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THE CHOICE BETWEEN PUBLIC AND PRIVATE SECTOR AGENCIES FOR THE
PROVISION OF LOCAL AUTHORITY SERVICES: A METHODOLOGICAL
ANALYSIS OF SELECTED CASE STUDIES OF SERVICES PROVIDED
BY THE CAPE TOWN CITY COUNCIL

DAVID P BERETTI

1986

UNIVERSITY OF CAPE TOWN

FACULTY OF SOCIAL SCIENCE AND HUMANITIES

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PROVISION OF LOCAL AUTHORITY SERVICES: A METHODOLOGICAL
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**A thesis presented in fulfilment of the requirements
for the degree of
Master of Public Administration(M Pub Ad)**

DAVID P BERETTI

1986

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ABSTRACT

David P Beretti, The choice between public and private sector agencies for the provision of local authority services: a methodological analysis of selected case studies of services provided by the Cape Town City Council, M Pub Ad thesis, Faculty of Social Science and Humanities, University of Cape Town, 1986. (Address of author: City Engineer's Department, P O Box 1694, Cape Town 8000).

This thesis explores the debate for public sector and private sector agency for the provision of local authority services.

A methodological approach was devised to examine each potential case for privatisation and to evaluate both the public and private sector agencies in terms of the three identified criteria viz. economic and financial, strategic and political, and administrative and managerial.

The field study included an investigation, aided by a literature survey and the collection of further relevant data pertaining to selected local authority services. Data and evidence were collected primarily through personal structured interviews with senior executives in both the public and private sectors.

The methodological approach was applied to case studies of the solid waste (collection and disposal) and construction (civil engineering and building) services of the Cape Town City Council.

The choice of agency for local authority services is a complex matter. The privatisation concept has considerable merit where implemented in the correct manner and appropriate circumstances. However, if dissatisfaction exists regarding the provision of a local authority service it should not automatically be assumed that privatisation will provide the panacea for local authority fiscal and service delivery problems. Each potential case for privatisation should be examined on its merits as generalisation could be misleading.

ACKNOWLEDGEMENTS

This thesis is the result of many people who generously shared their knowledge and experience. Persons formally interviewed in both the public and private sectors are specifically acknowledged in the body of this thesis.

Particular thanks are due to Professor G K H Töttemeyer my thesis supervisor. The assistance afforded me by Dr Kevin Wall and Mr J G Brand is acknowledged with appreciation.

I sincerely thank my secretary Mrs Colleen Tychsen for the word processing and layout and Mrs Jill Faure who read and commented on drafts of the script. Finally, special thanks are due to my wife, Sheila, for her support and encouragement to complete this research.

DECLARATION

I, DAVID BERETTI, submit this thesis for the Degree of Master of Public Administration. This thesis is my original work and has not been submitted in this or in any other form for a degree at any University.

Signed by candidate

NOTE

The views expressed in this thesis do not necessarily reflect the views of the author's employer, the Cape Town City Council.

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KEYNOTE

The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function.

- F Scott Fitzgerald

CHAPTER ONE

OBJECTIVES, MOTIVATION AND PRECIS

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OBJECTIVES, MOTIVATION AND PRECIS

1.1 INTRODUCTION

The provision of local authority services requires the participation of both the public sector and the private sector.

Local authorities are continually striving to reduce the cost of services while at the same time maintaining their quality. The process of constant examination and evaluation affords local authorities the opportunity of deciding which of their services could be produced more efficiently and effectively by the private sector.

Will this result in the citizens receiving a better quality service at a lower cost?

Can the profit motivated market mechanism of the free enterprise system be used to assure efficient and effective provision of local authority services?

Efficiency and effectiveness are often quantifiable. Efficiency measurements determine if inputs have been used to their best advantage. Effectiveness measurements determine the extent to which the task has been achieved. However an effective solution may be costly and therefore inefficient. A cost-effective solution for the same problem may require reducing the effectiveness in order to lower costs to an acceptable level. (Wall 1982 : 6.)

The choice of agency is a complex matter and a sound methodology is essential to ensure that an objective and balanced decision is made in each case under consideration.

The motivation for this thesis stems primarily from the author's interest in the Government's stated commitment to the investigation of possible privatisation within a broad range of public services. The private sector has urged the Government to speed up its privatisation programme, the main impetus therefor being the current recessionary state of the economy.

1.2 THE OBJECTIVES OF THE THESIS

The following is the full set of the objectives of the thesis:

- to examine the issues involved in comparing private with public provision of local authority services
- to establish criteria against which the private and public sector agencies can be assessed objectively
- (the primary objective) to contribute to a methodology which will assist the choice between a public sector agency and a private sector agency for the provision of certain local authority services
- to examine the devised methodological approach and illustrate its application to selected case studies of services presently provided by the Cape Town City Council.

1.3 PRECIS

Chapter 1 is introductory, states the objectives of the thesis and concludes with a precis.

Chapter 2 discusses the definition, concepts and background to privatisation, the methods of delivering local authority services and the overseas and local experience. The intensity of the debate and complexity of the issue are described.

Chapter 3 examines the definition and importance of local authority services. The purpose of local authorities with regard to service provision and their contractual capacity are discussed. The characteristics of private and public goods and services and their effect on the choice of agency are described. Necessity for change and alternatives are considered.

Chapter 4 illustrates the effect of competition (or lack thereof) and the market system on local authority services. The principles and facts are highlighted in three concise case studies concerning the Cape Town City Council. The author concludes that no service should be privatised unless adequate competition exists to prevent a monopolistic situation.

Chapter 5 outlines the difficulty of comparing costs between private enterprise and local authorities. Reference is made to the presentation and accounting for costs and the method of depreciation of assets. Recommendations for comparative purposes are concluded.

Chapter 6 provides a comprehensive listing of the factors which influence the choice of agency, derived from the literature survey and the author's research. This listing becomes an integral part of the methodological approach for determining the choice of agency. The author concludes that the factors can be grouped into the following criteria: economic and financial, strategic and political, administrative and managerial.

Chapter 7 sets out the characteristics of the methodological approach used in the investigation and its application.

Chapter 8 The methodological approach is applied to the solid waste collection and disposal facet of the Cape Town Municipality's cleansing operation. The investigation includes local authorities adjacent to Cape Town and the major private sector contractors. A case study is developed, conclusions are drawn and recommendations are made.

Chapter 9 The methodological approach is applied to the construction function of the Cape Town Municipality. The two facets of the construction function viz. building construction and civil engineering construction are investigated and examined separately. The private sector and the in-house construction units are assessed in the case study and conclusions are drawn and recommendations made.

Chapter 10 assesses the thesis against its stated objectives and guidelines for contracting out local authority services are provided. Generalised conclusions are drawn.

CHAPTER TWO

BACKGROUND TO AND OVERVIEW OF PRIVATISATION

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BACKGROUND TO AND OVERVIEW OF PRIVATISATION

2.1 INTRODUCTION

The economic recession of the 1980's, the continuing high inflation rate, the growth in size and cost of government, increasing ratepayers' demands for improvement and economy, and continual pressure for financial stringency and the scepticism about the ability of local government to perform efficiently and effectively are all leading to alternative actions for service delivery being explored by local government. One such alternative action is privatisation or contracting out of services and functions by local authorities.

A succession of cost efficiency programmes at both central and local government level, have predictably produced poor results for governments as diverse as those of Britain and Bangladesh. Privatisation on the other hand, has produced remarkably successful results. Scores of programmes at national and local authority level have resulted in considerable savings and greatly improved services.

(Privatisation News Vol. 1 No. 1, 1986.)

To equal the success achieved overseas, it is essential in South Africa that privatisation be investigated and implemented in the correct manner. Certain essential criteria have emerged from the international experience which could enhance the probability of success in South Africa.

It should be appreciated that it is in everyone's interest that local authority services be provided as efficiently and effectively as possible. Waste, extravagance and inefficiency can only lead to higher taxation and lower standards of service.

One main purpose of privatisation is to reduce governmental participation in the economy.

2.2 DEFINITION

The South African Treasurer (1985-09-01 pl63) defines privatisation as "an alteration in status of (business or industry) from public to private control or ownership".

The privatisation concept entails "the private sector involvement in financing, design, construction, ownership and/or operation and delivery of service."

(Goldman & Mokuvos 1984 : 70.)

Contracting out, often used synonymously with the term privatisation can be viewed as a "management tool that shifts the performance of functions previously performed by public employees to the private sector".

(Cryder 1985 : 40.)

Mr Eli Louw, Chairman of the Cabinet Committee for Privatisation and of Administration and Economic Advisory Services in the State President's Office, has defined it to include:

- the transfer of functions to the private sector
- the contracting out of activities relating to a function
- the withdrawal from a function

- the performance of a function in partnership with the private sector
- the sharing of facilities with the private sector
- the granting of concessions.

Rix (1983) has defined privatisation to mean "the carrying out of a specific task, at a stipulated service level, at the lowest possible price at all times throughout the contract period, at minimum management cost to a local authority and with the maximum public accountability".

Dr Wim de Villiers, special advisor from the private sector to the Cabinet Committee for Privatisation has delineated four methods:

- deregulation, increasing the free market
- sale of non-essential services to the private sector
- contracting out
- total privatisation.

There is a certain lack of clarity on the definition of privatisation among the writers on the subject in different countries. Certain writers define privatisation as the total transfer of the responsibility for a service from the public sector to the private sector, and therefore regard the involvement of a private company to carry out the function as "contracting out" and not really privatisation. Dunleavy (1986 : 13), "strictly the permanent transferring of service or goods production activities previously carried out by public service bureaucracies to private firms or to other forms of

non-public organisation, such as voluntary groups". In many cases the local authority can not privatise the service fully because it remains under a statutory obligation to manage and control the service.

For the purpose of this thesis the author prefers to define privatisation broadly but simply as "using private enterprise to perform the work of local government".

The involvement of the private sector in the service provision function of the public sector can take many forms. These are discussed further under section 2.5.

When considering a specific application of privatisation then its meaning should be precisely defined. To refer generally to 'privatisation' is insufficient. The degree to which the private sector is involved, and the nature of that involvement is subject to considerable variation. This matter receives further attention under section 3.6.

2.3 THE OVERSEAS EXPERIENCE

Historically the American Government has provided most public services directly but there has always been some degree of contracting out particularly at federal level. In the early part of this century American cities turned to private enterprise to run local streetcar systems, for refuse removal, to provide fire protection and other basic public services. "Contracting out has become a major business force in the United States and in the year 1980 State and Local Governments paid an estimated \$66 billion to private firms to provide public services."

(Atkinson 1984 : 30.)

In the United States early in the century private contractors providing services to the public were plentiful but poor standards of service and blatant corrupt practices generated a successful reform movement that aimed to professionalise all forms of service delivery by making them part of municipal government.

It is frequently reported that in the United States there is widespread contracting out of several public services to private contractors. The claimed attraction is that private contractors provide better managed and cheaper services than public employees.

A survey of the literature shows significantly that the growth has not only been in traditional areas such as solid waste collection and disposal but also in building maintenance, health care, transportation, social welfare, security services and even police and fire protection.

Similar trends towards greater private sector involvement in the delivery of public services have occurred in Canada, Great Britain and West Germany.
(AFSCME 1984 : 9.)

This trend supports a basic philosophy of the Reagan Administration; that they have too much government, that the government provides too many services and that the private sector can provide whatever public services are needed more economically and efficiently than the public sector.

This philosophy can not go unchallenged but at this stage it will suffice to note that "there may be reason to believe that private sector ownership promotes efficiency but there are no empirical studies to show that this is so". (Temkin 1984 : 16.)

It is not necessary to look far for a reason for the swing toward the private sector. It is caused by the recession forcing private firms to look increasingly toward the public sector for new sources of revenue and on the other hand local authorities are becoming increasingly cost-conscious as their revenues have been cut by the recession and ravaged by inflation.

The involvement of the private sector in the work of local government has enabled more cost-effective services to be operated. It has created a yardstick by which the existing services could be judged. The use of its resources, finance and expertise has given significant financial and operation benefits to local authorities and it has created an environment which has enabled many outdated practices to be removed and fresh perspectives to be brought into the service which was operated. (Bury 1983 : 413.)

In the United States the extent of contracting by state and local governments varies from state to state and community to community. The extremes run from localities which do not contract any services to a city such as Phoenix, Arizona, which had 450 outside contracts in effect in the early 1980's.

(AFSCME 1984 : 11.)

In the United Kingdom, Prime Minister Margaret Thatcher was instrumental in setting up committees to examine closely the desirability of private business taking over functions from both central and local governments.

In fact the United Kingdom has gone so far as to legislate the promotion of competition in that the Local Government Planning and Land Act 1980 has required direct labour organisations to compete with at least three private contractors for all maintenance jobs worth more than 10 000 pounds.

All general highway works worth over 50 000 pounds must go out on tender. (Imeson 1984 : 3)

The British Trade Unions are strongly opposed to privatisation which they perceive as putting private profit before the public good, a threat to the jobs of its members and a danger to the quality of a service.

At the roots of local authority "direct labour operations" was the establishment of a high quality service whose standard and delivery could be guaranteed by using a workforce directly employed by the authority. "By eliminating the need for profit and advertising the notion was that a better value service would be obtained than any which could be produced commercially." (Ryan 1984 : 1128.)

Many local authority services were originally provided because:

- no private sector organisation was available or able to perform the service or carry out the work
- the private sector found the service to be unprofitable
- there were risks of public health, safety, security or confidentiality which could not be entrusted to the private sector.

The first direct labour building department was set up by the London County Council in 1892 and currently there are 532 local authorities in Britain with some kind of direct labour building department. (Imeson 1984 : 3.)

The reason direct labour organisations were set up initially was simply because private contractors were making excess profits from public works. At the least a direct labour organisation gives the ratepayers protection against organised price rings and provides a 'yardstick' against which tenders can be compared.

Urban Innovation Abroad (June 1984, p2) reports that privatisation is seriously considered in West Germany where more than fifty communities ranging in size from West Berlin with about two million inhabitants to towns of ten thousand have contracted out or are currently debating turning over to private enterprise, under contract, the performance of traditional public services.

What is of particular interest in the current British experience is that the threat of privatisation has been effective in making direct labour organisations more efficient and responsible than they have been for a long time. (Imeson 1984 : 1.)

Spearheading this threat in Britain was the Local Government Planning and Land Act 1980 which arose from growing Government concern at the performance and efficiency of local authority construction and maintenance work. This Act further required direct labour organisations to compete with the private sector for a large proportion of their work and to achieve a 5 % rate of return on capital employed. (Davies & Grey 1985 : 792.)

It is regrettable that it was necessary in the first instance to legislate in order to achieve better efficiency. Local authorities should continually evaluate the efficiency and effectiveness of their services and operational activities. Reaction to this

legislation from the British experience shows that some local authorities disbanded their direct labour organisations readily and privatised. Others procrastinated in search of alternative action and simply lost the majority of their traditional work to the private sector by way of competitive bidding. The third category employed a more sensible reaction and readily accepted the challenge. They quickly and radically reviewed the management and operational activities of their direct labour organisations and drastically reformed to compete (successfully) with the private sector.

As reported in *The Economist*, (1986-02-01, p34) privatisation will be one of the principal themes in President Reagan's budget this year. Nevertheless, the evidence on privatisation at the level of American state and local government is mixed. Many cases are documented where cities have saved large amounts of money by contracting out local services to private enterprises. However, in 1984, one of the public worker unions conducted a survey of local authority contracting and found dozens of cases of excessive costs, wasteful duplication of resources, incompetence and fraud. (*The Economist* 1986-02-01 page 34.)

2.4 THE SOUTH AFRICAN EXPERIENCE

In South Africa, the Carlton Conference (1979) opened a new deal between the private and public sectors. The Prime Minister stated that: "The basic responsibility of Government is to establish, maintain and protect the national and international order within which private enterprise can fulfil its function of producing goods and services it is private enterprise which combines all the elements of production to produce wealth".

