

# Outsourcing, Employment and Industrial Relations in the Public Sector

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## Abstract

*Outsourcing is very much part of the neo-liberal agenda for the public sector. The rationale for transferring the provision of goods and services, traditionally the responsibility of governments to private enterprise lies in the perception of public sector inefficiency and the philosophy that reducing the role of government, is essential for the optimal performance of the economy. While the impact of outsourcing is not always easy to isolate given its coexistence with a variety of complementary neo-liberal strategies such as legislative attacks on trade unions, there is strong evidence to suggest that it has contributed significantly to the reduction of employment, wages and working conditions. This has occurred both as functions are transferred to the less regulated private sector and as those left in government employment are subjected to the impact of ongoing financial stringency in their struggle to compete with the private sector and hold on to their jobs.*

## Introduction

The Australian state, like that in other OECD countries (eg the UK and New Zealand), has been and continues to be in a phase of extensive restructuring

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(Fairbrother, 1998; Teicher, 1998). The restructuring process has proceeded since the early 1980s, cautiously at first, but since the 1990s with more urgency (O'Brien, 1998). It has transcended the two major political parties, indeed the Labor Party is regarded as the pioneer of the restructuring process in the Federal sphere of government (MacInnes, 1993). The functions, size, operations, effectiveness and efficiency of the public sector has been subject to extensive debate and analysis (EPAC, 1986; James, 1987). In addition, the relationship between the public sector and the private sector has undergone a revolution (Teicher, 1998). The relative size of the public sector in Australia has diminished, the responsibilities between different tiers of government within the Australian public sector has altered, many public sector functions and agencies have been privatised, senior appointments have been politicised, and the lifetime career model of public sector has been considerably eroded (Fairbrother, 1998). Managerial authority has increased, commercialisation has expanded and performance criteria have been implemented at all levels of the public sector (Teicher, 1998). These changes have also occurred at a time when the industrial relations system in Australia has shifted towards enterprise agreements, non-union agreements and individual employment contracts (Quinlan, 1998). Public sector restructuring has complemented industrial relations restructuring, and as a consequence, the terms, conditions and nature of public sector employment and industrial relations in Australia has fundamentally shifted (O'Brien, 1998).

In this article we look at one component of the restructuring process of the public sector in Australia, that of contracting out. Outsourcing, contracting out or compulsory competitive tendering are sweeping across all sectors of the Australian economy, including the public sector (Industry Commission, 1996). Indeed, it has swept across all tiers of government from local to federal government and through to government agencies and public business enterprises. It has covered all inputs and services from cleaning, prisons and road construction through to information technology, auditing and training. Even supposedly pure public goods such as the court system is now subject to proposals for contracting out; at least in Victoria (Lawson, 1999). The extent and speed of outsourcing implementation in the Australian public sector has been so extensive that it is the public sector which is seen to be leading the way over a more cautious and conservative private sector (Bryan and Connors, 1999). At a fundamental level, outsourcing represents a form of partial privatisation of the public sector where functions and inputs are privatised but ownership remains within the public sector. However, outsourcing has the potential to shift employment from the public

to the private sector, increase managerial prerogative, rearrange employment conditions, increase employment insecurity and completely restructure the public sector internal labour market. In turn, outsourcing can deunionise the public sector, recontractualise public sector employment and place pressure on employment conditions.

In this article we investigate the impact of contracting out on public sector employment and industrial relations. In the next section we discuss the nature and forms of outsourcing. Following, the reasons for outsourcing in the public sector are listed. The extent and examples of outsourcing in the Australian public sector are then outlined. The next two sections assess the impact of outsourcing on public sector employment and industrial relations. The final sections consider the impact of outsourcing on public sector unionism and the public service employment model. What future the public service employment model?

### **The Nature and Extent of Outsourcing in Australia**

Outsourcing involves the relocation of public sector service inputs to the private sector. Under outsourcing the responsibility and financing for the provision of a public service or public good remains within the public sector. However, the provision of inputs for public sector provision can be contracted-out to the private sector. All aspects of service provision, from capital and technology through to materials and labour can in theory be re-located to the private sector.

