

CPA Australia Review of National Competition Policy Arrangements

Overview of Reforms to Date:

The NCP reform, in conjunction with the other reforms of the 1990s, such as the introduction of accrual accounting, and financial management reform in general in the public sector, focussed the public sector's attention on the cost of providing a large range of government services.

The implementation of a service costing methodology and a greater focus on governmental performance was enforced which was previously only used in the private sector. These reforms also imposed the adoption of several private sector initiatives and management techniques including the need for professional staff in the public sector to assist in the implementation of these reforms in the various sectors of government, but more so in small agencies.

Overall, the reforms have been effective in requiring government agencies to consider the effectiveness of their operations from a business perspective that is, the overall purpose and objectives of the activity, planning, cost effectiveness, reporting and monitoring. However, there have been significant resources applied to the application of NCP in agencies that have detracted from the efficient allocation of resources and therefore not contributed to the achievement of the agencies' objectives.

Successes and Failures in Implementation:

Overall, the NCP reforms were implemented and affected States differently, this was also evident at the local level where implementation varied between rural and metropolitan Local Government. Much of this was attributed to the differing methods of payment distributions by each State to Local Governments with respect to implementation of the reforms. This perhaps was the most notable failure of some of the reforms from the Local Government perspective, whereby some State Governments did not appropriately on-pass NCP payments.

An example of a failure of these reforms can be seen in NSW, whereby many small town water and sewer schemes were treated as "businesses" under the NCP. This can also be extrapolated to other small scale essential services. These services, by their nature, display large economies of scale in service delivery. That is, due to the high fixed costs of infrastructure involved in providing these services, the number of people serviced by the scheme could in some instances double with little impact on the total cost of providing the service, but with the cost divided by more users, the cost per user almost halving. This is more readily illustrated by the following example, a sewer scheme servicing a population of 800 people costs around \$3.5m, while one servicing 4,000 people could cost around \$4.5m. NCP requires the users to fund these services therefore the cost per user would be \$4,375 and \$1,125 respectively. If the schemes were combined the average cost would be \$1,666 per user.

For other essential services, such as postage, electricity, telecommunication and for water and sewerage in other States, these services are provided State wide by one body and each region/area pays the same fees, no matter what the differential cost may be in providing the service. In the

above example, a significant reduction in cost for the first group and a marginal increase for the second group would be made if the schemes were combined and a uniform charge made.

The Future:

The current spate of public sector reform and the implementation of NCP principles would indicate that the majority of legislative impediments to competition, that are not in the best interest of the nation, have been successfully removed. It is also believed that the objectives of making Government Business Enterprises (GBEs) operate on an equal playing field to private providers also has largely been successfully achieved. It is thought that the one remaining objective requiring further attention in order to meet the Federal Government's microeconomic reform agenda, is that of improving the efficiency of government, and thereby improving the competitiveness of Australia. It is our belief that the next stage of NCP reforms should therefore focus on providing the environment and means that facilitate improvements to the efficiency and effectiveness, and hence the competitiveness of the provision of government services.

Various State Governments have implemented a number of policies initiatives with respect to Local Government in an attempt to achieve this objectives through amalgamation (either compulsory or voluntary), collecting and publishing performance information, compulsory competitive tendering (CCT), and through a "Best Value" program. The success of these programs has been varied with no common approach being taken.

A suggested next step is to consider a combination of the "Best Value" approach adopted by Victoria and the New Zealand outsourcing requirements. The Victorian "Best Value" model is based on the UK program which, under the Local Government Act 1999, requires Local Authorities to "...make arrangements to secure continuous improvements in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness". The Victorian Best Value legislation requires all Councils to progressively review every service they offer by 2005 to ensure accordance with the six best value principles of: cost and quality standards for all services, responsiveness of community needs; accessibility and appropriately targeted services; continuous improvements; regular community consultation and frequent reporting to the community.

