



Submission from

**Federated Municipal and Shire Council Employees
Union of Australia, NSW Division**

To

Federal Government House of Representatives
Standing Committee on Economics, Finance and Public
Administration

**Inquiry into Local Government and
Cost Shifting**

July 2002

The MEU represents local government employees throughout NSW and our members include outdoor workers such as lifeguards, garbage workers, maintenance and road construction workers and garden maintenance workers and indoor workers such as engineers, planners, building inspectors, librarians, child care workers, clerical staff - the list goes on. MEU members keep local government working!

The MEU is also a principal electricity union and covers a range of workers in the power industry.

The strength of the MEU lies with our localised structure of Delegates within the metropolitan area and we have offices placed throughout regional NSW staffed by skilled Officials to ensure our members are served by representatives who know the issues that matter.

Submission on Local Government and Cost Shifting

Introduction

Cost shifting can take a variety of forms and may be intentional or unintentional. It can occur as a consequence of the following:

- increases in mandatory requirements conferred without the provision of new or additional funding;
- the withdrawal of service provision or funding allocation by one level of government while the service is still required;
- the growth of community demands in the absence of adequate funding arrangements and;
- policy changes affecting short or longer term demands on other levels of government.

Local government is affected by each of these forms of cost shifting. In particular situations, workers, their families and their communities can be negatively affected by cost shifting. This can happen in a variety of ways. To reduce long term negative outcomes the following is a selection of issues which need to be taken into account when reviewing funding arrangements and intergovernmental relations.

Consider the impact on -

- Employment opportunities and skills development
- Ongoing job security
- The preservation of social equity commitments
- Preservation and improvement of public infrastructure.
- Community wellbeing and respect for community diversity
- Maintenance of democratic processes and accountability to the community

This report will proceed to discuss three key issues with respect to cost shifting:

- Increased demands on local government - in the context of fiscal restraint
- Intergovernmental funding arrangements
- The strategy of Contracting out.

It must be noted however, that the Municipal Employees Union views with some cynicism the limitation imposed on the inquiry noting from the Terms of Reference that “The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth”. As will be seen from the report, some of the negative consequences of cost shifting are a result of policy shifts in the Commonwealth sphere.

Increased demands on local government - in the context of fiscal restraint

Expanded Roles and Responsibilities

In the last two decades, local government in Australia has undergone significant changes, particularly in terms of its role, responsibilities and methods of operation. In practical terms, it has had to do more with less.

As people have become increasingly aware of the impact of human activity on the environment, local government has expanded to include such functions as environmental health, pollution control and natural resource management.

The nature of the services provided by particular councils have also had to change to take into account the demographic changes in local communities. In this regard, it is important to acknowledge that Australia is one of the most culturally diverse countries in the world. To enable councils provide appropriate services for the whole community, it has been important to examine the range and methods of service provision at the local level. Part of the change has involved Councils tapping into the linguistic and cultural skills of the workforce. Other changes have involved expansion into new areas of service.

An Example of Change - Community Services Provided by Local Government

Whilst councils have experienced a general increase in roles and responsibilities, the area known as “Community Services” provides a good example of how changing community needs have led to an increase in the size and nature of services.

In 1992 the Community Services section of NSW local government was mainly comprised of; a range of children’s services and child care workers, pre-school teachers, Community Workers, Community-Development Officers, Recreation Officers, Social Workers, Social Community Planners, Welfare Officers, Youth Workers and Community Arts Officers.

By 2002 a number of trends were evident:

The range of “community services workers” had evolved, diversified, and expanded. Expansions were particularly noteworthy in areas of aged care services, for example an increasing number of Councils employed workers in the following positions:

- *Disability Project Officer*
- *Host Family Respite Co-ordinators*
- *Dementia Respite Workers*
- *Home and Community Care Co-ordinators (HACC)*
- *Respite Care Workers*
- *Home Modification Program Co-ordinators*

Some new specialised areas also evolved, in response to community need for example note the following positions:

- *Disability Access Workers*
- *Domestic Violence Wkrs*
- *Suicide SafetyComm.Wker*
- *Cultural Events Officer*
- *Healthy Life Style Worker*

There also appeared to be a breaking-down of traditional divisions between community services and other work areas/professions with the evolution of some new positions, for example:

- *Access and Equity Policy and Project Workers*
- *Youth Crime Prevention Officer*
- *Housing Officers*
- *Regional Project Workers*
- *Road Safety Officer*
- *Community Safety Officer*

Some Councils may have particular types of workers (such as Housing Officers or Crime Prevention Officers) included in Community Services Departments working under the same conditions and hours as all the other community service providers. While other councils, will have these workers located in other departments (e.g. Strategic Planning) working under different hours and conditions compared to their community service workers.