Is outsourcing the same as contracting-out? Yes, a particular function or service is re-located to a private sector provider who typically signs a service contract with the public sector. Typically the contract is tendered out, with the tender specifying conditions of provision together with payment details. Compulsory competitive tendering is where outsourcing is imposed upon government agencies through legislation which will specify the services that will be subject to competitive tendering. Allowance may be made for the public sector agency itself to bid for service provision. Contracting-in arises where the public sector agency is the successful tenderer for its own service provision.

Is outsourcing equivalent to privatisation? Strictly no, since ownership, financing and decision making responsibility remains located within the public sector. Nevertheless, outsourcing can be viewed as privatisation by stealth in two respects. First, in the sense that previous public sector activities and public sector employment are re-located from the public to the private sector. Second, where outsourcing is a precursor to full scale

privatisation, outsourcing can be a means of reducing costs and employment and improving the position of the balance sheet so as to enhance the market value of the privatised asset. Outsourcing allows the government to relocate those operations that are less commercially viable while at the same time maintaining the integrity of the public asset.

Are there any distinctive features of the outsourcing experience in Australia? It is difficult to derive any extensive international data on public sector outsourcing (as opposed to public sector privatisation). The process in Australia has developed in a fragmentary and ad hoc way, with local government and basic services (cleaning, road maintenance) leading the way. There are two overriding developments that have shaped the Australian experience. First, fiscal austerity has forced all tiers of government and all public sector agencies to reduce costs. Second, the national competition policy program that identified competitive tendering as an important competition policy tool. The impression of the Australian experience is that, if anything, the process of outsourcing is accelerating, and, the public sector is more active than the private sector with respect to outsourcing (Jay, 1999).

The Industry Commission (1996, 3) estimated that the Federal government had contracted out \$8b. in services, the States total was \$3.3b. and local government totaled \$2b. Since then the trend has accelerated with the federal government outsourcing an estimated \$5.6b. of IT infrastructure (Lawson, 1999) together with over \$1b. employment search and placement services (Biddle and Burgess, 1998). Victoria claims that it now has over 8000 outsourcing contracts (Domberger, 1999) with payroll and HRM functions of the Premier and Cabinet department and the Finance and Treasury department being contracted out (Jay, 1999). Western Australia has virtually contracted out all functions of its roads department (Taya, Travaglione and Jordan, 1999) while prison construction and management have been outsourced in both Queensland and New South Wales (Steering Committee for the Review of Commonwealth/State Service Provision, 1997; Weller, 1998). The clear trend across the nation is towards more and more services and inputs of the public sector either being contracted out to the private sector or being subject to compulsory competitive tendering.

## **Reasons for Outsourcing in the Public Sector**

The reasons for outsourcing can be grouped into two main areas. First, there are efficiency reasons related to cost savings and improvements in service delivery. Second, there are ideological and political reasons associated with

the appropriate role and size of the public sector. These reasons are briefly summarised in Table 1.

**Table 1: Reasons for Public Sector Outsourcing**

Efficiency Reasons	Political Reasons
1. cost reduction	1. reduce size of the public sector
2. improved service delivery	2. belief that public sector is inefficient
3. improve asset value of public sector businesses pre privatisation	3. redefine role of public sector
4. difficulty in recruiting specialised staff in public sector pay context	4. reduce public sector unionism
5. introduce contestability principles to service provision	5. discipline public sector workers
6. concentrate upon core business operations	6. shift difficult decisions (eg service provision) with political implications to the private sector

At a fundamental level the primary purpose behind public sector outsourcing is to reduce costs and improve public sector efficiency. The government can set tender terms such that the private sector costs of provision are below those of the public sector. Reflecting this view the 1996 Liberal Party policy on privatisation stated that:

‘contracting out promotes a climate of competition, which will enhance efficiency and productivity for the benefit of consumers. The interest of taxpayers is also served by greater accountability resulting from increased competition’ (Liberal Party, 1996, 14).

