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Introduction

Of the various forms of privatisation, contracting out has always had the potential to be the most far-reaching in its breadth and effects. As a principal consultant at KPMG recently said: 'If it is done well, anything can be outsourced' (Public Accounts and Estimates Committee 2000:37). Australian governments have increasingly used it as their favourite policy tool. The former Head of the Victorian Cabinet Office put it this way: 'The presumption is [now] one of outsourcing rather than one of services being delivered...that generally the private sector should perform functions unless there is a reason the government should do it' (Public Accounts and Estimates Committee 2000:36).

At its heart is the capacity to contract out to private companies almost everything that governments do, from specific activities such as catering or cleaning within organisations, through to whole functions such as public transport. Over the last 15 years it has enabled governments to take the private market deep within the public sector, so much so that almost nothing has proven to be impervious to it. Areas many might have thought 'safe' such as prisons, detention centres and prisoner transport have proven to be unusually fertile ground.

Estimates of the full extent of contracting out are very difficult to come by, which raises questions about the degree to which governments have embraced a policy instrument without having setting up the necessary measures and procedures to properly evaluate its effectiveness. The Industry Commission (1996:59) estimated \$8 billion for the Commonwealth public sector and \$3.3 billion for the states, while local government contracting out may have reached \$2 billion. We know contracting out has mushroomed since then, courtesy of its enthusiastic promotion by the Kennett government in Victoria which oversaw a fivefold increase in its first term and mandated that 60% of local government expenditures be compulsorily contracted out (Public Accounts and Estimates Committee 2000). The Howard Commonwealth government has also actively encouraged it, but we do not know the extent to which this has translated into new contracts.

This reflects a major shift in the theory and practice of public administration, profoundly influenced by neoliberalism and its intellectual off-shoots in the form of public choice and agency theory (Considine & Painter 1997; Alford & O'Neill 1994; Davis & Wood 1998). Also influential has been the work of Osborne and Gaebler (1993). A key protagonist in Australia was Simon Domberger, whose empirical work

on the cost implications of contracting out has been extensively quoted by policy and political groups keen to promote privatisation here, as reflected in the convenient summary of available Australian research in the Industry Commission's report (1996:Tables B2.1, B3.2). Domberger and Hall (1995:1) summarise the three main arguments:

Contracting out is primarily about introducing competition or, more precisely, contestability, into the provision of publicly funded services...[W]hen properly implemented contracting out can yield efficiency gains and quality improvements. Cost reductions have been widely documented...[T]he focus on outcomes and outputs brought about by contracting typically leads to improved service delivery.

A further argument is that that contracting out is essential if Australia is to remain competitive in the face of globalisation; by keeping costs down, government has less need to raise taxes and/or has the capacity to redirect scarce funds to more urgent areas (Rimmer 1998). The Industry Commission (1996:49) went further, arguing that the impetus for reform lay not just with international pressures, but also an expectation by citizens that their governments could do better:

Public attitudes towards government are changing: the community is demanding a bigger say in the planning, organisation and delivery of services, and greater accountability for results. Bureaucratic 'one size fits all' approaches are being rejected. Governments face challenges to become more adaptable and to get better value for money.

This paper critically examines these claims by focusing on two case studies involving significant and large-scale programs in which there is a significant body of secondary data: the contracting out of corrections and detention facilities, and the privatisation of public transport systems. Both case studies have a strong focus on the Victorian experience simply because contracting out has gone furthest in that state and because reviews of its effects are becoming increasingly available.

Prisons and Detention Centres

Up until 1990 all of Australia's prisons, detention centres and prison transport operations were under public ownership and control. Over the last decade Victoria, New South Wales, Queensland, South Australia, Western Australia and the Commonwealth have contracted out parts of their correctional facilities. In 1997-98 over 15% of the Australian prison population were held in private prisons (Australian Institute of Criminology 1999). Their capacity as at February 2001 was 2,998, with a further 750 due to come online with the opening of Acacia Prison in Western Australia. Victoria now has almost half of its prisoners in private jails. Its remand centre is also in private hands, as well as prison transport and all prison health facilities (Kirby Report 2000).