The concept, in principle, has received official state approval, yet its implementation has been slow and of a limited scale.

In the Johannesburg Municipality the bulk of the Water and Sewerage capital works programmes are carried out by private enterprise through the medium of contracts. Similarly more than 50 % of the Roads and Works total capital programme is put out to contract. In 1981 a shortage of mechanics in the departmental workshops lead to an experiment to have 80 vehicles serviced and maintained by private enterprise. Johannesburg has progressively privatised the majority of its refuse collection fleet. Wade Refuse (Pty) Limited remove refuse each day from residential areas, on a basis that they provide each truck, a driver and an operator while the municipality is responsible for the remainder of the workers in each team.

A survey of the Cape Town Municipality revealed that private enterprise plays a significant role in the operation of the City. A synopsis of the survey is provided in Appendix A.

In 1980 the report of the Committee of Enquiry into the Finances of Local Authorities in South Africa (Browne Committee) recommended inter alia that local authorities should give out to private enterprise those services which on the basis of cost benefit analysis could be more advantageously performed by private enterprise. (Browne et al 1980, paragraph 16.)

One can not resist querying the wisdom of utilising cost-benefit analysis as a guide as the current political unrest stems partly from the Black population's desire to have their areas upgraded. This could hardly be evaluated on a cost-benefit basis as the fundamental agitation is a socio-political one.

In recent times the South African Government appears to be paying more than lip service to a commitment to privatisation. Finance Minister Barend du Plessis declared in his budget speech in March 1985 that in keeping with the policy of promoting free enterprise, the Government was seeking ways of defining and effecting the privatisation of Government and State corporations and enterprises. (The Argus 1985-03-18.)

On 1985-11-08 the State President Mr P W Botha declared that "a committee of Cabinet Ministers has been appointed to pilot a programme to implement the Government privatisation action".
(Cape Times 1985-11-08.)

At the 1985 Annual General Meeting of the South African Institute of Building the Deputy Minister of Finance, Mr Kent Durr stated: "Our (government's) commitment to privatisation stems from the strong conviction that in the final analysis it is not the bureaucrats but the free enterprise system (the profit motive) that brings about economic growth and development."
(The Professional Builder, March 1986 Vol. 4 No. 1.)

Is the government serious about privatisation? Apparently so, job advertisements for senior posts in the public service advertised in this regard are included in Appendix B.

The posts offered include the following functions:

"to determine whether government functions can be privatised", and

"the implementation of privatisation actions".

This demonstrates at least some form of action or programme on behalf of the Government. What remains to be seen is how swiftly the Government can process its stated commitment to privatisation.

The question is whether the private sector or public sector will take the initiative. In the Standard Bank Review, December 1985 the need for action is spelt out: "Privatisation remains little more than an idea. For it to become a beneficial force it requires two things:

- a willingness on the part of the State to loosen its grip on the economy, and
- clarity about priorities in the choice of targets and mechanisms to be used."

It is considered not sufficient for the State to "loosen its grip on the economy" as effective privatisation is dependant upon co-operation between both the public and private sector. The onus is therefore on the private sector to meet the State's commitment by delivering efficient and effective services. One essential criteria is the presence of free and unrestricted competition. This aspect is discussed further in Chapter 4.

A necessary catalyst in the privatisation action is the process of deregulation. This can be described in general terms as the entrepreneur being afforded the opportunity to act without unnecessary restriction with the objective of increasing the efficiency of his management and private initiative. Privatisation cuts deeply into the Government's regulatory role.

The Cape Town City Council on 1985-06-27 adopted the following reference: "That it be a reference to the Executive Committee to consider and report on the formulation of a programme by which a policy of putting out to private tender all works of a capital nature can be implemented."

The attitude of the Cape Town City Council is clear (by the use of the word "all" in the above resolution) but the question is to what extent and degree is privatisation practical and feasible? Will the community receive a better service for a lower cost? These and other factors are considered in depth in the case studies which follow.

Specific reference to privatisation was again made during the 1986/87 Budget Speech of the Cape Town City Council delivered on 1986-05-22. Councillor J Muir, Chairman of the Executive Committee reported that "Council has adopted a balanced approach to the issue of privatisation and will be guided only by considerations of cost and service to the public.

It is the Executive Committee's intention to direct its attention to the possible privatisation of routine operational and maintenance functions".

The degree to which privatisation could be implemented is clearly and confidently stated by the Adam Smith Institute (U K) who claim that there is no valid reason why even the management of local government per se should not also be privatised. (Imeson 1984 : 2.)

Will it work?

Optimists and sceptics are waiving caution signs. Since privatisation has a limited history, legal and ethical questions abound. Will hoards of public

officials lose their jobs? Who is liable for meeting standards? And what happens if the private company goes out of business? (Bernstein 1985 : 53.) Success is highly dependent on specific conditions relating to the nature of the service, the local authority's skill in contract management, the size of the jurisdiction to be served, and the availability of competent contractors to do the work. The probability of success will be improved by giving serious thought and attention to these major issues. (Florestano 1982 : 357.) Fosler (1978 : 23) reached the same conclusion and adds that the main advantage of contracting may be to foster competition among organisations providing services whether they be in the public or private sectors.

The success of privatisation in South Africa depends as much on political factors as it does on economic factors. The African National Congress and the United Democratic Front support the Freedom Charter which advocates nationalisation of key sectors of the economy. This philosophy is in direct conflict with the Business Charter which supports privatisation.

Innes (1986 : 13) supports this view: "Although our government has opted for the Business Charter approach rather than that of the African National Congress, the fact remains that a substantial proportion of this country's population supports organisations which oppose privatisation".

2.5 CONCEPTS OF PRIVATISATION

"Privatisation" could mean either of two concepts:

- the public sector continuing to be responsible for the provision of the service in question (responsible

particularly in terms of funding and policy determination), while appointing a private sector agency to perform the service, or

- the public sector ceasing altogether to be responsible for the service (although maybe reserving the right of regulation on the one hand or on the other hand the obligation of subsidy), and leaving the field open for private sector involvement if it so wishes and if it sees financial profit or other incentive in the service.

An example of the first would be the local authority closing down its roads construction unit and instead calling for tenders from road building contractors. An example of the second would be the local authority announcing its intention of selling off its buses and inviting private bus companies to run services for profit or other incentives. Should there be no response from private enterprise, then a bus service will simply not be run and commuters would have to use other modes of transportation.

A local authority could cease to provide a solid waste removal operation and citizens would individually contract with one of the solid waste removal private contractors.

The local authority of Albany, Oregon, United States of America issues a franchise to a private firm for collection and disposal of waste. There is no contract; the firm does all the billing and has a direct relationship with the customers. (Atkinson 1984 : 36.)

Cloete (1986 : 89) elaborates on the concept of privatisation as meaning any of the following actions:

- Cession or divestiture.

The public authority transfers by contract or sale the right or responsibility together with the relevant assets and liabilities, for the provision of a service or function to a private enterprise. The public authority relinquishes total responsibility for that service or function.

- Farming out.

The public authority retains responsibility for the provision of the service but no longer produces it. This is achieved by contracting with the private sector under specified conditions.

- Withdrawal.

The public authority ceases to produce or provide a service or function but leaves a vacuum which may or may not be provided by the private sector.

- Sharing.

The public authority and the private undertaking share the market for the service or function.

Moor and Parnell (1986 : 254) further assist in clarifying this concept by advising that private sector involvement in local authority services may come about in three ways. "An authority may be unwilling to plan a service, to produce or distribute the service, or to finance the continued operation of the service. The private sector may be brought in to fulfil any of these functions. The precise arrangements for this involvement also take three forms: contract mode in which the local authority finances and plans the service but a private sector firm produces the service under a short term contract; regulated mode where the authority merely plans the service; and grant mode where the local authority involvement is with finance alone. Examples exist in local government of all three situations."

It is evident from the foregoing that privatisation has many facets and there are many different mechanisms by which the private sector can become involved in the delivery of local authority services. Under the circumstances of the statutory requirements governing local government it is the contract mode which has proved most important. It is therefore to the contract mode that the thrust of this thesis is directed.

2.6 METHODS OF DELIVERING LOCAL AUTHORITY SERVICES

Savas (1977 : 3 - 4) identifies six methods of delivering a local authority service:

- a local authority can provide collective services directly to citizens via its own agencies and its own employees (the direct labour approach)
- another local authority jurisdiction could be hired to supply the service to its citizens
- a private company could be hired to provide the service
- a private firm could be granted an exclusive monopoly or franchise, (under some form of regulation) while it sells its services to the citizens
- the free market could be permitted to operate where private companies provide the service but citizens entitled to the service are subsidised through the voucher system or alternatively the service producer is subsidised through grants or tax exemptions (used for low cost housing provision by the private real estate industry)

- the local authority articulates a collective need for the service, mandates that everyone purchase the service in the marketplace, but provides no subsidy to the producer or consumer.

2.7 THE PRIVATISATION DEBATE: BOTH SIDES

The debate over privatisation, a word which until recently did not even appear in the dictionary, is gaining momentum and at this stage it is opportune to outline both sides of the argument.

Advocates of privatisation claim that the private sector could deliver a better quality service for a lower cost as the profit motive and the competition factor are an inherent guarantee of increased productivity and efficiency. The private sector further claims to provide more effective and innovative management, motivated by the incentive of monetary gain, who could bring sophisticated cost-cutting and efficiency programmes to local authorities.

If part of a service were contracted out then a 'yardstick' would be provided for comparative purposes. Specialised skills which are costly and difficult to recruit could be made available to local authorities on an 'as and when required' basis.

Economies of scale could be achieved when the private sector provides services to multiple customers. It is further claimed that tax benefits available to the private sector could be utilised to lower service delivery costs; bureaucracy could be avoided and the role of business and free enterprise in the national economy would be recognised.

The local authority, by contracting out, could use its limited debt capacity to finance other essential needs. Responsibility for dealing with trade unions, repairs and replacement of equipment, purchasing and warehousing are all shifted to the contractor.

Greater flexibility could be introduced for 'cut-back' management in the event of a recession or for work of a seasonal nature.

"On one side of the issue are the contractors, their trade associations, local chambers of commerce, many state and local public officials, as well as many powerful federal figures. These advocates of privatisation claim that contracting out is a way for financially burdened state and local governments to trim budgets, to hold the line on taxes and to improve the delivery of services." (AFSCME 1984 : 9.)

Privatisation could be more costly than public services provision particularly when 'hidden costs' e.g. contract preparation, administration and contract monitoring are taken into account and the necessity for profit could also drive up costs.

Lack of true competition could negate the benefits thereof and as contractors are constantly reducing costs in order to increase profits, quality and efficiency could decline as the least profitable aspects of the service are shed.

A distinct danger of privatisation is the possibility of a local authority becoming trapped by a single firm which is, or later becomes, a monopoly.

A contractor could initially offer a low price but once the local authorities' capacity to supply the service has been dismantled he could demand substantial price increases.

The question is, could a local authority risk placing a service particularly one concerning public health in the hands of private enterprise? What is the consequence of failure?

If the contractor, as in any private business, became insolvent then the city would be faced with a crisis. Drafting appropriate job specifications is difficult and the ensuing contract could become too rigid or narrow to maintain quality public services. There is little room for negotiation in a tightly worded contract.

In-house provision of services has always instilled flexibility for the local authority to control its priorities.

The pool of direct labour employed by a local authority could be mobilised quickly to deal with any disaster or civil defence emergency. The problem of corruption in contracting out has increased dramatically and numerous cases of bribery, kickbacks and collusive bidding have been documented. Contracting results in less accountability by the local authority to its citizens and contractors often lack the experience and sensitivity to deal with individual citizen's problems. Contracting could also inhibit experimentation and innovation particularly in the field of minimum services for the less affluent areas.

"On this side of the issue there are public employees, public interest organisations, and many state and local

government officials and community organisations who have experienced contracting out failures in their own jurisdictions. To these groups, contracting out, rather than always providing a panacea for state and local fiscal and service delivery problems can increase government's woes." (AFSCME 1984 : 10.)

CHAPTER THREE

THE IMPORTANCE OF LOCAL AUTHORITY SERVICES

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3.1 INTRODUCTION

Local authorities perform two important roles: they provide the machinery for community and societal decisions, and they provide goods and services.

Many of the services are "essential services" meaning that they impact on public health and the well-being of the community and have intangible outputs.

The importance of the local authority lies in its provision of infrastructural and associated services which are a basis for the sustained development of the local community and its economy.

The perception of a market economy generally based upon the notions of Adam Smith distinguishes clearly between the roles of business and government. The private sector is viewed as "a composite of homogeneous businesses motivated by the desire for profits to produce the goods and services demanded by consumers in accordance with freely fluctuating prices that efficiently allocate resources. The role of the public sector is to "protect life and property, assure justice and provide the infrastructure or overhead necessities (e.g. police and fire protection, street construction and maintenance) required to support the activities of the private sector". (Fosler 1978 : 22.)

What exactly are local authority services? What is the purpose of local authorities? May a local authority contract out its services? How do the characteristics of public, and private goods and services affect the choice of agency? Is change necessary and what are the alternatives? This chapter seeks to address these questions.

3.2 DEFINITION OF LOCAL AUTHORITY SERVICES

"Municipal service" is defined in the Municipal Ordinance 20 of 1974 (Section 2,1vi) as "any system conducted by or on behalf of a municipality for the collection, conveyance, treatment or disposal of sewage or stormwater or for the manufacture, generation, impounding, storage, purification, distribution, conduction, transmission, conveyance, provision or supply of water, gas or electricity".

Municipal Ordinance 20 of 1974 is applicable only to the Cape Province of South Africa.

The above definition of municipal services does not by any means exhaustively list the services commonly provided by local authorities.

Local authorities usually provide the following functions: the provision of water; the provision of housing; health services; traffic control; provision of electricity; town planning and building control; amenities and recreational facilities; sewerage and wastewater treatment; libraries and selected cultural services; fire protection; solid waste; trade licensing; fixed property assessment and collection; secretarial services to the Council body; the construction and maintenance of roads, and the necessary range of back-up facilities.

The frequency and standard of provision of these services is not uniform among all local authorities.

3.3 THE PURPOSE OF LOCAL AUTHORITIES

The principal task of a local authority is its

obligation to provide efficiently and effectively a wide range of important services concerned with safety, health and well-being.

The most important reason for maintaining local self-government is its superiority to any other form of government in terms of its ability to identify many of the needs of the community and to satisfy these needs. It permits the local citizens to make their own judgements, however imperfectly, about what will best suit them. Although many citizens are apathetic and do not actively participate in local affairs, there is no question that the municipality (whether local or regional) is a more effective and efficient mechanism for ensuring performance of this principal task than any provincial or national authority could be.

Of great importance is the demand (by citizens, by private enterprise and by other tiers of government) for local authorities to provide an increasing range of services. Local authorities in South Africa have entered new fields in recent years illustrated by their involvement in planning and encouragement of employment opportunities through inter alia the provision of infrastructure, in urban conservation and renewal and in township development.

The public generally expects that current standards of services provided will at least be maintained and in some cases improved upon. Current standards are significantly higher than those provided a few decades ago. For example public health in the past was limited to the prevention and control of communicable diseases. Presently it provides for the maintenance of community health generally, and is involved in the control of industrial and environmental health hazards and with a variety of matters once considered to be entirely in the private domain. Another example is

that the standard of wastewater treatment has risen to such an extent that in some cities the product is potable.

The traditional role of local authorities has altered in that they are increasingly making value judgements and choices about the future of the community, rather than merely administering routine services. Citizens are demanding increased involvement directly in the affairs of local government and this effect has manifested itself by inter alia the increased reference of major planning decisions to local interest groups affected.

