Contracting for Services: Case Studies in Stereoplotting, Quarantine Inspection and Hospital Consultancy

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Introduction

IN LINE WITH international trends, Australia’s federal, state and local governments have been undergoing wide ranging changes in recent years. The overall change has had two components. The first is a theoretical component which relates to a significant number of reports commissioned by various governments over the years in search of broad guidance in redesigning the machinery, processes and goals of government. A more recent report, one of a new genre and influential at all levels of government by Professor Fred Hilmer (Hilmer et.al. 1993; Industry Commission 1995a & b) spurred the creation of national competition legislation at both federal and state levels of government.1 The second is an applied component which refers to the comprehensive and continuous reform of government, including so-called ‘core’ areas, with a view to making the delivery of public services more effective, efficient and consumer-oriented. More recent reports have advocated the use of a number of well known techniques of private sector and overseas origin to be applied as part of the reform process. These include: process re-engineering, bench-marking, competitive tendering and contracting (CTC), out-sourcing, market testing and total quality management. The encompassing theme is said to be one of reinventing government.

An even more recent report, that of the newly set up Productivity Commission, has made recommendations more radical than those of Hilmer. Even if partially accepted, these recommendations will introduce changes to Australian society arguably more wrenching than any implemented to date (Toohey, 1996). This report’s ultimate goal is to try and improve government efficiency by attaching a price to each individual activity which judges, police officers, teachers, nurses, RAAF pilots, park rangers, and so on, have traditionally performed as part of the general services delivered by government. The report also urges a complete rethink of the institutions of corporate, legal and constitutional governance that express the basic rules of the game. This burgeoning agenda for radical reform is based essentially on the idea that every service provided by governments should be contestable. This questions the very notion of government having a ‘core’ area.

The first objective of this paper is to briefly discuss the Hilmer theme and to regard it as being typical of the more contemporary field of public sector reform. The second objective is to discuss the contracting out of government services and, by examining three case studies, to acquire an understanding of some of the problems and opportunities the Hilmer approach offers for improvements to service delivery. The case studies examined are located in Western Australia and concern three government agencies and the services each contracted out: (i) Department of Land Administration — Stereoplotting Services; (ii) Department of Agriculture — Western Australian Border Quarantine Inspection Service and (iii) Sir Charles Gairdner Hospital — a Hospital Review Consultancy (Auditor-General, 1995).2
The Hilmer Approach

Hilmer asks what the public sector can learn from observing the management of large private businesses, learned in such a way that would help improve the process of implementing long-term, national economic goals. As with other observers, Hilmer notes that the role of government in the global economy is becoming more complex and that one way to deal with this challenge is to simplify and streamline existing work so as to free up time, energy and resources. The report suggests that this may be attained by four means: (i) setting high quality goals; (ii) monitoring not meddling; (iii) simplifying processes and tasks; and (iv) managing the relationships with stakeholders. In this regard, Hilmer notes that the commitment of top management to reform is not just a state of mind, but something demonstrated by action and that action should not be precipitated by a performance crisis. In order to demonstrate this, Hilmer points out that one of the more robust empirical findings from management research is that approval by senior management usually makes goal-setting more effective in achieving performance improvements. He cites the example that whereas the application of ‘management by objectives’ (MBO) achieves an average of 25 per cent improvement in productivity, in firms with high senior management commitment the productivity gains from MBO are more like 40 per cent. Hilmer applies his theme of simplifying and streamlining to a range of activities and the ways in which they are carried out, for example, de-merging, contracting out and the continual redesign of core processes.

Contracting Out

Contracting out non-core activities, the focus of this paper, was first inspired by the Japanese auto industry. The approach allows firms to concentrate on building their skill base and to pay more attention to the needs of consumers in contrast with competitors who are likely to be paralyzed by the complexity entailed in doing everything for themselves. Coping with such complexity, it is argued, should be avoided as it reduces both efficiency and productivity. In government, such complex processes are seldom questioned despite the fact that they are often costly and convoluted and do not always bring the focus and skills needed to the task at hand. None of this is to claim that the contracting out of government functions is necessarily the best means of increasing productivity; there are both costs and complexities in writing, monitoring and enforcing contracts and the best course of action may best be determined on a case by case basis. For example, it is not clear whether a system which encourages changing from one tenderer to another on a competitive basis for the supply of teaching, nursing, weather forecasting or a host of other services would not create a wasteful degree of idle capacity in these occupations.

