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Abstract

Between 1992 and 1999 the Victorian State Government, led by Jeff Kennett, set about implementing the most extensive public sector reform program ever witnessed in Australia, part of which involved significant changes in the organisation and operation of local government. Although local government had traditionally been 'the blind spot' in governmental arrangements, within three years of assuming office local government had undergone major structural and operational change. This paper revisits this period by examining four elements of the reform agenda including the factors driving the reform, the Kennett government's approach to local government reform, the expected outcomes sought by this government, and the policies implemented in local government to achieve the expected outcomes. The paper identifies a number of implications for trade unions arising from this reform agenda and concludes that further investigation is warranted in this area.

Introduction

At the same time as other governments were cutting back in size and scope local government was expanding (Jones 1993). Service provision had extended to include recreational and community-based services and employment was increasing (ABS 1992; Aitkin and Jinks 1985; Self 1987). A leading researcher in local government commented that under such conditions local government thought it possessed 'significant control over its own destiny' (Jones 1993).

However, this perception quickly changed when the Coalition parties (the Liberal Party and the National Party), headed by Jeff Kennett, successfully won the October 1992 Victorian State election. In the next seven years, the government set about implementing the most extensive privatisation and public sector reform program ever witnessed in Australia (Fairbrother et al. 1997).

This paper reviews literature on local government reform to locate findings on four elements or components of the reform agenda, the factors driving reform in local government, the Kennett government's approach to local government reform, the expected outcomes sought from the reform agenda and the policies that were implemented in local government to achieve the expected outcomes. Arising from this review, the paper identifies a number of implications for trade unions and concludes that further research is required into how reform agendas impact on trade unions.
Factors influencing local government reform

Three factors were found to have influenced the local government reform agenda introduced by the Kennett government. These included support of public choice ideas, state budgetary concerns, and national micro-economic reform initiatives.

A primary factor underpinning the Kennett government's public sector reform agenda was an acceptance of public choice ideology, and particularly as illustrated in the UK under successive Conservative Party-led governments throughout the 1980s (Alford et al. 1994; Skulley 1999; Teicher et al. 1999; Walsh 1995).

From the 1930s until the late 1970s most western governments pursued policies associated with the public goods school (Abelson 1987). A key premise was that governments should play a central role in facilitating, producing and allocating goods and services to the community 'on the belief that the market is inherently unstable' and prone to failure (Barr 1987, p.54). However, by the early 1980s a shift was evident in policy approaches. Governments appeared unable to stem the decline in economic growth and redress the twin problems of high inflation and unemployment that had commenced during the 1970s using Keynesian-prescribed policies (Hughes 1994). Instead governments in most of the advanced industrial countries tried to slow the growth of their public sector and reduce the size of their fiscal deficits by applying the principles of public choice theory (Abelson 1987; Aulich 1997a).

Public choice theory made extensive use of neo-classical economic theory, which assumes that within decision making processes, individuals seek to maximise their utility by behaving in a rational and self-interested manner (Buchanan and Tullock 1962; Rimmer 1993; van Winden 1988). The public choice school asserts that the selfish motives and monopoly powers of bureaucrats, particularly in their role of implementing policy, and the power of special interest groups like trade unions, leads to oversupply and inefficiency in the public sector (Buchanan and Tullock 1962).

The first major example of these ideas in practice occurred in the UK from the early 1980s after the Conservative Party, under the leadership of Margaret Thatcher (1979-1990) gained power (Alford et al. 1994). Three main outcomes were recognised as being principally sought by Thatcher. These included cost decreases and efficiency improvement in the public sector, the reduction in the size and scope of the public sector, and also the reduction in influence and power of public sector trade unions (Ascher 1987; Foster 1991; MacInnes 1987; Painter 1991).

To attain these outcomes, the Thatcher government applied a series of far-reaching public sector funding cuts, the expansion of private-sector management approaches, the privatisation of public instrumentalities, and the use of market or pseudo-market mechanisms for the delivery of public goods (Laffin 1989).

The perceived success of this reform agenda in addressing the economic problems proved influential in other western jurisdictions during the 1980s (Abelson 1987; Hughes 1994). Indeed, the UK experience and the public choice ideas underpinning the reform agenda in that country, held special favour within the Kennett government (Alford et al. 1994; Deakin and Walsh 1996; Fairbrother et al. 1997; Skulley 1999).
In addition, advisers to the Coalition party prior to the state election were also identified as proponents of comprehensive contracting out and privatisation in order to achieve an 'enabling' public sector (Audit Review 2000). Major advisors included the neo-liberal think tanks, the Tasman Institute and the Institute of Public Affairs (IPA), who likewise supported the general thrust of public choice (Institute of Public Affairs 1993; Kiss 1997; Moore and Porter 1991).

