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Liberation Versus Market-Driven
Management In Victorian Local
Government.

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Abstract

Government efforts to privatise public sector functions through the sale of state-owned assets and businesses, competitive tendering and contracting out (CTC), and build, own, operate and transfer (BOOT) schemes are premised on the belief that the private sector is able to manage service delivery more efficiently and effectively than government. The terms 'new public management' (NPM) and 'managerialism' have been associated with the development of these schemes and are much used in the public management literature, though generally with little precision. The specific features of the model vary, though in some versions NPM comes very close to a 'new right' project of a minimalist state with the public service confined to policy provision. The corollary is that government becomes less interventionist and smaller.

Under the rubric of NPM, private sector management practices, underpinned by human resource management (HRM) concepts, and a focus on entrepreneurship, efficiency and quality are imported into the public sector (Ryan 1997). By allowing managers to manage and make 'hard' economic decisions according to technical and apolitical rules, governments seek to distance themselves from adverse outcomes (Box 1999, p. 21). However, there is emerging evidence of a reality gap both in terms of government remaining 'hands off' and the creation of empowered, liberated public sector managers (Pollitt 1990).

In examining the implementation of managerialist reforms in local government in Victoria we utilise the wider international literature on managerialism and local government management in the UK. In Victoria, despite a 'hands off' rhetoric, a highly interventionist role was played by a Liberal-National government in implementing its municipal reform program between 1992 and 1999. In late 1999, a second phase of reform commenced with the election of a Labor government which had a policy of replacing CCT with Best Value and creating a consultative relationship between state and local governments and the community in place of the dead hand of government control. A central feature of the new relationship was the replacement of CCT with Best Value as occurred in the UK under the Blair government.

The principal finding of this study is that during the first phase of reform the freedom of managers to form and implement strategy was more illusory than real. The liberation version of managerialism is appealing, but it does not provide a reliable guide to management practices in local government in either Victoria or, apparently, the United Kingdom. Adherence to the rhetoric of liberation management is, as Burnham (1999) has argued, part of a process of de-politicisation, of removing government accountability for decisions taken when the reality is that tight prescription is achieved through the choice of policy framework. The irony for Victorian local government is that despite the ideal of implementing private sector business practices within council management, the extent of government reporting requirements and intervention in council management thwarted any real notion of liberation management, particularly in the area of strategy formation during the period 1992 to 1999. There are signs that this has begun to change with the progressive implementation of Best Value.

Introduction

Government efforts to privatise public sector functions through the sale of state-owned assets and businesses, competitive tendering and contracting out (CTC), and build, own, operate and transfer (BOOT) schemes are premised on the belief that the private sector is able to manage service delivery more efficiently and effectively than government. The corollary is that government becomes less interventionist and smaller. The impact of these changes on public sector managers and workers is significant. Under the rubric of New Public Management (NPM), private sector management practices, underpinned by human resource management (HRM) concepts, and a focus on entrepreneurship, efficiency and quality are imported into the public sector. By allowing managers to manage and make 'hard' economic decisions according to technical and apolitical rules, governments seek to distance themselves from adverse outcomes. However, there is emerging evidence of a reality gap both in terms of government remaining 'hands off' and the creation of empowered, liberated public sector managers.

We examine the case of Victorian local government where, despite a 'hands off' rhetoric, a highly interventionist role was played by the Kennett Liberal-National government in implementing its municipal reform program between 1992 and 1996. Among the key changes implemented were: the establishment of a new statutory body, the Local Government Board; wholesale changes to municipal boundaries to amalgamate councils; suspension of elected council officers and establishment of state-appointed interim commissioners and chief executive officers; imposition of new expenditure controls and rate capping on councils; introduction of compulsory competitive tendering (CCT); and the implementation of new financial management and reporting requirements. We show that rather than facilitating entrepreneurial and liberated management, council managers were subjected to a regime of controls which was at odds with their ability to formulate strategy or act entrepreneurially. Instead, managers were more likely to focus on meeting cost and savings targets set by government and complying with the numerous reporting requirements. We argue here that the pattern of interventions into local government decision making resulted in a form of managerialism which is best characterised as 'market-driven' (Terry 1998).

