and Hughes 1991).

The forces that were responsible for the changes were many and varied in context across political systems. Virtually everywhere, however, they embraced the imposition of budgetary austerity as governments attempted to control and discipline public spending; the implications of globalisation for governments as they sought to enhance the competitiveness of their national economies; the rising expectations of individual citizens and businesses for quality service; and the opportunities new information technology provided not only for effecting savings but also for re-engineering the delivery of services (Aucoin 1998: 310; Hughes 2003). As a result, there has been a surprising convergence between what have been the differences among political systems in at least two respects: first, structures that seek organisationally to separate responsibilities for policy and operations respectively; and second, designs to provide for more integrated service delivery systems (Aucoin 1998: 310; Hughes 2003). In each of these respects, the management dimensions of government have received a political salience that managerially minded reformers of the past could only denote as wishful thinking (Hood 1990a; Pollitt 1990; Zifcak 1994).

Associated closely with de-bureaucratisation has been the progressive application of explicit 'contractual' type regimes in place of traditional hierarchical arrangements. Contractual relationships in the management of public services are clearly not a new trend, especially in the case of relationships between government and the commercial
private sector (Purchase and Hirshhorn 1994). ‘What is relatively novel, however, is the extent to which contractual relationships have been extended across government’ (Aucoin 1998: 312) in order to ‘set explicit targets for the provision of public services, to establish service standards, to apply performance measures, and to impose more demanding and transparent reporting and accountability regimes’ (Aucoin 1998: 312; OECD 1994).

These measures culminated in a considerable degree of decentralisation of authority within the organisational hierarchies of government. Yet this is not where the wave ends, as some might prefer (Barzelay 1992). Following these shifts were designs both to control the impulses towards bureaucratic autonomy and to require performance according to centrally imposed targets and standards. The direction of efforts at achieving decentralisation and centralisation at the same time unavoidably led to dispute, even confusion, as to what exactly constituted the bottom line of public management reform (Aucoin 1990a). This certainly seems to be the case where conflicting directives have been given to those responsible for achieving greater productivity in the management of public resources while ensuring increased service quality in the delivery of public services (Ingraham 1995).

Despite the contradictions evident in the simultaneous de-bureaucratization-centralisation movements, structural changes in several regimes have been phenomenal, and some might even wish to characterise them as ‘revolutionary’. ‘Western democratic governments may not have been reinvented in the process’, but it is clear that the ‘older order has passed away in several important respects and,
equally important, traditionally bureaucratic model, in its various forms across Western political systems, has diminished dramatically' (Aucoin 1998: 313).

Even though 'there is no one best way of organising' (Wilson 1989: 25), there is no denying that governments in different jurisdictions have made efforts to 'learn from one another, and in a number of instances have deliberately adopted and adapted structural models from one or more other jurisdictions' (Aucoin 1998: 313). Obviously, some are leaders while others are laggards, however, the tendency has been to adopt common, even generic, principles of good public management, despite significant, even fundamental differences in constitutional and political systems (Aucoin 1998; Holmes and Shand 1995).

There were also structural shifts, as a common feature, across political systems to respond to the need for improved management and delivery of public services. And this entailed the reduction of the authority of central management agencies to regulate and direct line departments or agencies. Although the power of central agencies has been enhanced in most cases and central policy departments are still responsible for policy-making, those in charge of the management and delivery of services have generally been given increased authority to decide on the ways they use their resources to meet their obligations (Aucoin 1998: 313; Boston et al 1998; Hughes 2003).

In a few countries, this entailed major structural changes to the central management of government. For example, in Australia and New Zealand the once-powerful central control agencies responsible for staffing and associated matters of personnel
administration were transformed into primarily policy advisory and administrative agencies (Aucoin 1998; Emy and Hughes 1991; Hughes 2003). Even where such phenomenal changes have not occurred, the central corporate management structure of government has been subject, if not to a major rationalisation or streamlining of powers, at least to a reorientation of functions (Clark 1994; Lindquist 1996). ‘Uniform, standardised, and government-wide policies, rules, and regulations respecting financial, personnel and related administrative practices have been thinned out, whittled down, or replaced with guidelines and advice on ‘best practice’ (Aucoin 1998: 314). This has been the case even in those systems, such as Sweden and Germany, where centralised management systems have not been the norm for all functional areas of administration or have not been as intrusive as in other systems, such as the Anglo-American system (Aucoin 1998).

The management and delivery of public services in Sweden and France have long been undertaken primarily by separate operational agencies, as well as lower orders of government, so it is not surprising that these systems have been characterised by relatively minimal central management agency control over the administrative aspects of public management. When compared with the ‘Westminster systems, among others, they have thus had less to reform, at least along lines of decentralisation’ (Aucoin 1998: 314).

Nevertheless, in Sweden there has been increased devolution of authority. Devolution has been pursued in part as an austerity measure, that is to transfer some national responsibilities to local authorities. Equally important, however, it has been an initiative designed to de-bureaucratise state-citizen relations and thus an attempt
to reclaim legitimacy of the state in its relation with civil society (Aucoin 1998; Pierre 1993). Germany has embarked upon some administrative deregulation, but the huge efforts at structural reform concentrated on the local sphere of government, where collaborative attempts were made to implement new schemes for the management and delivery of public services that promote greater economy and efficiency (Derlien 1993).

Even in France, long seen as the central administrative state, reforms to decentralise and devolve authority for the purpose of improving public management and enhancing legitimacy of the state has been effected (Aucoin 1998). Here increased delegation of management authority to the field offices of the national government has thus been pursued together with devolution of authority to local government. Modernisation of the national public service enhanced the powers of local officials, and this coincided in time with the establishment of new local government regimes that brought about the diminution of central government control over the management of public business at the local level (deMontricher 1995; Roaban 1993).

In Britain and New Zealand the ‘powers of local government and associated local authorities have been reduced by centrally imposed new structural frameworks that require them to adhere to national public management systems and practices’ (Aucoin 1998: 315). Hence, both countries have pushed further the extent to which local government and associated local authorities are portrayed as an elongation of the national state. In several important respects, however, the motive of central government changes has been ‘to provide citizens with greater ‘user say’ or choice - a form of centrally imposed decentralisation’ (Aucoin 1998: 315). In Australia and
Canada, the two Westminster federal systems, as well as in the United States, there have been efforts to reduce the overlap and duplication between federal and state/provincial orders of government. In the process federal governments in these systems have sought to redirect their efforts on the core responsibilities of the national government. Here too there is a kind of decentralisation compelled from the centre (Aucoin 1998).

**Tracing the purchaser-provider split within the reform agenda**

Some countries while they pursued these general themes of reform (discussed in the preceding section) aimed at achieving greater administrative decentralisation, also took further steps to promote economy and efficiency in their operations. The Westminster systems led the way in implementing the most significant structural changes in pursuit of this objective. These changes represented a marked shift from the traditional ministerial department model that has long characterised the organising principle under the Westminster system (Aucoin 1998). In every case these changes were carried out to remedy the limitations and inadequacies that were inherent in the departmental model with regard to achieving effective political direction and control on the one hand, and good management on the other.

Among the Westminster systems, Britain and New Zealand were the first to embark upon such organisational changes. Although the two countries did not alter the traditional ministerial departmental model in exactly the same manner, each acknowledged that it was imperative to institute measures to separate organisational responsibilities for policy and operations, referred to as the purchaser-provider split (Boston *et al* 1997; Greer 1994; Campbell and Wilson 1995).
The purchaser-provider split is a component of the leading contemporary strategies for public sector reform that is promulgated as best practice in OECD countries. Great Britain, New Zealand and Australia have all embraced this reform. The United Kingdom has uncoupled three-fourths of its civil service, while in New Zealand the percentage is about 90 percent. The report that proposed the ‘executive agency’ model and led to the restructuring of the British system continued in this vein, arguing for an increased separation of responsibilities as necessary to improve the management of government operations (United Kingdom 1988).

Britain and New Zealand instituted this design by creating structures that were based on the supposition that the most effective way to achieve economy, efficiency, and service quality in public management was to ensure that those primarily charged with the responsibility for operational matters of government were assigned roles in these regards and granted the needed authority and autonomy to decide on how they will carry them out (Aucoin 1998; Halligan 2004; OECD 1998). In each case this implied clarifying relationships between ministers and those responsible for operational matters according to contractual type agreements (Aucoin 1998: 316; Aulich et al. 1999).

These efforts have resulted in the creation of new and alternative models to the ministerial department framework in Britain and New Zealand. The alternative models are significantly different from the traditional departmental structure in that the extent to which a new set of principles informed structural change across government is evident and considerable. The institutional designs applied to give effect to these models are not uniform or standardised in all respects. However, the
rationale on which they were predicated was markedly different from that that had informed the design of the ministerial departmental model (Aucoin 1998). They are dissimilar in three important respects.

First, they postulate that enhanced public management is best achieved when ministers are required to make their objectives sufficiently explicit and transparent in order to distinguish between the desired policy outcomes they decide to pursue and the outputs they are prepared to sponsor and fund as public service responsibilities in pursuit of these outcomes (Aucoin 1998: 316; Ryan et al 2000). Second, they assume that horizontal network of contracts rather than hierarchies; represent the most effective way of delegating authority not only for managing resources but also applying administrative practices that promote economy and efficiency in the conduct of public business. Third, they assume that 'these first two conditions are prerequisites for the creation of management systems that secure performance according to ministerial targets and standards and clarify the accountability of ministers and public service managers respectively’ (Aucoin 1998: 317).

The implication of these assumptions is that ministers (or their departmental policy advisors) should not set and tender policy advice, as well as implement policy (Aucoin 1998; New Zealand Treasury 1987: 756). If intervention is warranted then political executives and their policy advisors should make their intention public, by for example, changing the terms of their contracts with operational agency managers (Aucoin 1998). On their part, heads of operational units are obliged to abide by the terms of their contracts, including their responsibilities for adhering to the corporate management policies contained in their contracts; if they do not sanctions will apply.
(Aucoin 1998). To the extent that the behaviour of ministers and operational agency heads is in conformity to the principles of the model, responsibilities for policy and operational matters are separated (Aucoin 1998; Aulich et al 1999; Ryan et al 2000).

The governments of Britain and New Zealand recognised that the state could at least potentially continue to meet its obligations without necessarily directly providing all the services. This implies ministers ultimately assume political responsibility for providing services irrespective of whether the supplier is an internal or external vendor. They are also responsible for setting the terms of the contracts which providers must abide by. However, they are not responsible for decisions of the heads of provider agencies (or their subordinates) which are taken on the basis of the explicitly assigned authority of these public service executives (William 1997; Aucoin 1998: 317). The relationship between the politician and the operational unit head is not the typical superior – subordinate kind found in the ministerial departmental model; rather it is reconfigured into one epitomised by principal-agent models. The contractual mode of relationships has thus sought to change a fundamental characteristic of the traditional model. When considered against the backdrop of the legislative basis for the adoption of this model, ‘the New Zealand system is more definitive on this point than is the British regime where the executive agency structure has been implemented by executive prerogative’ (Aucoin 1998: 317). Nevertheless in each system an important change has taken place, a shift that is unprecedented.

In deciding to make radical changes to the traditional ministerial departmental model, even after a number of administrative reforms had been pursued, these two
Westminster systems drew in part from their own experiences. The British system traditionally operated with an array of non-departmental organisations with varying degrees of association to the central structures of government (Hogwood 1995). Perhaps it was because of the problems that were inherent in this design of the machinery government that successive generations of reformers continued to recommend that the ‘executive’ functions of government, that is, the responsibilities for policy implementation and service delivery, be separated from the policy function, which would remain the principal role of central ministerial departments (Aucoin 1998).

In New Zealand the reform agenda mirrored a more contemporary experience, that is, the design that had been put in place in the mid 1980s for the direction, management and accountability of the state enterprises. By adopting the basic principles of this design for the core public sector, they reconfigured relationships between ministers and the chief executives of departments and subsequently extended them to a range of non-departmental agencies called “Crown entities” (Aucoin 1998; Boston et al 1998; Ormsby 1998). The changes to these two Westminster systems represented major shifts from their own traditions, at least in regard to their elaborate application, to what had been the central public service organised in ministerial departments (Aucoin 1998). However, innovations were rarely discernible in terms of organisational design from a comparative perspective. In several European systems, particularly Sweden, the uncoupling of policy and operational responsibilities has long characterised public administration (Kicket and Jorgesen 1995); hence the pattern of convergence across political systems.
Australia and Canada, which are federal Westminster systems initially showed little enthusiasm in any widespread adoption of the British or New Zealand model. Relatively early in its reform endeavour, Australia instituted a purchaser-provider split in the provision of common services within government (APSC 2003; Stewart 1999). It also gradually transferred some operational activities of departments to separate agencies (Aucoin 1998; Halligan 2004). For the most part, however, the operating assumption under successive Labor governments (1983-96) was 'where there is considerable discretion at the operational level and the success of the policy depends heavily on how it is implemented, it is most desirable that policy advice and program delivery be integrated' (Keating 1993: 11). On a more elaborate note, reforms in line with the Australian National Competition Policy required local governments to separate the service planning and service delivery roles, referred to as 'separation of purchasing and providing'. The split between purchaser and provider roles is usually made on strategic/core functional lines and service delivery lines.

In 1989 Canada embraced a modest version of the British executive agency model by establishing what was referred to as 'special operating agencies' (SOAS). Unlike either the British or the New Zealand model, however, all these agencies were created as units within departments, and their chief executives were clearly subordinate to departmental deputy ministers (or in some instances to an official below the level of deputy minister). In addition the design was applied to a very limited number of government operations; none involved the provision of a major public service (Canada 1994; Aucoin 1996a). Subsequently, however, on an ad hoc basis, new separate agencies were created or announced for a number of major
operations, including the operation of the Department of National Revenue and National Parks Service. None of these new agencies has been, or will be, established as an SOA (Aucoin 1998).

Assessing the reforms

Evaluating for the beneficial effects of the last two decades of public sector reforms is a tricky exercise because success means different things to different people. The reform measures are essentially political and social experiments and unlike scientific experiments, explanations of success or lack of success are subject to multiple and often conflicting interpretations (Savoie 1998: 395). Some might interpret evidence as a clear indicator of success while others might dismiss it as a vivid sign of failure.

Notwithstanding the difficulties in objectively assessing the success of the various reforms, it can be said that somethings have changed in the public sector during the last two decades. Some of the changes are: relaxation of the strict control and command systems; granting of more freedom to government managers to manage both human and financial resources; greater delegation of authority to operational managers; and increased consciousness of public servants everywhere to introduce (or improve) performance measurement systems for virtually every field of public activity (Aucoin 1998 Savoie 1998; Hughes 2003), and the reported success of their application in several countries (Savoie 1998). Moreover, the reforms have made public servants far more conscious of service quality and the need to focus on clients in the delivery of government services (Savoie 1998; Breul 1996). For example, Total Quality Management (TQM) in North America and the citizen’s charter in
Britain have contributed to stronger emphasis on responsiveness in government operations (Savoie 1998: 403).

In addition, the efficiency rhetoric of the reforms has forced public organisations to diversify their sources of supply, as well as establish a split between their purchaser and provider roles (Ormsby 1998; Savoie 1998; Halligan 2004). This has led to efforts to continually compare the costs of providing particular services or purchasing them from outside government (Savoie 1998; Dollery et al 1997; Hughes 2003). Moe (1984) sees these changes as increasing economic efficiency by overcoming agency failure in an interlocking series of principal-agent relationships.

There have been three major types of enterprise reform aimed at overcoming agency failure: changing ownership (including privatisation), increasing competition, and overhauling performance guidelines (Domberger 1992: 168).

The new public management (a set of economic and managerial doctrines that dominated the bureaucratic reform agenda of the 1980s and 1990s) inspired reforms of the past two decades are not as prominent as they once were. 'Renewal and the search for efficiency have led to a change of direction in a number of countries' (Siverbo 2004: 401). In certain areas the focus has shifted to improving democracy (Pallot 1999). However, this does not imply that there is no trace of new public management (NPM) in the countries that pioneered the use of market approaches. 'On the contrary, many models remain in use and still have strong advocates' (Siverbo 2004: 402). The difference now is that few (if any) consider the models to be the panacea for solving the efficiency problems in the public sector (Siverbo 2004; Dunleavy et al 2006).
Some criticisms have been levelled against the NPM-inspired public sector reforms. Some of the criticisms are modest while others are fundamental (Siverbo 2004). Examples of modest criticisms are that NPM, through increased fragmentation, has created co-ordination problems and costly separate management hierarchies for similar functions (Lapsley 1999; Savoie 1998), implementation difficulties (Pettersen 1999; Lapsley 1999) – in particular if professionals have not recommended change (Groot 1999), increased institutional and policy complexity (Dunleavy et al 2006) – and has not increased efficiency (Dunleavy et al 2006; Lapsley 1999).

Other critics point to fundamental adverse consequences of government reforms. They blame the NPM-informed reforms for creating inequality, inefficiency, ineffectiveness, increased costs, and a dissatisfied general public (Dunleavy et al 2006; Evans 1997). For example, the claimed improvements in services provision that had been attributed to the “Next Steps” agencification program in the UK have now been closely questioned (James 2003; Talbot 2004). New Zealand’s pioneered NPM structural reforms have left a country of 3.5 million with over three hundred separate central agencies and forty tiny ministries, in addition to local health service authorities (Dunleavy et al 2006: 470). Since Alan Schick (1996) hailed New Zealand for its far-reaching administrative fragmentations, the reforms in general have in fact ‘proved ineffective in helping the country make the most of its economic prospects’ (Dunleavy et al 2006: 471). By 2000 New Zealand recorded the second-lowest level of gross domestic product (GDP) per capita among OECD (Organisation for Economic Corporation and Development) countries, although from 1999 a new Labour Government embarked on more successful non-NPM policies (Dunleavy et al 2006: 471).
However, it is difficult to determine which criticisms are fairest, because there are not many empirical studies (Groot 1999), and for the reason that evaluations of NPM in certain cases have not been supported by the people responsible (Broadbent and Laughlin 1997). The character of the post-NPM regime is currently being formed. Some argue that a ‘range of connected and information technology-centred changes will be crucial for the current and new wave of change’ (Dunleavy et al 2006: 467). The new wave of reform, they contend, will focus on themes of integration, needs-based holism, and digitisation changes. ‘The overall movement incorporating these shifts is toward digital-era governance’ which entails ‘reintegrating functions into the governmental sphere, adopting holistic and needs-based structures and progressing digitalisation of administrative processes’ (Dunleavy et al 2006: 467).

**Conclusion**

Public sector reform appears to be a universal phenomenon that reflects the ideology of the new public management which swept through many western democracies with the aim of improving efficiency and effectiveness in the conduct of public business. The factors that instigated the reforms were many and varied across jurisdictions. In almost all political systems, however, they enfolded the imposition of budgetary austerity as governments strived to control and discipline public expenditure; the consequences of globalisation for governments as they attempted to enhance the competitiveness of their national economies; the growing expectations of individual citizens and businesses for quality service; and the opportunities new information technology provided not only for effecting savings but also for re-engineering the delivery of services. Many governments, irrespective of political persuasions organisationally decoupled responsibilities for policy and operations, while they
emphasised the importance of the management aspects of their operations. Contractual relationships have been extended across governments in order to set explicit targets for the provision of public services, to establish service standard, to apply performance measures, and to impose more demanding and transparent accountability regimes (OECD 1994).

Virtually everywhere the need to respond to demands for improved management and delivery of public services has become urgent. Action here has involved a reduction of the authority of central management agencies to regulate and direct line departments. The real beneficiaries of this shift are those responsible for the management and delivery of services who have been given increased authority to decide on the ways they use their resources to meet their obligations.

The wave of public sector reform represented a steep learning curve in that Western democratic governments, irrespective of political colour, sought to learn from one another, and in a number of instances deliberately adopted and adapted structural models from one or more jurisdictions. Undoubtedly, some are leaders while others are laggards, however, the tendency has been to adopt common, even generic, principles of good public management, notwithstanding significant, even fundamental differences in constitutional and political structures (Holmes and Shand 1995).
CHAPTER TWO
THE IDEAS AND THEORIES UNDERPINNING PUBLIC SECTOR REFORMS

The wave of public sector reforms that swept across many developed countries in the mid 1980s and 1990s was instigated by a combination of economic pressures and political imperatives. In these advanced industrial democracies the impulse for reform came from public indebtedness, fiscal stress and the need to make significant improvements in service delivery, and the resultant preference for a much more efficient public sector (Dunleavy et al 2006; Quiggin 2000; Schwartz 1994). No less important as an instigator of reform was the centre stage status which market liberal ideology assumed under Prime Minister Thatcher in Britain, President Reagan in the US (Lane 2000) and especially Prime Minister Lange (with his free market finance minister, Mr Douglas) in New Zealand, and the consequent preference for a smaller public sector and a more extensive use of market mechanisms – contracting out, commercialisation, corporatisation and privatisation (Boston et al 1998; Quiggin 2000). The need to exert political control over the bureaucracy was yet another causal factor of the reforms (Hughes 2003; Aucoin 1998; Lane 2000). These dynamic economic and political pressures were also present in Australia and did provide the impetus for public sector reform (Halligan 2002).

The economic and political factors certainly played a crucial part in the reform process, but there were also certain bodies of economic and administrative theory that shaped the Australian as well as other western democracies’ models of public sector reform. Particularly influential in this regard were public choice theory, organisational economics – especially agency theory, and managerialism or the new
public management (Boston 1998; 1995; Dunleavy et al 2006; Hood 1990b; Scott and Gorringe 1989). This does not imply that other theoretical traditions had no influence on the nature of the reforms. Property rights theory, neo-classical economic theory and game theory, among others, also coloured the thinking and policy proposals of governments during the course of the 1970s to 1990s. So too did various politicians, academics and think tanks as well as business leaders who made important contributions to reform discourses and the identification of policy options.

This chapter examines the doctrines, strengths and weaknesses of public choice theory, agency theory and the new public management. It then explores the influences these theoretical traditions had on the Australian model of public sector reform. Further, it sketches the influence these theories had in the Tasmanian context on agendas of change particularly at the local government level. The management, structural and legislative components of the local government modernisation process have been informed in some respects by these theories. These said components have concentrated on two main agendas which are namely the improved management of resources, and governance issues especially the redefinition of roles and responsibilities of the various actors in municipal government (Aulich 1999b; LGB 2002). In the next chapter these three theories are used as conceptual frameworks for undergirding and explicating the model of the purchaser-provider split.

**Public choice theory**

Public choice theory is a branch of economics that developed from the study of taxation and public spending. It was articulated in the 1950s and captured considerable attention in 1986, when James Buchanan, one of its two leading
architects (the other was his colleague, Gordon Tullock), was awarded the Nobel Prize in economics (Shaw 2002: 1). Public choice theory has had an immense impact on political science, public policy and public administration during the past three decades (Hughes 2003; Mitchell 1988; Self 1993; Shapiro 2005). Apart from the seminal work of Buchanan and Tullock (1962) other prominent scholars who have written on the subject include Anthony Downs (1957; 1967), William Niskanen (1971) and Mancur Olsen (1965). McLean (1986) explains that public choice theory has focused on four themes: the problem of aggregating individual preferences; studies of formal social choice, concentrating particularly on the spatial theory of voting; studies that focus on individuals as rational actors (voters, politicians, bureaucrats, lobbyists etc.) and seek to explain how these actors will behave in different institutional settings with different incentive structures; and the analysis of collective action problems (that is, problems that arise because the pursuit of individual interests produces suboptimal outcomes for the group).

Central to the public choice literature is the notion that all human behaviour is dominated by self-interest. Individuals, in other words, are rational utility maximisers. Buchanan captures this view in the following manner:

...in one sense, all public choice or the economic theory of politics, may be summarised as the ‘discovery’ or ‘rediscovery’ that people should be treated as rational utility maximisers of all their behavioural capacities (Buchanan 1978: 17)

Public choice theory takes the same principles that economists use to analyse people’s actions in the marketplace and applies them to people’s actions in the collective decision-making. Economists who investigate behaviour in the private marketplace assume that people are motivated by self-interest. Although most people base some of their actions on their concern for others, the dominant motive in
people’s actions in the marketplace — whether they are employers, employees, or consumers — is a concern for themselves (Shapiro 2005; Shaw 2002). Public choice theorists make the same assumption — that although people acting in the political marketplace have some concern for others, their main motive, whether they are voters, politicians, lobbyists, or bureaucrats, is self-interest (Niskanen 1971; Hughes 2003; Shaw 2002).

Hence, public choice theory is, in essence, the application of microeconomic principles to political and social areas. According to Dunleavy the “rational actor” model which is central to all public choice perspectives assumes that:

- people have sets of well-formed preferences which they can perceive, rank and compare easily;
- their preference orderings are transitive or logically consistent;
- people are ‘maximisers’ who always seek the biggest possible benefits and the least costs in their decisions. They act rationally when they pursue their preferences in an efficient manner and maximise benefits net of costs. On this formal definition, someone behaves ‘rationally’ if they optimise their preferences in a consistent fashion, however substantively ill-advised we may judge their preferences to be; and
- people are basically egoistic, self-regarding and instrumental in their behaviour, choosing how to act on the basis of the consequences for their personal welfare (or that of their personal family) (Dunleavy 1986: 3).

It can be inferred from these arguments that businesses seek to maximise their profits, government officials strive to maximise their departmental budgets
(Niskanen 1971), while politicians endeavour to maximise their votes (Downs 1957).

As Self puts it:

Following this approach, voters can be likened to consumers, pressures groups can be seen as political consumer associations or sometimes as co-operatives; political parties become entrepreneurs who offer competing packages of services and taxes in exchange for votes; political propaganda equates with commercial advertising; and government agencies are public firms dependent upon receiving or drumming up adequate political support to cover their costs (Self 1985: 51)

This view about the behaviour of bureaucrats in particular assists in explaining the pervasive nature of 'office politics' found in any public organisation. It also explains why the argument that individual appointed officers work for themselves instead of the public interest, cannot be completely discounted. Individuals do strive for personal advancement, and bureaucrats in a position to do so tend to press for more resources for their agencies. The health department for example, catalogues compelling justifications for demanding larger appropriations, arguing the most valuable asset of a nation is its people, and healthy people are productive people. While the environment ministry paints a dooms day scenario of our planet to explain why more money needs to be allocated to fight global warming. This may not always be attributable to personal motives, but personal and organisational interests may coincide (Hughes 2003). The successful bureaucrat is often the one who can fight for the maintenance of existing funding levels or increases in appropriation to his agency. The traditional model of administration cannot adequately explain office politics of this kind (Hughes 2003).

Viewing all human behaviour through the lenses of economics has led to a great deal of suspicion among public choice proponents of the notion that politicians are 'primarily concerned with societal well-being or the common good, or that they and
their advisers are guided by fundamental ethical precepts' (Boston et al 1998: 17). Moreover, concepts like 'public spirit', 'public service', and 'public interest' have received scant attention in the public choice literature (see Djankov et al 2003; Kelman 1987; Mansbridge 1990; Tullock 1984). Two of the reasons for this are that they are believed to be devoid of meaning or relevance, and because of the great probability of their being applied to legitimise the demands of sectional interest groups (Boston et al 1998).

Public choice theorists see nothing wrong with the pursuit of self-interest in the economic marketplace (with a few notable exception) to produce socially desirable outcomes, but many are concerned that importation of such a behavioural orientation into the political marketplace can have serious adverse consequences. The tendency for example, will be for politicians to seek the advancement of their own particular interests to the detriment of many of their constituents. Interest groups will indulge in rent-seeking behaviour at the expense of the wider community, while bureaucrats in their quest to maximise their budgets, will appropriate ever-increasing quantities of resources (Niskanen 1971; Chang and Geoffrey 2002). The end result, argue some critics, is an over-sized state that will struggle to guarantee national security, maintain law and order, and satisfy voter preferences. Individual liberty will be curtailed, and powerful interest groups will capture a disproportionate share of the national income. And institutional rigidities will be created, thereby reducing economic growth (see Olsen 1982).

These concerns prompted many public choice proponents to promote relatively conservative agendas (for example, reducing the size of the state, selling public
commercial assets, curbing the functions of government agencies, and maximising
liberty — understood in the limited sense of freedom from coercion) (Boston et al
1998: 18; Djankov et al 2003). In arguing for the reduction of government
bureaucracy, proponents made two claims: first, that government bureaucracy greatly
restricted the freedom of the individual and its power needed to be reduced in the
name of ‘choice’. ‘Freedom was better than serfdom and consumer choice better than
bureaucratic command’ (Hughes 2003: 40). Second, although linked to the first
point, market theorists contended that the traditional bureaucratic model did not
provide an equivalent package of incentives and rewards to those of the market. It
was therefore considered less efficient than market arrangements (Hughes 2003).
This criticism in part prompted the development of public choice’s perspective that is
aimed at maximising the choice of the individual. Choice allows for greater ‘user
say’ in the shaping of the content and delivery of government services

In advocating the introduction of public choice ideas into the public sector, Ostrom
(1974) insists that the bureaucratic mode of organisation is less efficient or effective
than permitting choice through markets. Markets generally provide a more efficient
form of allocation in that they allow for individual ambitions to lead to optimal
outcomes following the insights of Adam Smith (1976). ‘Competition, consumer
sovereignty and choice provide incentives to lower costs, which are arguably absent
in the bureaucratic model of administration’ (Hughes 2003: 41). Public choice
arguments are virtually aimed at rolling back the state. A model usually promoted as
a viable alternative irrespective of the specifics of a given case, is the reliance on
market arrangements. One consequence of public choice endeavours has been to
push back the barriers between public sector and private sector, trying to define those
circumstances where public supply is justified (Hughes 2003: 41). As Niskanen argues, ‘if the structure and incentives in a bureaucracy have to be changed so much to improve its performance, why not rely more on private markets, where this structure and incentive now exists’ and ‘a wide range of services financed by government are also marketed, or are potentially marketable in the private sector’ (NIskanen 1973: 54). Following this argument, public service should be reduced to the bare minimum with many current functions transferred to the private sector or simply abolished (Hughes 2003).

The abuse of power hypothesis on the part of politicians has given weight to the suggestion that elected officers should be prevented, if necessary, through constitutional changes, from running budget deficits or imposing taxes beyond a certain level (Brennan and Buchanan 1980; 1985; Buchanan 1987). Similarly, because departments have strong interest in their own survival, they should not both tender advice and implement policy (New Zealand Treasury 1987: 756). This argument was instrumental in the introduction of the purchaser-provider split into the public sector in order to separate the role of government policy advice from its operational responsibilities. It is claimed that if both roles are co-located in the bureaucracy it is highly likely that the advice emanating there from will be biased and bureaucratic capture will occur. Finally, all services provided by the state should be made as contestable as possible (Boston et al 1998; Chang and Geoffrey 2002; Dunleavy et al 2006). This principle of public choice theory instigated the expanded use of competitive processes in the public sector in order to diversify government sources of supply, a process argued to enhance efficiency and effectiveness in the conduct of public business.
Criticisms of public choice theory

Without doubt public choice theory, like all other theories, has limitations. The theory has been attacked from many fronts (see especially Barry 1965; Dunleavy 1991; Hoogerwerf 1992; Self 1993; Shaw 2002). At least, three of these criticisms are salient. Its implausible behavioural assumptions and its limited predictive power, among others, are attacked. First, critics attack the argument that individual behaviour is mostly motivated by self-interest and that broader normative considerations, such as concern for others, do not colour the individual’s thinking. It is true that self-interest is a major, and sometimes dominant motivating factor driving individual action. However, it is also the case that human beings are influenced by many other fundamental precepts and values. More often than not people do not behave opportunistically or violate contracts, even when the potential gains (both short and long-run) from shirking or free riding are great (Boston et al 1998; Shapiro 2005). Appointed officials are not interested in only maximising their departmental budgets (if indeed this interests them at all). They are also motivated by such values as credibility, integrity, duty, professional standards, and doing a good job. Moreover, they canvass a wide-range of policy preferences and they work hard to get government to adopt them. If their policy preferences are adopted and implemented the expected outcome would benefit all the community not only bureaucrats.

The suggestion that politicians are mostly or solely concern with maximising votes, unperturbed by considerations of ideology, ethics, or the quest for a just society, is also questionable (Boston et al 1998: 30; Shapiro 2005). It should therefore be realised, as Boston et al puts it, that,
people are not merely economic beings, but also political, cultural and moral beings who inhabit an economic system that is profoundly influenced by, and in a sense dependent upon, the attitudes, habits, beliefs, assumptions, ideals and ethical standards of its members (Boston et al 1998: 30).

Any theory that does not accord sufficient weight to, or even disregards these broader contextual factors, social relations, and normative commitments is at best misleading and damaging (see Aaron 1994; Boston et al 1998; Dore 1983; Granoverter 1985; Mansbridge 1990; Sen 1977; 1987; Shapiro 2005; Stewart 1993). Fortunately, public choice theorists are beginning to incorporate these considerations into the literature.

Another public choice view that has been scrutinised relates to problems involved in managing opportunism. The question that is posed is whether it is better to limit opportunism or take it for granted and organise institutional and monitoring arrangements accordingly (Hood 1986: 109-13; Wright et al 2001). Some are of the view that our hands are tied, contending that human behaviour is unchangeable; it is not dependent upon or conditioned by contextual factors; it is not structurally determined. Hence, humans should take opportunism as given and fashion our institutions in ways that will accommodate it. However, this argument is hardly supported by evidence (Perrow 1986). What the evidence tends to reveal is that while opportunistic behaviour cannot be eliminated it can certainly be reduced, or at least modified, by a variety of institutional mechanisms. As Hood notes, these embrace:

accepting as employees only people who show signs of vocation or permanent calling to the work in question, as tested by rigorous scrutiny, screening and probation procedures, not casual job-hoppers momentarily attracted to the pay or the job, lifetime career service (another facet of ‘vocation’). This may encourage people to take a ‘long view’ which may limit opportunism, especially if allied to more or less automatic progression by seniority and ‘cradle to grave’ benefit from the employer. Long induction and training procedures, to cultivate a sense of enterprise solidarity and to limit the grosser aspects of self-serving behaviour (Hood 1986: 110).
However, such measures might have disadvantages. As Hood observes, this might, exchange competence for loyalty, effectiveness for honesty, independent thought for group think, analytic capacity for piety, capability for seniority. It may mean being too kind to employees with burnout, declining competence, skill obsolescence (or who are just plain failures) – in short, to do without all the potential benefits of opportunism, in terms of dynamism, quick-wiredness, adaptivity (Hood 1986: 111-12).

It is ironic that the attention public choice theory was, and is, attracting comes at a time when its explanatory power is weakening. As many commentators have observed, the policies of liberalisation and deregulation embarked upon by OECD countries during the 1980s conflict with the predictions of many public choice models (which generally assume that it is in the short term electoral interests of politicians to promote tighter regulation). This point aside, the predictive power of public choice theory has been found wanting in many areas of social and political life (see Bendor and Moe 1985; Boston et al 1998; Boyne 1987; Foster 1994; Blais and Dion 1993; Self 1985; 1989; 1993). Public choice theory for example, has difficulty in giving reasons why people bother to vote, why they give to charity or donate blood, why they join ‘public regarding’ cause groups which are devoted to the promotion of common interests, and why legislators often act contrary to the expressed preferences of their constituents (Boston et al 1998: 32).

Finally, the budget maximising assumption of Niskanen (1971) has been severely criticised (Blais and Dion 1991; Conybeare 1984; Dollery and Hamburger 1993; Shapiro 2005). Contrary to Niskanen’s hypothesis, empirical evidence suggests that in most bureaucracies there is little connection between the size of a department and its status or between the growth of departments and the salaries of their employees. As Wilson argues, ‘One wonders why Niskanen thinks bureaucrats are so desirous of
maximising their budgets if they can enjoy so few of the fruits’ (Wilson 1989: 118). Niskanen later conceded that his initial formulation was inadequate and that bureaucrats aim to maximise their discretionary budget rather than the total budget (Niskanen 1994: 281).

The implications of insights from public choice theory for the study and conduct of public policy are not undebatable. However, one thing is clear, that is, ‘the need for theories that take into account a wider range of considerations, particularly the importance of ideas and values, in explaining human behaviour and policy choices’ (Boston et al 1998: 32). Moreover, once the notion that politicians, bureaucrats, and voters are wholly or exclusively self-interested is abandoned, the problem of provider capture need no longer be central (even though it cannot be disregarded). The lesson to be learnt is that we cannot encapsulate the political system in an impermeable membrane to prevent it from invasion by vested interests. What we can do is to ensure that the decision-making processes are transparent, democratic and fair (that is, that they provide opportunity for all interests to be adequately represented).

**Agency theory**

Agency relationship is in effect said to exist whenever one party, a principal, hires another party – an agent – who possesses specialised knowledge and skills (Eisenhardt 1989; Gomez-Mejia and Balkin 1992; Halligan 2004; Jensen and Meckling 1976) to provide agreed quantity and quality of goods or services, or undertake specified tasks on behalf of the principal for which the former rewards the latter. In this relationship the welfare of the principal becomes affected by the
decisions of the agent (Arrow 1985; Barney and Ouchi 1986; Jensen and Meckling 1976). Principal – agent relationships can be established between individuals, individuals and organisations, or between one organisation and another. Examples of these relationships can be cited. In an employer employee relationship, the employer is the principal and the worker is the agent; in a lawyer client relationship, the client is the principal and the lawyer is the agent; and in the political arena, voters can be seen as principals who contract with politicians (their agents) to undertake a range of tasks and activities on their behalf (Weingast 1984). As Moe suggests,

...the whole of politics can be seen as a chain of principal-agent relationships, from citizen to politician to bureaucratic superior to bureaucratic subordinate and on down the hierarchy of government to the lowest-level bureaucrats who actually deliver services directly to citizens. Aside from the ultimate principal and ultimate agent, each actor in the hierarchy occupies a dual role in which he (or she) serves both as principal and as agent (Moe 1984: 765).

The concern of this theory is that the welfare of the principal may not be maximised because principals and agents tend to have divergent goals and different predisposition to risk (Wright et al 1996). Specifically, principals are thought to be risk neutral in preferences for individual firm actions since principals can diversify their shareholders across multiple firms (Wiseman and Gomez-Mejia 1998). Similarly, principal government authorities can diversify their sources of supply across multiple contractors both internal and external. In contrast, agents are assumed to be risk averse since agent employment, security and income are inextricably linked to a single firm (Donaldson 1961; Williamson 1963). In other words, agents are assumed to be risk averse in decisions regarding the firm in order to minimise risk to personal wealth. Contracts have thus become central in agency models to minimise costs in agency relationships.
Agency theory is grounded in economic utilitarianism (Ross 1973). Because the theory narrowly focuses on the principal-agent relationship, and is armed with a given set of assumptions, its contribution is that it provides logical predictions about what rational individuals may do if placed in such a relationship (Wright et al 2001). Moreover, the agency relationship is conceived in the context of a single principal or agent. This is beholden to the social science doctrine of methodological individualism (Donaldson 1990). The argument of agency theory is that economic phenomena should be examined from the standpoint of deliberate behaviour of individuals since economic life can best be understood as maximising behaviour on the part of all individuals. In this context, the agency problem is pronounced – if both the agent and the principal are utility maximisers, because the presumption is that the agent will act in the best interests of the principal (Jensen and Meckling 1976).

Originally, agency theory was employed primarily to deal with problems emanating from the separation of ownership and control in firms, especially the difficulty of ensuring that managers act in the interests of their shareholders. With time it was realised that agency problems of this nature were also prevalent in the social, economic and political arenas. In Jensen and Meckling words:

The problem of inducing an ‘agent’ to behave as if he/she were maximising the principals’ welfare is quite general. It exists in all organisations and in all co-operative efforts – at every level of management in firms, in universities, in mutual companies, in cooperatives, in governmental authorities and bureaus, in unions, and in relationships normally classified as agency relationships such as are common in the performing arts and the market for real estate (Jensen and Meckling 1976: 309).

Proponents of agency theory, like public choice theorists and neo-classical economic theorists, assume that each party acts in its own self-interest – a rational, self-
interested, utility maximiser. This assumption gives rise to the so-called agency problem because the interests of the principal and agent may conflict (Boston et al 1998; Gomez-Mejia and Balkin 1992; Wright et al 2001). Moreover, as Boston et al note:

Management of many principal-agent relationships is complicated by incomplete information, asymmetrical information and various uncertainties: agents generally have access to information that principals do not (and vice versa) and have an incentive to exploit this situation to their advantage (Boston et al 1998: 18).

The behaviour of agents is often not amenable to scrutiny or observation by principals; and there are frequently uncertainties surrounding the way an agent’s actions are translated into the outputs (outcomes) sought by a principal (Boston et al 1998). The agent may shirk or engage in self-serving behaviour, such as using work time and organisational resources for personal gains (Gomez-Mejia and Balkin 1992; Wright 2001). The more autonomy and independence the agent enjoys and the greater the specialised knowledge required to perform the task, the more significant the ‘moral hazard’ becomes (Holmstrom 1979). The concept of ‘moral hazard’ was first developed in the insurance industry, where an insurance policy may create an incentive for the policyholder to cause an accident, such as the loss of a business through arson (Arrow 1985). Information asymmetries that provide one party (the agent) with information that is unavailable to the second party (the principal) can give rise to moral hazard (Gomez-Mejia and Balkin 1992).

To achieve an optimal form of contracting, and to reduce the moral hazard inherent in agency relationships, principals develop mechanisms, or ‘rules of the game’ to monitor agents’ actions via rewards and sanctions (Rees 1985). When an agent has high autonomy, independence, and highly specialised knowledge, monitoring
becomes difficult and expensive, so principals will rely on incentives to reward agents for appropriate outcomes (Tosi and Gomez-Mejia 1989). Although principals are also thought to be opportunistic, agency theorists have given scant attention to this side of the scale (Gorringe 1987; Wright et al 2001).

Another concept that features well in the agency literature is adverse selection. Unlike moral hazard (which is asymmetry of information problems after the negotiation of a contact), adverse selection arises from a particular type of information asymmetry that might exist prior to the negotiation of the contract (Boston et al 1998: 20). Agency problems related to adverse selection stem from the fact that some of the information that the principal wants to know about an agent is difficult to observe. As a result, the agent has an information advantage over the principal. A good example of this type of problem relates to the selection of people to fill job vacancies. In such cases a good deal of information about the applicant’s ability and character may not be revealed by merely examining the qualifications, work records, references and so forth. Information relating to the applicant’s intelligence, beliefs, values, attitude, work habits, and creativity are most unlikely to be discernible from the documents presented (Boston et al 1998). Hence, the employer cannot ascertain with precision each job seeker’s true ‘type’ and cannot be sure of selecting the best applicant for the job. On the other hand, the best applicant may not be in a best frame to demonstrate that they are in fact the best because all the job seekers endeavour to present themselves in a positive light in order to secure the job. Here too, the employer risks making an adverse selection. It should not be forgotten that the employees also face the problem of not knowing the employer’s true ‘type’.
The utility of agency theory is demonstrated by its application to analyse a range of policy issues, particularly those dealing with selection of agents, the design of remuneration systems (for example, output-based verses input-based reward systems, direct incentives like price-rates versus indirect incentives like career structures etc.), and institutional arrangements (e.g. in-house provision versus contracting out) (Boston et al 1998; Aulich 1997). It also worth noting that the objective of agency theory at the societal level is to improve efficiency, optimise resource allocation, and increase savings.

**Criticisms of agency theory**

All theories have their limitations and shortcomings and agency theory is not an exception (Wright et al 2001; Donaldson 1990a; 1990b; Moe 1984; 1990; Bendor 1988; 1990; Davis and Gardner 1995) Some of these criticisms are also levelled against public choice theory (for example, the limitation of the preposition that agents are self-interested, lazy, the failure to account adequately for contextual factors, like ethics and culture, and the inclination to draw parallels between characteristically different fields such as politics and economics (Boston et al 1998; Wright et al 2001). In addition to the above criticisms agency theory has received attacks from several other fronts:

Agency theorists have tended to ignore the question of power and authority in human relationships. They have also focused much more on the problems posed by opportunistic agents than opportunistic principals. Thus, little attention has been given to how principals might misrepresent their 'type' and thereby mislead or exploit their agents (Boston et al 1998: 32; Wright 1998). The use of simple agent-principal models to describe and analyse complex social interactions and constitutional relationships can be misleading and inappropriate. In particular, such models cope poorly with situations where agents serve multiple and competing principals or where there is disagreement over who the principal ought to be (Boston et al 1998: 32-33).
Many principal-agent relationships in the public sector have a distinctive character. This is partly because the managerial disciplines supplied by private capital markets do not usually apply, it is also because public authority and coercive power play a crucial role within the governmental sphere such that many exchanges and 'contracts' are involuntary. For these reasons, familiar principal-agent relationships are transformed into something that is provocatively different from...straightforward applications (Moe 1990: 232).

Even where agent-principal models are relevant to the interactions under examination, the policy implications of agency theory are often unclear. Further, one of the key policy recommendations arising out of the theory – that managerial opportunism in the private sector is best controlled by separating the roles of board chairperson and chief executive – remains contentious. Empirical evidence suggests that returns to shareholders tend to be higher when the two roles are combined rather than separated (Donaldson and Davis 1991).

It is important to clarify some of the points raised above. The first issue is that agency theory gives scant attention to the unequal distribution of power within organisations and society at large. Thus, principal-agent framework often supposes that the parties to a contract are on equal terms, with equal rights and capacities. However, in practice many relationships are asymmetrical in nature (Boston et al 1998). The labour market epitomises a setting with inequalities of power in contractual relationships. In virtually all situations employers have disproportionate bargaining power compared to their employees. Employers can hire and fire employees in many cases, but employees cannot usually get rid of the owners and run the organisation themselves. This point may be challenged on grounds that if the employer acts unjustly and fails to fulfil his contractual obligations, the worker is free to take his labour elsewhere. But the barriers to easy labour mobility are overlooked. These barriers include the possible absence of alternative sources of work due to high unemployment; the search cost involved in securing alternative employment; and the cost to the employees of terminating their contracts [a hurdle Gorringe (1988) refers to as hostages] (Boston et al 1998: 33). In the light of these
problems, it is inevitable that a host of injustices would occur in the labour market if the parties are left to voluntarily negotiate their agreed relationships or contracts, as well as enforced them, without legislative provisions to protect workers and unions.

Another problem noted in relation to the applicability of agency theory particularly to the public sector, is that it is not sufficiently sophisticated to handle complex social and constitutional relationships. It is argued that there are considerable differences between the relationships of parents and their children, employers and employees, politicians and voters, and ministers and public servants, yet agency theory applies the same language and framework to deal with all these interactions (Boston et al 1998; Wright et al 2001). Boston et al buttress this point, observing for example, that most democratic theorists would answer in the negative to the question of whether public servants should always do what government dictates. The reason for such a response is that there are clear limits to the responsibility of public servants to implement government policy and that the state cannot require unquestioned allegiance (Boston et al 1998: 33). In addition, as Heymann states:

It could be argued that part of the rationale for systems that allow for little formal intervention by government – in appointing senior bureaucrats and in setting the salaries – is that the bureaucracy should provide some sort of ‘check and balance’ on the government’s actions – in other words, that the bureaucracy has a valid objective other than to carry out government policies, broadly defined. In this case, the principal-agent model breaks down, as the problem is no longer to induce the bureaucracy, as agent to act in the government’s interests (Heymann 1988: 34).

A myriad of competitive, multiple-principal arrangements have been developed where by public servants usually serve as the ‘partial agents’ of various principals – their portfolio minister, cabinet, parliament, a public service authority, and so on (Moe 1984: 768). The assumption of a solitary principal and agent is hereby
invariably extended to include multiple principals and agents. Theories become much more complex (and interesting) when they permit for the possibility that collections of teams of principals (or agents) disagree or compete over interests and goals – a feature of agency relationships Adams (1996) labels the “hydra factor”.

How do agents understand and reconcile the duties delegated to them when they are receiving mixed messages and conflicting instructions – and incentives – from multiple principals? How do they do so when the contract is exceptionally vague by design, or deal with the irreconcilable differences among principals with conflicting interests – for example, controversial legislation that requires implementation? When do these cleavages among, and collective action, problems confronting principals afford opportunities to play one principal off against another? (Shapiro 2005).

Multiple agents who have been delegated to undertake a task collectively compound the agency problems. Agents, too, have competing interests; indeed the interests of some agents may be more in tandem with those of their principals than with the other agents. Some agents are more risk averse than others; agents may not respond uniformly (either positively or negatively) to incentives. Some may be free-riders and the existence of multiple principals and multiple agents sometimes increases the informational asymmetries and the difficulties of monitoring (Shapiro 2005: 266). These asymmetries may be partly to blame for the emergence and thriving of crimes in organisations which can go undetected for long periods of time because they are masked by complex structures of action. At other times, multiple parties help to right the imbalance of information, such as when competitive agents leak information to principals in an effort to get an upper hand over other agents (Waterman and Meier 1998).
Agency theory supplies a tool for analysing certain kinds of policy issues and points to the part that incentives play in influencing the behaviour of agents, however, it provides policy makers with only a limited practical guidance (Boston et al 1998; Wright et al 2001). This limitation is illustrated in relation to the optimal level of delegation in the core public sector. Agency theorists like Heymann postulates that the answer 'is a function of the correlation between the bureaucrat’s utility maximising behaviour and the government’s utility' (Heymann 1988: 33). In other words, the answer depends, according to Boston et al 1998 partly on:

The ease with which a minister (the principal) can monitor and assess the performance of his or her (agents) and partly on the costs to the minister of maintaining controls over inputs. The ease of assessing performance depends, in turn, on such variables as the size of the agency, the nature and geographic spread of its operations, the ease of measuring its outputs and outcomes, the extent of any moral hazard problems, the extent to which the (policy) preferences (or discount rates) of officials differ from those of the minister, and so forth. Various moral and cultural factors — such as the bureaucratic ethos, notions of loyalty and duty, the degree of trust, and the extent of corruption — are also likely to be relevant, but these tend to be ignored by agency theorists (Boston et al 1998: 34).

If these considerations are to be taken into account then a number of questions are provoked: How far should the delegation of responsibility go? Should input controls remain and if so, over what kinds of inputs? What kind of incentives (and sanctions) should be used? What forms of monitoring should be adopted? How much transparency is desirable? What role should parliament and the controller and Auditor-General play? (Boston et al 1998: 35). Answers to these questions, according to Boston et al (1998), cannot be found in agency theory. Possible sources to consult for answers, they contend, are constitutional law, political philosophy, and administrative theory.
The proposition that principals are in the driver's seat — specifying preferences, creating incentives, and making contracts that agents must follow — is also questioned (Heimer and Staffen 1998; Sharma 1997). When principals engage agents for their expert knowledge, when principals are one-shooters and agents repeat players, when principals are unexpectedly made responsible for a new role with no time or life experience to articulate preferences, let alone a contract or monitoring strategy [for example, the new parents of a critically ill newborn (Heiman and Staffen (1998)], 'the asymmetry of power shifts from principal to the agent' (Shapiro 2005: 266-7). Political scientists particularly, emphasise the limitations of a theory of markets. As Moe notes,

the more general principal-agent models of hierarchical control have shown that, under a range of conditions, the principal's optimal incentive structure for the agent is one in which the latter receives some share of the residual in payment for his efforts, thus giving him a direct stake in the outcome...For public bureaucracy, however, there is no residual in the ordinary sense of the term (Moe 1984: 763)

There is no profit that can be distributed to members of public agencies for doing a good job and demonstrating model behaviour. In applying agency theory to the public sector for example, to establish the relationship between legislative or executive branch and administrative agencies, we may continue to use economic metaphors: politicians need to maximise their votes; bureaucrats need to maximise their budgets. But the metaphor fails to capture the range of incentives at play in the political arena, many of which focus on policy rather than profit (Waterman and Meier 1998). Indeed the importance of policy commitments undermines agency theory's postulation of goal conflict between principals and agents, who may sometimes share policy goals (or more accurately, some among the collection of multiple principals and agents might do so) (Shapiro 2005). The extent, sources and
strategies of compensating for information asymmetries also vary considerably as one moves away from market settings (Waterman and Meier 1998; Worsham et al 1997; Sharma 1997; Banfield 1975)

Finally, commentators from a variety of disciplines outside economics also fault the assumption of acontextual, ahistorical and static relationship between principals and agents (Mitnick 1992). Agency relationships are construed in a broader social context that are influenced by outside forces – other agency relationships, competitors, interest groups, regulators, legal rules, and so on – that sometimes right informational imbalances, offer or constrain incentives, exacerbate the risk of adverse selection or moral hazard, provide cover or opportunity for opportunism, and so forth (Shapiro 2005: 267). Relationships endure overtime, affording principals and agents occasions to gather data about one another. Principals learn better what incentives are likely to work. Agents learn more about the preferences of principals they serve. They develop reputations; relationships become embedded and parties develop histories and personal relationships and become entangled in social networks (Granovetter 1985). Overtime, agents acquire constituencies other than their principals that buffer them from the ‘contracting, recontracting, and sanctioning of their principals. Moreover, as ‘agents (government bureaucrats, corporate managers) outlast their principals (legislators, chief executives), the balance of power between principal and agent may shift’ (Shapiro 2005: 269).

**The new public management**

The new public management (NPM) represents a model of a paradigm shift of the 1980s and 1990s in how the public sector is to be managed. It originated in the UK
and spread first and foremost to the US, Australia and especially New Zealand, and then further on to Scandinavia and continental Europe (Lane 2000). The NPM is part of the managerial revolution that has gone around the world affecting all countries, although to considerably different degrees. Managerialism or the new public management has had a significant impact, especially since the mid to late 1980s, on public administration in many OECD countries, not least Australia (Aucoin 1990a; Caiden 1988; Halligan 2002; Hood 1995; Gunn 1988).

Managerialism is not novel; its origins can be traced to at least the late nineteenth century and the pioneering work of Frederick Taylor – the founder of ‘scientific management’ or “Taylorism”. Managerialism or management denotes, according to Painter (1988: 1), ‘a generic, purely instrumental activity, embodying a set of principles that can be applied to the public business, as well as in private business’. Since the mid 1980s, the ideas of the older managerialist framework have been revived and given a new life and momentum and influenced in various ways by, among other things, public choice theory and organisational economics (Boston et al 1998).

Literature now abound on how NPM should be conceptualised and how it has changed, in particular as it has evolved through the New Zealand, Australia, UK, and latterly European public administration systems. The result is that NPM is a slippery label (Manning 2000; Savoie 1995). Different definitions of NPM stress different things. For Barzelay (2000: 156), it ‘is primarily concerned with the systematic analysis and management of public management policy. The policy-domain relates to all government processes’. ‘Rival conceptions characterise NPM in terms of
specific policy principles, of "trait" policy intervention seen as typical or as an overall "paradigm" for reforming government institutions' (Dunleavy et al 2006: 467). But even among these accounts, NPM is construed in a variety of ways. Sometimes it is represented as copying business managerialism of a now older kind (Pollitt 1993), and in terms of unusually strong customer service orientation. At other times, NPM is defined in relation to internal organisational cultures and the use of a repertoire of more individualistic, less hierarchical organisational control mechanisms (Aucoin 1996b; Hood 1998). Some characterisations additionally seem to draw NPM into strongly normative concepts, as in Aucoin's (1990a) discussion of the "well performing organisation". Some see NPM as a two-level phenomena – a strongly developed and coherent theory of managerial change based on importing into the public sector central concepts from (relatively) modern business practices, and public choice-influenced theory (Dunleavy et al 2006: 470)

If there were one label that is used to refer to all kinds of public sector reform, then it would be new public management (Aucoin 1990a; Hood 1990a; 1990b; 1995). Common to all the public sector reform effort is the attempt to employ new governance mechanisms that go beyond the traditional institutions of governance such as the bureau and the public enterprise and that employ or imitate market institutions of governance (Walsh 1995; Dunleavy et al 2006). The features of the NPM have been variously catalogued by different scholars. However, according to Hood they comprise seven main points:

Hands on professional management in the public sector. This means letting the managers manage, or as Hood puts it, 'active, visible, discretionary control of organisation from named persons at the top'. The typical justification for this is that 'accountability requires clear assignment of responsibility for action'.
Explicit standards and measures of performance. This requires goals to be defined and performance targets to be set, and is justified by proponents as ‘accountability requires a clear statement of goals; efficiency requires a ‘hard look’ at objectives’.

Greater emphasis on output controls. Resources are directed to areas according to measured performance, because of the need to stress results than procedures.

A shift to disaggregation of units in the public sector. This involves the breaking up of large entities into ‘corporatised units around products funded separately and ‘dealing with one another on arm’s length basis’. This is justified on the need to create manageable units and to gain the efficiency advantages of franchise arrangements inside as well as outside the public sector.

A shift to greater competition in the public sector. This involves ‘the move to term contracts and public tendering procedures’ and is justified as using ‘rivalry as the key to lower costs and better standards’.

A stress on private sector styles of management practice. This involves a move away from military-style ‘public service ethics’ and flexibility in hiring and rewards, and is justified by ‘need to use ‘proven’ private sector management tools in the public sector’.

A stress on greater discipline and parsimony in resource use. Hood sees this as ‘cutting direct costs, raising labour discipline, resisting union demands, limiting competitive costs to business’ and is typically justified by the ‘need to check resource demands of the public sector and ‘do more with less’ (Hood 1991: 3-19).

Some of the points Hood catalogued only became a feature later in the managerial reform process in Australia. For example, institutional disaggregation was not implemented at the early stages of the reform. However, as the reforms gathered momentum, all the various elements have to some degree been present in Australia (Hughes 1994; 2003).

As stated earlier, a good number of these NPM principles can be traced in history. Some of them originated from the works of nineteenth century scholars. What is novel about the NPM is the way in which these ideas have been combined, the manner of their implementation and the vigour with which they have been pursued (Boston et al 1998; Lane 2000). Proponents of the NPM insist on its utility for the conduct of public business. They stress its neutrality when they assert that both
conservative (neo-liberal governments) and social democratic ones applied it. Undeniably, the NPM has been combined with a strong ‘ambition to roll back the public sector, but it is also the case that it has been used in order to strengthen the welfare state and make it more efficient’ (Lane 2000: 7).

The NPM does not dictate that the private sector takes over the allocation of resources from the public sector but that the public provision of services be managed differently (Dunleavy et al 2006; Halligan 2002; Lane 2000). Advocates of the NPM argue further that the model does not deal with only contracting out. The use of contracts for public provision of services is clearly not novel (OECD 1994). Traditionally in the public sector contracting out has been used as a tool for arranging certain rather simple services such as catering or cleaning. The NPM not only vastly extends the application of contracting out using this tool in many new areas such as many kinds of infrastructure as well as education and health care and on a much larger scale. The NPM in addition deals with contracting in, that is, ‘a practical theory about how government can improve its operations through competitive contracting whether the provision is in-house or out-house (Lane 2000: 7).

Further, the NPM focuses on real phenomena. Symbolically, it uses new and technical words that have their origins and also seem to be applicable well outside the public sector. Ideas like principal-agent theory, private law ‘contracts’ and shirking are the new catch phrases when it comes to the application of contracting under this new governance mechanism. Even though doubts arise as to the public sector relevance of this new language, which the NPM implies, it should be emphasised that public sector reform under it has affected real and sometimes
dramatic changes in several countries (Aucoin 1990; Caiden 1988; Hood 1995; Lane 2000; Schested 2002; Wollman 2004). The advent of the NPM is a sign of an ongoing revolution in governance, both theoretically and practically (Pollitt 1993). The NPM is more than symbolic. At the same time one needs to discuss, criticise and penetrate its special terms (Lane 2000).

Theorists of the NPM argue in addition that the model is more original than merely a mixture of public choice theory with private management. If the NPM were merely an odd mixture of public choice model and old private sector management, then it would indeed be contradictory (Lane 2000). The public choice school advocates decentralisation in various forms (political, market, vouchers and user fees), whereas old private sector management emphasises centralisation (Hood 1990b; Lane 2000). However, ‘the NPM is not simply a prolongation of public choice theory. And the NPM has a management theory that is more advanced than old Taylorism’ (Lane 2000:7).

Finally, the NPM should not be interpreted as microeconomics applied to the public sector. It represents more than a repetition of cost-benefit approach, which is strict application of standard microeconomics to the public sector (Mishan 1995). In fact the NPM is much more grounded in entirely new ideas in economic theory with considerable departure from neo-classical framework. In particular, the economic theory of asymmetrical information has played a role in the emergence of several of the core ideas which constitute the NPM. However, it should be ‘emphasised that the NPM has developed through learning from the real experiments and reforms within
the public sector. It was never just an application of private sector ideas' (Lane 2000: 7).