The Private Operators

There are four main private contractual operators of Australia's correctional facilities: Australasian Correctional Management Pty Ltd (ACM), Australian Industry Management Services (AIMS) (formerly Corrections Corporation of Australia (CCA)), Group 4 Corrections Services Pty Ltd (Group 4) and Management and Training Corporation (MTC). ACM appears to have the lion's share, managing all six Department of Immigration detention centres and associated transport services, three prisons, the Melbourne Custody Centre and health care services in nine Victorian prisons. Key data on each of these companies is shown in Table 1.

Table 1
Key Features of Private Prison Companies Operating in Australia

	Australasian Corrections Management	Australian Industry Management Services	Group 4 Falck	Management and Training Corporation
Correction facilities	Six Department of Immigration detention centres and transport services Prisons in Vic, Qld and NSW Health care facilities in nine Vic prisons	Prisons in Vic, Qld and WA Built, owns and operates Vic County Court Prisoner transportation in Vic and WA Security of prisoners in Vic courts	Prisons in Vic and SA Prisoner transport in SA	Prison in Qld
Parent	Wackenhut (USA)	Sodexho (France)	Group 4 Falck (Denmark)	Management and Training Corporation (USA)
Global market share (excluding USA)	58.0%	5.5%	25.4%	N/A
(including USA)	28.0%	0.9%	4.0%	7.2%

Sources: Company Annual Reports; <http://web.crim.ufl.edu/pcp/census/2001/Market.html>

Efficiency and Cost Savings

The international evidence on cost savings is mixed. In her meta-analysis of the available research, Schneider (2000:209-10) concludes:

[Most] studies show a slight cost advantage to the private prisons...[H]owever, comparative data are only available for a handful of the private prisons...In addition, the studies virtually never explain how or why the private prison manages to have lower costs even though they have the added responsibility of making a profit. There is a general perception that the reduced costs are at the expense of employee salaries. [Also]...the natural variability in annual expenditures for any particular prison may be rather high from one year to the next, and differences as simple as the average age of employees may account for sizable cost differences between institutions.

The Australian evidence is also, at best, mixed. The Queensland government – the first to move to private prisons – has flagged its intention to have greater ministerial control in future contracts. This was based on a review which among its findings concluded that there were inefficiencies in the current purchaser/provider model, which created a fictitious profit. Part of the cost efficiencies resulted from prisoners being doubled up in cells and inadequate levels of supervision. Since this report, the contract for management of Borallon Correctional Centre has expired and AIMS who built and managed the prison since 1990 lost the management contract to MTC (OPSEU 2000a). In Victoria, the available evidence is also not favourable. The private prisons have consistently had higher operating costs than the public prisons, although the gap has narrowed considerably (see Table 2). Privatisation of health management within Victorian prisons has also been a costly exercise (Kirby Report 2000, vol.2:84).

Table 2
Annual Average Direct Cost per Prisoner, Victoria, 1996-97 – 1998-99

	1996-97	1997-98	1998-99
Public	\$46,400	\$48,600	\$48,200
Private	\$64,700	\$52,000	\$49,800

Source: Audit Review of Government Contracts 2000, Case Studies:49

Effectiveness

A number of researchers have drawn attention to the limitations of these official figures. The Kirby Report (2000:34) summarised the criticisms very well as they apply to Victoria:

[The performance indicators] have a short-term orientation, they are heavily focused on negative prisoner behaviours, are singularly quantitative in nature, and do not adequately reflect all key aspects of operating performance.

Some have made the point even more strongly, noting that it is possible for a prison to 'excel in terms of those benchmarks and still run an appalling prison' (Haermeyer, quoted in Kirby Report 2000:35). The effectiveness measures are at best partial and at worst misleading.

The available data show a decline in the effectiveness of the Victorian prison system. Port Phillip Prison, owned and operated by Group 4, has been in the spotlight of controversy since before it opened, due to its failure to design out 'hanging points' during the construction phase as recommended by the 1991 Royal Commission into Aboriginal Deaths in Custody. From its opening in August 1997 until late 2000 there were 15 deaths: five by hanging, three alleged drug overdoses, one alleged self-mutilation and five alleged natural causes. There were nine attempted suicides during 1998-99. A coroner's report (cited in OPSEU 2000a)

found Group 4 lacking in management information, experienced staff, training, auditing and implementation of emergency procedures and cell design. The coroner was critical of Port Phillip's management because Group 4 had experienced similar problems in new prisons in the UK and elsewhere.