Basically community services has evolved significantly and can cover a wide range of responsibilities and skills. At one end you can have employees whose work focus is with individuals or family groups or small groups of people (e.g. young people with disabilities living in Council provided accommodation). At the other end, some community workers may be expected to convene regular regional forums with community and government organizations and possibly contribute to state based policy and advocacy forums.¹

Planning and Accountability

Additional reporting and planning responsibilities have been place on councils (such as the requirement to develop social plans, management plans, state of the environment reports). Whilst these can provide mechanisms for improving accountability and responsiveness to community needs, few of the additional responsibilities conferred by State Government on Local government have been accompanied by new or additional funding.

While rapid social change is taking place, the Union is aware of the loss of valuable sources of analysis and research. We particularly note the closure of the Public Sector Research Centre and the closure of the Bureau of Immigration, Multicultural and Population Research (BIMPR) and the Office of Multicultural Affairs (OMA).²

¹ Extract from unpublished document on Community Services in Local Government in NSW researched by L. Fraser of Municipal Employees Union.

² Within weeks of taking office, the BIMPR and OMA were closed by the Howard Government. Whilst remnants of the responsibilities of the BIMPR and OMA were absorbed by the Department of Immigration and Multicultural Affairs most of their key roles were lost – including funding of local government Access and Equity projects, provision of community grants and the coordination and development of policy.

These organizations assisted in providing valuable resources (to all levels of government) for planning purposes – particularly those relating to population trends, projections of community needs, policy consequences, access and equity strategies and infrastructure needs.

Their loss compounds concern that massive change (including the down-sizing of the Commonwealth public sector) is taking place without an adequate critique of the long-term impacts on the workforce, social cohesion and future infrastructure requirements.

Reducing Costs

Councils have explored various strategies to reduce costs and improve productive efficiency. But it should be noted that some strategies (such as competitive tendering) have actually had a detrimental impact on the workforce, their families and the broader interests of the Australian economy. We are thus reminded that there are limits to any organizational ability to do more with less before the problem is shifted elsewhere. In this regard it is also important to restate the point that deficiencies in Local Government's financial capacity continues to limit its ability to develop its role in meeting the increased community expectations and additional responsibilities.

Rate Pegging

In this context, local government fiscal restraint is further exacerbated by rate-pegging. Rate-pegging was introduced in NSW by the Wran Government in 1977 at a time of high inflation and rapidly increasing government charges. The circumstances have changed considerably since then, yet local government continues to be constrained by this revenue restriction. As rate-pegging levels tend to be set significantly below the level of cost increases faced by many councils, restriction limit their ability to adequately maintain services and infrastructure growth demanded by community needs.

It is clear that local government would benefit from the oversight of a similar body to the Independent Pricing and Regulatory Tribunal. Such an organization should be independent yet be capable of taking into account a range of factors affecting council revenue requirements.

Constitutional Recognition of Local Government

The increased independence is needed for local government and relates to the need for Constitutional reform to include recognition of local government. The failed attempt in the 1988 Referendum suggests that bi partisan agreement is needed on the matter. A further complication lies in the fact that each state has a different local government act.

Intergovernmental funding arrangements

Vertical Fiscal Imbalance

It has already been noted that there have been increased responsibilities placed on local government by the state government without sufficient funding increases. But in recent years there has also been an acceleration of a vertical fiscal imbalance.³

Studies indicate that the vertical fiscal imbalance between the commonwealth and local government has not been resolved and that it will continue to worsen.⁴ Indeed, estimates suggest that between the financial period of 1983-84 and the period 1998-99, local government bodies experienced a virtual reduction of \$6.2 billion. Since that time the situation has worsened and “from 1999-00 to 2003-04 local government bodies will lose another \$2.7 billion...”⁵

The discussion below briefly outlines two examples of very different types of services provided by local government where inadequate or reduced funds from the commonwealth have negatively impacted on the community.

Road Infrastructure

Federal and State government collect revenues by tax instruments not available to local government (for example fuel taxes). Local governments are responsible for more than 80% of the national road network and it is therefore important that both Federal and State spheres of government provide adequate funding to local government to maintain road infrastructure.

Local Government requires ongoing commitment by the Federal Government to capital works programs for provision of essential infrastructure for road and transportation systems. Without substantial funding increases, Councils are significantly limited in their ability to meet their obligations.

