The Impact on Community Services of Staff and Service Reductions, Privatisation and Outsourcing of Public Services in Australian States

Report prepared for the Community and Public Sector Union (SPSF Group)

by the

Centre of Full Employment and Equity

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Terms of Reference

This Report was commissioned by the Community and Public Sector Union (SPSF Group) to investigate the impact of State Government fiscal policy and "privatising" – asset sales, public-private partnerships and outsourcing - public services on both the quantity and quality of public services in Australian States.

Researchers at the Centre of Full Employment and Equity (CofFEE) at the University of Newcastle developed the Terms of Reference in collaboration with the CPSU (SPSF Group). The specific Terms of Reference were:

- Investigate the operation of State Government fiscal policies in Australia with particular reference to fiscal targets and outcomes;
- Trace the development of "privatising" policies at the State Government level, including the sale of public sector assets to the private sector, public-private partnerships (PPPs) and outsourcing of service delivery to the non-government sector (NGOs); and
- Comment on the impact of these policies on the quantity and quality of services delivered to the public.

This report is a companion report to a second report The Impact on Community Services of Staff and Service Reductions, Privatisation and Outsourcing of Public Services in Australian States: Case Studies, Biosecurity and Primary Industries, Child Protection and Housing – Report 2, that investigates these issues in greater detail for three Government service areas using a Case Study methodology that includes a qualitative research component consisting of interviews with key informants for the following services:

- Child Protection;
- Housing, and
- Primary Industry Research and Biosecurity.

Executive Summary

Chapter 2 Fiscal trends

1. Over recent decades there has been a shift in fiscal policy in Australian states toward fiscal austerity with a reduced role for the public sector being pursued. Fiscal strategies aiming to reduce the size of government have frequently been backed by legislation – in the form of fiscal rules. Fiscal rules reduce the flexibility of governments to respond to matters for which they are responsible for in an effective manner.
2. All states have set either financial targets or ratios for net operating surpluses and net debt outcomes that include an emphasis on maximising surpluses and minimising debt. The aim of these rules is that infrastructure can be funded in whole or substantially by surpluses so that the state either minimises or eliminates its net debt position.
3. All governments have expressed concern about the deterioration in fiscal outcomes and the threat to credit ratings, professing commitment to:
   - Prioritising expenditure to delivery of core services;
   - Cutting expenditure in non-core or non-service delivery areas and staffing;
   - Restricting public sector wage growth;
   - Neo-liberal policies that entail "privatising" public sector activity by various means.
4. There is abundant evidence that the self-imposed fiscal constraints have impacted on the ability of state governments to provide the range, quantity and quality of services required by the community, particularly in an era of growing and significant income and wealth inequality.
5. The evidence suggests that governments have under-invested in a range of essential services and have cut programs on the basis of self-imposed (and perceived) fiscal constraints rather than based on appraisals that these programs were unnecessary or did not meet community needs.
6. State governments have erroneously asserted that based on intergenerational equity grounds all essential infrastructure be financed through budget surpluses (or private partnerships). This claim has been used to justify the austere current policy measures. This argument fails to recognise that since public infrastructure provides the community with economic and social benefits over extended periods, usually decades, it is equitable that this infrastructure is paid for by both the current and future generations that derive benefit from it.
7. The adequacy of service provision depends on whether frontline services keep pace with rising demand as reductions in support functions impact adversely on the ability of frontline staff to deliver services.

Chapter 3 Public Sector Staffing

8. Expenditure cuts in the form of ongoing efficiency dividends and cuts to specific programs have reduced public sector staffing. The evidence suggests that arbitrary efficiency dividends have long since harvested available efficiency gains so that further cuts are reflected in increased stress for remaining staff attempting to provide high quality services in a constrained environment and this has a detrimental impact on both the quantity and quality of public services.
9. Mass redundancy exercises undermine morale and organisational cohesion for extended periods, lose corporate memory and experience, and reduce functional capacity, impacting on service delivery, increasing waiting times, occasioning service rationing and depriving larger population segments of service.
10. Loss of access to services often exacerbates or causes new problems which increase public cost in the longer-term.

11. Arbitrary staffing freezes introduce inefficiencies as agencies are unable to fill important positions, while measures to circumvent them, such as the use of labour hire to obtain workers who are not counted in staffing figures, are more expensive than direct employment of staff.
12. The transfer of functions from public servants to private sector workers means services are effectively subsidised by the lower standards of pay, conditions and job security of private sector workers. Moreover, these developments have contributed to the deterioration in national skill formation capacity, exacerbating skill shortages in the labour market.

Chapter 4 Privatisation

13. Developments in Australia have mirrored international privatisation trends over the past 20 years. In the period 1990 to 2007 Australia was among the top ten privatising nations in terms of the proceeds of asset sales.
14. Privatisation was initially justified on the promise of superior private sector cost-efficiency and service quality gains, viv-a-vis the public sector. As these largely failed to eventuate, emphasis shifted to exaggerating the necessity of public asset sales to lower or avoid public debt.
15. Industrial politics has motivated changes in the power industry, education, prisons, the public service and public transport, through privatisation and contracting, which have all had the effect of reducing very strong bargaining power previously held by these unions.
16. The need to fund State infrastructure without borrowing is currently used to justify the shifting of public sector assets and functions to the private sector.
17. It was solely out of an ideological desire to promote the neo-liberal 'small government' agenda, that the Commonwealth began withdrawing financial support to the States in the late 1970s. It otherwise has the capacity to finance any degree of public infrastructure development, provided the real resources exist that can be purchased with the currency of which it is the sovereign monopoly issuer.