Western Australia (WA)

The manner in which the Western Australian public sector delivers services to the public has for some years been undergoing major change along an approach reminiscent of Hilmer’s theme (McCarrey, 1993). Services which were previously delivered by staff in government agencies are now being challenged and, if found deficient, or even without that proviso, contracted out for delivery by the private sector. Even where services continue to be delivered
by agency staff, they are provided under a service agreement negotiated within a purchaser/provider model. This model requires purchasing and service delivery functions to be separated with purchasers specifying the outputs required and negotiating contracts with the service providers who may be either a public or a private sector agency. It follows from this that the value for money the WA community receives from its public sector will become increasingly dependent upon the ability of its senior managers to successfully contract for services. To this end the government has released a comprehensive instruction manual to guide senior officers in the contracting out process (PSMO/SSC, 1995).

The stakes in implementing these reforms is high as the WA public sector spends over $2 billion per year on goods and services in roughly equal proportions. In addition over $4 billion per year is expended on salaries. In March 1994 it was estimated that Western Australian public sector agencies had let, or were planning to let service contracts worth over $415 million with the private sector. A more comprehensive survey one year later estimated the figure to be over $1.1 billion (Auditor-General, 1995: 2). Under the government’s current policy, selected services considered appropriate for contracting are put out to tender. Competition may consider an ‘in-house bid’ or ‘employee buyout’, that is, those employed in currently delivering the service may submit a tender for the work. When public sector employees win a contract to deliver a service, part of the arrangement is that they resign from the public sector to form a new business entity. However, whether contracts are won by in-house or private providers, the state government retains control and agency chief executives remain accountable for the efficient and effective delivery of services. It follows from this that procurement and contract management skills are vital for the success of the policy if the benefits of more cost effective delivery of public services are to be attained. Given that the purchasing of services is regarded as being more complicated than the purchasing of goods, to assist in upgrading these skills the state government has issued Consultancy Guidelines and Procurement Planning Guidelines.

Case Study on Department of Land Administration Stereoplotting Services

The Department of Land Administration (DOLA) provides the legal, geographic and administrative base for the orderly use of land by the Western Australian community. In 1993-94 DOLA’s gross expenditure was $67 million.

Stereoplotting is that part of DOLA’s land information program which takes data from aerial photographs to produce topographic maps, that is, contoured maps showing the physical and cultural features of the earth, including land relief, vegetation, powerlines, railways, rivers, roads, tracks, buildings and fences. Applications for this information include soil conservation, forestry management, water resource assessment, engineering design for public works and main roads and general mapping requirements. In 1993-94, the cost of the stereoplotting part of the land information program was estimated at $945,000.

Under the government’s public sector reform program, DOLA was set a target of reducing its workforce by 150 full time equivalent staff (FTES) in the two years to the end of June 1995. This target was to be achieved by decreasing or ceasing some functions; directly contracting out some services to the private sector; and putting some services to competitive tender. DOLA decided in January 1994 that stereoplotting services be put to competitive tender and that 13 of a total of 17 FTES employed on stereoplotting services should count towards the target reduction under the reform program.
Six tenders for the work were received, including an in-house bid. Based on their initial assessment, the tender evaluation team selected a short list of four which included the in-house bid. Following receipt of further information and site visits to the short-listed tenderers, the evaluation panel assessed the in-house bid as the best technically, but recommended the third best technical bid (FUGRO) as the preferred tenderer on the basis that it could meet the tender specification at the lowest price.

As a result of the in-house team failing to win the tender, 12.5 FTES in DOLA accepted offers of voluntary redundancy at a cost to the Department of $419,000. Of these five were subsequently employed by FUGRO.

While there were some problems of quality assurance in the early part of the contract, the contractor met the target number of deliveries to the required specification. Importantly, one unanticipated strategic benefit of FUGRO winning the contract was that the company established a stronger presence in Perth which the firm is using as a base to generate new business from outside the state. This may have favorable long-term implications for the State’s economy.