Criticisms of new public management

The practical relevance of the NPM for the conduct of public business is the subject of debate, with critics pointing to several limitations (Boston et al 1998; Considine 1988; Dunleavy et al 2006; Hood 1990b; Painter 1987; Yeatman 1987). In particular, the NPM has been attacked on the basis that it lacks both a sound philosophical anchor and a solid empirical foundation. It has also been criticised by Boston et al for its:

Constitutional illiteracy, its lack of attention to the need for probity and due process within government, its insensitivity to varying organisational cultures and political constraints, and its potential for reducing the capacity of governments to deal with catastrophes – that is, because of the loss of bureaucratic expertise and increasing institutional fragmentation; (Boston et al 1998: 36).

Commentators have also charged that the machine of the NPM has some parts that seem to be at loggerheads with one another. Whereas the managerialist component stresses a degree of centralised control and top-down implementation, the public choice element advocates devolution and decentralisation (Hood 1990b; Lane 2000). Similarly, whereas managerialism puts a strong emphasis on the need for bureaucrats to be responsive to their customers and clients, some public choice theorists argue that responsiveness can be but a thin disguise for interest group capture (Boston et al 1998).

Critics have also pointed out that the NPM was simply a mixture of ideas which never really hang together, and that when it is deconstructed the NPM has a distinct
right-wing tone. It merely overemphasises economic efficiency and neglects other criteria – quality, equity, and democracy – with which public sector activities can be evaluated (Dunleavy et al 2006; Lane 2000; Tom and Per 2004).

Opponents of the NPM have also challenged the claims that private management principles can be applied equally to both the private and public sectors, and that private sector management techniques are generally superior to, and hence provide a benchmark for, those in the public sector. Those who attack the NPM concede that many, if not most, of the tasks and functions of management (as well as the available tools) are similar in both sectors – providing leadership, recruiting, managing and remunerating staff; selecting and deploying resources; managing an organisation’s finances; and monitoring performance (Boston et al 1998; Hughes 2003). However, not all the tasks of private management are similar or identical to those in the public sector. For example, ‘the provision of policy advice, and the whole business of policy-making, and law enforcement are distinctive to the public sector’ (Boston et al 1998: 36). It is also imperative to consider the real differences in relation to the contexts in which managers in the private and public sectors operate (Alford 1993; Allison 1992; Lane 2000; Moe 1987). It is important, in the light of these differences to recognise that some managerialist principles and techniques that are employed in the private sector are less suitable to the public sector. The critics’ charge is therefore loud and clear, that is, public management is different in kind from private sector management; thus, it is not simply a branch or sub-set of general management (Boston et al 1998; Schested 2002).
The NPM as a public policy mechanism

The NPM represents an alternative governance model which the public sector may be, and have been, tempted to adopt, but not uncritically, wholesale and indiscriminately. The NPM is essentially tailored to enhance efficiency. When it is a question about employment of inputs in order to produce outputs, then efficiency is a most relevant consideration to take into account. Since the main goal of private sector organisations is to maximise profit it is not surprising that NPM principles are most appropriate and applicable to that sector. Efficiency objectives are also cherished by the public sector, so appropriate efforts should be made to reduce costs while enhancing the effectiveness of government operations by applying some NPM principles in areas where it is suitable. However, the huge efforts in the public sector are driven by equity objectives which can only be attained at a cost in terms of total output. Here, the NPM with its efficiency-oriented bias may not be suitable for application in areas where government priority is to promote equity. The use of any governance mechanism is always a question of advantages and disadvantages (Dunleavy et al 2006; Lane 2000).

The application of the NPM to the social security sector for example, may make support conditional upon the arbitrariness of chief executive officers. As regards the soft sector organisations here are characterised by strong collegiality in professional groups and may stand up against government (Lane 2000). This resistance may come about because professional with their distinctive ethos are not only responsible for the provision of services but they are also watching over the implementation of universal values transcending the concerns of government. The use of the NPM in relation to the judicial branch of government as well as in relation to higher...
education institutions seems irrelevant. ‘Organisations dedicated to the pursuit of justice or following the precepts of justice may well use managers to handle a number of tasks’. However, ‘the chief mode of operation involves another governance mechanism, namely collegiality and bureaucracy’ (Lane 2000:14). In relation to the caring sector neither the NPM nor bureaucracy offers the best governance mechanism. Here trust between government and professional groups play a major role. However, ‘trust cannot be manufactured and put into short-term contracts’ (Lane 2000: 14).

The above exposition demonstrates that despite the recent attempts to closely align the principles and practices of public sector management with those of the private domain, significant differences still remain between the two sectors (especially in respect of the operating environment, governance structures and accountability relationships). Undoubtedly, these differences have significant implications for the way organisations within the two sectors ought to be managed. This observation notwithstanding, the boundaries between the public and private sectors are sometimes very blurred (Emmert and Crow 1988; Musoff and Seidam 1980). Moreover, public entities with commercial objectives (such as state-owned enterprises) are more identical to private sector firms than non-commercial public sector organisations (for example, departments and ministries). As a result, the relevance and appropriateness of managerialist principles are likely to vary across the public sector according to the nature and functions of the organisation in question (Boston et al 1998). This implies private sector management practices are not equally applicable to all public organisations. So too should it not be taken as given that private sector organisations are better managed than public sector ones. Nor
should it be assumed that private sector practices should have no role in the public sector or that managerialist doctrines have no relevance to public sector organisations.

There is no doubt the Australian model of public sector management incorporates many features of the NPM. However, those who were, and are, guiding the reform agenda did not suppose that private sector management practices should be employed wholesale, uncritically, or to the letter to the public sector. In fact, throughout the course of the reform program, the distinctiveness of the public sector was soundly acknowledged. So too did the organisational diversity within the public sector – and policies were fashioned out accordingly. Nevertheless, the private sector was often used as a standard against which public sector performance could be measured. Thus, the operating assumption was that proven private sector success should be held up as a model for the public sector.

The influence of these theories on Australian models of public sector reform

Concepts, models and theories are necessary and useful to guide policy-making, as they help clarify and direct our inquiry on policy-making, facilitate communication, and suggest possible explanation for policy action (Anderson 1984: 8). Policies are built on ‘theories of the world, models of cause and effect’ (Bridgman and Davis 2004: 5). Theories contain incentives that encourage one behaviour over another, or disincentives to discourage particular actions (Bridgman and Davis 2004). In other words, theories instigate the search for policy options and act as a road map to action and desired policy outcomes.
It is undeniable that public choice theory, agency theory and the NPM have had significant influence on the Australian models of public sector reform (Halligan 2002; Hughes 2003). However, assessing the influence of particular ideas, theories and assumptions and models on a set of policy shifts in any setting is a difficult endeavour due to the numerous factors at play, not least an array of political, institutional and technical constraints. Isolating the precise part played by these three theories in policy development and implementation is therefore a tricky exercise. What is even harder to ascertain are the questions of when, where and to what extent they made a difference. Having acknowledged this, the following assessment could be made.

Public choice theory, agency theory and the NPM have contributed to our understanding of political and bureaucratic behaviour. Like all conceptual frameworks and perspectives, they ask questions that might otherwise have been ignored. They offer a range of interesting insights and explanations as to why certain institutions exist and why they operate the way they do. They have also produced substantial amount of research and empirical data. In Australia, they have challenged policy-makers to rethink some of their previous assumptions and to explore new ways of organising and conducting public business (APSC 2003; Bridgman and Davis 2004; Hughes 2003; Halligan 2002). A testimony to this is the way that various policy questions have been redefined. For example, it is now widely accepted by all spheres of governments in Australia that monopolistic bureaucratic arrangement should no longer be the only mode for delivering public services. That multiple models where by external public, private and not-for-profit organisations can compete with in-house units will be a way of ensuring the economy, efficiency
and effectiveness in the provision of some public services. Those services that are inappropriate for external supply can still be provided in-house such as law and order maintenance, security and intelligence.

Other insights and contributions that have derived from these three theories, according to Boston et al in New Zealand, and also applicable to Australia include the following:

- the recognition of the importance of transaction costs (both within and between organisations) and the need to consider such costs in determining the relative merits of in-house provision versus contracting out;
- the stress on institutional design, especially the need to consider such things as information asymmetries, uncertainty, opportunism and incentives in drawing appropriate governance structures;
- the emphasis on improving managerial and political accountability, via greater clarity and transparency of ministerial goals and interventions, the tighter *ex-ante* specification of desired departmental outputs, and improved *ex-post* reporting and monitoring of performance;
- the recognition of the need to give greater attention to the consumers of public services, and where possible and appropriate, to satisfy their preferences; and
- the need to rethink some of our existing constitutional arrangements and conventions and enhance the checks and balances on the executive (Boston et al 1998: 29).

The influences specific to each of the three theories on the Australian model of public sector reform are explicated in turn in this section. The ideas embodied in public choice theory such as regarding bureaucrats as budget maximisers, questioning the real motives of politicians and coining and projecting producer capture as a problem – without doubt have had an influence on the thinking and worldview within which the Australian model of public sector reform occurred (Hughes 2003). For instance, the move to separate the provision of policy advice from policy implementation and regulation was inspired at least in part by public choice theory (APSC 2003; Hughes 2003). The public choice tradition was probably
also influential in the decisions of Australian governments to diversify their sources of policy advice as they sought to draw on a wider range of opinions, research and expertise. There has been an expansion in the use of ministerial advisers, consultants and advocacy groups (APSC 2003).

Other contributions of public choice theory embrace the stress on transaction costs (for example, in the area of government subsidies and other political interventions), the various attempts to curb the role of vested interests in governmental policymaking (New Zealand Treasury 1987: 44-5) and efforts to reduce the scope for political intervention in certain field (for example, monetary policy).

Agency theory's insights informed the shaping of the policy framework that undergirded the corporatisation and privatisation programs (Dunleavy et al. 2006; Jennings and Cameron 1987). It also played a crucial part in reshaping thinking on issues connected to employment relations, incentive structures; remuneration systems, and performance management, influencing for example, the shift towards fixed term employment contract for senior public servants, the emphasis on the relationship between ministers and departmental chief executives (Aulich 1997; Boston et al. 1998; Dunleavy et al. 2006; Hughes 2003; Scott and Gorringe 1987). So too did it contribute to the establishment of chief executive performance agreements and monitoring arrangements (Boston 1992; Boston et al. 1998; Hughes 2003). Further, ideas drawn from agency theory have assisted in the development of policies relating to institutional design and governance models. For example, the Auditor-General Act 1987 which sets out the main responsibilities and information gathering
powers of the Auditor-General, and the establishment of the Australian Audit Office, was guided among others, by insights from agency theory (APSC 2003).

The role of the NPM in policy discourses, development and implementation in Australia is undeniable. The NPM doctrines influenced both the way policy debates over public sector reforms have been undertaken and in the specific policies which have been canvassed and/or introduced. Policy debates have held up private sector standards and commercial models as the standards and benchmarks against which public sector performance and management are compared and assessed. Hence, government agencies have been likened to businesses; ministers have been depicted as board chairpersons and departmental heads have been seen as chief executives; parallels have been drawn between the central agencies and a firm’s corporate office; and taxpayers have been likened to shareholders (Boston et al 1998; Dunleavy et al 2006; Hughes 2003; 1994).

As regards policy decisions, there certainly seems to be congruence of the doctrines of the NPM with the Australian model of reforms – shift from process to output accountability (APSC 2003); the devolution of management control (Aulich 1997; Halligan 2002; Hughes 2003; 1998; Mascarenhas 1999); the disaggregation of large bureaucratic structures (APSC 2003; Aulich 1997; Hughes 2003; 1998; Ryan 1997); the preference for private ownership and contracting out (Aulich 1997; Boston et al 1998; Mulgan 2006); the emphasis on consumers (APSC 2003); the emulation of many private sector management practices (Ryan 1997; Mulgan 2006); and the emphasis on cost-cutting and labour discipline (Hughes 2003; 1994).
The NPM and Tasmanian local government modernisation process

The efficiency-oriented principles of the NPM include among others, making organisations more businesslike, more accountable for resources; provision of high quality services at lower costs; budgetary constraint; and financial management improvement. Others are devolution of authority; clearer and stronger accountability regimes; and performance evaluation and strategic management. The NPM's mechanisms for ensuring efficient service delivery in the public sector embrace the application of multiple different forms of provision through competitive tendering and contracting, increasing market influence on pricing of goods and services, and updating technology to enhance delivery for example one-stop shops, online programs, and quality accreditations (Aulich 1999; HCC 2005; LGB 2002). Virtually all these shifts have been incorporated into the Tasmanian local government modernisation process and steadily suffused into the management culture of local government.

The NPM has also advocated structural reforms to clarify not only roles and functions but also the conflicts in the multiple and ill-defined goals of the public sector. This entails the rationalisation of roles and functions between spheres of government and the separation of government policy advice from operational matters — implying the introduction of some of the tenets of the purchaser-provider split.

The role and function clarification principle of the NPM found expression in Tasmania when a thorough review of state and local government functions as well as the redefinition of the roles and functions of the various actors in councils were
included as a major agenda item in the modernisation process (Aulich 1999b; LGAB 1992; LGB 2002).

Legislative changes in the Tasmanian local government reform have facilitated role and functions reform somewhat by permitting the use of benchmarking and performance measures which aim at identifying the capacities of councils and comparing them against “best practice”. The theoretical effect of this is that it enables municipal governments to focus on problems areas and take remedial measures (Witherby et al 1997). Drawing on NPM doctrines, the legislative reform component of the modernisation process has also allowed councils to appoint senior staff on the basis of fixed-term performance contracts. In the case of staff at other levels, award restructuring and enterprise bargaining are having an effect on working conditions (Wensing 1997).

As mentioned earlier, Australia has not embraced the tenets of the NPM wholesale, uncritically and comprehensively. Moreover, the ways in which some NPM prescriptions have been employed in Australia do not resemble their operationalisation in other jurisdictions. For example, New Zealand, Britain and Australia have all embarked on machinery of government changes that are in line with the NPM doctrines (for example, the separation of policy advice from operational responsibilities). Whereas the UK has uncoupled three-fourths of its civil service, and New Zealand has disaggregated about 90 percent of its own, in Australia for the most part, the operating assumption as noted by Keating was where, ‘there is considerable discretion at the operational level and the success of the policy depends
heavily on how it is implemented, it is most desirable that policy and program delivery be integrated' (Keating 1993: 11).

Even though Australia later elaborately applied the institutional disaggregation model, some differences in respect of degree of application still remain between it and Britain or New Zealand. A second example is that changes in public sector financial management in Britain, Australia and New Zealand have been in tandem with the NPM tenets, which prefers output accountability to process accountability. This notwithstanding, there remains significant divergence. Britain financial management changes, for example, until perhaps comparatively recently, have not incorporated some of the elements that are central to the Australian and New Zealand's reforms (for example, the distinction between outputs and outcomes) (APSC 2003; Boston et al 1998). Thus, it makes sense to argue that some of the criticisms that have been directed against the British model of the NPM do not necessarily hold water in the case of either the Australian or the New Zealand version.

Conclusion
This chapter has examined some of the conceptual frameworks and intellectual insights that have influenced the development of the Australian models of public sector reform. It has acknowledged that many other ideas, theories and perceptions as well as economic pressures and political imperatives played an important role in the reform process. Nevertheless, the impact of public choice theory, agency theory and NPM, which are separate yet related theories have had significant impact on the Australian as well as other western democracies’ models of public sector reform.
These doctrines have not only reconfigured the language of public debate, but they have also changed the manner in which public management issues are conceptualised, defined and debated as well as analysed. Consequently the policy agenda has been focused on issues connected to the appropriate design of incentive structures and governance arrangements, the avoidance of provider capture, the acceptance of contestability and contracting, the employment of principal-agent arrangements to an array of interpersonal and intergovernmental interactions, the reduction of transaction costs and agency costs, and the tighter and explicit specification of outputs and outcomes (Boston et al 1998; Shapiro 2005). Undoubtedly, the three theories have contributed in important respects to improving public sector management in Australia. And despite their weaknesses they have furnished the Australian model with logic, coherence and vim.

The theories have also influenced in some respects the principles and intentions of the Tasmanian local government modernisation program. The outcomes of the implementation of the program have in turn created an enabling environment for the introduction of the purchaser-provider split into councils (this will be discussed in detail in chapter five which deals with the modernisation process).

The influence of the theories in driving public sector reform since the early and mid 1980s in other advanced industrial democracies is also well documented (Aucoin 1990a; Dunleavy et al 2006; Wollman 2004; Schested 2002;). The policy changes that resulted depicted a pattern of convergence across jurisdictions. Despite these similarities in reform agendas important differences still remain (in relation to when, how, degree of adoption, and with what effects) many of the central doctrines of the
theories have been applied. Hence, consistency of the Australian model of reform with the NPM tenets should not convey the erroneous impression that it is equivalent to say, the British or New Zealand models of public management. Because these theories, especially the NPM have tended to over emphasise the efficiency objectives to the neglect of other social considerations such as equity and democracy, which the huge efforts in the public sector are concerned with, other alternative governance models that take on board these neglected facets are being considered (See Box et al 2001; Dunleavy et al 2006; Tom and Per 2002; 2004).
CHAPTER THREE
THE PURCHASER-PROVIDER SPLIT

The separation of state agencies providing goods and services from the agencies which purchase those services on behalf of government has become a major plank of public sector reform in the UK and New Zealand. For example, in the UK local authorities and hospital trusts sign contracts with private companies or in-house units for the provision of catering and cleaning services. Local councils and hospitals are the purchasers, while private or public sector catering and cleaning companies represent the providers (Bailey and Davidson 1999). In New Zealand the impact of this separation on councils has seen the establishment of business units known as Local Area Trading Enterprises (LATEs) and other arrangements that mark a major shift from the traditional bureaucratic model of local government organisational structure (Aulich 1997).

Australian municipal authorities were required to separate policy, regulatory and contract management functions from operational responsibilities as part of the application of the National Competition Policy (NCP) (Tasmanian Government 1996). The implementation of this directive has witnessed some councils clearly making distinctions between policy advice and operational matters by actually restructuring to create client sides and inviting external providers to compete with internal units for contracts for the provision of services. For example, some councils in the states of Victoria and New South Wales have restructured by introducing the purchaser-provider split and applying competitive tenders for the provision of some services (Aulich 1997; Applied Economics 2004).
This chapter examines the model of the purchaser-provider split. Its principles and goals together with the conceptual frameworks that underpin it (public choice theory, agency theory and the new public management – discussed in chapter two) are explicated. How the model is expressed in the Australian local government sector, and the predicted budgetary effects of its application in this sphere of government are expounded upon. This is followed by an outline of the Australian National Competition Policy (NCP). Then the relation of the NCP both to the purchaser-provider split and compulsory competitive tendering (CCT) are sketched. The chapter provides the framework upon which subsequent chapters of this thesis are built.

The purchaser-provider split denotes a public policy model where there is separation of formerly co-located policy and delivery aspects of public service delivery (Boston et al 1991). It is an arrangement whereby agents delivering a service are distanced from policy, and service delivery outcomes are defined and made transparent in contracts or service agreements (Ryan et al 2000). This institutional disaggregation is argued to be a better means of meeting the needs of public service customers and achieving better value for money (Street 1994; Ormsby 1998; Ryan et al 2000; Siverbo 2004).

The purchaser-provider split entails the separation of government’s owner/funder, purchaser and provider roles (Boston 1996; DoFA 1995; Ryan et al 2000). ‘The role of the funder/owner is to assume stewardship of assets (staff, plant, financial), which typically rests with the appropriate Minister’ (Aulich et al 1999: 3). This is generally discharged through ownership agreements between Minister and the chief executive
of an agency which specify the performance requirements of the agency (Aulich 1999 et al: 3; Siverbo 2004). The agency is then required to purchase the outputs required to satisfy the ownership agreements: this involves determining the specifications for the goods and services required by the agency and establishing appropriate mechanisms for securing the most effective provider for example, the use of procurement or competitive tendering approaches (Aulich et al 1999; Bailey and Davidson 1999). The purchaser assumes responsibility for defining levels and quality of service or good to be provided (based on standards or an assessment of community need), providing resources to enable the provider to meet agreed outputs and outcomes, and monitoring the performance of the provider (Aulich et al 1999; Bailey and Davidson 1999; Ryan et al 2000). It is important to note that the purchaser/funder retains responsibility for the service — it cannot abrogate its strategic role or its ownership of the service.

The functions of the provider on the other hand embody obtaining contracts to provide services, providing services to meet agreed cost and quality specifications and reporting to the purchaser (Aulich et al 1999; Bailey and Davidson 1999; Ryan et al 2000). The role may be assumed by in-house government groups or by external public, not-for-profit or private sector organisations. While the terminology may vary, the purchaser-provider model is mainly about the delineation and often separation of the planning and service control functions of government, from the role of provider or deliverer of services (Street 1994; Aulich et al 1999; Siverbo 2004).

However, separation is discernible at different layers within organisations (for example, Minister-CEO, and CEO-organisational unit) and may entail multiple
agreements (for example, CEO and the Minister for individual performance contract and Minister and CEO for a purchaser agreement for the agency). As a result, the purchaser-provider split is described as a complex network of arrangements and agreements (Aulich et al 1999).

The Australian Department of Finance and Administration (DoFA) identified a variety of arrangements embraced by governments overseas and in Australia (DoFA 1995: 5, 9). At one extreme the arrangement involves simply identifying roles and functions of purchaser and provider within each area of agency activity, with no formal organisational separation. At the other, it may entail specialisation of agencies between those responsible for purchaser functions and those with the primary tasks of providing public services. Between these extremes, there are myriad arrangements involving separation of provider functions into in-house business units of one type or the other. Generally, the organisational separation is 'more defined as provider units become engaged in bidding competitively for contracts, so the purchaser-provider models are typically associated with situations where there is competition between providers' (Aulich et al 1999: 4). The health service offers an additional model – one to create internal or 'quasi markets' in situations where genuine markets do not exist. Service purchasers coordinate the mix of services they feel necessary to achieve desired outcomes: they may purchase different services from different providers, both public and private (Aulich et al 1999; Street 1994).

The purchaser’s role may be fragmented by the creation of separate purchasing agents responsible to the purchasing department, for example, these agents may be responsible for purchasing services for a particular region. This model has been
applied in health care provision in a number of jurisdictions (for example, the UK where area health purchasers were made responsible for health care purchasing for particular areas and GP fundholders purchased services for their own patients) (Aulich et al 1999). Recently however, the New Labour Government abolished GP fund holding and instead created primary care trusts (Talbot and Johnson 2007). A similar arrangement is discernible in the Swedish health system where some local governments have appointed a number of local purchasers who are responsible for a geographic region within the council (Siverbo 2004). Western Australia in the mid 1990s also followed this approach creating regional purchasing authorities for the provision of local health services) (DoFA 1995).

There are a number of arguments for the purchaser-provider split. First, it is believed to minimise conflict and tension between multiple and conflicting roles of agencies. The ability to clarify roles and responsibilities is argued to improve client responsiveness, engender a clearer focus on individual responsibility, improve accountability and increase the capacity of managers to manage (DoFA 1995). Second, because there are divergent goals between purchaser and provider, the potential for them to conflict is greater: purchasers are concerned with the quality of service standards and value for money whereas providers are primarily interested in winning contracts. The split is believed to empower the clients, by affording them opportunity to have a greater say in what outputs they will purchase in order to achieve desired outcomes (Shepherd et al 1996; Aulich et al 1999). In other words, the separation provides powerful incentives for policy agencies to be more independent and demanding purchasers. At the same time providers are given greater management autonomy over how the contracts are satisfied within constraints of the

Furthermore, it may enable the agencies to focus more on key strategic issues of determining the mix and standard of services they wish to provide to their communities (Walsh 1991a: 135). For example, purchaser-provider arrangements have been proposed as a means of achieving greater community control over Aboriginal health care as community consumer organisations improve their capacity to define outcomes (Tsey and Scrimgeour 1997). In addition, the split provides the opportunity for agencies to better clarify user needs by reducing the possibility of client capture and through the process of contract specification (Aulich et al 1999; Burrows and Moravec 1997). Moreover, since the chief accountability tool under the purchaser-provider model is the contract, written contracts between minister and chief executives are relied upon for allocating resources, maintaining accountability, specifying organisational responsibilities and delivering services (Aulich et al 1999). The goal is to replicate the arms-length relationship between buyers and sellers found in competitive markets (William 1997).

Other proponents of the purchaser-provider split point to its favourable impact on organisational structures and coherence. They posit that purchaser-provider arrangements can develop networks with the same organisational advantages as integrated firms (Hurley 1993), while others suggest that purchaser-provider delivery systems are more decentralised and pluralistic (Hokenstad and Johnson 1996).
Finally, the purchaser-provider split is advanced as a policy option to reduce the costs of providing services. For example, Gerdtham *et al* (1999) argue that the shift from a budget-based allocation of resources to the type of output-based allocation associated with the purchaser-provider split would produce savings of almost 10 percent.

Arguments against the purchaser-provider split in particular and contractual arrangements in general, point to the high transaction costs. Writing, monitoring, evaluating and enforcing the performance agreements, purchase agreements and other contracts entail substantial transaction costs. Evans (1990) cautions that competitive systems may lower the direct cost of providing a service, but the administrative and surveillance costs may be high. Propper and Soderlund (1998), for example, note that any effect of competition in the National Health Service is also likely to be attenuated by the heavy management of its internal market. This certainly seems to be the case with the reorganisation of health services in New Zealand. The costs of administering and monitoring the internal market were visible, explicit and seemingly high (2 to 10 percent of the total annual health budget). Secondly, the purchaser-provider split leaves elected officials with less direct influence on internal agency operations. Thirdly, separating policy and delivery can make policy coordination trickier (William 1997).

A theme that is sometimes cited as a justification for the adoption of the purchaser-provider reform is the impact on power relationships. Policy agencies are believed to be empowered to be more independent and demanding purchasers (Aulich 1999a; Shepherd *et al* 1996), whereas practitioners are thought to benefit from increased
autonomy in determining the type of services delivered (Corney 1996; Ham 1994). However, one study indicated the limited influence of purchasers on service delivery systems, in favour of the short term and organisational objectives pursued by providers (Rosen and Mays 1998). Siverbo (2004) also disputes the exalted position of the client when he notes that purchasers in the healthcare delivery sector in Sweden lacked the competence to negotiate healthcare well (due to lack of specialised medical knowledge). Here the inadequacy of purchaser's competence has been used as an explanation of why providers do not trust purchasers. Providers blame the inability of purchasers to specify what they want to order on lack of specialised medical knowledge. Similar sentiments are expressed for the failure of attempts to reform the health system in New Zealand. Easton (1997) argues that the purchaser-provider split model, which formed the basis of the health reform was predicated on the assumption that generic managerial skill rather than detailed knowledge about health, were crucial to health system managers. He contends that the lack of health-specific expertise on the part of managers contributed to the failure of the reforms.

The impact of the purchaser-provider split on competition is also questioned. Competition is often seen as an instrument for improving the responsiveness of services and the costs of their provision (Lewis et al 1996; Dunleavy et al 2006). However, the extent to which purchaser-provider split increases competition remains in doubt. For example, a study of market concentration in healthcare indicated that the purchaser-provider split had little impact on increasing market competition (Ashton and Press 1997). Others argue that competitive markets cannot exist in some areas of social services (Shackley and Healey 1993).
Some commentators have insisted that services such as health care should be based on cooperation between delivery stakeholders rather than competition since competition tends to increase the cost of providing services and require extensive regulation (Coile 1994). Siverbo (2004) agrees, stating that by the middle of the 1990s cooperation and trust became important qualities in purchaser-provider arrangements in Sweden. ‘These are qualities that were not emphasised in the same way in early rhetoric about the purchaser-provider split’ (Siverbo 2004: 13).

**Conceptual frameworks of the purchaser-provider split**

Public choice theory, agency theory and the new public management (which have been discussed in the previous chapter) are the conceptual frameworks on which the purchaser-provider split is based. Agency theory is concerned with the economic costs of contracting. These are the problems of getting managers and employees of organisations to pursue the interests of their principals (Arrow 1985; Barney and Ouchi 1986; Ormsby 1998; Wright *et al* 2001; Wright *et al* 1996). Public choice theory applies economic analysis to the behaviour of voters, legislators, public servants and the dynamics of the voting system (Boyne 1998a; Ormsby 1998: 362; Shaw 2002). Both agency and public choice theories stipulate that politicians, bureaucrats and contractors will act in self-serving ways and will have divergent goals (Aulich *et al* 1999). Decoupling of purchaser and provider roles constrains the parties’ behaviours and compels them to operate in defined ways consistent with differing goals (Aulich *et al* 1999: 4; Alford and O’Neil 1994;; Ryan *et al* 2000)).

The new public management (NPM) advocates the use of public choice theory and agency theory’s principles to undergird public sector reform in order to increase that
sector's efficiency and overcome agency failure (Dunleavy et al 2006; Witherby et al 1997). One organisational form proposed by the NPM doctrine for achieving this is the purchaser-provider split. The NPM is predicated on themes of disaggregation, competition and incentivisation (Dunleavy et al 2006; Barzelay 2000; Hughes 2003). Disaggregation entails splitting up large public sector hierarchies in the same manner that large private corporations earlier moved from U-form to M-form (multifirm) structures; achieving wider, flatter hierarchies internally; and respecifying information and managerial systems to facilitate this different pattern of control (Dunleavy et al 2006: 470). This implies a strong flexibility of previous government-wide practices in personnel, information technology, procurement, and other functions (Barzelay 2000), in addition to the establishment of management information systems needed to sustain different practices (Dunleavy et al 2006).

Competition involves introducing purchaser-provider separation into public structures so as to allow multiple different forms of provision to be developed and to create (more) competition among potential providers (Dunleavy et al 1996; Bailey and Davidson 1999). It is argued that by applying competitive processes public agencies would be able to allocate resources and provide services much more efficiently. The implementation of competition has led to the shrinking of core areas of public provision, and suppliers have been diversified.

Incentivisation implies shifting away from involving managers and staffs and rewarding performance in terms of a diffuse public service or professional ethos, and embracing instead a greater emphasis on pecuniary-based, specific performance incentives. This change means a movement "down grid and down group", in
Douglas's cultural theory terms (Dunleavy and Hood 1993). Its impact has been particularly marked for professional groups (Kirkpatrick et al 2004).

All these changes imply major structural reform in the public sector to achieve identifiable and manageable units with clearly defined objectives. This structure makes it easier to devolve managerial responsibility and establish clear lines of accountability. Agents can then be held accountable to single principals, resources can be matched to defined tasks, and agency failure can be addressed by shifting from control of inputs to monitoring outputs (Witherby et al 1997: 112). The concept of contractualism, in which contracts define relationships, terms of trade, and specified outputs of managers and agencies, is embedded in this structure (Dunleavy et al 2006; Witherby et al 1997). Several of these principles of the public choice tradition, agency theory and the NPM have been drawn to form the building blocks of the model of the purchaser-provider split.

**Purchaser-provider split: economic theory**

The purchaser-provider split provides the theoretical justification for the separation of state agencies providing goods and services from agencies which purchase those services on behalf of government. This institutional disaggregation is argued to be a better means of meeting the needs of public service customers and achieving better value for money (Ormsby 1998). The purchaser is supposed to act on behalf of service users, with the main concern of identifying need for service. Purchasers specify the services to be delivered by the provider within a determined budget.
While the purchaser-provider split formally connotes a contractual arrangement, non-competitive contracting regimes may be used where there are no guarantees that the successful contractor would not default on his obligations by sacrificing quality and/or level of service in order to reap a higher rate of return (Bailey and Davidson 1999). One of the fundamental postulates of mainstream economic theory of markets and public choice theory on bureaucracy is that both efficiency and quality of service will be maximised if rival agencies submit bids to deliver a specified quantity and quality of service (competitive contracting) (Boyne 1998a). These value characteristics would not be enhanced or may even be sacrificed if non-competitive contracting regimes are chosen instead. The rationale here is simply that if monopoly results in budgetary growth and reduced quality of service, then a consequence of competition should be lower expenditure and enhanced quality than would otherwise occur (Boyne 1998a).

Competitive tendering for public sector contracts is reminiscent of a quasi market in that service users do not pay for the service at the point of consumption. Moreover, the purchaser, who ultimately retains responsibility of the services in terms of control of the total budget, articulates preferences on behalf of service users, and may in turn be subject to control by central government. The market may also operate under a non profit rule. These characteristics imply that the market is a managed rather than a free market (Le Grand 1990; Akehurst and Ferguson 1993; Le Grand and Bartett 1993; Maynard 1993; Walsh 1995; Barker et al 1997; Propper and Bartlett 1997; Flynn and Williams 1997; Siverbo 2004).
Despite the managed nature of such competition, it will in theory result in cost savings and/or improved quality of service so long as it embraces competition for service contracts (that is, the right to provide the service). This does not mean that transferring responsibility for a publicly funded service to a private organisation is sufficient to increase efficiency: it is competition in the market which is important, not whether production is public or private. In theory it is competition rather than ownership of the enterprise that promotes efficiency (Bishop and Kay 1988). This characteristic of public choice theory can be contrasted with the literature on property rights which suggests that ownership does affect performance (Vining and Boardman 1992).

Competitive pressures can still eventuate without the requirement of a large number of providers of a given service or potential rival agencies bidding for the right to provide the service. In reality, it is the threat of competition rather than the number of bids which creates the incentive for increased efficiency (Baumol et al 1982). Evidence shows that the more efficient the incumbent service provider, the fewer the number of rival bids for those contracts in situations where there are no restrictions on the ability of agencies to compete for service contracts. This is because potential providers who cannot tender alternative lower cost bids than the incumbent provider’s estimates discern that they will not win the contract. Hence, competitive conditions may not be the direct equivalent of those of the economist’s classic model of perfect competition (created by many providers) but may instead be determined by the threat of competition (Bailey and Davidson 1999: 16).
It can be stated then that a competitive market depicts a situation where, even though there are no restrictions on entry and exit, only one or a few new providers may eventually venture into it (Sorensen 1993). Statutory barriers to entry into a public service market are reminiscent of protective trade barriers which reduction or scraping will undoubtedly enhance contestability and thereby compel the incumbent service provider to lift up his game through focusing on the benefits made by ‘stimulating organisational improvements’ or X-efficiency (Wolf 1989:18). This, the incumbent provider must do if he is to maintain his grip on the contract at the next round of tendering. In theory, the greater the degree of contestability the greater the cost savings and improvements in service quality (Ellwood 1996).

The application of the classic market theory to the public sector should be bounded for the reason that the provider competes for the service contract, that is, for the market not for the service user. Although competitive tendering can be expected to improve technical efficiency, it has no necessary impact on allocative efficiency – the responsiveness of outputs to public preferences and needs. First, there may be no release of funds from any efficiency gains for use elsewhere in the economy. Second, decisions on the nature and distribution of the services remain the responsibility of politicians and officials. Competitive tendering does not enhance the power of consumers, local taxpayers or the general public (Boyne 1998a: 697). In other words, ‘there may still be exploitation of service users by the purchaser, even if any exploitation by the provider is eliminated as a result of competitive tendering’ (Randall 1995; Street 1994; Bailey and Davidson 1999: 163; Timothy and Ghatak 2002).
Nevertheless, the wishes of service users may still be reflected because of the remoteness of the service provider from the specification of the services. It is most likely that those specifications will correspond to the service user's (rather than the provider's) needs under either or both of the following conditions: first, if there is competition in supply so that service users have the opportunity to choose between rival suppliers; second, if purchasers fully reflect the needs and wants of service users. In the first case, 'exit' from the service is facilitated and in the second case, opportunity needs to be afforded for the expression of 'voice' by the service user through improvement in administrative arrangements (Bailey and Davidson 1999: 163). In theory, 'voice' is more effective than exit the greater the degree of market failure (Hirschman 1970; Paul 1992; Timothy and Ghatak 2000).

Increased latitude either or both for voice and exit catalyses the transition from a service-led to a needs led approach to service delivery. Such a shift would not come about if the purchaser puts its own self-interest over and above those of the service user. The change to a needs-led service is predicated on a fiscal exchange framework of government where provision of services is traded-off for willingness to pay taxes (Bailey and Davidson 1999). Enhancing the efficiency of the public sector by market tactics while mindful not to sacrifice its community service obligations is a twin imperative which government must promote. It pursues this public interest by authoritatively determining the need for service as purchaser, on behalf of the service user after taking account of wider social benefits and costs. This way of pursuing the public interest is the framework which is conventionally adopted by economic theory. It can be argued then that the extent to which users' needs are captured in
service specification will vary as a function of the model or type of government (Dunleavy 1991).

Important caveats about competition as a panacea for the problems of bureaucratic service provision should be sounded. It is true that in some circumstances hierarchies may be more efficient than markets. The literature on organisational economics suggests that even if the self-interest argument is not attacked, the classic public choice perspective on the benefits of competition is overemphasised. Indeed competitive tendering may generate additional costs which are absent in the traditional form of service provision.

Williamson (1975) points to a number of transaction costs that are associated with writing contracts, monitoring performance and controlling behaviour of contractors. These costs vary with the characteristics of the human decision makers who are involved with the transaction on the one hand, and the objective properties of the market on the other (Williamson 1975: 8). For instance, internal production may be more efficient when asset specificity is high, contractors have incentives to behave opportunistically, the number of potential external suppliers is small and future production requirements are uncertain (Boyne 1998a: 699). The latitude of autonomy of private firms affords them the ability to minimise transaction costs because exchanges can occur within or across organisational boundaries, subject to the relative efficiency of these arrangements. The same cannot be said of public organisations where the achievement of this dynamism may be blocked by the imposition of competitive tendering.
The literature on organisational economics cites a number of problems associated with policing opportunistic behaviour by contractors. According to principal-agent theory, all contractual relations have two essential characteristics (Barrow 1996; Moe 1984). First, agents pursue their own interest rather than that of the principal; and second, information asymmetries confer power on agents. There is no assumption in the theoretical perspective that market forces are sufficient to ensure that agents comply with the stated objectives of principals (Klein and Lefter 1981; Wright et al 2001). Although a competitive bidding process may reveal alternative estimates of service cost, information on the quality of service actually delivered remains asymmetrical (Boyne 1998a: 700). Moreover, it may be argued that the incentive to 'shirk' on quality is greater for private than for public agencies. It cannot be guaranteed that once the contract price is determined the private service provider would not default on his obligation by sacrificing quality and/or level of service in order to reap a higher rate of return (Domberger and Hensher 1993). The same is not expected from public agencies whose managers are unlikely to benefit monetarily by indulging in such practice.

Mutual trust between principals and agents rather than legal contracts and rigorous monitoring regimes has long characterised the many exchanges that take place in the public sector. The advent of competition for public service provision has imposed some level of trust cost on public agencies. Wintrobe and Breton (1986: 153) argue that when trust is present, 'subordinates attempt to achieve the objectives of their superior more effectively, in exchange for promises from the superior of greater rewards from the resources at his disposal'. Mutual trust between principals and agents can enhance productivity and obviates the need for close scrutiny of
performance (Boyne 1998a). According to Frey (1993) principal-agent theory has traditionally assumed that rigorous monitoring leads to higher efficiency. The agent however, may interpret rigorous scrutiny by the principal as a sign of distrust, or as a complete affront on the contract built on trust. This may create incentive for the agent to act in an opportunistic fashion (Frey 1993).

The implication of these arguments is that competition or the threat of competition implied in the purchaser-provider split may add new costs to the production of local services. The theoretical impact of competition is therefore indeterminate and should be empirically established.

**Purchaser-provider split: organisational theory**

The prevailing view is that the purchaser-provider split clarifies roles and improves the efficiency of production and quality of product. The purchaser undertakes client side functions such as planning the service, defining the work to be undertaken by the provider (agent), contract preparation, tendering process, tender evaluation, and letting and managing the contract. The responsibilities of the provider embrace obtaining contracts to provide services, providing services to meet agreed cost and quality specifications and reporting to the purchaser. The role may be assumed by in-house units or by external public, not-for-profit or private sector organisations. Local politicians supposedly redirect their attention to core strategic issues as part of the enabling role, while divesting themselves of operational matters.

Before the ethos of competition became fashionable in the public sector, local governments were the direct providers of services now subject to compulsory
competitive tendering and voluntary competitive tendering. They were concerned with all stages of service production: inputs, processes, outputs and outcomes. Processes denote standard operating procedures in conformance with any statutory requirement (for instance, health and safety in sports facilities or impact assessment for environmental protection), professional management standards (for example, use of the BS5750 (ISO 9000) quality management system by architects, solicitors, and housing managers), and good practice guidelines, just to mention a few. Examples of outputs include number of lane miles resurfaced or the tons of refuse collected; reports, data, records just to mention a few. Standards relate to their comprehensiveness, reliability, availability, accuracy, relevance, timeliness and so on. Outcomes refer to the results, effects, or benefits derived from the service output, which will be of most concern to users of services (Abraham Group 2001; Bailey and Davidson 1999).

With the advent of the purchaser-provider split, local governments are supposedly formally divested of the responsibility for inputs and processes, these being assumed by the private contractor or in-house units holding service contracts. In the steering rather than rowing role (Osborne and Gaebler 1993), local governments are theoretically focused on controlling outputs and outcomes. The purchaser buys the service output for the purpose of deriving the expected outcome, which is in congruence with its strategic policy objectives. It is important to state that the purchaser retains the responsibility for ensuring that the expected outcome is derived from the output at the lowest cost. This separation of roles supposedly reconfigures the public organisation from a production-oriented entity to a consumption-oriented regulatory body (Bailey and Davidson 1999).
The assessment of the impact of the purchaser-provider split in many studies is skewed to the provider side, especially the in-house unit and its operating efficiency, especially cost savings. The changes on the client side are minimal. Competition may lead directly to improved efficiency on the provider side but will not necessarily have any effect (whether direct or indirect) on the client side governance structures (Bailey and Davidson 1999: 165). The client side management structure may be highly centralised (taking the form of a single specialist unit in the chief executive officer’s, treasurer’s, or human resource department). For example, the City Services Unit of the Hobart City Council is a specialist unit responsible for designing, documenting, tendering and managing the contract process of the civil and environmental construction and maintenance work that are undertaken by council’s corporatised provider side, Civic Solutions (HCC Interviews 2004). Some metropolitan councils in Victoria have also established several specialist units to manage the contract process (Applied Economics 2004; Aulich 1997).

The client-side management structure may also be highly decentralised (individual service departments responsible for their own contract) as in the case of the health sector in Western Australia where purchaser roles may be fragmented by the creation of separate purchasing agents responsible to the purchasing department and where these purchasing agents are responsible for purchasing services for particular regions (DoFA 1995). A third form the client-side management structure may take is the partially decentralised case of the ‘lead client’ department (for example, an education department taking on the client role for all building, cleaning, education and welfare, catering or ground maintenance work).
The variant of the purchaser-provider split with popular application appeal in UK local government is a multifunctional provider side where stand-alone in-house business units manage multiple contracts (DOE 1991). The near equivalent of this variant of the model in Australia at the local level is the health service model, which has created internal or 'quasi markets' in situations where genuine markets do not exit. Service purchasers coordinate the mix of services they feel necessary to achieve desired outcomes: they may purchase different services from different providers, both public and private (DoFA 1995; APSC 2003).

The expression of the purchaser-provider split in local government

The model of the purchaser-provider split is used here to explain the predicted budgetary effects of municipal service delivery. Here a purchaser (principal), the council's chief executive officer (CEO), seeks to fulfil specific policy goals through the actions of his/her providers (agents) - who may be internal department heads, heads of external public organisations, managers of private firms, and managers of not-for-profit organisations. The budget and its formulation is the object of this relationship and provide a means for examining the interaction between these actors.

The CEO, whether this person is an elected mayor or a city manager, has a strong preference for not increasing the council's current level of taxation. Municipal officials may be electorally advantaged by increasing spending, but this advantage is lost or at least diminished by rising taxes and tax burden. Internal and external providers have budgetary preferences which are potentially at odds with the CEO's desire to maintain tax rates. As maximisers of their own departmental budgets in the
case of internal providers and external public suppliers, and profits in respect of external private providers, department heads and managers of external firms are less concerned with maintaining tax rates than maximising their department's share of the total budget, and firm's profits respectively. This preference makes the provider (agent) indifferent to, and even potentially a supporter of, tax increases. As a behavioural consequence of these preferences, bureau heads, and managers of external firms respectively have little incentive to reveal their "true" policy needs, and "true" costs of delivery of services to the CEO.

Given a provider's (agent's) monopoly of information (Arrow 1985; Niskanen 1971), he/she is in a strong position to extract budgetary outlays from the CEOs in excess of the minimum cost of producing a service (that is, slack resources) (Stein 1990). In other words, every dealing here is tainted by information asymmetries or what Arrow (1985) calls "hidden information". Information asymmetries can give rise to opportunism which is perceived as self-interest with guile (Arrow 1971; Williamson 1975; Shapiro 2005). Thus, it is expected that agents may disguise, mislead, distort or cheat as they partner in an exchange (Wright et al 2001: 415).

Because this behaviour is repeated in each agency, its cumulative effects represent a threat to the CEOs goal of maintaining tax levels. Since agents are distant from the direct political consequences of their budgetary avarice, they are not likely to adjust their budget requests downwards to reflect their real costs of service production. Where bureau heads are appointed by the CEO, there is still an incentive for these agents to use their informational advantage to promote their agency's interests and spending programs (Stein 1990). Even in instances where the CEO has mandated
spending cuts, bureau heads are expected to minimise budget cut using their informational advantage in negotiations with the CEO (Stein 1990).

Even when the budget matters are settled and the agent is asked to produce and deliver the services, the purchaser (principal) may not know (because of knowledge asymmetries) whether the provider (agent) has procured the right inputs, has the requisite professional staff to execute the work, has appropriate equipment, is mixing the inputs in the right proportions, and is actually doing a good job, if at all. In other words, there is opportunity for the agent to engage in opportunistic behaviour [pursuing self-interest with “guile” (Arrow 1971; Williamson 1975)].

To minimise these agency problems measures such as competitive tendering and contracting, incentive (and sanction) structures, and monitoring regimes are established. Competitive tendering is used to screen potential providers in order to select the best-qualified agents. This is justified as using rivalry in service delivery lowers costs and improves standards (Hood 1991; Hughes 2003; Dunleavy et al 2006). Contracts are then applied to govern the relationships between the CEO (principal) and the successful providers (both internal and external suppliers) to ensure that the behaviour of the parties is constrained. This constraint forces them to operate in defined ways consistent with their differing goals (Alford and O’Neill 1994). Incentives (and sanctions) are employed to encourage or force providers (agents) to engage in efficient policy behaviour and to reveal their true budgetary need (Stein 1990; Shapiro 2005; Dunleavy et al 2006). Monitoring of the actions of the provider (agent) by the purchaser (principal) ensures that the former provides the
services or carries out the tasks according to specification, and does so in an efficient and timely fashion.

These mechanisms are not perfect and need to be regularly reviewed and refined to overcome shortcomings in order to achieve efficient outcomes. This is the reason why scholars are continually researching and paying salience to the efficacy of contracts, incentive structures, and appropriate monitoring regimes for agents. The impact of efficient contracts that can be used to align the behaviours and actions of agents has been examined, among others, by Guth et al (1998), Mukerji (1998), Indjejikian and Nanda (1999), and Jambulingam and Nevin (1999). Similarly, the designing of appropriate incentive and compensation structures in order to ensure that agents align their interests with those of the principal have been studied by Chakraborty et al (1999), Kraft and Niedrprum (1999), and Pendergast (1999). Bartel (1999) and Vafeas (1999) have researched systems, frameworks, and mechanisms to monitor agents. Each of these groups of researchers has examined different aspects of agency problems in a continued effort to develop and refine contracts, incentives, and monitoring systems for agents (Wright et al 2001).

However hard purchasers (principals) try to minimise them all purchaser-provider (principal-agent) relationships experience costs; about this all agency scholars agree. Agency costs derive from many sources: the costs of recruitment, adverse selection, specifying and discerning preferences, providing incentives, moral hazards, corruption, shirking, stealing, self-dealing, providing incentives, monitoring and policing, self-regulation, bonding and insurance, agents who oversee agents who
monitor agents, as well as failures in these costly remedial measures (Shapiro 2005: 280).

The challenge of purchasers (principals) is the enormous effort required to undertake on-going investigation of new ways to minimise agency costs, and learn lessons from the measures that are already in place (both successful and unsuccessful ones) to inform future decisions. This is a tricky exercise that demands diligence and patience. Innovative measures from other jurisdictions should be emulated and current international best practice directed at minimising agency cost needs to be taken on board.

**Australian National Competition Policy**

The Australian National Competition Policy (NCP) forms the basis of the Competition Principle Agreement (CPA) which was reached by the Council of Australian Governments (COAG) in April 1995. The goals of the NCP, according to Willet, include the following:

- Improve Australia’s consumer protection laws by extending the reach of Part IV of the *Trade Practices Act* (TPA) to apply to all businesses in Australia. Part IV of the Act contains rules to limit the abuse of market power by businesses, promote fair-trading and efficient industry practices, and protect consumers.
- Improve the quality of Australia’s infrastructure through reform packages in electricity, gas, water and road transport industries; and by establishing third party access arrangements for the services of nationally significant monopoly infrastructure such as electricity grids and railway lines.
- Review and, where appropriate ensure that any new restrictions provide net community benefit.
- Improve the performance of government business through structural reform and introducing competitive neutrality so that government businesses do not enjoy unfair advantages when competing with private businesses (Willet 2000: 1).
The above tenets of the NCP have implications for all levels of governments in Australia. The consequences of the policy for local government are hereby examined.

**Implications of NCP for local government**

The implementation of NCP has had significant consequences for business enterprises in general, and local government enterprises in particular. The oversight of prices for local government is now under the jurisdiction of the individual state mechanisms. The consequences this has had are broadly two. First, it has made local government pricing cost reflective where this has not been the case. Second, it has guaranteed an appropriate form of price discounting for disadvantage and disability. The application of competitive neutrality for local government business undertaking implied: the removal of taxation advantages through taxation equivalents; the removal of debt guarantees; and resolution of the question regarding cross-subsidisation of certain business activities from other components of local government enterprise (Felmingham and Page 1996). The playing field has been levelled to prevent government businesses from gaining a net advantage over private sector competitors (that is, firms compete on their inherent strengths and weaknesses irrespective of ownership) (Felmingham and Page 1996; Dollery *et al* 2000). The NCP has also promoted practices such as compulsory competitive tendering (CCT) and cross border tendering (CBT).

The review of anti-competitive legislation was aimed at removing legislation (deregulation) in some jurisdictions, while in others it entailed uniform or revised regulation (re-regulation). The objective of this element of NCP was to eliminate
barriers to effective competition, in particular those barriers that represented additional cost (Felmingham and Page 1996). The NCP took into account the substantial community service obligations of local government in comparison with federal and state spheres of governments. This recognition permitted local government to carry out public interest test that distinguished unwarranted from warranted protective legislation (Tasmanian Government 1996; Felmingham and Page 1996; Willet 2000). With regard to the issue of access to publicly owned assets, the effect on local government is different from that experienced at Commonwealth and state government levels. At the local sphere of government this is confined to a limited set of applications such as capital assets required for road and sewerage works (Felminghm and Page 1996).

Clause 7 (1) of the CPA indicated that the principles set out in the agreement were to apply to local government, notwithstanding that local government was not a signatory to that agreement. Each state and territory government was made responsible for actually applying these principles to local government. The CPA incorporates the corporatisation and the full cost attribution (FCA) models, which are set out respectively in clause 3 (4) and clause 3 (5) (a) of the CPA. Corporatisation involves 'the establishment of a separate legal entity to run a commercial business with the relevant government as its sole shareholder or owner. It does not necessarily involves incorporation under Corporation Law' (Tasmanian Government 1996: 4).

Under the FCA model, significant business activities are required to calculate the tax and guarantee fees payable, and the cost that complying with regulations applying to the private sector would impose and reflect those costs in pricing the goods and
services provided (Tasmanian Government 1996; Willet 2000). In addition, costs needs to take into account of full indirect as well as direct wage costs; overheads such as corporate services and a notional rent for accommodation; and a component for return on capital. The business activity will not necessarily be required to pass this full cost onto its customers, if the local government (or the government in question) decides to provide a subsidy to offset some of the cost of providing a service (Tasmanian Government 1996: 3; Willet 2000). However, any subsidy provided by that government would need to be explicitly reported and accounted for.

In applying the corporatisation and FCA models, all governments, including local government were required to separate policy, regulatory and contract management functions from operational or service delivery responsibilities. In other words, all governments were required to introduce some of the tenets of the purchaser-provider split – role clarification, output-based budget, transparent pricing, accountability mechanisms, efficient use of resources, and competitiveness.

The NCP and compulsory competitive tendering

The misunderstanding surrounding the NCP agenda stems from the wide range of reform initiatives it dictates. For the sake of clarity, it is important to state that the NCP does not require privatisation, competitive tendering or cuts in government services (Willet 2000). The NCP reforms is concerned with the removal of barriers that traditionally protected various businesses and industries from providing goods and services at competitive prices. The object is to make better use of the nation’s resources and ensure that Australian industries can compete vigorously in the globalised economic environment (Felmingham and Page 1996; APSC 2003;
Tasmanian Government 1996; Willet 2000). While globalisation brings benefits such as opening up new or wider markets, these benefits are only attainable if Australia's industries are competitive.

What NCP requires is competitive neutrality reform, where this yields a net public benefit. Competitive neutrality requires that governments review how their businesses engage in commercial activities to ensure fair competition between public and private businesses. This means optimal use can be made of resources (Felmingham and Page 1996; Tasmanian Government 1996; Willet 2000).

As noted earlier, NCP does not mandate competition or competitive tendering in public provision of services, but there are important ways in which it helps in sharpening public sector competitiveness. These include reduction of costs of inputs, improving the efficiency of government businesses and raising the productivity of infrastructure (Willet 2000). Evidence has indicated these benefits have started to accrue to the Australian Government reform agenda. For example, Australia's annual productivity (multi-factor) growth averaged 2.4 percent over the last ten years, a rate matched only by Norway among the world's developed nations (Parham 1999). Reports of the IMF and OECD have also linked the strength and resilience of the Australian economy – including several years of sustained economic growth and declining unemployment, with structural reform policies like the NCP (Willet 2000).

Sometimes governments have applied competitive tendering as a means of implementing competitive neutrality, but it is not the only way. Other approaches to competitive neutrality include commercialisation and more rigorous accounting
procedures (Willet 2000). Where governments choose to use competitive tendering, it can bring benefits if it is properly applied. It needs to be said however, that the goodness of the outcomes are a function of the efficacy of the process employed. The concerns that are expressed relate to the inability of small service providers in the bush to compete with big service providers located in larger markets – implying job losses in the local area. For example, there have been ‘cases of road work being tendered out to fly-in-fly-out operators from the city, who cannot provide an ongoing service, but put local people out of work in the meantime’ (Willet 2000: 5).

It should be emphasised that NCP is not a ‘one size fit all’ approach. The policy takes account of the great diversity in Australian local government units – in terms of size, organisational structure and service responsibilities, as to how reform should be implemented in the best interest of the community.

In Victoria, for example, compulsory competitive tendering (CCT) preceded the NCP. It mandated a phased shift toward 50 percent of all local government expenditure being subject to competitive arrangement. The approach in Queensland has been gradual, with shifts towards commercial principles matched by measures to restrict the erosion of jobs and community capital in local areas. This is a particularly important issue for Queensland, where local governments are responsible for more services than they are elsewhere in Australia (Dollery and Worthington 2000; Willet 2000). Queensland has in place an approach reminiscent of commercialisation of local government business activities with in-house service providers receiving training and skills upgrades to put them in a competitive position with external contractors prior to the use of tendering processes. This strategy is improving the
efficiency of service provision, and promoting the retention of jobs. Funding for these initiatives comes as part of a series of targeted transfers from the state government over five years, totalling $150 million (Willet 2000:6).

In Tasmania and the other states and territories, competitive tendering by local government is not compulsory. This partly reflects concerns about its implementation particularly in rural areas. The Productivity Commission Inquiry identified the key concerns of rural and remote communities as,

- a loss of employment and income within the region;
- a transfer out of the region of equipment, workers and their families;
- the erosion of service quality; and
- a reduction in the ability of local government to meet civil emergencies (Productivity Commission 1996: 239).

The issue of service quality and preference for local suppliers can be specified in tender documents. In its submission to the inquiry, the Shire of Yarra Ranges in Victoria reported that it managed to balance the benefits of competition with the advantages of local supplier preferences. Because of public interest concerns, a road maintenance tender of each of two regions in the shire, which was originally awarded to an external contractor was reconsidered with the result that the external contractor was awarded one region and the in-house team the other (Productivity Commission 1996: 241). These examples suggest that local governments can and do use competitive tendering and contracting.

Tasmanian local governments have applied NCP principles to varying extents. The use of competitive tendering remains voluntary for councils but some municipal authorities have sought to employ it as a means to enhance efficiency of service
delivery. It is reasonable to believe that those councils who have applied the tenets of the NCP to greater extents, and have adopted competition in order to diversify their sources of supply, will be the ones that will have favourable environments for the introduction of the purchaser-provider split. This is because the goals and principles preached by the NCP such as separation of policy advice from operational matters, and competitive processes, cohere in many respects with those of the purchaser-provider split.

Conclusion

This chapter has examined the purchaser-provider split in respect of its principles, goals and the theories and ideas that underpin it. The theoretical benefits of the model and the practical limitations of its adoption have been explicated. Essentially, the purchaser-provider split advocates the separation of government policy advice from its operational responsibilities, and adoption of multiple different forms of public service provision through competitive arrangements. These shifts enable the devolution of managerial responsibility, establishment of clearer lines of responsibility and accountability, matching of resources to defined tasks, and assessing agencies on the basis of outputs they produce. Contracts are used not only to define relationships between purchasers and providers but also compel the parties to act within constrains of the contracts consistent with their differing goals (Street 1994,; Ryan et al 2000). These changes, the model predicts, will lead to increased productivity and quality of product as well as give public service customers value for money.
These ideas are drawn from public choice theory and agency theory which both stipulate that self-interest motivates the behaviour of politicians, bureaucrats and contractors, who have divergent goals. Separation between purchaser and provider and establishing the rules of engagement realign behaviours for the mutual benefit of the parties. The NPM advocates the use of public choice theory and agency theory's principles to undergird public sector reform in order to increase that sector's efficiency and overcome agency failure. One organisational form of achieving this, as suggested by the NPM doctrine, is the purchaser-provider split.

However, some commentators have questioned the appropriateness of the purchaser-provider split for the conduct of public business (Street 1994; Ryan et al 2000; Siverbo 2004; Dunleavy et al 2006). Although in theory freeing decision-making from provider influence, there is little reason to believe that purchasers will be able to resolve the question of priority setting. Indeed not to subject decision-making to due political process may lead to some unpalatable consequences. Similarly, it is not clear whether a purchaser can ever be adequately responsive to its constituents who have neither chosen it as a representative nor are able to seek alternative representation (Street 1994: 10). The benefits of contractual arrangements remains unproven and may not justify the administrative and, perhaps qualitative, costs of their adoption. Finally, while technical and allocative efficiency reasons are often cited in promotion of the purchaser-provider split, this prediction hardly materialises in practice. This is demonstrated by the phasing out of the split's quasi market mechanisms in the Italian National Health Service due to fiscal stress (Anessi-Pessina et al 2004) and the failure to reduce waiting list in healthcare system in the UK (Street 1994; Dunleavy et al 2006).
The purchaser-provider model in local government has been illustrated to show the conflict of interests that may exist between budget maximising departmental heads, and profit maximising private contractors on the one hand, and budget constraining council chief executive officer on the other. The mechanisms used to minimise agency costs and align agents' interests with those of the principal such as contracts, incentive structures and monitoring regimes have been highlighted.

The main tenets of the NCP have been sketched and their implications for local government have been explicated. It has been made clear that the NCP does not mandate competition, privatisation or the contracting out of government services. What the NCP requires is competitive neutrality which involves governments reviewing how their businesses engage in commercial activities to ensure fair competition between public and private businesses (Tasmanian Government 1996; Felmingham and Page 1996; Wallet 2000). This implies optimum use can be made of scarce resources, bringing benefits to both councils and ratepayers.