This paper draws on the Australian and United Kingdom literature on managerial reforms in local government. The focal point for this exploration is the experience of one urban municipality (Moreland). Being a Labor Party stronghold, in some sense this provides a study of exceptionalism; however, it also demonstrates the extent and range of changes which were required from local government. During 1998 interviews were conducted at all levels in the council. Specifically, this entailed detailed interviews with two councillors, seven senior managers (including the Chief Executive Officer), three Business Unit (BU) managers, and a focus group of three to five employees from each of the Garbage Collection, Parks and Recreation and Homecare BUs. Two union delegate groups comprising three delegates in each were also interviewed. Interviews were held with three organisers and elected officials of the state branch of the Australian Services Union (ASU), the principal union in local government. Additionally, we interviewed a private provider of one of Moreland's service delivery areas.

The City of Moreland was formed through the amalgamation of two of Melbourne's inner north-west municipalities on 22 June, 1994. Six months later, the city's boundaries were expanded once again to encompass a large section of another municipality, increasing the population to over 137,000, and making it one of Melbourne's most populous municipalities. It also has an aging population, with 20 percent of residents over the age of 60. The

municipality is distinctive for its diverse ethnic and cultural population, with 45 percent of residents speaking languages other than English, and for its manufacturing activity. Recent plant closure and downsizing has resulted in the loss of 2,000 local jobs and contributed to an unemployment level of 9.1 percent, significantly higher than the average metropolitan rate of 7.1 (Moreland City Council, 1999a).

Depoliticisation and Small Government

Depoliticisation is the process of placing government at arms length from political decision making. This is achieved in two interrelated ways. Firstly, separating politics from administration allows “managers to manage according to cost-benefit economic rationality, largely free from day to day democratic oversight” (Box 1999, p. 21). The espousal of a view that governance is technocratic and apolitical on the basis that its functions can be managed according to the dispassionate dictates of the market serves to distance government from its administration (Lynn 1998). The separation of public policy from its implementation can be derived from the ‘steering’ and ‘rowing’ distinctions of Osborne and Gaebler (1992) who recommended governments abandon delivering services in order to concentrate on formulating policy and strategy. In Victorian local government, CCT was the key mechanism in achieving this structural separation, though here it was typically developed in terms of a purchaser and provider split; where councils would purchase the services needed for the community. In theory this freed councils from day to day oversight and provision of services and enabled them to focus on matters of strategy. Secondly, depoliticisation occurs through the establishment of rules and legislative regimes (such as financial restraints or a code of practice) which form the framework for public management decision making. These rules subject both public managers and the government to the same limitations and thus enable government “to externalise the imposition of financial discipline on labour and capital” (Burnham 1999, p. 45). This has the effect of shielding governments from the political consequences of their policies.

In the Victorian case, depoliticisation was also evident in the way in which the Kennett government reconstructed local government, legislating to make councils more like corporate boards with the rights and responsibilities of councillors more akin to directors under the *Corporations Law*. Legislation had delineated the authority of chief executive officers to run the day to day affairs of a municipality, including the exclusive right to hire and fire staff and to determine the organisational structure of councils. The position of the chief executive officers vis-à-vis councils was further enhanced by requiring councils to notify the Minister for Local Government before terminating a chief executive (Kiss 1997). Councillors, much like corporate directors, set goals for councils leaving it to the managers to decide how best to achieve these goals. Managers were placed on performance-based, short term contracts to make them more focused on meeting their targets, and were rewarded for doing so. Implicit in this vision is a high level of autonomy accorded to managers in terms of strategy development and the pursuit of goals (McAloon 1999).

Concomitant with depoliticisation initiatives is the concept of small government. The International Monetary Fund and the World Bank have been key proponents of small government and have sought to encourage “sound management practice” and “government that concentrates its efforts less on direct intervention and more on enabling others to be productive” (Vandana & Imrie 1998, p. 637). This has contributed to a convergence in the nature of government reforms undertaken around the world which have promoted smaller, less interventionist government with the public sector operating along private sector lines. But this is not to suggest that NPM is part of some global new right

project, as socialist and social democratic governments in countries such as Spain, Sweden and Australia have been equally drawn to its prescriptions (Common 1998). Rather, the point is that smaller, depoliticised government needs a different kind of public sector manager; one who is entrepreneurial and liberated and who can develop a “business-oriented culture and institute organisational processes which promote the three Es: efficiency, economy and effectiveness” (Johnson 1998, p. 261).