Based on the course of this contracting out exercise, the following insights and points of procedure should be noted:

- At the outset, DOLA established a management team and drew up a procurement plan in accordance with draft guidelines developed by government.
- Requests for tender documents should include the tender selection criteria and state their relative importance.
- Soon after the tender exercise commenced, the immediate line managers of the stereoplotting function, who were responsible for putting together the in-house bid, were separated from direct involvement in managing the tender exercise and the evaluation process. This was to ensure total impartiality.
- It was recognized that there should be full consultation with the industry prior to tenders being invited so as to determine the capacity of the industry to meet requirements.
- The tender evaluation panel should contain a sufficiently wide range of interests to provide assurance to tenderers that the process is fair.
- It is good practice to notify unsuccessful tenderers of where their bids have failed, so that their interest in bidding for government contracts is maintained.

**Case Study on the Department of Agriculture:**

**Western Australian Border Quarantine Inspection Service**

Plant, animal and disease pests pose a serious threat to the $3 billion per year Western Australian (WA) agricultural industry. Because of its geographic isolation, WA is free from many of the pests that exist in other Australian states. It is the task of the Department of Agriculture’s Western Australian Quarantine Inspection Service (WAQIS) to ensure that this position is maintained by carrying out inspection services. WAQIS employs 130 FTES of which 23 are engaged on inter-state border quarantine checkpoint duties. Its budget for 1994-95 was $6.6 million of which the Commonwealth government provided $5.1 million to undertake international quarantine and inspection functions on its behalf.
In 1993 the State government established a committee to conduct a review of inter-state quarantine. One of the recommendations of the review was that the potential for privatization of the inter-state border quarantine checkpoint service of WAQIS be investigated. The Public Sector Management Office advised the Department to adopt competitive tendering (contracting out) rather than privatization. In 1994 the minister requested his director-general to seek expressions of interest for taking over the operation of all or any one of the border checkpoints. There were 12 expressions of interest. The minister decided to invite tenders for the operation of the border checkpoint service including an in-house one from WAQIS. The department was to retain responsibility for setting quarantine standards and auditing the performance of the successful tenderer against these standards.

Eleven tenders were received and evaluated against criteria for track record of management, experience of employees, quality assurance, capacity to deliver, referees and price. While tender price was an important factor, the critical importance of effective quarantine to the State’s economy demanded that a very high weighting be given to tenderers’ ability to carry out the contract effectively. Of the four tenders to deliver the whole of the services, the WAQIS in-house bid was the cheapest, i.e., nine per cent less expensive than the cheapest external bid. WAQIS also scored the highest on non-price criteria. Thus, in late 1994 the evaluation committee recommended WAQIS as the preferred tenderer and a three-year contract was awarded in early 1995.

It was recognized during the tendering process that the successful operation of the border quarantine inspection service requires a good working knowledge of agricultural pests and relevant legislation. Although there was no established local private sector market in this field, the Department’s expressions of interest process generated some interest from security firms. One of these was able to demonstrate quarantine experience in other countries. The expressions of interest process also brought to the Department’s attention issues which were discouraging private operators from entering the market, some of which the Department was able to address in the request for tender documents.

The lack of a private sector market to tap into in this instance is not an unusual circumstance to encounter in contracting out government services. In such circumstances the approach of ‘market testing’ as utilized in the United Kingdom (UK) is regarded by many as a useful device. Market testing in the UK aims to promote fair and open competition so that departments and agencies can obtain the best value for money for the customer and for the taxpayer (Efficiency Unit 1993, 1.3; quoted in O’Toole 1994: 27).

It is interesting to note that in this particular case study the in-house bid by WAQIS recognized that it had limited experience in putting together a commercial bid. Therefore, it sought and obtained approval to employ the assistance of a consultant in developing and costing its in-house bid. The consultant provided advice on previously unfamiliar requirements including the need to account for state and local government taxes, rates, insurance and other government costs. The quality of the WAQIS bid and the team’s presentation were well received by the evaluation committee. Despite this, in assessing the WAQIS bid, some members of the evaluation committee expressed concern as to whether the tender price was realistic. Accordingly, an informal approach was made to the State Treasury to check the cost assumptions underpinning the tender price offered by WAQIS. The Treasury’s scrutiny of the bid confirmed WAQIS’s adherence to Treasury guidelines in costing in-house bids.
This competitive tender exercise has resulted in improved value for money in that net savings, estimated at $285,000 over the three years of the contract, should be obtained without apparent detriment to the standards of service provided. In addition, the experience gained from the exercise will provide a sound basis for future contracting exercises across the agriculture portfolio.