Most major decisions made by a local authority are political in the sense that they involve officials choosing between conflicting values which affect the well being of various resident groups differently. The local authority provides for and distributes public goods such as clean air, public health safety and tangibles such as roadways, buildings and recreation facilities. These have both an economic and a political price. It is not possible to afford all the required needs and therefore establishing priorities among them is a political risk.

The construction of a sportsfield or the installation of streetlighting are political actions as they involve the use of public resources which could have been used in some other way or some other place.

3.4 CONTRACTUAL CAPACITY

Provision exists in Municipal Ordinance 20 of 1974 (applicable to the Cape Province only) for a local authority to make alternative arrangements for the carrying out of its functions. The alternatives could be public bodies or private enterprise.

Section 173 refers:

"(1) A council may enter into a contract with a local authority or other person for the exercise or performance, either jointly or by any of the contracting parties, or any power, duty or function whatsoever which the council is from time to time by law authorised or required to exercise or perform."

The Administrator has power to impose a joint arrangement or agency arrangement of this type. "(2) The Administrator may, after consultation with a council and one or more other local authorities, by notice in writing direct them to enter into a contract contemplated by subsection (1) in respect of any power, duty or function referred to therein and specified by the Administrator in such notice. (6) Subject to the terms and conditions of any contract contemplated by this section entered into between two or more local authorities -

- (a) every such local authority acting separately shall, in respect of the areas of its jurisdiction, and
- (b) any such local authority acting on behalf of the local authorities which are parties to such contract or any joint committee appointed from amongst the members of the local authorities which are parties to such contract and acting on behalf of such local authorities shall, in respect of the area affected by such contract,

mutatis mutandis have the rights and powers, including the power to make by-laws, and perform the duties and functions which a council has or is required to perform in regard to any matter contemplated by such contract."

(Municipal Ordinance 20 of 1974, Section 173.)

3.5 PUBLIC GOODS AND PRIVATE GOODS

Local authorities render services to promote the general welfare of their citizens. Usually such services are only undertaken if the private sector can not meet community needs satisfactorily. The private sector would only be interested in services that could be provided on a financial return basis and conversely the public sector provides services that require expenditure without concomitant financial returns. This implies that there is a difference in nature between a public good or service and a private good or service.

Criticism has been levelled at local government in that much of its growth has resulted from decisions to provide private services at public expense.

What then are the goods and services that local authorities should provide?

If the answer is simply that local authorities should supply public goods and services then what are they and what is the nature of goods and services that renders some of them public and some private?

There is no general consensus on the above. Circumstances vary from nation to nation, from city to city and even within a particular city. There remains disagreement with regard to whether certain services should be classified as public or private. The issue remains how best to provide the collective services that local authorities have elected to supply.

Ostrom and Ostrom (1977 : 7 - 11) provide the following definition for a private good and a public good.

"A good having no jointness of consumption and with which exclusion is feasible is defined as a purely private good."

"A public good is defined as one which is not subject to exclusion and is subject to jointness in its consumption or use"

"Each good or service can be classified along two dimensions: whether it is consumed individually or jointly and whether 'free rides' can be excluded."
(Henderson 1985 : 21.)

At the one extreme private goods for example are supermarket foodstuffs, individually consumed and exclusive because each consumer pays individually for his basket of goods at the till. At the other extreme are collective goods for example television or broadcasting and national defence, jointly consumed and impossible to exclude. In between we have goods like cable or toll television, jointly consumed but excludable. There are also 'common-pool' goods like clean air which are individually consumed but not excludable.

The following table summarises several key characteristics ascribed to public goods and private goods:

PUBLIC AND PRIVATE GOODS

Private Goods

Relatively easy to measure quantity and quality

Can be consumed by only a single person

Easy to exclude someone who does not pay

Individual generally has a choice of consuming or not

Individual generally has a choice as to kind and quality of goods

Payment for goods is closely related to demand and consumption

Allocation decisions are made primarily by market mechanism

Ostrom and Ostrom (1977 : 16)

Public Goods

Relatively difficult to measure quantity and quality

Consumed jointly and simultaneously by many people

Difficult to exclude someone who does not pay

Individual generally has no choice as to consuming or not.

Individual generally has little or no choice as to kind and quality of goods

Payment for goods is not closely related to demand or consumption

Allocation decisions are made primarily by political process.

How then is an essential service like solid waste collection and disposal categorised?

"The main difficulty in an analysis (of solid wastes systems) is in determining some measure of effectiveness of the service provided. Evolution through the years of solid waste management from a private to a public problem indicates that the service provided is a public good. The entire community suffers in decreased values associated with public health and aesthetics when even one of its members refuses to dispose of his solid waste properly."

(Marks and Liebman 1971 : 16.)

Refuse collection meets the criteria of an essential municipal service, yet a survey undertaken by Columbia University showed that nearly half of all Americans live in cities where private collectors pick up at least a portion of the residential refuse. Disposal of the wastes, either in a landfill or in a resource recovery facility, is also accomplished by the private sector in a substantial number of communities. .

There are other public services that are supplied privately in many communities, such as electric power, ambulance service, supply of drinking water, street maintenance, and even fire protection.

The characteristics of public goods should be borne in mind when deciding whether to provide a service in-house or under contract to private enterprise. And this should not be compared with the "make or buy" decision faced by a business firm which is primarily based on economic grounds. In local government the objective would be inter alia to provide services at the lowest possible cost consistent with the local authority's perception of the community interest. But besides the cost factor sight must not be lost of the other essential criteria for services in that their provision must be continuous, stable and reliable.

3.6 NECESSITY FOR CHANGE AND ALTERNATIVES

The necessity for change stems from the present state of this country. South Africa is in the grip of civil unrest, political reform, unprecedented financial stringency, the process of deregulation and the imminent introduction of Regional Services Councils. A dire need to improve the quality of life and services in the townships exists. Never has there been a greater need for "best-value-for-money" local authority services.

Local Government funds in South Africa have become an increasingly scarce resource primarily due to the recession of the past five years, the high inflation rate and the shrinking Government subsidies for service provision. If a service can be performed by private enterprise effectively with either a service improvement or cost savings then it should at least be considered. That is a basic management responsibility!

What alternatives are there for service delivery?

Traditionally most local authority officials have a strong preference for service provision by their own departments. It is argued that this arrangement gives them greatest control, in the public interest, over the provision of services.

But services could be privatised to different degrees. The local authority's structure could remain unchanged and a number of individual tasks (e.g. consulting engineering work, chemical spraying, construction tasks) could be contracted out. Full control is maintained by the local authority and the private sector is utilised on an 'as and when required' basis.

A further degree would entail the local authority contracting out a number of sub-services on a permanent basis, e.g. maintenance of vehicles, park maintenance. Officials still plan, direct, and control closely.

Yet further the local authority could contract out a complete service to the private sector, shifting the responsibility to the contractor for planning and operation and resolving complaints. The contract could be for an inclusive annual fee and officials would only maintain a monitoring role.

It is important to appreciate the difference between the production and the provision of services. Although a local authority may cease to produce a service it could still provide it by means of contracting out. The local authority could therefore structure an appropriate monitoring programme to ensure timely and cost-effective provision of the service thereby still retaining control.

Control could be problematic because of the difficulty in monitoring performance and quality. What constitutes breach or failure, and what degree of risk and level of quality are acceptable to the local authority?

Consider the results of a breach in a fire or ambulance service which has been contracted out and contrast this with a breach in parks maintenance. What remedies should be applied to a breach or failure to perform the requirements of the service? The obvious solution would be a financial penalty but is this alone acceptable where the risk is one of health?

A concept gaining in popularity is that the public and private sectors must work together as partners.

The City of Winnipeg in Canada which divides refuse collection service between contracted private companies and municipal crews has proved that both methods are worth keeping. A benefit of having in-house forces doing a portion of the work is in determining if contract prices are coming in too high during the tender process. The local authority retains the right to reject any or all of the tenders. If a particular tender is too high the district involved may calculate what the costs would be for the district to take over the work. (Ross 1982 : 59.)

This concept is referred to as "blending" and its main advantage lies in allowing productivity and cost comparisons to be made under practical rather than theoretical conditions. It facilitates an objective decision as to whether to privatise further or perhaps resume full in-house provision of the service.

When a privatisation transaction is appropriately structured both partners will benefit, but neither gains at the expense of the other. The private sector gets an opportunity to engage in business with a public sector client and the public gets a service delivered at a cost below its own cost of delivering the service. (Goldman & Mokuvos 1984 : 71.)

Kirlin et al, (1977 : 129 - 146) discuss policy options on choosing municipal service delivery arrangements and stress that alternatives must exist and be readily available. They cite the example of private firms delivering solid waste services quite commonly while alternatives for basic law enforcement are not so widely available.

Where possible and practical, private enterprise should be given the option of performing part of the service under equally favourable conditions in order to allow comparison between public and private enterprise.

Initially only a portion should be contracted out but at least tenders should be invited. If the price is unacceptable the offer can be withdrawn.

The Institute of Town Clerks of Southern Africa supports the concept of privatisation subject to three conditions viz:

- the service must be more effectively delivered

- it must be more economically delivered
- concern for community needs must not be lost.
(Ravera 1986 : 47.)

When comparing private and public agency expertise it should be appreciated that local authorities are required to respond to public policy and there are many elements of this policy which run counter to maximum efficiency in an operational sense.

Finally, the impact of any change should not have negative implications for low-income or disadvantaged groups. (Florestano 1982 : 357.)

The literature survey revealed very little discussion on change or any way of cutting costs other than privatisation. Is this the only alternative?

According to the American Federation of State, County and Municipal employees: "The key to improving public services is good public management and not the 'selling off' of government. All too often, public officials have used contracting as a crutch to prop up weak management. If a contract works out without much controversy the public manager can take the credit, if it does not the manager can blame the contractor. But in every case of failure, in every case where the quality and efficiency of a public service has deteriorated and the cost increased, where control over a public service has been diminished or lost, where corruption has come into play, the public is the chief victim: the public endures the consequences and the public pays the bill." (AFSCME 1984 : 101.)

The privatisation concept has considerable merit and where implemented in the correct manner and appropriate circumstances it has achieved notable success. For example, according to TIME 1986-02-10 page 61 "Evidence abounds that companies can provide many services more cheaply than governments can. When Los Angeles County reviewed the results of its extensive privatisation, it found that it was saving \$23 million a year on 450 contracts. A study by the Department of Housing and Urban Development (HUD) found that cities that have not privatised spend an average of 96 % more to build streets than they would if they used contractors, 43 % more to clean streets, and 73 % more for janitorial services."

However, if there is dissatisfaction for a local authority service it should not be automatically assumed that privatisation will provide the necessary solution. Privatisation is no panacea for local authority fiscal and service delivery problems.

Local authorities can do much to improve the cost and quality of the delivery of services based on increased productivity and sound economic and management principles before privatising.

It is therefore concluded that privatisation should be considered for good reason and not merely for the sake thereof.

CHAPTER FOUR

COMPETITION: THE REAL ISSUE

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COMPETITION: THE REAL ISSUE

4.1 INTRODUCTION

Michael Heseltine, Britain's former Secretary of State, called on every local authority to systematically examine its activities with a view to deciding which of them should be subjected to the test of competition with the private sector. "Competition" he said "is a unique discipline in increasing efficiency". (Imeson 1984 : 4.)

Public and private sectors are in agreement that no function should be privatised unless there is sufficient competition in the field to prevent the creation of a monopoly.

Care must be taken "not to dismantle a public monopoly only to create a private one in its place". (Florestano 1982 : 357.)

In the following section certain issues of the competitive market are discussed and three brief case studies of the Cape Town City Council illustrate the practicalities and importance of competition.

4.2 THE COMPETITIVE MARKET

The suggestion that local authorities simply relinquish their service delivery responsibilities to private enterprise is somewhat presumptuous as there is absolutely no guarantee that a service ceased by a local authority will immediately (if at all) be provided by an enterprising business.

Further debate on privatisation will therefore be futile if there is no potential (or enterprising) supplier. The number of potential suppliers is a critical factor and depends on the particular service. If a good number of suppliers is available then it is

assumed that competition will lower the cost thereby making privatisation attractive and viable. Cost is of primary concern - is it cheaper for the public agency to produce a service or to purchase it? Many cases exist where local authorities do both to foster competition for an in-house operation.

Mr Hendrik Schoeman, Minister of Transport, has stated that proposals to expose the South African Transport Services to competition from private operators are to be tabled in Parliament during 1986. The proposals aim to outlaw monopolies and cartels in passenger and freight services and open all transport services to competition. He concluded that competition and freedom from regulation are the answer to the price spiral on tariffs. (The Argus, 1986-02-18.)

Direct competition between public and private provision of traditional local authority services is not as profound in Great Britain and South Africa as it is in the United States, except in respect of design and construction. As mentioned previously, in Britain the Local Government Planning and Land Act 1980 has legislated for compulsory competition in local government construction and maintenance work and was designed to put direct labour organisations on a competitive commercial footing with the private sector. It has been argued that the introduction of competition in the delivery of local authority services would hardly improve such services, but if an analysis is made of comparative data for a service which is blended between the public and private sectors, it would serve as a tremendous incentive for the public sector to improve its productivity.

"It is not necessary to look far for a means to improve service delivery. The market system with its bracing

tonic of competition - however imperfect - has served our society well in providing many private goods very efficiently." (Savas 1977(A) : 3.)

Can this same system support the delivery of public goods and services? If competition is introduced from private or public sources will the citizens benefit?

The market system can not be advocated so easily in certain circumstances as many services traditionally provided by local authorities have characteristics conducive to natural monopoly.

"Natural monopoly exists when the technological alternatives are such that competition can not work effectively. The circumstances inevitably lead to monopoly because large scale monopoly supply is more efficient and more advantageous to the consumer. This is very often assisted by economies of contiguity whereby it is not primarily the absolute size of the service which gives rise to the economies, but the avoidance of duplicated effort in a particular geographic area." (Wall 1982 : 57.) It would be uneconomic to have two or more solid waste collection services in competition in the same area, with the vehicles of each driving the same roads and passing the properties served by each other.

However this view would not be shared by certain contractors in the United States where several instances occur of private solid waste collection firms competing with each other for customers and "one finds several different firms servicing a single street". (Savas 1977(B) : 718.)

It is argued that through privatisation it is possible for local government to reduce its expenditure while simultaneously encouraging enhanced and increased

levels of service either under contract to, or completely in the private sector. Therefore, by increasing competition, privatisation could enable the economy to become more efficient.

However it can not be taken for granted that privatisation and the free market would simply become the panacea for local authority fiscal problems. This becomes particularly evident when analysing the nature of public goods and services in the previous chapter.

"The provision of public services must be continuous, stable and reliable and public enterprises are not free to shift or abandon service purely in response to market conditions or to optimise revenue."

(Bingman 1984 : 7.)

In this regard a local authority when considering privatisation has a definite responsibility to ensure that as far as possible the private sector can meet the above criteria.

It should not be forgotten that local authorities provide a consulting service to the community which in most instances is free of charge. Examples are town planning, horticulture, various building services and electrical aspects. The cost of such services is substantial and perhaps in the market system environment a charge should be levied, particularly where the service benefactor is an individual or business concern. A similar principle applied to a "softer" service like libraries could be to charge borrowers for works of fiction.

In the South African economy legislation for competition is provided by the Maintenance and Promotion of Competition Act, 96 of 1979, the aim of which is "to provide for the maintenance and promotion

of competition in the economy, for the prevention or control of restrictive practices and the acquisition of controlling interests in certain businesses or undertakings or in certain assets, and for matters connected therewith".

Notwithstanding this legislation and proposed safeguard, free enterprise has the depressing tendency to evolve into oligopoly and then monopoly.