The implementation of the NCP in local government has created a favourable environment for the introduction of the purchaser-provider split. This is because some of the principles and goals of the NCP cohere with those of the purchaser-provider split such as role clarification, clear lines of accountability, transparent pricing, efficient resource allocation, improved productivity and quality of product, and competitiveness.
CHAPTER FOUR

LOCAL GOVERNMENT REFORM IN AUSTRALIA

The broadening of the responsibilities of municipal government to include a far wider range of roles and functions in supporting and servicing its communities, epitomises the significant changes and challenges that that sphere of government has been subjected to during the past two decades. This period has seen the most significant change in almost one and a half centuries of formal local government in the Australian political system. Traditionally, the Commonwealth and state governments have tended to treat local government as a vehicle from which they could deliver some of their services to local residents without fully appreciating or recognising its accountability to the communities it serves. There was hesitancy by federal and, particularly state governments, to share power and authority with local government. The restrictive nature of local government’s revenue base and the uncertainty of specific payments from upper tiers of government have served as a disincentive or deterrent for many councils to broaden their responsibilities beyond their traditional property-related services. Local governments have frequently complained of a lack of consultation by central governments during the development of policies and programs as well as during the actual implementation of a program within the community. This has generally been seen as the imposition of central control over the aspirations of local communities.

Arguably, however, local government has much to offer federal and state governments. It is a stable, established and fully accountable organisational structure, which covers virtually all permanently, settled parts of the nation. It offers flexibility to local needs, all of which are essential ingredients in the implementation of national
and state policies. The Commonwealth and state governments have realised that virtually no activity could be carried out successfully in the communities without the involvement of local government. Local government reforms have therefore been compelled from the centre (specifically by the states) for two reasons. First, upper levels of governments discovered that local authorities were keen to assume leadership roles and responsibility for the overall development of the local areas. Second, they realised that a well functioning and effective local government system was inextricably linked to the good performances of national and state governments.

The Commonwealth government encouraged the changes because it saw it as an opportunity to implement some of the elements of its microeconomic reform agenda at the local level. The national microeconomic reform, which was already being implemented at the upper levels of government, was aimed at ensuring the highest possible levels of efficiency through programs of management reform, targeting better use of resources, and productivity increases to enable more to be done with less. Many states instigated reform programs or processes for local government reforms in part because they were considered important in improving the dismal nature of state government finances. Local governments were receptive to the reforms because they were regarded as necessary to overcome the problems of limited autonomy and a lack of power of general competence that were hampering the efficient and effective discharge of their responsibilities.

This chapter first looks at the wider context of public sector reform and then reviews the changes that have taken place in Australian local government. It notes the varying degrees to which the individual aspects of the reform agenda (legislative,
structural, managerial, and microeconomic) have been applied across states, as well as the differing levels of successes and failures that attended them. This analysis is done to indicate the complexity of issues now confronting local government, including the many difficulties it faces in not only supporting its local communities but also establishing a wider role for itself as distinct from responding to the role which central governments pass to it.

Public sector reform initiatives in Australia
Since the early to mid 1980s, the quest for smarter as well as smaller governments has prompted many countries to institute major public sector reforms. In Britain, the "Next Step" initiative has profoundly overhauled the structure and operations of much of the civil service. In Australia, far reaching financial management reforms have been promulgated and machinery of government changes have occurred at the federal, state and local government levels. And in the US, the Clinton administration had made the quest for a government that 'works better and costs less' one of its highest-ranking public policy agendas (Boston et al 1997). Although the rhetoric might have varied around the world, most of the contemporary efforts at governmental re-invention, restructuring, and renewal have shared similar goals - improve the effectiveness and efficiency of the public sector, enhance the responsiveness of public agencies to their clients and customers, reduce public expenditure, and improve managerial accountability. The choice of policy instruments had also been remarkably similar: commercialisation, corporatisation, and privatisation, the devolution of management responsibilities; a shift from input controls to output and outcome measures, tighter performance specification; and more extensive contracting out. The one label that is used to describe all these
processes of change is “New Public Management” (Osborne and Gaebler 1993; Aucoin 1996; Hood 1991; Lane 2000).

The Australian model of public sector reform is informed by the ideas, principles and practices underpinning “managerialism” or the new public management. The reform program was heralded by numerous inquiries in the mid 1970s into the whole operations of the public service. These rounds of inquiries commenced with the South Australian inquiry (Corbett) from 1973 to 1975. It was followed by state inquiries in New South Wales (Wilenski), Victoria (Bland), Tasmania (Cartland) and, at the Commonwealth level, by the Royal Commission into Australian Government Administration (RCAGA), usually referred to as the Coombs Commission, the most thorough of all (see Appendix 1 for a list of the inquiries). It was set up by the Whitlam government but did not report until 1976, by which time the government had changed. The Fraser government instituted its own inquiries, notably the Review of Commonwealth Administration (Hughes 1998: 374).

At the Commonwealth level, the various inquiries had different points of focus. The Coombs Commission examined almost every aspect of public administration, and was well funded, with a large research staff. Its focus was more on the social and political dimensions of administration, but this was perhaps a function of the particular reformist times. The Fraser government’s Reid Report was of a totally different kind. It was a narrow report which had to be completed quickly, and concentrated on the managerial aspects of the administration. Although described as rather pallid (Brugger and Jaensch 1985), the Reid Report contained numerous prescriptions which were subsequently implemented by the Hawke government.
Even though the inquiries occurred in the 1970s, substantial reforms did not take place until the 1980s.

**Reasons for reform**

Four factors explain why the 1980s has been described as the decade of change in public administration in Australia (Hughes 1998: 374). First, government experienced severe resource constraint in the late 1970s, as tax revenue declined in relative terms. Good political judgement dictated that no cuts should be made in actual service delivery to the public. That in turn meant that the public service had to be rationalised in an attempt to manage the sector, or even expand the range of functions, with less money and fewer staff (Hughes 1998: 374).

Second, the 1980s witnessed greater changes of government. Unprecedented in the history of Australia the government of every state and commonwealth changed hands at least once. The new governments unleashed numerous ideas on how to change the public service. One of the features of the impulse towards public sector reform was that the imperative emanated from the political leadership, rather than the public service itself. While there may be some differences of detail, the new governments, irrespective of party-and in indeed, parties in opposition - have generally agreed on the kinds of changes to be effected (Hughes 1998: 374). Third, and most obvious at the commonwealth level, was an explicit connection between the improvements of public sector management and re-structuring the national economy. The last point is that the concern with the big size and continuous growth of government made the case for re-structuring and reform compelling (Hughes 1998). Today, the impulse towards the standard bureaucratic solution to problems is less appealing. Australian
governments have shown commitment to experiment with other solutions, such as
down sizing the public service, privatising, corporatising, or the elaborate application
of contracts for government work. The general distaste for bureaucratic inertia has
implied less political costs in cutting back on the size and role of the public service.

The above reasons motivated or rather compelled, the Commonwealth Government
along with some states to implement various managerial reforms. The aim of these
changes was to improve the management of the public service and bring it in line
with international best practice, which was in vogue at the same time. On the
occasion of the establishment of the Reid Inquiry in 1982, Prime Minister Fraser
noted, the ‘government believes there is a question whether the public service, as
presently organised, has the management tools, the flexibility and the capacities to
meet the challenges that presently exist and that lie ahead’. He added that,
‘Departments and authorities must be able not only to meet the demands of today,
but also to anticipate the demands of tomorrow’ (Australian Government 1983: 131).

Similar views coloured the reflections of Peter Reith, the Minister Assisting the
Prime Minister for the Public Service when he observed that despite improvements
over the years, the challenge of public service reform still remained substantial and
urgent. He explained that the shortcomings were immediately apparent in the
complex army of outdated, rigid and cumbersome regulations, which were not the
making of the public servants. The root of the problem, he identified, was systemic.
The culture of the Australian public service, he said, did not sufficiently promote
high performance or drive innovation, and the important contributions of individual
public servants were often overlooked or stifled by process and unnecessary
regulations. He added that there was evidence of a lack of collective vision amongst its leadership. Reith concluded that management remained cautious and conservative (Reith 1981).

In 1987, Prime Minister Hawke stated that reforms to the public service had two objectives. First, it was envisioned to enhance ministerial control over day-to-day management. Second, with greater freedom to manage, departments are in a better position to demonstrate their success in achieving the dual aims of increased efficiency and financial savings (Australia Parliament 1987).

On his part, Prime Minister Howard in presenting the Garan Oration to the Institute of Public Administration, Australia, in November 1997 reiterated the necessity of the ongoing reforms and his government’s commitment to stay the course. He said ‘the public sector must continue its progress towards being a modern, flexible institution whose administrative practices measure up to the best in the nation and the world’ (Howard 1997: 4). Mr Howard added that:

Already it can claim success in implementing reform at a pace, and with a substance, that compare with the public sectors of many western democracies. This is not a particularly recent trend. Change did not start in March 1996 (when the Howard government came to office). I have commented on several occasions that the public service I found in 1996 was, in many of its operations, markedly improved on the service I had known in the 1970s and early 1980s. The budgetary and financial systems have been streamlined, and there is a greater emphasis on results in place of the past concentration on process and inputs. Central agencies exercise far less control over the staffing and finances of other agencies, so that the public servants managing programs are clearly responsible for performance. There is more competition in the delivery of programs both within the public service and outside. And there is vastly more interest shown in delivering high quality service to the public (Howard 1997: 4).
Prime Minister Howard's statement is instructive in two important respects. First, he observed that many of the reforms adopted over the years enjoyed bipartisan support; he is impressed with the reforms, which have brought about greater flexibility and more emphasis on results, although he conceded many reforms still have some way to go, and to push them through, he pledged his government's commitment. Second, he is concerned to represent the various initiatives as an integrated package of reforms enabling new public management to develop.

The managerial paradigm embodies, according to Hood seven main ideas. These include hands-on professional management in the public sector; explicit standards of performance; greater emphasis on output controls; shift to disaggregation of units in the public sector; shift to greater competition; stress on private sector styles of management practice; and emphasis on greater discipline and parsimony in resource use (Hood 1991: 3-19).

Since the political leadership initiated the change it was not difficult to spread the gospel of reform among the three levels of government. As a political reform agenda, the Commonwealth and most state governments redesigned cabinet processes to reinstate ministerial control, and reconstituted the senior levels of the public service as executive service. This political agenda was often intertwined with a managerial agenda, which demanded the modernisation of public services through improvements in organisational design and management practice. Hence, the congruence of the Australian reform effort with the tenets of the new public management as put forward by Hood (1991). The reform process had the ambition of taking on board all the aspects of the new public management even though implementation started with
the move to disaggregation and the shift to contracting. But as the reform gathered momentum, all the various elements have to some degree been applied in Australia. Hands-on professional management means senior managers would themselves be responsible for the achievement of results rather than being administrators following someone else’s instructions. Several nations, particularly the UK, Canada and Denmark, in line with hands-on professional management, are experimenting with a new definition of a government ‘agency’ by giving managers more operating flexibility in exchange for greater accountability to performance (Kettl 1996). In Australia this took the form of the devolution of more managerial powers to departmental heads. The one effect this has had is that the relationship between the politician and the manager has become more fluid and closer than before. Public managers are now involved in matters of policy and will pay with their jobs if something went terribly wrong. Public management has become a form of political management and the relationship with political leaders has changed. Of course, politicians still have the final say, but the unrealistic separation of policy-making from administration has been finally discarded. Some of the elements of the management reform that occurred in Australia are examined in turn below. They include workplace changes, institutional disaggregation, new contractualism and financial management changes.

*Workplace changes – position reclassification*

At the Commonwealth government level, the title “permanent head” was replaced by “departmental secretary” and has become “Chief Executive Officer” under the Howard government. The shifts in title signalled the dawn of new realities of life at the top. In Victoria all but three of the individuals holding these offices were
replaced in the first four years of the Cain government (Laffin 1987) and the same happened when the Kennett government gained power in 1992. At the Commonwealth level the inception of the Howard government witnessed the dismissal of six departmental secretaries and the resignation of seven others. The shake up at the top is a clear indication that the tenure of departmental secretaries is no longer a permanent phenomenon. Today high-profile managers are often appointed to head departments or agencies. They are usually appointed on short-term contracts, have management backgrounds and are employed to get results. They are also public figures in a way not previously considered normal for public servants. Frequently they seem to prefer working for one party.

The managerial revolution has also brought about a clear shift away from position classification at the next layer of senior management towards flexibility in arrangements for filling senior positions. The Senior Executive Service (SES) has replaced the former second division. This implies more than a mere change of name. The SES concept is aimed at developing a pool of senior managers who can be transferred readily between positions and departments, who are trained for senior management and who can develop an SES identity rather than a departmental one (Hughes 1998). All positions are advertised and open to applicants from outside the service. For example, Senior Executive Service (SES) vacancies in 1992/93 included 17 percent that were filled by outside appointments. And of the new Senior Officer Grade Cs in 1991/92, twenty one percent were outside appointments, compared with 8 percent in 1986/87 (Public Service Commission 1994: 12).
The proclamation of the *Public Service Reform Act 1984* (Pusey 1991) reduced the number of job classifications, and gave managers the power to hire and fire (Schwartz 1994). This was Prime Minister Fraser’s initiated legislation that curtailed union power, reduced appeal rights, weakened tenure and, *inter alia*, initiated a process which ended the separate public sector industrial relation jurisdiction. The Hawke government, especially in its streamlining legislation of 1986, sealed this policy shift (Nethercote 1996). Inefficient staff is now dismissed quickly, with protection against arbitrary or politically motivated dismissal. In 1983/84, only 0.2 percent of those leaving the public service were retrenchments; in 1992/93 it was 34 percent (DoFA 1993).

**Institutional disaggregation**

Institutional disaggregation was not pursued vigorously in the earlier managerial reforms in Australia but it pervaded forcefully as the reform process went underway. It is likely that future public service in Australia will be very different from the past, with a relatively small public sector for contracting. The United Kingdom has uncoupled three-fourths of its civil service, while in New Zealand the percentage is about 90 percent (United Kingdom 1998). The report that proposed the executive agency model and led to the restructuring of the British system continued in this vein, arguing for an increasing separation of responsibilities as necessary to improve the management of government operations (United Kingdom 1998). This has been emulated by Australia, as institutional disaggregation is now a feature of public administration. For example, in 1997 the Commonwealth Service Delivery Agency began operating on a contractual basis to deliver services for the Departments of Social Security, Health and Family services, and Employment, Educational Training
and Youth Affairs. Disaggregation also resulted in the gradual hiving off of some operational activities of departments to separate agencies.

This institutional disaggregation also saw Treasury lose a large part of its influence over other departments. The 1976 split of Treasury into Treasury and the Department of Finance meant that monitoring of departmental programs is now the role of Finance. Departments are expected to be more managerially responsible subject to Finance oversight. Treasury is now concerned less with departments and more with macro-economy, although it does have the productivity and Australian Competition and Consumer Commission within its ambit (Hughes 1998). For the most part, however, the operating assumption under successive Labor Governments (1983 – 1996) was ‘where there is considerable discretion at the operational level and the success of the policy depends heavily on how it is implemented, it is most desirable that policy advice and programme delivery be integrated’ (Keating 1993: 11).

**New contractualism**

The “new contractualism” became more fashionable in Australia in the 1990s, particularly following the election of the Howard government. Contractualism espouses that almost any conceivable government service can be provided by contract, either externally through private or voluntary sector providers, or internally with other parts of government. An integral part of this arrangement is the emphasis placed on individual performance contracts for staff, contracts with the minister and the government as a whole, and contracts in the form of “charters” with clients and the public as a whole (Hughes 1998: 387). Contractual relationships in the management of public services are not novel, especially in the case of the...
relationships between government and the commercial private sector (Purchase and Hirshhorn 1994; Trebilock 1994). What is relatively new however, is the extent to which contractual relationships have been extended across government in order to establish service standards, to apply performance measures, and to impose demanding and transparent reporting and accountability regimes (OECD 1994).

It was common for most of the last century for roads for example, to be built by the government through the use of government day labour. It was the tradition in the 1970s for roads to be actually built by contractors under the supervision of government engineers. While this is still the case, it is also becoming common for the private sector to manage an entire project – referred to sometimes as “BOOT”, meaning ‘build, own, operate, transfer’ – paid for by tolls (for example, the Sydney Harbour tunnel, other freeways in Sydney and the City Link project in Melbourne). Private operators do everything under explicit contracts with the government and recoup their costs and profits over a lengthy period, more than 30 years in the case of City Link (Hughes 1998). Today contracts are commonplace with suppliers of services, contracts with staff, contracts between agencies, service agreements.

Financial management changes

In 1984, the implementation of the Financial Management Improvement program and its subsidiary, Running Costs System and Program Budgeting (Schwartz 1994), would appear to be a direct result of the new emphasis on ‘management for results’, with the focus on outputs and outcomes rather than inputs and procedures (Hughes 1998). The Commonwealth government annually publishes a nineteen-volume set of lengthy and detailed program performance statements that relate expenditures with
program performance (Breul 1996). Breul (1996) observes that Australian program officials are accountable for the performance of their programs as the annual work plans link program objectives and the performance agreements on which ministry officials are evaluated.

In a testimony before the US Senate Governmental Affairs Committee on 5 May 1992, the Deputy Director for Management of the US Office of Management and Budget (OMB) judged Australia to be 'at the leading-edge in performance management' (Breul 1996: 77). He noted that Australia had a well-developed system that encompassed strategic or corporate planning, annual work plans and performance reporting as well as program evaluation. Program objectives were defined, along with strategies for achieving them. Performance indicators were used in assessing how well the strategies had achieved the objectives (Breul 1996).

However, as Shand (1990) pointed out, spurious output or performance indicators are easy to obtain; good ones are much more difficult. This difficulty explains why there is a tendency to favour easily quantifiable measures such as output, or workload, or process indicators to the neglect of the real, less tangible goals of public policy, such as effectiveness indicators, those that measure the degree of success in attaining program objectives (Corbett 1996). At least two Australian examples of bias produced by indicators can be cited. Kellow observes that,

the tendency for public housing agencies to measure success in terms of housing units constructed, completely ignoring the fact that, since these dwellings are often on ill-chosen sites and of designs as inappropriate as the high-rise ghettos which litter Melbourne, the real, rather less tangible goals of public housing policies might have been harmed rather than advanced (Kellow 1990: 70).
Another example is the inadequacy of the 'tax gap ratio' used by the Australian Taxation Office in the measurement of compliance by taxpayers. By concentrating on this indicator it loses track of the more subtle dimensions of the changes its long-range strategy seeks to bring about, that is attitudinal changes in communities, which are not all to be gauged by monitoring simple indicators (Corbett 1996: 175). Allocating funds and staff to programs gives a better indication of cost-effectiveness and, in times of resource shortage, which programs can be cut. This gives the higher levels in the department and the ministry better information on what government is actually spending its money on and where the costs fall, and it allows for more precision in deciding where to make cuts (Hughes 1998). The previous system of budgeting was precise in a control sense but, in practice, government had little information on actual program delivery.

Microeconomic reform

Microeconomic reform has also been launched to go in tandem with managerial reform. Indeed microeconomic reform has now become an important part of public policy-making in Australia and its effect has touched on virtually all aspects of contemporary Australian life. Fosyth (1992: 5) referred to it as increasing real income from available inputs to allow higher consumption and a raised standard of living. He contends that higher incomes can increase the range, quality and quantity of goods to better meet people wants. This implies microeconomic reform is primarily concerned with efficient production and efficient distribution.

For Felmingham and Page (1996: 26) microeconomic reform is a process of restructuring the economy's institutions so that competitive market principles are
applied to the utilisation of the resource base. In general the ownership of the resource base does not matter and the principles of microeconomic reform apply equally to government enterprises (GBEs) or related services at all levels and also to private enterprise subject to government competition or regulation. The object is always to increase output and improve quality in a cost-effective manner. According to Felmingham and Page (1996) the goals of microeconomic reform are realised through:

- the maximisation of productive efficiency via internal reorganisation or exposing current activities to competition;
- pricing reforms which bring prices closer to cost structures (allocative efficiency); and
- regulatory reform which reduces regulation to a necessary minimum.

The above goals of microeconomic reform and the strategies for achieving them are the very ones the tenets of the Hilmer report and the National Competition Policy (NCP) seek to promote. The Hilmer report issued from the proceedings of the Independent Committee of Inquiry, National Competition Policy Review and the report was entitled National Competition Policy. The Hilmer recommendations were adopted by the Council of Australian Governments (COAG) on 11 April 1995. These recommendations then formed the basis of the NCP based on Hilmer findings.

It is important to summarise the elements of the Hilmer Report and the tenets of the NCP in order to determine their implications for Australian governments. The Hilmer Report focused on six aspects: the extension of the gamut of Trade Practices Act; reform of regulations which restrict competition; removing or limiting the
exercise of public sector monopoly power; allowing access to infrastructure; fostering competitive pricing; and achieving a "level playing field" in competition between government and private sector business (Felmingham and Page 1996: 27).

The key elements of the NCP reduce to the following:

- there should be provision for prices oversight of GBE’s pricing strategies;
- competitive neutrality should be the cornerstone of competition between GBEs and private competition;
- public sector monopolies should be reformed;
- legislation should be reviewed to remove barriers in competition;
- third parties should be allowed access to public sector infrastructure (Felmingham and Page 1996: 28).

As noted in chapter three, there are several important implications of the Hilmer recommendations and the NCP for all levels of government. The oversight of prices is now under the jurisdiction of the Commonwealth and the individual state mechanisms. The consequences this has had are broadly two. First, it has made pricing cost reflective where this has not been the case. Second, it has guaranteed an appropriate form of price discounting for disadvantage and disability. The application of competitive neutrality for government business undertaking implied: the removal of taxation advantages through taxation equivalents; the removal of debt guarantees; and resolution of the question regarding cross-subsidisation of certain business activities from other components of government enterprise. The in-house tenderer is now in equal competitive standing, at least in theory, against the private competitor for government programs (Felmingham and Page 1996). The NCP has
promoted practices such as compulsory competitive tendering (CCT) and cross border tendering.

The review of anti-competitive legislation was to remove legislation (deregulation) in some jurisdictions, while in others it entailed uniform or revised regulation (re-regulation). The motive of this aspect of NCP was to eliminate barriers to effective competition, in particular those barriers that represented additional cost (Felmingham and Page 1996). The NCP took into account the substantial community service obligations of local government in comparison with federal and state tiers of governments. This recognition allowed local government to carry out public interest test that distinguished unwarranted from warranted protective legislation. With regard to the issue of access to publicly owned assets, the effect is much wider at the levels of state and Commonwealth governments than at the sphere of local government.

Much of microeconomic reform places emphasis on the efficiency of government organisations, not only because they constitute a significant proportion of the national economy, but also because government charges and taxes are a substantial part of business costs. The concern with the efficiency of government has prompted many policy analysts and theorists to prescribe antidotes to agency failure in the form of an interlocking pattern of principal-agent relationships. Three types of enterprise reform have been launched to deal with agency failure. These embrace changing ownership (including privatisation), increasing competition, and overhauling performance guidelines and controls (Domberger 1992: 168). All these
entailed major governmental re-structuring to split large bureaucratic institutions into single-mission, identifiable and manageable entities.

This reorganisation allows for swift devolution of managerial responsibility and the establishment of clear lines of accountability. Providers of services can then be held accountable to single principals, resources can be matched to defined tasks, and agency failure can be addressed by shifting from control of inputs to monitoring outputs. The concept of contractualism, in which contracts define relationships, terms of trade, and specified outputs of managers and agencies, is embedded in this structure (Dollery et al 1997).

Microeconomic reforms that occurred in Australia conform to international practice and the prescriptions of the NCP. For example, there have been improvements in the efficiency of the general government sector, the introduction of new standards of performance and accountability for government business enterprises, and a greater effort to reduce overlaps between the three levels of government in areas such as electricity, rail transport and communication (Filmer and Dao 1994: 3). Other significant changes that occurred from 1983 to 1993 included: deregulation of the financial markets, the abolition of interest rates and exchange controls, and opening banking to new entry; reductions in tariff levels and other forms of assistance; broad ranging reform of the transport and communication industries; rationalisation of business regulation, and reductions in company tax; and labour market reforms, such as moves towards enterprise-bargaining (Filmer and Dao 1994: 3).
The most benefit from public sector reform will be derived from the Commonwealth and state government sectors, because they are much larger than local government. The reforms to date have largely focused on Commonwealth and state government. Local government, however, has not been immune, and it is the changes that have occurred at this sphere that are examined in the subsequent sections.

Reform in the local government sector

Local government has not been exempt from the pressures that have driven and are driving change at the commonwealth and state government levels. Over the past decade or more Australian local government has been subjected to drastic policy-induced changes which have substantially changed its nature and form. Caddick (1996: 8-12) identified seven substantial "pressures for change" operating on local government in Australia.

First, national competition policy has had a significant impact on local government. It has witnessed statutory appointments removed and more importantly, competitive neutrality introduced, which sought to generate "a level playing field" when public sector organisations compete with private sector firms.

Second, wider scope of responsibilities brought to the fore the imperative for cutting edge managerial skills. In general both the National Review of Local Government Labour Markets and the Hilmer Report signalled the need for the professional bodies to review their working relationships, accreditation standards, membership categories and professional development activities (Caddick 1996: 10).
Third, renewed national focus on the meaning of governance has led to a re-evaluation of the aims and functions of local government and its relationship to citizens. One result of this has been an emphasis on improved service delivery to local government's constituents.

Fourth, there is an associated trend that is related to the changing nature of citizenship in contemporary Australia. This new view has generated a debate about participation in governance generally and participation in local government in particular. Although no consensus has yet been reached, it is clear that the relationship between local government and its citizens is still in a state of evolution.

Fifth, devolving additional responsibilities to local government profoundly changed the role of elected representatives in local government. Councillors must now function in a much more complex and demanding environment, which calls for more sophisticated policy forming and decision-making skills.

Sixth, Caddick (1996) identified the emergence of the concept of a particular purchaser-provider split. In essence, this separates the co-located roles of government as provider of services from its role as producer/purchaser of services. The split still leaves the overall responsibility for public service provision in the hands of government, with options to outsource or invite external agencies to compete with in-house units for their delivery. One often cited advantage of this split is that it enables the management of the organisation to focus more on key strategic issues of determining the mix and standard of services they wish to provide for their communities (Walsh 1991a: 135).
Compulsory competitive tendering (CCT), even though not a mandatory policy tool for local governments under the NCP, has by force of law been embraced by some councils and voluntarily and cautiously applied by others. Benchmarking and performance measures have also been devised to assess implementation processes and outcomes of the purchaser-provider split. These measures aimed at identifying the capacities of local government in order that they may be compared with "best practice". This is envisioned to guide practitioners in policy-making capacities in local government in the targeting of problem areas and the fashioning out of workable solutions to them. Caddick sees municipal amalgamation or "restructure" as an additional reform measure for achieving efficient and effective conduct of local government business.

Two waves of reform

Gerritsen (1996: 33) distinguished two waves of reform within local government over the past three decades. The first wave was ushered in 1973 and some of its aspects are still at various stages of implementation. Gerritsen (1996: 33) summarises the first wave of local government reform as consisting of myriad of structural, economic, legislative and industrial shifts that were embarked upon in the 1970s and still working through. The reform embraced: changes in the public and private sectors (award restructuring, enterprise bargaining and national training reform); the consideration of constitutional reforms at both national and state levels; the introduction of new local government legislation at the state, territory and federal levels; commercialisation; and boundary changes and amalgamation. For Australian local governments this first wave of innovation set out to reshape their internal
practices, their modes of service delivery and their jurisdictional boundaries (Gerritsen 1996: 33).

Gerritsen discerned that the first wave of reform did not deliver on all of the expectations of the increasingly demanding public service customers, citizens and stakeholders. He therefore looked to a second wave to fill the void. The second wave had emphasis on the following:

- a stronger emphasis on regionalism, and cooperation between agencies at this level. Such cooperation is important, he notes, for improving outcomes in economic development, social justice and environmental quality;
- an increased capacity of local and regional agencies, primarily by improving the strategic management and human resource capacity of those agencies;
- an increased focus on ethical governance and the effectiveness of policy making; and
- adequate financial and information resources to implement the first three (Gerritsen 1996: 34).

From the above distinction, it is reasonable to characterise the first wave changes as reactive and service-oriented, while the second wave of reform can be described as more dynamic and anticipatory in their approach to effecting a transformation of the economy, society and the environment. In addition, the second wave will enfold 'new trans-jurisdictional approaches to problem solving and an holistic analytical policy-making culture' (Gerritsen (1996: 34).
Commonwealth governments of whatever complexion encouraged, while the state governments instigated local government reform because of the belief that there is virtually no aspect of modern society that can be tackled without involving local government. For example, not long after it assumed office, the new Howard government sought to give fresh impetus to the ongoing reform of Australian local government. The statement of the sector minister put the point being made here into perspective. The then Commonwealth Minister for Local Government, Mr Warwick Smith indicated in his address to the National General Assembly of the Australian Local Government Association on 3 December 1996 that all governments must ‘anticipate and react to continual change and respond to rising pressures from the community, business and government sectors to improve efficiency and effectiveness of their services. Local government is no exception’ (Smith 1996: 1).

The Minister went further to identify the nature of the reforms envisaged by the Commonwealth government. These included regulatory reform, benchmarking and performance indicators, competitive tendering and contracting, competition policy, and restructuring. Not only has the Commonwealth government pursued these policies vigorously, but it has also added significant new reform programs such as workplace reform.

The major reforms that have occurred at the local government level included legislative, managerial, structural and organisational, as well as microeconomic. These reforms in many respects echo attempts to improve federal and state government services and represent a response to federal and states initiatives. These reforms are now examined in turn.
Competitive tendering and competitive neutrality

The national microeconomic reform program, an element of the first wave of reform, has had significant consequences for local government, and councils are now undergoing unprecedented change in an effort to become more efficient. The reforms were informed by the Hilmer recommendations and the NCP and their implementation has had significant consequences for business enterprises in general, and local government enterprises in particular.

Compulsory Competitive Tendering (CCT) emerged and first found expression in Victoria local government. Essentially, CCT seeks to expose municipal services to market-based competition in order to enhance their efficiency. The pace of the adoption and implementation of the principles outlined in the Competition Principles Agreement (CPA), which the Council of Australian Governments (COAG) adopted on 11 April 1995, vary across states. Even though NCP and CPA do not make the adoption of CCT mandatory, more state governments throughout Australia are bent on encouraging or even compelling local governments to apply it. Enabling acts have facilitated the adoption and implementation of CCT in Victoria. Issuing from the various acts, targets for the introduction of CCT, whereby agencies are required to introduce CCT to specified services or specified expenditure, and competitive neutrality has been mandated. For the former, compulsory targets for expenditure, subject to competitive tender were set at 20 percent in 1994/95, 30 percent in 1995/96, and 50 percent in 1996/97 (Dolley and Worthington 2000a: 6). Out of a total of 78 councils in Victoria, 88 percent achieved the 1995/96 benchmarks with around 37 percent of aggregate operating expenditure (or $940 million) exposed to competitive tender. For the latter, councils were required to abide by competitive
pricing principles from July 1997. Guidelines on pricing for assisting municipal authorities in implementing this policy were issued in May 1997 (NOLG 1997).

The picture in other states was quite different from the experience of Victoria. The reform process was less radical and pressures for the degree of prescription more relaxed (Dolley and Worthington 2000a: 8; NOLG 1997: 150). According to Kiss (1997: 51) Victorian reform experience was unparalleled because the state government was 'unconstrained by institutional or political barriers', an advantage that accrued from the recent program of structural reform. Local government in New South Wales enjoys considerable flexibility and autonomy in applying competition policy. Councils however, will be expected to embark upon some reforms in line with the practices and operation of private businesses. For example, the power of the Independent Pricing and Regulatory Tribunal (IPART) is unambiguously marked out to review the pricing practices of local government business activities that can be declared monopolies under the separate IPART legislation (New South Wales Government 1997; IPART 1998).

The aspect of competition policy that is stressed in Queensland is significant business activities of larger urban councils. The policy at the same time respects the autonomy of local government in that it leaves the implementation of reforms in the hands of individual councils (Committee for the Economic Development of Australia 1996). Western Australia on the other hand, puts emphasis on the costs and benefits of restrictive legislation at the local level (NOLG 1997: 157). Applying a phased review process to year 2000, local laws are reviewed to account for the costs and benefits of lack of competition. A public benefit test is also being used to large
business activities. Compulsory competitive tendering has not found taste in Western Australian government for the reason that it is inappropriate for many of the state’s rural areas. A scheduled timetable in Tasmania for the application of full cost attribution to all business activities was instituted (NOLG 1997: 159).

The impacts of compulsory competitive tendering on local government are a mixed bag. Evidence gathered in Australia such as that of the Evatt Research Centre (1990: 62) found that ‘there is tentative evidence to suggest that lower cost may be achieved in many cases at the expense of service quality’. Aulich (1997) however, observed that the potential costs savings in CCT were not as large as expected due to transactions costs involved in implementing the reforms. Research evidence from Victoria indicated that local authorities found that nearly half of respondents had intimated that quality had improved with tendering, with only 22 percent suggesting it had not (NOLG 1999).

While some councils are leaders and others are laggards in the adoption and implementation of competitive tendering, local authorities across Australia have sought to apply it where practicable. Less obvious or certain is the proposition that cost savings and improvements in service quality have accrued from the regime (Dollery and Worthington 2000a). The problem is partly blamed on the nature of the market in question in terms of the degree of competition and contestability, agency costs required to clarify and specify standards of services, and to monitor the standards of services delivered, and benefits attributable to other reforms such as amalgamation – and part due to limitations in the empirical studies intended to measure the extent of efficiency gain (Dollery and Worthington 2000a: 9).
The inability of CCT to deliver on all its promises has led governments in some jurisdiction to conclude that it was no longer the most appropriate tool for delivering services economically, efficiently and effectively and so needed to be removed (Rogers, 1999: 35). The shift draws attention to a pluralist system of service delivery, with some of the options proposed to replace or go in tandem with CCT enfolding Best Value regime, Private Finance Initiative (PFI) and Public-Private Partnership (PPP) program. For example, the Labour Government of Britain introduced Best Value, a performance management tool in the *Local Government Act 1999*. The Best Value regime is concerned with continuous service improvement within local authorities. This continuous improvement is to be achieved through: the setting of local authority objectives and associated performance measures; the selection of a number of service areas to undergo fundamental performance review in that financial year; and the publication of those service areas in local performance plan and the independent assessment of the process and the outcomes by a designated external body (Sullivan, 2002). At the heart of Best Value is the fundamental performance review which subjects services to rigorous assessment based on predetermined criteria.

**Contracting-out**

Contractual relationships in the management of public services are not new. Governments traditionally have used contracting out as a tool for arranging certain rather simple services such as catering and cleaning. The new public management not only vastly extended the application of contracting out, using this tool in new areas such as many kinds of infrastructure as well as education and health care and on a much larger scale. The new public management in addition deals with
contracting in that is, a practical theory about how government can improve its operation through contracting whether the provision is in-house or out-house (Lane 2000).

Prior to the advent of competition policy, an appreciable number of Australian councils applied contracting out in one form or another (Industry Commission, 1996: 63). The following information buttresses this point. In 1989 eighty seven percent of councils contracted at least one service, with 52 percent contracting out more than four. In New South Wales between 70 and 85 percent of councils used contracting for refuse collection, sanitation and road and bridge maintenance, and had already been doing so in 1988/89, compared to around 50 percent in 1960/61 (Dollery and Worthington 2000a: 8). It is revealed in some studies that by the early 1990s some 10 to 20 percent of total aggregate council expenditure was contracted out, without the force of law (Industry Commission 1996: 63). In a 1990 survey, the Evatt Research Centre (1990) found that most commonly contracted services (with percentage of councils contracting out the selected service in brackets) to be: (i) recycling (60%), (ii) household garbage collection (55%), (iii) cleaning of kindergarten (42%), (iv) community centres (35%), (v) drainage (21%), (vi) road, bridge and footpath maintenance (17%), (vii) operation of child care centres (5%), (viii) elderly care services (4%), and (ix) social workers (1%).

Data on the Victoria local government experience under the first year of CCT is available. In 1994/95 over half of CCT expenditure was on public works and services (roads, drainage and public facilities), followed by approved purchasing schemes, environmental services (garbage collection, recycling and street cleaning),
administrative and financial services, recreation facilities, and health and welfare services (Dollery and Worthington 2000a). The type of services contracted by councils however, varies. Evidence indicates that rural councils typically contract out professional services such as valuation, engineering and planning services, whilst urban councils are more likely to contract out recycling, construction and road maintenance (Evatt Research Centre 1990; Industry Commission 1996).

At the heart of the management challenge associated with contracting out is the fact that public servants in the first instance and minister ultimately are expected to be accountable for the exercise of public authority, the expenditure of public funds and ultimate results of public action. At the same time, public managers are required to share considerable discretionary authority over the operation of a public program with one or more third parties over whom they have only limited, indirect control. If contracting activity is too tied down by bureaucratic red tape and procedure, the efficiency and effectiveness gains, which are the primary rationales behind the activity, may be compromised or undermined in the process.

Finding the appropriate balance between control and accountability versus autonomy and efficiency is made more difficult by the absence of careful case studies of the contracting process. In particular, our understanding of how to manage the contracting process would benefit enormously from a series of intensive case studies of positive experiences with the process. While there is a danger of too easy generalisations about “best practices” being drawn from a limited number of apparent successes, there is also the opposite problem that available studies tend to focus on what has gone wrong. Like all changes introduced into the public sector,
contracting out is not a panacea and there is a need to present a balanced picture of its benefits and costs.

Legislative reform

Australian states have all embarked upon reviews of their local government acts. According to Wensing the following features were a common thread until the most recent wave of reforms to local government acts:

- the acts were highly prescriptive about local government's roles and functions;
- local councils were not perceived as the local 'government' of a particular defined area, but rather as a vehicle from which various statutory functions could be conducted;
- the acts reflected a state government's view that local government was a convenient administrative arrangement to which the state could delegate part of its functions; and
- local governments' strengths and weaknesses derived from the range of functions they acquired (and lost) and the extent to which their structures remained stable over time (Wensing 1997: 26).

The role of local government was nothing more than a regulator and steward of certain public assets. Local authorities were not seen as bodies with the overall responsibility for policy development, strategic planning and direction for sustainable social and economic development at the local level.
The world is dynamic and so in recent decades the pace and nature of social and economic changes have been overwhelming and local government's structures and operations were simply outdated. The local government acts were unduly restrictive and were inhibiting effective local government. The substantial reviews of states' local government acts between 1990 and 1997 were therefore envisioned to enhance the power, means and competence of local government to assume a more strategic role in local governance in line with the changing times.

In general, the main objectives of the new local government acts are to reform the essential elements of councils' operations: granting them wider general competence powers, improving accountability mechanisms, reducing the detailed prescriptions, changing council boundaries either by choice or by force of law, and changing planning and other delegated powers. The acts generally do not seek to detail the day-to-day operations of council organisations (Wensing 1997).

The legislative changes have also provided the necessary framework for the program of microeconomic reform in local government, to improve its performance standards, its accountability, and its relation with other spheres of government. The changes have also fostered or required a whole-of-community and whole of government approach to the governing of local communities (Wensing 1997; Dollery and Worthington 2000a).

The direction and timing of the new acts, and the tenure of existing legislation, are not uniform across states. In Victoria, a new local government act was enacted in 1989 which replaced existing legislation dating back to 1958. Significant
amendments were subsequently made with the *Local Government (Amendment) Act 1996* and the *Local Government (Further Amendment) Act 1997*. The former act aimed at increasing council accountability through a statement of performance targets and attainment, whilst the latter was intended to clarify the roles and powers of the chief executive officer in relation to the establishment of an appropriate organisational structure and employment arrangement for council staff. New local government acts substituted old and obsolete ones in New South Wales, Queensland, Western Australia and Tasmania, which had been amended since 1919, 1936, 1960, and 1962 respectively. In South Australia a new act superseded the existing legislation which had not been changed since 1934 (Dollery and Worthington 2000a).

However, it is premature to account for the extent to which the reforms have yielded the desired outcomes. The states do not seem to have been very successful in coordinating the changes to either the local government acts or the planning systems and statutes. In New South Wales, for example, the then president of the NSW Division of the Royal Australian Planning Institute publicly expressed regret that in introducing a new *Local Government Act of 1993*, the NSW state government had lost an important opportunity to establish a single piece of legislation to control development in NSW (Kettle 1993: 7). Some states, indeed have in recent times made or are proposing significant changes to their planning statutes, changes that are aimed primarily at establishing integrated systems for assessing and approving development.
**Structural reform**

An aspect of the Australian local government reform agenda that has been hotly debated is the restructuring or amalgamation of local government jurisdictions. Apart from New South Wales, all states have either completed, or were in the process of completing, boundary changes during the period of the 1990s. With the notable exception of New South Wales and Western Australia, where the numbers of councils have marginally increased (by 0.5 and 2.9 percent respectively), this has generally entailed reduction in the number of individual local government units in each state. The number of municipal authorities in Victoria has reduced by 62.8 percent since 1990, with reductions of 6.7 percent in Queensland, 41.8 percent in South Australia, and 36.9 percent in Tasmania over the same period (Dollery and Worthington 2000a). Table 4.1 details the changes in the number of local councils in each state from 1910 to 2005. Almost all the process of structural reform has been prompted by the state governments, and went in tandem with the financial, legislative and corporate governance reform pursued over the same period.

Despite the fact that the stated objectives for structural reform vary across states, a common set of social, political and economic conditions necessitated the wave of contemporary amalgamations. The first set of factors put forward includes standard public finance arguments for consolidation. Beginning with the economic theory of ‘fiscal federalism’ (the division of taxation and expenditure powers among different levels of government comprising a federation), the ‘correspondence principle states that the size of a particular government should correspond to the benefit region or the area of the benefit flowing from the goods it provides to its citizens’ (Dollery 1997: 10).
The ‘benefit region’ is likely to vary with the type of public good provided, and will accordingly correspond to particular levels of government. This implies that services which are nationwide in their benefit incidence (such as defence forces) is recommended for provision at the national level, while services with regional benefits should be delivered at the regional level.

Table 4.1: Trends in the number of Australian local governments, 1910 – 2005

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Notes: Totals exclude the 104 community, Aboriginal and Torres Strait Islander and other local governing bodies receiving Commonwealth Financial Assistance Grants – 62 in the Northern Territory, 32 in Queensland, 6 in South Australia and 3 in NSW; N/A – not applicable.

Likewise services with local benefits (such as street lights and pavements) should be provided at the local level (Dollery 1997: 449). This concept of benefit region therefore provides the basis of an optimal community size in the provision of local public services. Pressures for amalgamation may therefore spring from the notion
that these benefit regions extend or 'spill-over' into the jurisdictions of adjacent local councils, combined with arguments concerning the economies of scale and scope resulting from large multifunctional jurisdictions Dollery and Worthington 2000a: 10). However, such spill overs 'do not necessarily provide a case for amalgamation, the primary limitation being that local public services vary greatly in their economic characteristics, like economies of scale and benefit region' (Dollery and Worthington 2000a: 10).

The second set of conditions are concerned largely with the specific context within which Australian local government is conducted. Obviously significant changes in the demography, employment and infrastructure of local government area have rendered many geographically based boundaries increasingly anachronistic (Vince 1997). Technological and transportation improvements also imply that larger local government units are theoretically feasible (Jones 1993). Moreover, the changing nature of Australian society has witnessed increased community demands and expectations of local government to provide a broader range of community facilities and human related services (Vince 1997). Aside these, an appreciable number of other factors purported to be adding to the pressures for amalgamation have been put forward. These embrace the desire for administrative simplicity accruing from a smaller number of councils in the states; bureaucratic attempts at maximising perquisites in larger councils; lower costs of representation; access to more diverse funding bases; and public choice models of behaviour by both federal and state politicians (Dollery and Worthington 2000a: 12; Jones 1995; Smith 1996; Vince 1997; Dollery 1997).
The forces driving structural reform in Australian local government, though sporadic, are pervasive. The process has been vigorous in the 1990s in line with the general program of legislative and microeconomic reform, and cannot be decoupled from the pressures for accountability, transparency, effectiveness and efficiency found in this program. Pressures for reform have calmed down somewhat in Victoria, South Australia and Tasmania after what had been some eighty to ninety years of stubborn resistance to reports and recommendations advocating for structural change (Dollery and Worthington 2000a). The pressures to amalgamate might exert strongest in Western Australia where local government jurisdictions per unit of area and population are clearly inconsistent with other states. For example, the total area of Western Australia represents a third of the country’s land surface; it has 23 percent of Australia’s councils; but has only 9.6 percent of Australia’s population (Dollery and Worthington 2000a). However, amalgamations are not likely to yield the desirable outcomes for sparsely populated councils in remote areas of Western Australia, as well as north-western New South Wales, Western Queensland, and the Northern Territory. These caveats notwithstanding, the pervasiveness of the amalgamation movement in Australia seems to indicate that objective assessment of the benefits of mergers alone did not influence policy development in this direction. Other factors including political imperatives were equally or more important considerations.

Three themes are discernible from structural reform agenda in Australian local government. First, economies of scale argument for structural reform were advanced in all the states. This argument was the main trigger for Victorian reform (Vince 1997). However, despite the popular literature on the benefits claimed to accrue from
council consolidations, some writers observe that, 'economies of scale in administrative costs may be achieved up to a point, though there is no consensus on when the point of diminishing returns is reached' (Dollery et al 1997: 118). Similarly, it is argued that economies of scale may vary across the range of services provided at the local level. Burnham et al (1993: 54) for example, contend that larger authorities in the case of some services or parts of services, appear to secure provision at lower costs than smaller ones, while in other services, smaller authorities yielded more cost-effectiveness. They concluded that size may be an important factor for some services or parts of services, but not in a way that systematically answered the question 'what is the right size of authority to provide a particular service?'

A second theme is the concept of 'community of interest' that has transcended state inquiries during their deliberations. Although recommended in a number of inquiries, especially in Queensland, Haward and Zwart (2000) and Witherby and Dollery (1997: 119) maintain its validity is open to questioning because it is always possible to identify communities of interest that conform to preferred boundary reforms.

The last theme relate to the scant attention that has been paid to alternatives to mergers in structural inquiries (Vince 1997). It is observed for example, that only in few states has the concept of “resource sharing” been widely promoted in the course of contemporary reform processes (Dollery et al 1997; Dollery 1997) and only in New South Wales has regional cooperation been largely embraced. Some writers lend support to the adoption of alternatives to mergers. Some of these alternatives include inter-authority contracting (Jones 1995; Vince 1997), informal staff and
equipment substitution (Vince 1997), resource sharing (Dollery 1997), special purpose joint authorities, local area integration just to mention some.

**Managerial reform**

Management reforms in Australia prescribe the modernisation of public services through improvements in organisational design and management practices. The management paradigm insists that public organisations shift their focus from process towards purpose, reorganise their structures around programs and strategy, adopt the financial and human resource management approaches of the private sector and the de-bureaucratised forms of organisation emanating from there. It is argued that modernising the technical skills of the management stratum would thereby transform public administration into public ‘management’ (Ryan 1997).

Management reforms have taken place in Australian local government following the lead of the Commonwealth and the states governments. For example, the *Local Government Act 1993* of Queensland, informed by the examples of New South Wales and Victorian legislation in particular, required Queensland councils to appoint a chief executive officer (CEO) (Section 703 of the new statute). This necessarily changed the role of the mayor from that of elected CEO to one of monitoring the appointed CEO’s performance and clarifying as necessary council policies and wishes (section 179). Similar changes have also occurred in the other states where the appointed general managers’ performances are monitored by mayors.
Some councils nation-wide have restructured by introducing a purchaser-provider or funder-provider split designated as either providers of goods and services or purchasers of goods and services. Still others have lifted the restrictions as to how and to whom services and goods will be provided or how and from whom they will be purchased (Aulich 1997; Applied Economics 2004) For example, in Victoria councils have adopted the model even though the extent of separation varies significantly. At one extreme, one rural council has not only developed strong separation processes but has enhanced separation by locating the purchaser side of the operations and the provide side in different towns some 40 kilometres apart. By contrast, the metropolitan councils have established several specialist units to manage the contract process (purchaser side) and to support in-house tenderers (provider side), but in most other parts of the organisation the purchaser and provider roles are often interchangeable (Aulich 1997: 142). In Tasmania some councils have pursued the purchaser-provider model to the extent that there is now a complete disjunction between the client divisions and service delivery – a complete and formal separation of policy and implementation (for example, Hobart City Council). Others such as the Glenorchy Council have made a more systematic attempt to create a program-oriented structure with linkages to the constituent departments and this is to be maintained in the new structure. Provider functions will apparently be formally integrated within programs; their purpose and rationale will be their contribution to the council’s overall goals (Ryan 1997).

**Workplace reform**

The imperative for workplace reform emanated from the 1989 National Review of Local Government Labour Markets (Dollery and Worthington 2000a). The main
objectives of this review embraced: the recommendation of steps to improve the supply of skilled labour to meet the needs of local government; identify ways in which local government can improve its employment practices so that there are better career opportunities; and more meaningful and rewarding jobs and higher productivity. The review noted that there were several barriers to employment flexibility and efficient personnel management in local government. Major issues identified by the review included: lack of training opportunities and a planned approach to human resource development; outmoded recruitment, staff development and equal employment opportunity practices; inappropriate internal organisation structures within local government; few clear career paths due to a large range of job classifications and barriers preventing mobility; lack of portability of superannuation and other benefits; and government regulation of occupations, in particular, legislative requirements for statutory positions.

According to Martin (1997: 217) the review affected the process of workplace reform in local government in two main ways. First, it 'legitimised action by state departments of local government for developing strategies concerning human resource development, recruitment and staff development process...and determining new ways of designing local government organisations away from professional or occupational-based structures'. In New South Wales for example, where the pace of workplace reform has been most pronounced, a new four-level award for local government employees based on skill categories replaced existing awards dealing with job classifications. Second, Martin (1997: 217) contends that review of local government labour markets 'represents the last national attempt to develop an industry level, strategic approach to human resource management'. The long-term
goal of this plan, and as agreed by all state and territory ministers for local
government, is to provide a benchmark with which to assess the extent of workplace
reform in local government.

In local government deregulation of labour market occurred in a number of ways.
First, many restrictive employment strategies have been removed (Dollery and
Worthington 2000a) and allowed managerial positions to become increasingly
accessible to professionals other than previously prescribed in statutory positions
(that is, clerk, engineer, planner, health surveyor). This has led to an increase in
cross-disciplinary employment within local government, and an increase in the
number of CEOs from the private sector taking up positions in local government.
The change however, has not been far reaching as some of the new CEOs have
stayed for only one term (Dollery and Worthington 2000a: 18). Second, the tenure of
local government employees has altered. For example, in New South Wales, senior
management staff must be employed under contract with a maximum length of five
years (Dollery and Worthington 2000a: 18). These changes have not only disturbed
the status quo of security of tenure but it has also drawn a steep learning curve for
many senior staff of the hitherto life long career local government service.

Financial reform

Financial reform is the final component of the reforms in Australian local
government. Change in the financial sector proceeded in line with the requirements
of the Australian Accounting Standard, AAS27 Financial Reporting by Local
Government (1990). This standard was introduced in order to afford local
governments the opportunity to move from heavily regulated reporting system, based
on traditional fund accounting, with emphasis on cash outlays, to a more business-oriented model grounded in the principles of accrual accounting (Dollery and Worthington 2000a; Hughes 2003).

The prescriptions of the new model are that councils value all assets, account for potential expenditures and liabilities, provide for depreciation charges, and appropriate adequate funds for the maintenance of assets (NOLG 1992). This has entailed the identification, classification, assessment and valuation of all community infrastructure and resources by councils. The argument in favour of the adoption of AAS27 point to: an expanded concept of accountability (as specified in the general program of microeconomic reform); effectiveness in asset management; and availability of meaningful information on the full cost of a council's individual activities and programs (Bishop 1997: 174). The new accounting system, according to Hughes (2003), enables the government's full financial position to be determined, and provides a more meaningful comparison of financial inputs to policy outcomes. Similarly, the OECD argues that such accounting reforms are 'an important part of the process of transforming spenders into managers'; a manager needs to be accountable for costs (OECD 1997: 25). In NSW for example, councils are obliged to 'report on the condition of physical assets, gaps between that and satisfactory levels, how the gaps will be bridged, and how the asset will be maintained at satisfactory levels' (Dollery and Worthington 2000a: 19).

These advantages notwithstanding, the new model has some limitations. Difficulty with asset valuation has often been mentioned as one of the impediments to the adoption of full-scale accrual accounting. It has also been argued that financial
reform and accountability enhancement will be far from complete if measures in a concerted fashion are not taken to thoroughly examine financial management practices and management processes in local government (Bishop 1997: 188) It is also contended that the new accounting model is 'difficult to bring about and, if implemented badly, could impose similar rigidity as the traditional model' (Hughes 2003: 174-5).

The managerial revolution according to Gyford (1993) represents a fundamental challenge to the operation of political judgment in local government decision-making. His concern is with the potential effect new public management's 'apparent rationality' and apolitical nature might have on the autonomy of politicians and their relationship with citizens. He contends that local authorities could not be run on rational grounds because the nature of resource allocation was inherently political and required the ability to operate within and between ranges of interests. Day and Klein (1987: 245), argue that the special relationship that exists between politicians and citizens can only be achieved through the 'construction of a ...common vocabulary', which according to Stewart and Ramson (1988) is provided by politicians who speak the common language of citizenship and manifest itself in a relationship built on accountability.

Doogan (1999) and Travers (1993) suggest that local authority officers are actually very accomplished at acknowledging the politicised nature of government reform and have been effective at constructing their responses in order to adopt to change but also to protect certain key interests and values of local government. This is supported by Keen and Scase (1998) in their discussion of how far managerialist
changes resulted in the ‘transformation’ of local authority culture. For Pratchett and Wingfield (1994) what new public management has done is challenge the operation of a public service ethos in guiding decision-making. Their study of local government officers revealed that those most exposed to new public management modes of operation were more inclined to consider non-traditional values in decision-making, such as the prioritisation of outputs over bureaucratic processes. However, this change was not universal and nor were ‘traditional’ values associated with local government decision making disregarded by those studied.

The above exposition on the impacts of new public management should represent a learning curve for Australian local governments. For new public management may affect the relationship between elected representatives of councils and citizens negatively since the common language of citizenship that the elected leaders used to assist local people articulate their views and wants and thereafter ventilate them in council chambers may be compromised under the management changes. This is because the communication and accountability loop which hitherto connected citizens directly to political decision makers now positions the contracted CEO and their agency in the middle, who may not adequately identify with citizens, and who may or may not pass grievances up the chain depending on the implications these may have on their business. Moreover, service providers may not be well imbued with public service values and norms including ethics in the administration of public services. Mechanism should therefore be put in place such that while new public management will still be a defining feature of local administration, elected representatives can reclaim legitimacy in their relationship with citizens.
Further, it should be understood that a new local authority culture grounded in new public management doctrine will not emerge overnight, and not all traditional practices that do not fall in line with new public management stifling to good governance. The right mixes of international best practices modelled to suit local context, with traditional practices that still speak the truth to good community governance should be adopted.

Assessing the changes

Federal/state level

The good performance of the Australian economy is largely due to the reforms it introduced since the 1980s to date. Its economy continues to be buoyant, growing strongly during the 1990s, with an annual average real GDP growth of 3.4 percent over the decade (APSC 2003). Productivity increases occurred in a range of industries. For example, multi-factor productivity (MFP) growth in electricity, gas and water jumped by 60 percent in the 1980s; and the MFP growth rate in transport/storage and communications doubled in the 1990s (Banks 2005). Empirical analysis by the Productivity Commission indicated that the price reductions and productivity gains in the infrastructure sector alone led to a 2.5 percent increase in GDP. The reform program also contributed, indirectly, to sharp productivity improvement in wholesale trade and finance and insurance industries, where business re-organisation involving the innovative use of ICT was driven by heightened competitive pressures on customers as well as within the industries themselves, facilitated by a more receptive industrial relations framework (Johnston et al 2000; Parham 2004).
At the aggregate level, Australia experienced a surge in MFP growth during the 1990s, averaging 2 percent, more than double its previous rate (Banks 2005). Australia’s MFP performance was also among the best in the OECD and its labour productivity growth exceeded even that of the United States (OECD 2004). Followed by rising labour utilisation, this translated into annual growth in per capita incomes of around 2.5 percent in that decade, well above the precious average and that for the OECD as a whole (1.7 percent). As a consequence, Australia has witnessed its rank on the international per capita GDP scale rise again from 15th to 8th over the past decade or so (Banks 2005: 8). Over the same period, microeconomic reforms brought about low inflation and greater stability, and tax reforms reduced distortions and improved business incentives (Banks 2005). These reforms played an important role in their own right as well as complementing structural reforms.

This strong economic performance persisted during the 1997 Asian financial crisis and the 2001 global downturn (APSC 2003). While good macroeconomic policy environment and workforce skills and education were important, there is general consensus that microeconomic policy reforms have played a pivotal role in Australia’s productivity increases and good economic performance generally, through three sources. First, incentives to be more productive have been sharpened, chiefly by strengthening competition. Second, the economy has been opened to trade, investment and technologies developed overseas. Finally, less regulatory restriction in labour markets has given businesses the flexibility to adjust production processes and the structure of their organisations to improve productivity (APSC 2003: 13)
There is considerable evidence of increased productivity in the public sector also over the last decade or more, notwithstanding the difficulties encountered in the measurement of the outcomes. The Economic Planning and Advisory Council's (1990) report entitled *The Size and Efficiency of the Public Sector*, conceded that there were difficulties in valuing or measuring the output of public administration in objective terms, but found that meaningful measures of performance and efficiency are more readily available for government business enterprises. The council after some careful economic analysis and caveats concluded that in the second half of the 1980s there was a marked improvement in productivity in many areas of the public sector. The data indicated that growth in productivity had been at a higher rate than in the private sector, it was estimated at 3 percent per annum from 1987 to 1990, and that there had been substantial productivity increases in telecommunications and electricity supply. The report concluded that the intensive, expenditure reviews, program budgeting and efficiency dividends, and considerable management reforms have led, in general, to substantial gains, while maintaining the quality of services.

During the period from 1984 to 1994 government trading enterprise profitability increased by 23 percent, real price levels fell by 3 percent while productivity rose by 67 percent (APSC 2003). A report that was later produced by the Productivity Commission covering 1994/95 to 1998/99 suggested that the financial management of trading enterprises has continued to improve over recent years, culminating in higher returns to the community. However, performance is not uniform across industries, because many sectors are still not achieving an adequate rate of return – despite a decade or more of reform.
Since 1995, the Steering Committee for the Review of Commonwealth/State Service Provision has published information on the performance of Commonwealth, state and territory governments in delivering specific government services not normally subject to competition, including education, justice, emergency management, health, community services, and housing. The work of the steering committee is assisting governments in all jurisdictions to identify better ways of delivering services. Evidence also exists of improved effectiveness in areas such as employment services provided by Job Network, and health outcomes through clinical and pharmaceutical programs as well as preventive programs (APSC 2003).

Despite the successes chalked, there are some downsides to the reforms. In the Australian economy as a whole the costs of reform are concentrated on particular groups whereas the benefits are more diffuse. Many of the policies and regulations that have efficiency costs also have pronounced distributional effects. ‘Reform (by definition), is intended to benefit the wider community. But in so doing it typically threatens the privileges of a minority, the members of which individually have more at stake’ (Banks 2005: 14). For example, while many Australians have benefited from strong growth in household incomes over the past dozen years, it would be difficult to argue that the current disparities between indigenous and other Australians are satisfactory.

When it comes to investigating reforms to improve the performance of Australia’s social infrastructure – its schools, hospitals, and community services – the effort is nothing more than tinkering at the margins. Social infrastructure is a large and growing part of the economy – some 10 percent of GDP. Research by the
Productivity Commission shows wide disparities in performance across and within jurisdictions (Banks 1999).

Improving the performance of Australia’s social infrastructure will arguably be harder than in the areas that received much attention in the 1980s and 1990s (Banks 1999: 11). Access and equity considerations are central and social sensitivities are greater. This makes the prioritisation of processes that will assist government and the community work their way through the complex issues and design appropriate courses of action, urgent.

In the public sector in Australia and other western democracies today, most elements of the competition theme of the new public management (NPM) have stalled rather than reversed. However, it will be problematic to argue that they have been more successful. Some changes, such as the almost complete out-sourcing of government IT functions to private sector integrator firms in Australia, the UK and New Zealand are effectively irreversible (Dunleavy et al 2006). Marketisation of government services is still extending in Australia and other advanced countries. ‘But few serious voices now believe that this is or should be anything more than a pragmatic response to immediate problems or opportunities for improvement’ (Dunleavy et al 2006: 472). The large scale cost reductions and quality enhancements of the planning and management functions anticipated by privatisation enthusiasts in the 1980s and 1990s are no longer anticipated (Dunleavy et al 2006).