The recommendations which resulted from this contracting out exercise were that agencies should ensure that:

- There are no legislative impediments to contracting out;
- Where the quality of services provided is of paramount importance, this is adequately reflected in tender documentation and evaluation criteria;
- As far as practicable, those responsible for developing the in-house bid are excluded from management of the tender and evaluation exercise;
- In-house bids are subject to detailed scrutiny and challenge; and
- The deliberations and decisions of the tender evaluation panel are adequately documented and provide sufficient information to enable independent review and inspection.

Sir Charles Gairdner Hospital: A Hospital Review Consultancy

Sir Charles Gairdner Hospital (SCGH) is one of the largest in Australia, treating more than 150,000 patients each year, with a staff of 2,700 and operating expenditure of $180 million (1994-95). As with other Australian public hospitals SCGH operates in a challenging and continually changing environment characterized by:

- An increasing demand for services arising from, for example, advances in medical technology and an ageing and growing population;
- A climate of on-going budgetary constraint pressuring hospitals to seek internal efficiency gains in order to maintain and improve services; and
- The introduction of new models of health service funding and delivery based upon negotiated contracts.

In early 1993 the Hospital’s Board decided that a major change management strategy was required to assist the Hospital in meeting these challenges. The Chief Executive Officer (CEO) recommended to the Board that external consultants be used to assist in developing and implementing the strategy, in order to minimize delay in addressing critical issues and to ensure objective and effective assistance to management.

The primary objective of the strategy, which became known as the Hospital Review (HR), was to identify and implement cost saving measures without detriment to the quality of service and patient care. Savings identified were to be reinvested within the Hospital. Other important objectives included improving the Hospital’s internal organizational structure and systems of planning and resource allocation. Hospital management believed, however, that a significant shift in attitude amongst staff at all levels would need to occur before the objectives of the Review could be realized.
Letting the Consultancy Contract

Hospital management intended that the review comprise of three phases, with consultancy assistance planned for each phase:

- Phase 1 was the diagnostic phase in which the selected consultancy firm would identify areas where substantial savings could be made;
- Phase 2 was to entail a more detailed examination of agreed priority areas and the development of plans for implementing changes; and
- Phase 3 was to implement the agreed changes.

In early 1993 the Hospital followed a two-stage process whereby expressions of interest were called and evaluated against five broad criteria. Of the twelve responses received, three firms scored well against the criteria, thereby demonstrating an ability to undertake the assignment. The hospital invited the three short-listed firms to submit detailed proposals for the three phase review, but informed the tenderers that the hospital was only committed to the first phase, providing a satisfactory tender was received and a price negotiated. On receipt of tenders and presentations from the three firms the best technical tenderer was invited to negotiate a price for the first phase.

The consultancy commenced in mid-1993 and the hospital was given authority to negotiate further contracts directly with the consultants for the duration of the review, unless there were major changes in the review’s direction.

Consultancy Fees, Expenses and Deliverables

Professional fees were negotiated which represented the cost of the time expected to be spent on phase 1 of the review by consultancy team members, and were agreed at a price of $407,000. It was also agreed that the consultants should be reimbursed for the actual cost of expenses incurred, estimated at 22 per cent of the cost of professional fees.

Phase 1 was completed in late 1993. Phase 2 was to involve a series of task forces addressing six of the priority areas and extending over a period early in 1994. The consultancy costs were estimated to be $500,000 plus expenses. The hospital projected savings from these six areas of approximately $3.5 million a year. The health minister agreed that savings realized could be retained by the hospital to enhance services, but that some should be directed to the State Health Department’s priority areas. Phase 2 was broken down into parts 2A, 2B, 2C, and 2D.