Although privatisation has been successfully introduced in America this does not necessarily guarantee its success in South Africa as the likelihood of monopolies forming in that country is far less than in South Africa. Vast numbers of firms exist in America as potential suppliers of a service but only a fraction exist in South Africa which might limit effective privatisation. The fact is that in South Africa a handful of giant private corporations dominate the private sector of the economy.

Between them Anglo American, SANLAM, SA Mutual and the Rembrandt Group hold 83 % of shares on the Johannesburg Stock Exchange. (Argus 1987-02-14.)

Privatisation could strengthen this grip resulting in more price-fixing agreements, more restrictive practices and a further decline in the level of free competition and democracy in our country. (Innes 1986 : 13.)

The Trust Bank in its Economic Report dated 1987-02-14 comments as follows: "We are concerned about the progressive concentration of power in the private sector with large groups increasing their control of certain sectors of the economy. This limits competition and lessens cost consciousness, causing considerable distortions of free market principles preventing the consumer from participating in the price-making process."

The reality of this practice is demonstrated by the following example.

A report dated 1985-02-11 titled "Memorandum on restrictive practices of construction material suppliers in Greater Cape Town" was addressed to the Minister of Commerce and Industries by the Cape Association of Town Engineers. Specific details were supplied pointing out the monopolistic constraints prejudicing the cost structures of local authorities in the Western Cape. A very few producers of civil engineering materials have a stranglehold on certain materials which have a considerable influence on construction costs. Contractors, either private enterprise or public enterprise are forced to purchase materials from suppliers in a market where competition is virtually non-existent. The resultant influence on cost levels can well be imagined. The only alternative in the case of at least two materials is for the local authorities acting jointly to enter the present monopolistic market as suppliers of materials in order to ensure competitive conditions.

4.3 CASE STUDIES: THE FACTS

The Cape Town City Council has largely withdrawn from the marketplace as a supplier of materials and plant, and as a manufacturer.

However, it has retained some ability to compete with the normal supplier and this has tended to influence the prices quoted against public tender. This is evidenced by the following three case studies:

- the supply in Greater Cape Town of crushed stone for concrete and premix

- the supply in Greater Cape Town of premix
- the provision of a solid waste collection and disposal service to the Fish Hoek Municipality.

4.3.1 THE SUPPLY OF CRUSHED STONE

With one or two small exceptions all the stone quarries in the Western Cape have grouped into an association known as Cape Quarries, which controls all sales.

Cape Quarries when receiving an order, arrange for delivery from one or other of the quarries in the group. This situation constitutes a virtual cartel as far as the supply of crushed stone in the Cape Peninsula is concerned as alternative tenderers have limited supply capacity.

The cartel has had two regrettable effects viz. price and quality.

Over the six years 1980 to 1985 the price of stone has increased markedly. The following table summarises the price increases in certain sizes.

SIZE	1980	1985
3,35 mm	R4,80	R16,82
6,7 mm	R9,19	R20,32
13,2 mm	R7,21	R20,21
13,2 mm cub.	R9,04	R21,55
37,0 mm	R4,70	R11,00
53,0 mm	R4,70	R12,97

(Source: Accepted tender prices on Cape Town City Engineer's Department annual contracts.)

A detailed graphical representation of the above table over the period 1980 to 1985 is presented overleaf.

It is evident from the above table that the increases ranged from 121 % for 6,7 mm to 250 % for 3,35 mm. These increases are considered excessive if compared with the progressive increase in costs over the period 1980 to 1985 as reflected by the Haylett formula, the "building material price" and "general building cost" indicators as published by the Bureau for Economic Research of the University of Stellenbosch. These indices averaged at 96 %. It is therefore considered that these unduly high increases in the price of stone can be attributed to lack of competition.

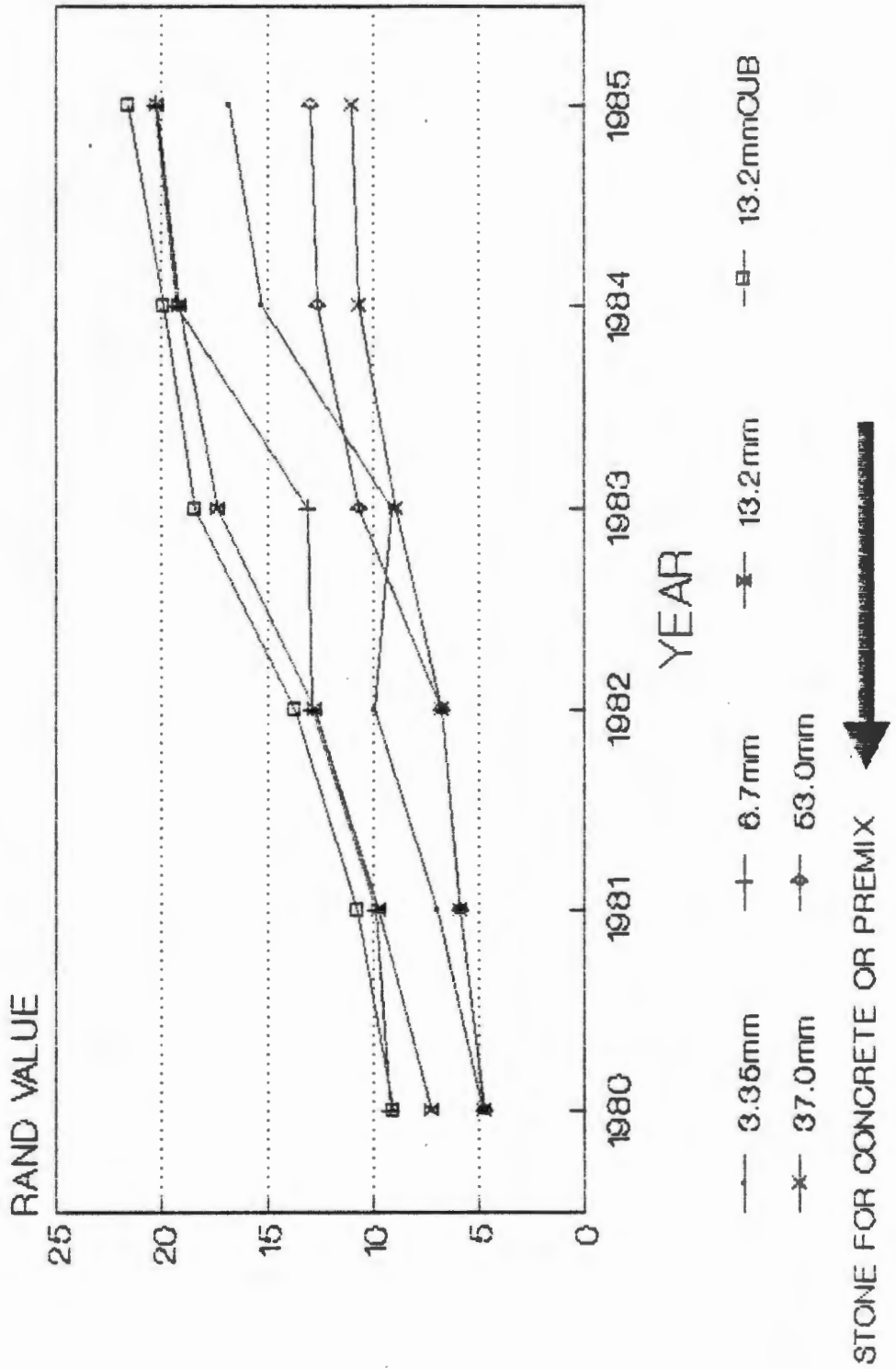
The background to the formation of the Cape Quarries Association was the need to ensure the supply of stone to the Cape Town City Council after the closing of the Council's quarry. The performance of the Association has often been erratic and the experience of the Cape Town City Council is that stone is supplied one day from one quarry and the next day from another. The complaints against the quarries in respect of stone quality relate to flakiness and excessive dust.

Most of the leases on ground suitable for stone quarrying purposes are held by Cape Quarries. This constitutes a monopolistic market as there is no opportunity for any would-be suppliers of stone.

This monopolistic situation acts detrimentally to the interests of the ratepayers.

Competition must be reintroduced to the market but not by the entry of a private enterprise rival to Cape Quarries as they too may be taken over. One solution

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could be to establish a local authority run stone quarry and an investigation into the feasibility thereof should be undertaken. However this is a capital intensive operation. The likelihood of the necessary funds being available for this purpose in the current economic climate is remote.

4.3.2 THE SUPPLY OF PREMIX

The second example relates to an existing case of the Cape Town Municipality providing the sole competition to what would otherwise be a private monopoly.

The Cape Town Municipality receives from its premix plant at N'dabeni most of (70 - 80 per cent annually) what it requires for its own use.

While the asphalt industry was experiencing utilisation rates on existing equipment of about 25 to 30 per cent the Cape Town Municipality imported a new premix plant. As a result it was accused of competing unfairly with private enterprise and of being guilty of an unwise investment of public money.

The facts reveal the following circumstances. The new premix plant replaced an old plant of equal capacity. The Municipality has, as in previous years, purchased the balance of its requirements from private enterprise. The result is that the ratepayers save. The table below detailing Much Asphalt's prices to Cape Town Municipality and to contractors refers. The price per ton is very competitive with the price from the private producer. For each of the following years the Municipality's price per ton for premix to itself was below that of the price to contractors, which is annotated in brackets: 1981 R24,00 (R25,00); 1982 R27,00 (R33,50); 1983 R30,00 (R36,50); 1984 R41,50 (R42,00); 1985 R41,50 (R49,68).

The capacity to produce from its own plant also ensures that the Municipality experiences no delivery problems which could otherwise affect construction costs.

The possession of the premix plant represents a significant advantage to the Cape Town Municipality. The reason for this is because there is only one private producer of premix in the Cape region known as Much Asphalt. The Cape Town Municipality is therefore providing the only alternative supply of this material. At least until some other competitor enters the market.

The Municipality's premix plant therefore converts a monopolistic situation into a competitive market. The Cape Town Municipality also receives much more favourable prices than other purchasers of asphalt from the Much company. Prices to the Municipality (table below refers) for each of the years 1981 to 1985 were below the prices to contractors. The reason is that Much is aware that the Municipality can step up production from its own plant and cease purchasing from them.

Between 1981 and 1982 the Much price to contractors increased significantly. But the price to the Municipality retained the same moderate rate of increase that it had the previous year. This moderate rate of increase was maintained in the next few years, except 1985. The following table illustrates the comparison:

TENDER NUMBER	1980	1981	1982	1983	1984	1985	TOTAL INCREASE
MUCH ASPHALT:							
- Price to Cape Town (per ton)	21,05	23,65 (12%)	27,13 (15%)	31,00 (14%)	33,50 (8%)	41,30 (23%)	74 % over last 4 years
- Price to Contractors (per ton)	Unknown	25,00	33,50 (34%)	36,50 (9%)	42,00 (15%)	49,68 (18%)	98 % over last 4 years

(Percentages in brackets denote increase from previous year.)

(Source: City Engineer's Department, Stores Division.)

The Cape Town Municipality's first obligation is to its ratepayers. In purchasing and operating its own premix plant it has acted in accordance with the ratepayers' interests and sound business and economic principles.

4.3.3 SOLID WASTE COLLECTION AND DISPOSAL - THE FISH HOEK CASE

A decade ago the Fish Hoek Municipality dissolved its in-house refuse collection service in favour of contracting out. Five years later, for cost and other reasons, Fish Hoek considered resuming the in-house service.

In 1984 Fish Hoek asked Cape Town to consider undertaking its solid waste collection and disposal service and tenders were also invited. The lowest tenderer to Fish Hoek (the tenderer did not allow for individual collection of garden refuse) was R194 300. The Cape Town Council's offer to Fish Hoek (including individual collection of garden refuse) was significantly lower to such an extent that Fish Hoek decided to accept the Cape Town Council's offer.

The lowest tenderer, incidently the existing contractor, then re-negotiated with Fish Hoek. The eventual price negotiated by the tenderer on the basis of improved service equal to that of Cape Town was R136 500. The facts of the case are self-explanatory. The Cape Town City Council's ability to provide competition saved the Fish Hoek Municipality the sum of R57 800.

This resulted in the Fish Hoek Municipality writing to the Cape Town City Council on 1985-01-30 stating inter alia that:

"I consider it pertinent to advise you that in consequence of the offer made by your Council, the successful tenderer amended his original tender by reducing the rate and increasing the scope of the tender at no extra cost, to match the excellent service offered by your Cleansing Branch.

The result has therefore been a considerable saving gained by the Fish Hoek ratepayers and the anticipation of an appreciable improvement in the service given."

4.4 CONCLUSION

Privatisation could lead to the destruction of competition and conversely the local authority's entry into the market may create competition where a monopoly has previously existed.

The profit motive of the private sector is no guarantee that a particular result will be achieved at the lowest cost. However, free and unrestricted competition which promotes efficiency could provide such guarantee.

CHAPTER FIVE

THE PROBLEM OF REALISTIC COST COMPARISONS

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THE PROBLEM OF REALISTIC COST COMPARISONS

5.1 INTRODUCTION

Primary to a decision on the choice of agency is that a fair comparison should be made between the agencies. This comparison is largely dependant upon cost information being available in the right form.

In comparing public and private agencies the cost base should not differ significantly as the major portion of the costs of work undertaken would consist of labour, materials and transport. These costs should be reasonably similar. Similarly there are no real differences in the accounting systems. Local authorities adhere to the principles of the Institute of Municipal Treasurers and Accountants which are based as far as practical on international accounting standards.

5.2 GENERAL CONSIDERATIONS

It must be borne in mind that even if a service is privatised the local authority does not relinquish total responsibility therefor. The local authority retains the ultimate responsibility for the service, provides consulting expertise to the contractor, ensures the forward planning of the service and attends to the demands of those whose needs are not totally fulfilled by the contracted service.

Local authorities have been criticised for their apparent lack of motivation resulting from the absence of the profit and loss imperative and their alleged "immunity to bankruptcy".

On the other hand the cost of the private sector's provision of services can only be effectively controlled if competition is maintained by regularly reviewing contracts, perhaps on an annual basis.

But competition must be fair. Instances have occurred where tenders have been invited or even a contract awarded and the efficient operation by private enterprise has been unduly encumbered by restrictions, and administrative procedures or requirements.

Managing a local authority is similar to any private business, but there is one crucial difference. The private business is accountable to its shareholders and the market and the local authority is accountable to its citizens.

In the one case the accountability is purely economic while in the other it is economic and political. The primary objective of a private firm is to maximise profits whereas local authorities have traditionally aimed to provide high quality services to their citizens at the lowest possible cost.

It is argued that local government does apply and utilise sound business principles wherever practical but this is hampered by the difficulty of quantifying the cost and benefits of many local authority services.

5.3 PRESENTATION AND ACCOUNTING FOR COSTS

One of the major problems that must be considered is the presentation and publication of all relevant costs of a particular service.

Local authorities are often subjected to the criticism, especially if they are responsible for many services, that when they publish the costs of their own operation

not all relevant costs are revealed, thereby making them appear to be more efficient than they really are.

Savas (1979 : 26) after a nationwide study of refuse collection in American cities concludes that cities which provide the service through a municipal agency generally do not know the full cost of the service.

Savas is not alone in his accusation.

Spence (1985 : 26) accuses local authorities of ignoring many costs which private enterprise has to bear thereby making comparisons invidious.

".... comparisons do not take into account total costs; they ignore any allowances for back-up staff, office rentals, insurance, tax payments, investments capital, research costs, etc., all of which have to be faced by the private entrepreneur, but are concealed when in-house costs are calculated."

Is this so and is this accusation applicable for all local authorities? Brand (1985 : 28) sets the record straight: "This is not true for the City of Cape Town. The financial statements are dependant on realistic accounting of costs. Every job has allocated to it its proportion of costs of salaries, furniture, office rental, stationery, insurances and other items".