The incentivisation components show the highest proportion of still developing NPM trends. However, critics argue that under the NPM a flawed but still working and
powerful public sector ethos was broken up by the piecemeal implementation of pecuniary and performance-based systems, with inherently lesser capacity to adequately cover the range of processes and problems here (Hughes 2003; Dunleavy et al 2006).

Increased pay differentiation inside public agencies is evident in the United States, United Kingdom and Australia. ‘But expectations that performance-related pay would significantly improve the performance of agency staffs has been greatly down-rated’ (Dunleavy et al 2006: 473). This mechanism promises to make public organisations streamlined and focused, and more business-like. However, evidence from Sweden contradicts this claim. Here ‘NPM creates heterogeneous, conflicting and fluid organisational identities, rather than uniform and stable business identities it is supposed to’ (Skalen 2004: 251).

Some elements of the reform purported at ‘increasing transparency have ended up instead creating bizarre new layers of impenetrability, as with accrual accounting’ (Dunleavy et al 2006: 476). According to Barton (2004: 281) the impressive financial statements of the Australian Defence Forces make it ‘appear to be the most profitable enterprise in the nation’, whose ‘profits and dividends far exceeds those of ...the largest private companies’, a position achieved with ‘negligible direct government investment in military equipment as they have been largely funded from accumulated surpluses accruing over many years’. Barton questions, ‘How can this be, given that the Department is almost entirely dependent upon an annual budget appropriation for its defence services?’ Not surprisingly, then that although a few NPM countries led the way in accrual budgeting, many OECD countries remain
content with older cash-based systems. Similarly, layering ‘new incentivisation initiatives on top, but in partial conflict with, public interest ethos devices (such as lifelong career paths for civil servants) created more complex systems than had existed heretofore’ (Dunleavy et al 2006: 477).

These shortcomings notwithstanding, it is fair to suggest that Australia’s microeconomic and management reforms of the last two decades – emphasising managing for results and entailing considerable devolution, have had considerable positive impact on the budget and on the clients of the public sector. The reforms have led to improvement in business and corporate planning, better performance management, increased use of competition, and better management of people as well as finances.

Local government level

Two phases of contemporary local government reform are identifiable. The first phase focused on a more precise definition of the role of local government and the relationship within the systems, especially in relation to state-local government nexus, although the management improvement agenda was also given considerable attention (Aulich 1999; Chapman 1997). The second phase concentrated on efforts at introducing NCP tenets and efficiency reforms, which were already underway at the upper levels of government, into local government. There was convergence in the first stage in relation to the objectives, strategies and, in some cases outcomes, of legislative, managerial and structural reforms, notwithstanding that separate programs of reform were embarked upon independently by the different states and territories.
All states and territories reviewed and reformed their local government acts to remove their detailed prescriptions and restrictiveness, in order to give local governments enhanced powers of autonomy and general competence to ‘provide for the peace, order and good government of the municipal area’. Examples are Section 21, Tasmanian *Local Government Act 1993*; Section 6, Victoria *Local Government Act 1989*; Section 3, Queensland *Local Government Act 1993*; Section 8, New South Wales *Local Government Act 1993*; Section 3.1, Western Australian *Local Government Amendment Act 1995*. Wensing (1997: 43) argues that the changes to the local government acts ‘have improved local government’s capacity to steer rather than row’. Under previous local government acts, local government was regarded more as the administrative agent of the state for delivering services to property owners, rather than as a sphere of government that was capable of being a partner of federal and state governments in the overall development of the local community. In most cases the states have granted more autonomy and responsibility to councils to do whatever is necessary to better meet local community needs and aspirations. As Chapman (1997: 21) rightly observes, local government is responsible for ‘governing’ not just ‘managing’.

Legislative reforms have also engendered more accountability of councils’ decision-making in relation to how they use their resources to meet their obligations. Councils have achieved this by developing and publishing strategic plans, preparing annual or rolling corporate and/or operational plans, and publishing annual reports and summaries of financial statements (Wensing 1997).
The changes brought about by the new local government acts have required local authorities to introduce contractual and competitive processes into their operations, especially in relation to the delivery of services. The roles of actors within local government have also been redefined with elected members being ultimately responsible for decision-making, while appointed officers handle the operational matters. Senior managers and staff now report to council through a general manager or chief executive. Senior staffs are now appointed on performance-based renewable contracts, while for other staff, award restructuring and enterprise bargaining are affecting the conditions of work (Wensing 1997). All these changes are evident across local government systems in Australia hence, the pattern of convergence across jurisdictions. These changes are intended to refocus local councils on their mission.

Managerial reforms have forced local governments to make attempts to shift their focus from process towards purpose, re-organise their structures around programs and strategy, adopt the financial and human management approaches of the private sector and the de-bureaucratised forms of organisation emanating from there (Ryan 1997).

Some commentators argue that the reforms have not gone far enough in granting local government that constitutional independence that a sovereign government ultimately needs to exercise its authority to govern (Wensing 1997: 44; Aulich 1999). Councils need to realise that their state governments can dissolve them and substitute them with an administration if there is reason to doubt their competence to carry out their responsibilities.
The broadening of municipal management to include a wider range of roles and responsibilities for local government in providing for the needs of its communities has encountered some obstacles. For its part, local government perceives problems with its new role, while upper levels of government face difficulties in their new relationship with local government. From a central government perspective, there has been some hesitancy in encouraging a more significant role for local government in the social development of communities. The concerns Commonwealth and state governments often cite about local government include the latter's diversity; its limited professionalism and hence capacity to undertake greater responsibilities; the need to maintain uniform standards, policies and quality of service provision; the inadequacy of links between community groups and local government; and the difficulty of dealing with too many small units (Roberts 1989: 47; NOLG 2001b; Dollery and Worthington 2000b).

It certainly seems to be the diversity concern that is most troubling for central governments (Commonwealth and state governments). This diversity is not only seen to manifest itself in the varying size, financial resources and perceived needs for services by local councils but also in the discretionary nature of local government involvement in the human service provision and the changing priorities and policies of local councils if membership changes in elections (Robert 1989: 47; NOLG 1992; Dollery and Worthington 2000b).

Local government on the other hand, points to a number of problems (despite the reforms) in relation to its new role, and interactions with the upper tiers of government. The main problems embrace the restrictiveness of its limited revenue
base and the uncertainty in the levels of funding from central governments; the lack of recognition as a genuine sphere of government; the imposition of central government policies and programs at the local level without consultation; and the lack of defined roles and responsibilities for all parties involved in service provision (Roberts 1989: 47; Kane 2006). Given that local government often contributes substantial resources to national and state programs, councils believe that they “should be treated as a genuine sphere of government with arrangements between each sphere based on the concept of partnership” (Roberts 1989: 47; Kane 2006). This would entail defining specific roles and responsibilities for each party involved in a particular program to minimise duplication of administrative procedures and improve the cost effectiveness of service provision at the local level.

In the second phase of the reform, differences in emphasis with respect to the implementation of the NCP culminated in divergence between local government systems. This produced a dichotomy between New South Wales, Queensland and Western Australia, which continued to apply collaborative approaches with local government with stress on the promotion of local democracy, and Victoria, South Australia and Tasmania, where economic efficiency initiatives assumed prominence over local democracy objectives (Aulich 1999). This dichotomy is not helpful because without a simultaneous pursuit of local democracy and efficiency objectives the goals of local development will be difficult to achieve. This subject is treated in detail in the next chapter.
Conclusion

The foregoing discussion has revealed that the reform of Australian local government is unprecedented and ongoing. The change process has been prompted by state governments with the blessing and staunch support of the Commonwealth government. Though no local authority nation-wide has been left untouched by the currents of change, it is important to state that the process has been far from even. For example, whereas Victoria local government has been subjected to large scale compulsory consolidation with the resultant cut back on the number of councils, amalgamation in NSW is still voluntary with much greater autonomy for individual local authorities, and very minimal consolidation has been achieved. Differences are also discernible in the reach of other aspects of the reform. The pace of adoption and implementation of microeconomic reform vary across states. Whereas in Victoria councils were compelled to introduce CCT to specified services and expenditure, and competitive neutrality was mandated, in the other states local governments enjoyed considerable flexibility and autonomy in the application of competition policy. Despite the varying responses to the microeconomic reform agenda there is no denying that virtually everywhere these responses have compelled efforts to improve the conduct of council business by drawing attention to ownership, outputs, costs, structures and systems; and locating public provision in some areas in relation to markets.

Notwithstanding that the direction and timing of the new *Local Government Acts* and the tenure of existing legislation are not uniform across states, the very ability to institute legislative review is commendable. Workplace reform has produced at least two effects. First, it has legitimised action by state departments of local government
for developing strategies concerning human resource development and associated personnel matters. Second, it has ushered in the last phase of the national attempt to develop an industry level strategic approach to human resource management. The shift from cash accounting to accrual accounting has forced municipal authorities to attempt to improve effectiveness in asset management and make meaningful information available on the full cost of councils’ activities and programs (Bishop 1997: 174). On the whole, managerial reform has produced significant and ongoing change in local government in terms of its functional responsibilities, in the level of expenditure not covered by rates and borrowing and in the demands placed on its professional officers, and in the need for elected representatives to be abreast and change attitudes to their work.

It is premature to state whether the reform program has met all of its intended objectives even though the signs so far are somewhat promising. This is because local government still faces two challenges: the need to make the transition from internal modernisation to the development of strategic management; and the need to redefine the interface between local administration and politics, society and the economy. Other areas of concern relate to the failure of managerial reform to reach the ‘shop floor’ and the issue of distributive justice, where the reforms had resulted in winners and losers – frequently benefiting white-collar groups at the expense of blue-collar workers. These concerns need to be addressed in order to expand the benefits of reform. The issues and pressures, as well as the programs and processes of reform, together with their outcomes at all levels of government in Australia that have been examined generally in this chapter, provide the backdrop against which
Chapter five is able to evaluate the Tasmanian local government modernisation process.
CHAPTER FIVE

THE MODERNISATION OF LOCAL GOVERNMENT IN TASMANIA

In no decade since its formation has Tasmanian local government been subjected to greater changes than in the 1990s, and this trend, shows little or no sign of abating. Over the past forty years from World War II there were several attempts at reforming the system, but these yielded little, the only achievement being the merger of Queenstown and Gormanston to create the municipality of Lyell, and the absorption of St. Leonards and Lilydale into the city of Launceston during the 1980s.

The recent reforms have been focused on structural change, legislative change affecting the powers local government may exercise, and procedural changes to the manner in which it operates. The Modernisation Process was a successful initiative based on a highly collaborative and cooperative approach worked out between the state government and the Local Government Association of Tasmania. This process contrasted sharply with previous and most recent attempts at reforms which adopted generally ‘top-down’ decision-making approaches to the reform process. In particular, the proposals in April 1997 as part of the ‘Tasmanian Directive Initiative’ for the further reduction of the number of councils to a figure below the 29 reached in the 1990/93 Modernisation Process were regarded as unilateral and non-consultative in approach. Not surprisingly, the 1997 process collapsed because of legal complications and lack of political support. The defeat of the minority Liberal Government and election of a majority ALP Government in September 1998 saw the demise of the proposals and the birth of partnerships between the incoming ALP Government and councils.
This chapter examines the Tasmanian local government reforms of the 1990s and assesses the outcomes of the 1990/93 Modernisation Process. It contends that any attempts at restructuring and reforming local government are bound to yield little or no success unless the process elicits local government participation and support, an approach which has durable appeal, wider replication and greater effect both within and without local government.

**Issues and pressures of local government reform in Tasmania**

An earlier 1960s renaissance and two 1990s periods of Australian local government reform together with their associated issues and pressures are identifiable. In this section, these three phases of reform are traced and reviewed generally. Then the stages of local government reform pertaining to Tasmania, and their associated issues and pressures are identified, compared and contrasted with those of other Australian states and territories. This exposition then provides a backdrop for examining not only the Tasmanian local government modernisation process in general in subsequent sections of this chapter, but also the changes that are specific to the two study councils in the next chapter.

Halligan and Wettenhall identify an earlier renaissance in Australian local government dating from the 1960s when ‘the combination of grassroots participation and the rediscovery of the urban problem stimulated interest in its potentiality’ (Halligan and Wettenhall 1989: 80). In line with broader pressures for social change, the reform program enfolded attempts to ‘widen the franchise, eliminate multiple voting and redraw boundaries to ensure greater adherence to principles of “one person-one-vote”’. Moves to redesign internal processes and practices for the purpose
of improving strategic planning and financial management systems as well as (generally failed) attempts at council mergers, were also witnessed in this earlier period (Aulich 1999b). The pressures for reform in this phase included the imperative for enhanced representativeness of local government, and the quest for a more robust and flexible management that was capable of efficiently meeting local government obligations. Attempts at pursuing these reforms were discernible, but the impetus appeared to weaken in the 1970s due to pressures of fiscal austerity and inflexible management (Aulich 1999b). These issues and pressures of reform in this earlier era were identical in all Australian local governments including Tasmanian municipal government.

The first phase of contemporary local government reform commenced in about the early 1990s when it coincided with the second period in Australian history of intensive administrative changes in the public sectors, and the agendas have, by and large been in tandem with those at the state and federal levels (Gerritsen 1996; Aulich 1999b; Dollery et al 2005). Comprehensive changes have occurred at the management, legislative and structural levels of local government and have centred on mainly two agendas: first, the improved management of resources and, second, governance issues, focusing especially on the redefinition of roles and responsibilities of the various players in this sphere of government (Aulich 1999b: 13; Dollery and Worthington 2000a). A pattern of convergence across local government systems was witnessed during this period of reform as local authorities learnt, adopted and adapted models from counterparts across state boundaries.
A central plank of reform during the early stages was the reformation of local
government legislation between 1989 and 1995. New local government acts were
Tasmania (1993), Northern Territory (1993) and Western Australia (1995) (Aulich
1999b). Power et al (1981: 23) observe that because these local government acts 'are
usually amongst the longest and most complex of state statutes, no state government
has tackled the task of reviewing the acts more frequently in a generation'. Hence,
the almost simultaneous attempts at change in all jurisdictions represents a
'nationalisation of local government reform processes' (Aulich 1999b: 14).

A common feature of legislative reform was the reduction of the detailed
prescriptions and expansion of autonomy and power of general competence. The old
local government acts limited councils to the performance of only those activities
that were specifically stated in the legislation (Wensing 1997; Aulich 1999b; Dollery
and Worthington 2000). Enterprise powers have also been granted to New South
Wales and Tasmanian councils and in Queensland the new legislation afforded local
government the opportunity to engage in entrepreneurial activities and seek
membership of unlisted companies (Aulich 1999b: 14). In Western Australia, the
"Better Government Agreement" between state and local government signalled the
launch of a comprehensive package that agreed on principles inclusive of enhancing
local government autonomy and its capacity for self-government. Councils were
enabled to pursue land development as commercial undertakings (Aulich 1999b: 14).
Issues of governance were also well placed on the agendas of reform in all state local
governments. Issues like the clarification of intergovernmental roles, enhancing
accountability regimes and management improvement were key elements in the
restructuring of local government (Aulich 1999b; Dollery and Johnson 2005). Apart
from granting powers of general competence and autonomy, reforms in this phase,
according to Aulich,

> strengthened the accountability of councils, through increased transparency
provisions, enabling greater opportunities for community referenda and
improved reporting provisions to communities. In all states, provisions were
enacted for councils to develop strategic or management plans (especially to
be more responsive to community wishes) and stricter reporting both to the
community and to the state government, making key documentation more
transparent, completing some of the electoral reforms begun in the 1960s and
extending Freedom of Information coverage to local government (Aulich
1999b: 15).

These initiatives were all fashioned out to strengthen accountability of councils both
to the community and to the state government, improve management capacity and
make local government more democratic.

Aulich and Halligan (1998) identified three primary forces that brought about the
nationalisation of local government reform. The first is the Commonwealth’s
microeconomic reform agenda, which was supported and embraced by all states. The
second, relate to the quest of some political leaders either to see through with
reforms to the federal system or to strengthen levels of government – for example,
Prime Minister Keating gave priority to the issue in the policy agenda which resulted
in the creation of the Council of Australian Governments (COAG), that included a
representative from local government. Finally, there are some signs of greater
interest in “bottom-up” initiatives from individual councils (Aulich 1999b).
The part played by the federal government in this phase of local government reform is notable. During the 1980s it established a Financial Grants scheme for local government, allocated more than $20 million in grants to enhance management practices at the local level, funded the National Review of Local Government Labour Markets, and provided support both for the Rationalisation Exercise and the Local Approval Review Program, a program designed to improve municipal government’s efficiency and its management practices (Aulich 1999b). In 1988 the federal government took an unprecedented step to seek constitutional recognition for local government and, although recognition was rejected in the subsequent referendum, the federal government managed to secure for local government representation and participation in the special Premiers’ Conferences of the late 1980s and early 1990s, as part of efforts to progress the implementation of the national microeconomic reform strategy (Reynold 1992: 11). The four principles of the Rationalisation Exercise subsequently influenced the intergovernmental agreement signed in South Australia (ALGA 1990: 21; Bannon and Plumridge 1990).

The outcomes of this phase of reform were identical and the similarities between agendas in the various states quite evident. For example, the submissions from state local government associations to the various local government inquiries consistently argued that reform should enhance local autonomy, improve the efficient management of resources and provide greater access to local democratic processes (Aulich 1999b: 16). Hence, the issues and pressures of local government reform in Tasmania in this first phase were congruent with those of its counterparts in the other states and territories.
The modern reform movement may be viewed as two related processes of change that occurred in succession. The first stage focused on a more precise definition of the role of local government and the relationship within the systems, especially with respect to state-local government nexus, even though the management improvement agenda also received attention (Aulich 1999b; Chapman 1997). The second stage prioritised efforts at extending the national competition policy (NCP) and efficiency reforms to municipal government. In this phase, the role and purpose of local government has again been re-examined and questioned by stakeholder across jurisdictions producing significant divergent system responses (Aulich 1999b).

The impetus for reform in this second stage came from the agreement of the Council of Australian Governments (COAG) in April 1995 to introduce NCP into local government as part of the microeconomic reform agenda, which has been a major plank of public policies for over a decade. The differences in emphasis with respect to the implementation of the policy has led to divergence between local government systems, with a consequent dichotomy between New South Wales, Queensland and Western Australia, which continue to pursue a collaborative approach with local government and put high premium on local democracy, and Victoria, South Australia and Tasmania, where economic efficiency has received centre stage status with democracy being relegated to the background (Aulich 1999b). However, it should be noted that in most recent times the partnership agreements between state and local governments in Tasmania has recovered, even if modestly, some of the lost ground of local democracy.
As an affront on its "local democracy state" label, New South Wales has recently launched a program of compulsory amalgamation, and substantial municipal reform that could involve further structural adjustments is currently underway or imminent in Queensland and Western Australia (Dollery et al 2005). The amalgamation drive has now gained momentum in Queensland with Premier Peter Beattie announcing that the planned mergers would go ahead despite the growing opposition to the reform (Beattie 2007). This prompted Prime Minister Howard to change election laws to override the Queensland Government's laws that allow councils to be sacked if they hold referendums on amalgamations. The law will 'provide that any state law, such as the law in Queensland that penalises, discriminates against or interferes with local councils or other people being involved in plebiscites, is invalid' (Howard 2007: 1). Mr Howard accused the Beattie Government of trampling on basic democratic rights. He stressed, 'We're just intervening to uphold a very simple principle', implying 'if people want to express a view on something a government's doing, it is outrageous that any level of government should punish people for wanting to express a view' (Howard 2007: 1).

The amalgamation saga in Queensland has raised at least two issues. First, local government's vulnerability as a creature that can be manipulated to satisfy the whims and caprices of state government has again been underscored. And that local democratic expression can be blocked by state government if it is left unchecked by the federal government. Second, it has provoked thought about the nature and health of intergovernmental relations in Australia. The move by the federal government is the latest in a series of high profile Commonwealth Government interventions in state affairs. The Commonwealth Government recently took over the Mersey
Hospital in the north of Tasmania from the state government. Prime Minister Howard justified the interventions, saying the Commonwealth Government is prepared to work in a cooperative fashion with state governments to resolve problems facing the people. However, in some cases the Commonwealth Government would not hesitate to deal directly with the communities if there is lack of initiative on the part of the state in addressing pressing problems.

As noted earlier, all local governments across state jurisdictions have embraced the NCP but the difference lies in interpretation, which manifest in two main areas: approaches to service delivery and municipal amalgamation (Aulich 1999b). The “local democracy states” do not treat amalgamation as a salient component of reform (although voluntary amalgamations have been encouraged and supported by most state governments), and competitive tendering has been recommended rather than forced. The adoption of performance management techniques (like state-wide performance indicators and benchmarking) has also occurred in a voluntary fashion (Aulich 1999b). Put differently, the state governments continue to regard reform as a necessary process, especially with respect to management efficiency and performance, but it would leave the initiative to individual councils rather than centrally impose them. These states have put in place measures to support and encourage local government efforts.

The Victorian reforms have been most profound with amalgamations resulting in the reduction of the number of councils from 210 to 78. Compulsory competitive tendering was introduced into all councils, rates were capped and local government budgets were slashed by 20 percent across the board. Yet that was not all, as some
might have wished, political and community opposition was weakened by the suspension of elected councillors who were replaced by state appointed commissioners for two years. In addition, the state government in an attempt to garner support in the communities for its reform also appointed new chief executive officers to man the 78 councils (Aulich 1999b; Dollery and Worthington 2000). The notion held by the “local democracy states” like New South Wales that, municipal government changes should be initiated from within councils themselves, was not subscribed to by “technical efficiency states” such as Victoria. Not surprisingly, when it embarked on its brand of local government reforms it was uncompromising (Kiss 1997).

The hitherto collaborative approach to local government reforms in South Australia was undermined by the establishment of a new state government agency to be responsible for local government services. This decision marked a ‘return to the era when state governments assumed overall responsibility for their local government system’ (Aulich 1999b: 17). The 1995 Ministerial Advisory Group (MAG 1995) not only recommended the adoption of the Victoria approach to, and targets for, compulsory competitive tendering but also suggested that an extensive program of amalgamation be introduced. Even though the South Australian government has not yet implemented the report’s recommendations, the MAG suggestions have certainly influenced subsequent local government policy. This includes the policy of encouraging voluntary amalgamations with formal threat tags attached, to indicate recourse to mandatory means if local government failed to achieve merger voluntarily. A two year rate freeze has been introduced, performance benchmarks
have also been set for councils, and increased obligations required for reporting to local government (Aulich 1999b: 17).

Following the widely successful bottom-up process of local government modernisation of 1990/93, the state government of Tasmania signalled there was no respite yet when in 1997 it unilaterally announced a second round of amalgamations to reduce the number of councils to a figure below the 29 reached in the 1990/93 modernisation process (Haward and Zwart 2000; Aulich 1999; Vince 1997; Dollery and Worthington 2000). Some commentators view this as a move designed to engender broader electoral reforms at state government level (including proposals to move to a unicameral legislature in both houses of parliament) (Aulich 1999b: 17), while others argue it reflects the prioritisation of economies of scale objectives in service delivery over considerations of local democracy (Aulich 1999b; LGAB 1992; Dollery and Worthington 2000). Also that it represents a shift away from the traditional collaborative reform approach epitomised by the modernisation process to one dominated by state government priorities (Aulich 1999b).

The rhetoric that followed these recent reforms in the “structural efficiency states” was strikingly identical and related to the dismal condition of state finances (Aulich 1999b; Davis 1993). For example, in Victoria the Minister of Local Government in arguing for the reforms stated they would yield aggregate savings to the tune of $500 million, lower rates, increase debt retirement, generate employment, streamline planning approval processes and provide greater capacity for strategic decision-making (Hallam 1994). In Tasmania reforms were justified on the basis that they would generate cash surpluses to improve asset management, reduce the levels of
existing debt, improve the range and quality of service. It was also anticipated that
real reductions in the levels of rates and charges would be possible (LGAB 1997). Strikingly, neither mentions the impact on traditional local governance issues and values (Aulich 1999b).

Public sector reform in Tasmania

Public sector reforms in Tasmania reflect the doctrine of the new public management (NPM) which swept through Commonwealth and state governments around Australia with the aim of improving efficiency and effectiveness in the conduct of public business. Public sector reform in member countries of the Organisation for Economic Corporation and Development (OECD) in the 1980s and 1990s had been partly driven by the need for governments to respond to fiscal stresses in their macro-economies. Policy responses at all levels of government universally included budget restraint and downsizing of public services (Aulich 1997: 133). This certainly seemed to be the case in Tasmania where government reform initiatives represented responses to the dismal position of state finances, even though the federal microeconomic agenda and the reforms of the Greiner Government in New South Wales provided what Davis describes as a 'persuasive framework for broader action' (Davis 1993: 30). The changes introduced by the State Government embraced among others, reform of state authorities, a restructuring of state service, budgetary and management reform, and changes in policy process and the statutory framework within which the state public sector operates (Davis 1993: 32).

To reduce duplication and overlap between agencies, the State Service Restructure measure resulted in the reduction of the number of departments from 50 to 19 (Davis
and the downsizing of the State Government’s workforce by 17.5 percent from 1989 to 1994 (LGB 1997: 14). The reform of the statutory framework entailed the imposition of annual reporting requirements on all departments, whereas the ‘Management Improvement Program’ effected integration in key management processes. These incorporated the following elements:

- Policy development and review;
- Priorities determination, introducing the notion of whole-of-state;
- Whole-of-government policy coordination;
- Strategic planning;
- Budget and resource allocation;
- Program management; and
- Performance monitoring and reporting (Davis 1993: 32)

Similar changes were occurring at the federal and other state government levels, and pressure on local government to also reform was mounting. In Tasmania one of such demands emanated from the Curran Report which called for a reduction of local authorities to not more than twenty. The reduction in federal grants to state and local governments compelled the rationalisation of public finances that was instigated by such reviews as the Independent Commission Review of Public Sector Finances in Tasmania’ (see appendix 2 for a list of inquiries into Tasmanian local government reform). Yet this is not where the wave ends, as some might prefer. The Minister of Environment and Planning, the Hon. Michael Aird, called for an investigation into local government in Tasmania on 22 August 1990 (LGAB 1990a: 2). This investigation culminated in a report by the Local Government Advisory Board that
subsequently formed the basis of the local government reform agenda – The Modernisation Process.

The Tasmanian State Government envisaged the modernisation of local government would echo attempts to improve state government services and represent a response to state initiatives. This was publicly declared at the 1990 annual conference of the Tasmanian Local Government Association, where the Minister Michael Aird stated that the need to restructure and modernise local government had to be seen as part of a ‘total renewal and revitalisation of the Tasmanian public sector’ (Aird 1990: 1).

The Modernisation Process

Prior to the Modernisation Agreement, a Local Government Advisory Board (LGAB) was constituted under the Local Government Amendment (Local Government Advisory Board) Act 1987 (LGAB, 1991a: 6). This legislation enabled the Minister for Environment and Planning to make special references to the board involving ‘whole of state’ inquiries into local government. The board, which consisted of representatives from both levels of government (Roodenrys 1995: 29) was charged with the responsibility in August 1990 of investigating and reporting on²: ‘Measures, inclusive of territorial restructuring, appropriate and desirable to effect the modernisation of the present system of local government in Tasmania and to enable local authorities to achieve an enhanced capacity for efficient and effective discharge of municipal functions and services to the communities which they serve’ (LGAB 1991a: 6).

Specifically, the Minister tasked the board to investigate the following:
1. The desirability of achieving the integrated management of the natural, physical and economic resources of an area;

2. The desirability of municipal districts incorporating as far as possible those areas with common links and interest and minimising the artificial division of like communities;

3. The desirability of determining municipal boundaries to accord as far as possible with readily recognisable geographic features;

4. The need for future local authorities to have the on-going capacity and flexibility of action to discharge their responsibility through managed use of available resources and the utilisation of advantages of economies of scale;

5. The desirability of ensuring that the needs and aspirations of local communities are appropriately considered in representative processes and the planning and delivery of community services; and

6. The need for local authorities to have competent managerial, financial and professional and technical expertise (LGAB 1991a: 6-7).

Using the above terms of reference as a backdrop, the board drew out a list of objectives. These embraced a system of local government that was stronger, capable of accessing benefits afforded by scale economies, and provide adequate and appropriate opportunity for local input and influence at the political level (LGAB 1992: 30). In pursuit of its objectives, the board carried out an extensive six-phase inquiry process that subsequently informed its final report published in July 1992. Phase One was launched in the form of a preliminary inquiry, followed by a series of discussion papers, opportunities for submissions and public hearing in all mainland regions of the state (LGAB 1992: 31-4). The final report of the board was produced.
in June 1992\(^1\) (LGAB 1992). The final report was submitted to a Liberal Government which defeated the incumbent Labor Government in the February 1992 state government election. The new government accepted the recommendations of the report, which culminated in the promulgation and subsequent implementation of the modernisation process. The four key elements of the modernisation process embodied:

1. A total review and agreed outcome of the financial relationship between the state and local government;
2. The provision of modern local government legislation based on the granting of general competence powers;
3. A total review of the functions performed by state and local governments, with the objective of rationalising functions and eliminating as far as practicable, duplication and overlap in the delivery of services; and
4. The restructuring of local government into units, which as far as is practicable, have the capacity and resources to be part of a system of local government recognised and treated as a partner in the federal system of government (LGAB 1992: 35).

These elements of the modernisation process are examined in depth to determine the outputs and outcomes they have produced and especially how these results impinge on notions of efficiency and community (democracy) which have formed an orthodoxy in local government (Dearlove 1979). Before doing this it is important to explicate the concepts of efficiency and community which will provide a framework for the analysis.
A framework for the analysis of Tasmanian local government reform

Evaluation of local government reform cannot simply take account of the stated objectives for change (Chapman et al 1997: 208). It is with this in mind that Haward and Zwart (2000) in their evaluation of the outcomes of the 1993 Amalgamation of Tasmanian Local Government developed four criteria which were namely, economies of scale, community of interest, and representation and participation to guide their analysis. In this discussion, the concept of economies of scale find location in the broader efficiency domain while the notion of community of interest, representation and participation, as well as accountability and responsiveness are absorbed into the universal set of community. Community in turn feeds democracy or it is analogous to it in community government.

Efficiency

Efficiency arguments were advanced as a compelling justification for embarking on the modernisation process, particularly how this related to economies of scale (Chapman 1995: 12). For example, in the Issue Discussion Paper the LGAB agreed that it ‘is generally accepted in principle, large units are administratively desirable and that economies of scale in administrative area is genuine’ (LGAB 1990a: 25). Efficiency defies a single definition. In one sense it denotes allocative efficiency – meaning ‘maximising the use of resource at least cost’-which represents the economies of scale argument, or by utilising the concept of ‘X efficiency’ or dynamic efficiency (Wolf 1989; Le Grand 1991; Dollery 1994).

‘X efficiency’ emphasises the benefits made by ‘streamlining organisational improvements’ (Wolf 1989: 18), meaning ‘efficiency is not only gained from
economies of scale' (see Chapman 1995: 12). The LGAB nonetheless, was convinced that the efficiency gains argument was compelling to warrant embarking on amalgamation and the other aspects of the reform program (Haward and Zwart 2000). The board made effort to develop scale economies yardsticks for determining whether or not efficiency gains have accrued from a given council with a given population, income and bureaucratic support and capacity. These included a scale of 10,000 people as a minimum economic size for a council - below which figure administrative costs rose; ten thousand people and $6 million annual income — population and income sizes that would enable both needed professional staff to be employed in a wide range of council activities, and local government to meet the needs of its community better; minimum or zero supervision to be imposed by state government — since elaborate supervision increased overall government costs through duplication (LGAB 1990b: 18;; LGAB 1991b: 22; LGAB 1990a: 24). It is important to explain the term 'scale economies' in order to facilitate understanding of its usefulness in assessing the outcomes of the modernisation process.

Economies of scale

In one sense, as previously indicated, economies of scale refer to 'maximising the use of resources at least costs' (allocative efficiency) (see Chapman 1995: 12). This interpretation does, however, fails to take into account the gains that result from improvements in administration and management (dynamic or X efficiency) through managerial reform. Efficiency gains from scale economies can be determined in two ways. The first computes it by administrative cost, while the second compares the quality and range of services (Haward and Zwart 2000). The first has become fashionable as a tool for the measurement of scale economies in local government
and has been exemplified in the inquiries of both the LGAB and the Local Government Board (LGB).

Community (democracy)

The starting point is to conceptualise community in 'pluralistic, associational terms, which serve as a mediating institutional structure between legal citizens and government' (Fox and Miller 1995: 35). Community entails local control and responsible government (Box 1998; King and Stivers 1998). Local government reform that is based on the notion of community has better prospects of achieving success in that it is closer to Australia's individual unique local political and social contexts. And that is why the LGAB in its final report on the Modernisation of Tasmanian Local Government stated that 'community participation, as a political and strategic input to the modernisation/restructuring processes is imperative, if the benefits of modernisation are to be understood by, and flow on to, communities (LGAB 1992: 58).

In the US the notion of community emphasises participation and democratic control by citizens in affairs that affect them (Greiner 1991; Bellah 1991; Zimmerman 1999). Starting from the pilgrims and puritans from England, the early town meeting was the distinguishing feature of town government, which deliberated on all matters, major or trivial, affecting the town (Zimmerman 1999: 35). This meant civic activism and participation in local affairs. A process which reflected Jefferson's 'little republics' and his vision of government for America centred on small local governments' (Box 1998: 6).
Democracy must begin at the grassroots (community level) where people can realise their full potential and dignity as individuals. From this view, the communitarian ideal is essential to the understanding of human beings as active social and political animals, whose development occur in a well-ordered community (Haruna 2003).

Driven by the increasing alienation among the working and middle classes in the US, there has been a resurgence of the themes of the self and the community aimed at recovering the values of local control and small and responsible government (Box 1998; King and Stivers 1998). Some scholars argue that citizens should be more involved in decisions that affect them, not only for the sake of social justice, but also for developing their full potential (Haruna 2003). This view is supported by King and Stivers (1998) when they assert that in a community based reform, public administrators relinquish control, become facilitators, and collaborate with citizens in the production and delivery of public services. They also emphasise that public administrators should seek greater responsiveness towards building the integrity and legitimacy of public institutions.

Critics of the community model cite its limitations, which often relate to the practical, theoretical and philosophical difficulties that such a perspective entails (Fox and Miller 1995). Apart from the definitional difficulty of whether community should be defined geographically, sociologically or politically, Fox and Miller (1995: 35-39) point to idealism, ‘totalitarian tendencies, and citizen apathy’ as some of the major obstacles to community democratisation. They contend that existing notions of community have little or no relevance ‘in the mass societies inexorably created by advanced and post-industrial capitalism’. Despite these criticisms Fox and Miller
(1995) contend that community can be refined to create a communitarian medium ‘where full ethical citizenship flourishes’. Other writers do not disagree when they state that anecdotal evidence suggests that community spirit is alive and that citizens are ready to collaborate in co-producing and co-delivering public services (Timney 1998; Foley 1998; Gray and Chapin 1998).

The implication of the above exposition is that the promotion of community values and aspirations enhance community democratisation that are expressed in such values as participation, representation, responsiveness and accountability as well as community of interest. These elements, which are discussed in turn, go along with the efficiency tenet - economies of scale, as yardstick for evaluating the modernisation process.

**Community of interest**

Community of interest enjoyed wide and repeated usage throughout the investigations of the LGAB, and informed the first guidelines for council mergers. The term “community of interest” has become a fashionable notion even though no attempt has been made to define it in precise terms. According to the 1997 Local Government Board (LGB) there are two basic elements that should be incorporated in any notion of “community of interest”. These are ‘ a common geographic area (although not necessarily limited to size), and at least one common interest substantially shared between the residents of the area’ (LGAB 1997: 24). This definition find favour with Hillery, who catalogued 94 different definitions of the term “community” (Hillery 1968). Cope et al indicated that nearly all of Hillery’s definitions suggest that community ‘consists of persons in social interaction within a
geographic area and having one or more additional common ties’ (Cope et al 1997: 50).

**Representation and participation**

Representation aims at creating a forum at the local level where a team of development agents, the representatives of the people and other agencies will agree on the development problems of the locality or area, their underlying causative factors and decide on the combined actions necessary to deal with them (MLGRD 1996). For Chapman (1995:20), ‘representation of local community views and their incorporation into policies at the local sphere is an essential part of recognising councils as government bodies’. Many councils prior to the modernisation process were concerned not to lose adequate or fair representation, and an attempt has been made to determine whether their fears have been allayed following the modernisation process. It has been assessed whether opportunities have been afforded for community participation in local government as a result of modernisation process. Participation is one of the building blocks of local governance and democracy. Bowman and Hampton (1983:16) share this view when they assert that ‘the strongest argument for local government as a democratic institution is on grounds of participation’. Other indicators of participation are expressed in such activities and values as more elections, more elected members and more political choices (Bowman and Hampton 1983: 10).

A number of approaches can be used to determine the participation levels of people in local government. These embrace voter turnout at elections, the number of people seeking election and the number of people taking part in council events and activities.
such as committee work. Each of these indicators of participation is applied, where appropriate and possible, to determine any change in the level of participation or interest since the modernisation process was launched.

**Accountability and responsiveness**

Accountability denotes a relationship in which one party, the holder of accountability has the right to seek information about, to investigate and scrutinise the actions of another party, the giver of accountability. In its fullest sense, accountability also implies the right to impose remedies and sanctions, though sometimes that function may belong to some other party (for example, an ombudsman may hold an official accountable but may have no power to impose a remedy, that function being left to a minister or court) (Scott 2000).

Following the above definition, the community to which council delivers services becomes the holder of accountability while council represents the giver of accountability. Local residents now have the right under the new *Local Government Act 1993* to probe and scrutinise the actions of councils. Councils are required by the act to provide the public with information on the extent to which they have used the resources at their disposal to meet their obligations. The public can seek remedy by not renewing the mandate of elected members for sub-optimal performance. They can also sanction council by petitioning the Minister of Local Government when they can substantiate allegations of gross incompetence and mal-administration on the part of council.
Accountability is not the same as responsiveness, which refers to the willingness of agents to meet the wishes of principals (Mulgan 2002). It does not entail the imposition of sanctions, as in the case of accountability. In this sense, councils may be responsive to the communities they serve not only as a hedge against sanctions and criticisms, but also doing so gives them a good public image, which in turn feeds their integrity and legitimacy. In other words, by being responsive councils are seeking to build integrity and legitimacy in public institutions (King and Stivers 1998).

**Evaluation of the Modernisation process**

Modernisation is a continuing process as a result of which local government, both as a system and as a collection of individual democratically elected units, is always able to respond in the most appropriate and cost effective manner to the needs of its electors (MAT n.d: 3). This definition implies that local government should have the approved and needed level of autonomy and power of general competence to continually change its administrative, management and operational practices in line with changing circumstances. This is necessary if local government is to better meet the needs of the communities it serves. In other words, local government reform should feed goals such as efficiency, effectiveness and economy. It should also promote democratic values such as participation, representation and community of interest as well as accountability and responsiveness. The thrust of the evaluation of the modernisation process is to determine whether or not these goals and values have been achieved.
Legislative reform

The antiquated legislation, under which councils have been operating since 1962, was replaced following the launch of the Modernisation process, with contemporary legislation which recognised the changes in communities, communications, technology and modern management system. The *Local Government Act 1962* was prescriptive in nature, which implied that councils could only do those things which the act permitted.

The legislation, the *Local Government Act 1993*, sought to provide councils with much wider powers of general competence, flexibility and autonomy to enable them to more appropriately respond to the needs of their communities, and remove the necessity for continuation of the Hobart and Launceston Corporation Acts (LGAB 1992: 37). The *Local Government Act 1993* came into effect on 1 January 1994. A gamut of several other acts dealing with the land use planning system and environmental protection as well as building development have also been enacted.

The *Local Government Act 1993* provides the constitution under which councils operate (Balmer 1996). It removed the distinction between Hobart and Launceston (which formerly operated under their own legislation) and all other councils by making all councils subject to the same act. Subjecting all councils to the same act has the advantage of applying a uniform set of laws across the state which facilitates benchmarking and other performance comparisons. Such standardisation has enabled the Key Performance Indicators Committee (KPIC), Local Government Division, Department of Premier and Cabinet, to produce seven consecutive reports (1999/00–2005/06) on local government performance (KPIC 2006). These reports in turn are
proving useful for the Local Government Board in conducting general reviews of councils. Perhaps the greatest beneficiaries of such standardisation are the residents of the local communities who can now compare the performance of their councils with those of others in the state. Such comparisons by residents enhances accountability of councils to the communities they serve in that citizens now demand explanation for sub-optimal performance. The *Local Government Act 1993*, while generally continuing the rating powers of the previous act, also provides a power to set differential rates. The result of this is the increased flexibility which now enables councils to apply their revenue raising powers in more sensitive and effective ways than was previously the case. For example, councils are now able to differentiate between classes of property that are of similar value but that benefit disproportionately from council services.

Councils are also enabled by the act to delegate matters to local communities at their discretion. For instance, Southern Midlands council now has many special purpose committees which operate facilities such as recreation grounds, halls or forest reserves. They manage these facilities with financial support from the council. Likewise, Huon Valley council has retained various special purpose committees following merger, which are considered the best way to involve the community (Zwart 1997). The creation and delegation of authority to committees are particularly relevant for councils which are large in area (such as Northern Midlands) or otherwise have distinct local areas (as is the case of Kingborough which now incorporates Bruny Island) (Balmer 1996). The delegation of authority to committees has engendered representation and involvement of communities in council activities.
and has thus allayed fears they might experience loss of opportunity to participate as a result of mergers.

Councils may also under the new act join with other councils to create joint authorities when they deem such arrangements more efficient and effective than other alternative modes of delivering particular services to their communities. The first joint authority has been established by four councils in the north of the state to provide waste disposal services (Balmer 1996). Similar arrangements have developed between Sorell and Clarence Councils for landfill and waste disposal services. The provision of immunisation services to the residents of Sorell and Tasman council areas are also transmitted through joint authority agreements (Sorell Council interviews 2004). Sorell Council has intimated that joint authority arrangements have enabled it to deliver the aforementioned services in a cost-effective manner than would have been the case if it had solely delivered these services (Sorell Council interviews 2004).

The Environment Management and Pollution Control Act 1994 empowers councils to control activities that could adversely impact on the environment. It classifies functional activities into three groups, with local government being responsible for assessing those falling into level one (Balmer 1996). Councils consider these planning and environment management acts critical to their power to control the development and management of the local areas, a role which has become an integral part of their core functional responsibilities.
One of the more far reaching changes following the modernisation process was the decision to conduct elections by post. All residents who are listed on House of Assembly electoral roll automatically receive ballot papers (and a reply paid envelope) for the municipal area in which they live. Thus they are enabled to vote in the council elections without going to a poling booth, if they wish. This system is expected to include property owners who are resident in another municipal area elsewhere in Tasmania. The effect of this change was the increase in the average voter-return rate from less than 20 percent at earlier elections to almost 60 percent (Chapman 1997).

Councils are required under the *Local Government Act 1993* to develop strategic plans covering the forthcoming five years, and to consult with the local communities both in determining the contents of the plan, and in relation to the annual report outlining the year's events. Through this means, and others of similar nature, the act effectively makes councils responsible directly to the communities they serve, rather than to the Minister for Local Government and the State Government. As a demonstration of their commitment to be accountable to the communities they serve, councils' annual reports now include summaries of their financial positions, indications of outcomes against the proposals in the annual plans, and advises to communities of the standard being achieved by councils in areas such as water quality, effluent standards, waste disposal and environmental management (LGAB 1992).

These demanding reporting and accountability requirements to which councils are now subjected reflect Box's (1998), and King and Stiver's (1998) views that
community-based reform entails home rule, local control and responsible government. Communities now rule because they partake in the drawing of the strategic plans as well as in the monitoring of the performance of the council in the attainment of objectives. They exercise some amount of control because they can demand explanation for sub-optimal performance and seek remedy through the exercise of their power of mandate renewal. They ensure responsible government in that they can sanction council by petitioning the Minister of Local Government if they can substantiate allegations of mal-administration and gross incompetence on the part of council. The reporting and accountability regimes have also stemmed Fox and Miller's (1995: 35) criticisms of 'totalitarian tendencies and citizen apathy' associated with the community model of government, in that councils have now relinquished some control to citizens and collaborate with them in the drawing up of the development vision as well as in the shaping of service content and delivery.

Financial relationship

The LGAB in its final report on the Local Government Modernisation Process recognised the necessity for a comprehensive review of the financial relationship between the state and local government (LGAB 1992: 36). Broad agreement was worked out with the government that this would proceed, in conjunction with the Municipal Association of Tasmania, after the special premier's conference scheduled for October 1991 at which it was expected a review would be initiated for a rationalisation of functions and funding arrangements between the Commonwealth and state governments. This conference, unfortunately, did not eventuate, and this factor, coupled with impending state elections and resulting new government, had meant that this important element has not yet been pursued vigorously.
There is currently a complex set of financial arrangements that underpin state and local government financial relations. Many of these arrangements could be considered a product of history, rather than the result of deliberate public policy decisions. These include:

- Levies and charges on local government to fund services provided by the state, in which local government has little, if any, input;
- Various fees and charging arrangements which are not commercially based and therefore considered to distort decision-making; and
- Various taxation exemptions, concessions, specific purpose grants and subsidies which reduce accountability and distort decision-making (Tasmanian Department of Treasury and Finance 2003).

It is important to summarise the nature of the existing state-local financial arrangements in order to determine their impact on local government’s capacity to raise the revenue needed to meet its obligations. The state government subsidies council costs by providing recurrent subsidies on the annual cost of water and sewerage and by reimbursing pensioner concessions. The total cost of reimbursing pensioner concessions came up to a maximum of $318 in 2003/04 on individual property rates. In 2001/02, state water subsidies amounted to $20,037, sewerage subsidies stood at $300,517, while the cost of pensioner remission rates totalled $12.8 million (Tasmanian Department of Treasury and Finance 2003).

Local government is exempt from the payment of state government taxes. State government agencies, statutory authorities and a number of government business enterprises are currently exempt from local government rates on crown land,
although service rates for water and sewerage are generally paid (Tasmanian Department of Treasury and Finance 2003). Such exemptions occur disproportionately in favour of state government in many instances. For example, whilst legislation protects state and federal governments from taxation, local government is required to pay Fringe Benefits Tax (FBT) and GST on many operations without any compensation for either the cost of administering these taxes or their impact on local services and employment opportunities.

The Tasmanian Government provides library services and seeks contribution from local government towards this cost. In all other states, local government provides the services and receives a contribution from the state government towards the cost. Each municipality in Tasmania makes a contribution to library services. It is equivalent to 0.35 percent per dollar of the adjusted assessed annual value of all leviable land, less a prescribed amount (collection fee) which is a maximum of 1.5 percent of the gross assessed contribution. In 2001/02, the library contribution was $6.2 million, which represented about 36 percent of total expenditure on library services by the state (Tasmanian Department of Treasury and Finance 2003)\(^5\).

The state is responsible for the provision of fire services through the Tasmanian State Fire Commission and in accordance with the Fire Services Act 1979\(^6\). In 200/-02, the State Fire Commission received $18.7 million from a levy imposed on Local Government, which was equivalent to approximately 49 percent of the commission's expenditure\(^7\) (Tasmanian Department of Treasury and Finance 2003).
The State Government has involvement in the operation of local government through the Department of Primary Industries, Water and Environment, which both have policy, regulatory and advisory roles. Local government contributes to the cost of providing these services through a planning and local government levy equal to 0.15 percent per dollar of the total adjusted assessed annual value of all rateable (non-exempt) land in their municipality. In 2001/02, local government contribution was $2.7 million (Tasmanian Department of Treasury and Finance 2003).

The state government provides recurrent assistance to local government for specific purposes⁸ (Tasmanian Department of Treasury and Finance 2003). These grants may be seen as a measure intended to assist local government defray part of the costs imposed on it by the state government through various levies, fees and charges.

These local-state financial relations have implications for local government's finances and its ability to meet the needs of the communities it serves. Unlike other taxation revenue, rates and charges imposed by local government do not have any direct correlation with household or business income and therefore the capacity of the community to pay. In small rural councils the greater proportion of income is from grants or contributions that are not tied to movements in the costs of goods, services or labour. Consequently, rate increases to fund the full range of council services must inevitably be higher than inflation if service levels are maintained and grants are not increased. This scenario has implications for the ability of councils to meet their community service obligations, and maintain their service levels and standards.
For example, at King Island Council, the total of all rate revenue including general rates, water and sewerage is estimated at $1.5 million and this is less than the total of employee costs estimated to be $1.7 million (King Island Council n.d). The predominant source of revenue to fund this shortfall, as well as the combined cost of goods and services provided by the council, is made up from general and specific grants to the council. Such grants do not have the capacity to grow with inflation and in many cases are fixed, requiring council to make up any inflationary cost from other sources or cut backs to services in other areas. This scenario could only have hindered the council from efficiently and effectively meeting the needs of the community it serves. There are still several examples of unfunded mandates, despite the reforms, that have impacted and are impacting on local government. Councils are required to contribute to libraries, fire services, hospitals and emergency services and yet have little, if any say, on their operations.

The State Government has compelled councils to implement National Competition Guidelines in respect to major trading activities, most notably water supply. It has also established a number of agencies and regulatory bodies to ensure that local government is delivering the required outcomes. One such agency, the Government Prices Oversight Commission is charged with the responsibility for determining whether local council are complying with Tasmania’s National Competition Policy (NCP) Water Reform obligations. Councils are concerned that with all this regulation, inspection audit and controls, NCP payments to the state have not been passed onto local councils in recognition of their achievement. Instead a large portion of the money appears to have been allocated to audit functions (King Island Council n.d)] A review of NCP payments to address council concerns will raise
additional revenue for councils to more efficiently and effectively meet their obligations.

The formula used to disburse state grants among councils embeds a distributional injustice. It often offends equity criteria in that it tends to favour larger organisations with big budgets that have the resources and the financial capacity to absorb a significantly higher proportion of the cost than smaller organisations. Some councils, especially the smaller and financially distressed ones, argue that account should be taken of the capacity of the organisation to raise any required contribution towards the project under consideration (King Island Council n.d). The Pay As You Earn (PAYE) taxation system is structured so that those on low incomes pay little, if any tax, whilst those on higher incomes pay proportionally more. These councils are of the view that grants to local government follow similar contribution regime (King Island Council n.d).

**Rationalisation of roles and functions**

The LGAB in its final report on the Modernisation of Local Government indicated that there was a potential for a redistribution of functions within the administrative responsibility of 17 state agencies which could possibly be performed by local government by way of devolution of responsibility, or by contractual arrangements (LGAB 1992).

The greatest potential for immediate transfer of responsibilities were to be found in the area of physical services which virtually duplicated the current activities performed by council workforces. In particular, this related to maintenance of roads, bridge structures, national parks and protected areas including day use facilities,
grounds for schools, public libraries, hospitals, and regional health centres (LGAB 1992: 14). The overlap and duplication of functions between the two levels of government produce inefficiencies as it raises democratic concerns in the conduct of public business. The rendering of the following services are a few examples where overlap and duplication have generated diseconomies and democratic deficits.

There are instances where local government regulations overlap those of the state government. For example, the State Department of Housing Services administers the Substandard Control Act which overlaps with public health provisions and Local Government building regulation. In relation to building approvals, current provisions of the Local Government Act 1993 do not provide for council approval of Crown projects. The state is required to duplicate this process by a form of self-certification (using consultants) (DCHS 1996). These overlaps and duplications do not only create confusion for public service customers as to which level of government to refer to in matters relating to the provision of these services, but also diseconomies in their delivery. Efficiency gains would be achieved if one level of government were made responsible for the provision of these services.

The provision of library services, although having received a great deal of attention and controversy over the past few years, is likely to provide some opportunities for local government through a variation to current service delivery in the area of branch libraries. As noted earlier, the Tasmanian Government provides library services and seeks a contribution from local government towards the cost. In all other states, local government provides the service and receives a contribution from the state
government towards the cost (Tasmanian Department of Treasury and Finance 2003).

The creation of a two-tiered library system with the state responsible for regional libraries and state administration will provide an opportunity for local communities to play a much greater role in the provision of services and the structuring of those services to community requirement. A shift in this direction will undoubtedly reflect the aspirations enshrined in community-based reform to local government which emphasises effective government at the grass roots (Box 1998).

Fire services protection throughout the state also provides some opportunities for improvement. The state government is currently responsible for the provision of fire services through the State Fire Commission and in accordance with the Fire Service Act 1979. However, before 1979, the responsibility for fire protection was shared between two statutory bodies and 22 individual fire brigades (Tasmanian Department of Treasury and Finance 2003).

The ability to re-emphasise the volunteer and community nature of urban, country and rural brigades through a complete or partial devolution of responsibility to local government will not only appreciably address the current cross-subsidisation between the two tiers of government, but also elicit community input as to the best way to tackle the problem of recurrent fire outbreaks. A step in this direction will enhance mass grassroots participation in fire protection, meaning civic activism and readiness of citizens to co-deliver an important community service (Timney 1998; Foley 1998; Gray and Chapin 1998).
Proposal for a reform of the Tasmanian Water, Sewerage and Drainage services to remove duplication and overlap were mapped out under the modernisation process. Even when the modernisation process got underway four state-owned Regional Water Boards still supplied bulk water to councils in particular regions of the state. However, individual councils were responsible for water treatment and reticulation. All sewage reticulation and treatment were controlled by local councils, as were all drainage services.

In order to assess whether water and drainage services were being delivered in a cost-efficient fashion under the Regional Water Boards, London Economics, a consulting firm, was appointed by the Government-commissioned Local Government Roles and Functions Committee. The performance of Tasmanian councils in delivering water and drainage services was assessed against the efficiency yardsticks. London Economics found no inefficiencies in the provision of drainage services by local government. However, in relation to the water and sewerage industries they found inefficiencies costing ratepayers somewhere between $7 million to $18 million annually, or $40 to $107 per annum per ratepayer (Felmingham and Page 1996: 31). These inefficiencies included scale and scope economies which remained unexploited in water and sewerage delivery as well as managerial diseconomies. Scale diseconomies were evident in particular in sewerage treatment. The sizes of plants were too small in relation to the scale required to minimise the cost of sewage treatment. Scope economies refer to the total cost savings which results from the spreading of fixed costs across a range of services, such as the various vertical stages of water and sewerage delivery, for example, reticulation (Felmingham and Page 1996: 31).
One of the recommendations of the London Economics' inquiry was the privatisation of the water and sewerage industry in Tasmania. London Economics recommended that the assets and infrastructure of individual councils be transferred to three independent regional water and sewerage companies (denationalisation) which were to have a highly centralised corporate structure and operate along profit maximising principles (Felmingham and Page 1996).

However, research by Felmingham and Page (1996) at the behest of the Local Government Association of Tasmania into the recommendations of the London Economics from an individual council perspective revealed findings that made the proposed privatisation less feasible. The research found that work services of local councils were horizontally integrated (Felmingham and Page 1996: 31). According to Felmingham and Page, London Economics' privatisation proposal which divorced water and sewerage from other local government operations would come at a cost: the loss of benefits from the existing horizontal integration of local government services. These lost benefits must be matched against the scale and scope economies gleaned from vertical integration (Felmingham and Page 1996). The research also found several examples of cross subsidisation which assisted particular regional industries to remain located in Tasmania's rural centres. These cross-subsidies included reduced water and waste/sewerage levies. Despite some scale and scope economies as well as community service obligation benefits which accrued from the water and drainage services even under the Regional Water Boards, local government still complained that funds which the boards raised came from the constituent councils, yet the councils did not have a majority voice on the boards.
Councils charged that while decisions made by the boards had wide ranging implications accountability to the electorate was a missing link (LGAT 1995).

In addition, councils argued that the extension of water supplies was often a strategic planning exercise but councils had only an indirect input into these decisions. And that despite the fact that the Water Boards derived their entire income from councils (and in a few cases from bulk-users) the boards were treated as State Authorities for the purposes of the *State Authorities Financial Management Act* and this thereby imposed a further financial burden on councils and ratepayers (LGAT 1995).

Perhaps it was to exploit the remaining scope and scale economies which were revealed by the London Economics and Felmingham and Page inquiries into the water and sewerage industry, as well as the criticisms by local government in relation to its remoteness from the Regional Water Boards’ activities that the Water Reform Program was launched in 1997. Under the 1997 Water Reform Program the Hobart Regional Water Board was transferred from state government ownership and established under the *Local Government Act* as a joint authority, the Hobart Regional Water Authority. In addition, the State Government’s North Esk Regional and West Tamar Water Supply Schemes were also transferred to local government and, together with Launceston City Council’s water supply scheme, re-established in 1997 under the *Local Government Act* as joint authority entitled the Esk Water Authority. On 10 August 1999, the North West Water Authority was the last bulk water authority to be transferred to local government and now operates as Cradle Coast Water (Tasmanian Department of Treasury and Finance 2003). The transfer of these water boards from the state to local government has thus retained the scope and
scale economies gains, as well as cross-subsidisation and community service obligation benefits that would have been lost from the London Economics privatisation proposals, and continued ownership of the water boards by the state government.

These joint authorities were established in accordance with the NCP corporatisation model and are subject to full taxation equivalent, dividend and loan guarantee fee regimes (Tasmanian Department of Treasury and Finance 2003). Among other things, the Strategic Framework for the Water industry requires the implementation of two-part (volumetric) pricing for urban water schemes where it is shown to be cost-effective\(^\text{10}\). Similar assessment by the Government Prices Oversight Commission also revealed cost-efficiency in both water and wastewater pricing (Tasmanian Department of Treasury and Finance 2003)\(^\text{11}\).

The above exposition has shown that efficiency gains have accrued from the rationalisation of the water, sewerage and drainage industry. The 1997 Water Reform program in particular, closed the chapter on the London Economics privatisation proposals and its associated inefficiencies, as well as the community service obligation and cross-subsidisation losses which its implementation would have entailed. It has also addressed local government’s concerns in relation to democratic deficit that had been embedded in the administrative and operational arrangements of the Regional Water Boards.

**Amalgamations in the 1990s**

Five inquiries into Tasmanian local government occurred between 1939 and 1990 (see Appendix 2). Even though all of the inquiries recommended for some boundary
changes and the reduction of the number of councils (ACIR n.d.: 45-50) the proposals did not materialise. The exceptions were, as noted earlier, the merger of Queenstown and Gormanston to form the municipality of Lyell and the absorption of St. Leonards and Lilydale into the city of Launceston in 1986 and 1985 respectively. The unilateral approach that was adopted by the state government was responsible for the failure of these attempts to achieve reform in local government in Tasmania.

In contrast, the 1992 inquiry into the Modernisation of Tasmanian Local Government did succeed because the two levels of government jointly worked out the modalities for reforming the local government system (Vince 1997: 160). Chapman (1997b: 150) agrees with Vince’s view when he states that ‘whereas Tasmanian structural reform has been as comprehensive as that found in Victoria, it has been pursued in a much more cooperative atmosphere and over a longer period of time’. Vince (1997: 161) states further the Tasmanian experience of ‘structural reform succeeded because of the willingness of existing councils to be involved in the process and the offer of the state government to fund transitional costs arising from the process of amalgamation’.

The outcomes of the amalgamations of 1993 are now appraised in respect of efficiency gains and democratic benefits. Few studies have been carried out on the outcomes of amalgamations in Tasmania. The works of Chapman (1995), the Local Government Board (1997a) and Haward and Zwart (2000) are instructive on this topic.
The Local Government Board (LGB) reviewed the outcomes of the amalgamations. It obtained comprehensive financial data from five of the amalgamated councils and, after analysing the three years after amalgamation, claimed to have found substantial savings on administrative costs, reduced levels of debt, and increased revenue (Chapman et al 1997). It then extrapolated this scenario to the remaining 15 restructured councils and suggested that a gain of $65 million a year could be recognised as having been achieved – not might have been achieved, but actually achieved (Chapman et al 1997). No empirical research has yet tested the LGB’s assertions about savings or whether they would apply across all councils.

Lijphart (1971: 685) argued that ‘intensive analysis of few cases may be a more rewarding exercise than a more superficial analysis of many cases’. Haward and Zwart 2000) also contend that the instructive character of few case studies underlies the use of this line of inquiry in many studies in local government. This approach was therefore adopted in their evaluation of the outcomes of the 1993 amalgamations of councils in Tasmania. Their study appears to be one of the instructive materials on the topic. They studied four cases which are namely, Southern Midlands, Huon Valley, Kinborough and Tasman councils. It is worthwhile to summarise their findings in order to determine whether amalgamations have achieved the desired outcomes for Tasmanian local government as envisaged by the Modernisation Process.