More specifically, Bailey (1995, 372-375) set out the following reasons for outsourcing:

### *Administrative*

Where it is more efficient and effective not to carry out certain functions in-house. This may be as a result of their technical complexity, the difficulty of obtaining suitable staff or because the functions are peripheral to the public sector agency or department. Contracting out in this context allows management to concentrate on ‘core’ business activities.

### *Cost Saving Through Market Contestability*

Cost saving is the most stated reason for contracting-out operations. Costs can be saved through a number of related mechanisms. First, where the private sector can supply the equivalent service to the public sector but at a lower cost. Second, where the process of competitive tendering forces costs down for both public sector and private sector providers. This saving results from the process of contestability. Third, and as per above, the public sector can contract out complex and peripheral activities and devote resources to key business activities.

### *Improved Quality of Services*

Where the private sector can deliver a better quality of product than can the public sector. This may result from the advantages in managerial and technical expertise, through being able to employ better qualified staff at market salaries and through administrative advantages associated with operating outside of a public sector bureaucratic framework and through the advantages of specialisation and experience.

### *Increased Financial Control and Reduced Financial Risk*

Contracting out allows public sector agencies to set in contractual form the costs of provision for a range of services. Once the contracts are established private sector providers have to fulfill the contract conditions. The public agency has some control over and confidence with respect to costs into the future while risks associated with unexpected cost increases (eg as a result of currency depreciation, interest rate increases and wage increases) are shifted to the private sector provider.

### *Effective Strategic Management*

Outsourcing allows management to not only take the long-term view and plan, it also allows for the introduction of flexibilities in resource deployment. Limitations associated with award conditions setting wages and working hours, or governing the deployment of casual staff can be overcome through the relocation of functions into the private sector. The same applies with respect to the input purchase where there are preferred tenderers and caveats placed on input supply.

The above largely deals with technical and efficiency reasons for outsourcing. It should also be acknowledged that outsourcing is premised by a number of ideological and political objectives (Davis and Wood, 1998). The first is that the size of the public sector is too large relative to the private

sector (Walsh, 1997). The second is that the private sector is more efficient than the public sector (Teicher, 1998). The third is that public sector wages and conditions are either an impediment to efficiency and/or too generous relative to the private sector (Bailey, 1995, 392).

Supporting these imperatives have been a number of important policy developments that have had a considerable impact upon public sector operations. It is a combination of these policy developments that have driven the public sector outsourcing push in Australia. The first has been fiscal stringency imposed by the squeeze on public expenditure and the imposition of fiscal efficiency dividends (expenditure cuts) across many tiers of government (Teicher, 1998). The second has been the operation of the national competition policy framework which involves the opening up of previously protected state utility markets (eg electricity) and the development of a competitive framework through such processes as compulsory competitive tendering (Teicher, 1998). The whole microeconomic reform agenda in Australia has facilitated the implementation of outsourcing (Davis and Wood, 1998). Fiscal and political conditions have supported outsourcing. It should also be noted that outsourcing enables government to remove the responsibility for politically sensitive services such as prison management and job placement to the private sector (Hodge, 1998, 107).

### **The Costs and Benefits of Public Sector Outsourcing**

The question of whether outsourcing leads to both efficiency and qualitative improvements in public sector service provision is a difficult one. Many services are complex and difficult to evaluate regarding costs and quality of delivery; it is difficult to obtain comprehensive data, especially where it is in-confidence; it takes time to fully evaluate the effectiveness of a contract; the costs associated with contract administration and monitoring need to be considered; and it depends on who does the evaluation. Many studies point to cost savings of between 10 and 15 per cent in terms of service delivery (Hodge, 1999). Freebairn (1998, 73) quotes the Industry Commission (1996) review of outsourcing that found that: in 75 per cent of cases contracting out had improved all aspects of accountability, quality and costs; in 50 per cent of cases costs were reduced by between 10 and 30 per cent and the ORANI model projected cost savings from contracting out were between 0.3 and 1.7 per cent of GDP per annum.