Models of Managerialism

There is a key role for a particular style of public service management arising from the creation of smaller, less interventionist governments. This has been reflected in a global paradigm shift in public service management from administrative to managerial values (Common 1998; Dixon, Kouzmin & Korac-Kakabadse 1998). The need for public servants to adopt private sector principles and practices in order to pursue a results-oriented approach has been hailed as a panacea. Hood (1991) listed the key elements of this approach as:

- hands-on professional management in the public sector, ‘letting managers manage’;
- explicit standards and measures of performance;
- managing for results;
- disaggregation by breaking up large entities into corporatised units around products and interacting with each other on commercial lines;
- a related shift to competition in the public sector, such as contracts and public tendering procedures;
- adoption of private sector styles of management practice, such as HRM; and
- a more frugal approach to resource use.

NPM has dominated public sector reform in many OECD nations, requiring public organisations to shift their focus from “process towards purpose, reorganise their structures around programs and strategy, adopt the financial and human resources management approaches of the private sector, and the de-bureaucratised forms of organisation emerging there” (Ryan 1997, p. 158). Orchard (1998) argued that managerialism emerged from the US-inspired books popularising the ideas of management specialists such as Waterman and Peters. At the same time, New right think tanks were advancing public choice and neo-liberal arguments about bureaucratic failure, the need to place limits on government and to pursue greater efficiency by exposing public sector activity to the market. Consequently, NPM has been described as value neutral as its aim was to perform administrative functions efficiently and in a politically detached manner (Orchard 1998; Box 1999).

We reject the notion that NPM is a coherent school of thought drawing on a unified set of techniques. Management practice reveals at least two distinct approaches which are often intertwined; following Terry (1998) these are labelled ‘market-driven’ and ‘liberation’ management. In Victorian local government, both models of managerialism have been found, though in a contradictory mix with the liberation model being the espoused language of the Kennett reforms. The high value placed on managerial ability was reflected in the Auditor-General’s description of the government’s attempt to achieve a change in the management culture of councils by requiring each council to appoint a chief executive “with appropriate management skills but not necessarily possessing local government qualifications” (Auditor General’s Office 1996).

Liberation Managerialism

Liberation managerialism is marked by the elimination of 'red tape' (Pollitt 1990). Managers are given room to manoeuvre and the freedom to become entrepreneurial (Osborne & Gaebler 1992). This aspect of managerialism represents a liberation for managers from bureaucratic impositions and is seen as a beneficiary of the wider economic and political transformations which have dismantled the Keynesian welfare state and deregulated the labour market in many western countries. According to this view, "visions, missions, leadership by example, intensive communication processes and thorough attention to the realm of symbols are the mechanisms for creating the cultural conditions which mobilise and harness enterprising energy" (Clarke & Newman 1993, p. 430). At its core are commitments to 'excellence' and 'quality' as well as providing leadership through the transformation of culture.

In this sense, liberation management appears consistent with an idealised (or 'soft') HRM model. HRM policies and practices are claimed to embrace new approaches to management which through a combination of commitment and employee flexibility provide a competitive advantage to the organisation:

enabled by government practices in the UK that have weakened the power of organised labour to resist new employment practices, HRM is strongly associated with the emergence of a more comprehensive and integrated approach to employee management, combined with a more calculating, segmented approach to the pay and conditions of particular individuals and groups of employees" (Mahmoud, Simon, Wilkinson & Willmott 1996, p. 66).

Sisson (1990) described four essential features of HRM practice: an integration of HR policies with business planning which forges a strategic role for managers; a shift in responsibility of HR issues from specialists to line managers; a shift from collectivist employee relations to individualisation of the employment relationship; and the emphasis on commitment and initiative where managers act as facilitators of employee empowerment. Guest (1991) added greater employee flexibility and participation as well as the adoption of a training and development approach to raise quality. A significant focus of these HRM practices is the increased emphasis on the role of line managers and the responsibility of senior management for managing organisational culture (Legge 1995).

Market-driven Managerialism

Market-driven managerialism is underpinned by the belief that competition will create efficiencies, lower costs and improve performance levels. There are a number of economic theories such as public choice theory, transaction cost economics and agency theory which underpin this model. Agency theory suggests that public sector managers have different interests to those of the government and citizens. They demonstrate an inherent tendency to be deceitful in order to promote self interest. This results in 'empire building' and hoarding of power, income and perks which contribute to continually expanding hierarchies on the brink of bureaucratic failure (Dixon, *et. al.* 1998). These economic theories portray managers being at the core of the problem by "theorising dishonesty and cheating by managers" (Donaldson cited in Painter 1998, p. 45).