The above argument demonstrates precisely why local authorities try to charge out all central administrative and service costs.

Spence's accusation requires further comment. He makes reference to "tax payments" but it should be realised that a local authority is not a profit-making organisation and therefore it would not normally pay tax. However, the Croeser Working Group recommended

that local authorities should make profits on any service of a trading nature, but naturally they would not be taxed thereon. These profits are treated in a similar manner as in private enterprise i.e. to primarily provide a contribution to a Capital Development Fund. This is utilised to finance future capital expenditure and a portion is used as a contribution to the rate income of the local authority which provides assistance in those cases where local authorities are faced with a declining rate income base. Spence further refers to "research costs" which he claims are not taken into account when costs are calculated. How does he propose that these costs could be hidden when a local authority like Cape Town undertakes substantial research into the planning of services which could run into millions of Rand per annum?

In the Cape Town Municipality costs of services are presented on both an objective and subjective basis. The subjective breakdown of costs would include such items as repairs and maintenance, salaries and wages, capital charges and general expenses (overheads). The objective breakdown using the cleansing service as an example would include such items as beach, river and street cleaning.

The presentation and allocation of indirect overhead costs of local authorities as well as the presentation of the complete Financial Statements are recommended in terms of the 1951 report (as amended) published by the Institute of Municipal Treasurers and Accountants. The report is known as the Standardisation of Financial Statements of Local Authorities and the majority of local authorities adhere to these principles.

anticipated life of the assets, and do not correspond to the depreciation policy followed by private firms. In all cases the periods appear far shorter than those used by private undertakings and therefore this element of cost is not directly comparable.

Annual interest and redemption charges raised by a local authority for a given amount of capital expenditure would therefore tend to be significantly higher than annual depreciation charges for a similar amount raised by a private undertaking. When making cost comparisons it is therefore necessary to make appropriate adjustments where this factor is regarded as material.

Why do local authorities not depreciate over the life of the asset?

Local authorities normally utilise the practice of carrying external borrowings to a central loans pool which includes other capital income and is used to make advances to fund capital expenditure. It is normal to relate redemption periods to the anticipated life of an asset but due to high interest rates, local authorities have tended to reduce the periods as far as practicable. The following example serves to demonstrate this point:

LOAN OF R1 MILLION AT 18 % INTEREST PER ANNUM
(ANNUAL ANNUITY METHOD USED)

Repayment over 15 years	- R 196 403 per annum
Repayment over 25 years	- <u>R 182 919</u> per annum
Extra cost per annum	<u>R 13 484</u>
Total cost over 15 years	- R2 946 045
Total cost over 25 years	- <u>R4 572 975</u>
Saving on shorter period	<u>R1 626 930</u>

5.5 RELATIONSHIP BETWEEN COST AND CHARGES

With the exception of a trading or public utility operation conducted by local authorities, it is not normal practice to levy charges to the public on a scale which is designed to cover the full cost of the services provided.

Generally for public services the policy tends to be to charge what the market will bear. Cape Town follows the policy of charging overhead costs to all services so as to identify true costs and the degree of subsidisation, but this practice is not followed by many local authorities.

There is a growing need for local government to provide value for money, to become more commercially aware or at least be able to provide services that are competitively priced. (Salmon 1983 : 360.)

In the case of trading services, such as electricity or public transport undertakings, much more accurate apportionment and allocation of indirect charges are essential for the following reasons:

- The users of such services may not necessarily be ratepayers, and subsidisation of trading services to a significant extent by ratepayers or vice versa is clearly undesirable unless an informed policy decision has been taken by the local authority on the matter.
- Valid comparisons between the cost of such services provided by different local authorities, or between local authorities and private contractors can not be made if all costs are not included.

5.6 COMPARISON OF COSTS WITH A PRIVATE CONTRACTOR

The following factors should be considered when comparing public sector agency costs with those of the private sector:

- private contractor's quotation (or cost) will normally include profit, whereas local authorities usually operate on the basis of calculating charges to cover cost only. (Exceptions are electricity and water undertakings where tariffs are normally calculated at a level which will enable them to make a contribution to rates, and passenger transport operations which usually operate at a loss and have to be subsidised by ratepayers and in some cases government)
- municipal services sometimes operate from premises which are rent free and have no outstanding loan debt - e.g. Selkirk Street workshops of the Cleansing Branch. Before making comparisons with private enterprise, a nominal rental should be charged
- the contractor's price would be subject to General Sales Tax in full whereas the local authority would only pay General Sales Tax on bought-in factors e.g. materials.

5.7 RECOMMENDATION FOR COMPARATIVE PURPOSES

When making comparisons, the following procedures could be considered -

- | | |
|----------|--|
| Property | - Delete capital charges from costs and substitute realistic rent. |
|----------|--|

- Vehicles and plant - Accept City Treasurer's capital charges where a large fleet is involved.
(See Appendix C for explanation of rationale.)

Quotations from private contractors may be influenced by:

- economic considerations. In times when business is slack, firms may be prepared to quote at cost or less to gain orders and make a contribution to their fixed expenses. Valid comparisons are not possible in these circumstances
- contractors may be prepared to tender at unrealistically low prices until the local authority's operation has been closed down. Thereafter substantial price increases could follow when the local authority has no alternative option. Again, valid comparisons can not be made
- use of outdated or unreliable equipment or methods. This could have an adverse effect on quality or job performance. Care should be taken to compare like with like
- contractor's facilities may not always be available to the local authority when required, e.g. during public holidays or in the case of an emergency
- when calculating the cost of a local authority operation, e.g. vehicles or plant, care should be taken to calculate rates based on a realistic level of utilisation. In some cases machines, e.g. bulldozers or fire engines are acquired and held in reserve to deal with emergencies. Rates based on the

actual utilisation level of such equipment will be invalid for comparative purposes

- local authority operations must be costed in such a manner as to enable realistic comparisons to be drawn with private contractors. There should also be some form of costing to reveal the true cost of plant and equipment, with regard to renewal or replacement. Traditional trading/profit and loss accounts should be created for internal services, to which all costs relating to the services should be charged.

5.8 CONCLUSION

While it is acknowledged that there are differences between municipal costing and the methods used by private enterprise, it must be stressed that valid costing procedures must be used before realistic comparisons can be drawn between local authority costs and those of private enterprise.

"The services could then recover these costs by setting an economic charge to the local authority's other departments in receipt of these services. The costs of these internal services could then be accurately established. These costing and accounting problems must be overcome in order to establish a sound basis for comparative purposes in the privatisation evaluation exercise." (Bendle 1986 : 128.)

Local authorities have often been criticised in that their comparative estimates are inaccurate and that costs can easily be "hidden" in a large bureaucracy.

Is this accusation justified?

The following response was elicited during the interview with the Cape Town Municipality's Deputy City

Treasurer: "As far as we are able to control the accounting issues we adopt an honest approach. If it came to our attention that departments were deliberately attempting to hide costs we would take a serious view of this and certainly take appropriate action. We make fair allocations of costs and we are often accused of going to extreme lengths to do this".

CHAPTER SIX

THE FACTORS WHICH INFLUENCE THE CHOICE OF AGENCY

CHAPTER SIX

6. THE FACTORS WHICH INFLUENCE THE CHOICE OF AGENCY

6.1 INTRODUCTION

In the preliminary chapters of this thesis the pros and cons of privatisation are discussed from a general viewpoint. This chapter formally states the factors relating to the advantages of public sector and private sector agencies for the provision of local authority services. The factors are formulated as a result of the literature survey, where annotated, and where not are added by the author. The factors have been modified to reduce emotion e.g. "privatisation leads to bribery and corruption" has been changed to read "... could lead to ...". It is felt that this results in greater objectivity.

From the literature survey the most important factors considered relevant to a South African application of privatisation were selected. Thereafter the author found that the comprehensive listing of factors could be assembled into three groups. This was considered to provide an orderly basis from which to investigate and evaluate the choice of agency.

Certain factors could be grouped under more than one criteria group but are categorised on a "best fit" basis. No attempt has been made for factor weightings or ranking order. The factors are listed on a random basis as each application will result in a different mix, ranking and weighting depending upon the inherent characteristics of the service under investigation. This comprehensive listing of factors becomes an integral part of the decision-making process for choice of agency and also forms the framework for investigation.

The criteria groups identified are:

- Economic and financial
- Strategic and political
- Administrative and managerial.

The listing of factors is a primary step in the thesis methodological approach and is hereafter referred to as the "check list".

The remainder of this chapter comprises the comprehensive listing of advantage factors for each agency in the categories defined above.

6.2 ADVANTAGES OF PRIVATE SECTOR AGENCIES

6.2.1 ECONOMIC AND FINANCIAL FACTORS

Privatisation can be less expensive than public provision of service. (Florestano 1982 : 353.) If the cost of the service can be reduced through utilising the private sector then this benefit should be passed on to the ratepayers. (Vivier 1982 : 12.)

Economies of scale can be gained when same private contractor provides service to multiple customers. (Goldman and Mokuvos 1984 : 70.)

Competition enhances efficiency and cost effectiveness. As long as there is competition the private sector will operate so as to attract custom. (Vivier 1982 : 12.)

Privatisation could allow local authorities to use their limited debt capacity to finance other essential needs. (Goldman and Mokuvos 1984 : 82.)

The use of private sector results in tax money being returned to the local economy and through the consequential multiplier effect spreading wealth. Tax benefits could also be used to lower service delivery costs. (Goldman and Mokuvos 1984 : 70.)

The profit motivation inherent in private enterprise is an excellent impetus for an efficient and cost effective operation. (Callegari 1985 : 30.)

The onus for productivity is on the contractor and the greater the productivity the higher the profit. (Wesemann 1981 : 18.)

Local government is permitted to take advantage of the profit motive. (Florestano 1982 : 353.)

Private sector management is motivated by the goals of self-advancement and monetary gain and therefore possesses a stronger incentive than public managers to perform well. (AFSCME 1984 : 14.)

The private sector usually has lower fringe benefit costs than a local authority. (Wesemann 1981 : 18.)

Private contractors have lower personnel costs because they do not have to conform to exact government wage scales. (Cryder 1985 : 40.)

Efficiency is higher in the private sector since contract service firms know that they can easily be replaced if work is not satisfactory or prices are not within budgets. (Callegari 1985 : 29.)

Rapid initiation of new projects can be attained without large initial outlays for facilities, equipment and training of personnel. (AFSCME 1984 : 13.)

The private sector has less leave privileges and benefits and construction employees are booked off in the event of inclement weather. (Wesemann 1981 : 18.)

During times of economic uncertainty or recession it may be necessary to cut back on services. Contracted services can be reduced without employee retrenchment and conversely costs in a local authority will continue even if the level of a service is reduced.

The private sector has the single objective of operating profitably and hence conducts its operations with the maximum efficiency. (Vivier 1982 : 12.)

A private contractor can proceed with a project at a faster rate as he can dispense with costly regulations and procedures which a local authority must adhere to. (Goldman and Mokuvos 1984 : 70.)

6.2.2 STRATEGIC AND POLITICAL FACTORS

The role of business and free enterprise in the national economy will be recognised. (Florestano 1982 : 353.)

Local authorities could determine more flexibly their own growth and development by not relying so heavily on government funding which dictates the ways in which the needs are determined. (i.e. minimises central and provincial government involvement in local affairs.) (Goldman and Mokuvos 1984 : 72.)

The growth and size of government will be limited. (Florestano 1982 : 353.)

Bureaucracy is avoided. (Atkinson 1984 : 32.)

Local authorities have permissive powers and the legal nature of these powers does not require the local authority itself to render the service. (Vivier 1982 : 12.)

Accountability and responsibility could be shifted to the contractor. (Florestano 1982 : 353.)

The contractor is responsible for dealing with trade unions and other aspects of labour relations. (Florestano 1982 : 354.)

A better quality service could be provided by the private sector. (Florestano 1982 : 354.)

6.2.3 AMINISTRATIVE AND MANAGERIAL FACTORS

Privatisation is not just an alternative financing technique, it is an alternative management technique for providing a necessary service and complying with central and provincial government regulations in the most timely, cost-effective and politically acceptable way possible. (Goldman and Mokuvos 1984 : 84.)

Contract managers can concentrate wholly on improving a service without involvement in day-to-day administrative issues. (AFSCME 1984 : 13.)

When a local authority provides a service it must cope with problems which range from payroll administration and personnel relations, to equipment operation and maintenance, vehicle problems and purchasing material. (Callegari 1985 : 29.)

For reason that a private contractor is removed from some of the constraints inherent in a local government agency there is belief that they can operate more efficiently. (Westerhof 1985 : 25.)

Local authority management has more time to plan future programmes and development when required only to exercise a monitoring role over the contractor. (AFSCME 1984 : 13.)

Recruiting adequate management expertise is difficult for local authorities especially in highly sophisticated operations. (Cryder 1985 : 41.)

Greater flexibility for innovation is achieved and to achieve certain programmes experimentally or to discontinue inefficient or ineffective programmes. (Florestano 1982 : 354.)

Work of a non-permanent or seasonal nature is given greater flexibility. (Florestano 1982 : 354.)

Specialised skills can be obtained from private sector as and when required saving cost of keeping specialists on the permanent staff. (Callegari 1985 : 29.)

Privatising part of a service serves as a 'yardstick' for comparison of cost and efficiency against the in-house unit. (AFSCME 1984 : 14.)

Repairs and replacement of equipment become the responsibility of the private contractor. (Cryder 1985 : 40.)

6.3 ADVANTAGES OF PUBLIC SECTOR AGENCY

6.3.1 ECONOMIC AND FINANCIAL FACTORS

Contracting is more expensive than local authority provision of service. (Florestano 1982 : 354.)

The local authority could become totally dependent upon a contractor who is, or later becomes, a monopoly. The lack of competition in the specific field of local authority services will mean that no real cost savings can be achieved. (Vivier 1982 : 12.) Competition for contracts to provide public services is too often the exception rather than the rule.

(Goldman and Mokuvos 1984 : 77.)

Private companies exist to make a profit. The necessity of profit can drive up costs, if not immediately, then eventually. (Lampkin 1984 : 50.)

Rather than saving money, contracting out often results in higher costs. Hidden costs such as contract preparation, administration and contract monitoring usually increase the price of contracted services. (Goldman and Mokuvos 1984 : 77.)

By not using a private contractor services can be provided at cost and the profit will not be distributed to the company's shareholders (who may be spread throughout South Africa) but retained within the regional economy.

A common practice among contractors is called "lowballing" or "buying in". Initially a very low price is offered to obtain the contract but once the local authority has disposed of its equipment it is wholly reliant on the contractor who can then quite easily obtain substantial price increases. (Goldman and Mokuvos 1984 : 77.)

Economies of scale could operate to the advantage of the local authority depending on its size vis-a-vis private contractors.

Contractors are constantly reducing costs in order to increase profits. Contracting out can result in a decline in the quality and efficiency of services. Contractors are tempted to cut corners by hiring inexperienced personnel, by ignoring contract requirements and providing inadequate supervision. (Goldman and Mokuvos 1984 : 77.)

Once a private contractor has secured a contract he could seek to shed the least profitable aspects of the service and attempt to cut corners. (Imeson 1984 : 4.)

If the private contractor goes insolvent or into liquidation the local authority will be faced with a crisis particularly if its own capacity to deliver the service has been dismantled. (Vivier 1982 : 12.)

6.3.2 STRATEGIC AND POLITICAL FACTORS

The pool of direct labour employed by a local authority could be mobilised quickly to deal with any disaster or civil defence emergency.

When citizens complain about a contracted service, local authority officials could be left in a position with little more to do than complain to the contractor or enter into costly contract re-negotiation or termination proceedings. (Lampkin 1984 : 50.)

Corruption in contracting out has increased dramatically. Numerous cases of bribery, kickbacks and collusive bidding have characterised contracting out. In addition, organised crime appears to have assumed an even larger role in illegal activities associated with contracting out. (Goldman and Mokuvos 1984 : 77.)