Child Care Subsidies

Changes to child care funding arrangements introduced by the Howard Commonwealth Government in recent years has had a negative impact on local government child care services, families and child care workers. The reductions in subsidies in 1996-97 and 1997-98 negatively affected an industry with little ability to cope with reduced funding. The consequences have affected service quality, increased costs passed on to families – many of whom could ill afford to pay for the

³ The term ‘fiscal imbalance’ refers to a situation where the allocation of revenue between the federal and other levels of government does not match the expenditure responsibilities of each level of government. To even out the imbalance, federal government has to transfer a portion of the federally raised finances to state and local government.

⁴ See Australian Local Government Association “Initial Submission in Response to the Commonwealth Grants Commission’s Discussion Paper CGC 2000/1” p 32.

⁵ Ibid

additional costs, staff reductions, reduced services and reductions in expenditure on maintenance and repairs⁶.

Competitive Tendering and Contracting Out

Introduction

The shift toward increasing competitive tendering and contracting out (CT & CO) of local government services was part of a general shift in Australian public policy toward reducing the size of the public sector. The process was further encouraged by interpretations of the way National Competition Policy was to be implemented at the local level.

Contracting out occurs when an external bidder (such as a private wage management company) is awarded a contract for the provision of services that would normally be provided in house. When the service provision shifts from council provided service to provision by a private operator, it is a form of privatisation.⁷

Despite the initial hype regarding purported cost savings at the local level (which have often been heavily disputed), a number of studies have now shown that there can be few if any macro economic benefits from the process of contracting out. Indeed studies involving social and economic auditing techniques have demonstrated that the process reduces employment and the costs are ultimately paid for by the public purse.⁸

This report will now focus on five aspects of the contracting out process which have cost-shifting dimensions which cause negative implications for various levels of government and the Australian economy in general.

Decreased job security results in reduced household savings and an increased reliance on welfare payments as the main or additional source of income for families.

Whilst advocates of competitive tendering and contracting out argued that the process reduces costs, mounting evidence now shows that savings are often made at the expense of employees. Studies conducted in Britain and Australia have shown that the process leads to a reduction in secure long term jobs and increased interruptions in

⁶ For a Parliament of Australia, Senate Community Affairs Committee report on the issue see website www.aph.gov.au/senate/committee/clac_ctte/childcare2

⁷ L. Fraser, *Competitive Tendering and Contracting-out of Local Government Services in Australia*, Public Sector Research Centre, Sydney, 1992 p3f.

⁸ M. Paddon & R. Thanki (Eds), *Australia's Contracting Public Services*, Public Sector Research Centre – University of NSW, Collected Papers No. 2, 1995.

working life.⁹ This has a negative impact on the savings capacity of families, their quality of life, their ability to pay mortgages, their ability to plan and their capacity to prepare for retirement.

When the process results in unemployment, their families become more reliant on welfare payments. In this way costs may be borne at the commonwealth level even if some savings have been made at the local level. Indeed, it has been noted in Paddon and Thanki¹⁰ that the cost of welfare benefits may be far in excess of benefits gained at the local level.

The commonwealth government needs to take into account the long term effect of employment changes arising through competitive tendering and contracting-out.

Where competition is used as a means of driving down wages and conditions of the workforce, it results in a shift of wealth from workers to contracting firms – reducing worker potential to adequately provide for their family and adequately prepare for retirement (again increasing the potential for reliance on the public purse for support in the long term).

Some contract firms reduce costs through payment of below-award wages and conditions, often preferring non-unionised workers. Advocates of the process have at times stated in publications that the process of CT and CO should be accompanied by a reduction of “interference” from trade unions and government regulations.¹¹ However, such cost reductions are not efficiency gains but a redistribution of wealth from the workforce to profits (which may go overseas). Reduced pay for workers will reduce their spending power and can impact negatively on the wider community. Even where cost savings are achieved by an increase in work intensity, it has been argued that this constitutes a transfer of wealth from workers to employers.¹² Further, occupational health and safety problems arising from substantial increases in work intensity can reduce the long term income capacity of families.¹³

⁹ K. Ascher, *The Politics of Privatisation, Contracting Out Public Services*, McMillan Education, London, 1987. J. Quiggin, “Fiscal Gains from Contracting Out: Transfers or Efficiency Improvements”, *Australian Economic Review*, Third Quarter, 1994. P. Ranald “Australia Council of Trade Unions Submission” in Paddon and Thanki op.cit.

¹⁰ Paddon and Thanki p30.