ACM has also had problems. In 1996 Justice Healy of the Queensland District Court found that the company was responsible for unsafe working conditions, which led to a former employee developing post-traumatic stress syndrome. Amongst the factors that contributed to this was understaffing (Moyle 1997). It was revealed to the court that the Queensland Corrective Services Commission did not have an adequate monitoring system in place to ensure that ACM met its contractual obligations. As Moyle (1997) points out:

It would appear from the evidence...that ACM was given considerable freedom by the Queensland Corrective Services Commission to operate the facility according to its own standards. On many occasions these standards fell well below the QCSC's policies and practices.

In Victoria, a riot at the Fulham Correctional Centre in 1999 was prompted by overcrowding and required the use of teargas to regain control (Audit Review of Government Contracts 2000). Two men suffered severe physical attacks by other prisoners while being held at the Melbourne Custody Centre, with one left severely disabled as a result. Relatives are suing for damages on the prisoner's behalf (*Age*, 1 June 2001).

A review of ACM's Junee Correctional Centre expressed concern over staffing levels and lack of inmate employment. Of the 21 prisons in New South Wales, Junee is the one from which the Ombudsman receives the most number of complaints, and had been censured for 'unjust and unfair' management (People's Justice Alliance 1998; Miller & Costa 1998). Within the first 18 months of operation, two riots had to be quelled with the use of teargas and one prisoner had died in his cell (People's Justice Alliance 1996). Within 13 months of ACM taking control of Arthur Gorrie Correction Centre in Brisbane, four inmates had committed suicide and another died in suspicious circumstances.

ACM's management of the immigration detention centres is also under scrutiny. It is not possible to assess performance against targets because the Commonwealth has refused to release this information. The contract is the subject of litigation by an unsuccessful bidder and has therefore been deemed 'commercial in confidence'. Despite this, the publicly available data gives cause for concern. There have been six riots at the centres in the last six months; in the year to November 2000 there were 121 incidents of actual or threatened self-harm, 68 hunger strikes and 43 incidents of actual or threatened assault against staff. In June 2000 there were mass escapes from three of ACM's facilities, and a further five escapes a year later (Ombudsman 2001; Clennell 2000; Penal Lexicon 2000b; *Age*, 12 June 2001).

In December 2000 the operations manager at the Port Hedland detention centre twice assaulted a recently arrived detainee. The detainee was held by other guards during the first assault and 'flexicuffed' during the second. The manager was charged and pleaded guilty to two counts of assault. He was given a suspended sentence on the basis that his behaviour was out of character, being a product of his stressful work environment. His defence centred around his repeated but unsuccessful attempts to secure more staff and psychological support (Mares 2001). An internal ACM investigation found that the assault 'was one of the causes of a riot the following day in which 180 asylum-seekers armed with shovels, rocks and metal pipes went on a rampage through the centre' (Age, 27 April 2001). Six months later a similar incident is alleged to have sparked another riot at the same detention centre (Mares 2001). A report by the Commonwealth Ombudsman concluded that 'women and children were at risk of possible harm in male-dominated centres', that there were 'systematic deficiencies' in management, that there was significant variation in the quality of the facilities, that staff were in need of more training, particularly in the area of cultural sensitivity and conflict resolution, and that some of the facilities required a major overhaul, particularly at Woomera (Age, 2 March 2001; Ombudsman 2001).

The worst performing prison has been the Victorian Metropolitan Women's Correctional Centre. After issuing three default notices, in 2000 the Bracks Labor government discharged AIMS from its contract. The prison has subsequently reverted to state ownership and control (OPSEU 2000a). Problems included: self-harm rates three times the next highest (this being another private prison, Port Phillip) (1998-99); 35% of inmates involved in prisoner-on-prisoner assaults compared with a state average of 9% (1998-99); and two uprisings triggered by overcrowding, that required the use of teargas and the intervention of the Police Special Services Operations Group (1999). There were also reports of failures to adequately identify and supervise 'at risk' prisoners (Ewing & Murphy 2000; OPSEU 2000a).