Chapter 5 Outsourcing

18. The outsourcing of public services, including by competitive tender, is an ancient practice that has moved in and out of favour, largely in accordance with shifts in influence over public policy between forces of liberalism and democracy.
19. A 1970s corporate backlash against the post-war Keynesian welfare state that found its way to Australia in the mid-1970s, began an era of public sector retrenchment that continues to this day.
20. Since the 1980s, and notwithstanding early assertions of substantial cost-savings without reductions in service quality, outsourcing has produced mixed results in terms of cost savings, and serious doubts over quality of service issues.
21. Much of the evidence used to determine the public cost-benefit of outsourcing hinges on obscure technicalities, and selective accounting methodologies.
22. Comparisons of relative cost-efficiency between in-house and outsourced public service provision usually fail to consider relative efficiency in terms of the basic objectives of the organisations being compared. Public and private sectors create value in different ways, and utilise different forms of incentive to do so. Public service is characteristically motivated by low powered 'intrinsic' incentives, such as the personal emotional and psychological rewards and satisfactions arising from doing work one believes is important to society, or which supports a group one considers merits support. Private sector service is typically motivated by 'high-powered' 'extrinsic' economic rewards and penalties.

23. The delivery of public services via contracted providers entails specifying what is required and enforcing compliance to avoid 'quality shading' and other profit maximising strategies, without sustaining excessive transaction costs. Strategic vulnerabilities arise for outsourcing governments from asymmetrical costs of contract failure and the ultimate inability of governments to transfer risk.
24. Outsourcing has been applied to a vast range of public services, and to an extent not publicly reported. Public accounts are conspicuous for their lack of detail on this point.
25. While transnational corporations are big players in the delivery of outsourced services in Australia, the not-for-profit sector has increasingly embraced government services provision, losing their capacity to advocate on behalf of their traditional clientele and for inter-agency collaboration in the process.
26. Increasingly, when Australians are dealing with their government at any level, they are actually dealing with an employee of a profit seeking firm, or an agency that behaves like one. The real possibility of this having a qualitative bearing on what they experience, including what justice they receive, what care they are given and what dignity they are left with as a result, has been inadequately considered in the rush to dismantle the public sector and what it stands for.

Chapter 6 Public Private Partnerships

27. Public Private Partnership constitutes a hybrid form of private sector asset creation and outsourced service delivery designed to generate flows of wealth to private consortia from the public sector for long periods of time.
28. The complexity of these arrangements coupled with the vested interests associated with their promotion, such as various corporate accounting firms and consultants, leads to divergent estimations as to their cost effectiveness, with corporate accounting firms and other directly interested parties generally barracking for them, and auditors-general often uncovering many shortcomings.
29. The complex nature of these contracts, seldom given full public exposure at the time they are struck, obscured so often behind declarations of 'commercial in confidence', hide a multitude of assumptions that significantly affect the calculation of real potential cost to the State.
30. Other practices, such as paying a premium for the transfer of risk to the private sector are hard to fathom, given that governments can seldom avoid responsibility for preserving a service if the private provider withdraws. The myth that the higher private cost of funding embodies the risk premium that the private supplier/operator bears is not borne out by the fact that risk shifting in large and important projects does not occur – the public sector continues to bear the risk.
31. The cost of drawing up these complex contracts, monitoring performance and enforcing contract compliance, particularly if governments take this responsibility seriously, often adds enormously to service delivery costs, though is not always taken into account when considering the cost of provision. The cost of service provision through PPPs is far more than just the money paid to the service provider.

Chapter 7 Public Service Provision

32. A recurring pattern of inadequate provision due to public sector retrenchment and fiscal austerity is discernible across a wide spectrum of service areas.
33. A review across various public policy areas reveals a failure to invest in our nation's future, failures of governance, and the abandonment of equity as a core policy principle.
34. The paucity of meaningful information governments provide as to the quantity and quality of service provision highlights the crucial importance of preserving the independence and resources of auditors-general, and other scrutinising bodies, without

whose reports the little that we do know of the state of public service provision would almost certainly remain hidden from public view.

35. Governments are aware of the suffering and neglect of the most vulnerable and disadvantaged Australians, yet continue to apply insufficient resources to their care and inclusion. In the past thirty five years of public sector retrenchment, social progress has been very slow and Australia is falling behind on many fronts.
36. After 35 years of public sector retrenchment there is little evidence to support the repeated claim that outsourcing and privatisation would improve the quality and lower the cost of providing what were useful public services. The justification for cuts to useful public services thus has no evidential basis and so we conclude the motivation was largely ideological. The efficiencies that were supposed to be gained by such cuts were to have freed resources for re-investment where they were most needed. But it is clear that there are many areas of national need remaining which are not being adequately addressed because of the withdrawal of resources from the public sector to deal with them. The Report argues for an expansion of public provision to address these needs and denounces the moribund ideology that has progressively starved the public sector of the resources to do so since the early 1980s.