Agency theory offers two responses to these problems which can be readily applied to the public sector and which sound remarkably like the nostrums of managerialism. The first is to improve information flows to the owner through performance indicators, improved financial

accountability, and greater specification of objectives. The second response is to open up internal operations to tendering so that managers are constrained to minimise costs (Davis 1998). Applied to local government, this means that managers can be held accountable to their principals through contractual obligations which specify a range of outputs which must be delivered (Witherby, Marshall & Dollery 1997). Managers who successfully deliver these outcomes are rewarded and those who fail are penalised. Thus, a series of techniques to curb managerial power through the discipline of the market are pivotal to government reforms; these include auditing, performance appraisals, short-term contracts, targets, and the increasing use of competitive tendering and contracting out.

Exploring the rhetoric-reality gap

The aim of devolving management responsibility, introducing private sector management principles and establishing lines of accountability was central to the Victorian government's perception that the quality of management in local government was poor. The Kennett government marketed its case for 'reform' by describing councils as inefficient, overstaffed and 'burdened by outdated management practices' (Munro 1997, p. 77). At Moreland, senior management also expressed a strong need to adopt private sector management practices as it was seen as intolerable "for managers not to manage as well simply because they're in the public sector and to allow practices to develop, management approaches to develop, that aren't giving rate payers best value for the dollar that they actually pay" (Management interview). Commitment to an entrepreneurial style of management at Moreland was crystallised in their policy of Competitive Business Management. This policy reflected "an essential philosophy not just concerned with CCT but having a competitive business environment across the organisation as a whole" (Management interview). It was seen as unfair to expose only some workers to competition for their jobs so the entire organisation was "converted to competitive business planning, adopting performance measurement in all areas" (Management interview). Moreland linked its service delivery objectives with a reward system enshrined in the council's enterprise agreement (Milbur 1999, p. 2).

We observed a strong attachment to a vision of liberation management by both government and from managers within our case study. However, despite management commitment and the articulation of a clear vision of a more 'business-like' council management, translating this into practice has been largely incomplete, and may even be impossible. In the UK one study argued that the effect of introducing CCT into local government was to shift local authorities along a continuum from an inward to an outward looking culture by developing entrepreneurship [Uttley & Harper 1993]. An insight into the reality of this shift in culture can be seen from a case study of a business unit providing cleaning services:

At SBC, then from the outset there was no real systematic introduction of market principles. Rather there was a tentative, indeterminate and largely unwilling series of attempts to introduce a vaguely understood 'business' culture" (McIntosh & Broderick 1996, pp. 417-8).

We argue here that the former Victorian government's active intervention into council activities has led not only to a highly politicised reform agenda, but also to an emerging form of managerialism which can be characterised as market-driven managerialism. Below, we consider a number of obstacles to the development of liberation management in Victorian local government. Firstly, through the ongoing scrutiny and intervention of the Office of Local Government (OLG), the government ensured strict adherence to its political agenda. Secondly, the plethora of reporting requirements and legislated targets reduced the scope for strategy making, choice and entrepreneurship. Thirdly, faced with funding cuts, a tight time

frame, and externally imposed performance targets council management struggled with a sharp learning curve. The pace and extent of the changes imposed on Victorian local government managers outstripped existing knowledge and experience. Finally, it is arguable that the use of short term, performance-based contracts for senior managers is at odds with the freedom and manoeuvrability required for liberation management.

The OLG and Financial Restraints

Through the creation of the OLG the state government was able to tightly regulate the funding, activities and decision making of councils. In October 1994, the government imposed a freeze on council residential rates and other charges. In the following March, savings targets were imposed upon the 78 newly-created councils, requiring them to achieve \$400 million in savings over the following three financial years with \$300 million to be set aside to fund rate reductions (Office of Minister for Local Government 1995). *The Local Government (Amendment) Act 1996* included further powers to control the level of general council rates and to give directions for rate levels either on an industry wide basis or for a particular council. Utilising these powers, the government determined that council rates for 1996/97 were not to exceed the levels applying in the preceding financial year; a decision that effectively reduced the real income of councils by more than three per cent. The following year, rate increases were restricted to the rate of inflation minus one per cent. In September 1997, the state government announced that rate capping would be lifted for the 1998/99 financial year and councils were permitted to raise rates during that year by a maximum of five per cent, conditional upon meeting performance and financial targets (Office of Minister of Local Government 1997).