Local authorities provide services for need and not for profit. (Imeson 1984 : 3.)

The Labour Relations Act prohibits strikes by local authority employees rendering essential services and there can be no breakdown of services in times of civil unrest. (Vivier 1982 : 12.)

Contracting out results in less accountability by the local authority to its citizens. (Goldman and Mokuvos 1984 : 77.)

Contracting out is less responsive to changing service needs. (Florestano 1982 : 354.)

Contractors, unlike most Councillors have little motivation for social welfare, their main concern is profit. (Imeson 1984 : 4.)

Contractors might lack the experience and sensitivity to deal with individual citizen's problems.

Local authorities employ and train apprentices which is an important role for the future not enthusiastically carried out by private contractors. (Imeson 1984 : 3.)

Public managers directing a public workforce have a large degree of flexibility to respond to unforeseen circumstances. On the other hand the contractor can refuse to do even the smallest task if its not in the contract. If its not in the contract it will cost more. (AFSCME 1984 : 15.)

Local authorities observe the health and safety requirements and legislation which increases the cost of its work making meaningful comparison of costs with a private contractor difficult. (Imeson 1984 : 3.)

Contracting out may provide inferior quality services for the citizens. (Florestano 1982 : 355.)

The rendering of services by a private contractor will inhibit experimentation and innovation particularly in the field of minimum services for the less affluent areas (Vivier 1982 : 12.)

A local authority must be able to recruit and retain particularly professional staff who must be trained for planning and managerial jobs so that they may acquire the expertise necessary to reveal for example shortcomings in consultant's designs or a contractor's shortcuts.

Lack of experience by private firms in service delivery is a major problem. (Imeson 1984 : 4.)

Few competent and ambitious professionals required by a local authority would remain in its employ if the most interesting and stimulating jobs are always undertaken by the private sector.

Privatisation leads to loss of public jobs and worse conditions for workers. (Imeson 1984 : 4.)

Contracting is unworkable if private contractors do not want to do business with local government.
(Florestano 1982 : 354.)

Local authorities benefit the workforce in terms of the principle of built-in stability of employment in providing jobs for school leavers, safety, health and welfare service, superannuation, sick benefits, etc.
(Imeson 1984 : 3.)

As a local authority increasingly places its workload out on contract so it generates less and less expertise from within. Therefore it becomes less capable of (ever) doing the work itself again.

6.3.3 ADMINISTRATIVE AND MANAGERIAL FACTORS

A major difficulty is in the drafting of appropriate job specifications and the resultant contract to ensure that the local authority gets what it wants for the agreed upon price. (AFSCME 1984 : 15.)

A great deal of time and work is required to provide regular oversight of this process. (Florestano 1982 : 354.)

Many services can not be delivered independently or in isolation because the nature of the services requires frequent interaction with other services within the local authority's infrastructure.

The drafting of job specifications and contracts often leads to contractor performance which is too rigid or narrow to maintain quality public services. (Goldman and Mokuvos 1984 : 77.)

In-house provision of services allows a local authority to control its priorities. (Imeson 1984 : 3.)

Contracting out is frequently used to mask the inadequacies of public officials who can not manage their own operations properly. (Goldman and Mokuvos 1984 : 77.)

It is extremely difficult to negotiate a tightly worded contract. (Florestano 1982 : 354.)

A dual employment system could be created. One with public workers subject to strict personnel regulations and pay and benefit schedules and another subject only to rules of their private employers. (AFSCME 1984 : 16.)

It is an unproven assumption that local authorities are less efficient in the rendering of services than the private sector. (Vivier 1982 : 12.)

CHAPTER SEVEN

THE METHODOLOGY OF INVESTIGATION

CHAPTER SEVEN

7. THE METHODOLOGY OF INVESTIGATION

The objective of this chapter is to set out the characteristics of the methodology of investigation.

The primary objective of this thesis is stated as follows:

"to contribute to a methodology which will assist the choice between a public sector agency and a private sector agency for the provision of certain local authority services."

Achievement of the primary objective is attainable through the fulfilment of a set of secondary objectives relating to:

- examining the issues involved in comparing private and public sector agencies
- establishing criteria for the assessment of the agencies
- examining the methodological approach and illustrating its application by way of actual case studies.

The first of the secondary objectives is fulfilled in part one of this thesis.

Part two of the thesis sets out the factors affecting the choice of agency between the private and public sectors. These are grouped under the three criteria, thus fulfilling the second of the secondary objectives.

Sufficient preliminary work is now completed to enable the methodological approach to be formally stated. Set out below is the methodological approach which requires specific application to each proposal for privatisation on its merits as generalisations could be misleading. Privatisation could be advantageous in certain areas in respect of certain services or under certain circumstances and not in other areas or circumstances in respect of the same services.

The first step entails a literature survey of privatisation or contracting out generally, supplemented by a more specific literature survey relevant to the service under investigation. Reference is made to the advantage factors for each agency in part two of the thesis which serves as a "check list" and forms the basis for the necessary investigation. (Problems were encountered in obtaining relevant literature. An extensive search succeeded in securing only one relevant text book. The remainder of the literature, mainly in the form of research papers, journal articles and periodicals, was imported from the United States and the United Kingdom. This was supplemented further with company reports, annual reports and in-house files. Very little published material is available on the South African application of privatisation.)

The second step researches the background and investigates the present agency for delivery of the service, providing relevant logistical data and details of expertise available which is placed in context with local authorities adjacent to Cape Town and potential private sector contractors. This study of the service seeks to determine the pertinent characteristics for investigation.

The third step constitutes the selection of relevant factors from the "check list" for investigation.

The fourth step investigates the service. Personal structured interviews incorporating open-ended questions form the primary basis for data and evidence collection.

The fifth step discusses and analyses the data and information collected and researched under the categories of economic, strategic and administrative criteria. The findings are evaluated and own opinions and comments are formulated.

METHODOLOGY OF INVESTIGATION

LITERATURE SURVEY
ADVANTAGES OF PRIVATE SECTOR AGENCY
ADVANTAGES OF PUBLIC SECTOR AGENCY

STUDY OF SERVICE UNDER INVESTIGATION
DETERMINE IMPORTANT CHARACTERISTICS

SELECTION OF RELEVANT FACTORS FROM
"CHECK LIST" FOR INVESTIGATION

INVESTIGATION
PERSONAL INTERVIEWS

ANALYSIS OF DATA
AND EVIDENCE

CONCLUSIONS

CHAPTER EIGHT

CASE STUDY: SOLID WASTE COLLECTION AND DISPOSAL

CHAPTER EIGHT

CASE STUDY: SOLID WASTE COLLECTION AND DISPOSAL

8.1 INTRODUCTION

The purpose of this chapter is to develop a case study of the solid waste collection and disposal service provided by the Cape Town City Council and place it in context with adjacent local authorities and the main private enterprise contractors within Greater Cape Town with the objectives of:

- testing the devised methodological approach
- drawing conclusions and formulating recommendations concerning the solid waste service.

The motivation for selecting the solid waste (collection and disposal) service as a case study was two-fold. Firstly the literature survey undertaken revealed that in the United States of America and the United Kingdom experience this was the public service most frequently and extensively privatised.

Secondly, Wasteman CC actually made representations to the Cape Town City Council during 1985 for "one or more suburbs of Cape Town to convert to the private contracting method." Subsequently on 1986-03-03 the Utilities and Works Committee of the Cape Town City Council received a presentation from Wasteman CC in this regard.

The literature survey was undertaken in the first part of this thesis and outlined the background, trends and characteristics of privatisation. From this information a comprehensive listing of factors which are private

sector agency advantages and public sector agency advantages for service provision was derived. This comprehensive listing provides the "check list" for the case study which follows.

The complex issues of the privatisation debate inevitably raise many questions - does it really work?, how much money can be saved?, how many other local authorities in the region utilise private contractors?, what have been their experiences?, how efficient is it?.

The background to the solid waste function in Greater Cape Town is described. The scale, dimensions and current status of the operations of the Cape Town, Milnerton, Pinelands and Fish Hoek Municipalities and the private sector contractors are outlined.

The approach to the study with particular reference to the method, steps and procedures followed is described.

The data collected and researched is discussed under the three identified criteria groupings.

The findings are analysed and conclusions, comments and opinion are derived.

8.2 BACKGROUND

The purpose of the solid waste service is in general terms to provide the organisation, planning and control of an efficient and effective solid waste cleansing service to achieve a clean and healthy environment.

FACETS OF THE SERVICE

GENERAL	MATERIAL	PROCESSES (PROCESSES OF DISPOSAL AND/ OR TREATMENT)
Waste collection, waste disposal and/or treatment, enforcement of by-laws: littering and dumping, resource re-use or recovery.	Domestic (and commercial) waste, industrial waste, builder's rubble, nightsoil, waste from public areas, sludges and intractable liquids.	Composting, pulverising, sanitary landfill recovery.

The statutory responsibility for the collection and disposal is vested with local authorities and can not be delegated to any other body. However, a local authority may contract for the private sector's involvement in the service without surrendering its ultimate responsibility.

The City of Cape Town's population is 991,000 and the number of households (including commercial sites) served is 226,000 (twice or more per week).

In its streetsweeping operation the length of roads to be cleaned is approximately 2 200 kilometres. The City's cleansing operation employs a total labour force of 2 015 employees and the total of its vehicle fleet (all types) is 226.

The following extract from the City's budget for the year ended 1986-06-30 clearly demonstrates the magnitude of its cleansing operation:

OPERATING EXPENDITURE

R

Refuse removals	8 149 415
Street cleaning	11 565 485
Beach cleaning	546 425
River cleaning	251 550
Stercus removal	187 505
Refuse disposal	<u>4 630 005</u>
	<u>25 340 385</u>

The City operates disposal sites at Vissershok, Swartklip and Strandfontein. In addition a pulverising plant at Athlone has 100 tons per hour capacity and pulverised refuse is transported and tipped at Swartklip. There are no government or provincial subsidies, and with the exception of minor revenue contributions all funds are obtained from rates.

All rateable properties have a free service for domestic refuse but are charged for industrial refuse. Non-rateable properties are charged for domestic and industrial refuse removal.

The important feature of the collection function is its vast scale, (Cape Town carries out 450,000 collections per week), requiring close attention to detail. Computer aids are available for optimising disposal facility locations, routing, "beat balancing" and vehicle fleet management.

Cape Town produces approximately 200 000 tons per annum of domestic solid wastes and approximately 100 000 tons per annum of commercial and industrial solid waste.

The Cape Town Municipality has never contracted out a part of its domestic refuse collection and disposal although this did come under consideration in 1977, 1980 and 1986.

The argument on the one side was based on the anticipated stimulus of competition, and on the other side the decision not even to try private enterprise was based primarily on strategic grounds and secondarily on economic grounds.

The following is the status of the solid waste service delivery in three municipalities adjacent to Cape Town. Pinelands Municipality's solid waste collection and disposal service is presently contracted out to Waste-tech (Pty) Limited. This change of agency took place in 1976 and the municipality is presently in its third contract renewal with the same contractor.

The population is 12 120 and the number of dwellings (premises) serviced is 3 270. Only one compactor is utilised by the contractor for the twice weekly domestic collection and the once monthly garden refuse collection. The reason for contracting out was not primarily cost. Pinelands had its own tip site, however this was situated on the windward side of the municipality causing the smell to be blown into the residential area. The tip was regularly set alight and was frequented by vagrants. Burglaries in the area increased drastically and complaints to Council reached alarming proportions. Another factor was that having only one cleansing vehicle led to severe maintenance problems and unproductive downtime. Pinelands wanted to rid itself of the problems associated with the tip site and these could be eliminated by contracting out.

The Fish Hoek Municipality first contracted out its solid waste service in 1974 and is currently under the third 5-year contract with essentially the same contractor.

The population of this municipality is 12 500 and the number of dwellings (premises) serviced is 3 723. The contractor utilises one compactor to provide a similar service to that described for Pinelands above. The reason for Fish Hoek's decision to contract out was the same as Pinelands; to close the tip site in the town.

The Milnerton Municipality carries out its own solid waste collection and disposal. The operating expenditure for this service for the year ending 1986-06-30 is R857 250. The municipality employs a total of 53 employees in the delivery of this service and utilises 11 vehicles (including 5 compactors). The population of Milnerton is 34 000 and the dwellings (premises) serviced are in excess of 10 000. Milnerton possesses its own tip site, a landfill site located on the northern boundary of Tableview. In 1981 contracting out was considered by the Council. No formal tender was put out but quotes were obtained from private companies and comparisons were made with tenders that other local authorities had put out at that time. No decision for change was taken because the Council felt that the price comparison between in-house and private contractor together with the "risk" of contracting out was not strong enough motivation.

A telephonic survey of other surrounding municipalities revealed that the municipalities of Kraaifontein and Strand contract out collection and disposal. Simon's Town's service is currently out to tender. The municipalities of Somerset West, Goodwood and Durbanville contract out the refuse disposal facet of their service to private enterprise. Parow Municipality

contracts out waste removal from its composting plant.

There emerged only two satisfactory private enterprise contractors for the refuse collection and disposal type of contract put out to tender by the municipalities described above. The larger of the two is Waste-tech (Pty) Limited, operating since 1975, a member of the D & H Group (Darling and Hodgson) and part of GENCOR. Waste-tech is a national company and operates from depots in Pretoria, Springs, Durban, Pinetown, East London, Port Elizabeth and the Western Cape (three depots). Waste-tech is involved in the entire waste-handling process and its Western Cape operation has a current annual budget of R3,8 million, utilises 54 vehicles in its fleet including 10 compactors and employs a total staff complement of 141.

Waste-tech has its own sanitary landfill site at Vissershok (adjacent to one operated by Cape Town) and controls and operates another in Bellville under contract to Stellenbosch University.

The second major contractor is Wasteman CC which has been in business in its present form since 1980 and claims an average growth of 31 % per annum. Wasteman has over 160 clients and serves more than 500 collection points.

Wasteman operates a fleet of 17 vehicles and employs a total of 50 staff but because it is a close corporation it does not supply details of its budget. The Company does not have its own disposal site and utilises the disposal facilities of Waste-tech under the payment of a tipping charge.

8.3 APPROACH

The objective of applying the devised methodological approach is to obtain data, information and evidence on the factors identified for the solid waste service, aided by the "check list" grouped under the three criteria for analysis, to determine the most advantageous agency. The question is which agency can most efficiently deliver this service ... and why?

A preliminary study of the solid waste service was undertaken to identify its essential characteristics. What clearly emerged was that solid waste is an essential service and therefore its disruption could cause serious consequences for the community as it carries a health risk. It is in most cases the service that has direct contact with the highest proportion of the ratepayers and is very much a "visible service".

The essential criteria and characteristics are identified in that the service must be:

- economic
- efficient and effective
- continuous, stable and reliable
- sensitive to the needs of the community.

As an analogy, if a fire protection service were under consideration for privatisation then the most essential characteristic would probably be 'response time'. If this were not immediate then even though an alternative agency could provide the service at half the cost, further consideration would be futile.

The "check list" of advantage factors for each agency is carefully scrutinised bearing in mind the essential characteristics to determine which are applicable to the solid waste service.

The relevant factors and variables are identified for the purpose of investigation and analysis, and consideration is given to relative importance of the factors and the degree of information and research required for each factor.

Certain factors in the 'check list' are self-evident and do not require research but nevertheless the principle should still be considered as part of the overall decision for choice of agency e.g. "bureaucracy can be avoided" and "contractors have little motivation for social welfare" etc.

The following factors in their criteria grouping were considered as important for the analysis:

ECONOMIC: cost, competition, motivation for productivity and efficiency, economies of scale, risk of insolvency, staff flexibility.