Payments for meeting performance standards were still paid, despite the private prisons' less than impressive record (Auditor-General (Victoria) 1999; Audit Review of Government Contracts 2000, Case Studies:23). Fulham received 100% payment in 1997-98, and Fulham and Port Phillip got 100% in 1998-99. Deer Park never received less than 80%, and Port Phillip still managed to get 65% in 1997-98 even though 'aspects of prison management were...breaking down' (Harding 1998:4) and it was performing poorly in critical areas such as prisoner deaths, self-harm and drug abuse (Audit Review of Government Contracts 2000:25). The Audit Review (2000:32) commented:

performance of the prison system declined in a number of areas in the first full year in which private prisons were operating. There were more escapes (22 compared to 13 and 14 in the previous two years), more attempted escapes and more deaths in custody than in either of the two years preceding. The percentage of positive random drug tests (also) increased.

Public Transport

Only the Victorian public transport system has been completely privatised, although all states use at least some private bus companies and New South Wales has also privatised parts of its rail system including the monorail, light rail, tram services and, up until recently, the Sydney airport rail link. This has resulted in a concentration of ownership of trains and trams in the hands of a few companies, of which the two most significant are CGEA Connex and the National Express Group. Also important are Transdev and Transfield P/L (Table 3).

Table 3
Private Operators of Public Transport

Connex	National Express	Transdev	Transfield
Connex Trains (Melbourne), Connex Southtrans (buses in NSW), Metro Monorail and Metro Light Rail (NSW), Perth Bus	National Express Trains (Melbourne), V/line Passenger (Vic), National Bus Company (Melbourne), Swanston Trams (Melbourne), TMGs Southern Coast Transit (WA), Westbus (NSW)	Yarra Trams (jointly owned with Transfield)	Sydney Airport rail link, Brisbane Airport rail link, Yarra Trams (jointly owned with Transdev)
Vivendi (France)	National Express Group (UK)	Groupe Caisse des dépôts (France)	Australia

Sources: Company Annual Reports

Efficiency and Cost

The international evidence on the cost impact of public transport privatisation is not well developed, mainly because it has been concentrated in only a few countries (notably the UK, New Zealand and, to a lesser extent, the USA). In the UK, where the process is most advanced, the sale of the railways netted £5b. Since privatisation in 1996 the private sector has invested almost £11 billion into the system, compared to £8.4 billion from the state. Nevertheless, fares have risen to be the highest in Europe (*Observer*, 22 April 2001), while services have declined dramatically. Because of the parlous state of the system, the government will need to spend more than £30 billion over the next 10 years to make it fully safe and reliable. Particularly contentious has been the role of Railtrack, the monopoly owner of the track, whose performance has been widely criticised. In the midst of a crisis induced by poor track maintenance that caused two major collisions, Railtrack announced its

intention to increase dividends to shareholders by 5%. Shortly afterwards, the CEO resigned, taking with him a payout of £1.4 million (*Guardian*, 15 November 2000, 22 June 2001).

Victoria's privatisation program was modelled on the UK experience. But whereas the UK sale initially generated positive cash flows in the short term, the sale of Victoria's metropolitan train and tram system cost the state a net \$120 million, excluding the costs incurred by the Public Transport Corporation and the train companies (Audit Review of Government Contracts 2000, Case Studies:142). Savings from privatisation of buses are estimated at around \$25 million per annum, although most were from the initial round of sales. Savings were also made on replacement costs of up to \$90 million, although the most recent budget has earmarked \$180 million in capital funds to help the private operators upgrade their bus fleet (Victorian Government, Budget Paper no. 2, 2001-02). Operational subsidy savings on trams and trains are estimated to be \$1.6 billion and a further \$1.6 billion of savings are anticipated in capital funds in new rolling stock, but this is over a ten year period which has only just begun. As the Audit Review of Government Contracts (2000:150-1) pointed out, these savings are still only a promise:

financial savings, new investment and patronage growth on which train and tram franchise contracts are based are yet to be delivered...since the public transport industry was franchised, no satisfactory arrangements have existed for monitoring patronage levels...[and] to date little or no data has been published about the operational performance of the bus industry.

In January 2001 fares were increased by 12% to 13% (*Track Record*, no. 5, April 2001).