The cumulative effect of rate reductions was to substantially reduce local government income. If this was an invitation for council managers to begin to implement the three Es, it was an ill-conceived incentive. Service delivery continued, but at the expense of maintenance and capital works expenditure and the government's rationale for lifting the rate cap was to facilitate councils undertaking much needed capital works programs (Office of Minister of Local Government 1997). The Mayor of Moreland wrote that

without a slight lift in rates it is highly likely that core services in road maintenance, human services and parks would be cut. Like most communities across Victoria, this community will not wear further attrition of service levels. One major downside of the municipal restructuring has been the loss of services and the threat to basic infrastructure" (Moreland City Council, 1998, p. 7).

According to the government, one of the most important reasons for implementing CCT was to achieve savings in local government. However, the achievement of savings was inconclusive in Victoria. Indeed, the Victorian Auditor General (1998, 3.3, p.144) reported that despite a survey indicating that 93 per cent of council BUs claimed financial surpluses in the 1996/7 financial year, there were deficiencies regarding accounting systems and practices within BUs which may "impact on the reliability of reported surpluses and losses; and 12 councils were unable to complete this aspect of the survey". Again, one can speculate that in this environment of funding cuts and imposed, artificial savings targets, the ability for managers to actually deliver has been one which is at odds with the rhetoric. Quiggin (1996) argued that cost reductions often translate into 'wage reductions, increased work intensity, reduced service quality, cost shifting and the abandonment of community service obligation' (1996, p. 49). For instance, increased pressure to operate at lower costs have resulted in the employment of fewer professional staff and more lower cost staff in Victorian libraries

(Carson 1998). When viewed in terms of the liberation and market-driven models of management, it is clear that these management solutions to tight financial budgets are market based.

OLG influence over council management appointments

State government control was not restricted to finances. Following the amalgamations, the government terminated the offices of all elected councillors and replaced them with government-appointed commissioners. CEOs were then installed in each of the amalgamated councils. Because the majority of the 78 CEO appointments were from within the ranks of local government (with only 13 from outside this sector) the Minister for Local Government directed councils not to enter into contracts of more than one year's duration (Auditor General's Office 1996). This was reinforced in the *Local Government (Further Amendments) Act 1997* which required the OLG to authorise any changes to the status of employment of the CEOs. Section 95B of the *Local Government (Further Amendments) Act 1997* allowed the Minister to veto a CEO appointment or that of any senior staff and also repealed councils' previous control over organisational structures and staff appointments. The Minister was also empowered to dismiss councils and to appoint municipal inspectors to review council decisions.

Further government intervention occurred through the appointment of the commissioners by the state cabinet. Their appointments were justified on the grounds that "the councillors were not capable of handling the transition process themselves" (Gettler 1995, p. 8) and it was claimed that efficiencies in local government "arising from amalgamations, elimination of inefficient work practices, and other changes to the installation of the commissioners" could not have been implemented in any other way (Hallam 1995, p. 11).

Formally, the role of commissioners was to establish new organisational structures; develop council corporate plans; oversee rate capping and the introduction of CCT; and ensure compliance with savings targets. Nine of the 14 (unpaid) councillors on the Municipal Association of Victoria (MAV) General Management Committee became paid commissioners. Their appointments compromised the capacity of the MAV to act as an advocate on behalf of Victorian councils, leading one commentator to note that "local government and the community were thus deprived of the very advocates who could be expected to protect their interests" (Munro 1997, p. 80). This was a factor which later influenced the decision by Moreland to withdraw as a member from the MAV, noting that the association was "presently dominated by State Government appointed commissioners" (Moreland City Council 1997, p. 9). Other appointments reflected government's close associations with the business community. In the City of Melbourne for example, the government appointed businessman and former CEO of Shell, Kevan Gosper, Professor John Rose from Melbourne University's Graduate School of Management, Catherine Walter, a Melbourne lawyer and Kevin Courtney, an accountant. The appointment of non-resident commissioners across the municipalities meant they were largely unconnected to the communities. Indeed, in general, they held few community meetings, and generally acted as "instruments of the government" (Kiss 1997, p. 115). Gettler (1995) reported that the commissioners were nothing more than faceless, inaccessible figures appointed by the government to do its bidding. In this respect Moreland represented somewhat of an exception as the commissioners were reportedly mindful of community needs and even involved the former councillors in their consultation process.