The second major force motivating the reform agenda concerned the financial circumstances inherited by the Kennett government. Victoria's public sector finances were in a precarious state in the period leading up to the election. Economic conditions included high public sector debt levels, high unemployment, and a generally stagnant economy (Alford et al. 1994; Deakin and Walsh 1996; Kennett 1992). State sector net debt as a proportion of Gross State Product had risen to 30.5 per cent in 1991/92, relatively high when considered against the rates in New South Wales (14 per cent) and Queensland (8 per cent) (Audit Review. 2000, p.7).

Within the first week of being elected, the Kennett Government initiated an investigation into public sector finances by appointing the Victorian Commission of Audit (VCA). Kennett claimed that the audit would give the Victorian public an accurate and comprehensive statement on the condition of the State's finances (Kennett 1992). The VCA's report was finalised in May 1993, and consisted of a first volume (Victorian Commission of Audit 1993a) that dealt with financial matters, and a second (Victorian Commission of Audit 1993b), that examined the way the government was run.

The VCA noted that the financial problems the state confronted were in some measure the product of wider forces and influences outside the direct control of the government. Federal government grants had been reduced over the previous two years despite vociferous protests by the previous state government. In part this was the result of the national economy passing through a recession during this period, which not only limited the availability of federal revenue for distribution to the states, but also had a negative impact on the direct revenue raising abilities of state governments, including Victoria (Victorian Commission of Audit 1993a).

Two additional problems faced the Victorian economy. The first emanated from the high number of people moving to other states, rising from 5,799 in 1985 to 30,081 in 1993 (Australian Bureau of Statistics. 1992, 1994). The second problem was derived from the financial debts borne by the government as a result of the failure of the Victorian Economic Development Corporation and the collapse of Tricontinental (Murray and White 1992).

These economic conditions did not go unnoticed in world brokerage markets. The influential New York firms, Moodys Investor Services and Standard and Poors, reassessed Victoria's credit rating and had downgraded the State government's rating from 'AAA' rating to 'AA' rating (Stockdale 1992).

The VCA made a number of recommendations to the Kennett government aimed at restoring the state's finances. Central among these included reducing state sector debt through asset sales and privatisations, reducing spending levels and by increasing taxation (Victorian Commission of Audit 1993a, p. iii, p.122).
In addition, the VCA recommended that the Victorian public sector should be fundamentally restructured in accordance with three broad principles:

- Policy-making and regulatory functions should be clearly separated from service-provision functions, so as to minimise the opportunities for 'capture' of government decision-making by interests associated with services-providers. Services should be provided by distinct, accountable organisations on the basis of explicit contracts with government departments.
- The government should fund its activities and services to the community on the basis of outcomes (results), purchasing designated outputs (goods and services) from departments and service-providers, rather than funding inputs such as salaries and operating expenses.
- The Victorian Government should foster competition between potential supplier organisations wherever possible (Victorian Commission of Audit 1993a, pp. iii-iv).

A third major factor influencing the government's public sector reform arose from the prevailing public and political discourse on microeconomic reform. The Kennett government came to office at a time when Federal and State Governments throughout Australia had accepted the need for micro-economic reform in the public sector (Alford et al. 1994; Callus 1997).

Micro-economic reform is mainly concerned with removing impediments at the individual market and industry levels, which discourage or prevent input resources (such as labour flexibility and technology) being used in the most effective manner (National Competition Council 1999). The promotion of competition in the delivery of public goods and services was an essential element of this reform (Aulich 1997b).

In October 1992, the Council of Australian Governments (COAG) commissioned an 'Independent Committee of Inquiry into National Competition Policy' (Hilmer et al. 1993). This resulted in the passing of the Competition Policy Reform Act 1995, which introduced the National Competition Policy (NCP) in 1995. NCP is a series of intergovernmental Agreements, intended to open up sections of the Australian public sector to greater competition. The NCP served to strengthen the processes of microeconomic reform already introduced by the Kennett government, which in turn were applied with particular force to the local government sector (National Competition Council 1999).

These forces also influenced the approach to the reform adopted by the Kennett government, the expected outcomes they sought and the policies put in place in local government.

The government's approach to local government reform

Kiss (1997, p.47) claimed that the Kennett government 'did not come to power with a clear, publicly-understood program of local government reforms'. The only comment over the course of the campaign was that local councils should be given the autonomy required to carry out local government functions efficiently and effectively (Hallam, 1992a).