Management of the Review

Under the terms of their contracts with the hospital, the consultants were required to assist the Hospital Board and management to:

- Compare the operation of the hospital with international and national best practice, using bench-marking and other techniques;
- Identify productivity and cost saving measures, and redirect savings into priority areas;
• Review the hospital’s organizational structure and management processes, and make recommendations for, and identify the impacts of improvements;
• Establish a framework for strategic and operational planning; and
• Implement agreed changes.

The consultants were also required to provide a methodology to ensure that the Hospital retained control over the whole process.

For phase 1, the knowledge and expertise of the consultants were critical in benchmarking specific services provided by the hospital against comparable teaching hospitals. The consultants had the prime responsibility to identify broad opportunities for savings.

The consultants’ role in phases 2 and 3 was to assist hospital management to refine the phase 1 estimates of savings as well as to develop and implement strategies to secure their achievement. This was primarily undertaken by setting up task forces in each major area of savings identified in phase 1.

The hospital set up a Steering Committee, with board representation, to manage the whole review. The Steering Committee reviewed and endorsed recommendations put forward from the task forces for Hospital Board approval. A project team was formed to provide assistance and support for the task forces and Steering Committee. The consultants also assisted the Steering Committee, led the project team and had representation on all of the task forces. Their role was therefore very closely integrated with that of the hospital management throughout the review.

In March 1995 the Health Minister was informed that by June of that year the review should have generated savings of $4.8 million a year (see Table 1).

Table 1. Savings and Payments Identified by the Hospital

<table>
<thead>
<tr>
<th>Projected Savings and Payments</th>
<th>In million $ (per year)</th>
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<tbody>
<tr>
<td><strong>Savings</strong></td>
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<tr>
<td>Forecast savings by June 1995</td>
<td>4.8m</td>
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<tr>
<td><strong>Payments</strong></td>
<td></td>
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<tr>
<td>Consulting fees</td>
<td>2.30m</td>
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<tr>
<td>Expenses</td>
<td>0.45m</td>
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<tr>
<td>Capital investment</td>
<td>1.70m</td>
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<tr>
<td>Minor equipment &amp; works</td>
<td>0.15m</td>
</tr>
<tr>
<td><strong>Total Payments</strong></td>
<td>4.60m</td>
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The report to the Minister also highlighted other desired outcomes from the review:

- The reorganization of the hospital into a patient services-based structure was underway;
- The adoption of improved strategic and operational planning models had begun with the start of a new strategic planning cycle; and
- Extensive staff consultation procedures had been introduced, diluting the initial strong resistance to change from staff, and gradually replacing sectional interests with corporate ones.

It was emphasized that these changes were ongoing with many of the benefits being realized in future years.

**IMPACT ON HOSPITAL EFFICIENCY**

While the hospital has sought to identify the direct savings resulting from the review, it has not been able to separately identify its impact on the efficiency of the hospital’s operations. Nevertheless, indicators of the hospital’s input, output and efficiency for the years 1992-93 (prior to the review), 1993-94 and 1994-95 point to a significant improvement in the Hospital’s performance since the Review began, as Table 2 demonstrates.

Table 2. Annual Comparison of Selected Hospital Performance Indicators Before and During the Review

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<tbody>
<tr>
<td><strong>Inputs</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Full Time Equivalent Staff</td>
<td>2747</td>
<td>2711</td>
<td>2640</td>
<td>-3.9%</td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted Admissions</td>
<td>48115</td>
<td>51378</td>
<td>55154</td>
<td>14.6%</td>
</tr>
<tr>
<td>Average Length of Stay (days)</td>
<td>5.16</td>
<td>4.99</td>
<td>4.62</td>
<td>-10.4%</td>
</tr>
<tr>
<td><strong>Efficiency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F/T Equivalent Staff per 1000 admissions</td>
<td>58.2</td>
<td>53.7</td>
<td>48.6</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Average Cost per Weighted Admission</td>
<td>$3494</td>
<td>$3401</td>
<td>$3185</td>
<td>-8.9%</td>
</tr>
<tr>
<td>Average Cost/Diagnostic Related Group</td>
<td>N/A</td>
<td>$2011</td>
<td>$1922</td>
<td>-4.4%</td>
</tr>
</tbody>
</table>
**Analysis and Findings**