Effectiveness

The international evidence on the effectiveness of public transport privatisation is heavily influenced by the disastrous UK experience. Since privatisation in 1996 there have been four major train accidents caused by faulty tracks, two involving fatalities, one in 1999, the other in 2000, leaving a total of 35 people dead. The system was almost paralysed in the eight months to June 2001 by the imposition of 20 kph speed limits in recognition that passenger safety could no longer be assured. Timetables were abandoned in late 2000 and have only recently begun to return to normal (*Guardian*, 15 November 2000; *Observer*, 22 April 2001). The official inquiry into the Paddington crash which claimed 31 lives was scathing in its findings, attributing responsibility to 'serious...persistent and lamentable' management failures at Railtrack, poor training by the private train operators, and an under-resourced and light-handed train regulator (Cullen 2001). There is speculation that criminal charges will be laid against Railtrack as a consequence of their negligence, in what would be an unprecedented development (*Guardian*, 20 June 2001).

Table 4**On-time Performance and Cancellations for Trains and Trams, December Quarters 1999 and 2000 (Percentage of All Services)**

	On time		Cancellations	
	Dec. qtr 1999	Dec. qtr 2000	Dec. qtr 1999	Dec. qtr 2000
Bayside Trains (National Express)	97.4%	96.5%	0.6%	0.8%
Connex Trains	97.0%	96.7%	0.3%	0.5%
V/Line Passenger	94.5%	92.0%	0.1%	0.8%
Swanston Trams (National Express)	72.8%	70.7%	0.7%	1.3%
Yarra Trams	79.8%	75.2%	0.3%	1.2%

Source: *Track Record*, no. 5, April 2001

The available data for Victoria shows that service levels declined in the first year that the private operators were running the system (Table 4), and the operators have been fined over \$5 million for poor performance (Table 5). Since privatisation Victoria has experienced three train collisions, one injuring 13 passengers and another injuring three passengers (*Age*, 12 August 2000, 6 June 2001). While two of the completed official inquiries found driver error to be the main cause, the second also drew attention to the limitations of driver training and understaffing by the private operator (Safety and Technical Services Branch 2001:32).

The key issue of whether the privatised system is more punctual than its predecessor is impossible to verify, because the Kennett government relaxed the performance measure used to assess punctuality once the franchises were awarded: under the public system, punctuality was measured by the number of trains arriving at their destination no more than five minutes late; under the privatised system, this has been extended to being no more than five minutes and 59 seconds late (Auditor-General (Victoria) 1998; *Track Record*, no. 1, 2000).

Table 5**Incentive and Penalty Payments, Trams and Trains, Victoria, 1999 and 2000**

	Dec. qtr 1999	March qtr 2000	June qtr 2000	Sept. qtr 2000	Dec. qtr 2000
Bayside Trains (National Express)	\$518,000	\$97,000	-\$1,501,000	-\$564,000	\$271,000
Connex Trains	\$813,000	-\$435,000	-\$440,000	\$965,000	\$193,000
V/Line Passenger (National Express)	\$23,000	\$59,000	-\$824,000	-\$264,000	-\$1,253,000
Swanston Trams (National Express)	-\$626,000	-\$1,034,000	-\$888,000	-\$881,000	-\$430,000
Yarra Trams	-\$21,000	\$12,000	\$74,000	\$708,000	\$456,000
Total	\$707,000	-\$1,301,000	-\$3,579,000	-\$36,000	-\$763,000

Source: *Track Record*, no. 5, April 2001

Shortly after opening, the Sydney Airport rail link experienced financial difficulties arising from patronage levels far lower than had been estimated. In November 2000 the company went into receivership and it reverted to State Rail administration amidst claims and counter claims of responsibility. The costs to the state are at this stage unclear perhaps being as high as \$200m. One commentator described the link as a 'BOTCH' rather than 'BOOT' scheme, concluding that it was doomed to fail at the outset:

NSW taxpayers put up most of the funds, bore most of the risks, and stood to get only a small slice of the financial returns. If things went well, taxpayers could hope to break even after 22 years. The consortium, on the other hand, was to receive first cut of 'fare supplements' added to normal State Rail fares for those who used the airport station. If volumes met forecasts, the consortium stood to get its money back within four years, and then receive a cumulative 'real' rate of return of more than 22 per cent a year on its original (repaid) investment for 30 years (Walker 2000).

In light of this, the state government subsequently rejected the proposed private extension of the Eastern Suburbs Railway from Bondi Junction to Bondi Beach, primarily due to doubts about traffic projections.