Once the Kennett government was in office the view that local councils should operate with relative independence from state government was replaced by a 'high handed' approach, with the government asserting its right to reform the local government sector 'at will' and
demanding that local councils comply with this right (Kiss 1997, p.72). The Kennett government proceeded on a similar assumption to that of the Thatcher administrations in the UK in viewing local councils as unwilling to change unless 'compelled to do so' (Davis and Walker 1997; Ernst 1994, p.121).

Since the Kennett government had large majorities in both houses of the State Parliament, policy was guaranteed a smooth passage into law. However, in the process, avenues for consultation and debate were subsequently reduced (Kiss 1997). The government also removed the right of individual councils to appeal restructuring proposals through the Supreme Court. The government claimed this stopped unnecessary and costly litigation (Maclellan 1994).

The Kennett government also passed policy measures through the Parliament at a rapid pace. This further reduced opportunities for consultation or scrutiny from key stakeholders. The Minister for Local Government, Roger Hallam, justified the pace of policy change on the basis that the benefits of rate cuts and improved services would flow to the community quicker (Hallam 1994b). Indeed it took just 15 months (between late 1993 and early 1995) for all Victorian local councils to be dismissed and restructured into larger units, new chief executive officers (CEOs) appointed, and CCT introduced (Kiss 1999).

A further distinguishing feature of the reform policies was the government's single or 'one size fits all' framework for local government. The Kennett government appeared to ignore the extensively reported diversity between local councils, particularly in respect of population and physical size, the nature of services provided, the financial position of councils, and the use of competitive tendering practices (Bains 1979; Local Government Commission 1986; Worthington and Dollery 2001).

**Expected outcomes**

Like the Thatcher administrations in the UK, the literature notes the Kennett government also sought three major outcomes from the local government reform agenda. These included cost decreases and efficiency improvement in the public sector, the reduction in the size and scope of the public sector, and also the reduction in influence and power of public sector trade unions.

The first expected outcome sought by the Kennett government in local government was cost savings and efficiency improvements. This was a major expected outcome and particularly stressed by the government during the initial term of office, 1992-1996 (Alford et al. 1994; Chapman 1997). The Kennett government claimed that local councils were run inefficiently and that the whole system of local government needed to be overhauled so that cost savings could be passed to the community (Hallam 1992b).

Similar to that found in the UK, the Kennett government held a strong belief in the need to change the way public sectors had been operating. The Kennett government sought to fundamentally redefine and rearrange how the public sector worked reducing their role as a direct provider of public goods and services (Alford et al. 1994).

By limiting the role of local councils in the direct delivery of services and moving them towards 'enabling councils', the government argued that services would be more fairly and
more effectively delivered to those in greatest need. Although in-house bids were permitted under the CCT regime, local councils were expected not be able to compete and win all tenders. As the Minister for Local Government, Roger Hallam, claimed:

> Councils will be compelled to review and specify just what it is they do, and to test those specifications in the marketplace. If in-house staff fail to measure up to the competition, those who can provide better service should take over. Ratepayers are entitled to expect value-for-money from council services (OLG 1995, p.1).

Similar to the Conservative Government administrations in the UK during the 1980s, the Kennett government also sought a reduction in the position and influence of trade unions in local government. This expected outcome was less overt or obvious than the other two but was clearly evident in the actions taken by the government in respect of privatisation and industrial relations policies (Audit Review 2000).

The Coalition parties had promoted the message to the electorate that the previous ALP-led state government was 'captured' by unions, particularly unions covering public sector workers, and they were too influential in government policy making (Kellow 1993, p.107). The Kennett government's objective of reducing the position and influence of trade unions was also fuelled by the Institute of Public Affairs' report, *Reforming Local Government in Victoria*, (Institute of Public Affairs 1993). The IPA claimed that trade unions had 'created work inefficiencies and had unnecessarily promoted the expansion of government services' (Institute of Public Affairs 1993, p.3).

Each of these previous elements was important in shaping the policies implemented by the Kennett government between 1992 and 1999.

**Local government reform policies between 1992 and 1999**

Few areas of local government remained untouched by the policy changes enacted by the Kennett government (Kiss 1997). Local government was subject to far-reaching boundary restructuring, a range of financial, electoral and management reforms, and the introduction of mandatory tendering of services (Chapman 1997; Munro 1997).

Five main policy changes were implemented between 1992 and 1999. These included council amalgamations, financial savings, local council management, electoral changes, and compulsory competitive tendering.