On economies of scale their study indicated that fairly predictable outcomes were achieved in relation to administrative cost figures as a percentage of current payments, and in dollars per elector (Haward and Zwart 2000: 38). For example, they
found that Southern Midlands and Huon Valley councils reduced their administrative costs appreciably following amalgamation, from around 18 percent to 12 percent of current payments, followed by considerable reductions as a measure per capita (Haward and Zwart 2000: 38). Kingborough and Tasman councils did not record reductions in administrative costs. The administrative costs of the former remained at around 14 percent of current payments since merger with Bruny Island, while the latter’s figure stood at around 20 percent until a massive increase in 1996/97. The figure for administrative costs per capita, however, revealed that Tasman council has struggled to maintain its administrative costs at 1990 levels (Haward and Zwart 2000: 38).

The study also indicated that almost all of the councils witnessed improvements in service delivery to the communities they served. Southern Midlands and Huon Valley councils particularly demonstrated capacity in sewerage and water treatment, with the execution of major projects. Improvements occurred in community services in particular, and supply services which the Cygnet and Huon councils were previously unable to provide (Haward and Zwart 2000: 38).

Amalgamation has also enabled a much greater range of professional staff to be employed in Southern Midlands and Huon councils. Thus while there was not a great reduction in actual staff numbers more professional staff with the requisite skills, knowledge and experience not previously held by councils were engaged. This was not the case for the Tasman Council where the lack of such professional staff obviously created difficulties (Haward and Zwart 2000).
Another interesting finding of the investigation was the increased rate revenue on a per capita basis between 1990/91 and 1996/97 for all councils. The increases were 5 percent for Southern Midlands, 11 percent for Kingborough, 43 percent for Huon Valley and 53 percent for Tasman (Haward and Zwart 2000).

Community of interest is defined to incorporate two core elements: a common geographic area, and having at least one interest substantially shared by residents of that area (LGAB 1997: 24). Going by this definition, two of the three cases where amalgamation took place represent areas that share a community of interest. The two councils – Southern Midlands and Huon Valley, both occupy a common geographic area, having been created out of the merger of adjacent former councils. And even though each council manifested several different communities within their boundaries, a country lifestyle appeared to be their shared attribute (Zwart 1997).

The Huon Valley seemed to fit into either of the above categories specified in the definition of community of interest. The establishment of the council brought together areas with many common characteristics. Huon existed long before the amalgamations however, the sense of 'we-ness' among the people was latent until the advent of the merger when it manifested saliently and awakened the residents to rediscover a new pride in the label 'Huon Valley' (Haward and Zwart 2000). The creation of the Southern Midlands Council has engendered similar sense of community and territorial identity. Residents now have a broader conception of the Southern Midlands as not only a label for the council but also a name for the region (Haward and Zwart 2000).
Community of interest did not eventuate following the merger of Bruny with Kingborough. The merger of the two areas could be likened to the marriage of unwilling partners in that Bruny being an island was incompatible with any other part of the mainland. It was therefore questionable from the onset whether residents of the two areas would share one common interest. It is not unreasonable to suggest that a community of interest would have been maintained if Bruny Island had constituted a council on its own.

In terms of representation and participation the findings are a mixed bag. The three case studies of amalgamated councils all showed a significant decrease in the numbers of electors per representative following amalgamation. However, this was compensated for by the good calibre of representatives who were chosen from a larger pool of candidates, a strength, which previous councils lacked (Haward and Zwart 2000). Effective representation of different communities within council area was not a problem in the Southern Midlands Council, as the even spread of population meant representatives were drafted from all over the municipality. A similar situation occurred following the disbanding of Huon Valley transitional council, with three councillors coming from each of the former areas following the 1996 elections (Haward and Zwart 2000). The only concern regarding representation came from Bruny Island, as it is not guaranteed a representative on the council (Haward and Zwart 2000: 39).

Participation rates in all of the councils studied showed a significant increase following amalgamation. The average response rate has increased around 40 percent or threefold since amalgamation has taken place, from a figure quite consistently
around 20 percent to around 60 percent (Haward and Zwart 2000: 39). This has been attributed to the introduction of postal voting although this should be matched against the much smaller number of uncontested seats that resulted from the abolition of the ward system (Haward and Zwart 2000). The impact of amalgamation on voter response rate and the number of candidates standing for election is not clear. This is because Tasman, the only non-amalgamated council, increased its voter participation and the number of candidates more than the amalgamated councils, meaning amalgamation may have reduced the increase in response rate and candidate numbers in the other councils. However, the participation rate of Tasman fell to around 74 percent in 1996 (TEO 1996), which was much closer to the response rate of the other councils.

The evidence from the case studies about the effect of amalgamation on participation and people’s involvement in the activities of their councils is not conclusive. Apart from the fact that the study examined on a limited number of cases, other yardsticks for measuring participation such as citizens’ attendance at council meetings or involvement in council’s special events and committees could not be considered. Even if statistics on these aspects of participation were available conclusion about their effects would not have been instructive given that poor ‘active’ participation and general apathy towards local government activities have been noted as the main barriers to community democratisation.

The amalgamations of 1993 did not produce all the desired outcomes and as the LGAB itself conceded, ‘on-going monitoring will bring about further structural adjustments where found necessary’ (LGAB 1992: 46). The Rundle Government in
1997 found further structural adjustments necessary when it declared its intentions to further reduce the number of councils to 'no more than fifteen' (LGAB 1997: 4) in a proposal as part of the 'Direction Statement of Tasmania'. The process collapsed mainly because of the top-down approach to the reform, which had failed also in past attempts at reforms and was in sharp contrast to the largely successful reforms of the early 1990s.

The 1997 amalgamation proposals

Councils were adjusting to the 1993 boundary changes when the Rundle Government’s ‘Directions Statement’ signalled that there was no respite yet. The Directions Statement proposed a further reduction of the number of councils to ‘no more than fifteen’ (LGB 1997: 4).

The strong objection to further amalgamation precipitated a legal challenge which together with a lack of political support for the government’s reform agenda led to the defeat of the majority Rundle Government in the September 1998 election. The defeat of the minority Liberal Government and the election of the majority ALP Government witnessed the closure of the chapter of the proposed amalgamations and the creation of partnership between the incoming ALP Government and councils. The 1997 amalgamation proposal collapsed mainly because of its top-down approach to the process, which had failed also in earlier attempts at reform, and stood in sharp contrast to the largely successful reforms of the early 1990s.

Despite the evidence of far reaching structural reform in the UK, New Zealand, Canada, and several Australian states, surprisingly little empirical research has been
collected and collated in these countries on the question of whether small or large local government units are preferable in terms of the economic efficiency with which they deliver goods and services; or on the democratic values that have been fostered through such a reform thrust. In reference to the UK, Boyne has argued that an 'empirical vacuum' surrounds local government reorganisation in that country since 'hardly anything is known about the consequences of structural change' (Boyne 1992: 355). Sancton (1996: 285) made similar comments when he attacked the limited empirical academic evidence, and localised, and non-comparative nature of such inquiries in Canada.

A reappraisal of the modernisation process
The four components of the modernisation process have not been given equal attention at the implementation stage. Legislative and structural reforms have been pursued to greater extents, with vigour and over longer lengths of time than the rationalisation of roles and functions, and financial reforms. Despite the granting of general competence powers and expansion of the autonomy of councils of a sort, there is no evidence that the modernised act has affected significant changes to the state-local government power nexus. Reserve powers remain with the state government. For example, the state government reserves the power to dissolve a council, or replace elected representatives with appointed commissioners (as occurred in the state of Victoria). The state can still issue an order that a council may issue (as in the provision of the Tasmanian and NSW 1993 legislation), and is empowered to refuse approval to by-laws, overturn existing gazetted by-laws and in some cases can overturn council resolutions (as happened in Queensland but that power also exists in Tasmania), and set ceilings beyond which rates cannot rise.
(Aulich 1999; Dollery and Johnson 2005; Dollery et al 2006; Kane 2006; Murray and Dollery 2006).

Even under the reformed local government act, local government remains a creature of state governments (Wensing 1997; Aulich 1999b; Dollery and Worthington 2000). Unlike the developments at state and federal spheres of government, there is little evidence of increased executive power at local government level in Tasmania and in the other states and territories. Almost all states have given encouragement to a clearer distinction between policy and operational responsibilities within councils, and have strived to liken councils and their elected officials to a company’s board of directors and its shareholders. This initiative represents efforts to refocus councillors on more strategic issues. However, this is happening against the backdrop of measures that are being taken by the state government to retain and even tighten control over local government activities via legislative and regulatory changes (Aulich 1999b: 15).

To reduce vulnerability, many councils and mayors are calling for the question of constitutional recognition of local government to be revisited (constitutional recognition of local government was rejected in a 1988 referendum). This issue was high on the agenda of the ninth annual National General Assembly of Local Government in Canberra in November 2005. The benefits expected to accrue to constitutional recognition of local government include increased revenue to be brought about by cutting out the state’s middleman’s role in the financial transactions between local and federal governments and greater direct association with the Commonwealth which can bring some beneficial uniformity to the regulation of
local government, which at present differs markedly from state to state (Kane 2006: 25). A third advantage to be derived from constitutional recognition is that 'a secure foundation of independent authority, as well as addressing such failures of power, might also enhance the ability of councils to coordinate their activities in strategically important areas like water resources and environmental management’ (Kane 2006: 25). This point is particularly important for Queensland councils which have mandate for water management in their jurisdictions but which are now being threatened by the state’s quest to bring that resource under the control of single regional authorities in geographical regions under state aegis (Kane 2006).

As regards the rationalisation of roles and functions, little has been achieved. As indicated earlier, the Local Government Advisory Board’s (LGAB) final Report on the Modernisation of Local Government acknowledged that there was a potential for redistribution of functions within the administrative responsibility of 17 state agencies which could possibly be performed by local government by way of devolution of responsibility or on contract basis (LGAB 1992). The area where the greatest potential exists for the immediate transfer of responsibilities is physical services which virtually duplicate the current activities performed by councils. In particular, this include maintenance of roads, bridge structures, national parks and protected areas including day use facilities, grounds for schools, public libraries, hospitals, and regional health centres (LGAB 1992: 14). Following the new act and the boundary changes, further consultations were undertaken to consider the state-local government nexus, unfortunately this yielded only minor adjustment of the respective powers and functions of the two spheres of government (Aulich 1999b).
The only area where rationalisation of roles and functions occurred is water services (under the Water reform program of 1997). The water reform witnessed the reconstitution and transfers of ownership and operations of the hitherto state-owned and operated three regional water boards to local government. The three reconstituted councils-owned joint water authorities are the Hobart Regional Water Authority, Esk Water Authority and North West Water Authority (Tasmanian Department of Treasury and Finance 2003). The transfer of these water boards from state to local government has thus retained the scope and scale economies, as well as cross-subsidisation and community service obligation benefits that would have been lost from the continued ownership of the water boards by the state government.

Clarification of roles and functions is a tenet well espoused by the purchaser-provider split to not only minimise goal conflict but also enhance efficiency and effectiveness in the conduct of public business (Bailey and Davidson 1999; Ormsby 1998; Siverbo 2004). More needs to done to seriously rationalise the roles and function that have duplicating and overlapping mandates, especially the physical services area identified by the LGAB.

Perhaps it is to progress the role and function reform that partnership agreements have been established between the state and councils. The state government argues that the partnership agreements are a key mechanism for strengthening working relations with local government. The state government insists that the promotion of economic growth, social justice and community development are the government’s strategic objectives for partnership agreements (Tasmanian Department of Treasury and Finance 2003: 2). For example, the state and the HCC signed a Capital City Partnership Agreement on 11 December 2001 to jointly progress a number of
initiatives that will provide benefits to the community of Hobart and the state of Tasmania (HCC 2001). The agreement which clearly spells out the part each party is expected to play covers a range of economic, social and environmental initiatives (HCC 2001; 2005).

Rationalisation of roles and functions between councils themselves, especially between small size ones has received scant attention in the reform discourse. However, reform in this direction may serve as a hedge against forced amalgamations, which over a decade or so has been pursued as a policy option to drive local government efficiency. Now with the great ambivalence about the efficacy of amalgamation to produce efficiency and other gains (Dollery and Johnson 2005; Allan 2003; Byrnes and Dollery 2002; Dollery and Crase 2004; Bishop 2000), alternative models that will rationalise the roles and functions between councils are advocated. These include ad hoc resource sharing (Johnson 2003), regional organisations of councils (Dollery and Marshall 2003; Marshall et al. 2003), area integration or joint boards (Shire Association of NSW 2004), virtual local government (Allan 2001; 2003; Dollery 2003a; May 2003), and agency arrangements (Dollery and Johnson 2005).

These alternative models, especially the resource sharing arrangements will enable councils (particularly small ones) to share resources such as specialised employees like environmental experts, town planners and skilled consultants, capital equipment such as earth-moving machines and mainframe computer facilities, administrative services, like information IT systems and entire operational services like domestic garbage removal and disposal (Dollery and Johnson 2005). The model that has the
potential to promote the introduction of the purchaser-provider split’s key tenet of separation between government policy advice and operational matters into councils is Allan’s (2003) ‘virtual local governments’. He contends that if ‘cost efficiency improves for some tasks, but policy appropriateness and service effectiveness deteriorates the bigger a municipality becomes, then an obvious solution is to separate council decision-making from council administration’ (Allan 2003: 27).

Perhaps the financial reform component of the modernisation process has received the least attention at the implementation stage. It has already been mentioned that despite the reforms the current arrangements that undergird state —local government financial relations produces inefficiencies as it distorts decision-making. Such inefficiencies and decision distortions stem from levies and charges on local government to fund services provided by the state, in which local government has little, if any, input; various fees and charging arrangements which are not commercially based and subsidies which reduce accountability (Tasmanian Department of Treasury and Finance 2003).

This state of affairs puts Tasmanian local government in a financially stressed situation. The fiscal crisis is worsened by reduced state and Commonwealth financial assistance to councils, and the dwindling own source municipal revenue base. This problem is not peculiar to Tasmanian local government as other councils across Australia are also bedevilled by financial crisis. As Dollery et al (2006: 340) observe ‘a notable feature of contemporary Australian local government is the on-going financially straitened environment in which it operates’. They contend that two aspects of this problem are central. First, local government revenue as a proportion
of national income has been declining relative to the upper spheres of Australian government for the past 30 years (Johnson 2003). For example, Access Economics has computed that the share of the national tax take accruing to local government has fallen from just over 6 percent in 1970/71 to 4.8 percent in 2003/04.

Similarly, as a proportion of total Commonwealth tax revenue, the value of Commonwealth Financial Assistance Grants (FAGS) will have declined from 1.18 percent in 1993/94 to just over 0.77 percent in 2007/08 on current estimates (Spokes 2005). In addition, there is evidence that suggests that both state and Commonwealth governments remain reluctant to increase the revenue of local government through intergovernmental grants, other transfer payments or tax-sharing arrangements. This unwillingness to commit growth funds to local government was demonstrated vividly when in response to the Final Report of the Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration (2003), entitled Rates and Taxes: A Fair Share for Responsible Local Government, made no offer of additional funding, and instead urged local government to put in extra effort at resolving its own problems (Australian Government 2005).

Second, property rates still stand as the only taxing revenue source for local government however, this income source is subject sometimes to regulation by state and territory governments. A good example of this is the ongoing imposition of “rate pegging” in New South Wales (Dollery et al 2006). Even in situations where state governments allow for determination of rate levels, councils are reluctant to take advantage of it to significantly raise rates in order to substantially boost revenue, due
largely to political pressure (Dollery et al 2006). Furthermore, the recent independent South Australian local government inquiry into financial sustainability sounded a caveat that ‘ramping up rate revenue should be the last resort’ (Financial Sustainability Review Board 2005: 5). The implication of all this is that upper tiers of government are unwilling to extend more financial assistance to local government, and councils themselves hesitate to apply their only taxing power to arrest the fiscal crisis confronting them (Dollery et al 2006). In the meantime something needs to be done and quickly too, in order to prevent (local) government failure, which is defined as the ‘inability of a public agency (agencies) in a given tier of government in a multi-tiered system of government to achieve its intended economic efficiency and equity objectives’ (Dollery et al 2006: 342). That is why many councils are responding in a variety of ways including the adoption of a host of organisational forms such as the purchaser-provider split, competitive tendering and contracting, and resource sharing just to mention a few, in order to reduce the costs of their operations, while increasing or maintaining service levels and quality.

Council amalgamations represent the most vigorously pursued aspect of the modernisation process resulting in significant boundary changes and the reduction of the number of councils from 49 to 29. Case studies conducted by Chapman (1997), LGAB (1997) and Haward and Zwart (2000) indicate that efficiency gains in service delivery, administrative cost reductions, enhanced representation and community of interest, as well as the engagement of needed professional staff, were realised in majority of the cases. However, it is indeterminate whether these efficiency and democratic dividends are replicated throughout the amalgamated councils.
There is much ambivalence about the efficacy of amalgamation, despite its appeal, to increase efficiency and enhance democratic values. Both proponents and opponents of council consolidations are quick to stress their points. Proponents argue that amalgamation can enable councils to deliver services more efficiently and this will entail only a negligible trade-off in terms of less efficacious political representation. Katsuyama (2003: 2) presents a straightforward case for amalgamation. ‘Proponents of consolidation argue that fewer and larger local governments will be more efficient and effective than many small governments {because} costs can be held down and perhaps reduced through the elimination of duplicative services, personnel, and equipment’. Moreover, ‘larger governments may also be able to take advantage of ‘economies of scale or lower per unit cost for government services’. Further, ‘a single unified government will be able to coordinate policies and decisions for activities, such as regional planning and economic development, than several independent governments’.

The existence of numerous fragmented councils will mean that ‘some services may benefit citizens in adjoining areas who neither pay for the service nor share in the effort involved in its delivery’. Accordingly, ‘spill-over effects like this will be eliminated when the boundaries of the service area are the same as the boundaries of the taxing jurisdiction’, and thus ‘the tax burden within communities can be equalised through the creation of governments that more clearly match area needs’. Another point that is also important but missed by Katsuyama (2003) is the relevance of a notion that is central to the current New South Wales amalgamation debate, that is, representational costs decline in larger councils since there are fewer elected councillors for a given population (see Dollery and Johnson 2005; Vaden 2003).
Australian and international literature arguing against amalgamation abound. In Australia the subject has been dealt with by Dollery and Crase (2004) and its historical application has also received treatment by among others, Vince (1997) and May (2003). Critics attack the proposition that attributes significant economies of scale, on both theoretical and empirical grounds, to the application of amalgamation in councils (Byrnes and Dollery 2002). Sancton (2000: 74) makes his point against amalgamation clearly in his book entitled *Merger Mania*. He argues that ‘there is no functional optimal size for municipal government because different municipal activities have quite different optimal areas’. In addition, it is contended that ‘while economies of scope may be gained, there are cheaper alternative methods of capturing scope economies like regional organisations of councils’ (Dollery and Johnson 2005: 83).

Furthermore, although amalgamation may well enhance administrative capacity, it can also be realised by other arrangements at lower cost. Arguments that draw from public choice literature insist that effective representation characteristic of small councils enhances information flows between constituents and voters and thus exposes municipal expenditure to more intense scrutiny by ratepayers (Dollery and Johnson 2005: 83). The end result, they argue, 'small councils typically produce services at lower per capita costs'. Notwithstanding numerous exceptions, this viewpoint is supported by compelling evidence. For example, after examining the American evidence on amalgamation, Boyne (1998b: 252) concluded that 'the broad pattern of evidence suggests that lower spending is a feature of fragmented and deconcentrated local government systems', whereas 'consolidated and concentrated tend to be associated with higher spending'. This means that 'the technical benefits
of large units with big market shares, such as economies of scale and scope, are outweighed by competitive and political costs, such as disincentives toward fiscal migration and problems of scrutiny'. Similarly, Sancton (200: 75) argues that ‘the public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city – region causes wasteful overlap and duplication’. Finally, critics insist that amalgamation may undercut the vibrancy of local democracy and reduce participation by citizenry (Allan 2003; Dollery and Johnson 2005).

As Dollery and Johnson (2005) contend, and judging by the case both for and against amalgamation, it appears the points on the cons side outweigh those on the pros side. Because there are many cases of local government failures in Australia in recent times, it may be difficult to establish a relationship between council size and council efficiency.

The relevance of the amalgamation discussion to this thesis stems from the fact that its proponents claim, among other reasons, that it can enhance the efficiency of municipal service delivery, and make a larger pool of professional staff that is needed for effective discharge of council business available. Since the objective of this project is to investigate the impact of the purchaser-provider split on service delivery and employment in two Tasmanian local government areas – Hobart and Sorell, it will inevitably examine whether amalgamation is a co-determinant of the efficiency and effectiveness of municipal service delivery, and employment.
The modernisation process and the purchaser-provider split

The modernisation process has provided an enabling environment for the purchaser-provider split to be introduced into Tasmanian local government. The process has been influenced to some extent by the new public management (of which the purchaser-provider split is a part) and the outcomes of its implementation have helped progress some of the tenets and goals of the purchaser-provider split. For example, the reforms have advocated the separation of government policy advice from its operational responsibilities, enhanced reporting and accountability regimes, transparent pricing of goods and services, efficient resource allocation and introduction of competitive processes into public provision (LGB 2002; Aulich 1999b).

In terms of management of resources the reforms have sought to make Tasmanian councils more businesslike and more accountable for their resources and have required the provision of high quality services. This has entailed a deliberate effort to discipline public expenditure and enhance accountability of councils more to the communities they serve than to the state government (HCC 2005; LGB 2002; LGAB 1992). Financial management improvement, devolution, clearer and stronger accountability regimes, performance evaluation and strategic management have been steadily ingrained into the local government culture through the reforms (Aulich 1999b; HCC 2005; LGB 2002).

For the purpose of delivering services more efficiently, local government has employed multiple different forms of provision like resource sharing, competitive tendering and contracting, increasing market influence on pricing of their goods and
services, municipal amalgamation and updating technology to facilitate delivery for example, one-stop shops, online programs, quality accreditations (Aulich 1999b, HCC 2005; LGB 2002). All these shifts cohere in many respects with the reform which new public management and particularly the purchaser-provider split advocates. Some of the key tenets and goals of the purchaser-provider split include improved efficiency through competition in service delivery, efficient resource allocation, transparent and commercial pricing of goods and services, stronger accountability mechanisms by means of more transparent decision-making and clearer division of roles and reporting regimes (DoFA 1995; Aulich et al 1999; Ormsby 1998; Siverbo 2004), which all cohere with the dictums and the outcomes of the implementation of the modernisation process.

As regards the governance issue, the modernisation process has focused on the role of local government, particularly through the reform of state local government acts (Wensing 1997; Aulich 1999b; Dollery and Worthington 2000). These acts have sought to clarify the respective roles of state and local government. It has also tackled the question of redefining the roles of councillors and staff with the result that elected members are clearly responsible for decision making, while senior managers and staff report to council through a general manager or chief executive officer (Wensing 1997; LGAB 1997; HCC 2005; Dollery and Worthington 2000a). Accompanying this effort at role clarification has been the use of benchmarking and performance measures aimed at identifying the capacities of local government and comparing them against “best practice”. This, at least in theory, enables local government decision-makers to target problems and take remedial measure (Witherby et al 1997). Senior staffs are now appointed on the basis of merit and are
put on fixed-term performance–based contracts. For staff at other levels award restructuring and enterprise bargaining are impacting on working conditions (Wensing 1997).

The rationalisation of roles and functions particularly in relation to the various actors within a council has helped at least to progress the implementation of, or create the enabling environment for, the adoption of one of the key principles of the purchaser-provider split which advocates the separation of council's policy, regulatory and contract management functions from its operational responsibilities (Allan 2001; 2003). The separation, it is argued, will enable the government agency to focus more on the key strategic issues of determining the mix and standard of services it wishes to provide to its community (Walsh 1991a: 135).

It can be argued, based on the above exposition that, the launch of the modernisation process has assisted in the implementation of some of the tenets of the purchaser-provider split in Tasmanian councils. To have the full repertoire of purchaser-provider split's tenets operational in councils will then require extra efforts on the part of individual municipal authorities since applying the model is not mandated by legislation. Hence, there are differences between councils with respect to the number of the principles of the purchaser-provider split adopted, and the extent of their implementation and the attendant outcomes. For example, the two study councils – Hobart and Sorell, are evaluated against the number of the principles of the purchaser-provider split they have adopted and the extent to which they have been implemented.
The HCC has introduced corporatisation and competitive tendering principles of the NCP. It established on the provider side Civic Solutions as a single entity to undertake civil and environmental construction and maintenance works in full competition with the private sector (Noga 1997; Ryan 1997). On the client side the council created City Services to handle all client functions in respect of Civic Solutions' works and services. Even though Civic Solution reverted to being treated as a division of the council following a decision of the council in 1998, and henceforth would not overtly compete in the market, it would continue as a controlling authority (LGB 2002). Civic Solutions provides services on the basis of contracts with City Services (HCC 2005; LGB 2002). All other provider divisions render services on the basis of quasi contracts or service level agreements with the council. The HCC has appointed a general manager on a five-year contract term which renewal is subject to good performance. Divisional heads in turn have five-year performance contracts with the general manager. For staff at all other levels, award restructuring and enterprise bargaining have impacted on working conditions (HCC 2004; 2005; LGB 2002).

Sorell Council has appointed a general manager but it has not achieved the structural and cultural changes implied by the purchaser-provider split. No corporatised units have been created and separation of purchaser and provider sides have not occurred as it still has a program-oriented structure, implying an integrated approach to meeting its obligations. Achievement of its overall strategic objectives is realised through the contribution each functional area makes (Sorell Council 2004).
Thus, the HCC has adopted a pure separation version of the purchaser-provider split in the case of Civic Solution, while for other divisions a partial separation variant is evident. In contrast, Sorell Council has embraced neither the pure nor partial separation versions of the purchaser-provider split.

Conclusion

It can be concluded from the above discussion that the four components of the modernisation process have not been implemented to the same extent, with the same vigour and over the same length of time. The rationalisation of roles and functions assigned to the two levels of government, and the review of the relative revenue capacities available to each level, have not been comprehensive, and have lagged behind legislative and boundary changes.

The review of the relative revenue capacities available in each sphere of government has not yet been vigorously pursued. There are still several examples of unfunded mandates, despite the reforms, that have impacted and are impacting on local government. Councils, for example, are required to contribute to library services, fire services and hospital as well as emergency services and yet have little, if any say, on their operations. This has implications for not only local government finances but also community democratisation. Various taxation exemptions, concessions, specific purpose grants and subsidies still characterise state-local government financial relationship, and this reduces accountability and distorts decision-making. State and Commonwealth governments have reduced their financial assistance to local government and local government is hesitant in significantly applying its only taxing source – property rate, to substantially raise own source revenue. Hence, local government is operating in a financially straitened environment and this could lead to
government failure if nothing is done as a matter of urgency to lift councils out of the financial doldrums.

Of the reforms foreshadowed when the modernisation process commenced in 1990, one that remains incomplete is the rationalisation of roles and functions. A review process with this as its goal gave priority to physical infrastructure services. Here, the water, sewerage and drainage services have been the only areas where major rationalisation has occurred. The rationalisation removed inefficiencies which hitherto cost the ratepayer somewhere between $7 million to $18 million annually, or $40 to $107 per annum per ratepayer (Felmingham and Page 1996). These inefficiencies included unexploited scale and scope economies as well as managerial diseconomies. The 1997 Water Reform Program exploited the remaining scale and scope economies and consolidated efficiency gains that had already been achieved. The democratic deficits concerns of local government have also been addressed following the transfer of ownership of the Regional Water Boards from state to local government.

Despite these changes, overlap and duplication of functions and roles still occur between the two levels of government in many areas. This generates inefficiencies as it raises democratic concerns. Notable areas of overlap and duplication are library services, fire services, hospital services, emergency services, and regulatory matters.

Legislative reforms have increased the autonomy of councils and granted them general competence power to appropriately respond to the needs of their communities. Legislative reforms have also improved accountability mechanisms,
reduced prescription, and changed council boundaries. The enactments of the environment, planning and building acts have enabled councils to control the development and management of the local areas, a role which has become an integral part of their core functional responsibilities. One of the far-reaching changes introduced by the new *Local Government Act 1993* was a system of postal voting. The effect of this change was the increase in the average voter-return rate from less than 20 percent at earlier elections to almost 60 percent (Chapman 1997). However, reserve powers still remain with the state government which makes local government vulnerable – council resolution can still be overturned, by-laws can be disapproved, rates can be capped and councils can be dissolved, just to mention a few.

Changes in boundaries of councils have been the most comprehensive, occurring over the longest period of time. The number of councils has been reduced from 46 to 29. The driving force behind amalgamation was the attainment of greater efficiency through economies of scale, an aim which seems to have been achieved in the majority of cases. A secondary consideration was fostering some sense of community or community of interest in the new councils, which was largely accomplished. Other yardsticks for appraising the mergers were representation and participation and the cases that have been presented have not demonstrated these values have been sacrificed. However, because these findings were gleaned from a limited number of cases it would be difficult to generalise about savings and community democratisation across all councils. What is certain is that the 1990/93 amalgamations were highly successful due to the cooperative and collaborative approach to the reform process. The failure of the 1997 amalgamation proposals and other earlier attempts at reform were attributed to the state government’s unilateral
and non-consultative approach to the change processes. The efficiency gains from amalgamations are still unproven, as both positive and negative evidences have been reported. The loss of local democratic values is said to have occurred following amalgamation.

Today, Tasmanian local government enjoys a positive working relationship with the state government. This has been demonstrated by the numerous bilateral, regional and state wide protocols or partnership agreements the state has signed with local government. These agreements have sought to guarantee the completion of the modernisation process and the allocation of resources for this purpose.
CHAPTER SIX

REFORM IN HOBART AND SORELL COUNCILS

Three components of Australian local government reform are identifiable which are namely legislative, managerial and microeconomic. These policy-induced changes have substantially altered the nature and form of local government. Legislative reforms have changed the essential elements of councils' operations: granted them wider competence powers, reduced detailed prescriptions and changed planning and other delegated powers, and improved accountability mechanisms. Managerial reforms saw the major and continuous change for local government in its functional responsibilities, in the demands placed on its professional officers, and the need for councillors to be adaptable and change attitudes to their tasks. Microeconomic reform demanded economy, efficiency and effectiveness in the conduct of council business; it drew attention to ownership, outputs, costs, structures and systems; and it located public provision in relation to markets.

These reforms are wide ranging and ongoing and a meaningful strategy to track and evaluate these shifts is to conduct a few case studies since this approach is seen as a more rewarding exercise than a more superficial analysis of many cases (Lijphart 1971). Lijphart's view is supported by the use of specific case studies of local government (for example, Chapman 1995; LGB 1997; Ryan 1997; Aulich 1997; Haward and Zwart 2000). For this reason, two Tasmanian cases, Hobart City Council (HCC) and Sorell Council are used to evaluate in detail the outcomes of the three broad categories of reforms identified above. In Tasmania these three broad categories of reforms are relabelled as the modernisation process. This chapter evaluates the outcomes of the modernisation process in the two study councils —
Hobart and Sorell. It then compares and contrasts the outcomes in the (HCC) with similar effects in Sorell Council. The evaluation of the outcomes of the reforms, as in the previous chapter, focuses on key concepts of efficiency, democracy and accountability.

Background on Hobart and Sorell Councils

Hobart City Council

The city of Hobart is located on the shores of the Derwent Estuary, and in the shadow of Mount Wellington. Greater Hobart consists of five local government areas: Hobart City, Glenorchy City, Clearance City, Brighton and Kingborough. The Hobart City Council covers a total area of 78 sq km with a population of 46,181 residing in eleven suburbs (see Figure 6.1). These suburbs are Battery Point, Fern Tree, Hobart Central Business District, Lenah Valley, Mount Nelson, Mount Stuart, New Town, North Hobart, Sandy Bay, South Hobart and West Hobart (KPIC 2000). The density of the population is 592.8 persons per sq km. The age distribution of the population is such that 15.8 percent is in the range of 0 and 14 years, while 18.8 percent is in the 15 and 24 years bracket. Those aged between 24 and 64 years constitute 51.2 percent of the population while those in the category of 65 years and above make up the remaining 14.2 percent (KPIC 2000).

The rate of economic growth in Tasmania is below that of the rest of Australia and this is linked to a wide range of factors, including low population growth, isolation, and the nature of the Tasmanian industry (HCC n.d). These factors similarly account for the low economic activity and growth rate of the HCC. The unemployment rate in Tasmania is generally about 2 percent above the national average. In comparison
with Greater Hobart, the HCC has a lower overall unemployment rate, yet has a higher youth unemployment rate (HCC n.d).

Figure 6.1: Map of Hobart City Council

Hobart boasts of a wide range of educational facilities including the University of Tasmania, 1 TAFE campus, 2 senior secondary colleges, 6 catholic schools, 4 private schools, 2 gender specific state secondary schools, 8 state primary schools, 4 kindergarten, 1 alternative high school, and 3 special schools (HCC n.d).

The city of Hobart is the focus of the Southern Region of the state and particularly of the urban spread that now effectively stretches from New Norfolk to Sorell and from Brighton to Huonville. It is an important factor in Hobart's daily life that its shopping centre, government buildings and retail business activities attract a
considerable number of the conurbation’s 130,000 people each working day. This brings benefits to the city, but also strains its infrastructure. This has already prompted the council to join with neighbouring councils in a series of joint undertakings to infrastructure development (LGB 2002). It is expected that these arrangements will continue into the future. Older cities generally experience problems with aging infrastructure but the HCC is not confronted with this problem because it did not witness the level of post-war infrastructure expansion which occurred elsewhere (LGB 2002). Over recent years its assets have been managed well and it is unlikely the council will face the crisis, common throughout the state, of high renewal costs as assets constructed during the “baby boom” years reach the end of their lives (LGB 2002).

The HCC provides numerous services across nine functional areas for its community. Some of these functional areas are public order and safety; health; welfare; community amenities; parking; transport; economic; water supply; sewerage; and recreation and culture.

Sorell Council

Sorell Council is located 25 kilometres east of Hobart and extends from the Fingerpost road on the Tasman Highway to approximately two kilometers south of the Dunalley Hotel at Dunalley (see Figure 6.2). In recent times the town of Sorell has expanded significantly due to its status as a regional, commercial and business centre for the southeast of the state. For the past twelve years the area has witnessed the fastest rate of growth in Tasmania and currently has a population of 11,072, with an average annual growth rate of 2.5 percent in the past ten years (Sorell Council
The median age in the municipality is 36.2 years. Included in the 50 percent of the population that considers itself of Australian ancestry, 3 percent are indigenous Australians. The other 50 percent is made up primarily of those who consider their ancestry English (Sorell Council 2002). The main population centres for the municipal area are Midway Point, Sorell, southern beaches areas of Lewisham, Dodges Ferry and Carlton, as well as Primrose Sands and Dunalley, with a number of smaller communities in the rural hinterlands.

Figure 6.1: Map of Sorell Council

Sorell Council provides many services for its community. These services are provided across nine functional areas: public order and safety, health, welfare, community amenities, recreation and culture, transport, economic services, sewerage services, and water services.
Comparison of characteristics of Hobart and Sorell Councils

With a population of 11,072 and an area of 584 sq km, Sorell Council is 7.5 times bigger than the HCC, but has 4.3 times less its population. The HCC generated on average, annual revenue of $65.4 million from 1994 to 2004; and has net assets of $596.054 million. The number of rateable properties in the municipality is 22,069, with on average, a total per capita rate of $1,033.5 from 1999/00 to 2002/03. For the above said period the council generated on average 69 percent of its revenue from rates, while grants made up only 6 percent (KPIC 2000). The total workforce of the HCC is 584 (HCC 2005) and this relatively large workforce enables it to be better served by the requisite professional staff than almost all the other councils in the State of Tasmania – an advantage that has enabled it to adapt more quickly to managerial and microeconomic reform notions such as commercialisation, corporation and the purchaser-provider split.

The average revenue generated by Sorell council from 1994 to 2004 was $9.6 million. It has net assets of $47.683 million, with 7,146 rateable properties, and a total per capita rate of $525.5 (KPIC 2000). This suggests that Sorell Council raises almost 7 times less the revenue of the HCC, has 12.5 times less the net assets of the HCC, and 3.1 times less the number of rateable properties of the former. Twenty three percent of its revenue comes from grants, while 60 percent derives from rates. Compared with the 6 percent and 69 percent respectively for grants and rates in the case of the HCC, it can be concluded that the HCC has greater capacity for own-source revenue generation than Sorell Council. Sorell Council employs 66 people and lacks many of the requisite professional staff for the efficient discharge of its responsibilities (Sorell Council 2004).
The population structures of the two councils are fairly similar with half of the population in each council in the 25 to 64 years bracket. Sorell Council has a slightly younger population than the HCC, since 36.78 percent of its population is aged between 0 and 24 years. This compares with the 34.66 percent falling under that bracket in the HCC.

**The modernisation process in Hobart and Sorell Councils**

The extent to which councils have implemented the tenets of the modernisation process is affected by the requirements of legislation, the willingness of state and local governments to make mutual adjustments to their financial relationships, and the level of bureaucratic support and capacity available to councils to push through with the reforms. This section explores the extent to which the HCC and Sorell Council have implemented the modernisation agenda and the outcomes they have produced.

**Legislative reform**

The aim of legislative reform in local government is to ensure that councils and the Tasmanian community are provided with the most effective and efficient framework in which local government can function. When the *Local Government Act 1993* came into force on 1 December 1994, it was seen as a framework document for the conduct of local government with much greater emphasis on accountability by councils towards the community and less towards the government (LGO 1997). The legislation was developed after extensive consultation with local government and gave recognition to the increasing demand for a more modern approach to the provision of local government administration and services. An undertaking was
given that the new local government act would be reviewed after reasonable period of operation in practice (LGO 1997). In recent times, a specific impulse towards the review of the act has stemmed from the need to consider the requirements of National Competition Policy (NCP) principles on how councils can arrange to perform their operations and deliver services.

The Local Government Act 1993 and subsequent legislative reviews have had significant impact on local government autonomy, level of general competence and structure as well as management and operational practices. The Local Government Act 1993 provides the constitution under which councils operate (Balmer 1996). It removed the distinction between Hobart and Launceston (which formerly operated under their own legislation) and all other councils by making all councils subject to the same act. This has had the advantage of applying a uniform set of laws across the state which facilitates benchmarking and other performance comparisons. For instance, it enables users of local government services and local communities to compare their council's performance with other councils and ensures the transparency and accountability of public funds. Further, it provides major funding bodies, such as federal and state governments with an analytical tool for the examination of the relationships between program funding and outcomes achieved. Finally, it is utilised by councils to benchmark service delivery and operational efficiency against similar councils in order that improved practices might be identified and adopted.

As noted in chapter five, such standardisation has already enabled the Key Performance Indicators Committee (KPIC), Local Government Division, Department
of Premier and Cabinet, to produce seven consecutive reports (1990/00 to 2005/06) on local government performance (KPIC 2006). As a result of this standardisation the performance of the HCC across many areas of its activity for example, revenues raised from general and special rates or expenditures on roads, footpaths and traffic maintenance, or waste management, can be compared with similar revenues and expenditures of other councils. So for example, the HCC raised $27 million and $507,000 from general and special rates respectively in 2001/02, and incurred expenditures of $9.8 million (excluding depreciation) and $25.6 million (excluding training) respectively on roads, footpaths and traffic maintenance put together; and employees for the same period (KPIC 2002). The corresponding figures for Launceston City Council (LCC) for the same period in terms of revenues were $23.8 million and $294,000, while the expenditure figures stood at $6.1 million and $21.8 million (KPIC 2002). Based on the above statistics, it can be concluded that the HCC has stronger general and special rate revenue bases than the LCC. It is also discernible from the figures that the HCC spent more on roads, footpath and traffic maintenance put together; and employee wages and salaries than did the LCC in 2001/02.

The KPIC reports are in turn proving useful for the Local Government Board (LGB) in conducting general reviews of councils. A report on the general review of the HCC by the LGB for 2002 was presented to the then Premier Jim Bacon on 10 April 2002. The standardisation has also provided the basis for the Commonwealth Government Minister for Local Government to provide to the Federal Parliament assessments, using comparable national data, of the performance of local government including its efficiency (NOLG 2003). Providing reports on local government to the
Federal Parliament is a requirement under the *Local Government (Financial Assistance) Act 1995*. Others changes introduced by the legislative reform included performance contracts for senior managers, accrual accounting, postal voting, strategic planning, and requirement for the publication of detailed annual reports on council activities. These elements are examined in turn below.

*Employment contracts*

One of the important requirements of the new *Local Government Act 1993* is that local government emulate managerial reform initiatives that were already underway at the Commonwealth and State government levels. A significant element of this requirement was the decision to introduce a corporate management system into local government. This system included a general manager responsible to the council for the daily management and implementation of its policies, and a shift to accrual accounting (Chapman *et al* 1997: 208-9). The managerial reform in the HCC and Sorell Council went in tandem with these legislative requirements, with the general managers in each council now employed on a five-year contract basis. The tenure of the general manager is now depended on performance and will not be renewed if the performance is found to be unsatisfactory. This renewal of tenure provides the opportunity for councillors to review the performance of the general manager on an annual basis. The review process is augmented by the informal quarterly briefings the general manager holds with elected representatives. This forum grants the elected representatives the opportunity to comment on any matters of concern in regard to the general manager’s performance (LGB 2002). Divisional directors in the case of the HCC sign renewal five-year performance contracts with the general manager.
(HCC 2004). For staff at other levels, award restructuring and enterprise bargaining are impacting on working conditions (Wesing 1997).

**Accrual accounting**

Reform directed by the *Local government Act 1993* in the financial sector brought about a shift from cash accounting to accrual accounting. The act incorporated accrual accounting as a standard form for financial reporting by local government. The new accounting regime was meant to relief councils of the demands of the heavily regulated reporting system centred on traditional cash accounting with a stress on cash flow and required councils to adopt a more business-oriented model to their operations based on accrual accounting. The new accounting system requires that councils value all assets, account for potential expenditures and liabilities, provide for depreciation changes, and appropriate adequate funds for maintenance of assets (NOLG 2001a).

The financial reports of the HCC and Sorell Council are now prepared in accordance with applicable accounting concepts and standards. Except for certain assets, including infrastructure assets, which are disclosed in the notes forming part of the accounts for the year, the reports are now prepared on accrual accounting basis. Where necessary, comparative information are reclassified to achieve consistency in presentation with current financial year amounts and other disclosures (Sorell Council 1999: 57) The benefits that are predicted to accrue to the introduction of accrual accounting in both the HCC and Sorell Council, like all other local governments in Australia, are: an expanded concept of accountability (as specified in the general program of microeconomic reform), effectiveness in asset management and availability of meaningful information on the full cost of activities and programs
In other words, the accrual regime has forced Australian local governments to adopt some market approaches in the conduct of their operations.

Postal voting

One of the significant shifts that were introduced by the new *Local Government Act 1993* was the decision to conduct councils’ elections by postal voting. All residents who are listed on the State’s House of Assembly electoral roll automatically received ballot papers (and a reply paid envelope) for the municipal area in which they live. They are thus able to vote in the council election without going to a poling booth. The effect of this change was the increase in the average voter return rate from less than 20 percent at earlier elections to almost 60 percent (Chapman 1997). The Tasmanian Electoral Office (TEO 2002) reported that the state-wide response rate improved over the years in part as a result of the introduction of the postal voting system in 1994. In 2002 the state-wide response rate was 57.86 percent. This was higher than the 55 percent in 1994; 54.48 percent in 1996; 55.66 percent in 1999 and 57.78 percent in 2000 (TEO 2002).

Aside from the postal voting system, other factors that might have influenced the response rate over the years included the number of positions that were vacant, the number of candidates who contested the election, and the local issues at the time (TEO 2002). The introduction of the postal voting system has also affected voter turnout in the HCC and Sorell Council. In the HCC voter turnout increased to 55.5 percent in 2000 from 49.9 percent in 1999. For the 2002 election the response rate was 51.59 percent (TEO 2002). For Sorell Council even though voter turnout fell from 56.61 percent in 1996 to 53.63 in 1999, it improved above its 1996 position to 59.32 percent in 2000 before it decreased to 58.51 percent in 2002 (TEO 1996; 1999;
2000; 2002). It can be concluded from the response rates that voter apathy is higher in the HCC than Sorell Council.

Strategic plans

Councils are required under the *Local Government Act 1993* to develop strategic plans covering the forthcoming five years, and to consult with local communities both in determining the contents of the plans, and in relation to the annual report outlining the year's event. Through this means and others of similar nature, the act effectively makes councils responsible directly to the communities they serve, rather than to the Minister of Local Government and the State Government. The act also requires councils to provide the public with annual reports of their activities. These reports include summaries of their financial positions, indications of outcomes against the proposals in the annual plans, and advise to communities of the standard being achieved in areas such as water quality, effluent standards, waste disposal and environmental management (LGAB 1992).

The HCC and Sorell Council prepare operating plans each year as part of a gamut of planning documents including the Budget, Capital Works Program and Divisional Unit Plans. As Controlling Authorities in the HCC, Civic Solutions and the Tattersall's Hobart Aquatic Centre (THAC) prepare corporate plans that are consistent with council's strategies and policies (HCC 2002). In 2001 the council adopted a new strategic plan based on citywide community consultation through a household survey and a series of workshops with employees and Aldermen. The resulting strategic plan, "The City of Hobart Strategic Plan 2001-2005" came into effect on 1 July 2001 and is available in two formats, a condensed version outlining the broad outcomes and strategies to be achieved and a comprehensive version
including actions and responsible council functions (HCC 2002). The comprehensive plan is also available on the council's Internet homepage. In parallel with the development of the new strategic plan a review was undertaken of the relationship and linkages between the strategic, operational and unit plans. The review brought about the realignment of the documents to reinforce the logical cascading of long-term strategy to short term individual performance (HCC 2002). Accountability links and budget links were also defined in the process.

In Sorell Council the strategic plan provides an indication of the direction that the council and the community wish to take over the next five years. The plan is a rolling process which is reviewed regularly (Sorell Council 2002). The first strategic plan of Sorell Council was developed in 1995 and reviewed in 1999 after community consultation and stakeholder surveys and staff input. For the first time since the plan was developed, this document in the 1999 review became the focus of public meeting in council areas such as Midway Point, Sorell, Nugent, Dodges Ferry, Primrose and Dunalley (Sorell Council 2002). Whilst attendance at the meetings were sometimes less impressive, the shades of opinions and ideas that were gathered proved invaluable.

Undoubtedly the operational and strategic planning processes in the HCC and Sorell Council have several advantages. The planning processes are well integrated with original input from elected members, members of the public and the advisory groups translating into five year and annual plans. These are then linked to a series of unit plans that set more specific targets. It can be deduced from this new approach to planning in the HCC and Sorell Council that the processes are now sensitive to
community aspirations and opportunities for local level development initiatives. They facilitate integrated analysis, synthesis and action and represent a wider approach to solving development problems. The plans now explore the interactive nature of planning as they clearly identify political and bureaucratic bodies and assign them with authority, responsibility and roles in ways that promote partnership in planning, identify functions, decentralise the planning system and effect integration and effectiveness in the formulation and implementation of development policies and programs at the district and sectoral levels.

Community participation, inter-sectoral and inter-disciplinary collaboration are integral parts of the planning processes in the two councils, and they involve continuous monitoring and evaluation of implementation to provide effective feedback (MLGRD 1996). From the above exposition on the Councils' new planning approaches, it would not be out of place to posit that the planning process in the HCC and Sorell Council are in consonance with community based reform which emphasises participation and democratic control by citizens in affairs that affect them (Gardner 1991; Bellah 1991; Zimmerman 1999).

Annual reports

Councils are required by the Local Government Act 1993 to furnish the public with information on the extent to which they have used the resources at their disposal to meet their obligations. This information is mainly provided through the annual report. At the HCC the annual report is produced prior to the Annual General Meeting (AGM) and 21,000 copies are distributed to all households and businesses across the city (HCC 2002). Availability is also advertised to the public at large.
through the AGM notification and copies are distributed to various government agencies, associations and councils. Sufficient copies of the report are retained for distribution to all new residents as part of a “new residents kit” of information. The report is also available on the council’s Internet homepage (HCC 2002).

The report relates performance of individual council functions against the strategies and actions contained in the strategic and operational plans. Performance measures have recently been built into the report. The 1998/99 report provided a five-year summary in the areas of operational expenditure, capital expenditure, borrowings, and employee numbers. The 1999/00 and 2000/01 reports provided a summary of key performance indicators relevant to the five major categories in the strategic plan: economic development, urban enhancement, environmental conservation, community well being, and quality management and customer services. The annual report for 2001/02 was restructured to reflect the new strategic plan introduced in July 2001 (HCC 2002). In addition to the commentary on activities the reports also contain the audited financial statements and listing of all grants and donations provided in the year of the report.

Primarily the annual reports of Sorell Council furnish information on operational expenditure, capital expenditure, borrowings and employee costs. They also summarise the performance indicators relating to the five major headings under the strategic plan: social strategies, economic strategies, environmental strategies, financial strategies, and corporate strategies (Sorell Council 1999; 2002). Apart from the commentary on activities the reports also include the audited financial statements and listing of all grants and donations in the year of the report.
It has been made clear from above that the requirements for the presentation of the annual reports in both the HCC and Sorell Council, as well as all other councils, are demanding and reflect Box’s (1998) and King and Stivers’s (1998) views that community based reform should be built on home rule, local control and responsible government. They are also a pointer to the notion of community government centred on values of citizen participation and democratic control (Gardner 1991; Zimmerman 1999). Residents of the HCC and Soren Council could now be considered to rule because they and their elected representatives are drafted into the drawing of the strategic and operational plans, and they monitor the performance of their councils in the attainment of objectives. They exercise some amount of control in that they can demand explanation for sub optimal performance, and push reform via their exercise of the power of mandate renewal. They ensure responsible government in that they can sanction council by petitioning the Minister of Local Government if they have credible charge to the effect that council is grossly incompetent of carrying out its obligations.

The demanding reporting and accountability regimes have also stemmed Fox and Miller’s (1995: 35) criticisms of ‘totalitarian tendency and citizen apathy’ associated with the community model of government, in that the HCC and Sorell Council have now symbolically relinquished some control to residents and collaborate with them in the drawing up of the strategic direction and vision as well as in the shaping of service content and delivery.
Financial relationship

Rate exemptions

The current financial relationship between the state and local government puts the latter at a disadvantaged position. Although rate exemption for state properties is one of the major reasons for this situation, the problem is heightened by the state requirement that local authorities act as "tax collection agents" on behalf of the state in the provision of fire, library and other services. As noted in the previous chapter, even though local government is exempt from the payment of state government taxes, while it receives grants and subsidies from the state, these relief and assistance are negated by the rate exemptions local government also grants to state government agencies, statutory authorities and a number of government enterprises on crown land. Although service rates for water and sewerage are generally paid (Tasmanian Department of Treasury and Finance 2003). Moreover, while legislation protects state and federal governments from taxation, local government is required to pay Fringe Benefit Tax (FBT) and GST on many operations without any compensation for either the cost of administering these taxes or their impact on local services and employment opportunities (King Island n.d).

Rate exemption for state properties granted by local government in 1993/94 was estimated to be about $5 million (Tasmanian Department of Treasury and Finance 1994). Local government is exempt from the payment of state taxes, most notably payroll tax, land tax and stamp duties. The value of these exemptions in 1993/94 was estimated at $12.4 million (Tasmanian Department of Treasury and Finance 1994). The state government subsidises council costs by providing recurrent subsidies on the annual cost of water and sewerage schemes and by reimbursing pensioner
concessions up to a maximum of $318 in 2003/04 on individual rates. In 2001/02, state water subsidies amounted to $20,037, sewerage subsidies stood at $300,517, while the cost of pensioner rate remissions reached $12.8 million (Tasmanian Department of Treasury and Finance 2003).

The cost to local government on its own is clearly far in excess of the benefits and exemptions granted to local government by way of payroll tax exemptions, valuation and audit subsidies and motor tax exemptions. The trend between 1979/80 and 1982/83 indicates the gap between this benefit given to the state government and the benefits and exemptions received in return, has been increasing. In 1979/80, for example, the benefits and exemptions were equivalent to 93.8 percent of the potential forsaken as a result of state property exemptions (MAT 1984). By 1982/83, those same benefits received by local government were equivalent to only 63.8 percent of the benefits accruing to the state government from the rate exemptions for its properties (MAT 1984). This trend has not altered significantly to date even though total benefit to local government received from the state government including exemptions, subsidies and grants stood at $22.1 million in 1999/00, while total benefit to the state government received by local government for the said period was $12.8 million (Tasmanian Department of Treasury and Finance 1994). From the above statistics it can be concluded that in the financial relationship between the State, and the HCC and Sorell Council, the latter are disproportionately disadvantaged.

There are a number of advantages inherent in reciprocal taxation and that explains why some advocate its introduction into the financial relationship between the state
and local governments. Reciprocal taxation would result in the simplification of administrative arrangements through a reduction in the number of exempt entities, which assists in ensuring that the decision-making takes more account of the full cost of providing government services. The application of reciprocal taxation would also effect a closer alignment between the revenue and expenditure responsibilities of state and local governments, as well as facing them with charges that fully reflect costs, which will enhance the efficiency of resource management (SLGFRWG 2002).

Better resource allocation outcomes are therefore more likely if all government activity faces prices that are fully cost reflective, including taxation. Reciprocal taxation arrangements will also serve to improve the transparency and accountability of intergovernmental taxation. The application of the general rates to state properties would provide local councils with revenue in relation to properties that they service within their municipal area, thereby producing a closer alignment between council revenue and expenditure responsibilities. By making the property holding more transparent, it would encourage better asset management by state government agencies.

This seemed to have eventuated with the HCC having to report that a major change has come into effect in the financial relationship between local government and State Government in the 2003/04 Financial Year. The parties have reviewed their financial exchanges with the result that the State Government now pays full rates for its properties and councils pay payroll and land tax (HCC 2004).
Library levy

As mentioned earlier in chapter five, the Tasmanian Government provides library services and seeks a contribution from local government towards this cost annually in accordance with section 10 of the Libraries Act 1984. Each municipality in Tasmania makes a contribution to library services. It is equivalent to 0.35 percent per dollar of the adjusted assessed annual value of all leviable land, less a prescribed amount (collection fee) which is a maximum of 1.5 percent of the gross assessed contribution (Tasmanian Department of Treasury and Finance 2003).

Table 6.1: Library contributions of HCC and Sorell Council

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HCC</td>
</tr>
<tr>
<td>1998/99</td>
<td>1 054 000</td>
</tr>
<tr>
<td>1999/00</td>
<td>1 058 000</td>
</tr>
<tr>
<td>2000/01</td>
<td>1 075 000</td>
</tr>
<tr>
<td>2001/02</td>
<td>1 102 000</td>
</tr>
<tr>
<td>2002/03</td>
<td>1 119 000</td>
</tr>
<tr>
<td>2003/04</td>
<td>1 118 000</td>
</tr>
</tbody>
</table>

Sources: Annual reports of HCC and Sorell Council from 1999/99 to 2004/04

Table 6.1 above shows the library contributions of the HCC and Sorell Council from 1998/99 to 2003/04. The table indicates that the HCC’s library contribution of $1.054 million in 1998/99 increased to almost $1.120 million in 2003/04, representing a 6.3 percent increase. Sorell Council paid $122,282 in 1999/99 and in
2003/04 its contribution had risen to $441,170 which is equivalent to a 261 percent increase.

Even if these percentages were discounted for inflation the resulting figures would still be appreciable increases in contribution to library services by the councils over the said period. The equivalent of 2 percent of the HCC's rate revenue was paid to the State towards the provision of library services in 1998/99. The percentage contribution remained at 2 percent of the equivalent of rate revenue for 2000/01 and 2001/02. Sorell Council also paid the equivalent of an even 2 percent of its total rate revenue on the library levy in 2001/02 and 2002/03.

The contributions to library services represent a financial impost to the councils when considered against the backdrop that the revenue base of local government has not been expanding appreciably over the years and the Commonwealth and State Governments have made cut backs to funding to councils.

The HCC and Sorell Council, like all Tasmanian local governments, pay fire levy to the state government. Table 6.2 below summaries the fire service levy payments of the HCC Sorell Council to the State Fire Commission from 1998/99 to 2003/04. From 1998/99 to 2002/03 the contribution of the HCC to the provision of fire services rose from $4.054 million to $4.738 million representing 16.9 percent increase. Even if this percentage were adjusted for inflation it would still represent a significant increase in contribution by the council to fire services provision. In 2003/04 the HCC raised total revenue of $82.2 million and paid $4.887 million out of this amount as fire services levy to the state government. This levy represented 5.9
percent of the revenue earned for that year (HCC 2003). The contribution of Sorell Council increased from $194,556 in 1999/99 to $225,274 in 2001/02, representing 15.8 percent increase.

<table>
<thead>
<tr>
<th>Year</th>
<th>HCC</th>
<th>Sorell Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998/99</td>
<td>4,054,000</td>
<td>194,556</td>
</tr>
<tr>
<td>1999/00</td>
<td>4,197,000</td>
<td>219,064</td>
</tr>
<tr>
<td>2000/01</td>
<td>4,560,000</td>
<td>221,506</td>
</tr>
<tr>
<td>2001/02</td>
<td>4,718,000</td>
<td>225,274</td>
</tr>
<tr>
<td>2002/03</td>
<td>4,738,000</td>
<td>233,496</td>
</tr>
<tr>
<td>2003/04</td>
<td>4,887,000</td>
<td>233,496</td>
</tr>
</tbody>
</table>

Sources: Annual report of the HCC and Sorell Council from 1998/99 to 2004/05

It is the view of majority of councils including the HCC and Sorell Council that the imposition of the fire services levy does have financial implications for local government in that as the collecting body, there may exist reduced rating capacity for local councils’ own needs, through public perception created about which level of government imposes the levy (SLGFRWG 2002). A further concern of councils is that the levy is payable by them irrespective of whether or not the corresponding rates are collected. This can create financial difficulties for councils when a significant proportion of rates are effectively uncollectable, due to circumstances such as abandoned lands or chronic problems with bad debtors (SLGFRWG 2002). Under current arrangements there exists no mechanisms by which the inability to pass on the cost of the levy can be compensated for.
Planning and local government levy

As noted in the previous chapter, the state government has involvement in the operation of local government through the Department of Primary Industries, Water and Environment, which both have policy, regulatory and advisory roles. Local government contributes to the cost of providing these services through a planning and local government levy equal to 0.15 percent per dollar of the total adjusted assessed value of all rateable (non-exempt) land in their municipality.

Table 6.3: Planning and local government levy paid by HCC and Sorell Council

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution ($)</th>
<th>HCC</th>
<th>Sorell Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998/99</td>
<td>458000</td>
<td>458000</td>
<td>53205</td>
</tr>
<tr>
<td>1999/00</td>
<td>460000</td>
<td>460000</td>
<td>53229</td>
</tr>
<tr>
<td>2000/01</td>
<td>471000</td>
<td>471000</td>
<td>53870</td>
</tr>
<tr>
<td>2001/02</td>
<td>472000</td>
<td>472000</td>
<td>54246</td>
</tr>
<tr>
<td>2002/03</td>
<td>479000</td>
<td>479000</td>
<td>68634</td>
</tr>
<tr>
<td>2003/04</td>
<td>506000</td>
<td>506000</td>
<td>74778</td>
</tr>
</tbody>
</table>

Source: Annual reports of HCC and Sorell Council from 1998/99 to 2004/05

Local government paid the state government $2.6 million in planning and local government levy in 1999/00, while in 2001/02 it paid $2.7 million. The contributions of the HCC and Sorell Council to the planning and local government levy from 1998/99 to 2003/04 are shown above on Table 6.3. The table indicates that from 1998/99 to 2001/02 the HCC’s levy increased from $458,000 to $472,000, representing 3.1 percent increase. It then increased to $479,000 in 2002/03 and again to $506,000 in 2003/04, representing 1.0 percent and 5.6 percent increase respectively. The planning levy of Sorell Council increased from $53,205 in 1998/99
to $54,246 in 2001/02, an equivalent of 2 percent increase. It increased further from $68,634 in 2002/03 to $74,778 in 2003/04, representing almost a 9 percent increase.

The impact of this levy is very similar to the library levy. Both levies represent a direct financial impost on local government, as these two levies are not explicitly levied against individual ratepayers. In both cases councils have little input into how funds are expended. This is undemocratic as it precludes local democratic structures from participating in all affairs that affect them, a trend at loggerheads with community based reform, which advocates the full involvement of local people and institutions in all the processes at the local level (Zimmerman 1999; Gyasi 1979). It is also an example of vertical fiscal imbalance. As with the library levy there is an argument for the removal of this levy on accountability, responsibility and transparency grounds, to align funding responsibilities with those associated with service delivery (SLGFRWG 2002).