Analysis

There are three main conclusions that follow from the preceding discussion. First, the efficiency and cost saving claims advanced prior to contracting out taking place were exaggerated, without foundation or based on projections of future patronage levels that involved optimistic assumptions. In some cases no work was undertaken either before or after the contracts were signed that enable even a rough estimate to be made as to whether savings eventuated.

Second, the evidence shows a mixed outcome in the area of effectiveness. In prisons it seems to have deteriorated, so much so that the Victorian government has renationalised one prison, and the Commonwealth has agreed to put out to tender again the contract for running the immigration detention centres. Similarly, the New South Wales government has resumed control of the Airport rail link.

Third, rather than leading to increased accountability, contracting out appears to have lessened it in a number of ways. While most critics have drawn attention to the liberal use of 'commercial in confidence' clauses as a way of keeping information out of the public domain (for example, Public Accounts and Estimates Committee 2000), the focus here has been different. We have shown that, even without these clauses, in most areas of social and public policy it is difficult to develop appropriate and meaningful performance indicators, whether this be in health, education or community services more generally (Sheil 1997, 1998). Those being monitored can end up with an incentive to alter their behaviour to make sure

that they do well according to the performance indicators, even though these don't mean very much. As Group 4 commented in its submission to the Kirby Review:

Group 4 is not averse to the principle of penalties being imposed for poor performance. But the consequence, when failure to meet benchmarks can result in a heavy financial penalty, is that providers are likely to concentrate on managing the benchmarks at the expense of looking for opportunities to take risk and introduce innovation (Kirby Report 2000:35).

Accountability problems extend further than this. We have seen that the contracting out of prisons and public transport has involved Australian governments entering into contracts with multinational corporations. These often establish subsidiaries with names that seem unrelated to the parent company, so it is difficult to make connections in cases of service failure.

Both Connex and National Express are foundation train franchisees in the crisis-ridden UK system, on which Victoria modelled its reform program. Sometimes, as with CCA, the company's name is changed after a spate of bad publicity and the loss of some high profile contracts. In both prisons and public transport, companies have lost franchises in one state or country for poor service, yet simultaneously have picked up new business elsewhere. Shortly after winning the franchise to run half of Victoria's train and tram system, Connex was the first private operator to lose a franchise in the UK (*Guardian*, 3 May 2001).

Similarly, in 2000 AIMS lost two of its prison contracts for poor performance over a relatively long period. In stripping AIMS of its contract to operate the Metropolitan Women's Correctional Centre, the Corrections Minister commented that his decision had been prompted by a Corrections Commissioner's report demonstrating that the operator was 'failing fundamental security and drug prevention obligations'; the operator had been 'given repeated opportunities to fix the problems and meet its contractual obligations, but failed to adequately respond to verbal and written warnings and three default notices' (Haermeyer 2000). Yet only a year earlier it had been awarded the contract to finance, design, build, maintain and operate the Melbourne County Court complex (Penal Lexicon 2000a) and in 2001 opened its new Acacia Prison in Western Australia. Group 4 still managed to win Australian contracts during the late 1990s even though its performance in the UK had been less than exemplary: within a month of taking over the prison escort service, eight prisoners had escaped. In May 1993 another died by choking after guzzling illicit alcohol, and Judge Stephen Tumin criticised the Wolds prison (operated by Group 4) for offering a regime of 'corrupting lethargy' (*Economist*, 4 September 1993). And while Wackenhut was preparing to open up its six new immigration detention centres in Australia, it was losing its contract to operate the Travis County community Justice Centre in Austin, Texas, amidst claims of prolonged poor performance. Amongst other problems, 14 former staff were charged with sexual assault of female prisoners (Penal Lexicon 1999, 2000c).

Sometimes the problems with overseas operations have included clear cases of corruption. Executives at Vivendi Water were tried and found guilty of corruption in France during the mid-1990s, and Vivendi Construction was found to have participated in an illegal cartel in France between 1989 and 1996 involving 'systematic, almost bureaucratised political corruption' (Hall 1999). In 1999 the European Commission was engulfed in controversy over alleged corruption involving the awarding of a security contract to Group 4, which was said to have been given secret information on rival bids. The whole of the Commission subsequently resigned (Hall 1999). The spread of contracting out has also been associated with major corruption scandals in Australia, the most significant of which is that surrounding the ambulance and emergency call services in Victoria during the mid-1990s which led to damning findings by the state's Auditor-General and the eventual establishment of a multi-million dollar Royal Commission (Auditor-General (Victoria) 1997).