¹¹ See Domberger, Meadowcroft and Thompson, *The Impact of Competitive Tendering on the Cost of Hospital Domestic Services*, Graduate School of Management, University of Sydney, 1987:9, Australian Chamber of Commerce, *Contracting out as a form of privatisation – a study of Victorian Local Government*, ACC Research Paper No. 1 1988a; Lindsay G. *Privatisation: Restating the Obvious*, Centre for Independent Studies Policy Report, Vo. 4 No. 2 April 1988. , Hensher and Beesley “Contracts, Competitive Bidding and Market Forces: Recent Experience in the Supply of Local Bus Services”, *Australian Economic Papers*, Vol 28, No. 53 December 1989.

¹² Quiggin, Op. Cit. 1994

¹³ See L. Fraser *Impact of Contracting Out on Female NESB Workers: Case Study of the NSW government Cleaning Service*, DIMA, 1997.

Sub-contractor non-compliance, with regard to taxation and regulatory obligations, constitutes a transfer of resources from government to private contractor.

As noted above, some advocates of CT & CO consider the process to be a useful means of reducing what they perceive to be the “interference” from government regulations. Managers have often found in practice that the process reduces accountability and control by the tendering authority.¹⁴ The tendering authorities are further distanced from the production process where contracting firm further subcontract work to others. Consequently, it is more difficult to monitor compliance of subcontractors with respect to taxation, Occupational Health and Safety requirements and other regulatory obligations.

Quiggin argued that tax evasion practices of some companies have assisted them in gaining a competitive edge. He noted that private contractors are able to more easily evade taxes by concealing employee output from the tax system. He also noted that “the increasing decentralisation of the wage bargaining system serves to make it easier to deprive the government of these funds, which would effectively constitute an indirect, and almost certainly unintended (on the part of Governments) transfer of resources from Governments to private contractors”.¹⁵

Problems associated with non-compliance by contractors have been of considerable concern in NSW in recent years. With many reports of contractors not complying with tax, WorkCover and basic award/agreement requirements. NSW Labor Council and affiliates have held various meetings on the matter and have called for a “whole of government approach to the issue.”¹⁶

Privatisation reduces the realm in which Equal Employment Opportunity policies and equity commitments are implemented and monitored. Consequently, it increases the pool of long term unemployed people who are disadvantaged in the labour market – particularly workers over 40 years of age who are largely overlooked by employers in the private contracting industry.

Mounting evidence indicates that tendering and contracting-out leads to significant decreases in employment. This has a disproportionate impact on particular groups of

¹⁴ See Evatt Research Centre, *Breach of Contract: Privatisation and the Management of Australian Local Government*, Evatt Foundation and Pluto Press, 1990.

¹⁵ As referred to in Paddon and Thanki, Op Cit p31.

¹⁶ See website of Labor Council of NSW, Annual Report 2001 – Chris Christodoulou at http://council.labor.net.au/annual_reports/2001

employees creating “poverty traps”. For example, workers over 45 years of age are most vulnerable to the impact of CT & CO. Various studies have shown that contractors are more inclined to employ younger, fitter workers. An increasing pool of older workers bear the brunt on tendering and contracting processes as they have difficulty finding alternative employment.¹⁷ This has many social consequences as contractors turn their back on the employment of older workers who have families to support – many of whom have to resort to obtaining support from the wider community and from the welfare system (i.e. the public purse).

The revenue base of the public sector is adversely affected when contracting out leads to service provision by multinational corporations. This process can increase the proportion of revenue going off shore as corporate profits.

Throughout the last few decades the scope and magnitude of contract work has dramatically increased. A large number of firms contracting for local government services are multinational companies who take profits overseas – reducing Australia’s economic development opportunities.

Large corporations have high turnover rates which dwarf the revenue base of local authorities. Some councils have experienced ‘low balling’ tactics of large contractors who bid low so they can secure the market and recover cost and profits later. Such activities not only negatively impact on regional economies but also national economies.

Conclusion

This brief submission has been based on the assumption that all spheres of government share responsibility for the well-being and vitality of society, its diverse communities, its natural resources and its workforce. As major employers and custodians of public assets, governments play a critical role in shaping the future of the nation.

In providing this submission the Municipal Employees Union is indicating that in the interests of our members, their families and their communities, we are stakeholders in matters relating to local government, funding arrangements, functions and responsibilities and inter-government relations.

The Union stresses the point that cost shifting arrangements (as defined in the introduction) can appear to save funds in the short term but can indeed have long-term costs implications which will be far more difficult to deal with once they are evident.

¹⁷ Asher Op Cit. & Ranald Op Cit.

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