*Benefits.* On completing Phase 1 of the Review, the consultants reported to the Hospital Board the potential for annual savings to be in the range of $7.4 million to $11.9 million through the reduction of between 229 and 362 full time equivalent staff (FTES). The hospital set up 11 task forces to tackle areas where they believed a big impact could be expected or where complex issues needed to be addressed. The consultants’ estimate of annual savings in the 11 task force areas ranged from $5.5 million to $8.2 million, or from 183 to 274 FTES. The consultants recommended that the remaining areas be handled by hospital management.

During Phase 2 of the review, the hospital set a savings target of $5.8 million a year which, following further examination, was reduced to $5.2 million, to be achieved by the end of 1994-95. The hospital recorded that by June 1995, savings of $3.3 million had been realized and that annual savings were running at the rate of $3.9 million. This compares with the revised target of $5.2 million a year, and their estimate of $4.8 million a year given to the Minister three months earlier.

Given the significant changes in work practices and the extent of staff rationalization proposed by the review, both the hospital and the consultants had expected industrial relations problems. However, they had not anticipated the extent of ensuing disruption which caused significant delays in implementation with associated costs to the hospital. For example, following industrial action by staff, the hospital estimated that it cost $300,000 to retain temporary and seconded staff whilst awaiting a decision on arbitration.

The examination identified other factors which might have contributed to delays and might also result in expected savings not being realized in full:

- Recommendations from some task forces impacted on others.\(^3\)
- The implementation of change sometimes depended upon the outcome of other developments.\(^4\)
- Delayed implementation of the new organizational structure has held up the implementation of a number of recommendations.
- Not all task force recommendations were implemented.\(^5\)
- Unforeseen changes in the demand for the hospital’s services resulted in changes in staff requirements, and hence unanticipated savings from staff reductions, in some areas.

Since the review also highlighted deficiencies in the hospital’s management and financial information systems, new systems are now being implemented which are more responsive to management’s needs. A new system collects data for a variety of purposes including costing and the measurement of clinical outcomes. The hospital hopes to sell the system to other hospitals. If successful, this development should help to standardize the collection and analysis of information and facilitate bench-marking at a more sophisticated level than was previously possible.
Project Management Issues

Contracting for consultancy services is a procurement activity little different in principle to the procurement of other goods and services. The added complexity of major consultancy procurements requires high standards of contract and project management to ensure that value for money is obtained. This complexity was heightened by the hospital’s approach to the consultancy contract in that:

- There was close integration between the consultants and hospital management and responsibility for outputs was shared;
- The successful consultant was chosen on the basis of the quality of the proposed service with price a secondary consideration; and
- There was just one public tendering exercise for the three-phase assignment, but price and deliverables were agreed for the first phase only.

This approach to project management was appropriate to the needs of the hospital.

Further Analysis

The analysis of the contracting out of government services by the Auditor-General outlined above provides an excellent example of how such outcomes of government policy may be effectively audited and evaluated. However, while such analyses are valuable, due in part to the constraints under which Auditors-General carry out their task, such case studies tend to enlighten us only at the micro and meso levels and lack the context which is set by a theoretical framework and a broader data base. This broader context has been provided in part by the work of Quiggin (1996) and results from an analysis of contracting out in relation to the economic theory of contracts.

Quiggin argues that improved competition, the aim of contracting out, can, on some occasions generate apparent efficiency gains. It can also generate efficiency losses. Quiggin gives particular attention to the net social welfare benefits of contracting out in Australia, arguing that the general tendency for competition to generate cost reductions may be explained in terms of increased work intensity and does not therefore involve a net social welfare gain.

Quiggin broadens this argument saying that while contracting out usually reduces the budgetary costs of a given agency, this does not necessarily imply that there is an equivalent net social welfare gain. Cost reductions, he suggests, may reflect other transfers arising from sources such as: (i) wage reductions, (ii) reduced service quality, (iii) cost shifting between departments, and (iv) the abandonment of community service obligations. There is some empirical and much anecdotal evidence in Western Australia to support Quiggin’s view (Mendez, T. & R. Rose, 1996).