In each of the cases dealt with in this paper, governments have awarded contracts to global companies, some of which dwarf them in size and economic strength. The consolidated operating revenues of the parent of the largest private prison company exceeds the annual tax revenues of any Australian state or territory, while the second and third largest had revenues that exceeded the tax revenues of any state or territory except New South Wales, Victoria and Queensland. In 2000, Group 4 Falck had a turnover of US\$2.1 billion (A\$4.2 billion), Wackenhut's revenues were US\$2.5 billion (A\$5 billion), while Sodexho's were US\$9.9 billion (A\$20 billion). Sodexho employs more people than the Commonwealth government. Group 4 Falck has operations in 50 countries, as does Wackenhut, while Sodexho has a presence in 70. A more extreme situation exists in the case of public transport. While the National Express Group's turnover exceeds US\$2 billion (A\$4 billion), Transdev's parent Groupe Caisse des dépôts is even larger and more complex., being closely aligned with the French government with respect to banking, finance and investment, and treasury. The group reported a consolidated balance sheet of US\$177.6 billion for 1999 and a net income of US\$1.9 billion.

Connex's parent, Vivendi Universal, has interests in television, film and music (Canal+ and Universal Studios and the Universal Music Group), telecommunications (Vivendi Telecom International), and water and environmental management. Vivendi Environment subsidiaries include CGEA Connex, Vivendi Water and Aqua Alliance. Vivendi's operating revenues for 2000 amounted to US\$44.7 billion (A\$90 billion), which is more than double the revenues of all Australian state, territory and local governments combined. Vivendi's subsidiary Connex is not its only point of contact with Australian governments. Vivendi Water is involved in a partnership that has taken over the water treatment plants in Adelaide.

The company is called United Water, and their partners are Kinhill and Thames Water, the latter being a creature of UK privatisations in the 1980s (United Water 1999). United Water was at the centre of the 'big pong' air pollution disaster that struck down Adelaide in 1998 (Sheil 2000).

National Express has formed important global alliances with other operators. National Express are joint owners of PLC, a company set up to provide smartcard issuance, management and processing services with compatibility across the UK and Europe. Other joint owners are: ERG Group, who created and operate the Metcard system in Melbourne; Stagecoach Holdings and FirstGroup, who are transport operators; and Sema Group UK, an IT and business services company. Stagecoach, FirstGroup and National Express are all committed to putting ERG's smartcard readers in their buses throughout the UK. Their combined market share makes them the largest bus and train operators in the UK, with some two billion passenger journeys each year (ERG Group 2000). The inevitable interlinking of transport and security is made apparent in a joint bid for the ongoing franchise of Central trains in the UK by National Express and Group 4 Falck (Fildes 2001; Winkley 2001).

This increasingly complex web of global interconnections between these giant multinational players in the contracting out game extends to other operators in Australia. Serco Australia operates the information service for Transperth trains and buses, and similar services in Sydney and Brisbane. It also owns and operates the Great Southern Railway. In the UK Serco has interests in prisons, public transport, the Atomic Weapons Establishment and hospitals, and is a preferred tenderer for the proposed privatisation of air traffic control services (Transperth 2001; Serco 2001). Serco and Wackenhut are partners in Premier Prison Services Ltd in the UK, where they operate six correctional facilities (Wackenhut 2001).

Contracting Out and Ideology

Why have our governments been such uncritical and enthusiastic supporters of contracting out? In part the answer rests with our liberal policy regime, which sees Australia line up alongside a limited range of other countries with low taxes, low public expenditures and a small and targeted welfare state that have been similarly predisposed towards privatisation: the USA, the UK and New Zealand (Esping-Andersen 1996, 1999).