OLG and the Externalisation of Service Providers

Another way in which the OLG controlled council management decisions was through the process of awarding of tenders to service providers. Early tenders were overwhelmingly awarded in-house; for example, the Industry Commission (1996) noted that during the first year of CCT, approximately 77 per cent of local government services (by value) subjected to CCT were won by in-house teams. Ernst Glanville and Murfitt (1997) found that in 1995/6 only one council chose to externalise more than 10 per cent of their competitive arrangements expenditure. The early success of in-house bid teams in winning contracts appears to be related to several factors. Firstly, in-house teams possessed vital local knowledge and experience in the types of services being tendered. Secondly, in many service areas external competition was minimal, particularly where government had almost exclusively undertaken service provision. Thirdly, some councils espoused a policy of preference for in-house bidders, providing BUs support in tender preparation. In Moreland, services scheduled for CCT were given three months warning so preparations could commence. The council utilised the services of consultants to assist the BUs in preparing business plans for the post-tendering position. Moreland's 'best value' approach to tendering was highlighted by one councillor: "The council has a strong preference for existing staff over outside tenderers. The emphasis is on quality, to keep existing employees".

It was to be a short-lived advantage for in-house teams with there being a subsequent shift in favour of private sector bidders. In the 1996/97 financial year councils subjected \$1.4 billion to market testing of which only \$416 million was awarded to in-house teams (Auditor General's Office 1998). The OLG had noted concerns arising "within the private sector" that council management unfairly supported councils' in-house units. Partly in response to these concerns, the government issued a Code of Tendering which specified that the process had to incorporate principles of "equity and fairness". This was particularly targeted at the treatment of in-house bid teams, as most councils facilitated the preparation of in-house bids, even though (as the purchaser of services) they were required to remain independent throughout the tender process, particularly at the evaluation and decision stages (Office of Minister of Local Government 1995). The recommendation of the OLG to appoint an independent person to evaluate tenders met with opposition at Moreland. The CEO explained that the OLG had weakened management and council accountability:

It is our job to evaluate tenders and determine which is best for this municipality and we are not prepared to have that judgement potentially biased by bringing in a player who wasn't representative of the community but was appointed by the council. Also, their very part in the dynamics of the group could be seen to play a checking or approval role.

When Moreland awarded the garbage tender to their in-house team, the OLG challenged the decision and launched an audit and investigation into the matter. Although the investigation subsequently upheld Moreland's in-house bid, it is likely that OLG investigations conducted into tenders awarded in-house by other councils contributed to the progressive externalisation of service providers. Indeed, in 1995/96 the OLG conducted 43 audits into the awarding of internal tenders (Office of the Minister of Local Government, 1997).

OLG and Rule Compliance

There were a number of ways in which the state government ensured compliance from local government; these included the enactment of amendments to the *Local Government Act*; the passage of the *Local Government (Competitive Tendering) Act 1994*; the adoption of a Code

of Tendering (Office of Local Government 1995) and a statement of Victorian government policy on *National Competition Policy and Local Government* (1996). In addition a CCT review panel was established in 1996 to audit compliance with CCT requirements.

The CCT legislation included procedural requirements in relation to matters such as the criteria used for awarding contracts and the status and conduct of in-house bids. In 1995 these were augmented by the issue of a formally voluntary Code of Tendering by the Office of Local Government. In effect its provisions were enforced by the OLG Review Panel which was charged with auditing compliance. The focus of the code was on ensuring fairness between in-house and external tenders and also had the effect of binding councils to competitive neutrality and creating a structural purchaser-provider split. These requirements were augmented in an interesting way following the Council of Australian Governments agreement to adopt National Competition Policy (NCP) in 1995 and the enactment of the *Competition Policy Reform Act 1995* (Cth). The state government's interpretation of NCP contained in the 1996 policy statement was informed by its "commitment to marketisation in which the principles of competition and contracts took precedence" (O'Neill & McGuire 1999, p. 414).

Section 153A of the *Local Government (Amendment) Act 1996* required mandatory submission to the Minister of three-year corporate and business plans, customer satisfaction surveys and performance measurement data. The *Local Government (Amendment) Act 1996* also placed local government under the scrutiny of the Auditor-General. A Victorian Local Government Association position paper stressed that "it was far better for each local government to develop indicators with its corporate plan. Imposing centrally determined and standardised performance indicators removed an important element of local participation and accountability" (Ray Smith, 1998). In February, 1998 local government was asked to report on 29 'annual plan' indicators and 47 'comparative' indicators, as well as satisfy a community satisfaction measurement program (Office of the Minister for Local Government, 1998). It can be argued that due to this emphasis on compliance, state government shifted council management's response away from the liberation model. One commentator concluded that: "[T]here is a tension between an emerging business-like orientation and the compliant behaviour driven by current intergovernmental relations" (Dore, 1997, p. 94).