However, the studies should be qualified in three important respects. First, the claims for significant efficiency gains often come from outsourcing consultants. Those who have a vested interest in outsourcing not

surprisingly proclaim the benefits and effectiveness of outsourcing. Jay (1999) quotes a consultant to the Federal government's outsourcing program claiming that outsourcing savings are between 15 and 40 per cent. Second, there are commercial 'in confidence' arrangements associated with many outsourcing contracts making it difficult to establish the exact costs and terms of the outsourcing contract since information on the terms and conditions of outsourcing contracts is not available. Third, indirect costs of the contract, such as the time devoted to contract supervision, evaluation by public sector managers and the costs of consultants advice, may not be included in the overall analysis of the efficiency impact of outsourcing. Beer (1999) reported that the Federal government had spent \$19m. in payment to consultants advising it on its IT outsourcing program. Fourth, the results do vary significantly from agency to agency and across different services. Hodge (1999, 106) summarises survey evidence which suggests that cost savings can be consistently demonstrated in traditional areas of outsourcing such as maintenance and cleaning, but in other areas such as security and training the results were not too different from zero savings.

Hodge concludes that 'there is little doubt that the weight of evidence appears to support the notion that, on the average, the unit costs of services is reduced through competitive tendering of public services' (1999, 99). While Lawson (1999) suggested that 'it was not possible to say whether outsourcing, as a management technique, had been advantageous or disadvantageous to industry as a whole.' It does seem that outsourcing has a considerable learning by doing aspect associated with its implementation (Domberger, 1999; Hodge, 1999). It takes time to fine tune contract conditions and evaluation processes and to effectively manage the outsourcing process. The Federal government's IT contract tender was initially passed over because of a lack of tenderers, largely because of perceived compliance and information costs (Domberger, 1999). One US study reported by Lawson (1999) suggested that one third of IT outsourcing arrangements had resulted in unexpected cost increases, extensive litigation between the parties and a failure to deliver services. Hence any evaluation of outsourcing has to consider how long the process has been operating.

Qualitative aspects of service provision are even more difficult to evaluate. It is not only a question of whether services can be delivered more efficiently but whether the quality of services can be maintained or even improved. In part the contract design and the monitoring process will determine this. However, there are issues of quality in areas of important service delivery such as prisons and employment services. The process of outsourcing employment placement functions of the CES was a total



embarrassment for the Federal government with several successful tenders having no experience or expertise in employment placement, having no staff or resources to perform employment placement services, or being allocated contracts in regions where they had no presence (Biddle and Burgess, 1998).

There are issues of community obligation, public propriety and equity that are often outside of the outsourcing contract. The access to public services and employment is one factor to consider. Rural areas could either lose services on the basis of market principles or they could lose jobs as service provision is contracted out to large urban-based enterprises. There also is scope for conflict of interest and corruption. Secrecy provisions underlying many contracts make service provision potentially less accountable and less subject to public scrutiny. The exchange between private and public sector management placements means that senior managers can be compromised in terms of their past positions or they can be lured by private companies seeking access to public sector service contracts (Hodge, 1998, 100).

Outsourcing can, in a sense, be self-fulfilling. The fiscal squeeze imposed on public sector wages and conditions may mean that it is more difficult for the public sector to retain qualified and experienced staff in professional occupations. The pressure of growing job insecurity, work intensification (as employment declines) and imposed ceilings on wage increases may mean that better staff leave out of frustration, disillusionment or the lure of better pay in the private sector (Lawson, 1999). Contracting out may be the only means available for covering for such staff losses.

Overall, the report card on contracting out is mixed. There is clear evidence of cost savings (and efficiency dividends) for basic services such as cleaning, garbage collection and road maintenance in local government (Hodge, 1999). This applies to both contracting out and contracting in. Where services are complex and involve multiple tasks the evidence is less clear cut. However, as the discussion indicates we need to go beyond static efficiency gains in order to obtain an overview of the full impact of contracting out in the public sector.