**Rationalisation of roles and functions**

There are many areas of public service delivery where state and local governments have duplicating and overlapping roles and responsibilities. As reported in chapter five, the Local Government Advisory Board (LGAB) (1992) in its final report on the Modernisation Process, revealed that there was a potential for a distribution of functions within the administrative responsibility of 17 state agencies which could possibly be performed by local government through the devolution of responsibility, or by contractual arrangements (LAGB 1992). The area that was identified to have the greatest promise for the immediate transfer of responsibilities was physical service, which virtually duplicated the current activities performed by councils. In
particular, this related to maintenance of roads, bridges, national parks and protected areas including day use facilities, grounds for schools, public libraries, hospitals and regional health centres (LGAB 1992: 14). The overlap and duplication of functions between the state and local governments come in for criticism on efficiency and democracy grounds. For the HCC and Sorell Council the following services are a few examples where overlapping and duplicating mandates have generated diseconomies and democratic deficits.

_Provision of library and fire services_

As noted earlier, the Tasmanian Government currently provides library and fire services and seeks a contribution from local government toward the cost. Local governments in all other Australian states and territories render library services and receive a contribution from the state to meet the cost (Tasmanian Department of Treasury and Finance 2003).

The creation of a two-tiered library system with the state responsible for regional libraries and state administration will not only afford an opportunity for local communities to play a much greater role in the provision of services but also enable them to tailor those services to community preferences and expectations. The ability to re-emphasise the volunteer and community nature of urban, country and rural brigades through the partial devolution of responsibility to local government will entice greater community involvement in fire protection. The co-provision of fire protection is also reasonable because members of any neighbourhood for reason of proximity are most likely to arrive first at a fire outbreak scene in that neighbourhood before the State Fire Commission. If this suggestion is adopted it would enhance
civic activism and participation on the part of local people in their community affairs (Timney 1998; Foley 1998; Gray and Chapin 1998).

Provision of planning services

The state government acts as a watchdog over the way in which local authorities carry out their planning activities. This is to ensure that council decisions do not result in adverse impacts on other councils or the provision of state government and certain private sector services. The HCC has legislative responsibility to plan and manage the sustainable growth, use and development of the city and its natural and physical resources together with maintenance of the public health of its residents and visitors (LGB 2002). The council’s Development and Environmental Services Division is a multi-disciplinary team-structured division with the following principal functional responsibilities arising directly from legislature and a number of the key areas of the city of Hobart strategic plan 2001/05: development appraisal, structure planning and scheme review, urban design (strategic), heritage and conservation, public health and environmental health services. All of the above functional activities are carried out and paid for fully by the council, yet it has to still pay the planning and local government levy to the state government. Sorell Council, like the HCC undertakes and pays for its planning activities but it is still obligated to make payment of the planning levy to the state government. Arguably this levy acts to confuse the responsibilities between the councils and the state government for the funding and provision of services.
Provision of water services

As mentioned in the preceding chapter, findings of London Economics and Felmingham and Page studies were influential in the Water Reform Program of 1997. Under the 1997 Water Reform Program the Hobart Regional Water Board was transferred from state government ownership and established pursuant to section 38 of the Local Government Act 1993 as a joint authority — Hobart Regional Water Authority, and trading under the name of Hobart Water. Eight councils in and around the greater Hobart area own Hobart Water. These councils include Hobart City, Glenorchy, Kingborough, Brighton, Derwent Valley, Sorell, and Southern Midlands. The Hobart City Council’s ownership interest in the equity of the joint authority on 30 June 2001 was 28.94 percent, with a voting power of 4 out of a total of 20 votes (HCC 2001).

Sorell Council’s equity in the said year was 2.003 percent (or $2,533,325 of a total of $126,475,557 in net assets). The council’s voting power in the joint authority is 1 of 20 votes (Sorell Council 2002). The council’s share of the equity was recognised as an asset in the accounts during 1998/99, and is revalued every five years in accordance with the Revaluation of Non Current Asset Policy (Sorell Council 2002). It is clear from the figures that the Hobart City Council’s ownership interest in the joint authority is bigger than that of Sorell Council, so too is its voting power. The differential voting powers is equitable when viewed against the backdrop of the councils’ respective equity in the joint authority. The voting powers the councils now hold have stemmed their remoteness from important water services decisions, a democratic deficit, which they resented under the erstwhile Regional Water Board.
Amalgamation

Neither the HCC nor Sorell Council were affected by the 1993 restructuring of council boundaries. However, both councils were recommended as candidates for amalgamation with other councils in the 1997 amalgamation proposals. In reference to the Greater Hobart Council the Local Government Board (LGB) had considered three main options for local government structures. In addition to Greater Hobart Council to replace the present urban areas of the Hobart, Glenorchy and Clarance City Councils, the LGB had considered a two council model involving an Eastern Shore and a Western Shore council. It had also considered the alternative of largely retaining three urban councils for the area encompassed by the Greater Hobart Council (LGB 1998).

The LGB in its Principal Recommendations, the Exposure Draft and Final Reports preferred the Greater Hobart Council alternative to the other two options. Giving reasons for its preference, the LGB contended that the financial efficiencies that could be generated by the Greater Hobart Council were clear and had been estimated to be $14 million (LGB 1998). At the same time, the LGB continued to be of the firm view that concerns about the capacity of the Greater Hobart Council to deliver effective, responsive and timely services were unjustified.

In relation to the two council option for the greater Hobart area, the LGB financial modelling revealed that the division of the greater Hobart urban area into Western shore and Eastern shore councils would generate significant efficiencies, although not to the same extent as could be expected from a Greater Hobart Council. In the absence of effective regional body arrangements, 'it would also produce inferior

The third option, which was the preferred option of the three metropolitan Hobart councils, involved a three council model under which three separate councils within the greater Hobart urban area would be retained and which would see the establishment of a joint authority and the implementation of the other efficiency measures to realise the savings available under other options (LGB 1998). In essence the proposal of the metropolitan councils assumed that the joint authority would produce the "external" outcomes in the form of improved coordination and integration of strategic objectives and policy development and implementation (LGB 1998). The "internal" efficiencies would be gained by promoting what is described as competitive behaviour, including extensive competitive tendering and contracting, on the part of the three councils in lieu of more conventional measures to generate economies of scale. The councils believed that this approach could produce efficiency gains at least the equal of the Greater Hobart Council, and that it would also result in better governance arrangements and greater effectiveness in other respects (LGB 1998: 5).

In rejecting the argument of the Hobart councils for their preferred boundary option, the LGB contended that its financial modelling suggested that the efficiency gains which they attributed to the three council/joint authority model were also available to the Greater Hobart Council and to the two council models. It also suggested that the economies of scale available to the other models were not available to a significant degree under the three councils model (LGB 1998: 5). Based on this argument the
LGB concluded that the proposal of the Hobart councils did not provide a viable alternative to its preferred Greater Hobart Council. The metropolitan councils could not hide their frustration and disappointment at the rejection of their proposal.

The recommendation of the LGB for the creation of a Greater Hobart Council in its final report to the government was not only resented by the Hobart metropolitan councils but it generally also received a negative reaction from local government over the process by which the LGB arrived at this recommendation. Opinion polling and elector polls conducted by several councils revealed the opposition and resentment towards further restructuring. Elected members of local government did not understand why further restructuring was being forced upon councils while proposals for comprehensive parliamentary reform at State Government level was receiving little or no attention (Haward and Zwart 2000).

The 1997 amalgamation proposals directed the merger of Sorell Council with Tasman, Glamorgan/Spring Bay and parts of the Southern Midlands and Clarence councils. Following the release of the Premier’s Direction Statement a series of discussions occurred between representatives of the Tasman, Sorell and Glamorgan/Spring Bay Councils which led to a submission to the Local Government Board. During these discussions it was obvious that each council preferred to remain as a separate entity but judging this was unlikely, alternative proposals had to be developed to reduce the number of councils in the South East from five to two (Sorell Council 1999).
When the 1997 amalgamation could not materialise the councils in the South East lamented the considerable effort and time they had invested in the preparatory work to embrace the mergers. They however, could point to a number of benefits that accrued to the networking at the preparatory stage towards the amalgamation. The liaison, friendship and corporation that developed between staff and elected members of the councils while working in committees, group discussions, and meetings on the proposed mergers, would otherwise have remained inaccessible. Another benefit was the creation of closer links and understanding between people in the region which certainly was of enormous value in enhancing the development of partnership agreements between the councils and the state (Sorell Council 2002).

The growing resistance to the 1997 proposals for the further restructuring of local government reached a head when legal complications and lack of political support for the government's reform agenda precipitated a defeat of the minority Rundle Government in the September 1998 elections. The defeat of the minority Liberal Government and the election of the majority ALP Government saw the demise of the proposed amalgamations and the birth of partnership between the incoming ALP Government and councils. The reform proposal did not succeed due mainly to the top-down approach to the process, which had suffered similar fates in past attempts at reforms and therefore stood in sharp contrast to the impressively successful reforms of the early 1990s.
**Significant business activities**

The HCC and Sorell Council, like most other councils, introduced some elements of the NCP into their operations in line with the Tasmanian Government's Application Statement. The HCC has demonstrated commitment to the implementation of the NCP principles. The council has applied a gamut of commercial principles to its operations. These include a restructuring to create two controlling authorities to manage in a commercial fashion, the major business activities of Civic Solutions and the Tattersall's Hobart Aquatic Centre (THAC). As entities with commercial focus, both authorities operate on strong business principles and employ contemporary practices to achieve efficiency and effectiveness (LGB 2002). In addition to the two controlling authorities where the reconfiguration on the basis of a client – provider separation and the use of contracts to define relationships of parties is marked, other provider sides now operate on the basis of service level agreements with the client side. These contracts and agreements specify the targets, standards, performance expectations and timelines to be complied with by the service providers.

Sorell Council is gradually adopting commercial principles in relation to its operations. A number of corporate expenses are now being attributed to activities (significant business activities and others) in line with the tenets of full cost attribution. This has facilitated better understanding of the true costs of providing services (Sorell Council 1998; 1999). Occasionally prices are tested through public tendering of works.

The annual reports of the HCC and Sorell Council contain financial information on their significant business activities (SBAs), including the notional competitive
neutrality costs. Pursuant to section 84 (2) (da) of the Local Government Act 1993, the HCC has identified water supply and sewerage as significant business activities. It has also identified parking and the Tatesall’s Hobart Aquatic Centre as commercial-like undertakings (HCC 2002). Sorell Council has listed road and transport together with the trading activities of water and sewerage as significant business activities. Details of these SBAs of both councils are set out below. Since water and sewerage occur as SBAs in both councils they are presented in composite forms as Tables 6.4 and 6.5 indicate.

Water services involve the purchase of bulk water, water reticulation and water quality control. Table 6.4 shows that in the 2001/02 financial year, the revenue and expenditure figures for water services of the HCC were respectively $9.456 million and $8.131 million, which earned a profit of $1.325 million. In 2002/03 the water services revenue was $8.97 million, while the expenditure stood at $9.03 million, resulting in a loss of $58,000 loss. The competitive neutrality costs for water services for 2001/02 and 2002/03 were $10.194 million and $8.438 million respectively. In 2004/05 the revenue for water was $11 million while the expenditure reached $10.1 million, with a profit margin of $0.851 million and competitive neutrality costs of $6.5 million.

The table also shows that Sorell Council earned water revenue of $0.868 million and incurred expenditure of $0.680 million in 1999/00, which resulted in a profit of $196,139. The competitive neutrality cost for water services that year was $60,748. For 2001/02 the revenue and expenditure figures were respectively $0.715 million and $0.666 million, with a profit margin of $49,717. The competitive neutrality cost
reached $98,383. The revenue, expenditure, profit/loss as well as competitive neutrality cost for 2002/03 reveal similar pattern of revenue over expenditure, and profit rather than loss as bottom line.

Table 6.4: Financial information on Water supply of HCC and Sorell Council

<table>
<thead>
<tr>
<th>Year</th>
<th>Council</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Profit/loss</th>
<th>Competitive neutrality cost</th>
</tr>
</thead>
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<tr>
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<td>8028000</td>
<td>-439000</td>
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</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>868120</td>
<td>671981</td>
<td>49717</td>
<td>60748</td>
</tr>
<tr>
<td>2001/02</td>
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<td>8131000</td>
<td>1325000</td>
<td>10194000</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>715276</td>
<td>665559</td>
<td>49717</td>
<td>98383</td>
</tr>
<tr>
<td>2002/03</td>
<td>HCC</td>
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<td>9030000</td>
<td>-58000</td>
<td>8438000</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>872426</td>
<td>710556</td>
<td>161870</td>
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</tr>
<tr>
<td>2004/05</td>
<td>HCC</td>
<td>11000000</td>
<td>10149000</td>
<td>851000</td>
<td>6488000</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>966000</td>
<td>977195</td>
<td>-10912</td>
<td>94748</td>
</tr>
</tbody>
</table>

Source: Annual reports of HCC and Sorell Council from 1999/00 to 2004/05

The revenue, expenditure and profit figures for that year were $0.872 million, $0.710 million and $11,437 respectively. For 2004/05 the revenue and expenditure figures were respectively $0.966 million and $0.977 million. This resulted in a loss of $10,912. The competitive neutrality cost was $94,748.

Sewerage services

Sewerage services that are delivered by the HCC and Sorell Council embrace reticulation, treatment and discharge of sewage effluent. Table 6.5 sets out the
financial details of sewerage services of both councils from 1999/00 to 2004/05. The
table indicates that the HCC generated sewerage revenue of $5.013 million and
incurred expenditure of $6.250 million in the 1999/00 financial year, with an
operating loss of $1.237 million. In the 2001/02 financial year the revenue and
expenditure amounts were respectively $6.083 million and $5.789 million, with an
operating profit of nearly a third of a million. For 2002/03 the revenue and
expenditure figures were respectively $7.658 million and $6.648 million, which
resulted in an operating profit of about $1 million. The competitive neutrality costs in
respect of sewerage services from 1999/00 to 2002/03 were $12.760 million, $7.101
million and $6.458 million respectively. In 2004/05 sewerage services earned
revenue of $7.395 million and incurred expenditure of $7.225 million, which resulted
in a profit of $140 000, with competitive neutrality costs of $6.934 million.

The table also indicates that Sorell Council earned in 1999/00 of $0.622 million in
sewerage revenue, while it incurred expenditure of $0.359 million. The bigger
revenue over expenditure brought in a profit of $262,887; with competitive neutrality
cost that stood at $94,622. For 2001/02 the revenue and expenditure figures were
$0.825 million and $0.560 million respectively. The profit was $264,297, while the
competitive neutrality cost reached $17,963. The picture for 2002/03 is not different
from the previous years. Revenue for that year was also bigger than the expenditure.
The revenue was $0.856 million, while the expenditure amounted to $0.564 million,
resulting in a profit of $291,639. The competitive neutrality cost reached $257,288.
The revenue, expenditure and loss for 2004/05 were $0.754 million, $0.846 million
and $91,176 respectively. The competitive neutrality cost was $229,953.
<table>
<thead>
<tr>
<th>Year</th>
<th>Council</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Profit/loss</th>
<th>Competitive neutrality cost</th>
</tr>
</thead>
<tbody>
<tr>
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<td>{[$]}</td>
<td>{[$]}</td>
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</tr>
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<td>6250000</td>
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<td>12760000</td>
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<td>262887</td>
<td>94622</td>
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<td>294000</td>
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<td>264297</td>
<td>17963</td>
</tr>
<tr>
<td>2002/03</td>
<td>HCC</td>
<td>7658000</td>
<td>6648000</td>
<td>1010000</td>
<td>6458000</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>855704</td>
<td>564065</td>
<td>291639</td>
<td>257288</td>
</tr>
<tr>
<td>2004/05</td>
<td>HCC</td>
<td>7395000</td>
<td>7225000</td>
<td>140000</td>
<td>6934000</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>753785</td>
<td>845546</td>
<td>-91761</td>
<td>229953</td>
</tr>
</tbody>
</table>

Source: Annual reports of HCC and Sorell Council from 1999/00 to 2004/05

The HCC has gone beyond what is required under the NCP by publishing the revenues and costs of other activities which are not SBAs. These activities are the Tattersall’s Hobart Aquatic Centre (THAC) and Parking Activities. The council from 2001/02 onwards has separated parking into On-Street and Off-Street in the annual report (LGB 2002; HCC 2002). Details of these activities are set out below on Tables 6.6, 6.7 and 6.8.

Table 6.6 below shows the revenues, expenditures and profit/loss as well as the competitive neutrality costs in respect of THAC from 2000/01 to 2003/04. The table indicates that the Tattersall’s Hobart Aquatic Centre’s (THAC) revenue and expenditure for the 2000/01 financial year were respectively $2.2 million and $2.4 million approximately, which resulted in an operating loss of $162 000. In the 2001/02 financial year, THAC earned revenue of nearly $2.4 million and incurred
expenditure of approximately $2.6 million, culminating in an operating loss of $269,000 (HCC 2002; 2003). In the 2002/03 financial year THAC’s revenue and expenditure figures were respectively $2.80 million and $2.98 million, which resulted in an operating loss of $183,000. For 2003/04 the Centre’s revenue amounted to $3.3 million whilst the expenditure stood at $3.7 million, resulting in an operating loss of over a third of a million, and competitive neutrality costs of $1.6 million.

Table 6.6: Financial details of Tattersall’s Hobart Aquatic Centre

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue  ($)</th>
<th>Expenditure  ($)</th>
<th>Profit/Loss  ($)</th>
<th>Competitive Neutrality cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/01</td>
<td>2 193 000</td>
<td>2 355 000</td>
<td>-162 000</td>
<td>1 711 000</td>
</tr>
<tr>
<td>2001/02</td>
<td>2 379 000</td>
<td>2 648 000</td>
<td>-269 000</td>
<td>1 355 000</td>
</tr>
<tr>
<td>2002/03</td>
<td>2 792 000</td>
<td>2 975 000</td>
<td>-183 000</td>
<td>1 383 000</td>
</tr>
<tr>
<td>2003/04</td>
<td>3 336 000</td>
<td>3 667 000</td>
<td>-331 000</td>
<td>1 618 000</td>
</tr>
</tbody>
</table>

Sources: Annual reports of the HCC from 2000/01 to 2003/04

According to the HCC, THAC’s poor financial performance for the past four years is blamed on a fire that occurred on 4 April 2001, closing the centre. The centre reopened on 14 September 2001. Accordingly the above figures include approximately nine months of operating revenue and expenses for 2001/02 and 2000/01 and insurance claims recoveries relating to lost revenue. The total amount received from council’s insurers is $4.99 million (HCC 2002: 54; HCC 2003: 58).
Off-Street Parking

In respect of off-street parking, the HCC’s revenue, expenditure and profit/loss as well as competitive neutrality costs from 2000/01 to 2003/04 are displayed on Table 6.7 below. The table indicates that in the 2000/01 financial year off-street parking brought in revenue to the tune of $2.67 million, while it incurred expenditure of $2.46 million approximately.

Table 6.7: Financial details of off-street parking operations of HCC

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Profit/loss</th>
<th>Competitive Neutrality cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/01</td>
<td>2,665,000</td>
<td>2,459,000</td>
<td>206,000</td>
<td>2,726,000</td>
</tr>
<tr>
<td>2001/02</td>
<td>2,717,000</td>
<td>2,713,000</td>
<td>4,000</td>
<td>2,804,000</td>
</tr>
<tr>
<td>2002/03</td>
<td>2,711,000</td>
<td>2,704,000</td>
<td>7,000</td>
<td>2,786,000</td>
</tr>
<tr>
<td>2003/04</td>
<td>2,894,000</td>
<td>2,566,000</td>
<td>-328,000</td>
<td>2,975,000</td>
</tr>
</tbody>
</table>

Sources: Annual reports of HCC from 2000/01 to 2003/04

This resulted in a profit of $206,000. For the 2001/02 financial year the revenue and expenditure figures were respectively $2.72 million and $2.71 million, which yielded a profit of $4000. In the 2002/03 financial year the revenue and expenditure figures stood at respectively $2.71 million and $2.70 million, earning a profit of $7000. The competitive neutrality costs of off-street parking from 200/01 to 2002/03 were $2.726 million, $2.804 million and $2.786 million respectively. For 2003/04 off-street parking brought in revenue of nearly $2.9 million and incurred expenditure of almost $2.6 million, which resulted in an operating profit of a little over a third of a million, with competitive neutrality costs of almost $3 million.
On-Street Parking

Table 6.8 shows the financial standing in relation to on-street parking. It is clear from the table that for the 2000/01 financial year the HCC's on-street parking activity brought in revenue of nearly $3.6 million, while it incurred expenditure to the tune of $2.5 million, which resulted in a profit of $1.04 million. For the 2001/02 and 2002/03 financial years the revenue figures were $3.331 million and $3.787 million respectively.

Table 6.8: Financial details of on-street parking operations of HCC

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue  ($)</th>
<th>Expenditure ($)</th>
<th>Profit/Loss ($)</th>
<th>Competitive Neutrality costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/01</td>
<td>3,571,000</td>
<td>2,531,000</td>
<td>1,040,000</td>
<td>492,000</td>
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<tr>
<td>2001/02</td>
<td>3,331,000</td>
<td>2,437,000</td>
<td>894,000</td>
<td>443,000</td>
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<tr>
<td>2002/03</td>
<td>3,787,000</td>
<td>2,577,000</td>
<td>1,210,000</td>
<td>545,000</td>
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<tr>
<td>2003/04</td>
<td>4,622,000</td>
<td>3,003,000</td>
<td>1,619,000</td>
<td>716,000</td>
</tr>
</tbody>
</table>

Source: Annual reports of HCC from 2000/01 to 2003/04

The expenditure figures for the said periods were $2.4 million and $2.6 million respectively. The operating profits for the two periods were $0.9 million, and $1.2 million respectively. The competitive neutrality costs for on-street parking for 2000/01 and 2001/02 stood at $492,000 and $443,000 respectively. In the 2002/03 financial year the competitive neutrality costs was $545,000. In 2003/04 on-street parking raised revenue of $4.6 million and incurred expenditure of $3.0 million, which brought in a profit of $1.6 million, with competitive neutrality costs of $0.7 million.
The SBAs of roads and transport services of Sorell Council are shown on Table 6.9 below. It is shown on the table that in 1999/00 roads and transport services earned Sorell Council revenue of $1.837 million but it incurred expenditure to the tune of $2.512 million, resulting in an operating loss of $677,034. The competitive neutrality was $2201.

Table 6.9: Financial information on roads and transport services of Sorell Council

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Profit/loss</th>
<th>Competitive neutrality cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>{$}</td>
<td>{$}</td>
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<td>1837092</td>
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</tr>
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<td>2002/03</td>
<td>1762506</td>
<td>4472661</td>
<td>-2710155</td>
<td>8352007</td>
</tr>
</tbody>
</table>

Source: Annual reports of Sorel Council from 1999/00 to 2002/03

For 2001/02 the revenue was $1.765 million, while the expenditure was $2.337 million, which resulted in well over three-fifths of a million operating loss. The competitive neutrality cost was $2.3 million. The picture for 2002/03 revealed a similar pattern of excess expenditure over revenue. Revenue earned that year was $1.762 million, while expenditure incurred stood at $4.472 million, culminating in an operating loss of $2.710 million. The competitive neutrality cost was $8.352 million.

Assessing the changes

The legislative and managerial reform components of the modernisation process in the HCC and Sorell Council, as in all Tasmanian councils, have been implemented to greater extents than the rationalisation of finances and roles and functions between...
the state and local government. Structural reform has not entailed amalgamations in either council and internal re-organisation in terms of the purchaser-provider separation has occurred only in the HCC. In that sense, it can be argued that organisational change has had greater expression in the HCC than Sorell Council.

As noted in the preceding chapter, the modernisation process has led to the pursuit of at least two agendas: first, the improved management of resources and, second, governance issues and especially the redefinition of roles and responsibilities of the various actors in local government. The first agenda has been seen as initiatives aimed at making councils more business-like and more accountable for their resources and has required the delivery of high quality services at reduced costs. All Tasmanian councils, including the HCC and Sorell Council, can be considered to have embraced the language of the new public management. Like most local governments across Australia, municipal reforms in Tasmania (modernisation process), have brought about financial management improvement, devolution, clearer and stronger accountability regimes, performance evaluation and strategic management (Aulich 1997). To ensure that services are delivered in a more efficient fashion, councils have employed an array of models such as resource sharing, competitive tendering and contracting, increasing market influences on pricing of their goods and services, municipal amalgamation and updating technology to facilitate delivery for example, one-stop shops, online programs, and quality accreditation.

These changes are certainly discernible in the HCC and Sorell Council following the launch of the modernisation process. For example, the HCC has established a distinct
management stratum, expected managers to update their technical skills, and has adopted a strong customer-focus, setting up a one-stop customer centre (Ryan 1997; LGB 2002; HCC 2004). Sorell Council has complimented consultation and participative processes with a customer-service culture at the point of service delivery (Sorell Council 2004). Both councils publish financial information on their SBAs, including the notional competitive neutrality costs. That information is available at anytime to demonstrate the full cost of any activity with all overheads attributed on justifiable bases (LGB 2002; Sorell Council 2005). A number of corporate expenses in both councils have been attributed to activities (SBAs and others) in line with the principle of full cost attribution. This affords a better understanding of the true cost of providing a particular service (LGB 2002; Sorell Council 2004).

The HCC has restructured to create two controlling authorities to manage in a commercial fashion, the major business activities of Civic Solutions and the Tattersall’s Hobart Aquatic Centre. As commercial entities both operate on strong business principles and employ contemporary practices to achieve efficiency and effectiveness outcomes (LGB 2002; HCC 2005). In addition to the two controlling authorities the council has been structured to achieve a client-provider separation operating on service level approach for operational work, and specifications and drawings for project work (LGB 2002; HCC 2004). This method attempts to ensure that service standards are specified and delivered at the best price. Testing of pricing is undertaken by the occasional public tendering of works, by competing for external contracts on full cost basis and through price comparisons between council’s internal provider and external quantity surveyor (LGB 2002).
The second agenda has sought to clarify the respective roles of state and local government, increase devolution and local capacity, mandate consultation and reporting as part of the strategic management process, and enhance provisions for referenda to ensure that councils are more accountable and responsive to the communities they serve (Aulich 1999).

Both the HCC and Sorell Council have embraced all these changes. For example, they have developed 5-year strategic plans, publish comprehensive annual reports on their activities and finances, and use a variety of mechanisms to consult with their communities, including targeted consultation programs, and the provision of opportunities for input into the development and planning for projects and events (LGB 2002; Sorell Council 2004). In the HCC for example, extensive consultation programs are undertaken for all major developments such as the North Hobart Cultural Park and Skate Park, the Sandy Bay Beach Redevelopment Plan, and the redevelopment of the "50 and Better Centre" (LGB 2002). To reduce functional overlap and duplication, the HCC and Sorell Council have signed partnership agreements with the state. These agreements cover a range of social, economic and environmental initiatives that will bring benefits to the councils and Tasmania as a whole. The agreements spell out the part to be played by each party in progressing the range of initiatives.

Despite these accomplishments, the modernisation process has not brought in all the desired outcomes. Notwithstanding the granting of general competence powers and expansion of councils' autonomy of a sort, there is no evidence that the modernised local government act has affected significant changes to the state – HCC and Sorell
Council power nexus. As noted in the previous chapter, reserve powers remain in the hands of the state. For example, the state government has power to dissolve any council (including the HCC and Sorell Council), or replace elected representatives with appointed commissioners (as occurred in Victoria in the 1990s) (Aulich 1999). The state can still issue an order that the HCC or Sorell Council may issue, and is empowered to refuse approval of their by-laws, overturn their existing gazetted by-laws and in some cases can overturn their resolutions (as happened in Queensland), and can cap rates (Aulich 1999; Dollery et al 2006; Kane 2006; Murray and Dollery 2006; Dollery and Johnson 2006).

Even under the reformed local government act, local government remains a creature of the state government (Aulich 1999; Wesing 1997). In contrast to the development at state and federal spheres, there is little evidence of increased executive power at the local level in Tasmania and in the other states and territories. Local governments are encouraged by the states to make clearer distinction between policy matters and operational responsibilities; they have attempted to liken councils and their elected officials to a company’s board of directors and its shareholders. This move can be viewed as an attempt to focus councillors on more strategic issues. However, this is coming at a time when state government political executives are taking measures to retain and even have tighter control over local government activities through legislative and regulatory changes (Aulich 1999: 15). To reduce such power vulnerability, councils and mayors are calling for constitutional recognition of local government.
The rationalisation of roles and functions between the HCC and Sorell Council, like all other councils, and the state, has received little attention. Following the new local government act and boundary changes, further consultations were conducted to consider the state-local government nexus, unfortunately this yielded only minor adjustment of the respective powers and functions of the two spheres of government (Aulich 1999). More needs to be done to comprehensively rationalise the roles and functions of the state and local government, especially in the physical services area identified by the Local Government Advisory Board (LGAB 1992).

Rationalisation of roles and functions between councils themselves, especially between small ones, may represent a hedge against forced amalgamation, which for the past decade or so has been justified as a means to improve efficiency of local government operations. However, much ambivalence surrounds the efficacy of amalgamations (Dollery and Johnson 2005; Allan 2003; Brynes and Dollery 2003; Dollery and Crase 2004). Rationalisation of roles and functions between the HCC and Sorell Council will afford opportunity for the former (which has relatively bigger resources base) to share these resources with the latter that lacks in many respects. For example, the HCC can share resources such as specialised employees like environmental experts, town planners and skilled consultants, capital equipment like earth-moving machinery, with Sorell Council. Because both councils were untouched by the 1990/93 amalgamations and for the reason that the 1997 Directive Statement’s proposal that they be merged with other councils in their respective surroundings failed, resource sharing between them may stem any future decision to force consolidation on them. This is because efficiency gains that are expected from mergers could also be achieved by resource sharing.
The financial reform element of the modernisation process has received the scantest attention at the implementation stage. It has already been stated that despite the launch of the modernisation process the current arrangement that underpins state and local government financial relationship generates inefficiencies as it distorts decision-making. Inefficiencies of these sorts derive from levies and charges on local government to fund services provided by the state in which local government has little, if any, input; various fees and charging arrangements which are not commercially based and therefore distort decision-making (Tasmanian Department of Treasury and Finance 2003).

This situation puts Tasmanian councils in a financially distressed position, a state of affairs exacerbated by reduced state and Commonwealth financial assistance to local government. Property rates which are the only taxing revenue source of local government is sometimes subject to regulation by the state, and councils are reluctant, even if permitted to determine rate levels, to substantially raise rates in order to significantly boost revenue, due to political pressure (Dollery et al 2006). In the meantime something has to be done to bring councils out of the financial doldrums and to prevent local government failure. That is the reason why councils are responding by introducing a host of organisational forms and measures such as the purchaser-provider split, competitive tendering and contracting, and resource sharing, just to mention a few. These measures can help local governments reduce the costs of their operations and increase or at least maintain service levels and quality.
The purchaser-provider split and the reforms in the HCC and Sorell Council

The doctrine of the new public management (NPM) has influenced in many respects the Tasmanian local government modernisation process. The launch of this reform agenda has brought about some of the managerial and economic reforms advocated by the NPM in councils including the HCC and Sorell Council. Management practices such as strategic planning and program management, financial, human resource and IT management as well as monitoring and evaluation have been mandated and effected in councils. For example, the HCC has developed an Executive Information System as an aid to the monitoring of its critical functions and in identifying potential problems at the earliest opportunity (LGB 2002). Flexible organisational forms and the devolution of authority and responsibility, with increased scrutiny and accountability has occurred in both councils, especially in the HCC where divisional heads are free to use the resources at their disposal, as they think fit, to meet their obligations (HCC 2004). A customer-focused organisational culture and responsive forms of service delivery have been suffused into both councils, particularly in the HCC where a one-stop customer service has been established; online option for the delivery of some services are available in both councils (HCC 2005; Sorell Council 2004).

The two councils have now become conscious of the costs of their operations, demonstrating this by market-testing their pricing, introducing competitive tendering and contracting to diversify their sources of supply, and attributing a number of corporate expenses to activities in tandem with the principle of full cost attribution (LGB 2002; Sorell Council 2004). The HCC has corporatised units such as Civic Solutions and introduced the purchaser-provider model of service provision, with the
relationships between the purchaser and provider sides being governed by contracts and service level agreements. The changes in the HCC cohere in several important respects with the tenets of the purchaser-provider split: separation between council's policy advice and operational matters, introduction of competitive processes, commercialisation, corporatisation, stricter accountability and reporting regimes, efficient resource utilisation, the use of contracts to define relationships, and performance monitoring and evaluation.

Sorell Council apart from appointing a general manager has not pursued the structural and cultural changes implied by the purchaser-provider split. No corporatised units have been established as most services are provided in-house in an integrated manner, with no separation between purchaser and provider sides. The council has a program-oriented structure and its aims and objectives are achieved through the contributions that individual units can make. The HCC and Sorell Council are therefore suitable cases for study in relation to the impact of the purchaser-provider split on service delivery in Tasmanian local government since the latter will provide a counterfactual of the former.

Conclusion

The modernisation process and the NCP have played complimentary roles in altering the structure, operations and management practices of the HCC and Sorell Council. They have also pushed the councils' boundaries of democracy, efficiency and effectiveness further. Legislative reform has shifted accountability of both councils away from the state government and towards their communities. It has also subjected all councils to the same act by removing the distinction between Hobart and
Launceston (which formerly operated under their own legislation) and all other councils by making all councils subject to same act. This has facilitated benchmarking and other performance comparisons between the HCC and LCC as well as other councils, both intra – and interstate.

Legislative reform has also imposed demanding reporting and accountability regimes on the HCC Sorell Council, and elevated planning to an exercise predicated on integrated analysis, synthesis and action that represented a wider approach to solving development problems. Planning at the HCC and Sorell Council now identifies community participation as an integral part of the process. A significant achievement of legislative reform was the decision to conduct election by post. This has pushed the boundaries of democracy in the two councils further. Voter turnouts in the HCC and Sorell Council have increased following the introduction of the postal voting system (TEO 2000).

The financial relationship between the two councils and the State Government still operates disproportionately in favour of the latter. The continues imposition of a fire service levy on local government has implications for the both councils in that as collecting agents, there might exist reduced rating capacity for their own needs, through public perception created about which level government imposes the levy. The impact of the planning and local government levy is very similar to the library levy. Both levies represent a direct financial impost on the two councils, as these two levies are not explicitly levied on ratepayers. In both cases councils have little input into how funds are expended. This has implications for democracy as it precludes local democratic structures from participating in affairs that affect them, a trend at
odds with community approach to government. It is good news though, that for the 2003/04 financial year the State Government and local government have reviewed the financial exchanges between them. As a result, the former now pays full rates for its properties and the latter pays payroll and land tax.

The implication of this for the HCC and Sorell Council is that it will enhance better resource allocation outcomes because their activities will now face prices that are fully cost reflective, including taxation. Reciprocal taxation arrangements will also serve to improve the transparency and accountability of intergovernmental taxation. The application of the general rates to state properties would provide the councils with revenue in relation to properties that they service within their municipal areas, thereby producing a closer alignment between council revenue and expenditure responsibilities. On the other hand, the benefit of this review to the State government is that by making the property holding more transparent, it would encourage better asset management by state government agencies.

There are still many instances of functional overlap and duplication between the HCC and Sorell Council on the one hand, and the state government on the other, such as the provision of fire, library and planning as well as health and emergencies services. For the HCC and Sorell Council, the creation of a two-tiered library system with the state responsible for the regional libraries and administration would enable them to take charge of the lower tier to enhance efficiency and effectiveness in service delivery as well as customise those services to community requirements. The co-delivery of fire services by the councils and the state government will re-emphasise the volunteer and community nature of brigades, while the removal of the
planning and local government levy will eradicate the confusion that currently surrounds the responsibilities between the councils and the state for the funding and provision of services.

The creation of a joint water authority, Hobart Regional Water Authority has retained the scope and scale economies gains, as well as the cross-subsidisation and community service obligation benefits that would have been lost from the London Economics privatisation proposal and continued ownership of the water board by the state government. It has also stemmed the HCC and Sorell Council's remoteness from important water services decisions because they now have voting powers of 1 and 4 respectively out of 20 votes. Under the former Regional Hobart Water Board both councils, like all other constituent councils, had no vote.

The HCC and Sorell Council have demonstrated commitment to the implementation of NCP. They have applied a gamut of commercial principles to their operations. For the HCC this has entailed restructuring to create two controlling authorities: Civic Solutions and Hobart Aquatic Centre, and a client/provider separation. Other initiatives of competitive natures in operation in the council include competitive tendering, competitive neutrality and full cost attribution. These measures have located public provisions in relation to markets, but as the LGB has pointed out, the issue of NCP has generated significant expectation on the part of commercial and property owners and interest to the extent that the council would continue to receive much public pressure to go beyond a narrow application of NCP principles (LGB 2002). Sorell Council applies a range of commercial principles to its operations especially its significant business activities. It has not embraced the purchaser-
provider split as services are still provided in-house in an integrated fashion. No corporatised units have been established. The council has a program-oriented structure with its mission being fulfilled by the contributions each unit makes.
CHAPTER SEVEN

INSTITUTIONAL CHANGES IN HOBART AND SORELL COUNCILS

During the last decade, the federal government had increasingly involved other sectors in the delivery of government services and implementing policy through contractual arrangements involving a wide range of providers. As a result Australia has shifted away from having little interest in any widespread adoption of the purchaser-provider split under successive Labor Governments to an elaborate application of the model under a Liberal led Coalition Government. For some departments this has become the standard way that many services are delivered. For example, the Department of Family and Community Services, one of the largest Commonwealth portfolios, responsible for family and social welfare policies, currently spends $730 million on partnership agreements with 1500 non-government organisations (APSC 2003). The agreement between the Department and Centrelink to provide income support payment is claimed to be the largest purchasing agreement of its kind in the southern hemisphere and one of the largest in the world (APSC 2003).

This chapter reviews the traditional organisational structures and practices of the HCC and Sorell Council. It then sketches changes that have resulted from the introduction of the NCP and the purchaser-provider split into the councils. The analysis seeks to demonstrate that the NCP and purchaser-provider split have changed the councils' organisational structures, culture and practices.
The Purchaser-provider split in Hobart and Sorell Councils

Until recently most council structures were based on technical and functional differentiation. The HCC's prevailing structure a decade ago was fairly traditional for local government. It was based on five autonomous departments whose heads and deputy heads were directly and permanently appointed by the council as a whole. The Town Clerk, as the overall head of the council, had little real authority over the departments, given that termination of the department head or his or her deputy required majority vote in the council (Noga 1997: 80). Subsumed under the departments were a raft of input and process units, including road, hydraulic, waste and traffic engineering, development planning, environmental planning, community development, parks and landscape, sport facilities, human and financial services, public and environmental health, asset construction and maintenance, just to mention a few.

Middle management was essentially task-oriented, and promotion was based on acquiescence and obedience of rules and regulations rather than merit. By this time the tenets of managerialism, including corporate planning, objective setting, business planning, program budgeting and performance monitoring, were well established in other levels of government, but not in the HCC (Noga 1997).

A similar traditional structure was discernible in Sorell Council. Under a Town Clerk and Deputy Town Clerk, there were divisions belonging to the Manager of Engineering, Chief Health Inspector, City Treasurer, Corporate Affairs coordinator, City Architect and Town Planner (Sorell Council 2004). Under these appeared a broad range of input and process units including road, footpaths/streets lighting,
water, sewers, community development, public and environmental health, financial services and development planning, among others.

**National Competition Policy in local government**

With the advent of National Competition Policy (NCP) a new institutional framework was introduced which required councils to separate their non-business activities from their business activities. While this policy did not mandate the use of the purchaser-provider split in councils, it did provide a favourable environment for its adoption. The policy's emphasis on the need for governments to be more conscious of the cost and quality of services they provide; its preference for competitive practices; its stress on accountability; and its keenness for results, meant its goals cohered in many respects with those of the purchaser-provider split. The use of the purchaser-provider split means that those who set policy represent purchasers, while providers are in-house divisions or units, or external community, public or private sector organisations. The purchaser's functions include contributing advice on, developing of, policy; managing the council’s assets; undertaking regulatory functions; or monitoring the services provided for council. The provider’s functions embrace: delivering services to the community; delivering services to other organisations or individuals on commercial basis; or delivering internal support services to other council employees or units (Ryan 1997: 170).

In accordance with the tenets of NCP the relationship between the non-business purchaser side and the business provider side is to be mediated by contracts or agreements, which specify the level of service required for a negotiated price. It is incumbent upon councils to furnish the clients or purchasers with a policy framework
with agreed goals, and purchasers are to be accountable to councils for their performance in achieving these goals. Councils are also expected to set up provider businesses through an agreed statement of corporate intent and rules of operation, but they are to operate at arm’s length from providers. Providers will be governed on a day-to-day basis by the terms of the contract or service level agreements and will be accountable for meeting these terms (including reporting on-going performance to clients) (Ryan 1997).

The NCP regime has not made competitive tendering compulsory although it does encourage councils to employ competition to affect savings and enhance the quality of services. Corporatisation of councils’ significant business activities and the adoption of full cost attribution are encouraged by the NCP. The NCP dictates that if councils corporatise their significant business activities they will become legal entities (corporatised units or controlling authorities) with sole ownership by the parent council. They will have a board which will be responsible for appointing a general manager. Full costs will henceforth include equivalent taxes and debt guarantees to effect competitive neutrality. Councils however, will be free to apply competitive neutrality more stringently than suggested under NCP.

Councils can also establish non-significant business activities as in-house business units. These will constitute separate accounting entities with business plans which will be required to pay tax and debt guarantee equivalents to council. They will not run as legal entities independent of the council, nor will they have boards of directors, although they may appoint a manager who will be responsible to the
general manager. Under the NCP internal services are considered as non-business client activities (Tasmanian Government 1996; Ryan 1997).

New structure of HCC under NCP

The HCC and Sorell Council have both responded to the NCP agenda even though their pathways reveal important dissimilarities. It can even be said that their responses constitute two different transformation approaches. Informed by the experiences of councils in New Zealand and Victoria, Aldermen and management of the HCC were determined to push through similar changes in their council. They were convinced that competitive pressures from providers both within and without Hobart (including interstate and international providers) would impact upon the council and its operation even in the short-term. The prevailing view indicated that adopting full-scale corporatisation and competitive tendering was important for survival.

In line with this thinking, the HCC in mid 1996 established on the provider side, Hobart City Council Enterprises, a Holding Authority, to connect the full council and the Controlling Authorities and Joint Authority. Civic Solutions, a Controlling Authority was set up under section 37 of the Local Government Act 1993 as a single entity to undertake civil and environmental construction and maintenance works in full competition with the private sector (Noga 1997; Ryan 1997). Tecton Consulting and Tattersall’s Hobart Aquatic Centre, Controlling Authorities, and a Joint Authority, Greater Hobart Regional Nursery were also established under section 37 and 39 respectively of the Local Government Act 1993. An overview of these authorities is in order.
Hobart City Council Enterprises

The Hobart City Council Enterprises operates under the registered name *Hobart City Council Enterprises (HCCE)*. It links the full council as a body politic with the various authorities. The HCCE is governed by a board of six aldermen and operates according to a statement of corporate intent and operating rules set down by the full council. The authority’s primary role is to approve of directions being pursued by the other authorities and to monitor their performance (Noga 1997).

Tattersall’s Hobart Aquatic Centre

The Tattersall’s Hobart Aquatic Centre operates under the registered name *Tattersall’s Hobart Aquatic Centre*, which was established to operate the new international aquatic centre. The authority is governed by a board of four, two of whom are to be drawn from the private sector, the centre’s chief executive and a representative of council’s general manager. It will function according to a statement of corporate intent and operating rules set down by the full council and monitored by the holding authority (Noga 1997).

Civic Solutions

Civic Solutions was established as a Controlling Authority under section 37 of *the Local Government Act 1993*. It operates under the registered name *Civic Solutions*. It was established as a single entity to compete with the private sector in civil and environmental construction and maintenance works. Its operations extend across parks and bush land management, waste-water treatment, water and sewerage reticulation, stormwater and drainage works, waste management and landfill sites,
and highway construction and maintenance. A board of four, three of who are drawn from the private sector, and council’s general manager, governs Civic Solutions. The authority functions according to a statement of corporate intent and operating rules set down by the full council and monitored by the holding authority (Noga 1997:185). The original intention was for Civic Solution to compete in the open market however, this decision was reviewed in late 1998 when the council upheld that Civic Solutions would revert to being treated as a Division of the council provided that the efficiency and effectiveness gains achieved over the previous three years were maintained and/or improved (LGB 2002). It was agreed that Civic Solutions would continue as a Controlling Authority but it would be recognised as an entity of the council. It was also resolved that the entity’s core work and community service obligation functions would not be placed on the market. In addition, the council upheld that Civic Solutions was not overtly compete in the market (LGB 2002). Since then external work has been executed on request from external organisations.

The HCC revised the structure of Civic Solutions Advisory Board in May 2001 by not re-appointing the external representatives and substituting the Board for an Advisory Group made up of the Director of City Services and Director of Parks and Customer Services, representing the clients; the Director of Civic Solutions representing the provider; and the Director of Financial Services and the General Manager assuming the position of chairmen (LGB 2002). Civic Solutions continues to operate along commercial lines and employs a full cost attribution approach to its financial management and costing systems. Civic Solutions provides works and services on contract basis with the council. A specialist unit of the council, City
Services handles all client side functions in respect of the works and services that are provided by Civic Solutions. All other provider divisions render services on the basis of service level agreements or quasi-contracts with the council.

Tecton Projects Group

Even though the intention was to corporatise the design and project management unit, Tecton Projects Group, this to date has not materialised due to its strategic importance to the council. The Group provides internal consulting services to all council divisions in architectural projects, engineering projects and tender and contract management. Tecton Projects Group does not compete for external contracts (LGB 2002).

Although the application of the NCP agenda, especially corporatisation, in the HCC has not been total and far reaching, it is undeniable that these changes have brought about considerable restructuring of the HCC (see Figure 7.1). The striking feature about the new structure of the council is the clear separation of the ‘client and corporatised provider functions into sides of the organisation, so much that there is now a complete disjunction between the client divisions and service delivery – a complete and formal separation of policy and implementation (Ryan 1997: 173). The shift of the council away from the traditional bureaucratic organisational frameworks to structures that are reminiscent of models found in the private sector organisations has raised the problem of balancing the now emphasised economic objectives against other social and environmental imperatives. The ability of the council to perform this balancing act effectively will continue to be tested for sometime to come since the economic theories which underpin the NCP are coached only in the language of
the market. The new directors of the business units are appointed by the general manager on five-year performance based contracts. By implementing some of the tenets of the NCP the HCC has oriented itself toward a market future.

The boundaries of independence, freedom and purpose of council's corporatised units have been pushed further, thus giving them the competitive edge in the service market of the future irrespective of the type and extent of the competition that may arise. To that extent the council's adoption of this new organisational format may be seen as providing for the commercial possibilities of the NCP agenda to be realised to the maximum extent (Ryan 1997). Even before the introduction of the NCP agenda, however, management had already been grappling with the problem of integration and coordination across divisions in relation to its policy goals and strategic directions. This separation has further fragmented the council, an outcome which is contrary to the prevailing expectation of achieving integration through contracts and service level agreements. Storch (1996) also raised this concern when he acknowledged that a lack of skill amongst managers in contract specification and monitoring has made effective integration trickier.
Figure 7.1: Hobart City council structure under the purchase-provider split

- Executive Management
- Corporate Services
- Financial Services
- City Services
- Civic Solutions
- Development & Environmental Services
- Community Development
- Park & Customer Services

Sources: Interviews; Annual reports
New structure of Sorell Council under NCP

Sorell Council’s responses to the NCP are not in tandem with those of the HCC. Sorell Council’s approach to NCP is more circumspect. To date, no corporatised units have been created, even though it is on the agenda to do so in the course of time. When this intention materialises in the medium to distant future, minimum NCP requirement will be exceeded in that even non-business service provision may be commercialised and subjected to competitive tendering, although not compulsory competitive tendering (Sorell Council Interview 2004).

The changes in Sorell Council are minimal and point toward a program-oriented structure, with linkages to the constituent departments. Provider functions will apparently be integrated within programs; their purpose and rationale will be their contribution to the council’s overall strategic goals (Sorell Council Interview 2004). The organisational restructuring has led to the abolition of the six previous departments of Corporate; Finance; Engineering; Building; Planning and Environmental Services. In their place three new departments that are namely Corporate and Community Services; Engineering Services; and Environment and Development have been created (see Figure 7.2). The three departments are headed by managers who are answerable to, and may sign individual performance agreements with the general manager (Sorell Council 2002, 2004). The General Manager in turn has a five-year performance contract with the council, which is renewable subject to performance. Although the council has appointed a general manager, it has not achieved the structural and cultural change implied by the purchaser-provider split; and has continued to follow something close to the pre-1993 model.
However, some relationships in the council are now governed by contracts and service level agreements, and to that extent, the council’s model will confront the same difficulties as the HCC’s model. It is true that the success of contractualism in terms of directing providers’ efforts toward the achievement of council goals will hinge on how these are articulated in the contracts and service level agreements, and how effectively managers can prescribe and monitor service delivery outcomes. From the outset, it appears that the Sorell Council’s model has more potential to do so than the HCC in that it gives priority to a policy or program orientation over a market orientation in the organisational structure.
It is reasonable to suggest that the program-orientation of the council might represent a commercial downside in a market-oriented future. This is because the NCP prescriptions portray provider units in the public sector in the light of their private sector counterparts: commercial focus, opportunistic behaviour, commercial rate of return, competitive edge, cross-border tendering, mergers and takeovers (all accepted acts under the NCP). Such private sector organisations have no obligation or are not keen in balancing economic outcomes against social ones. In other words, the pursuit of collective interest and policy goals, which characterise the huge efforts in the public sector, are not universal values of private organisations. To that extent it is likely that the Sorell Council model will be shaken to its foundation should some areas of service delivery in the corporatised future become highly competitive. In sum, the HCC’s model is poised for the marketised future with optimism, while the Sorell Council’s model, which gradually attempts to integrate the competing imperative of policy and market into the organisational structure, seems to be facing problems doing so. If it can overcome the barriers to this end, its model will represent the appropriate framework for a truly ‘public organisation’, even though it will be less suited than the Hobart model for the corporatised market of tomorrow.

**Conclusion**

Undoubtedly, major changes have occurred in local governments across Australia following the introduction of the NCP (Ryan 1997). The changes in the HCC and Sorell Council that have been reported in this chapter are probably fairly typical in that regard.
The salient feature of this analysis, however, relates to the fact that managerial reforms—strictly defined and differentiated from other types of reforms—‘drive organisational structures towards a program orientation and encourage high level activity aggregation and integration, and the prioritising of policy goals’ (Ryan 1997: 177). The economic reforms that are espoused by the NCP imply an opposing logic. Following this approach, ‘organisations seem more likely to move towards activity disaggregation and organisational fragmentation, with priority placed on commercial goals for the corporatised units’ (Ryan 1997: 177).

Both the HCC and Sorell Council have adopted and implemented the tenets of the NCP to varying extents and in dissimilar fashions. The HCC has corporatised units such as Civic Solutions, and introduced the purchaser-provider model of service provision, with the relationships between the purchaser and provider sides being governed by contracts and service level agreements. It has become far more conscious of the costs of its operation by market-testing its pricing, introducing competitive tendering and contracting, and attributing a number of corporate expenses to activities. By this changes, the HCC appears to be operating with the commercial logic of the NCP and advertently or otherwise, is subsuming a program orientation within it (Ryan 1997). The creation by the council of two controlling authorities and a joint authority has markedly changed its structure and lifted it onto the platform of a market-oriented future. This reconfiguration is likely to provide maximum level of independence and freedom for the corporatised units to enter the competitive market of the future with optimism irrespective of the type and extent of competition that may eventuate.
Sorell Council on the other hand, is attempting to strike a balance between the two logics: by adopting the market orientation of the NCP to the substantive logic of a program orientation — one of the key components of the managerial reform agenda. Sorell Council has not followed the footsteps of the HCC, as no corporatised units have yet been created, and most services are provided in-house in an integrated manner, with no separation between purchaser and provider sides. The council has a structure that is program oriented, implying an integrated approach to the conduct of its business and the achievement of its strategic objectives must come from the contributions each functional area can make. However, a gamut of commercial principles, including full cost attribution and competitive neutrality has been applied to some of its operations, especially its significant business activities.
CHAPTER EIGHT

PURCHASER-PROVIDER SPLIT: THEORY AND EVIDENCE FROM HOBART AND SORELL COUNCILS

In Australia, state and territory governments have led the way in the implementation of the purchaser-provider arrangements. Market forces have been introduced into the health care and other areas of the public sector. Fundamental to the introduction of market approaches was the need to distinguish between the roles of purchaser and provider. It is immaterial whether the provider is a public or private vendor. What is crucial is that the purchaser outlines expectations, in the form of outputs, outcomes and performance, which the provider must comply with, in order to receive payment (Stewart 1999). The ‘Casemix’ initiative, designed to provide health services, was first applied by the Victorian Government and subsequently adopted by the other Australian states and territories to varying extents. This initiative was predicated on a certain version of the purchaser-provider split (APSC 2003).

The Department of Urban services of the Australian Capital Territory Government introduced the purchaser-provider split that progressively increased the degree of organisational separation (Aulich et al 1999). It was able to quickly embrace the model because it already had responsibility for municipal services that had long been characterised by private sector competition and provision (Aulich et al 1999). At the federal government sphere, the purchaser-provider split has been implemented where services are delivered directly (for example, the relationship between Family and Community Services and Centrelink) (Stewart 1999: 105; Halligan 2004; APSC 2003). The ‘introduction of accrual-based portfolio Budget Statements in the 1999/00 budget, implements what is essentially (although not yet formally) a
purchaser-provider management and reporting framework’ (Stewart 1999: 105). Australian local governments have also sought to employ competitive processes and the purchaser-provider split as a means to diversify their sources of supply in order to enhance efficiency and effectiveness in service delivery (Aulich 1997; Ryan 1997; Applied Economics 2004)).

This chapter assesses the impact of the purchaser-provider split on service delivery, employment and organisational culture and practices of two Tasmanian local government areas – Hobart and Sorell. Although two Tasmanian local government areas have been chosen, the investigation makes comparison with the experiences of other Australian councils with the purchaser-provider split. In particular, the impact on service spending as a result of realignment into purchaser and provider sides and competitive tendering in the Council of Sydney and Mornington Peninsula Council in NSW and Victoria respectively has been examined across a range of services such as property management, parks maintenance, light fleet management, street cleaning, road construction, toilet cleaning, and maintenance of physical infrastructure. The study also draws on research literature on the impact of the purchaser-provider split on municipal governments in the UK and New Zealand. A service specific approach to the evaluation of the impact of the purchaser-provider split has not been attempted. Rather all services which organisation has been affected, in terms of policy and delivery, by the purchaser-provider split have been considered.

**Impact of the purchaser-provider split: A framework of analysis**

Evidence suggests that the purchaser-provider split has clarified roles and improved the efficiency of production and quality of product. Aulich (1997: 153) posits that
underpinning the split, 'compulsory competitive tendering appears to have improved
the performance aspect of service provision'. A similar claim is made by Ormsby
(1998: 384)) when he asserts that 'the balance of evidence to date is that the theory
of the purchaser-provider split has empirical support'. Other studies have also
assessed the impact of the purchaser-provider split on the organisation of particular
services located within the operational and policy settings of those services. In
particular, public health care and social care services have been examined and, in the
UK context, the interaction between the National Health Service and social care
provided by local authorities (see Flynn et al 1995; Ham 1997; Mackintosh 1997;
Smyth 1997). This section examines the evidence of the purchaser-provider split in
Hobart and Sorell councils to determine whether it matches the predicted effects of
the model.

Appraisal of the outcomes of the implementation of the purchaser-provider split in
Hobart and Sorell Councils cannot simply focus on the stated objectives for change.
In embarking upon an evaluation exercise guidelines or relevant criteria are needed
in order to prevent aimless search through huge volumes of data. For this reason,
four criteria have been developed which are namely efficiency, effectiveness, quality
and organisational behaviour. The first three criteria fit the category of the often-
cited theoretical benefits of the purchaser-provider split. The fourth principle coheres
with the category of organisational culture and practices.

Benefits of the client-contractor model

The prevailing notion is that the introduction of the purchaser-provider split into the
public sector will lead to reduction in the costs of operations of agencies, especially
their service delivery costs. By reconfiguring hierarchical organisations on the basis of a purchaser-provider model and introducing contracts, purchasers will presumably be able to elicit from providers much more accurate information about costs: first, by subjecting suppliers to competition (or the threat of it); second, by benchmarking contractors against each other; and third, by forcing providers to specify the exact nature of the goods and services they will supply for a specified price (Stewart 1999: 106). Production and quality of product together with the effectiveness of service delivery are also postulated to improve considerably under a client-contractor regime. One of the main objectives of introducing compulsory competitive tendering and the purchaser-provider arrangement into Victoria local government was that both cost savings and enhanced quality of services could be achieved. This argument was also the compelling reason behind the rearrangement of local councils in New Zealand into purchaser and provider groups that brought about a complete shift from the traditional bureaucratic format of municipal government organisational structure (Aulich 1997). The evaluation of the outcomes of the implementation of the purchaser-provider split in Hobart and Sorell Councils is to determine whether these objectives have been achieved.

Organisational culture and practices

Public organisations are established to meet multiple objectives; implying individual units of the same agency may be entrusted with the achievement of different and often conflicting dimensions of organisational goals. For example, the policy unit may be trading proposals to expand the range of goods and services the agency provides to public service customers, while the treasury department may be working towards controlling and disciplining public expenditure. The city services division
and the community development division may both have roles in community
development initiatives, which may bring their functions and responsibilities into
conflict. Despite these conflicting objectives the various units of the public agency
are expected to hang together to achieve the mission of the organisation – quite a
formidable goal to attain indeed. Another often cited criticism of the public sector is
that it provides standardised services to passive recipients (citizens who have no
roles in the shaping of service content and delivery).

Adoption of the purchaser-provider split by public organisations is argued to
minimise such conflicts and tensions between the multiple and conflicting roles of
agencies. It is also envisioned that implementation of the purchaser-provider split by
the public sector will give public service customers greater ‘user say’ in the design
and delivery of services as well as customise those services to meet their tastes,
preferences and expectations. The application of the model will also make pubic
organisations more accountable in the management of public resources. Most
importantly, it is argued that separation of purchaser and provider roles in public
organisations will force these agencies to focus more on the key strategic issues of
determining the mix and standard of services they wish to provide to their
communities (Walsh 1991a: 135). The appraisal of the effects of the purchaser-
provider split in Hobart and Sorell Councils has been undertaken to determine
whether these predictions match the evidence.

**Inputs**

Input indicators include monetary and non-monetary resources such as operating and
capital dollars, full-time equivalents, equipment and direct labour hours (Abraham
Personnel and costs of services are the principal inputs of most of the services rendered by local government, including the HCC and Sorell Council. Other inputs include consumable materials, equipment and other facilities. Greater efficiency is achieved by decreasing inputs while maintaining service levels and quality.

Part of the efficiency gains that are expected from minimising conflict and tension between multiple and conflicting roles of agencies, as implied by the purchaser-provider split, is that only those employees with the relevant skills and talents would be retained. Those who are redundant and those who are not contributing would be asked to look for new opportunities elsewhere. The separation of policy from operational activities and the use of competitive processes, it is argued, will reduce the costs of providing services. Capital dollars expended on municipal services represent a major part of municipal input costs. Reducing services and employee costs will significantly enhance the efficiency of local governments. This section assesses the impact of the purchaser-provider split on service spending and employment of the HCC and compares and contrasts this with the behaviour of these variables in Sorell Council (which has not adopted the purchaser-provider split). Differences and similarities in the behaviours of these two variables in the two councils will provide the basis for assessing part of the impact of the implementation of the purchaser-provider split.

Service responsibilities of HCC and Sorell Council

The 58 functional areas on which data were collected cover nine traditional categories of municipal services: public order and safety, health, welfare, community
amenities, recreation and culture, economic services, transport, water supply, and sewerage. These functional areas were determined after examining the services that are provided by most of the 29 councils in Tasmania. The services the HCC and Sorell Council set themselves to provide for their communities were also taken into consideration in determining the functional responsibilities. Uncommon service categories for which only one council has service responsibility were excluded (for example, parking — especially off-street, provided by the HCC only). Also excluded were administrative services such as IT and human resource management, legal services, financial services like strategic financial planning, corporate services as well as other internal support services.