STRATEGIC: quality of service, pool of labour for emergencies, strike threat, accountability to the citizens, compliance with health and safety requirements and legislation, loss of public jobs and worse conditions for workers.

ADMINISTRATIVE: managerial effectiveness, provision of a monitoring programme, administration of the contract, handling of citizens complaints, and operational flexibility.

As a basis for the background to this information annual reports, in-house files, journal articles, research papers, company periodicals and newsletters were scrutinised and informal discussions were conducted with various persons in the solid waste industry.

Data and information were acquired from the municipalities of Cape Town, Milnerton, Fish Hoek and Pinelands and from the private contractors viz. Waste-tech (Pty) Limited and Wasteman CC.

It was decided for the purposes of this case study that personal structured interviews should be held with senior management personnel of all the above enterprises. The form of questions considered at the interviews was open-ended. A questionnaire approach was considered limited in that privatisation is a very topical matter and could lead to emotive issues. It was considered more effective to personally gauge the strength of the arguments. Secondly, many of the factors under research are difficult or impossible to quantify and are therefore impractical for questionnaire format.

In order to obtain a fair comparison of the characteristics it was decided to balance the interviews for data collection by investigating the following categories:

Two private contractors were selected viz. Waste-tech (Pty) Limited and Wasteman CC. These contractors were not selected arbitrarily but on the basis of a preliminary survey which showed that they were:

- the largest solid waste contractors in the Western Cape

- the only firms tendering and being awarded local authority contracts in the region.

Two local authorities providing this service in-house were selected viz. Cape Town Municipality and Milnerton Municipality. It was considered necessary that for comparative purposes the local authorities selected were not only in the same region but also adjacent to the Cape Town Municipality.

Two local authorities which have contracted out this service viz. Pinelands Municipality and Fish Hoek Municipality were selected. They both comply with the criterion of being adjacent to the Cape Town Municipal area.

The criterion for the selection of candidates for interview was that they be the most senior official in each organisation.

The personal interviews were structured on the following phases:

- directly factual information relating to size, scale and dimensions of the enterprise's solid waste operation
- factual information relating to the factors that are quantifiable under criteria groups in the sequence; economic, statergic and administrative
- an open ended and frank discussion in more general terms on factors not easily quantifiable and where opinions and suggestions were gathered. Emotive issues were aired.

A list of questions was used to structure the interviews for each of the following organisations:

- local authorities contracted out
- local authorities providing the service in-house
- private contractors.

The list of questions is provided in Appendix G .

All persons interviewed agreed to the use of a recording device which greatly facilitated the pace of the discussion and the resultant continuity allowed in-depth consideration of the issues.

The following is the list of persons interviewed in alphabetical order, their designation or function and their respective organisation:

NAME	DESIGNATION	ORGANISATION
Mr D Barson	Works Manager	Milnerton Municipality
Mr I Bewick	Regional Manager	Waste-tech (Pty) Limited
Mr A H Blumenthal	Assistant City Engineer (Solid Wastes)	Cape Town Municipality
Mr J G Brand	Former City Engineer	Cape Town Municipality
Mr D Brook	Deputy Town Engineer	Milnerton Municipality
Dr R Coogan	Medical Officer of Health	Cape Town Municipality
Mr C Davidson	Managing Director	Wasteman CC
Mr A C De Bruin	Vice President	Institute of Waste Management (S A)
Mr J H Forbes	Principal Officer (Costing)	Cape Town Municipality
Mr E Fry	Town Clerk and Treasurer	Fish Hoek Municipality
Mr P Hare	Marketing Director	Wasteman CC
Mr J Hooley	Market Development Manager	Waste-tech (Pty) Limited
Mr T Hollis-Turner	Director of Administration	Milnerton Municipality
Mr R Tyler	Deputy City Treasurer	Cape Town Municipality
Dr K C Wall	Assistant City Engineer	Cape Town Municipality
Mr W M Ward	Town Engineer	Pinelands Municipality

8.4 INVESTIGATION

ECONOMIC FACTORS

- Cost:

The solid waste service is not subsidised by central or provincial government but is financed entirely from the rate fund. Cost is therefore of paramount importance and in the literature survey has been cited as the major reason for contracting out this service.

The private contractors confidently claimed that they could deliver the same service presently provided by the Cape Town Municipality for a lesser cost owing to the absence of bureaucracy and the incentive for profit. The profit motive is no guarantee of cost-efficiency and the public agency's costs need not necessarily be higher than the private agency. However, it is an acknowledged fact that a private enterprise's primary objective is profit and it will therefore strive unceasingly to keep costs as low as possible.

The local authorities and the contractors are in agreement that "price per bin" is not a suitable unit of measure for comparative purposes. The contractors believe that cost can only be realistic if it is based on the amount of work that the company is going to do in terms of the contract i.e. a charge per contract. Wasteman charge the Strand and Parow Municipalities a "price per month for the full service".

Generally when a contractor tenders or quotes for collection and disposal he takes the following factors into account:

- size of area
- number of vehicles required; and
- size of crew required.

Wasteman want Cape Town to advise them how much it costs to service a specific area; they in turn will quote and guarantee to deliver the same service for a lesser cost.

Cape Town considers it unethical to think that a local authority would accept this type of "bargaining" as a method of comparing cost. Cape Town: "the only way to compete is on an open tender under the same conditions and we are confident that we can beat the price of any contractor - if they tender true costs!" The contractor could quote an unrealistically low price initially by subsidising the operation to gain a foothold and this possibility of "lowballing" is a very real danger.

Cape Town's confidence in claiming to be less expensive than the private contractors is based on tender prices in the Western Cape during the last two years.

The following two cases substantiate the issue. Reference is again made to the Fish Hoek case outlined in Chapter 4.

The private contractor's original price to Fish Hoek was R195 000. Cape Town's marginal costs, (no overheads allowed for) was R85 000. The Cape Town Council would not agree to provide this service for marginal cost, but at the same rate as the average cost to Cape Town's ratepayers. This figure was revised to R145 000 (average cost). This price provided for a more comprehensive service than that to be provided in the original quote from the tenderer. The contractor subsequently revised its original tender price down to R136 000. It can be concluded that the contractor's final price must still have been profitable because Cape Town's costs (R85 000) were substantially lower.

The second example is an actual tender Cape Town put out for the sweeping of streets and main roads for a period of five years (Tender 396/84). The following is a summary of the tenders received.

TENDERER	PRICE R
Spazzini Spa	22 227 500
Table Mountain Plant Hire (Pty) Limited	5 555 863
Waste-tech (Pty) Limited	3 859 284
Cleansing Branch, Cape Town	2 325 407

The above example is self-explanatory and needs no further comment at this stage.

During the interviews undertaken the author requested that the contractors and local authorities supply an informal quote as an example based on the standard format as detailed hereunder. (The figures for Cape Town represent only a portion of the municipality.)

The data presented below for Waste-tech (Pty) Limited refers to its current contract with the Pinelands Municipality. Similarly, the data for Wasteman CC refers to its contract with the Strand Municipality.

	WASTE- TECH	WASTE- MAN	CAPE TOWN	MILNERTON
Number of dwellings	3 150	8 000	34 000	10 560
M ³ collected	24 960	40 000	*	68 500
Total cost	R121 500	R300 000	R1 250 760	R165 000
Cost per dwelling/per year	R38,57	R37,50	R36,78	R15,62
Cost per m ³ per year	R4,86	R7,50	*	R2,41

(*) These figures could not be obtained from Cape Town because all refuse collected is weighed by weighbridge at each disposal site and records are kept and analysed for "beat balancing purposes". Cape Town commented that weight is the only proper measurement because of the large variation (up to six times in density) of the compaction factor. The contractors do not operate on the weight basis but use cubic metres as a measurement.

The above local authorities and contractors readily agreed to supply the above information but Wasteman warned that this method of comparison could be misconstrued and might even "make their costs appear more favourable than they really are".

This method was used in a research study comparing private and public contractors in the City of Winnipeg, Canada. (Ross 1982 : 61.)

Adjacent local authorities and the private contractors have been unsuccessful in obtaining authority from the Cape Town Municipality to use the Athlone pulverising plant. They were critical of Cape Town in that this exclusion necessitates extra haulage for them, considerably increasing their costs.

Pinelands in particular feel aggrieved that they are not permitted to use the nearby Athlone tip site for two interesting reasons:

- they could then probably carry out the service in-house more economically; or
- the price of the contractor will be less than at present as the refuse is transported a considerable distance to Waste-tech's Bellville site.

The Cape Town Municipality's decision was based on the loss of control over materials delivered at the plant which could seriously damage the pulverisers, for example rags which could wrap around the hammers. Cape Town Municipality's trucks which serve the factory areas in Cape Town may not utilise the pulverising plant. They dump directly at Vissershok.

- Competition:

The private sector claim that the waste industry is extremely competitive. Waste-tech claim that the following are their competitors: Waste Control, W G Waste, Skipaway, Wastemaster and all the other independent operators referred to as "rats and mice". Waste-tech encounter problems when competing with the small "fly by night" contractors who tender a very low price for a contract but dump the waste in the nearest bush causing serious environmental problems (many actual cases were quoted). Waste-tech have brought this to the attention of the Institute of Waste Management who are continually striving for tighter legislation to control waste disposal. Wasteman more realistically cite only three competitors (including themselves and Waste-tech) for domestic waste in the Western Cape but hasten to add than even that is too many!

Wasteman warned that the industry in the Western Cape can not support more than three main contractors unless the Cape Town Municipality agreed to privatise part of its operation.

When challenged to support the effect of competition, Wasteman claimed that proof of this lies in the fact that during the eight years that they have held the contract for the Community Development the price has come down. The Community Development contract that Wasteman holds in Cape Town involves inter alia the following establishments:

Acacia Park, Ysterplaat Air Force Base, Wynberg Military Base, Wingfield Military Base, Faure Coloured Corps, Alexandra Institute, Valkenberg Institute, various central business district buildings (38 in total), the Cape Town Castle, Museum, Parliamentary Buildings, Kalk Bay Harbour, Bellville Governmental Buildings, Pollsmoor and Westlake Complex.

In 1978 the price per bin was 16,05 cents and in 1986 the price per bin is 14,05 cents (this is without even discounting or allowing for inflation).

A further challenge on how Wasteman could achieve this decrease in price when transport costs have rocketed particularly during the last few years evoked a reply that the Company had become far more efficient because of the effect of competition.

A survey of the local authorities which have put out tenders over the past ten years revealed that the only tenderers were Waste-tech and Wasteman.

Fish Hoek acknowledged that competitive offers are very limited and expressed the fear of a possible future monopoly. Cape Town considers Waste-tech and Wasteman as the only serious and capable contractors.

- Motivation for productivity and efficiency:

The private contractors were candid in stating that their primary objective was profit maximisation and as productivity and efficiency were crucial to this aspect they received priority attention.

The contractors were unanimous in that because they were not subject to bureaucracy and 'red tape' they could do whatever is necessary to achieve optimum performance of these two factors.

In almost all cases the motivation for productivity and efficiency for both management and staff is in the form of monetary bonuses. Waste-tech crews are on an incentive scheme whereby when they have completed their task they are allowed to go home. The drivers are on a bonus scheme paid on a weekly basis dependent on the number of complaints as the driver is also the supervisor of the area. Other motivating bonuses are paid based on the analysis of tachograph readings and the best driver each month earns an extra R150.

Wasteman offers the following incentive schemes:

- bonus pay structure based on the time it takes to complete a certain job. This is measured against standard time and a bonus is paid accordingly;
- efficiency measurement criteria entail a bonus being paid on levels of efficiency achieved against predetermined levels;
- cleanliness bonus for vehicle and personal hygiene;

- downtime bonus motivating the driver to look after his vehicle and drive it correctly to keep downtime to a minimum;
- unbroken attendance and non-use of sick leave leads to a bonus;
- employees are paid an extra bonus annually depending on the performance of the company.

The Cape Town Municipality allows its employees to go home after completion of their shift and provides a merit award system for good performance.

Milnerton disclaim that profit is the only motivation and conversely state that providing a quality service to the citizens is a greater motivation.

Both the local authorities and the private contractors displayed a high regard for each other's productivity and efficiency.

"Neither Wasteman nor any other Cape waste removal concern had claimed that they could do the work more efficiently than the City Council because ~~the~~ Council's teams have been very well run" (quoting the Managing Director in Wasteman News, Issue 2, May 1986).

- Economies of scale:

The Cape Town Municipality claimed they could achieve economies of scale due to the size of their operation if they tendered for additional or adjacent areas.

This claim is based on two factors:

Firstly, they operate a massive transport fleet (226 vehicles) which includes 146 collection vehicles. This provides tremendous flexibility in their transport operation as its scale allows standby vehicles to be available in the event of breakdowns. The size of both Waste-tech and Wasteman's fleets could not economically support a comparable vehicle standby facility.

Secondly, the strategically positioned disposal facilities and availability of pulverising plants demanded by the scale of the City's operation provide economies in haulage costs.

Reference can be made to the relevant table on page 104. The major contributory factor for the Milnerton Municipality's low costs is the fact that they possess their own disposal site within their municipal boundary. Haulage distances are therefore minimal.

Waste-tech also claimed they could demonstrate economies of scale as they have presently tendered for a contract put out by the Simon's Town Municipality. They could therefore offer a very attractive price as they are presently servicing the adjacent local authority viz. Fish Hoek.

The present vehicle used for Fish Hoek could assist in the Simon's Town operation because it is not always fully loaded. This is a cost-reducing factor.

Waste-tech are confident that they could achieve similar economies of scale if Cape Town allowed them to service an area e.g. Maitland and environs which is adjacent to their existing Pinelands contract but not so if the area put out to tender were not adjacent e.g. Sea Point.

Wasteman does not agree that economies of scale could be achieved from their operation. Each contract would individually require vehicles, labour and transport to the tip even if the contracts were geographically adjacent. According to the Managing Director of Wasteman: "If economies are achievable then we are not operating our fleet efficiently in the first place."

- Risk of insolvency:

This factor is of critical importance as solid waste is an essential service. The private contractor is running a business and within any business the risk of insolvency is inherent.

Even if a portion of Cape Town were contracted out e.g. Maitland and environs and through the contractor becoming insolvent the Council had to resume the service it would still lead to chaos. There are no spare trucks (6 would be required) within the service, these would have to be ordered allowing for a lead time of 6 to 12 months, but before they could be ordered many months would be lost in obtaining the necessary authorities from Council and the Administrator.

Milnerton are concerned that if they dispose of their fleet they would realise very little value in monetary terms as they operate older vehicles the cost of which had been written off many years ago. Maintenance is their only cost at present. Should the contractor become insolvent then a resultant cost of re-establishing the fleet for the municipality would be almost totally prohibitive.

In the Fish Hoek contract Waste-tech have provided for a bank surety against insolvency to the amount of R20 000.

Waste-tech commenced operating in 1975 and Wasteman in 1980 and both have survived the recession of the 1980's.

Wasteman claim that they can provide sufficient collateral in any contract to overcome this fear.

Both Fish Hoek and Pinelands admitted that should their contractors become insolvent then they would appeal to Cape Town Municipality for assistance.

- Staff flexibility:

If, due to financial stringencies, the local authorities are required to reduce their level of service, then they would not be able to reduce their staff complement commensurately. In the Cape Town Municipality amendments to the fixed establishment with regard to the abolition of a post deemed to be redundant are handled in two ways:

- (i) The incumbent shall be retired from the service in terms of the Pension Fund Rules. In effect the municipality would have to bear the cost for employees up to their normal pensionable age, whereupon the Pension Fund would take over the liability.
- (ii) The incumbent shall be carried in a supernumerary capacity at his previous rate of pay until by way of wastage or otherwise a vacancy is created in another post on the fixed establishment in which he may be suitably employed.

(Cape Town Municipality Conditions of Service of Employees Paragraph 8(6)(a).)