## **Impact on Employment and Employment Conditions**

Labour constitutes the largest cost associated with service provision. Some commentators emphasise the advantages of moving outside of public sector unionism, organised and regulated wage systems to less regulated employ-

ment functions and conditions (Bailey, 1995, 392). Outsourcing can reduce labour costs through:

- a. reducing the number of workers required to perform a task
- b. reducing the costs (wages) of workers required to perform a task
- c. avoiding wage on-costs and penalty rates associated with award conditions
- d. relocation of employment from regulated employee status into the more deregulated casual and non-employee status
- e. work intensification
- f. imposing discipline (threat) over existing employees regarding pay and conditions

Hence it is not only the process of outsourcing that can generate these labour cost savings, it is the threat of outsourcing that can generate these labour cost savings. Outsourcing offers all the 'labour flexibility' advantages that can be achieved through using part-time and casual labour, non-employees and from those outside of the public sector award arrangements (Bailey, 1995, 392). This threat can be implied or an actual threat through the process of compulsory competitive tendering.

There are some who claim that contracting out will not reduce employment levels, wages and conditions, and may even improve these in the longer term (Industry Commission, 1996; Domberger, 1994; Osborne & Gaebler, 1993). However, the majority of opinion indicates that there are severe disadvantages for employees in terms of fewer jobs, increased work intensity, lower wages and earnings, longer hours and less pleasant work environments (see Small, 1996: Chapter 3). Those claiming no losses from contracting out assume that most of the relevant public sector workers will be employed by the contractor and that, more importantly, increased efficiencies in the private sector will mean a boost to economic activity as functions are transferred from the public sector (Industry Commission, 1996).

The opposing school of thought points to evidence from a variety of countries that contractors employ relatively few of the workers originally involved and that the increased, so-called efficiencies lead to fewer, rather than more, jobs (Quiggin, 1996). Moreover, it is claimed that these so-called efficiencies or savings are achieved by imposing very significant costs on employees by way of increased hours, increased work intensity and stress, reduced training and career opportunities and the loss of employment security (Davis and Wood, 1998). In the case of the outsourcing of the

Federal government IT infrastructure all the major contracts went to transnational IT providers (Lawson, 1999) with the potential to re-locate some jobs and services offshore. The underlying assumption of the Industry Commission (1996) report is that public sector jobs will be relocated to the Australian private sector. However, this is unlikely to be achieved in an increasingly globalised service providers' market.

Furthermore, disadvantages are not only suffered by employees of the contractors but also by those remaining in the original organisation. In NSW electricity generation, which is still owned by the government although the generating organisations are corporations independent of direct government control, contracting out is just beginning to be extended from cleaning and gardening to areas such as maintenance. The power station employees, particularly those remaining in the maintenance function have been encouraged to embrace radical changes in work organisation and responsibility in the hope that this may reduce the risks of the function being contracted out entirely (Fairbrother and Macdonald, 1999). It is likely also that they will agree, in the future, to less favourable award provisions because it has been recognised that labour costs stemming from the awards places power station workers at a relative disadvantage to those in the private sector. A similar situation was reported by O'Donnell (1995) in New South Wales hospitals where the possibility of contracting out catering services was actively investigated as a means of cost reduction. While the work was ultimately retained in-house, the staff had to endure a worsening in their working conditions and significant work intensification. Thus the risk of contracting out can act as a powerful force to reduce working conditions and increase work intensity among government employees. This is the process of re-contractualising public sector employment and removing job security from the public sector employment model (Robinson, 1996).