The number of services provided by the purchaser-provider arrangement is a function of the number of goods and services for which a council has responsibility. Thus the incidence of the purchaser-provider split, expressed as the total number of services provided by a council is a misleading measure of this policy activity. The appropriate measure is one that examines services supplied under the purchaser-provider split as a proportion of all services provided by a municipality. This study uses this approach in the analysis of the purchaser-provider split in the HCC and Sorell Council.

The nine service categories identified above are used as the classification to assign each of the 58 functional responsibilities to one category (see Table 8.1). The empirical analysis examines the service spending and employment effects of the purchaser-provider split. It also evaluates the impact of the split on outputs and outcomes, quality of services and organisational culture and practices.
<table>
<thead>
<tr>
<th>Service category</th>
<th>Functional responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Order and safety</td>
<td>Fire prevention</td>
</tr>
<tr>
<td></td>
<td>Emergency management</td>
</tr>
<tr>
<td>Health</td>
<td>Food control</td>
</tr>
<tr>
<td></td>
<td>Immunisation services</td>
</tr>
<tr>
<td></td>
<td>Animal control</td>
</tr>
<tr>
<td></td>
<td>Environmental management</td>
</tr>
<tr>
<td>Welfare</td>
<td>Childcare</td>
</tr>
<tr>
<td></td>
<td>Youth services</td>
</tr>
<tr>
<td></td>
<td>Aged care services</td>
</tr>
<tr>
<td>Community amenities</td>
<td>Solid waste management</td>
</tr>
<tr>
<td></td>
<td>Storm water drainage</td>
</tr>
<tr>
<td></td>
<td>Public management</td>
</tr>
<tr>
<td></td>
<td>Public convenience</td>
</tr>
<tr>
<td></td>
<td>Street lighting</td>
</tr>
<tr>
<td></td>
<td>Council-owned properties</td>
</tr>
<tr>
<td></td>
<td>Administration of the planning scheme</td>
</tr>
<tr>
<td></td>
<td>City cleansing</td>
</tr>
<tr>
<td></td>
<td>Waste collection and recycling</td>
</tr>
<tr>
<td></td>
<td>Asset maintenance</td>
</tr>
<tr>
<td></td>
<td>Asset construction</td>
</tr>
<tr>
<td></td>
<td>Community development</td>
</tr>
<tr>
<td>Economic services</td>
<td>Salmanca market*</td>
</tr>
<tr>
<td></td>
<td>Tourism promotion</td>
</tr>
<tr>
<td>Recreation and culture</td>
<td>Maintenance of public halls</td>
</tr>
<tr>
<td></td>
<td>Tattersall's Hobart Aquatic Centre*</td>
</tr>
<tr>
<td></td>
<td>Recreation centre</td>
</tr>
<tr>
<td></td>
<td>Parks and reserves</td>
</tr>
<tr>
<td></td>
<td>Caravan park</td>
</tr>
<tr>
<td></td>
<td>Library service</td>
</tr>
<tr>
<td></td>
<td>Festivals</td>
</tr>
<tr>
<td></td>
<td>The nursery*</td>
</tr>
<tr>
<td></td>
<td>Parks depot*</td>
</tr>
<tr>
<td></td>
<td>Cultural development</td>
</tr>
</tbody>
</table>
Table 8.1 (continued)

<table>
<thead>
<tr>
<th>Service category</th>
<th>Functional responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>Construction &amp; maintenance of roads</td>
</tr>
<tr>
<td></td>
<td>Construction &amp; maintenance of footpaths</td>
</tr>
<tr>
<td></td>
<td>Construction &amp; maintenance of bridges</td>
</tr>
<tr>
<td></td>
<td>Traffic signs</td>
</tr>
<tr>
<td></td>
<td>Hot Mix Plant*</td>
</tr>
<tr>
<td>Water supply</td>
<td>Purchaser of bulk water</td>
</tr>
<tr>
<td></td>
<td>Water reticulation</td>
</tr>
<tr>
<td></td>
<td>Water quality control</td>
</tr>
<tr>
<td>Sewerage</td>
<td>Sewage reticulation</td>
</tr>
<tr>
<td></td>
<td>Sewage treatment</td>
</tr>
<tr>
<td></td>
<td>Discharge of sewage affluent</td>
</tr>
</tbody>
</table>

Source: Annual reports of HCC and Sorell Council

* Service provided in HCC only

Estimates for the effects of the purchaser-provider split on service spending and employment are obtained from several variables. These variables and their operational measures are explicated below and reported on Table 8.2. Tax burden measures the ratio between per capita municipal taxes paid and per capita personal income. ‘As an indicator of fiscal effort, this measure is expected to be positively related to the level of municipal spending and employment’ (Stein 1990: 482). Higher mean per capita income and greater revenue dependency on federal and state intergovernmental aid transfers should be positively related to the level of municipal policy outputs. Population size provides a measure of congestion associated with public service responsibility. A positive relationship between population size and policy outputs is hypothesised as evidence of contestable goods and services (Stein 1990).
<table>
<thead>
<tr>
<th>Concept</th>
<th>Operationalisation</th>
<th>Council</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita income(^1) (PCIN)*</td>
<td>Mean 1989 per capita family (household) income</td>
<td>HCC</td>
<td>$21693</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>$21693</td>
</tr>
<tr>
<td>Functional scope(^2) (FUNCT)</td>
<td>Percentage of 58 services municipality provides</td>
<td>HCC</td>
<td>83.8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>61.87%</td>
</tr>
<tr>
<td>Grants(^2) (AID)</td>
<td>State and federal aid as a percentage of total own source revenue</td>
<td>HCC</td>
<td>6.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>29.9%</td>
</tr>
<tr>
<td>Municipal workforce(^2) (MUWF)</td>
<td>Number of municipal employees</td>
<td>HCC</td>
<td>571.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>56.6</td>
</tr>
<tr>
<td>Public wages(^2) (PUBPAY)</td>
<td>Average monthly gross municipal wages and salaries</td>
<td>HCC</td>
<td>$3130</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>$2827</td>
</tr>
<tr>
<td>Tax burden(^3) (TAXB)</td>
<td>Per capita rates paid as a percentage of per capita personal income</td>
<td>HCC</td>
<td>4.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>24.7%</td>
</tr>
<tr>
<td>Population(^4) (POP)</td>
<td>1989 population size</td>
<td>HCC</td>
<td>47623</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>9992</td>
</tr>
<tr>
<td>Purchaser-provider split(^2) (PPS)</td>
<td>Proportion of council services provided under the purchaser-provider split</td>
<td>HCC</td>
<td>40.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>Nil</td>
</tr>
<tr>
<td>Total expenditure(^2) (TOTEXP)</td>
<td>Total municipal service spending</td>
<td>HCC</td>
<td>$51.95m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sorell</td>
<td>$8.2m</td>
</tr>
</tbody>
</table>

2. Annual reports of the HCC and Sorell Council from 1989/90 to 2004/05 and interviews of management of both councils in March 2004
4. Tasmanian Year Book from 1989/90 to 2004/05
* Per capita family (household) income for Tasmania is used hence the figures are the same for both councils
The scope of municipal functional responsibility is predicted to be positively related to levels of spending and employment (Dye and Garcia 1979; Stein 1981; Liebert 1976). 'Increased scope of functional responsibility is associated with a different mix of services, one which includes a greater responsibility for expensive redistributive social services' (Stein 1990: 482). The result is that as a council expands its functional scope, it assumes responsibility for goods and services that have a higher per unit cost of service arrangement (Stein 1990).

Estimates of employment levels include gross wages and salaries paid municipal employees. It is expected that this relationship will be negative, reflecting the operation of a budget constraint between the size of municipal labour force and the average monthly wage and salary. Given a fixed municipal budget, an increase in the workforce must be balanced by a smaller per worker wage rate (Stein 1990). Apart from municipal wage and salary rate the proportion of municipal workforce unionised could also be a partial determinant of the size of the municipal labour force. The effect of unionisation on the municipal workforce size is ambiguous. Assuming the operation of a budget constraint between employment levels and wage rates, union representation should be negatively related to level of public employment (Stein 1990). However, it is possible that union representation could serve both to expand the municipal workforce size and increase wage rates. Union representation was not included as a variable for estimating municipal employment because of unavailability of data.

Since Sorell Council has not pursued the structural and cultural changes implied by the purchaser-provider split, it provides a case (counterfactual) against which the
effects of the purchaser-provider split in the HCC are partially tested. Specifically, a cross-sectional design cannot test the hypothesised effects that the purchaser-provider split has on successive budget request of and allocation to individual service categories. It is proposed that agencies making savings from services provided competitively under the purchaser-provider split reduce their budget requests rather than cut spending. Savings accruing from the implementation of the purchaser-provider split precede a reduction in the agencies' budget requests and the cumulative impact this has on total municipal service spending. Obviously, this hypothesis cannot be tested without a time series on agency-level (service category-level) experience with the purchaser-provider split and spending. A cross-sectional confirmation of the principal-agent (purchaser-provider) explanation is necessary, but not sufficient to confirm this proposition. That is why a final test is undertaken based on data collected and analysed on a time series basis.

**Service category-level effects of the purchaser-provider split**

As hypothesised, the incidence of the purchaser-provider split in the HCC is generally unrelated to the spending levels of a significant number of individual functional responsibilities as Table 8.3 shows (see also appendixes 4 to 12 for regression estimates and net effects of the purchaser-provider split). This is consistent with the proposition made earlier that an agency's retention of savings from competitive contracting processes implied by the purchaser-provider split should not alter its total level of spending (Stein 1990). Supposing that agencies are not penalised for innovative and cost reduction practices, an agency's budget share of municipal revenues should not decline as a result of efficiency gains from its operations. Any savings accruing from the purchaser-provider mode of service
provision will be internalised by the agency. It is not unlikely for expenditure changes to occur within categories of the agency’s budget but the net effect on total agency (service category level) spending should be zero (Stein 1990).

<table>
<thead>
<tr>
<th>Table 8.3: Effects of purchaser-provider split on service category level spending of the HCC (T-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service category</td>
</tr>
<tr>
<td>--------------------------------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>PPS</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Public order and safety</td>
</tr>
<tr>
<td>(0.397)*</td>
</tr>
<tr>
<td>Health</td>
</tr>
<tr>
<td>(0.207)*</td>
</tr>
<tr>
<td>Welfare</td>
</tr>
<tr>
<td>(0.144)*</td>
</tr>
<tr>
<td>Community amenities</td>
</tr>
<tr>
<td>(0.864)*</td>
</tr>
<tr>
<td>Recreation and culture</td>
</tr>
<tr>
<td>(0.175)*</td>
</tr>
<tr>
<td>Transport</td>
</tr>
<tr>
<td>(-0.018)*</td>
</tr>
<tr>
<td>Economic services</td>
</tr>
<tr>
<td>(0.082)*</td>
</tr>
<tr>
<td>Water supply</td>
</tr>
<tr>
<td>(-0.359)*</td>
</tr>
<tr>
<td>Sewerage</td>
</tr>
<tr>
<td>(0.461)*</td>
</tr>
</tbody>
</table>

Note: Regression estimates for service category-level expenditures were derived from an equation that included functional scope, population, per capita personal income, tax burden, monthly wages and salaries for municipal employees, and dependency on intergovernmental aid.

*Beta weight or beta coefficient

P ≤ 0.05, one-tailed test

The purchaser-provider split is significantly related to lower spending levels for two functional responsibilities (that is, public order and safety, water supply) and negatively but insignificantly associated with the provision costs of services for one functional responsibility (that is, transport). Put differently, an increase of one standard deviation in the proportion of public order and safety services provided
under the purchaser-provider arrangement results in a decrease of 0.397 standard deviations in spending for those services. While one standard deviation increase in the proportion of water services provided under the purchaser-provider split leads to a reduction in spending for those services by 0.359 standard deviations. Similarly, one standard deviation increase in the proportion of transport services delivered through the purchaser-provider split decreases spending for those services by 0.018 standard deviations (see also Appendix 14 for the calculation of the beta weights). From this evidence it can be concluded that the purchaser-provider split has a greater effect, in terms of reduction in service spending, on public order and safety services than water services and transport services. The effect of the split in reducing service cost is greater for water services than transport services.

The critical value of $t$ in a left tailed test from the t-distribution table (0.05 significance level and 15 degrees of freedom) is -1.753, which is far less than the positive $t$-values of the purchaser-provider split for each of the other service categories. Hence, it can be concluded that the purchaser-provider split has not led to expenditure reductions in HCC’s health services, welfare services, recreation and culture services, economic services, community amenities, and sewerage services.

**Aggregate policy effects of the purchaser-provider split**

The combined effects of the factors that influence total municipal service spending and employment are estimated by regression analysis and reported on Table 8.4 (see Appendixes 13, 15, 16 and 17 for regression estimates and calculation of the beta weights). As the table indicates (see Appendix 13 for regression statistics), the coefficient of determination (R square) of total municipal service spending is very
high at 0.99 percent, implying the variations in the HCC’s total service spending is mostly accounted for by the combined effects of per capita income, functional scope, dependency on intergovernmental aid transfers, municipal workforce, monthly wages and salaries for municipal employees, tax burden, population of municipality, and the purchaser-provider split. The coefficient of determination (R square) of total HCC employment is 0.78 percent, meaning 0.22 percent of the variations in the HCC’s total employment is not explained by the identified variables.

Apart from municipal wage and salary rate which has been identified as influencing municipal employment levels, the proportion of municipal workforce unionised could also be a partial determinant of the size of the municipal labour force. The effect of unionisation on the municipal workforce size is ambiguous. Assuming the operation of a budget constraint between employment levels and wage rates, union representation should be negatively related to level of public employment (Stein 1990). However, union representation may force both the municipal workforce size to expand and wage rates to increase. As noted earlier, union representation was excluded as a co-determinant of municipal employment because of lack of data.

Contrary to the hypothesis (see hypotheses section of the introductory chapter), the purchaser-provider split is not associated with lower levels of spending on HCC’s services as indicated by the positive t-value (1.233) of the purchaser-provider split. Hence, it can be concluded, contrary to the hypothesis, that the purchaser-provider split has not led to reductions in the HCC’s total service spending.
This evidence is not invalidated by views of respondents because while majority of them indicated that the council has become far more conscious of the costs and quality of services it provides with the incidence of the purchaser-provider split, they could neither confirm nor deny that service expenditure has decreased.

Table 8.4: Regression estimates for total service spending and employment of the HCC (T-value)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Purchaser-provider split</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTEXP</td>
</tr>
<tr>
<td>Intercept</td>
<td>0.89</td>
</tr>
<tr>
<td>PCIN</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>(1.029)*</td>
</tr>
<tr>
<td>FUNCT</td>
<td>-0.946</td>
</tr>
<tr>
<td></td>
<td>(-0.250)*</td>
</tr>
<tr>
<td>AID</td>
<td>-1.6</td>
</tr>
<tr>
<td></td>
<td>(-0.091)*</td>
</tr>
<tr>
<td>MUWF</td>
<td>-0.362</td>
</tr>
<tr>
<td></td>
<td>(-0.028)*</td>
</tr>
<tr>
<td>PUBPAY</td>
<td>-0.178</td>
</tr>
<tr>
<td></td>
<td>(-0.066)*</td>
</tr>
<tr>
<td>TAXB</td>
<td>0.197</td>
</tr>
<tr>
<td></td>
<td>(0.015)*</td>
</tr>
<tr>
<td>POP</td>
<td>0.953</td>
</tr>
<tr>
<td></td>
<td>(0.108)*</td>
</tr>
<tr>
<td>PPS</td>
<td>1.233</td>
</tr>
<tr>
<td></td>
<td>(0.237)</td>
</tr>
<tr>
<td>R²</td>
<td>0.990</td>
</tr>
</tbody>
</table>

Note: Regression estimates for total service expenditure was derived from an equation that included functional scope, population, per capita personal income, tax burden, monthly wages and salaries for municipal employees, and dependency on intergovernmental aid. The equation for employment included the monthly wage and salary rate for municipal workers

*Beta weight or beta coefficient

P ≤ 0.05, one-tailed test

This finding is inconsistent with the experience of some councils in Victoria and NSW. For example, the Council of Sydney which realigned into purchaser and provider groups and separated asset management from asset ownership responsibilities introduced competitive tenders, for the provision of some services. Services such as property management, parks maintenance and light fleet
management were competitively tendered and won by external providers, while street cleaning was won by an in-house team. The council reported that savings of $7 million per annum were achieved (Applied Economics 2004). In Victoria, the Mornington Peninsula Council restructured itself by separating out the purchaser and provider functions in relation to the maintenance of physical infrastructure. It created a Contract Management Unit to handle the client functions. An in-house provider unit within the Engineering Division was established to compete for contracts. External providers won the contracts and provided the services at annual costs savings of $5 million (Applied Economics 2004).

The relationship between the purchaser-provider split and total HCC employment is negative (see also Appendix 16 for the regression estimates). The use of this service delivery mode reduces total municipal spending by reducing the size of the municipal labour force. Put differently, one standard deviation increase in the proportion of HCC’s services provided under the purchaser-provider split results in a reduction in the municipal workforce by 0.036 standard deviations (see Appendix 17 for calculation of the beta weights). Since personnel are one of the most important inputs of service production, the reduction of the cost of this input ultimately reduces the costs of services provided. This evidence is confirmed by majority of the informants. In particular, the Director of Civic Solutions said his Division’s workforce has decreased by 50 following the introduction of the purchaser-provider split.

The employment reduction brought about by the purchaser-provider split in the HCC is consistent with the experience in Victoria where amalgamation, and CCT (and the
purchaser-provider split implied by it) reduced employee numbers by 600 in Brimenbank Council and an estimated 11,000 reduction in employee numbers across all councils in the state (Millar and Dowling 2004). The implication of these statistics is that the organisational restructuring that has occurred under the purchaser-provider split has in part, enabled the HCC to better tame growth in employee numbers.

The efficiency gains from competitive processes derive partly from the employment of fewer staff (Cutler and Waine 1994). Many of the employees who have been made redundant from the HCC are unskilled and most likely would not have found jobs elsewhere, especially during a period of considerable unemployment in Tasmania. It seems probable, then, that part of the local savings from the implementation of the purchaser-provider split is offset by an extra burden on the national social security budget. This serves to qualify a broader problem with the introduction of market forces into the public sector. As in the private sector, competition or the threat of competition can lead to negative externalities which impose costs on other organisations. Such indirect effects of imitating market tactics in the public sector may be viewed as an example of 'quasi market failure' (Boyne 1998a).

The estimated elasticities for the purchaser-provider split are significantly (P< 0.05) more responsive for employment (in terms of reductions in the costs/levels of the input)) (-0.040) than spending levels (1.233). This may be attributable to two reasons. First, 'Cities may undervalue their labour, particularly for labour intensive goods and services which make up most of a city's functional repertoire' (Stein 1990: 491). This fosters a tendency for local authorities to indulge in inefficient (that is, excessive) employment practices. As Stevens (1984) argues, it is this inefficient
use of labour that service contracting remedies. ‘Contracted labour practices are significantly more flexible, providing contractors opportunities for obtaining efficiency gains over municipal labour management’ (Stein 1990: 491-2). Second (closely related to the first point), the value municipal managers attach to non-unionised council labour force in part explains this tendency. McGuire et al (1987) contend that the incidence of contracting is associated with the scope of union representation and the frequency of labour turmoil (that is, job actions and strikes). Local governments have an inclination, independent of cost savings, to minimise the uncertainty and tension caused by union representation of public employees (Stein 1990: 492). ‘This is achieved by replacing unionised public employees with non-unionised contracted workers’ (Stein 1990: 492)

Contrary to expectation, functional scope is negatively related to spending levels. This implies the HCC is either not expanding existing services significantly, if at all, or adding only a few new services to its functional repertoire. The positive relationship between functional scope and employment may reflect the engagement or increase in the number of specialised employees like architects, environmental experts, quantity surveyors, town planners and engineers who are needed in some critical functional areas. These employees have higher labour costs, and because only a modest reduction in the HCC’s production labour force has occurred, this has not been able to offset the higher labour costs. Since personnel are a major input of service production, it causes a net effect in the form of a slight increase in the HCC’s total service spending under a purchaser-provider arrangement. As predicted, the relationship between spending levels and municipal wage and salary level is negative, reflecting the operation of a budget constraint between the size of the
HCC’s labour force and the average monthly wage and salary. Given a fixed municipal budget, an increase in the workforce can only be achieved at the expense of a higher per employee wage rate (Stein 1990).

As hypothesised, tax burden is positively (even though modestly) related to spending levels. This implies rate increases in the HCC in part are necessitated either to expand existing services or add new ones to the repertoire. However, the HCC is reluctant to increase rates significantly to boost revenue. From 1991/92 to 2000/01 the cumulative rate increase was 19.95 percent, considerably less than the consumer price index over the same period (LGB 2002). In four of these eleven years, the council did not increase rates (LGB 2002). The HCC’s rate policy is consistent with the practice of many other councils across Australia. As Dollery et al (2006) observe, even in situations where state governments allow for the determination of rate levels, councils are reluctant to take advantage of it due partly to political pressure.

The relationship between tax burden and employment is negative because any revenues deriving from rates are more likely to be used to expand service levels or introduce new ones than increase the labour force. As expected, the relationship between population and spending levels is positive. This suggests that there may be congestion to some extent in the HCC’s service responsibility. In other words, the goods and services the council provides are contestable. The council does make decisions and does entertain recommendations regarding the invitation of rival bids for the provision of services.
The effects of other independent variables on spending are mixed. Intergovernmental aid transfers are related negatively both to spending levels and employment. This is interpreted as a reliance of the HCC largely on own source revenue to fund its services. This is especially true now because Commonwealth and state governments have reduced their financial assistance to local government. This unwillingness to commit growth funds to local government was clearly demonstrated when in response to the Final Report of the Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration (2003), entitled *Rates and Taxes: A Fair Share for Responsible Local Government*, the Commonwealth Government made no offer of additional funding, and instead urged local government to put in extra effort at resolving its own problems (Australian Government 2005).

Similarly, mean personal income is positively correlated to total municipal service spending but negatively related to employment. Higher per capita income may be a reflection of the buoyancy of the economy and the stronger purchasing power of not only private individuals and organisations but also governments. Hence, as the HCC's revenue (income) rises it is able to spend more not only in expanding existing services but also introducing new ones. In an era of small government rhetoric, governments are less likely to use any increases in revenue in the expansion of their labour force than the provision of more services to their citizens.

The regression estimates for total service spending and employment of Sorell Council are discussed in comparison with those of the HCC below and reported on Table 8.5 (see also Appendixes 18, 19, 20 and 21 for the regression estimates and
calculation of the beta weights). Sorell Council has not adopted the purchaser-provider split so the model is not included as an independent variable in the estimation. As the table indicates, the coefficient of determination (R square) of total municipal service spending and employment are very high at 0.97 and 0.98 respectively. This means the variations in Sorell Council's total service spending and employment are mostly explained by the combined effects of the independent variables including per capita income, intergovernmental aid transfers, municipal workforce, gross wages and salaries for municipal employees, tax burden, functional scope, and population.

Two of the independent variables (that is, functional scope and municipal wage and salary rate) are negatively (statistically significant) related to spending levels, compared with four (that is, municipal workforce, municipal wage and salary rate, functional scope, and intergovernmental aid transfers) in the case of the HCC. Moreover, as the values indicate, the net effects of most independent variables in the HCC (in terms of reducing service spending) are much greater than those of Sorell Council. Municipal workforce size in the HCC is negatively related to total service spending levels but positively (statistically significant) correlated to total service spending in the case of Sorell Council. A possible reason for these findings is that the HCC, by separating the provision of goods and services from their production and delivery, achieved significant savings from two sources: contestability and competition, and scale effects. These gains could not accrue to Sorell Council because it has not pursued the structural and cultural changes implied by the purchaser-provider split.
Table 8.5: Regression estimates for total service spending and employment of Sorell Council (T-value)

<table>
<thead>
<tr>
<th>Variable</th>
<th>TOTEXP</th>
<th>MUWF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>2.5</td>
<td>0.147</td>
</tr>
<tr>
<td>PCIN</td>
<td>-0.007</td>
<td>7.4</td>
</tr>
<tr>
<td></td>
<td>(-0.006)*</td>
<td>(1.581)</td>
</tr>
<tr>
<td>FUNCT</td>
<td>-0.896</td>
<td>-1.8</td>
</tr>
<tr>
<td></td>
<td>(-0.187)*</td>
<td>(-0.241)*</td>
</tr>
<tr>
<td>AID</td>
<td>-0.360</td>
<td>-0.609</td>
</tr>
<tr>
<td></td>
<td>(-0.028)*</td>
<td>(-0.034)*</td>
</tr>
<tr>
<td>MUWF</td>
<td>2.6</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(1.180)*</td>
<td></td>
</tr>
<tr>
<td>PUBPAY</td>
<td>-2.5</td>
<td>0.271</td>
</tr>
<tr>
<td></td>
<td>(-0.361)*</td>
<td>(0.029)*</td>
</tr>
<tr>
<td>TAXB</td>
<td>0.934</td>
<td>-3.5</td>
</tr>
<tr>
<td></td>
<td>(0.192)*</td>
<td>(-0.345)*</td>
</tr>
<tr>
<td>POP</td>
<td>0.491</td>
<td>-0.771</td>
</tr>
<tr>
<td></td>
<td>(0.119)*</td>
<td>(-0.133)*</td>
</tr>
<tr>
<td>R²</td>
<td>0.968</td>
<td>0.980</td>
</tr>
</tbody>
</table>

Note: Regression estimates for total service expenditure was derived from an equation that included per capita personal income, functional scope, population, dependency on intergovernmental aid transfers, gross monthly wages and salaries for municipal employees, and the tax burden. The equation for employment included gross monthly wage and salary rate of for municipal workers.

*Beta weight or beta coefficient

P < 0.05, one-tailed test

Tax burden has a positive effect on service spending and a negative association with employment in both the HCC and Sorell Council. This may be interpreted as greater reluctance of the HCC than Sorell Council (because the latter has a greater tax burden than the former) to use increases in rates as a means to boost revenues in order to expand existing services or introduce new ones. It may also imply that both councils desist from using rates revenue to fund the expansion of their labour forces.

In the HCC population has a positive effect on both total service spending and employment. In Sorell Council population is related positively to total service spending but negatively to employment. This may be interpreted as greater
contestability in the provision of services in the HCC than Sorell Council (since the net effect of the variable is greater in the former than the latter). Even though the small Tasmanian market does not afford opportunity for the gains in efficiency in competitive supply to be fully realised, the problem is more acute in rural and small councils such as Sorell Council than large and urban municipalities like the HCC.

**Outputs and outcomes**

The ranges of services provided have expanded in both the HCC and Sorell Council following the introduction of the purchaser-provider split. The HCC has completed capital works programs that included an international standard aquatic centre, sewerage reticulation and treatment works, reconstruction of the central business district and other miscellaneous capital works valued at over $40 million (Noga 1997). The council's wastewater treatment plants at Macquarie and Self Point treat 22 million litres of wastewater per day. The HCC offers the weekly refuse collection equivalent to a 120 litres at a domestic level of service to all properties in the municipal area (LGB 2002). Excluding depreciation charges and asset write-downs, the council records a large operating surplus annually - $11.3 million to $13.6 million. Depending on the level of capital expenditure and other investing activities, the annual cash position has varied from $1.8 million to $2.1 million (LGB 2002). The Capital works program in Sorell Council has also expanded. Projects here include wastewater re-use scheme at Penna, sewerage upgrade to two pump stations, water supply projects, especially the Arthur Highway booster pump and other miscellaneous capital works worth over $12.14 million (Sorell Council 2003).
Performance indicators-based output and outcome measures

The more than 700 local governments in Australia provide a wide range of essential services to the public but relatively few studies have been undertaken in relation to the measurement of their efficiency and productivity. One possible explanation for this is the difficulty encountered in attempts to measure public sector performance (NOLG 2001b; Woodbury et al 2002). The absence of performance measures in local government is blamed on several factors: lack of profit seeking or cost reduction practices such as suitable monitoring mechanisms; services generally have ill-defined and/or multiple outputs; difficulty in apportioning costs over different services; and the inconsistent and incomplete nature of some of the data that is available (Woodbury et al 2002: 6).

Performance measures have been recently developed to improve local government performance and benchmark service delivery. Many states and territories in order to measure performance and assess the efficiencies of councils have required local authorities to provide information on key service areas. Despite the varied nature of these indicators across state jurisdictions, more detailed and better-defined data continues to be collected each year. It was not until 1995 that nation-wide performance indicators were first recommended at the Local Government Ministers' conference and since then the National Office of local Government has encouraged and facilitated a non-mandatory process of developing and using standard performance measures and indicators with the states, peak local government industry bodies and technical committees (Woodbury et al 2002). There is currently no nation-wide comparison of efficiency measures for council services because of lack of uniformity in indicators and definitions across states.
Each state currently either provides comparative performance information for local government on an annual basis or is in the process of doing so. For example, the NSW Department of Local Government (1998/99, 1999/00) *Comparative Performance Information* publications contain financial and corporate, planning, waste management, libraries, water, sewerage, environmental and health, recreation and leisure services, and community services (Woodbury *et al* 2002) Victoria releases information on 29 annual plan indicators and 47 service indicators. A review that seeks to improve the system and reduce administrative costs by decreasing the total number of indicators has been undertaken. It is recommended that in the future only 10 state-wide performance indicators in the areas of affordability/cost of government, sustainability, services, infrastructure and governance be produced (Woodbury *et al* 2002: 8).

Tasmania has developed performance indicators for councils since 1999/00. The Key Performance Indicators Committee (KPIC) of the Local Government Division, Department of Premier and Cabinet is responsible for the production and distribution of this information. The KPIC provides councils with a wide range of indicators to measure their performance. Specifically, the measuring system seeks to enhance performance measurements by councils; enables benchmarking and identification of best practice; establishes performance trends over time; and improves accountability to the community (KPIC 2003).

The performance indicators have afforded the opportunity for the performance of the HCC and Sorell Council to be compared across several functional responsibilities. The performance of the two councils in selected areas including electronic service
delivery, community health and safety, planning and development, water quality, and waste management are detailed on Table 8.6 below. The table indicates that the HCC on average from 1999/00 to 2004/05 delivered 33.8 percent of services to its community electronically, while 26.4 percent of Sorell Council’s services were provided online during the same period.

The factors influencing the level of services delivered electronically include provision of electronic service delivery systems; communication of availability of the system to residents; community IT take-up; appropriate infrastructure; and age and socio-economic profile of the community (KPIC 2004; 2006). It is likely that these factors were more favourable in the HCC than Sorell Council and that is the reason why its community had greater access to services online than their counterparts in Sorell Council.

Similarly, the HCC incurred cost on a per capita basis of $18.7, on average from 1999/00 to 2004/05, in providing community health and safety services, while Sorell Council spent $42 on those services for the same period. Variables such as budgetary constraints; education policies; number of premises subject to inspection for their health risks; and rural health issues determined the cost in providing community health and safety services (KPIC 2004; 2006). Financial discipline and effective education policies on how to keep healthy and safe should reduce spending on community health and safety services. It is likely that the HCC was better at disciplining spending and developing education policies on community health and safety than Sorell Council. The number of premises subject to inspections for their health and safety risks is a function of the cost of providing those services. The
incidence, prevalence and complexity of rural health issues should be related positively to spending on community health and safety services. Rural health issues were probably more prevalent in Sorell Council than in the HCC. All this resulted in the HCC being able to provide cheaper community health and safety services than did Sorell Council.

Table 8.6: Performance of HCC and Sorell Council in selected service areas

<table>
<thead>
<tr>
<th>Service</th>
<th>Council</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>'99/00</td>
</tr>
<tr>
<td>Electronic service delivery</td>
<td>HCC</td>
<td>29.2%</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>16.0%</td>
</tr>
<tr>
<td>Per capita comm. Health and safety service cost</td>
<td>HCC</td>
<td>$14</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>$$45</td>
</tr>
<tr>
<td>Number of days taken to approve building permit</td>
<td>HCC</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>21</td>
</tr>
<tr>
<td>Water quality test</td>
<td>HCC</td>
<td>89.2%</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>97.6%</td>
</tr>
<tr>
<td>Number of days of water restriction</td>
<td>HCC</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>0</td>
</tr>
<tr>
<td>Per capita waste mgt. cost</td>
<td>HCC</td>
<td>$55</td>
</tr>
<tr>
<td></td>
<td>Sorell</td>
<td>$56</td>
</tr>
</tbody>
</table>

Source: KPI Committee, Local Government Division, Tasmanian Department of Premier and Cabinet

* Mean service population of the HCC is 47,956
* Mean service population of Sorell Council is 10,974
Likewise, waste management services in the HCC were provided, on average during the period under review, at a per capita cost of $67 compared with $60 for Sorell Council during the same period. The cost determinants of waste management include type of and scale of council's disposal facilities; type of recycling services provided; frequency and volume allowance for garbage collection; density of population and distance from disposal facility; industrial users of waste management facilities; cost allocation policies; and amount of waste received from outside the municipal area (KPIC 2006). If the disposal facilities and type of recycling services provided are technologically advanced and of bigger scales, then benefits from innovation and scale effects can be achieved. Frequency of collection and volume of garbage available, density of population and distance from disposal facility, as well as big number of industrial users of waste management facilities should be related to higher cost in delivering waste management services. This explains why the HCC, with a relatively bigger population that generates bigger volumes of waste, incurs more cost on waste management than Sorell Council.

On average during the period under review 98.9 percent of Sorell Council's water tests met accepted environmental standards compared to 94.5 percent for the HCC. Water quality is affected by standard of installed infrastructure; major systems failures; weather interference; and lack of compliance with regulation (KPIC 2005; 2006). If these factors are favourable then water quality should be good. It is likely that this was not the case in the HCC that is why Sorell Council was slightly better at water quality management and control than the HCC during the period under review. The HCC imposed on average 64 days of water restriction during the period under review compared with zero restrictions for Sorell Council. The decision to impose
water restrictions are influenced by the capacity of the installed water systems; user pays metering polices; seasonal population and demand changes; and weather patterns (KPIC 2005; 2006). The seasonal upsurge in population and demand puts greater stress and strain on the water systems which may lead to system failure. The water system may develop faults such as chokes in, and bursts of the lines. To remedy such problems water restrictions may be imposed.

It took the HCC during the period under review an average of 23 days to process building approval permits compared to 19 days for Sorell Council. Factors influencing the approval duration include number and experience of planning and regulatory staff; number and complexity of applications; level of building and development activity within the municipality; council systems and procedures; involvement of external bodies and other legislation; and level of delegation (KPIC 2005; 2006). Fewer staff and bigger number of building permit applications implied more time commitment in processing them. Intense building and development activities and complex procedure for approval imposes delays in granting permits. This certainly seems to be the case in the HCC and that is why Sorell Council was timelier in the approval of building permits than the HCC.

Sorell Council has not adopted the purchaser-provider split but has been able to provide some services more efficiently than the HCC, which has embraced the model. This implies some local government services are suitable for direct and integrated delivery.
There are at least three limitations of the performance measurement systems used by local governments across Australia. First, performance to date has almost exclusively been assessed on the basis of comparison of performance against the ‘average council’ statistic for the state (Woodbury et al 2002). For example, the Launceston City Council’s waste collection is assessed by comparing the cost per capita in providing the service with the Tasmanian State average. In the above example, for instance, total per capita waste collection cost is the input and total number of services is the output. Thus, in the waste collection service area single input/output performance indicators can apply to waste disposal, recycling and waste management as well as collection. Each measure represents only a partial appraisal of the overall performance of the service (Woodbury et al 2002). To achieve a more credible comparison of particular council services a method of calculating performance indicators that uses multiple inputs and outputs needs to be adopted. One such technique is the Data Envelopment Analysis. This method measures technical and scale efficiencies, and productivity changes in council services over time (Coelli et al 1998).

Second, local government performance indicators are input, process and throughput measures but not outcomes indicators. The format identifies the measure (input/output relationship), states the objective the council is working to achieve (mostly output objective) and details the means by which the objective will be measured. For example, the objective of the Community Health and Safety indicator for Tasmanian local government is freedom from disease, and clean and safe communities (KPIC 2003). What does freedom from disease stand for? Is it zero incidence and prevalence of communicable and other diseases in the communities? If
so, what does zero incidence and prevalence of diseases mean for residents’ health status? How does it impact on absenteeism and productivity at the workplace, or the health budget? Answers to these questions may represent the unaccounted for outcomes in relation to the community and health safety service which ratepayers and citizens will be happy to be well informed about.

Finally, non-efficiency objectives such as access and equity are also important policy considerations for governments against which benefits will inevitably be balanced, but these have received little, if any, attention in local government performance measures.

While all the above are laudable outputs, there is inadequate measurement and reporting of the outcomes they contribute to. As a result, ratepayers, non-ratepayers, contractors and the citizens in general are not likely to easily understand, track and assess these outcomes, nor are they able to compare current outcomes with previous ones. For example, the reconstruction of Hobart’s central business district should contribute to such outcomes as its appeal to the city’s residents, Tasmanians in general, interstate and international visitors. It should also indicate the tourism dividends that will accrue to that appeal. A sewerage reticulation and treatment project should contribute to good air quality free of odours, beautiful and unpolluted land and water surfaces and good ground conditions. There should be yardsticks for measuring and reporting on these outcomes for the purpose of determining changes in environmental quality and health. The above are a few examples of the missing links in the measurement of, and reporting on, outcomes by the two councils. These
missing links are likely to be the standards or criteria by which ratepayers and citizens in general will judge the performance and effectiveness of the two councils.

Subsequent to the purchaser-provider split, local governments are supposedly no longer formally responsible for inputs and processes, these being the responsibility of the private companies or in-house units holding service contracts. Instead, local governments are supposedly concerned with controlling outputs and outcomes. The purchaser buys the service output in order to secure an outcome consistent with its policy strategy. It is the purchaser’s responsibility to ensure that the output achieves the desired outcome at the lowest cost (Bailey and Davidson 1999: 164). These prescriptions do not however, speak to the practices in the HCC and Sorell Council, since it is the purchaser (councils) rather than the private companies or in-house units holding service contracts, which still determine and/or approve appropriations and levels of inputs, including employee numbers and costs, service spending, and material levels and costs. This suggests that councils are continuing with the traditional emphasis on inputs and processes.

Quality of services

The concept of service quality is so complex as to defy precise operationalisation. Reeves and Bednar (1994) observe that quality has been variously defined as ‘value’, ‘conformance to specifications’, ‘conformance to requirements’, ‘fitness for use’, and ‘meeting and exceeding customer’s expectations’. They point out that no one definition of quality is best in every situation because each definition has both strengths and weakness in relation to criteria such as measurement and generalisability, managerial usefulness and customer relevance (Reeves and Bednar
Furthermore, perceptions of the quality of public services are likely to vary between politicians, professionals, taxpayers and consumers, and within each of these groups (Walsh 1991b). Thus service quality is multidimensional and there are many stakeholders with different perceptions of any single dimension. The implication is that the measurement of quality in studies of competitive tendering needs to be comprehensive and sophisticated. However, the operationalisation of quality is usually narrow and crude (Boyne 1998a).

In separate interviews with four of the directors of the HCC, the investigator asked them: ‘who defines and specifies service quality?’ All four directors indicated that service quality definition and specification were the joint responsibilities of the client and the providers. This means that perceptions of quality of services would most likely correspond to those of officials in the HCC as purchasers and providers, and the councillors who depend on their policy advice, rather than those of service users. ‘Conformance to specifications’ and ‘meeting or exceeding customer’s satisfaction’ were the most frequent responses about a question in relation to service quality. The fact that elements to be included in a definition of service quality did not go beyond a narrow band of four items from each respondent, indicate how less comprehensive quality has been conceptualised or defined. This view was strengthened by one of the client side directors who said ‘contracts and service level agreements between purchasers and providers specify the level and quality of services to be provided’.

All respondents in Sorell Council also confirmed that the definition and specification of service quality was done by the client and the provider. In this council the dividing line between client and provider is blurred as managers have foot in both camps.
Perceptions about the quality of services are articulated on behalf of the service user by the purchaser in contracts and service level agreements of the two councils. It is most likely that those perceptions will correspond to the service user's expectations under either or both of the following conditions: first if there is competition in supply so that service users have the opportunity to choose between rival suppliers; second, if purchasers fully reflect the needs of service users. In the first case, exit from the service is facilitated, and in the second case opportunity needs to be afforded for the expression of voice by the service user through improvement in administrative arrangements. In theory, voice is more effective than exit the greater the degree of market failure (Hirshman 1970; Paul 1992).

Since a few of the services that are provided by the corporatised provider division, Civic Solutions, and all other service provider divisions of the HCC are competitively tendered, service users cannot choose between rival suppliers to ensure that their needs and expectations about quality of services are met. Virtually all of the services of Sorell Council are also not competitively tendered, so service users, like their counterparts in the HCC, are remote from the specification of service quality. The nature and distribution of services also continue to be the responsibility of politicians and officials of the two councils. Nonetheless, both councils have mechanisms for soliciting public input into the shaping of service content and delivery. The HCC uses a range of methods to consult and solicit input from service users and the general public into the shaping of the content and delivery of services. These include biennial surveys, community working groups, community surveys and market research. Extensive consultation programs are undertaken for all major developments, such as the North Hobart Cultural Park and Skate Park, the
redevelopment of the “50 and Better Centre”, and the Sandy Bay Beach redevelopment plan and forums outlining the recently introduced Dog Control Policy. Formal consultation programs are also undertaken in the planning phase for the introduction of new services such as the proposed alternative refuse collection system and the water reform package (LGB 2002).

Boyne (1998b) argues that the actual level of service quality is not measured in most studies. Rather, service standards before competitive tendering are compared with the standards enshrined in the new contract. This method raises two problems: first, the quality of service produced after competitive tendering is unknown. Syzmanski (1996:13) puts this problem into perspective when he asserts that, ‘quality may fall following the introduction of competitive tendering even if the specification of the service is raised...on the other hand, quality may rise even if the contractor defaults on the contract specification, because the achieved standard is still better than what went before’. In other words, conclusions on efficiency cannot be drawn from studies which apply measures of quality obtained from ex-ante service specifications (Boyne 1998a). A second problem is that only some aspects of services are covered when quality is assessed on the basis of the contract specification. For example, Boyne (1997) observed that studies of refuse collection in the UK typically use two indicators of quality: the frequency and method of collection (front door or back door). However, the Audit Commission of the UK has put forth additional eight dimensions of the quality of the refuse collection service (Boyne 1997).

Some studies attempt to evaluate quality in relation to achievement to the exclusion of contract specification (McMaster 1995). In most instances however, the measure
of quality after competitive tendering is based solely on the views of service managers, whose perceptions of the change in standards may be remote from the experience of direct consumers or the views of the wider public (Boyne 1998a). This certainly seems to be the case in the HCC and Sorell Council where quality performance is measured against the standards specified in the contracts and service level agreements. Moreover, the technical knowledge requirements for making substantive input into the shaping of the content and delivery of some services preclude service users in the first place from the process of quality specification. Later they are further made remote from the corridors of quality evaluation after the service is produced.

Processes

Processes denote methods of accomplishing activities including all of the integral steps that are required. A process is how things get done. According to Bailey and Davidson (1999: 164) processes may be codified as standard operating procedures in conformance with any statutory requirements (for example, for health and safety in sports facilities or race relation in housing allocation), professional codes of conduct (for example, for chartered surveyors, accountants, or solicitors), professional management standards (for example, use of the BS 5750 [ISO 9000] quality management system by architects, solicitors, and housing managers) and good practice guidelines.

All operating procedures, processes and practices of councils should conform to the Local Government Act 1993 and other statutory requirements. The competence and delegated powers local government exercises are set within the limits prescribed by
the *Local Government Act 1993*. The rate setting power for example, cannot be exercised beyond a certain predetermined ceiling. The application of competitive neutrality to local government undertaking implied: the removal of taxation advantages through taxation equivalents; the removal of debt guarantees; and the resolution of the question regarding cross-subsidisation of certain business activities from other components of local government enterprise (Felmingham and Page 1996). Requirements of the *Federal Industrial Relation Act*, *Local Area Work Agreements*, as well as other protective legislation, mean that councils cannot easily lay off employees who are redundant and who are not performing.

The implication of all these rules, regulations and restrictions is that the revenue raising ability, and for that matter the expenditure wishes, of councils are affected by legislation. And this in turn means that decisions on levels and costs of inputs and the outcomes that are derived from these inputs are a function of these statutory requirements. It also implies that councils, including the HCC and Sorell Council, cannot relinquish full control over inputs and processes to private companies and in-house units holding service contracts for fear of breach of the *Local Government Act 1993* and other statutory requirements that are likely to result from their behaviour. For this reason, there continues to be emphasis on inputs and processes by the HCC and Sorell Council.

If local governments were to concentrate their attention on outputs and outcomes, they would presumably trust contractors who have external accreditation to work to professionally determined industry standards. Such professional codes, standards, and guidelines may be enshrined in the contracts let under compulsory competitive
tendering and voluntary competitive tendering regimes. Local government could also make BS 5750 (ISO 9000) certification a requirement before accepting tenders for service contracts. This will ensure that contractors' quality management systems guarantee customers a high and consistent quality of goods and services (Bailey and Davidson 1999).

The benefits of a BS 5750 (ISO 9000), or equivalent uncertified systems are many: acting as a 'catalyst for change and a mechanism to create a sense of urgency...to create a strategic and operational system that works' (Curry and Monaghan 1994: 45). The Audit Commission of the UK notes that 'Certification can be valuable but that is not the end of the story, it needs to be placed within a comprehensive contract management strategy' (Audit Commission 1993: 39). In-house provider units and private contractors appear to attach greater attention and value to certification than do the client sides of local government. Few client sides will trust the in-house provider unit or the private contractor on the basis of certification alone (Walsh and Davis 1993).

This reservation about the value of certification stems from the limitations which critics have catalogued against it. Some attack certification as too rigid and mechanistic for services, an inappropriate bureaucratic static straightjacket, quality by compulsion rather than by commitment' inspected in' rather than 'managed in', abiding by the letter rather than by the spirit of a quality management system, and too strong on documentation (Bailey and Davidson 1999:166). The inspector is charged with the responsibility of policing deviation from written procedures, not to evaluate whether those procedures are appropriate nor, unlike total quality
management (TQM) to seek ongoing improvements in standards (Younis et al 1996). Bailey and Davidson (1999) argue that certification does not necessarily guarantee good quality services because it defines a minimum standard for delivery mechanisms rather than outcomes. Moreover, it may lead to overdependence upon third-party certification of quality improvement, diverting attention away from the organisation’s own direct methods for quality improvement.

Even though the HCC has some quality assurance commitments and certification requirements in place, it would not simply trust the in-house provider or the private contractor in an arm’s length relationship purely on the basis of certification. It has established its own internal direct methods for quality improvement. Both its external certification requirements and internal quality improvement mechanisms are worth mentioning. The management system of the HCC has been developed and documented and is maintained to address the specific needs of customers, management and employees in accordance with the requirements of AS/NZS ISO 9000: 2000 Quality Management Systems Requirements, and with reference to AS/NZS 1400: 1996 Environmental Management Systems and AS 4801: 2001 Occupational Health and Safety Management Systems where appropriate within the organisation’s operations (HCC 2005).

Civic Solutions and the Tecton Project Group are quality assured to the ISO 9000 with management and staff committed to a process of continual improvement, commitment to sound occupational and safety principles and the continuing skills and professional development of its staff and employees (LGB 2002). The quality assurance certifications of Civic Solutions and the Tecton Project Group after some
year, are reaching a recognised state of maturity whereby the implemented quality management systems are seen as being part of the ‘daily business’ (HCC 2001). Local government legislation, HCC policies and Code of Public Tendering form the basis for all tendering handled by the council. The council Contract Management Unit operates in strict adherence to the Local Government Act 1993, the HCC Code of Public Tendering and various other council policies (LGB 2002). Tender evaluation is a Quality Assured, industry standard process designed to yield the most attractive tender based on a set of pre-determined criteria and weighting. The selected criteria are included in the tender documents (LGB 2002).

Similarly, the Process Improvement Program (PIP) continues to provide a mechanism for process review and improvement within those areas not subject to quality assurance (HCC 2001). The HCC has adopted the Australian Quality Council’s Australian Business Excellence Framework, which has provided a focus for the further development of strategies that address identified opportunities for improvement within council’s operations.

Sorell Council has no external quality assurance accreditation but has internal mechanisms for quality improvement. Sorell Council’s policies and ‘Code of Public Tendering’ like that of the HCC, form the basis for all tendering handled by the council. The council Contract Management Unit also operates in accordance with the Local Government Act 1993. Tender evaluation, like in the HCC, is a quality assured industry process designed to yield the most attractive tender based on a set of predetermined criteria and weighting (Sorell Council Interviews 2004).
The elaborate external certification requirements and internal direct methods of quality improvement of the HCC indicate that it places more emphasis on processes than Sorell Council. Sorell Council has only a limited set of internal quality improvement mechanisms, but has no external certification requirement for service providers, especially in-house providers.

**Monitoring of service delivery**

In the HCC, monitoring of services is a chain from field inspectors to divisional directors to the Client-Provider Advisory Group and then to the council. The Client-Provider Advisory Group meets monthly to review the performances of provider units, Civic Solutions in particular. One director indicated that an Executive Information System with the capability of furnishing a snap shot of the relationship between performance of council divisions and their set targets was in place. Another said the works of Civic Solutions were regularly inspected by the client, City Services and Texton Designers to ensure good work. Other bodies that monitor the works of Civic Solutions include Works Services Committee (WSC), Project Coordinating Meeting (PCM) and Finance Group. The WSC compares Civic Solutions’ performance against set targets, while the PCM examines the progress of work and the associated costs. The Finance Group deals with key detailed fiscal reports of Civic Solutions and other council divisions. In Sorell Council, inspection teams of individual departments monitor services delivery under their mandates. For example, the Works Services Division of the Engineering Department has a monitoring team comprising the Works Engineer and three supervisors (Sorell Council Interviews 2004).
This evidence from the study councils is consistent with contemporary research emanating from the UK (for example, in the Spring 1996 thematic edition of *Public Administration*) which suggests that contracts are often method and input based. The research also indicates that contract management demands increased organisational formality and high transaction costs (also experienced in the US), as well as significant surveillance activities (monitoring). According to Frey (1993) principal-agent theory has traditionally assumed that rigorous monitoring leads to higher efficiency. The agent however, may interpret rigorous scrutiny by the principal as a sign of distrust, or as a complete affront of the contract built on trust. This may create incentive for the agent to behave in an opportunistic fashion.

**Management and transaction costs**

Most studies have not attempted to separately identify the costs of preparing for competitive tendering and contracting such as developing tender specifications and performance measurements or the costs of transferring service delivery to external contractors. Due to lack of empirical evidence quantifying their effects, it is indeterminate whether their omission affects the general conclusion that competitive tendering and contracting leads to cost savings. The Industry Commission’s report does contend that these costs are minimal and even if they were included they would not be so large as to be in excess of the savings accrued from competitive tendering and contracting. Nevertheless, ‘the lack of any appropriate evidence regarding the nature and quantity of these costs, suggests that either current information systems do not capture these costs or that identification is not warranted since they are sunk costs’ (Sciulli 1998: 8).
Very few studies have attempted to identify transaction costs separately. Walsh and Davis (1993) concluded that the average cost of preparation for 'competition (as a percentage of total contract value) was 7.5 percent of the first year costs and about 1.8 percent of total contract value given the average length of contracts' (p. 145).

Ascher (1987) accounted for transaction costs, such as severance payments, in the analysis of savings attained through contracting by Wandsworth Borough Council (UK). Once these costs were estimated, savings from contracting-out and market testing were estimated to be 30 percent and 23 percent respectively. The City of Burnside Council (South Australia) provided the example of a problematic contract where administration costs of 11.5 percent were considered to be very high (Industry Commission 1996).

**Monitoring costs**

Like the costs of preparation for competitive tendering and contracting, monitoring costs of internal and external service delivery are usually not identified. Prager (1994: 181) contends that different services require different levels of monitoring. For instance, refuse collection, government television and radio and transport services can partly be monitored by the general public, and is further enhanced where there is a formal complaints resolution mechanism. In other areas which require technical (such as those which apply to building standards and specifications) or professional (such as health care and education) standards the level of monitoring needed, implies that it is more expensive than in the former case.
The argument that many studies do not identify and quantify monitoring costs will have no utility if there is no difference in the level of monitoring under internal or external provision of services. The strength of this criticism is diminished if it turns out that the costs of monitoring are the same whether services are provided in-house or by private contractors.

However, there are reasons to believe, argues Prager (1992: 89), that the level of monitoring may be higher for external contractors than for internal provision. Information asymmetry is one point; another is that employees have less incentive to behave opportunistically, since they are on a fixed income. The same cannot be said of external contractors whose profit motive may induce them to act opportunistically if they realise that the service is not being adequately monitored. It is reasonable, since monitoring costs are not separately identified, to treat empirical evidence that examine the level of these costs with some caution. Walsh and Davis (1993) calculated monitoring costs to be about 6 percent, whereas Savas (1987) estimated the costs to be between 2 and 7 percent of the contract cost. Rehfuss (1989) sets the monitoring costs in the range of 5 and 10 percent of the contract cost.

The inability of public agencies to identify the cost of monitoring and other transaction costs partly stems from the fact that they are not separate budget line items. They are most likely included and spread over a number of programs and a number of organisational units (Sciulli 1998). This certainly seems to be the case in Hobart and Sorell Councils where majority of respondents indicated that contract administration costs are not separately identified in councils' reporting. They also stated that monitoring of program delivery was undertaken as part of the duties of
councils' officers and the costs of this activity were not separately identified nor quantified.

In order to determine the full extent of cost savings from competition and contracting-out it is important that the management, monitoring and transaction costs of municipal services that are subject to competitive tendering and contracting are identified, quantified and subtracted from the total cost savings. Only when this is done can the postulation that competitive tendering and contracting leads to cost savings will have much empirical value.

Changes in organisational practices and culture

Views of respondents have been gathered about the impact of the purchaser-provider split on the core values, structures and practices of the two councils. The purpose has been to determine whether the separation has minimised conflict and tension between multiple and conflicting roles in the two councils. It has also been to assess whether the powers and autonomy of both the purchaser and provider have been strengthened to pursue their respective roles consistent with their differing goals. In addition, it has been to find out whether accountability in the management and productivity of public resources has been enhanced. Further, it has been to determine whether attention has been drawn to addressing the needs and requirements of citizens as clients, consumers and customers of government operations. These issues are examined in turn below.
Disaggregated bureaucracies

Undoubtedly, the introduction of the purchaser-provider split has resulted in significant changes to the organisational structures of the two councils, particularly that of the HCC. Both the HCC and Sorell Council have appointed general managers on five-year renewable performance contracts to replace the former lifetime-tenure Town Clerk. Sorell Council has abolished the six previous departments of Corporate; Finance; Engineering; Planning; Building; and Environmental Services. These have been replaced with three new departments of Corporate and Community Services; Engineering Services; and Environment and Development Services. It is important to note that structural reform has not gone beyond the above changes in Sorell Council. No corporatised provider units have been created, meaning no contracts mediate behaviour of, and relationships between, in-house service departments and council. Contracts however, govern the behaviour and relationships between council and external contractors to whom council out-source some service delivery (Sorell Council Interviews 2004).

Since the council has not been separated into purchaser and provider sides the two roles are integrated or interchangeable, thus perpetuating the conflict and tension between the multiple and conflicting roles of council that were already prevalent prior to the introduction of the model. Majority of the respondents indicated that managers of service departments partake in the planning and appropriation stages of services and are also ultimately responsible for their delivery. The conflicting roles and objectives of the council are likely to undermine the cost effective discharge of the council’s operational responsibilities. This problem was identified in the argument of the New Zealand Treasury for public sector reform when it asserted that
conflicting objectives contributed to the phenomena of internal or producer capture, where the departmental interest of the state organisation and its staff skew the advice to government and undermine the cost effective discharge of the organisation’s operational responsibilities (New Zealand Treasury 1987).

Role separation is clearer in the HCC than in Sorell Council. The creation of City Services on the purchaser side which specifies the terms of the contracts of civil and environmental construction and maintenance works that are executed by the provider side, Civic Solutions has forced both sides to operate in defined ways that are consistent with their differing goals. The use of service level agreements or quasi contracts to govern the behaviour of other provider divisions has strengthened the client’s position, allowing purchasers a greater say in what outputs they will purchase to achieve desired outcomes. These institutional shifts have produced a new organisational structure where the disjunction between the client side and service delivery is easily noticeable — a complete separation of policy and service delivery (Ryan 1997). The separation has minimised conflict and tension between the multiple and conflicting roles of the council as each side of the split is now clearly focused on its roles and responsibilities. This was confirmed by majority of the respondents. They indicated that the roles and responsibilities of all council divisions were now clearly defined so that the client and the providers focus mostly on their designated tasks.

The Director of Civic Solutions added that his division has 26 business units, each with clearly defined roles and responsibilities. Civic Solutions as a corporatised division for example, has responsibility for executing civil and environmental
construction and maintenance works but has no business with the designing, documenting and specifications of the work to be carried out. This responsibility is being assumed by the client, City Services (HCC Interviews 2004). This clarification of roles and objectives has improved service management by Civic Solutions. Noga (1997) suggests that efficiency gain of $5 million by Civic Solutions in 1997/98 was achieved through a reduction in employee numbers, and that on the whole services did not diminish. It was gathered from the interviews however, that the saving was more like $12.5 million (HCC Interviews 2004). This evident is consistent with the argument of the Treasury of New Zealand which notes that the key to improved service management is structural reform that enabled clear unconflicting objectives to be set (New Zealand Treasury 1987: 76).

Role clarification needs however, to be qualified, for Noga (1997) asserts that some of the business units continue to engage in both policy and operational matters. The directors of some service departments continue to have roles in the planning and appropriation stages as well as in the eventual delivery of the services. Moreover, the Client-Provider Advisory Group, which appraises the performance of provider divisions and coordinates service delivery under the purchaser-provider split, is composed of members from both sides of the split. The Director of Civic Solutions, on the provider side, sits along the General Manager and the Directors of Corporate and Financial Services on the client side, on the Client-Provider Advisory Group. This composition cannot guarantee that the comments on performance by provider side directors will not be sympathetic to their divisions or departments. Nevertheless, the separation represents a major deviation from the traditional bureaucratic model of local government organisational structure.
While the new structures of the HCC, like all other councils in Australia, generally have not proceeded as far as their New Zealand counterparts (local area trading enterprise [LATE] many of which are incorporated under company legislation), they are such a movement away from normal practices that issues such as accountability, control and coordination are being tested (Aulich 1997: 142).

*Scope of managerial autonomy and discretion*

The management pyramid has reduced with the advent of the purchaser-provider split, especially in the HCC, and decision-making and accountability have been delegated, especially on operational issues. On the provider side in the HCC, the three controlling authorities: Civic Solutions, the Tattersaall’s Hobart Aquatic Centre and Tecton Consulting Group have generally been given increased authority to decide on ways they use their resources to meet their obligations. Informants unanimously indicated that provider side managers have been given reasonable level of freedom, independence and discretion for the effective discharge of their responsibilities. For example, the Director of Civic Solutions said that the ‘client side of the council has not yet worked out precisely the nature of services it wants the Hydraulic Services Unit to carry out’. This delay in specifying the service content of the unit, he added, has led to the ‘exercise of discretion by Civic Solutions in the identification of hydraulic service demands and the designing of the appropriate steps to meet those demands’.

Respondents were also unanimous about the enhanced power frontline managers enjoy upon the introduction of the purchaser-provider split. Majority of the directors
said frontline managers receive management training especially in project management, human resource management and financial management. They also have delegated authority, which they combine with discretion to determine the right combination of strategy and resources in any given context to carry out their responsibilities. Majority of the directors intimated that frontline managers have reasonable room of discretion in the implementation of policies. The informant also said that the suggestions and recommendations of frontline managers about program delivery are highly valued and they do inform implementation and policy reforms. Managers of provider departments in Sorell Council do not enjoy the equal of the autonomy, freedom and independence, which their counterparts in the HCC enjoy. The management pyramid is still relatively hierarchical with purchaser and provider roles still integrated in departments, with the general manager having reasonable power to regulate and control line departments (Sorell Council Interviews 2004).