In 1992, the NZ Local Government Act 1974 was amended to impose requirements on regional Councils regarding the way they provide their services. The particular section (247D(2A)) states that "a regional council shall not carry out its works or perform its functions using its own staff unless it is satisfied the advantages of this option for the ratepayers of the region clearly outweigh those of any other option." When addressing itself to meeting this obligation, a Council needs also to take account of the responsibility of the Chief Executive Officer under section 119D of the Act to ensure "the effective, efficient and economic management of the activities and planning of the local authority". In reaching its decision about whether to use its own staff, the Council should have regard for the overall requirements of the Local Government Act.

Ratepayers and other levels of government currently contribute around \$18 billion per annum to the provision of Local Government services. A significant amount of this revenue is used to provide services supplied "in-house" by authorities and therefore are not subject to the competitive market to ensure that it is being produced at the lowest cost. It is believed that Local Government should be required to market test the efficiency of the services which they currently provide "in-house" in order to ensure that they are performed in the most efficient means possible. We do not advocate compulsory competitive tendering as this policy has many disadvantages to both the Council and the community. This is one of the reasons why compulsory competitive tendering has since been abandoned by those jurisdictions who initially implemented this policy namely; the UK and Victoria.

Suggested way forward for Local Governments:

As a way forward CPA Australia advocates a combination of the Victorian and UK Best Value models incorporating the NZ requirements. That is Local Authorities should be required to:

- **Challenge the purpose and appropriateness of the service of function.** In some instances a number of services provided by Councils have been performed for historic reasons to meet a need at the time. The original needs may have passed, but the service is still being provided in the same manner. For this reason there are a number of advantages to review each service annually, state its purpose and objective and to assess its performance in meeting this objective, in order to determine the relevance of the service and its current means of providing the function.
- **Compare its performance with other providers.** As outlined in UK Department of Environment, Transport and the Regions (DETR) Circular 10/99, "authorities should aim to compare their current and prospective performance against other public sector bodies, and those in the private and voluntary sector. This will rarely be a process of exact comparison, rather the intelligent exploration of how analogous services or elements of such service performs: this needs to be sufficient to enable authorities to identify the significant performance differences and the reasons for them". The publishing of these results will enable the community to assess the performance of their Council.
- **Market tests the provision of its services or justify why market testing is not desirable.** This is not compulsory competitive tendering rather a variation on the NZ legislative requirements, which stipulates that all services are to be contracted out unless it can be demonstrated that this is not in the public's interest. Council should indicate the services that it currently contracts out, those which are provided in-house and the reason for not choosing to market test or contracting out a service. Such a public document would enable key stakeholders to assess the legitimacy of the reported reasons for not outsourcing an activity.
- **Determine service levels for all functions.** Similar to challenging the purpose of the service of function, it is believed that service levels should be set for all functions performed by the Council and a review be made between actual and anticipated service levels. This will assist the community in assessing and interpreting comparative performance information.

It is imperative that the above be readily available and communicated to the public to ensure that they are able to easily access the relative performance of their Council. Only a small number of performance measures are used to report the performance of government agencies and of those, an even smaller number are communicated to service users and the general public. We therefore advocate that any future NCP reform should be focused on highlighting the actual performance of government agencies and the publishing the results in Councils' Annual Report, including the provision of comparative data from other Councils.

In Conclusion:

It is extremely difficult to specifically identify the benefits and costs of NCP reform in isolation to the many other factors that have simultaneously affected the public provision of services. Other issues such as reduced government funding, increased community expectations, aging infrastructure, cost shifting from other tiers of government, the introduction of accrual accounting, an asset management culture, have achieved similar outcomes to what NCP sought to achieve.

However, moving forward we believe that a consistent approach must be taken. Future Government policy must be aimed at providing an environment and a legislative background that encourages continuous improvement, towards improving efficiency and effectiveness, encouraging innovation, providing public accountability and identifying and promoting best practice.

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