Reference was made above to the contracting out of significant parts of the Federal Government's employment service in which one of the providers is a government owned corporation; Employment National. The situation faced by its employees was found to be significantly worse than it had been previously. Every effort was made to reduce the role of the union and to negotiate agreements, either individual or collective, with employees themselves (Biddle and Burgess, 1998 and Macdonald, 1998). This is evidenced by the signing of over 1200 AWAs and the union's claim to the Federal Court that many of these were signed under duress. Certainly, all negotiations were conducted in the knowledge that future employment prospects depended on the ability of the new organisation to be able to operate successfully in the situation of competition that had been created

by the government. While the government was attempting to use the whole of the Federal public sector as a model for its new industrial relations system (Macdonald, 1998 and Lansbury and Macdonald, 1999), the situation of Employment National as a 'greenfields site' and as one exposed to market competition, was to provide a better opportunity for the implementation of its policies than most other areas of government employment.

There are also significant equity aspects associated with the outsourcing process. The losers are those forced out of full-time career public service jobs into casual and part-time jobs or unemployment. Often these workers are females or those located in rural/regional areas and at the lower end of public sector pay scales. The winners are management who often have bonuses associated with performance targets and their pay tied to private sector executive salaries (Hodge, 1998, 100). Quiggin (1994) suggests that many of the efficiency dividends represent a redistribution of income from employees to the government or to government managers. Fiscal dividends are generated through the sacrifices of existing or former employees. Even if contracting out does reduce costs it is not certain that the dividends are returned to the community, often they can be eroded through consultants' fees, an increase in the number of executives and an increase in executive pay rates.

### **Industrial Relations Implications of Outsourcing**

In respect of outsourcing and industrial relations implications, there are two main issues to address. First, it is very difficult to isolate the impact of outsourcing from other concurrent industrial relations developments. Second, outsourcing has an important impact on the traditional commitment of government to the role of 'model employer'.

#### *It is very difficult to isolate the impact of outsourcing from other concurrent industrial relations developments*

From the outset the difficulty of isolating the impact of contracting out on employment and industrial relations should be emphasised. Many other factors are involved and are interwoven with the massive changes that have occurred in public sector employment and industrial relations generally during the last decade in Australian (Quinlan, 1998; Lansbury and Macdonald, 1999). For example, it has been suggested that contracting out has weakened unionism and lead to a decline in the proportion of the relevant workforce that belongs to a union especially as the private sector has

significantly lower levels of union density than the public sector (Small, 1996: 66-67). However, unionism has been in decline for at least fifteen years, in Australia and internationally, with density levels falling, all aspects of union activity such as strikes and bans much reduced and fewer active delegates and workplace representatives across all types of industry (see for example Peetz, 1997). Thus it is very difficult to calculate the degree of impact exerted by the process of contracting out.

Moreover, there is a cumulative effect, or an interaction between contracting out and declining unionisation. Less active unionism means less opposition to contracting out which in turn leads to a lower proportion of the workforce unionised. This, for example, has been the experience in NSW power generation (Macdonald and Bray, 1998 and Fairbrother and Macdonald, 1999). Once the sites of very active workplace unionism, power stations are now characterised by a significant lack of union activity. Very few active delegates are to be found and most union-management interaction occurs at very high levels of the respective organisations with the unions usually represented by the Labor Council. Contracting out of services such as cleaning and gardening was not actively opposed on the grounds that there would be no forced redundancies and it is anticipated that much of the maintenance function will be contracted out in the near future along with other 'non-core' functions. While it is not known what levels of unionisation exist in the firms that take up the relevant contracts because there is no longer any requirement for this, or most other aspects of their operations, to be revealed, there is no evidence that unions have any significant presence. Thus not only was unionism in decline in power generation before contracting out began, it was initially the reduction in union strength, especially at the workplace level that facilitated contracting out rather than the reverse. Moreover, this decline in workplace unionism meant that, over time, the agreement setting certain minimum criteria with which contractors had to comply, including the employment of union members, was gradually ignored to the extent that the power generating organisations no longer attempt to police any of the contractors' employment practices.

Furthermore, once underway, contracting out contributed to a further reduction of unionisation in the industry. For example, the extent of job insecurity, caused in part by the likelihood of more contracting out, appears to have made union members even more reluctant to take on the position of delegate or to take any action that may attract unfavourable attention from management. Maintenance workers, in particular felt very vulnerable

and it seems this has contributed to the lack of union activists in their ranks (Fairbrother and Macdonald, 1999).