The reform of local council boundaries was not a unique policy instrument. Former reviews identified a number of deficiencies in the structure of local government, stressing the need for larger and more efficient local councils (Jones 1993). However, previous attempts at reform typically failed, either through a lack of government control over both Houses of State Parliament, or because there was little interest in reforming public sector authorities (Jones 1993). The Kennett government did not lack this type of power or apprehension and was able to restructure local government in a manner 'nothing short of dramatic' (Vince 1997, p.159).

The Kennett government promoted amalgamation as an example of the government's 'decisiveness in dealing with pressing financial issues facing the state' (Martin 1999, p.25).
Within fifteen months of entering office, the number of individual local government bodies was reduced from two hundred and ten to just seventy eight.

The issue of state's finances was central to the strategy of the Coalition parties in the lead up to the 1992 state election and the newly formed local councils were immediately subject to 'administratively imposed' financial restrictions (Teicher et al 1999).

In their first year of operation, councils were expected to reduce the combined total of rate revenue collected by previous local councils by up to twenty per cent (Local Government Board 1993). The Kennett government also required local councils to reduce their expenditures by a further ten per cent between the years, 1995 and 1997 (Office of Local Government 1995).

Additional powers were also granted to the Minister for Local Government through the Local Government (Amendment) Act 1996 to control the level of general council rates that councils could raise. This was also aimed at limiting local council spending (Macelllan 1996). State government control over the activities of local government also extended to the management of the new municipalities. Following precedents set in the first councils areas amalgamated, Geelong and Melbourne, the Kennett government appointed interim commissioners and chief executive officers (CEOs) to replace the previously elected councillors and CEOs. Previous councillors were perceived as being inefficient, incompetent, and unresponsive, and incapable of running local governments as business enterprises (Munro 1997).

The Minister for Local Government, Roger Hallam claimed, that without the appointment of independent Commissioners, he could not 'assure ratepayers will receive the benefits that should flow to them' (Hallam 1994a). Hallam justified the appointment of commissioners on the basis their role differed from that of a councillor. A commissioner was to be fundamentally involved in reconstructing a new municipality and then handing the organisation back to elected representatives (Hallam 1994a).

The commissioners were instructed to ensure the newly formed council prepared business plans to achieve imposed savings targets, to develop a common rating system for their new council, negotiate and implement enterprise bargaining agreements with workers, and prepare for the re-election of councillors (Hallam 1994c). The government monitored commissioner behaviour and output by requiring them to report on a checklist of actions and to fax these to the Office of Local Government at the end of each working week (Munro 1997).

The government also required the newly formed councils to introduce fixed-term, performance-based employment contracts for senior officers (Hallam 1993). Councils were instructed to advertise widely for CEO and other senior management positions so as to create opportunities for the 'infusion of new talent' into local government (Hallam 1995).

Three main changes were made to the electoral basis of local councils. Firstly, the maximum number of elected representatives on each council was reduced from 21 to 12 through the Local Government (Miscellaneous) Act 1997. Second, the number of councillors facing election was standardised in the sense that all were elected for common three-year terms. The previous arrangement had involved only a third of each council's membership facing re-election on an annual basis. Third, postal voting was introduced to replace the previous system of voter attendance at polling booths. The Minister for Local Government Roger
Hallam claimed that this form of voting was aimed at lifting the participation and interest in local government elections (Hallam 1994b).

Whereas, the government viewed its changes to municipal boundaries as achieving efficiencies and economies of scale, CCT was implemented to change the culture of local government (Hallam 1994a). CCT was 'one of the key mechanisms being employed by the state government to enact the reform of local government' (Murfitt et. al. 1996, p.3). However, unlike the application of CCT in the UK, where the Thatcher government had specifically identified the goods and services to be placed to a competitive tendering arrangement and over a longer time frame, the Kennett government implemented a far more reaching policy (Ernst 1995).

The Minister for Local Government, Roger Hallam, instructed the Local Government Board in August 1993 to develop a legislative basis for the mandatory exposure of services to tendering (Hallam 1993). The LGB subsequently recommended that activities that accounted for a set percentage of local government expenditure be placed out to tender, commencing at 20 per cent and rising to 50 per cent in the third year of operation (Local Government Board 1993).

Although some local councils had expressed concern as to the rate at which CCT was expected to be implemented and about the scale of activities they were expected to be place to tender, the Kennett government ignored these and proceeded with the implementation of the LGB's recommendations (Munro 1997, p.79). In May 1994, the Kennett Government introduced CCT through the Local Government (Compulsory Competitive Tendering) Act 1994.