Unlike the UK where CCT specified the municipal services to be market tested, in Victoria all services were deemed suitable for CCT, creating the impression that councils had a choice regarding which service to put to tender (Munro 1997). Indeed the Minister for Local Government announced that "[C]ouncils are beginning to take an overall strategic approach to the concept of market testing. This approach is contributing significantly to the increase in the quality of services provided by councils" (Office of Minister for Local Government 1998, p. 1). This vision of strategy and planning is consistent with the liberation management model. We argue, however, that the nature of CCT legislation and the reporting requirements of local government was compliance-oriented and restricted the formulation and implementation of strategy from council managers.

Mandatory market testing of council service provision expenditure was enshrined in the *Local Government (Competitive Tendering) Act, 1994* requiring councils to subject an increasing percentage of total expenditure to CCT. In 1995/96 the requirement was 20 per cent; in 1996/97 it was 30 per cent and by 1997/98 councils were compelled to expose 50 per cent to CCT. The initial OLG definition of total council expenditure was so comprehensive that councils had to expose up to 70 per cent of total budget to CCT in order to achieve 50 per cent of their total

operating budget (Hobam 1995). The continuing failure of a number of rural councils to meet the target eventually led the government to 'fine tune' the definition of total expenditure to exclude depreciation and include capital works, making targets more attainable (Office of Minister for Local Government 1998). Despite the easing of the definition of total expenditure, it is arguable that the 50 per cent target was too high to allow for meaningful strategy formation regarding the most appropriate services to put to tender. Dore (1997) found that 60 per cent of Victorian council managers interviewed expressed concern that the compulsory requirement to attain the 50 per cent CCT target was at the expense of taking a strategic approach. Services previously unchallenged, encompassing many core activities such as rate collection, have now been exposed to market testing. There has been a shift to contracting-out non-typical areas such as human services, particularly services for children, the elderly and the disabled. Despite the lack of private sector competition in homecare provision, the majority of Victorian councils have put these services to tender. The imposition of CCT targets is at odds with encouraging a more corporate, business-like approach to council management and demonstrated the gap between the government's rhetoric and the reality faced by council management.

Milne's (1997) evaluation of market testing in the UK concluded that "management should be allowed to set its own priorities in the face of fiscal pressure, and to decide which activities offer potential cost savings and increase efficiency through the continued and extended use of market testing (1997, p. 555). It is arguable that the same reasoning applies in the Victorian case. Despite the rhetoric of being able to take a more strategic steering role, the imposed state government agenda of amalgamations, rate capping, budget restrictions and CCT "generated a pragmatic and compliance-oriented response from the councils" (Aulich 1997, p. 144). Performance measurement became state government's tool of control over local government. The plethora of reporting requirements enshrined in s153A of the 1998 (*Amendment*) Act were expanded in 1998/99, with the requirement that each council set its own performance targets against 29 indicators set by the OLG. An audit of each council's targets had to be included in their annual report (Office of Minister for Local Government, 1998). As Munro (1997) commented "the promised flexibility and choice is thus more apparent than real" (1997, 77). Thus, in the Victorian context, government influence over council management continued to be compliance-oriented, to the point where strategy formation itself is a form of compliance.

From Competitive Tendering to Best Value

CCT was abolished by the Bracks Labor government, which took office in Victoria in October 1999. Before the end of the year, the *Local Government (Best Value Principles) Act* was passed, replacing CCT with a requirement that councils "deliver services to clear standards covering both cost and quality. However these standards will be set by each council and will reflect local considerations such as the economic impact and the retention of skills and jobs within each community" (Australian Labor Party 1999). The core of the legislation was six Best Value principles requiring councils to:

- Prepare quality and cost standards for all services
- Ensure that services are responsive to the needs of the community
- Ensure that services are accessible to the community
- Achieve continuous improvement in services
- Develop a program of regular community consultation on services
- Report regularly to the community on their achievements in relation to the principles.

In contrast to the hasty implementation process associated with the local government reform process of its predecessor, the Labor government engaged in an extensive process of consultation with local government, communities and unions. A Task Force was set up in early 2000 to advise the Government on how the legislation should be implemented. The Task Force of nine included a senior national official of the local government union (Australian Services Union) and consulted widely for much of the year on a framework intended to provide councils with choices on how they could satisfy the legal requirements of Best Value (Department of Infrastructure 2000).