More important however, Quiggin argues that the moot savings from contracting out in Australia may not be as high as projected. For example, the Industry Commission estimates savings of $2.7 billion of current expenditure, or 0.7 per cent of gross domestic product (GDP), plus $1.2 billion savings of capital expenditure or 0.3 per cent of GDP. Other
writers insist that contracting out will yield cost savings of 20 per cent (Domberger et al., 1988). Quiggin responds to this projection pointing out that when allowance is made for the costs of the tendering process, and the fact that some of the apparent gains are actually transfers, the 20 per cent estimate is over optimistic and that the true cost saving is closer to 5 per cent. This implies a gain of around $400 million or about 0.1 per cent of GDP. Such savings would not imply a perceptible upwards change in living standards for the average Australian.

Discussion and Conclusions

When the findings of the WA Auditor-General on the contracting out of non-core areas of government are weighed against Quiggin’s projected financial savings across the national economy, a dilemma is posed for those who have a fixed view in the contracting out debate. Whether governments should or should not engage in contracting out would seem to depend on at least five (5) factors.

First, the general level of efficiency and effectiveness in the public sector already attained through management reforms undertaken in the past decade or more need to be appraised. If those levels are already high then the selection of policy areas in which to apply contracting out should be decided upon with caution. In Australia for example, there has been much cut-back management undertaken in recent decades at both state and federal levels yet, there continues to be debate on whether or not there are parts of government which are ‘untouchable’ and which may be regarded as ‘core’. The former federal Finance Minister, Kim Beazley is on record as saying that he would consider contracting out some core functions of the Department of Finance (R. Markey, 1994). The newly elected federal coalition government has made clear it intends slashing expenditure in almost all policy areas except defense. In November 1996, Peter Reith, the minister assisting the Prime Minister for the Public Service released a Discussion Paper which stated that the Australian Public Service must undergo significant change, adding, ‘It no longer enjoys a monopoly in the delivery of government services so it must prove it is able to compete on cost and quality with best practice in the private sector’ (Reith, 1996). Clearly, both major parties regard the prospects for further contracting out to be extensive, with eligibility being gauged against private sector practice. If Quiggin’s estimates are correct such policies will create much social trauma for very little gain.

The second factor is the level of government at which contracting out is applied. Where government work is comparatively uncomplicated as it often is at the level of local government in areas such as rubbish collection, cleaning parks and gardens, contracting has probably still got a lot to offer.

A third factor is where a government service may be under consideration for privatization. In such cases contracting out offers an intermediate stage where the full scope of privatization may be assessed. The stereoplotting case study was one possible example of this.

The stereoplotting case study may provide a fourth factor, that is, the extent to which a given function may be neatly packaged for purposes of contracting out. It follows from this that human services policy areas do not easily fall into this category.

The final factor is the extent to which the private sector has the skills and competencies to undertake the function to be contracted out. The WAQIS case study provides an example
of where the private sector lacked such skills and where contracting out without safeguards may be irresponsible. In such instances some form of market testing may be considered.

One final development which has not been touched upon in this paper is the extent to which contracting out allows elements of the socio-economic infrastructure to fall under the control of foreign interests. This danger, if it is one, is most evident in areas such as garbage collection, cleaning services and hospital management and leasing. However, given the prospective agenda for contracting out other more sensitive areas of policy may give rise for concern. While allowing tenders from foreign multi-nationals to be considered in contracting out such services, some care should be shown as to the strategic considerations for the domestic economy of such global developments. Problems of possible vertical economic integration of foreign industry, domestic skill depletion and accountability are among those of note.

NOTES

1 Almost the whole of the June edition of the Australian Journal of Public Administration (55)2 is devoted to discussing national competition policy.

2 The author would like to thank the Auditor-General and his staff for discussions on these case studies. This paper places a heavy reliance on their findings.

3 For example, the physio-therapy task force made recommendations which required nursing staff to be trained in walking and turning patients.

4 For example, the saving of 3.6 FTES in the ward-based clerical task force depended on the hospital revising their admissions and discharge policy.

5 For example, recommended changes in wound management procedures were not accepted as good clinical practice.

REFERENCES


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