The separation has also strengthened the position of the purchaser side in the HCC by allowing managers here greater say in what outputs they will purchase in order to achieve desired outcomes. In other words, the separation provides powerful incentives for the policy arm of the council to be a more independent and demanding purchaser. For example, City Services is a specialist client side unit of the HCC responsible for the planning, designing, defining the work to be undertaken by Civic Solutions, contract preparation, tendering processes, tender evaluation, and letting and management the contract. This enables it to purchase only those outputs from Civic Solutions that achieve its desired outcomes (HCC Interviews 2004).
Use of contracts to mediate behaviour

The introduction of the purchaser-provider split into local government has led to the establishment of employment contracts for senior officers. Service contracts are developed with clients and customers and service delivery is contracted out to in-house and external providers. The theoretical basis of these reforms is agency theory which suggests that social and political life can be programmed by network of contracts between principals and agents; and public choice theory with its concern to minimise discretion available to budget maximising bureaucrats and politicians (Albin 1992).

Agency theory has informed the shift to short-term employment contracts for senior public servants and especially the introduction of new performance agreements and program monitoring arrangement. This shift challenges the existing contract of employment, with lifelong tenure no longer the norm, instead, short-term contracts are now fashionable, and especially a contract with performance criteria (Aulich 1997). As regards labour market changes, the shift is commonly in respect of more labour flexibility, the spread of personal contracts of employment, new performance-related pay, widened pay relativities, decentralised negotiations and, perhaps, derecognition of trade unions (Aulich 1997: 139).

There is evidence in the HCC and Sorell Council of the adoption of contract arrangements for the hiring of senior staff. The general managers of both councils are engaged on five-year contract bases with the councils and the renewal of the contracts is subject to satisfactory performance. The directors of all departments in turn, sign individual performance contracts of the same duration with the general
manager, in the case of the HCC (HCC Interviews 2004; Sorell Council Interviews 2004).

The relationship between the non-business side and the business provider side and other service departments in the HCC are now mediated by contracts and service level agreements. Performances of providers are matched against targets. In this way provider units are held to account for good work and money expended (HCC Interviews 2004). In turn, the client sides of the council, are accountable to the council in the achievement of agreed goals set out in the latter’s policy framework (HCC Interviews 2004). To that extent, it can be argued that the HCC’s reliance on contracts to mediate behaviour of employees, service providers and service purchasers, is greater than that of Sorell Council, which applies them only to the appointment of the general manager and for external providers. So if enhanced accountability is expected from rigorous monitoring as required by the contract, then the HCC is likely to be more accountable than Sorell Council.

Labour market changes have also occurred in the two councils. The labour contracts which have been negotiated under the purchaser-provider split have been used as a lever to change workplace relations. In the HCC for example, majority of employment conditions are contained within awards/enterprise agreements and local area work agreements. Enterprise Bargaining Committees have employee representation that has been assisted in negotiations by the relevant employee organisations (LGB 2002). Local area agreements that have been negotiated by the HCC included Tattersall’s Hobart Aquatic Centre Local Area Agreement (2 agreement, 1999/2001), Sports fields Local Area Agreement, Parking Technicians
Local Area Agreement, Duty Officers Local Area Agreement and Salamanca Market Area Agreement. The rest are Gallery Attendants Agreement, Animal Control Local Area Agreement, and Youth Workers Local Area Agreement (LGB 2002).

Sorell Council’s Enterprise procedures are incorporated within existing agreements and conform to the requirement of the Federal Workplace Relations Act (Sorell Council Interviews 2004). The purchaser-provider split has engendered the increased use of contracts for service specifications, employment contract and industrial relations agreements. However, the extension to performance-based contracts below the top echelons and the use in service charters with the community has not been as widespread as in some other countries.

**Customer centredness**

Subsequent to the purchaser-provider split service contract, benchmarking and a host of other mechanisms are applied to measure and meet the needs of public service customers. Majority of the respondents in the two councils indicated that consciousness of quality and customer satisfaction has increased. That this value characteristic has been enhanced has been evident on both the client and provider sides of the case study councils. Managers in the councils expressed the view that the purchaser-provider split has afforded them the opportunity for the first time to understand the extent of their services and of the customer needs that are to be met.

The new practice of developing tender specifications has proved invaluable to Tasmanian councils. Attention has now been drawn to the management and delivery of services, with performance measured in terms of outputs instead of inputs; formal
decisions about increasing, decreasing or maintaining current service levels have also been influenced by the development of tender specifications (HCC Interviews 2004; Sorell Council Interviews 2004). Majority of respondents also said that developing tender specifications, on the whole, ensured that standards of service would not decline. For example, the HCC in 1999, 2000 and 2001 conducted surveys of 400 residents and 200 businesses to seek information on service levels, importance and performance. The results demonstrated a consistent performance or general improvement over the period and by comparison are well above the state average (LGB 2002: 89).

To improve the delivery of services, the HCC established a customer service centre in 1995 which was designed to cater for the entire interface between council officers and the public. The centre operates with 18 staff, all of whom are multi-skilled and equipped to facilitate all customer payments, enquiries and appointments. A total of 7 customer service officers are located at the front counter, their duties include enquiries, and payments of all council’s accounts, from development applications to parking fines. Each officer has a fully maintained operational manual, which assists in facilitating over 400 different questions and enquiries (LGB 2002).

Sorell Council has developed an efficient information technology system to assist in a more efficient delivery of services to the public. This has enabled the council to electronically up-date its data for easy reference. The development of the council’s web page now allows electronic availability of current reports and information such as an electronic version of the questionnaire regarding council’s strategic plan during the time that input is sought. The upgrade of the Geographic Information System has...
led to greater availability of maps and property data on council computers (Sorell Council Interviews 2004).

**Problems of implementation**

Problems relating to the implementation of the purchaser-provider split have been compiled from the views expressed by managers on both the client and provider sides of both councils. The ability to identify and resolve these problems will determine the success or otherwise of the implementation of the policy.

**Lack of expertise**

Majority of the respondents at the HCC agreed that there was a general lack of expertise in project management in relation particularly to contract specification, costing and administration. This inadequacy weakens the position of the client side as the policy arm, to become a more independent and demanding purchaser. In the HCC integration and coordination across divisions in relation to council’s policy goals and strategic direction, under the purchaser-provider split, is supposed to be achieved through contracts and service level agreements. But as Storch (1996) observed, a number of problems inclusive of a lack of skills amongst managers in contract specification and monitoring has made effective integration trickier. Ryan (1997) also argues that even before the introduction of the purchaser-provider split the HCC management was already grappling with the problem of integration and coordination across divisions in terms of council policy goals and strategic directions, this separation has pronounced fragmentation. This evidence serves to qualify one of the criticisms of the purchaser-provider split that, separating policy and delivery can make effective integration unlikely (William 1997).
Absence of competition

The lack of competition in the Tasmanian market for the provision of some services is a problem. Garbage collection and maintenance of sports fields have been identified by one of the directors of the HCC as examples of services lacking competition in provision. This finding is consistent with Noga’s (1997) view that the small Tasmanian economy may well prevent a marketplace emerging. Contestability is less about ownership than competition, or the threat of competition. The prospect of competition is intended to act as a spur to enhance productivity and program effectiveness, and from the purchaser’s perspective, to provide them with greater choice of quality goods and services. This spur to higher productivity is therefore unlikely to emerge in the Tasmanian situation.

In the case of garbage collection and sports field maintenance in the HCC the prospects or threat of competition is absent hence, the implied efficiency and effectiveness gains from competition is unlikely to be realised. Moreover, since no services that are provided by the HCC’s corporatised division, Civic Solutions have as yet been competitively tendered, the only incentive to increased efficiency should come from market-testing the entity’s works and services, since as Baumol et al (1992) notes, it is the threat of competition rather than the number of bids which is crucial in creating the incentives for increased efficiency.

Difficulty of managing role clarification

Another problem gleaned from the interviews in the HCC about the implementation of the purchaser-provider split related to the lack of full understanding on the part of both the client and the provider sides of the nature of each other’s work. One director
noted that the ‘client side is always concerned about cost saving whilst the provider side always seeks a market incentive to deliver the services at a commercial rate of return’. As a result, there is difficulty sometimes in striking a bargain or deal that satisfies both parties. This evidence is highlighted by Noga (1997) when he argues that in the HCC the provider is concerned with programming work to reduce inefficiencies, while the policy arm seeks to meet competing demands from elected members to address ratepayer complaints. This situation does not afford opportunity for the establishment of effective communication between both sides of the split for the resolution of legitimate concerns that are likely to affect strategic policy decisions and delivery aspects of council services. Walsh (1995) puts this problem into perspective when he asserts that, although the role of the purchaser is to operate at a strategic level, the separation of strategy and practice may make strategic decisions more difficult to make because of insufficient knowledge.

Minimum control of contractors

The autonomy, independence and freedom that are expected to accrue to agencies under the purchaser-provider split, can be viewed as a double edge sword. On the one hand, those responsible for the management and delivery of services may generally be given increased authority to decide on the ways they use their resources to meet their obligations. On the other, those responsible for setting policy and policing the behaviour of providers may end up with only minimal and indirect control of contractors. This certainly seems to be case in the HCC where, according to one director, ‘the introduction of the purchaser-provider split has resulted in the council exercising reduced and indirect control of service providers’. This problem straddles William’s (1997) concern about the appropriateness of the purchaser-
provider split for the public sector when he asserts that, the more we 'fragment the structure of government by replacing command hierarchies with network of contracts, the more we call in question the nature of responsible government by attenuating the responsibility of elected representatives' (William 1997: 11). The end result, say some critics, is the lost of trust, flexibility and accountability required to run government in a democracy.

The respondents at Sorell Council were explicit about the problems that have bedevilled the implementation of the purchaser-provider split. These included scarcity of resources due to reduced state and commonwealth funding, low revenue from council own sources, lack of competition in the provision of services and minimal and indirect control of contractors. The lack of competition in the provision of services, and minimal and indirect control of contractors occur in both the HCC and Sorell Council among the list of problems cited about the implementation of the purchaser-provider split. Since Sorell Council has not pursued the structural and cultural changes implied by the purchaser-provider split, it is not surprising that it has not encountered problems, unlike the HCC, such as a sense of insecurity within divisions and among employees, weak integration and coordination across divisions in relation to council's goals and strategic directions, tensions and misunderstanding between client and provider sides, and the problem of balancing efficiency and equity objectives. These are problems that may inevitably follow the implementation of the purchaser-provider split.

Sorell Council encountered problems such as lack of competition in the provision of services, and minimal and indirect control of contractors only on occasions when it
had outsourced or contracted out some service delivery to external providers. The HCC on the other hand, encountered these two said problems regardless of whether in-house units on contracts and service level agreements or external contractors delivered the services.

The fit of the purchaser-provider split in the Tasmanian context

Evidence from this study indicates that councils instead of reducing the traditional emphasis on inputs and processes have rather strengthened it. This is especially so now, under the purchaser-provider split, with its requirement for strict use of contracts to specify organisational responsibilities, maintain accountability and deliver services. On the whole however, the client side in an attempt to improve service delivery outcomes have tended to lend more weight to processes than inputs – both supposedly the responsibility of the provider. Evidence of concern with outputs is discernible even though this has a weak relation to outcomes. The purchaser’s attention has been drawn more to achieving outputs than outcomes, even though both are supposed to be its responsibility.

Performance indicators and performance information are at a low level of development in most councils in Australia. What is emerging tends to be management indicators of activity, throughput and process, rather than program or outcome indicators (Ryan 1997: 173). The continuous emphasis on inputs and processes by councils is explained by a number of factors. First, councils cannot relinquish full control over inputs and processes to private contractors and in-house providers holding service contracts for fear of breach of the Local Government Act 1993 and other statutory requirements that are likely to result from their behaviour.
Second, good quality outputs and outcomes are a function of good quality inputs and processes and the service delivery approach. If poor quality inputs are procured and a sub optimal approach is used to produce and distribute the services, a less efficient and effective outcome will result. So councils employ good quality inputs and processes in order to secure desirable outputs and outcomes.

Third, councils may strive to reduce the risk of turning out inferior quality of outputs and outcomes due to the social, financial, and political consequences. For this reason, they will wish to secure quality inputs and processes in order to minimise that risk.

The optimal approach to securing the quality and quantity of services required will be likely to vary between local governments with different circumstances such as size and scope of contracts and service objectives (Bailey and Davidson 1999: 172). It is also likely to vary with the extent of competition in the market, bureaucratic support and capacity available, and within local authorities for different services.

The small Tasmanian market does not afford the opportunity for the gains in efficiency in competitive supply to be realised. While this is a state-wide issue, the problem is more acute in rural and small councils such as Sorell Council than urban and large ones like the HCC. Moreover, the HCC has greater resources and is better served by the requisite professional staff than almost all the other councils in the state of Tasmanian – an advantage that has enabled it to adapt more quickly to managerial and microeconomic reform notions such as commercialisation, corporatisation and the purchaser-provider split.
Despite the fact that all of the above factors are external to the theoretical prescriptions that must be met to achieve an optimal outcome in the application of the purchaser-provider split, they do represent factors of the environment that obviously affect empirical outcomes. However, the purchaser-provider split has not accommodated context as a function of application outcomes. Hence, greater efficiency gains in some councils may be attributable more to particular local favourable contextual conditions than to the purchaser-provider split per se.

Conclusion

It has been made clear from the above discussion that there is a mismatch between some of the theoretical benefits of the purchaser-provider split and the outcomes that have attended the implementation of the model in the two Tasmanian local government areas – Hobart and Sorell. The purchaser-provider split is found to be generally unrelated to service category-level (agency-level) spending. The purchaser-provider split has not reduced total municipal service spending although it has decreased council employment. The postulation that client local authorities will only focus on controlling outputs and outcomes and so divest responsibility for the control of inputs and processes to in-house providers and private contractors has not also been validated by practice. The evidence however, seem to support the prescription that the implementation of the purchaser-provider split will maximise output, notwithstanding that these outputs have been found to be weakly related to outcomes. The impact of the purchaser-provider split on quality of services is unknown.
The promise of best value under the purchaser-provider split

It is not clear whether the purchaser-provider split is indispensable for best value for money to be achieved and whether competition is the best way of putting the split into effect. Some commentators have cited tensions, secrecy and mistrust as well as adversarial relationships as some of the problems which have accompanied the introduction of the purchaser-provider split into the public sector. They also argue that these problems have diminished to some extent the collaboration, cooperation and trust which hitherto characterised many of the exchanges that took place in public organisations (Lewis et al 1996; Wintrobe and Breton 1986).

Best value is concerned with continuous service improvement within local authorities (DETR 1998). At the heart of ‘best value’ is the fundamental performance review which subjects services to assessment based upon the following: challenge why and how a service is being provided; invite comparison with others’ performance across a range of relevant indicators, taking into account the views of both service users and potential suppliers; consult local taxpayers, service users and the wider business community in the setting of new performance targets; and embrace fair competition as a means of securing efficient and effective service delivery (1998:18).

The Government’s intention behind ‘best value’ was to focus the attention of local governments on quality and cost of services. It was also to give service users and other stakeholders say in the shaping of service content and delivery, while at the same time enable councils to benchmark service delivery and operational efficiency. Best value removed the requirement of subjecting services to compulsory
competitive tendering but it did not suggest a return to direct delivery, rather it encouraged local authorities to review all options for service delivery for the purpose of selecting the one(s) that provided best value. The prescription in the UK for achieving best value in local government service delivery should serve to inform municipal authorities in Australia in their quest to achieve efficiency and effectiveness in the production and delivery of services to their communities.
CONCLUSION

This thesis has examined the impact of the purchaser-provider split in two Tasmanian local government areas — Hobart and Sorell Councils. It has explored the modes of the purchaser-provider split that are adopted by the two councils and their implications for service delivery, employment and organisational culture and practices. Although two Tasmanian local government areas are the focus of analysis the investigation has made comparison with the experiences of other Australian municipal authorities with the purchaser-provider split. In particular, the impact on service spending under the purchaser-provider split in the Council of Sydney and Mornington Peninsula Council in NSW and Victoria respectively has been examined in such service areas as property management, parks maintenance, light fleet management, street cleaning, and maintenance of physical infrastructure. The study has also drawn on evidence on the effects of the purchaser-provider split on local authorities in the UK and New Zealand. A service specific approach to the evaluation of the impact of the purchaser-provider split has not been attempted. Rather all services which organisation has been affected, in terms of policy and delivery, by the split have been considered.

This eight-chapter thesis is organised such that chapters one to six have been devoted to the discussion of public sector reforms at the international, national and state levels as well as the local level of government. The last two chapters have concentrated on analysis relating to the outcomes of the implementation of the purchaser-provider split in the two Tasmanian local government areas, Hobart and Sorell.
Chapter one has examined public sector reform as a universal phenomenon that reflects the influence of the new public management which has swept through many western democracies with the aim of improving efficiency and effectiveness in the conduct of public business. The factors that instigated the reforms were many and varied but in almost all countries they enfolded the imposition of budgetary austerity as governments strove to control and discipline public expenditure, the consequences of globalisation for governments as they attempted to enhance the competitiveness of their national economies, the growing expectations of individual citizens and business for quality service, and the opportunities new information technology provided not only for effecting savings but also for re-engineering service delivery. Many governments irrespective of political and constitutional type, organisationally decoupled responsibilities for policy and operations, while they emphasised the importance of the management aspects of their operations. Contractual relationships have been extended across governments in order to set explicit targets for the provision of public services, to establish service standards, and to apply demanding and transparent accountability regimes (OECD 1994).

Virtually everywhere the need to respond to improved management and delivery of public service has received greater attention with the consequence of a reduction of the authority of central management agencies to regulate and direct line departments. The real beneficiaries of this shift are those responsible for the management and delivery of services who have been given increased authority to decide on the ways they use their resources to meet their obligations. The wave of public sector reform represented a steep learning curve in that Western democratic governments regardless of political systems sought to learn from one another, and in a number of
instances deliberately adopted and adapted structural models from one or more jurisdictions (Aucoin 1998). Undoubtedly some are leaders while others are laggards however, the tendency has been to adopt common, even generic, principles of good public management, notwithstanding significant, even fundamental differences in constitutional and political structures (Holmes and Shand 1995).

In chapter two the doctrines, strengths and weaknesses of theories that underpin the purchaser-provider split are discussed. These theories include public choice theory, agency theory and the new public management. It then explores the influences these theoretical traditions had on the Australian model of public sector reform. It has been acknowledged that many ideas, theories and perceptions as well as economic pressures and political imperatives played an important role in the reform process. Nevertheless, the impact of public choice theory, agency theory and the new public management, which are separate yet related theories have had significant impact on the Australian as well as other western democracies' models of public sector reform.

The topic of the third chapter is the model of the purchaser-provider split. Its principles and goals together with the conceptual frameworks that undergird it (public choice theory, agency theory and the new public management, discussed in the preceding chapter) have been explicated. How the model is expressed in the Australian local government sector, and the predicted budgetary effects of its application in this sphere of government have been examined. Then, an outline of the Australian National Competition Policy (NCP) has been made. Further, the relation of the NCP both to the purchaser-provider split and compulsory competitive
tendering have been sketched. The chapter serves as a framework upon which subsequent chapters of this thesis are built.

The focus of chapter four is public sector reform in Australia in general and local government reform in particular. Far-reaching financial management reforms have been undertaken and machinery of government changes have occurred at the federal, state and local government levels. Microeconomic policy reforms introduced by the federal government progressively since the 1980s have embraced the floating of the Australian dollar in 1983, significant reductions in barriers to trade and foreign investment, commercialisation, and some privatisation, of the government business enterprises that dominate large parts of the Australia’s economic infrastructure; strengthening domestic competition; and increasing labour market flexibility (APSC 2003: 1). Structural shifts that were specifically made in the public sector can be captured at three levels: broad reform of the public sector, which have affected the size, composition and functions of the Australian public service; changes at agency level to reflect changes in program budgeting, flatter structures, devolution, decentralisation or regional initiatives; and changes at the workplace to improve ways of working (APSC 2003: 1).

Changes that occurred in Australian local government can be classified under mainly three headings which are namely legislative, managerial and microeconomic. These policy-induced changes have altered the nature and form of community government. Legislative reforms have changed the essential elements of councils’ operations; granted them wider competence power, improved accountability mechanisms, reduced detailed prescriptions and changed planning and other delegated powers.
Managerial reform saw the major and continuous change for local government in its functional responsibilities, in the demands placed on its professional officers, and the need for councillors to be adaptable and change attitude to their tasks. Microeconomic reform demanded economy, efficiency and effectiveness in the conduct of council business; it drew attention to ownership, costs, structures and systems; and it located public provision in relation to markets.

The topic of chapter five is Tasmanian local government reforms of the 1990s, with a detailed evaluation of the outcomes of the 1990/93 Modernisation Process. First, changes that occurred at the state level have been sketched after which the outcomes of the local government reforms have been presented. The changes introduced by the state government included among others, reform of state authorities, a restructuring of state service, budgetary and management reform, and changes in the policy process and the statutory framework within which the state public sector operates.

The major components of the Tasmanian local government reforms are legislative changes, review of the financial relationship between state and local government, rationalisation of roles and functions between the two tiers of government and amalgamations. The evaluation of these four categories of reform has been done with respect to efficiency, democracy and accountability. It has been shown that these elements of the modernisation process have not been implemented to the same extent, with the same vigour and over the same length of time. The rationalisation of roles and functions, and the review of the relative revenue capacities available to each level of government have lagged behind legislative and boundary changes. There are still several examples of unfunded mandates, despite the reforms, that have
impacted and are impacting on local government. For instance, councils are required to contribute to library, fire and hospital services, and yet have little, if any say, in their operations. This has implications for not only local government finances but also community democratisation. Various taxation exemptions, concessions, specific purpose grants and subsidies still characterise state-local government financial relationship, with consequences of a reduction in accountability and distortion of decision-making.

Legislative changes affected the powers local government may exercise, procedural changes to the manner in which they operate and their jurisdictional boundaries. Legislative reforms have increased the autonomy of councils and granted them general competence power to appropriately respond to the needs of their communities. The changes have also improved accountability mechanisms and reduced detailed prescriptions. Structural reforms have been the most comprehensive, occurring over the longest period of time. The number of councils has been reduced from 46 to 29. The driving force behind amalgamation was the quest for greater efficiency through economies of scale. Secondary considerations were fostering some sense of community or community of interest, and representation and participation. The 1990/93 modernisation process was highly successful due to its bottom-up approach to the reform process. The failure of the 1997 amalgamation proposals and other earlier attempts at reform were attributable to their top-down approach to the reform agendas, and stood in sharp contrast to the highly successful 1990/93 modernisation process.
Chapter six has appraised the outcomes of the implementation of the modernisation process in Hobart City Council and Sorell Council. The process has played a major role in altering the structure, operations and management practices of the two councils. It has also pushed the boundaries of democracy, efficiency and accountability further. The effect of the financial relationship between the State government and the councils is such that the former enjoys disproportionate advantages. Despite the rhetoric about the rationalisation of functions and roles between state and local governments many instances of overlapping and duplicating mandates still persist, for example, in the delivery of fire, library and planning as well as emergency services.

The institutional changes in HCC and Sorell Council have been discussed in chapter seven. The examination shows that the purchaser-provider split and the NCP have changed the councils' organisational structures, operations and practices. The HCC and Sorell Council have both implemented the tenets of the NCP to varying extents and in dissimilar fashions. The HCC embraced the corporatisation and competitive tendering principles of the NCP. The creation by the council of two controlling authorities and a joint authority has markedly changed its structure and lifted it onto the platform of a market-oriented future. This reconfiguration is likely to provide maximum level of independence and freedom for the corporatised units to enter the competitive market of the future with optimism irrespective of the type and extent of competition that may eventuate.

Sorell Council has not followed the footsteps of the HCC, as no corporatised units have yet been created. Nonetheless, a range of commercial principles inclusive of
full cost attribution and competitive neutrality costs has been applied to a number of its activities, particularly its significant business activities. The council has a program-oriented structure that links the three new departments. Integration is achieved across council by subsuming provider functions under programs and their performances are appraised in relation to their contributions to the overall strategic direction of the council.

The final chapter assesses the impact of the purchaser-provider split on Hobart and Sorell Councils. Evidence from the Tasmanian council study has then been compared with the outcomes resulting from the introduction of the purchaser-provider split in other Australian municipal governments. In particular, the effect on service spending as a result of realignment into purchaser and provider groups in the Council of Sydney and Mornington Peninsula Council in NSW and Victoria respectively has been examined across a range of services. The study has also drawn on evidence of the effects of the purchaser-provider split on local authorities in the UK and New Zealand. The approach to the evaluation of the outcomes of the implementation of the purchaser-provider split is not service specific. Rather a composite approach involving all services which organisation has been affected, in terms of policy and delivery, by the split have been considered.

The thesis hypothesised that the use of the purchaser-provider split in the HCC and Sorell Council would be unrelated to service category-level spending. It also predicted that the incidence of the purchaser-provider split in the HCC and Sorell Council would be negatively related to total municipal service spending and employment. In addition, the proposition that outputs and outcomes will maximise
and quality of product will improve following the introduction of the purchaser-provider split into both councils has also been investigated by this study. The validity or otherwise of these hypotheses have been tested by using a longitudinal research design to analyse data collected from mainly secondary sources such as annual reports, strategic and annual plans and newsletters of the study councils. Other secondary data sources included statistical information from the Australian Bureau of Statistics, reports of the Key Performance Indicators Committee, Local Government Division, Department of Premier and Cabinet, and the Local Government Board. This data was complimented by information from a semi-structured in-depth interview process. The key informants in each council were initially identified by their professional responsibilities and interests in relation to the purchaser-provider split policy development and implementation.

The study found that the purchaser-provider split is unrelated to municipal service category-level spending. The split has not led to reductions in total municipal service spending although it has decreased employment. Its impact on quality of service is unknown. The investigation has also found that local governments in Tasmania are still preoccupied with inputs and processes regardless of whether services are delivered by internal or external providers. In this sense the theory of the purchaser-provider split is too simplistic in hypothesising that client municipal authorities will only be concerned with outputs and outcomes and so be able to concentrate on strategic policy issues. This serves to qualify Walsh’s (1995: 255) argument that, although the role of the purchaser is to operate at a strategic level, the separation of strategy and practice may make strategic decisions more difficult due to insufficient knowledge of services. The postulation that client local authorities will entrust to
providers issues relating to inputs and processes is not supported by the evidence. This argument is predicated on a simplified market model where purchasers and providers are anonymous parties to transactions. Even though this may represent a correct portrayal of most retail markets, such anonymity is scarcely obtainable elsewhere (Bailey and Davidson 1999). Concern of councils with outputs is evident even though this has a weak relation to outcomes.

A re-assessment of the purchaser-provider split

The introduction of the purchaser-provider split into Hobart and Sorell Councils has not resolved some of the theoretical issues on the effects of competitive tendering. The relative merits of market provision and monopoly supply are indeterminate due to the methodological deficiencies that still persist in empirical studies. Valid and comprehensive measures of service expenditure and quality, as has been observed, are not without gaps: transaction costs are unidentifiable, other influences on local authority spending and efficiency are inseparable from the effects of competition, the effects of contestability (decision to seek tenders from external suppliers) are not distinguishable from competition (the receipt of alternative bids to run a service), and the operationalisation of service quality is narrow and crude.

The effects of these variables should be accounted for, and added to the already known effects, to determine the full extent of the impact of competition. This should then provide the basis of comparison of the relative merits of hierarchies and horizontal network of contracts in the provision of public services. Even if such comparison were possible and the evidence turned out to be broadly in favour of market provision, there would be no guarantee that this evidence would be replicated
elsewhere in the state, nation or internationally. This is because the efficiency of the private sector compared to the public sector has been the subject of conflicting research findings. Borcheding et al (1982) concluded that the empirical results agree with the view that public firms have a high unit cost. By contrast, Millward (1992: 82) observed that there is 'no broad support for private enterprise superiority'.

Some commentators have criticised the application of the purchaser-provider split to the public sector. In much of this literature, it is argued that the efficiency gains from competition implied by that split must be balanced against losses of equity, citizenship and accountability (William 1997; Halachmi and Holzer 1993; Morgan and England 1988). Because governments have to achieve much broader objectives than just efficiency gains, it is enlightening that the combined effect of the entire repertoire of service modes, not just the purchaser-provider split, is considered. This alternative approach provides a new means of investigating the relationship between policy outputs and the institutional arrangements that municipal governments employ to fulfil their service responsibilities (Stein 1990). Each arrangement compliments the others and may even make singular and/or unique contributions to the achievement of particular dimensions of organisational goals and objectives. However, each alternative is inadequate in 'ranking in' all the desirable outcomes.

The implication of the analysis in this thesis for the theory and practice of public administration is that the purchaser-provider split, like all predecessor government models, have both strengths and weaknesses, and is not a panacea for the problems of bureaucratic supply. A myriad of institutional arrangements for management, and service delivery is on the menu, however, it should be realised that the
appropriateness or otherwise of any alternative or a combination of alternatives, is a function of not only the type of good or service to be provided, but also the local contextual conditions.
Endnotes

1 The new Liberal Government established an Independent commission to Review Tasmania's Public Sector Finances, which was chaired by Mr. Charles Curran A. O (Chapman 1995:2)

2 The matters considered were to take note of a resolution passed by the 1990 Annual Conference of the Municipal Association of Tasmania (MAT).

3 For a more detailed information on the inquiry process and the recommendations of the board, see LGAB (1992) or the individual discussion and modernization proposals papers.

4 This was two years after the preliminary visit to New Zealand by board representatives to study changes in local government that had been in place for about a year. This visit occurred before the minister announced the LGAB inquiry in August 1990

5 The funds collected from library levy are paid to the Consolidated Fund. The state is precluded by statute from imposing direct charges on library users. The levy partially recovers the cost of library services from the wider community (Department of Treasury 2003)

6 However, before 1979, the responsibility for fire protection was shared between two statutory bodies and 22 individual brigade boards (Department of Treasury 2003)

7 This levy is based on the assessed annual value of rateable property. Council may retain an administration (collection) charge not exceeding four percent of the gross value of the levy and are permitted to recover the levy from individual property owners provided that the component of rates attributable to the contribution is separately identified. The funds collected from the fire levy are paid direct to the State Fire Commission (Department of Treasury 2003).

8 Specific purposes grant to local government include the following:

   Direct principal and interest subsidies under the Public Bodies Assistance Act 1971 on borrowings for approved purposes such as for new infrastructure or the development of existing facilities. However, no new loans have been made under the this Act since 1989 (Department of Treasury 2003);

   In 2001-02, the Department of Infrastructure, Energy and Resources distributed grants to councils totaling $1.5million sourced from state government vehicle motor taxes (the ‘National Road Transport Commission (NRTC) funds’);

   In 2001-02, the Department of Premier and Cabinet disbursed $111 200 to local government bodies under the Premier’s Sundry Grants Program’. A further $404 000 from the Social Infrastructure Fund was disbursed to the Glenorchy City Council towards the Wilkinson’s Point Parkland Redevelopment; and

   In 2001-02, the Burnie City Council and the Devonport City Council received $40 000 each for the operation of their respective travel centers. The Launceston City Council, the Meander Valley Council and the Glamorgan-Spring Bay Council received $5000 each from the Tourism Development Grants Program while Circular Head Council received $145 500 for its visitor information center (Department of Treasury 2003).

9 The research revealed that: the delivery of W&S services is integrated with the provision of roads, paving and to a lesser extent parks. Where there are separate work gangs for these services, there are several functions which are jointly provided-the road gang will, on occasions, complete sewerage work, for example. The extent
of this joint provision amounts to five percent of the total works budget in the case of the metropolitan councils and fifteen percent in the smaller rural councils.

In Tasmania, all urban water services are provided by local government. Accordingly, in 1999 councils undertook a significant amount of work in assessing whether two-part tariffs were cost-effective for their urban water supply schemes (Department of Treasury 2003). A report on the assessment to the State Government in December 1999 revealed that two-part tariffs had already been, or would be, implemented in 24 of the 90 water schemes studied. In these cases, the implementation of two-part pricing for water delivers many benefits to councils and the broader community (Department of Treasury 2003). Correct pricing sends the appropriate price signal to customers to promote water use that is economically efficient and environmentally responsible.

However, in the case of water pricing, four councils were assessed as recovering insufficient revenue to meet the minimum requirement for full cost recovery, while the revenue of one council was found to exceed the Urban Water Pricing Guidelines for the maximum allowable return. In the case of wastewater pricing, three councils were assessed as recovering insufficient revenue under the Urban Water Pricing Guidelines, and were found to have exceeded the maximum allowable return.

For instance, case studies were used to evaluate the changes occurring in Tasmanian local government by Chapman (1995), the LGB (1997a) and Ryan (1997) (Haward and Zwart 2000).

The first case study is the Southern Midlands Council, a rural council north of Hobart, which was formed from two existing municipalities and some additional rural areas. The second case involves the Huon Valley Council, a predominantly rural council south of Hobart, formed from three former municipalities of Cygnet, Esperance and the previous Huon Municipality. The third case involved the amalgamation of an island municipality, Bruny Island Council, and the considerably larger Kingborough Council. The fourth case study, the Tasman Council, has been included as a ‘counter-factual’, as it is a small council representing the Tasman Peninsula that resisted amalgamation. Tasman is included in order to compare its administrative costs and the services it provides with the amalgamated councils (Haward and Zwart 2000: 45).

Municipal taxes consist of general and specific rates excluding fees and charges

Table 8.3 reports the coefficients for the measures of services provided under the purchaser-provider split.
### Appendix 1

**A decade of commissions in Australia**

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<td>Mr B. Guerin</td>
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Appendix 2

Previous Local Government Investigations in Tasmania

1939: Royal Commission on Local Government Report

(M. Wedd, Chairman)

1965: Municipal Commission of Tasmania: Report (H. E Williams, Chairman)


1979: The Board of Inquiry into Local Government in Launceston and Related Areas
(R. J. K Chapman, Chairman)
Appendix 3

Interview schedule for Hobart City Council and Sorell Council

Thesis title: Municipal Reforms in Tasmania: The Impact of the Purchaser-Provider Split on Service Delivery in Hobart and Sorell Councils

1. How long has the purchaser-provider split been in operation in this council?
2. What has been the impact of the introduction of the purchaser-provider split in terms of administrative and operational arrangements in this council?
3. What type of services does the council provide?
4. What services do external providers provide?
5. Has the introduction of the purchaser-provider split affected the relationship between elected representatives and council management?
6. Has this council sought to enhance the capacity of front-line managers?
7. How do you co-ordinate service delivery under the purchaser-provider split?
8. How do you monitor service delivery under the purchaser-provider split?
9. How do monitoring costs compare to the former costs of in-house supervision of program delivery?
10. Has the purchaser-provider split affected the level of community participation in the council's decisions over the shaping of service content and delivery?
11. What do you look for when assessing quality of services in this council?
12. How would you assess citizens' perception of council services from the launch of the purchaser-provider split to date?
13. What main problems are encountered in the implementation of the purchaser-provider split?
14. Do you think the purchaser-provider split is the best governance mechanism for service provision or are there other more attractive alternatives?
Appendix 4: Regression estimates for expenditure of public order and safety services of the HCC

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SUMMARY OUTPUT

Regression Statistics

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Appendix 5: Regression estimates for expenditure of health services of the HCC

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Adjusted R Square 0.942306
Standard Error of the Estimate 60946.55

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### SUMMARY OUTPUT

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### SUMMARY OUTPUT

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- Multiple R: 0.975774
- R Square: 0.952134
- Adjusted R Square: 0.95743
- Standard Error: 1020906
- Observations: 16

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Appendix 8: Regression estimates for expenditure of recreation and culture services of the HCC

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**SUMMARY OUTPUT**

**Regression Statistics**

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- Standard Error: 0.90097

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Appendix 9: Regression estimates for expenditure of transport services of the HCC

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SUMMARY OUTPUT

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- R Square: 0.918549
- Adjusted R Square: 0.825461
- Standard Error: 1309370
- Observations: 16

ANOVA
- df: Regression 8, Residual 7, Total 15
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- MS: Regression 1.69E+13, Residual 1.71E+12, Total 1.47E+14
- F: Regression 9.86761, Residual 0.64908

Coefficients and Standard Errors

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401
Appendix 10: Regression estimates for expenditure of economic services of the HCC

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**SUMMARY OUTPUT**

**Regression Statistics**

- Multiple R: 0.976526
- R Square: 0.953602
- Adjusted R Square: 0.900577
- Standard Error: 127889.6
- Observations: 16

**ANOVA**

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### SUMMARY OUTPUT

#### Regression Statistics

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| R Square   | 0.9545  |
| Adjusted R | 0.902501 |
| Standard E | 519799.9 |

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### SUMMARY OUTPUT

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- Multiple R: 0.972247
- R Square: 0.945265
- Adjusted R Square: 0.88271
- Standard Error: 324833.4
- Observations: 16

#### ANOVA

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- Intercept: -5.1E+07 23379907 -2.16185 0.067423 -1.1E+08 4740823 -1.1E+08 4740823
- PCIN: 118.6874 132.371 0.896627 0.399702 -194.32 431.6952 -194.32 431.6952
- FUNCT: -49715.7 87378.75 -0.56897 0.58716 -256334 156902.2 -256334 156902.2
- AID: -168190 141995 -1.18448 0.274878 -503955 167575.2 -503955 167575.2
- MUWF: -3098.52 4741.162 -0.65354 0.323968 -14309.6 8112.543 -14309.6 8112.543
- PUBPAY: 9.600706 1374.123 0.006987 0.006987 -3239.68 3258.886 -3239.68 3258.886
- TAXB: 408093.7 729486.3 0.559426 0.593311 -1316877 2133055 2133055
- POP: 1224.927 585.4437 2.092305 0.074715 -159.428 2609.281 -159.428 2609.281
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Appendix 13: Regression estimates for total service expenditure of the HCC

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SUMMARY OUTPUT

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Adjusted R 0.979466
Standard Error 1986010
Observations 16

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Coefficients Standard Error t Stat P-Value Lower 95% Upper 95% Lower 95% Upper 95%
Intercept -1.3E+08 1.43E+08 -0.89226 0.401882 -4.7E+08 2.1E+08 -4.7E+08 2.1E+08
PCIN 3317.334 809.3075 4.098978 0.003347 1403.626 5231.042 1403.626 5231.042
FUNCT -505502 534227.8 -0.94623 0.374541 -1768750 757745.7 -1768750 757745.7
AID -13909546 868148 -1.60174 0.152174 -3443390 662298.2 -3443390 662298.2
MUWF -10487.1 28987.15 -0.36178 0.728188 -79030.8 58056.62 -79030.8 58056.62
PUBPAY -1497.88 8401.296 -0.17829 0.863544 -21363.8 18368.03 -21363.8 18368.03
TAXB 877952.2 4460030 0.196849 0.849539 -9668344 11424248 -9668344 11424248
POP 3411.701 3579.363 0.953159 0.372255 -5052.15 11875.55 -5052.15 11875.55
PPS 88686.51 72502.78 1.222912 0.260933 -82797.9 260170.9 -82797.9 260170.9

405
Appendix 14

Calculation of beta weights of service category level spending of the HCC

Service category level effects of the purchaser-provider split in the HCC

Public order and safety
B₁ = Beta weight of public order and safety
S₁ = Standard deviation of purchaser-provider split
S_Y = Standard deviation of expenditure on public order and safety
b₁ = Coefficient of purchaser-provider split (derived from regression estimates) — see appendix 4)

S₁ = 37.094
S_Y = 505203.061
b₁ = -5406.81
B₁ = S₁/S_Y * b₁
B₁ = 37.094/505203.061 * -5406.81
B₁ = -0.397

Health
B₂ = beta weight of health services
S₁ = standard deviation of purchaser-provider split
S₂Y = standard deviation of expenditure on health services
b₂ = coefficient of purchaser-provider split (derived from regression estimates — see appendix 5)

S₁ = 37.094
S₂Y = 253736.272
b₂ = 1419.309
B₂ = S₁/S₂Y * b₂
B₂ = 37.094/253736.272* 1419.309
B₂ = 0.207

Welfare
B₃ = beta weight of welfare services
S₁ = standard deviation of purchaser-provider split
S₃Y = standard deviation of expenditure on welfare services
b₃ = coefficient of purchaser-provider split (derived from regression estimates — see appendix 6)

S₁ = 37.094
S₃Y = 546957.063
b₃ = 2118.867
B₃ = S₁/S₃Y * b₃
B₃ = 37.094/546957.063 * 2118.867
B₃ = 0.144
Appendix 14 (continued)

**Community amenities**

- B₄ = beta weight of community amenities
- S₁ = standard deviation of purchaser-provider split
- S₄ᵧ = standard deviation of expenditure on community amenities
- b₄ = coefficient of purchaser-provider split (derived from regression estimates – see appendix 7)

\[
\begin{align*}
S₁ &= 37.094 \\
S₄ᵧ &= 3187687.228 \\
b₄ &= 74285.55 \\
B₄ &= \frac{S₁}{S₄ᵧ} \times b₄ \\
B₄ &= \frac{37.094}{3187687.228} \times 74285.55 \\
B₄ &= 0.864
\end{align*}
\]

**Recreation and culture**

- B₅ = beta weight of recreation and culture services
- S₁ = standard deviation of purchaser-provider split
- S₅ᵧ = standard deviation of expenditure on recreation and culture services
- b₅ = coefficient of purchaser-provider split (derived from regression estimates – see appendix 8)

\[
\begin{align*}
S₁ &= 37.094 \\
S₅ᵧ &= 4074026.272 \\
b₅ &= 19238.6 \\
B₅ &= \frac{S₁}{S₅ᵧ} \times b₅ \\
B₅ &= \frac{37.094}{4074026.272} \times 19238.6 \\
B₅ &= 0.175
\end{align*}
\]

**Transport**

- B₆ = beta weight of transport services
- S₁ = standard deviation of the purchaser-provider split
- S₆ᵧ = standard deviation of expenditure on transport services
- b₆ = coefficient of purchaser-provider split (derived from regression estimates – see appendix 9)

\[
\begin{align*}
S₁ &= 37.094 \\
S₆ᵧ &= 3134127.329 \\
b₆ &= -1479.42 \\
B₆ &= \frac{S₁}{S₆ᵧ} \times b₆ \\
B₆ &= \frac{37.094}{3134127.329} \times -1479.42 \\
B₆ &= -0.018
\end{align*}
\]
Appendix 14 (continued)

Economic services

$B_7 =$ beta weight of economic services  
$S_1 =$ standard deviation of purchaser-provider split  
$S_{7Y} =$ standard deviation of expenditure on economic services  
$b_7 =$ coefficient of purchaser-provider split (derived from regression estimates – see appendix 10)

\[
S_1 = 37.094 \\
S_{7Y} = 405593.228 \\
b_7 = 901.7943 \\
B_7 = \frac{S_1}{S_{7Y}} \times b_7 \\
B_7 = 37.094/405593.228 \times 901.7943 \\
B_7 = 0.082
\]

Water supply

$B_8 =$ beta weight of water supply  
$S_1 =$ standard deviation of purchaser-provider split  
$S_{8Y} =$ standard deviation of expenditure on water supply  
$b_8 =$ coefficient of purchaser-provider split (derived from regression estimates – see appendix 11B)

\[
S_1 = 37.094 \\
S_{8Y} = 1664699.741 \\
b_8 = -16048.2 \\
B_8 = \frac{S_1}{S_{8Y}} \times b_8 \\
B_8 = 37.094/1664699.741 \times -16048.2 \\
B_8 = -0.358
\]

Sewerage

$B_9 =$ beta weight of sewerage services  
$S_1 =$ standard deviation of purchaser-provider split  
$S_{9Y} =$ standard deviation of expenditure on sewerage services  
$b_9 =$ coefficient of purchaser-provider split (derived from regression estimates – see appendix 12)

\[
S_1 = 37.094 \\
S_{9Y} = 948484.115 \\
b_9 = 11793.51 \\
B_9 = \frac{S_1}{S_{9Y}} \times b_9 \\
B_9 = 37.094/948484.115 \times 11793.51 \\
B_9 = 0.461
\]
Appendix 15

Calculation of beta weights of total service expenditure of the HCC
Aggregate policy effect of the purchaser-provider split

**Per capita income (PCIN)**
B₁ = Beta weight of per capita income
S₁ = Standard deviation of per capita income
SY = Standard deviation of total municipal service expenditure
b₁ = Coefficient of per capita income (derived from regression estimates – see Appendix 13)

\[ S₁ = 4166.4 \]
\[ SY = 13859235.495 \]
\[ B₁ = S₁/SY \ast b₁ \]
\[ B₁ = 4297.648/13859235 \ast 3317.334 \]
\[ B₁ = 1.029 \]

**Functional scope (FUNCT)**
B₂ = Beta weight of functional scope
S₂ = Standard deviation of functional scope
SY = Standard deviation of total municipal service expenditure
b₂ = Coefficient of functional scope (derived from regression estimates – see Appendix 13)

\[ S₂ = 6.846 \]
\[ SY = 13859235.495 \]
\[ b₂ = -505502 \]
\[ B₂ = S₂/SY \ast b₂ \]
\[ B₂ = 6.846/13859235.495 \ast -505502 \]
\[ B₂ = -0.250 \]

**Grants (AID)**
B₃ = Beta weight of grants
S₃ = Standard deviation of grants
SY = Standard deviation of total municipal service expenditure
b₃ = Coefficient of aid (derived from regression estimates – see Appendix 13)

\[ S₃ = 0.9061 \]
\[ SY = 13859235.495 \]
\[ b₃ = -1390546 \]
\[ B₃ = S₃/SY \ast b₃ \]
\[ B₃ = 0.9061/13859235.495 \ast -1390546 \]
\[ B₃ = 0.091 \]
Appendix 15 (continued)

**Municipal workforce (MUWF)**

- $B_4 = \beta$ weight of municipal workforce
- $S_4 =$ Standard deviation of municipal workforce
- $S_Y =$ Standard deviation of total municipal service expenditure
- $b_4 =$ Coefficient of municipal workforce (derived from regression estimates – see Appendix 13)

$$S_4 = 37.524$$
$$S_Y = 26385162$$
$$b_4 = -10487.1$$
$$B_4 = \frac{S_y}{S_Y} \times b_4$$
$$B_4 = \frac{37.524}{13859235.495} \times -10487.1$$
$$B_4 = -0.028$$

**Public wages (PUBPAY)**

- $B_5 = \beta$ weight of public wages
- $S_5 =$ Standard deviation of public wages
- $S_Y =$ Standard deviation of total municipal service expenditure
- $b_5 =$ Coefficient of public wages (derived from regression estimates – see Appendix 13)

$$S_5 = 608.667$$
$$S_Y = 13859235.495$$
$$b_5 = -1497.88$$
$$B_5 = \frac{S_y}{S_Y} \times b_5$$
$$B_5 = \frac{608.667}{26385162} \times -1497.88$$
$$B_5 = -0.066$$

**Tax burden (TAXB)**

- $B_6 = \beta$ weight of tax burden
- $S_6 =$ Standard deviation of tax burden
- $S_Y =$ Standard deviation of total municipal service expenditure
- $b_6 =$ Coefficient of tax burden (derived from regression estimates – see Appendix 13)

$$S_6 = 0.2338$$
$$S_Y = 13859235.495$$
$$b_6 = 877952.2$$
$$B_6 = \frac{S_y}{S_Y}$$
$$B_6 = \frac{0.2338}{13859235.495} \times 877952.2$$
$$B_6 = 0.015$$

**Population (POP)**

- $B_7 = \beta$ weight of population
- $S_7 =$ Standard deviation of population
- $S_Y =$ Standard deviation of total municipal service expenditure
Appendix 15 (continued)

$b_7 = \text{Coefficient of population (derived from regression estimates \textendash; see Appendix 13)}$

\[
S_7 = 436.704 \\
S_y = 13859235.495 \\
b_7 = 3411.701 \\
B_7 = \frac{S_7}{S_y} * b_7 \\
B_7 = \frac{436.704}{13859235.495} * 3411.701 \\
B_7 = 0.108
\]

*Purchaser-provider split (PPS)*

$B_8 = \text{Beta weight of purchaser-provider split}$

$S_8 = \text{Standard deviation of purchaser-provider split}$

$b_8 = \text{Coefficient of purchaser-provider split (derived from regression estimates \textendash; see Appendix 13)}$

\[
S_8 = 37.094 \\
S_y = 13859235.495 \\
b_8 = 88686.51 \\
B_8 = \frac{S_8}{S_y} * b_8 \\
B_8 = \frac{37.094}{13859235.495} * 88686.51 \\
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Appendix 16: Regression estimates for employment of the HCC

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SUMMARY OUTPUT

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ANOVA

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Coefficient Estimates

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Appendix 17

Calculation of beta weights of employment of the HCC

Aggregate policy effect of the purchaser-provider split in the HCC

Functional scope (FUNCT)
B₁ = Beta weight of functional scope
S₁ = Standard deviation of functional scope
Sᵧ = Standard deviation of municipal workforce
b₁ = Coefficient of functional scope (derived from regression estimates – see Appendix 16)

S₁ = 6.846
Sᵧ = 37.524
b₁ = 9.938181
B₁ = S₁/Sᵧ * b₁
B₁ = 6.846/37.524 * 9.938181
B₁ = 1.8

Grants (AID)
B₂ = Beta weight of grants
S₂ = Standard deviation of grants
Sᵧ = Standard deviation of municipal workforce
b₂ = Coefficient of grants (derived from regression estimates- see Appendix 16)

S₂ = 0.9061
Sᵧ = 37.524
b₂ = -13.19182
B₂ = S₂/Sᵧ * b₂
B₂ = 0.9061/37.524 * -13.19182
B₂ = -0.319

Per capita income (PCIN)
B₃ = Beta weight of per capita income
S₃ = Standard deviation of per capita income
Sᵧ = Standard deviation of municipal workforce
b₃ = Coefficient of per capita income (derived from regression estimates – see Appendix 16)

S₃ = 4297.648
Sᵧ = 37.524
b₃ = -0.00583
B₃ = S₃/Sᵧ * b₁
B₃ = 4297.648/37.524 * -0.005834
B₃ = -0.668
Appendix 17 (continued)

Public wages (PUBPAY)

\[ B_4 = \text{Beta weight of public wages} \]
\[ S_4 = \text{Standard deviation of public wages} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_4 = \text{Coefficient of public wages (derived from regression estimates – see Appendix 16)} \]

\[ S_4 = 608.667 \]
\[ S_Y = 37.524 \]
\[ b_4 = -0.132504 \]
\[ B_4 = \frac{S_4}{S_Y} \cdot b_4 \]
\[ B_4 = \frac{608.667}{35.5} \cdot (-0.132504) \]
\[ B_4 = -2.149 \]

Tax burden (TAXB)

\[ B_5 = \text{Beta weight of tax burden} \]
\[ S_4 = \text{Standard deviation of tax burden} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_5 = \text{Coefficient of tax burden (derived from regression estimates – see Appendix 16)} \]

\[ S_5 = 0.2338 \]
\[ S_Y = 37.524 \]
\[ b_5 = -76.50006 \]
\[ B_5 = \frac{S_5}{S_Y} \cdot b_5 \]
\[ B_5 = \frac{0.2338}{37.524} \cdot (-76.50006) \]
\[ B_5 = -0.477 \]

Population (POP)

\[ B_6 = \text{Beta weight of population} \]
\[ S_6 = \text{Standard deviation of population} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_6 = \text{Coefficient of population (derived from regression estimates – see Appendix 16)} \]

\[ S_6 = 436.704 \]
\[ S_Y = 37.524 \]
\[ b_6 = 0.022135 \]
\[ B_6 = \frac{S_6}{S_Y} \cdot b_6 \]
\[ B_6 = \frac{436.704}{35.5} \cdot 0.022135 \]
\[ B_6 = 0.258 \]

Purchaser-provider split (PPS)

\[ B_7 = \text{Beta weight of purchaser-provider split} \]
\[ S_7 = \text{Standard deviation of purchaser-provider split} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
Appendix 17 (continued)
b_7 = Coefficient of purchaser-provider split (derived from regression estimates – see Appendix 16)

S_7 = 37.094
S_Y = 37.524
b_7 = -0.035208
B_7 = S_7/S_Y * b_7
B_7 = 37.094/37.524 * -0.035208
B_7 = -0.035
Appendix 18: Regression estimates for total service expenditure of Sorell Council

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<th>TAXB</th>
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**Regression Statistics**
- Multiple R: 0.983975
- R Square: 0.968206
- Adjusted R: 0.940387
- Standard Error: 476032.2
- Observations: 16

**ANOVA**

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**Coefficients and Standard Errors**

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416
Appendix 19: Calculation of beta weights of total service expenditure of Sorell Council

*Per capita income (PCIN)*

\[ B_1 = \text{Beta weight of per capita income} \]
\[ S_1 = \text{Standard deviation of per capita income} \]
\[ S_Y = \text{Standard deviation of total municipal service expenditure} \]
\[ b_1 = \text{Coefficient of per capita income (derived from regression estimates – see Appendix 18)} \]

\[ S_1 = 4297.648 \]
\[ S_Y = 1949685.680 \]
\[ b_1 = -2.592542 \]
\[ B_1 = S_1/S_Y \times b_1 \]
\[ B_1 = \frac{4297.648}{1949685.680} \times (-2.592542) \]
\[ B_1 = -0.006 \]

*Functional scope (FUNCT)*

\[ B_2 = \text{Beta weight of functional scope} \]
\[ S_2 = \text{Standard deviation of functional scope} \]
\[ S_Y = \text{Standard deviation of total municipal service expenditure} \]
\[ b_2 = \text{Coefficient of functional scope (derived from regression estimates – see Appendix 18)} \]

\[ S_2 = 6.087 \]
\[ S_Y = 1949685.680 \]
\[ b_2 = -60013.91 \]
\[ B_2 = S_2/S_Y \times b_2 \]
\[ B_2 = \frac{6.087}{1949685.680} \times (-60013.91) \]
\[ B_2 = -1.87 \]

*Grants (AID)*

\[ B_3 = \text{Beta weight of grants} \]
\[ S_3 = \text{Standard deviation of grants} \]
\[ S_Y = \text{Standard deviation of total municipal service expenditure} \]
\[ b_3 = \text{Coefficient of grants (derived from regression estimates – see Appendix 18)} \]

\[ S_3 = 8.661 \]
\[ S_Y = 1949685.680 \]
\[ b_3 = -6286.651 \]
\[ B_3 = S_3/S_Y \times b_3 \]
\[ B_3 = \frac{8.661}{1949685.680} \times (-6286.651) \]
\[ B_3 = -0.028 \]

*Municipal workforce (MUWF)*

\[ B_4 = \text{Beta weight of municipal workforce} \]
\[ S_4 = \text{Standard deviation of municipal workforce} \]
\[ S_Y = \text{Standard deviation of total municipal service expenditure} \]
Appendix 19 (continued)

\[ b_4 = \text{Coefficient of municipal workforce (derived from regression estimates – see Appendix 18)} \]

\[ S_4 = 16.749 \]
\[ S_Y = 1949685.680 \]
\[ b_4 = 137315.4 \]

\[ B_4 = \frac{S_4}{S_Y} \times b_4 \]
\[ B_4 = \frac{16.749}{1949685.680} \times 137315.4 \]
\[ B_4 = 0.1180 \]

\textit{Public wages (PUBPAY)}

\[ B_5 = \text{Beta weight of public wages} \]
\[ S_5 = \text{Standard deviation of public wages} \]
\[ S_Y = \text{Standard deviation of total municipal service expenditure} \]

\[ b_5 = \text{Coefficient of public wages (derived from regression estimates – see Appendix 18)} \]

\[ S_5 = 486.423 \]
\[ S_Y = 1949685.680 \]
\[ b_5 = -1445.006 \]

\[ B_5 = \frac{S_5}{S_Y} \times b_5 \]
\[ B_5 = \frac{486.423}{1949685.680} \times -1445.006 \]
\[ B_5 = -0.361 \]

\textit{Tax burden (TAXB)}

\[ B_6 = \text{Beta weight of tax burden} \]
\[ S_6 = \text{Standard deviation of tax burden} \]
\[ S_Y = \text{Standard deviation total municipal service expenditure} \]

\[ b_6 = \text{Coefficient of tax burden (derived from regression estimates – see Appendix 18)} \]

\[ S_6 = 0.4177 \]
\[ S_Y = 1949685.680 \]
\[ b_6 = 898253.6 \]

\[ B_6 = \frac{S_6}{S_Y} \times b_6 \]
\[ B_6 = \frac{0.4177}{1949685.680} \times 898253.6 \]
\[ B_6 = 0.192 \]

\textit{Population (POP)}

\[ B_7 = \text{Beta weight of population} \]
\[ S_7 = \text{Standard deviation of population} \]
\[ S_Y = \text{Standard deviation total municipal service expenditure} \]

\[ b_7 = \text{Coefficient of population (derived from regression estimates – see Appendix 18)} \]
Appendix 19 (continued)

$S_7 = 1265.383$

$S_Y = 1949685.680$

$b_7 = 182.7925$

$B_7 = \frac{S_7}{S_Y} \cdot b_7$

$B_7 = \frac{1265.383}{1887232} \cdot 182.7925$

$B_7 = 0.119$
Appendix 20: Regression estimates for employment of Sorell Council

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SUMMARY OUTPUT

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<td>R Square 0.980479</td>
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<td>Standard Error 3.021039</td>
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<th>t Stat</th>
<th>P-value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
<th>Lower 90%</th>
<th>Upper 90%</th>
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<td>Intercept</td>
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<td>0.146576</td>
<td>0.886698</td>
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<td>PCIN</td>
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Appendix 21: Calculation of beta weights of employment of Sorel Council

*Per capita income (PCIN)*

\[ B_1 = \text{Beta weight of per capita income} \]
\[ S_1 = \text{Standard deviation of per capita income} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_1 = \text{Coefficient of per capita income (derived from regression estimates – see Appendix 20)} \]

\[
S_1 = 4297.648 \\
S_Y = 16.749 \\
b_1 = 0.00616 \\
B_1 = S_1/S_Y \times b_1 \\
B_1 = 4297.648/16.749 \times 0.00616 \\
B_1 = 1.581
\]

*Functional scope (FUNCT)*

\[ B_2 = \text{Beta weight of functional scope} \]
\[ S_2 = \text{Standard deviation of functional scope} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_1 = \text{Coefficient of functional scope (derived from regression estimates – see Appendix 20)} \]

\[
S_2 = 6.087 \\
S_Y = 16.749 \\
b_2 = -0.662718 \\
B_2 = S_2/S_Y \times b_2 \\
B_2 = 6.087/16.749 \times -0.662718 \\
B_2 = -0.241
\]

*Grants (AID)*

\[ B_3 = \text{Beta weight of grants} \]
\[ S_3 = \text{Standard deviation of grants} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_3 = \text{Coefficient of grants (derived from regression estimates – see Appendix 20)} \]

\[
S_3 = 8.661 \\
S_Y = 16.749 \\
b_3 = -0.065996 \\
B_3 = S_3/S_Y \times b_3 \\
B_3 = 8.661/16.749 \times -0.065996 \\
B_3 = -0.034
\]

*Public wages (PUBPAY)*

\[ B_4 = \text{Beta weight of public wages} \]
\[ S_4 = \text{Standard deviation of public wages} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_4 = \text{Coefficient of public wages (derived from regression estimates – see Appendix 20)} \]
Appendix 21 (continued)

\[ S_4 = 486.423 \]
\[ S_Y = 16.749 \]
\[ b_4 = 0.000997 \]
\[ B_4 = \frac{S_4}{S_Y} \times b_4 \]
\[ B_4 = \frac{486.423}{16.749} \times 0.000997 \]
\[ B_4 = 0.029 \]

*Tax burden* (TAXB)

\[ B_5 = \text{Beta weight of tax burden} \]
\[ S_5 = \text{Standard deviation of tax burden} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_5 = \text{Coefficient of tax burden (derived from regression estimates – see Appendix 20)} \]

\[ S_5 = 0.4177 \]
\[ S_Y = 16.749 \]
\[ b_5 = -13.84678 \]
\[ B_5 = \frac{S_5}{S_Y} \times b_5 \]
\[ B_5 = \frac{0.4177}{16.749} \times -13.84678 \]
\[ B_5 = -0.345 \]

*Population* (POP)

\[ B_6 = \text{Beta weight of population} \]
\[ S_6 = \text{Standard deviation of population} \]
\[ S_Y = \text{Standard deviation of municipal workforce} \]
\[ b_6 = \text{Coefficient of population (derived from regression estimates – see Appendix 20)} \]

\[ S_6 = 1265.383 \]
\[ S_Y = 16.749 \]
\[ b_6 = -0.001765 \]
\[ B_6 = \frac{S_6}{S_Y} \times b_6 \]
\[ B_6 = \frac{1265.383}{16.749} \times -0.001765 \]
\[ B_6 = -0.133 \]
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