Local councils were subsequently obligated to follow a competitive tendering (or market-testing) process for activities that accounted for 20 per cent of their total operating expenditure in the 1994-95 financial year, 30 per cent of their operating expenditure in the 1995-96 financial year, 50 per cent of their operating expenditure in the 1996-97 financial year, and then to maintain this percentage thereafter (Local Government Act 1989, S 208).

**Implications for trade unions**

By reviewing each of the elements of the reform agenda it is possible to identify a number of implications for trade unions. Firstly, the factors driving the reform clearly enunciated the government's opposition to trade unions. Public choice ideology, particularly as illustrated in the UK during the 1980s, had promoted the perception that trade unions had hindered the public sector from improving efficiency (Foster 1991; Institute of Public Affairs 1993; MacInnes 1987). The perceived pressure to reduce public sector debt levels and introduce competition into the delivery of public goods and services also threatened to decrease trade union membership levels. Local government is the 'most highly labour intensive sectors of government in Australia' and any focus on reducing costs or removing service provision was bound to impact on employment levels (Jones 1993, p.166). These forces also set a potentially harsher economic and political bargaining context for trade unions.

Second, the approach to the development and implementation of the reform agenda presented additional challenges to trade unions. Previous access to government members to discuss policy changes was removed. In addition, avenues for appeal against policy decisions were
made more difficult by the pace of the reform measures. The approach also reinforced the harsher bargaining context facing trade unions.

Third, the expected outcomes sought by the Kennett government clearly challenged local government trade unions. As noted above, cost savings essentially would be obtained from savings in local government expenditure on employment. In addition, the reduction in the size and scope of local government would necessitate councils reduce the extent to which they provided services directly and form enabling organisations, as recommended by the Victorian Commission of Audit (1993a). Both would be expected to reduce trade union membership levels. Moreover, the government sought a specific objective of reducing the influence of trade unions in local government.

Four, the policy instruments were expected to deliver the three outcomes noted above. Amalgamation, CCT and enforced savings targets presented the most significant challenges to employment levels in local councils and consequently union membership levels. The requirement for the newly formed councils to establish an individual enterprise bargaining agreement threatened to break down state-wide terms and conditions. The harsher economic and political environment also challenged the ability of trade unions to secure major gains in terms and conditions and particularly when local government workers were required to compete with private sector providers. CCT also threatened union membership solidarity by allowing local councils to expose certain services to tendering in order to meet the legislative targets. In addition, workers in private sector competitors were represented by other unions, which potentially threatened relations between unions.

Figure 1 provides a framework for illustrating the elements of the reform agenda and summarises the implications for trade unions. These implications can be categorised as including the level of influence in policy making, membership levels, bargaining outcomes and intra- and inter-union relations.
Conclusion

Victorian local government underwent extensive reform during the 1990s, coinciding with the election of the Kennett-led Coalition government. The Kennett government policies drew a great deal more research attention to local government than previously. Findings have been published on some of the administrative, political and employment impacts of the policy changes (see, for example: Aulich 1997a, b, 1999a, b, c; Barnes and Dollery 1997; Chapman et al. 1997; Costar and Economou 1999; Dollery and Marshall 1997; Ernst et al. 1997; Kiss 1996, 1997; Murfitt et al. 1996). In addition, Walsh and O'Flynn (2000) reported changes to terms and conditions contained in local work agreements negotiated in Victorian local councils.

However, apart from brief reviews by Teicher, Testi, and MacArthur (1999), Teicher and Van Gramberg (2002), and by Van Gramberg, Teicher and Holland (2002) on trade union responses, little research has been undertaken into the outcomes for trade unions. This gap was not uncommon in local government research. Most research leading up to 1992 had concentrated on local government roles and responsibilities and administrative structures and financial characteristics (see, for example: Barrett 1979; Bowman 1976, 1981; Chapman and Wood 1984; Jones 1989; Purdie 1976).

As a result of examining the four elements of the reform agenda a number of implications for trade unions were raised. Studies into these implications would contribute to the previous body of research. A study in local government is also warranted for it provides a unique policy environment. While the State government possesses constitutional control of administration and functions of local councils, industrial relations powers reside with the Federal government (Corbett 1992). This meant the Kennett government was unable to directly legislate on trade union behaviour in Victorian local government. Questions such as how public sector reform agendas impact on trade unions and whether governments are successful in achieving union objectives still remain to be answered in the case of Victorian local government.

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