### *Impact on the traditional commitment of government to the role of 'model employer'*

In assessing the various implications of contracting out for the employment relationship in the public sector, Small (1996) refers to the way in which it constitutes the ultimate abdication of the traditional 'model employer' role of governments. Citing Wood and Jones (1993), Small argues that this leadership role traditionally involved governments embracing the principles of merit, fairness, equity and equal employment opportunity. At times this meant providing special opportunities for particular groups in the community as occurred in the Government Cleaning Service operated by the NSW Government until 1994. From its inception in 1915, an aim of the service, according to Small, was to give preference in employment to widows, particularly war widows, and to single mothers. Over time this focus widened to include those from non-English speaking backgrounds so that in 1993 it was found that 77 per cent of the employees were women, 44 per cent were over 50 years of age and about 42 per cent were from non-English speaking backgrounds (Jensen & Liebenberg, 1995 and Fraser, 1995 as cited by Small, 1996: 69).

While public sector's adoption of market driven 'reforms' reducing employment levels, career opportunities and job security (see Lansbury and Macdonald, 1999), eroded commitment to equity principles and to the model employer role, contracting out means that the state has reduced its responsibilities as an employer. While caveats may be inserted into outsourcing contracts regarding employment conditions, this is unlikely to be the case as it would defeat the cost savings and commercialisation rationales for outsourcing.

These developments lead to both a direct and an indirect impact in the labour market. Not only do disadvantaged groups such as older women and women from non-English speaking backgrounds lose the employment opportunities provided by the government, but there is a reduced obligation on other employers to make special provision for their employment. Indeed the critical role that government employment has played in advancing policies of EEO and affirmative action is diluted every time one of its functions is hived off, through contracting out or privatisation. This is demonstrated very graphically by Colling and Dickens (1998) in their analysis based on a case study of British Gas. Although there are some differences between the legal and industrial environments of Britain and

Australia, their study provides very strong evidence of the manner in which the transfer of employment responsibility from the public, to the private sector greatly damages any prospects for gender equality.

There are many situations in which the distinction between an employment relationship and a contracting relationship is very blurred as evidenced by the space devoted to the issue in industrial law texts (see for example, Macken, et al, 1997). Thus there are numerous examples of contractors being highly dependent on a particular government body. When the wages and working conditions of these contractors and their employees are significantly inferior to those of comparable government employees it is very obvious that a legal subterfuge is being used to reduce the government's responsibilities and financial commitment to workers involved with the provision of services that it traditionally provided.

### **The New Employer Role for Government**

The ramifications of contracting out for the role of the government are quite significant in that, as the government withdraws from direct provision, it becomes a purchaser of services, on behalf of the public, rather than a provider of services (Stanton, 1998). This has implications at a number of levels. At the shopfloor level, managers become inspectors rather than supervisors with responsibilities to ensure that the terms of the contract are fulfilled with the actual role of labour management, or the immediate extraction of surplus value, being carried out by someone else. At the organisational and even ministerial level where the issues of accountability and ultimate responsibility really impact, contracting out can be a two edged sword. On the one hand, blame for supply failures can be transferred to the contractors and the government and the government employees can be absolved, at least temporarily. However, in the case of a serious emergency such as a sustained loss of electricity, as occurred in Auckland and South East Queensland or gas as occurred in Victoria, a lack of direct control can be an impediment to restoring supply and containing the political damage involved. Control has to be exerted in different ways either through the use of competitive market forces, a regulatory framework or some combination of the two. Failure to provide adequate service is penalised by the loss of the contract, a financial penalty or both. Thus the role of the government and its representatives in a contracting out situation is very different from that where the service is supplied by government employees.