Also significant has been the limited range of policy advice that our governments have sought, with the Industry Commission perhaps being the most influential (and the Audit Commission not far behind). In finding in favour of contracting out, the Industry Commission (1996) gave a less than even-handed

summary of the available evidence. Describing the Australian research, it argued that while two studies found a decline in quality, 'all other studies have found either no evidence of quality deterioration or an improvement' (1996:107). This is true, but there were only three (1996:Table B2.1) studies that found quality improvements, while one found no change and the other study's findings were 'not statistically different from zero' (1996:108). Similarly, while the Industry Commission concluded that the available evidence showed contracting out 'can and generally does reduce the ongoing costs of service delivery' (1996:140), this depended very heavily on the work of Simon Domberger and his colleagues from the Competitive Tendering Research Team at Sydney University's Graduate School of Business. Of 17 studies cited, seven were authored or co-authored by Domberger, and a further eight were by his colleagues in a collection which he edited. Another was authored by the Australian Chamber of Commerce, leaving only one dissenting study from the left-of-centre Evatt Foundation, which found cost increases.

The crucial evidence is that furnished by Domberger himself, which found significant savings in a range of programs of at least 20%, and which has been widely cited over the years by those in favour of outsourcing. Domberger's work has been subjected to considerable criticism for its dependence on a suspect methodology which was weighted in favour of results showing a cost reduction (Hodge 1996; Paddon 1991). Hodge (1996) points out that Domberger compared the cost of public provision prior to privatisation with the contract price struck with the private contractor, whereas the correct benchmark should have been the public sector price under best practice conditions. Walker and Walker (2000:155-9) have raised stronger concerns:

Domberger was engaged by NSW Treasury in 1992 to design, perform and evaluate surveys into contracting out...[In] engaging Domberger, Treasury...failed to call for tenders, and there was no evidence of a formal evaluation of the work undertaken...Domberger became a leading promoter of the benefits of outsourcing, establishing his own consultancy firm...using commendations from brave (or foolish) Treasury officials in his firm's marketing material...Respondents to Domberger's NSW surveys were simply asked to provide their own estimates of savings – at a time when much publicity had been given to claims that savings of around 20 per cent were achievable...Managers were asked, in effect, whether they had implemented government policies.

Domberger's work is favourable to contracting out because methodologically it lends itself to that conclusion. That the Industry Commission was not more discerning reflects its propensity to reach predetermined conclusions in favour of market based policy reforms, under cover of an even-handed 'inquiry' approach.

Conclusion

It is here at this interface between public policy and ideology that the real problems with contracting out are to be found. For rather than treat it as another policy tool,

another means of achieving policy outcomes, Australian governments over the last decade have seen outsourcing as a policy end in itself, first in New South Wales, then Victoria, then Queensland and South Australia and more recently the Commonwealth. It was at this juncture that mistakes were made, transaction costs rose dramatically and service levels were compromised.

The argument that contracting out was necessary to make the public sector more efficient and customer focused is best seen in this context, for it is not supported by the evidence, particularly in the areas we have looked at. In prisons and public transport, costs did not fall in the way that they were meant to and service levels appear to have declined. We could have looked at other areas and reached very similar conclusions. The outsourcing of Commonwealth IT services (Auditor-General (Commonwealth) 2000; Humphrey Review 2000), automated ticketing (Audit Review of Government Contracts 2000), speed cameras (Audit Review of Government Contracts 2000), 'build, own, operate and transfer' infrastructure programs (Walker & Walker 2000) and emergency call centres (Auditor-General (Victoria) 1997) are examples where a strong argument along these lines could be, or already has been, developed. In addition, we now know that the cost savings that followed contracting out in many cases have simply been a product of cuts to workers' pay and conditions rather than efficiency gains, a practice which has recently been ruled illegal by the Federal Court and has required contractors in Victoria to back pay employees (*Age*, 21 April 2001). The Productivity Commission's claim that contracting out may have led to GDP gains in the order of \$1.3 billion per annum (Rimmer 1998) is simply ludicrous, telling us more about the assumptions and values of the Productivity Commission's modellers than about what has happened in reality.

Contracting out has not been a response to globalisation as some have suggested. But in the overly zealous way it has been promoted, it has been a major contributing cause. Liberal policy regimes have helped create a global market where governments enter into contracts with entities that in some cases are far larger than themselves. In the process, they seem to have lost the power to monitor performance and to put in place effective accountability regimes. The multinational players in the outsourcing game lose contracts in some places, only to pick up others elsewhere within this relatively small band of countries keen to do business with them. Increasingly they are entering into partnerships and alliances that enable them to secure new markets that continue to open up. Australian governments seem poorly placed to negotiate contracts with the fleet-footed global players that they have helped to create, at a cost to taxpayers and to the detriment of public policy more generally. It is time for a policy rethink.

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