A framework document on implementation of Best Value was published at the end of 2000. Significantly, in meeting the requirement to review services against the best on offer in both the public and private sectors, market testing is only one of four options recommended. More generally, while the implementation of Best Value retains a continuing focus on efficiency, an overriding concern to meet the needs of the community and an associated requirement for councils to engage in continuing community consultation and monitoring was distinctive.

With the implementation of Best Value in its infancy, it is impossible to conclude that the process will comprehensively reverse the privatisation of local government. While councils have to review all services and all contracts against the Best Value principles, it is likely that there will be a bias to outsourced service provision where councils believe savings have been made or where they have lost the skills, knowledge and expertise required to perform the particular service. A reversal of this situation is only likely in the presence of a well organised and vocal community and articulate workplace activism.

More optimistically, the Best Value processes appear to have attenuated the strong central control exercised by the previous state government. While the Office of the Premier and Cabinet continues to exert a strong direction over the overall direction of government, detailed control has been relaxed, allowing local councils greater scope to formulate and implement strategy. At the same time, it should be noted that the change of government appears to have given councils greater confidence to govern in partnership with their communities. This confidence arises from a number of sources, including the lifting of the incubus of a government which was widely perceived to be both hostile to local government and determined to make it more subordinate to central government.

Discussion

In this paper we have concentrated on providing an account of the major ideas of NPM and their application in Victoria over the period 1996-2001. On the evidence presented, there is a vast gap between the rhetoric and the reality. Certainly, the liberation version of managerialism is appealing, but it does not provide a reliable guide to management practices in either local government in Victoria, or, apparently, the United Kingdom. Adherence to the rhetoric of liberation management is, as Burnham (1999) has argued, part of a process of depoliticisation, of removing government accountability for decisions taken when the reality is that tight prescription is achieved through the choice of policy framework.

That the discussion here has been directed at the level of local government rather than at the minutiae of the Victorian reforms, was a useful way of highlighting the fact that the pattern of relations between the state and local government have been re-cast so as to entrench the subordination of local government, even if this derogates from local democracy. It was as if local government was another agency charged with carrying out its functions efficiently and effectively and reporting the outcomes to the government. Importantly, the legal and

administrative framework established by the Kennett government was one which, following the propositions of agency theory and NPM (see Davis 1998) ensured that the focus shifted to results, at the expense of process, and this was reinforced by a resort to contractualism. This results orientation was utilised in two ways in local government: firstly, by placing senior managers on contracts and, in effect, making the re-appointment of chief executives conditional on having performed to the satisfaction of the state government, rather than to the councils which had employed them; and secondly, by establishing a regime of competitive tendering which, after the inception of NCP, left few areas of local government beyond the reach of market disciplines.

In a situation where controls are pervasive, as is the case in Victorian local government, this left little meaningful scope for strategy. A similar point was made by Worrall, Colling & Bill (1998) in their study of local government in the United Kingdom. Under legislation compelling local government to demonstrate that it has become more strategic, the authors found that 60 percent of councils claimed to have submitted a strategic plan but with no consensus of what constitutes 'managing strategically'. The authors concluded that local government was most likely engaging in a simplistic form of strategy. Specifically, they described this as co-ordination strategy; co-ordinating and scheduling a set of activities to meet given objectives rather than engaging in the more sophisticated, prioritising strategy, which entails exercising choice according to the perceived importance of a range of objectives. Co-ordinating strategies tend to be at the expense of other values such as equity, access and local democracy. We suggest that Victorian local government, under the former state government, operated under a similar constraint and that this is a necessary corollary of the adoption of market-driven managerialism. The irony for Victorian local government is that despite the Kennett-inspired ideal of implementing private sector business practices into council management, the extent of government reporting requirements and intervention in council management has thwarted any real notion of liberation management, particularly in the area of strategy formation.

This gives rise to a series of research issues. Firstly, there is a need to determine the precise nature of strategy formation in local government. Secondly, given the focus of managerialism on contracting, the formation of strategy has major implications for local government workers and the labour process. To date there has been limited research on this question and the links with strategy have not been explored (e.g. Walsh & O'Flynn 1999). Finally, in view of the defeat of the Kennett Liberal-National government in 1999, these issues will need to be re-evaluated in the context of the policies implemented by a Labor government which has replaced CCT with Best Value. As we have indicated above, the process put in place and the change of government appear to have created scope for genuine strategy formation and at least partly reversed the subordinate status of local government by re-enfranchising local communities. What remains unclear is how far this process has proceeded and what has been the lingering structural and cultural impacts of the reforms of the 1990s.

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