There is also considerable ambiguity with respect to public sector pay. As an employer the government is imposing efficiency dividends (expen-

diture cuts) on many agencies and departments and refusing the fund pay increases (eg the university sector). Contracting out is often the consequence of this fiscal dividend process and effectively means that the agency or department delivers the same services with fewer employees. However, obtaining pay increases on the basis of productivity increases in the case of public service functions is difficult to prove and to achieve, especially in the context of enterprise bargaining and government imposed funding cuts. No longer can the public sector be regarded as a pay leader, if anything, public sector pay is lagging the private sector (Buchanan et al, 1998). Yet, at the same time, private sector pay packages and productivity bonuses are quite readily payable to departmental and agency executives such as in the restructured Employment National (Biddle and Burgess, 1998). Increasing job insecurity together with fiscal austerity measures means that any productivity gains do not flow through to public sector wage increases.

### **What Future Public Sector Employment and Public Sector Unionism?**

Contracting out is clearly expanding rapidly in the Australian public sector. It has been embraced by all tiers of government, often as a means of cutting costs and dealing with complex service delivery questions. The evidence suggests that contracting out:

- a. reduces public sector employment and expands private sector employment
- b. places pressures on public sector wages and conditions
- c. increases the power of public sector managers and reinforces the managerial model of public sector governance
- d. replaces regulated employment arrangements with less regulated and more flexible forms of employment
- e. redistributes power and earnings from the lower wage levels of the public sector to the senior and executive service levels of the public sector
- f. complements the decentralisation of the industrial relations system and facilitates non-union agreements and individual work contracts
- g. places pressure on public sector trade unions to maintain union membership, employment conditions and union based enterprise agreements.



In theory all public service functions can be potentially contracted out. Even management functions could be contracted out to management consultants. To date however the outsourcing of functions tends to be concentrated in the professional areas (IT, accounting, HRM) and the lower skilled areas (clerical, cleaning, maintenance, transport). Upper tiers of the public service and managerial functions have largely been immune to outsourcing.

In combination with the privatisation and corporatisation of public sector business enterprises, contracting out has transformed public sector employment and industrial relations in Australia. It can directly and indirectly undermine public sector unionism, the public service career job model and public service employment conditions. As functions are transferred to the less regulated and largely deunionised private sector, employees find their wages and conditions are significantly inferior to those that existed in government employment while those left in government employment are subjected to the impact of ongoing financial stringency in their struggle to compete with the private sector and hold on to their jobs.

This trend and process seems set to continue under the pressure of fiscal austerity, the ideology of the market and the associated pressures for smaller and smaller government. Unionisation is undoubtedly one of the casualties. While density remains relatively high, especially in relation to the private sector, the ongoing decline in union activity, as evidenced by the lack of meetings, industrial activity or workplace representatives, both increases the opportunities for the operation of unfettered managerial prerogative and reduces the commitment of members to their unions thus increasing the likelihood that they will not continue to pay their membership subscriptions.

Associated casualties are occupational health and safety and equity in employment. As work intensity increases, working hours become longer and more unsocial and stress levels rise, workers suffer increased risk of injury and illness. Indeed as Small (1996) citing Quiggin (1994) claims, often the savings purported to be derived from the greater efficiency associated with outsourcing result from workers suffering increased disadvantage. Often this disadvantage is felt most by those already underprivileged in the labour market. Government employment has been the flagship for EEO and affirmative action. As it contracts and becomes increasingly subject to market pressures, this commitment to equity disappears wiping out the gains, limited as they may have been (Poiner, 1993) of previous policies and strategies.

Davis and Wood (1998, 95) ask the question: 'What type of state then is likely to emerge under contracting?' They answer: 'The trends are clear – a much smaller public workforce, a concentration on policy rather than

service delivery, a reliance on private providers in most fields.' It will also be a state that no longer provides the model of the good employer, at least as this was traditionally understood. With its increasingly smaller workforce, the state, and especially the Australian federal government, is now demonstrating how to marginalise unions, eliminate employment security and intensify work effort. Furthermore, contracting out along with privatisation means that the state is increasingly removing itself from the employment role altogether.

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