The above could entail considerable long-term costs for the local authority.

Conversely when extra staff are required Committee approval is necessary and the resultant delays could lead to inefficiencies in the operational and managerial activities. The creation of new posts for additional services could take many months to proceed through the various committees. For example in the Cape Town Municipality the relevant report is submitted to the Town Clerk in the first instance, thereafter it is considered by the Municipal Service Commission for onward transmission to the Executive Committee and finally Council.

The private contractors can engage and dismiss their employees more easily. The notice period for a driver is 24 hours and a labourer 48 hours. This ensures greater flexibility for work of a non-permanent or seasonal nature.

STRATEGIC FACTORS -

- Quality of the service:

Local authorities consider it a prerequisite that due to the nature of the service a very high standard must be maintained. Solid waste as an "essential service" must be maintained at a quality level of 100 % as the entire community could suffer in decreased values associated with public health if even a small section endures a breakdown in continuity.

Any financial pressure on the contractor could be likely to affect standards adversely.

Cape Town's Medical Officer of Health advises: "If the contract stipulates that the contractor be given a trial period to prove his ability to carry out the contract satisfactorily with the proviso that it was to the standards required by the Health Department of the City then I would not object to such a contract."

"My mind is not closed to the suggestion of privatisation provided they satisfy our requirements and that we have redress if they do not. We must not be bound by a contract while the contractor is rendering an unsatisfactory service."

The Medical Officer of Health stressed the importance of control over services which impact on public health whether they are carried out in-house or under contract. If an in-house operation does not comply with standards laid down in terms of the Public Health Act the matter is taken to the Health Committee and then to Council. He does not want a situation to arise whereby a contract with a private contractor takes this power away. The monitoring aspect and the ability to put things right if necessary is essential. The Medical Officer of Health can not abdicate his responsibility under the Health Act 63 of 1977 particularly Sections 20 and 23.

An examination of the records of Pinelands and Fish Hoek revealed that complaints are down to an acceptable level and the local authorities are generally satisfied with the level of service provided by the contractors. Pinelands experienced severe problems with their contractor during the first contract due to managerial changes in the company at that time and complaints were averaging more than 50 per day compared with the present average of 2.

In terms of the contract negotiated by Fish Hoek, if the contractor fails to deliver the agreed level of service then they are empowered to call in an alternate contractor to rectify the situation and offset the cost against the original contractor.

The Cape Town City Council recently conducted an Opinion Survey to ascertain the public's view of the services it provided, both in respect of importance of service and level of satisfaction. The City's refuse collection was rated first by a long way on both aspects. Details of results are provided in Appendix D.

- Pool of labour for emergencies:

The facility of having a large labour force available has been of inestimable value to the Cape Town Municipality in times of emergency. The labour force of the Cleansing Branch can be assembled during the night - and this has been done on many occasions. In fact the resources of this large labour force form part of the civil defence plan for the City.

Milnerton Municipality operates on a similar basis. This fact is of minor importance to Fish Hoek and Pinelands as the relatively small labour force they would have employed in-house would be of little consequence and road works and parks labour gangs are available. This contingency would not form part of the contract entered into with a private contractor.

- Strike threat:

A strike is illegal when:

- there is a current industry agreement
- less than one year after a wage determination
- the industry is an "essential" industry or service.

The Labour Relations Act 28 of 1956 prohibits strikes by the employees of local authorities rendering essential services. It could be argued that if the service is privatised then the contractor would be delivering the essential service and therefore in terms of the Act his Company would not be subject to a strike action. This is not so.

Section 65 and 46 of the Act read together clearly state "employees of the local authority" and therefore the employees carrying out the service for the private contractor are not subject to the same legislation.

Neither Waste-tech nor Wasteman have been subjected to a strike action but acknowledge that they would have a major problem. In recent times a new labour disruption termed "stayaways" has emerged. The effect of this disruption during the current year (for the 1st May and 16th June) on the Cape Town and Milnerton Municipalities has been very slight and the service was virtually unaffected.

Both private contractors experienced a total stayaway resulting in no service to their respective municipalities. In both instances an extra collection was provided on the preceeding day.

It is a condition of employment (Condition of Service 5(2)(b)(ii)) that all employees of the Cape Town Municipality become members of a labour union. Waste-tech and Wasteman's employees are not members of a labour union.

The Cape Town cleansing operation has a comprehensive Emergency Plan which allows for the possibility of a strike situation. The service although in a modified form would continue. The private contractors have no such contingency plan.

- Accountability to the citizens:

If only a portion of the City were contracted out then Cape Town would continue to be responsible for the overall planning and control by way of an appropriate monitoring programme and therefore accountability to the citizens should not be effected.

Pinelands and Fish Hoek do not supervise, inspect or monitor the contractor and merely pass on complaints from the citizens to the contractor. Accountability to the citizens is somewhat diminished.

- Compliance with health and safety requirements and legislation:

The local authorities treat this factor with the utmost importance and adhere rigidly to provision of the Public Health Act and the Machinery and Occupational Safety Act. Designated positions exist for a Safety Officer and "responsible person" in terms of the Act. Cape Town has attained a 4-star NOSA rating.

The private contractors are equally committed to the protection of the environment. Waste-tech employ a qualified B Sc graduate at each depot throughout the country to set standards and effect health controls. "Waste-tech is committed to preserving unpolluted, that land which we have, and reclaiming and restoring derelict land." Waste-tech supply all the necessary facilities to have attained a 3-star NOSA rating.

- Loss of public jobs and worse conditions for workers:

In both the municipalities of Pinelands and Fish Hoek no retrenchments were effected when the service was contracted out. The relatively small staff complements were absorbed by natural wastage.

Wasteman offer to employ good staff from any municipality for which they obtain a contract. This was demonstrated in their recent contract for the Strand whereby Wasteman undertook transfer of 14 employees all at packages in excess of their former earnings. The same exercise was undertaken when Parow contracted out the waste disposal from its compost plant.

The following is a comparison of current wage scales for bench posts of labourer and driver:

	WASTE-TECH	MILNERTON	CAPE TOWN
Labourer:			
Per Hour	R1,20/R1,30	R1,60/R1,96	R1,81/R2,20
Driver :			
Per Hour	R2,25	R2,54/R3,38	R2,95/R3,52

Wasteman's scales were not provided but were claimed to be 25 % higher than those of the municipalities. It should be noted that the private contractors pay substantial incentive bonuses. Details are provided in the factor "Motivation for efficiency and productivity" discussed on page 107.

Both the local authorities and the private contractors offer 15 days leave per annum.

Medical Aid and pension schemes are subsidised by both contractors. Preferential interest rates are negotiated by the companies for employees wishing to purchase their own dwelling. The Cape Town and Milnerton Municipalities employ local labour but Waste-tech and Wasteman recruit Black labour mainly from the Transkei.

Waste-tech provides a hostel to house these labourers. Although the private contractor's employees do not belong to a union they are still afforded the opportunity to appeal to management through the Company's in-house grievance procedures.

ADMINISTRATIVE FACTORS

- Managerial effectiveness:

The Regional Manager of Waste-tech (Pty) Limited claimed that their effectiveness and efficiency is a result of not operating in a bureaucratic environment. He further claimed that a local authority does not have the incentive to improve its productivity. He emphasised that Waste-tech's managerial effectiveness is a result of their ability to make fast decisions and capitalise on opportunities without costly delays to which local authorities are subject as a result of the committee system.

Subsequently, Wasteman were challenged with this factor which drew the following response. The Managing Director of Wasteman explained: "We will do any area for less than the City Council because we don't have the overhead costs, the bureaucracy, red tape and legislation laid down by Provincial Administration - we do things that are expedient and profitable and for the benefit of our employees and customers - and we do this quickly - this results in the savings."

The local authorities pointed out that because they operate in a bureaucratic environment does not mean that they could not apply the principles of sound management. Cape Town demonstrates its effectiveness by the result of its placement as number one in the Opinion Survey. (Appendix D.)

Further, unlike their counterparts in the private sector some of their decisions were based on social rather than economic criteria as part of the objective of a local authority viz. to create a satisfactory urbanism (way of life) for the citizens and profit was not the only measure of effective management. The local authorities solid waste top management were all professional and registered engineers whereas the private sector management had no specialised academic skills.

- Provision of a monitoring programme:

Even if a portion of the Cape Town Municipality were contracted out, provision would still have to be made for the monitoring and supervision of the contract. This is necessary to ensure that standards have been met and maintained and to provide feedback for the overall planning and control of the whole service. Pinelands and Fish Hoek Municipalities have both elected to dispense with any form of supervision over the contractor's performance and rely totally on complaints from the ratepayers as a measure of performance.

- Administration of the contract:

Pinelands and Fish Hoek have experienced no real problems with the administration or interpretation of their respective contracts.

Cape Town is wary of the safeguard clauses written into the contract which they feel would be meaningless if the contractor defaulted.

- Handling of citizens complaints:

This factor is important as it serves as a measure of the effectiveness of the service. Local authorities provide an open channel for the expeditious handling of complaints. Fears that the private contractor will overlook this sensitive area were examined.

Complaints against Waste-tech are logged officially by the local authority and handed to the driver each morning. Provision exists for urgent complaints to be telephoned directly to Waste-tech's head office.

Wasteman demonstrated their commitment to this aspect by providing the Strand Municipality with a radio at no charge. If a complaint is received by way of a ratepayer telephoning the municipality then the official speaks directly to the driver on the air and the problem is dealt with immediately. Wasteman's managing director echoed his Company's commitment: "We guarantee that all complaints are dealt with in two hours." "It is important that our drivers hear the complaint directly." A "complaint free" bonus is payable to drivers.

- Operational flexibility:

Milnerton claims this as a major advantage of providing the service in-house. It provides for the ability to change routes or service schedules to suit the needs of the municipality and not being bound by tender stipulations. Individual citizen's needs can, if necessary, be attended to quite easily particularly elderly or handicapped citizens.

Cape Town concurs that special events or circumstances can be handled expeditiously but if it is not written into the contract it can not be done or it will cost extra.

8.5 EVALUATION

ECONOMIC

From the evidence researched it has not been established that the private contractor could deliver the same service in the Cape Town municipal area for a lesser cost. The Fish Hoek case and the tender for streetsweeping substantiate this conclusion.

As a further example, Cape Town and Waste-tech operate adjacent landfill sites at Vissershok. Cape Town charges a tipping fee of R5,00 and Waste-tech R4,95. If Cape Town were not operating this facility the contractor could charge an exorbitant fee. Cape Town has proved that it can place a limit on private enterprise in the interests of its ratepayers.

In attempting a cost comparison account must be taken of the overhead charges which would not be reduced to any considerable extent as Cape Town would still have to provide a monitoring service.

A considerable threat exists that a contractor might initially tender an attractive price only to establish the service. Thereafter the municipality would be virtually compelled to utilise the service of the contractor on expiry of the initial contract period because it would no longer have the vehicles or staff to resume the service.

There is a positive danger that the whole service may fall into the hands of a private enterprise monopoly to the prejudice of the municipality and its ratepayers. The solid waste operation being an essential service should not be wholly or partly dependent upon a private company. Although there are numerous waste firms in the Western Cape, only Waste-tech and Wasteman have tendered for municipal contracts over the past 10 years. They are considered to be the only competent contractors to handle a local authority contract. Should Cape Town put out a sizeable contract, there is every possibility that the companies may collude or merge thereby creating a monopolistic situation.

This scenario is supported by Robin McGregor, publisher of Who Owns Whom: "With more than 83 per cent of the shares on the Johannesburg Stock Exchange in the control of four conglomerates, South African business can only be riddled with monopolies and cartels."
("SA Riddled with Cartels", Argus 1987-02-14.)

On the other hand should Cape Town put out a large enough contract there is every possibility that a large group from Johannesburg or Durban might tender and increase the competition. However, should it be a giant corporation like Anglo American there could be more fears of a monopolistic situation.

Anglo American has shown a significant rise from 54.1 % (1986) to 60,1 % control of all shares on the market.
(Argus 1987-02-14.)

Any private company is prone to bankruptcy as this is an inherent business risk and this is probably Cape Town's greatest fear.

Should the contractor become insolvent Cape Town Municipality would not be able to take possession of the plant. This is in terms of the provisions of the

Insolvency Act No. 24 of 1936. This was confirmed by way of a legal opinion from the City Legal Adviser of Cape Town during the interview with him.

The contractor's plant would not be located in one place and would therefore have to be identified as being used in connection with the municipality's contract. The location of the plant would have to be specified and this could be difficult if the plant were also used on other contracts. In terms of the legal opinion referred to above the incorporation of clauses binding the contractor's plant to the local authority in the event of insolvency would be void. In terms of the insolvency legislation the creditors would have to be satisfied proportionately. The suggestion that the local authority purchase the plant and lease it to the contractor would not be acceptable as it would place the local authority in the invidious position of having to supply and maintain the plant and no incentive or responsibility would be placed upon the contractor to use the plant judiciously.

A further scenario that the financier of the plant re-releases it to the local authority in order to continue the contract is also considered impractical. This would inhibit the contractor and he would not operate as efficiently, as the local authority would be dictating how the contract is to be financed (e.g. on a leased system). To emphasise the importance of this point reference was made to the American application where within hours a fleet of special compactor refuse trucks could be hired. This facility does not exist in South Africa and it would be difficult to hire even a single compactor. This was substantiated by Cape Town's Assistant City Engineer (Mechanical) who operates all the Municipality's tenders for vehicles and plant.

Waste-tech claimed that they are operating Pinelands and Fish Hoek contracts at cost. Reference was made to this by the Town Engineer, Pinelands and by Wasteman (who offered this as a reason for not having won the tenders). Waste-tech are a national company, part of the D & H group and GENCOR. GENCOR are accountable to their shareholders and not ratepayers and should Waste-tech continue, as claimed, not to make profits they would probably be closed down. This would be a sound business decision but disastrous for the municipalities contracted to Waste-tech.

The contractors, particularly Wasteman have been innovative in providing an excellent range of incentives for their employees for productivity and efficiency. There is little doubt that these incentives must have a marked impact on productivity. The local authorities should take heed of this incentive scheme.

Contractors have a cost saving advantage over Cape Town in that they have the ability to increase or decrease staff at very short notice depending upon their workload.

Cape Town is able to exploit economies of scale in respect of services which far surpass those that are available to any private contractor.

The escalation factor in the contract is also an unknown quantity and as these contracts are normally awarded for a period of 5 years this could become a cause for concern.

STRATEGIC

Due to the nature of the service and its impact on public health a very high standard and quality is essential. The present standard provided by contractors in adjacent local authorities is acceptable but this has not always been the case. Pinelands specifically experienced severe problems during a particular period when the service was described by the Town Engineer as "shocking". The quest for profit with the consequence of compromising standards will always be a threat to the excellence of the service.

Cape Town's Medical Officer of Health concurs that if a contractor were given a limited area on a trial basis initially, it would have to be under the direct monitoring and supervision of the Health Department to ensure that the function was carried out satisfactorily. Public health standards, fly-breeding and rodent infestation which could cause diseases such as gastro-enteritis are all involved in the adequate clearing of waste. If a private contractor could meet and sustain the standards set by the Health Department, then the Medical Officer of Health would not oppose such contract.

The Medical Officer of Health advocates that where public health is at stake, each case for contracting should be treated on an ad hoc basis on its own merits. The proviso is that he reserves the right to withdraw his consent based on the performance of the task over a fixed period.

The Cape Town Municipality has built up a strong "esprit de corps" which has come to the fore during stressful times. They know the local problems caused by seasonal and geographic factors. This know-how

needs to be retained. Contractors can not build this up because if they lose the contract the next contractor starts all over again. The "esprit" has been used on many occasions to the benefit of the ratepayers.

The advantage of having labour available for emergencies is considerable but if only a portion of the municipal area were contracted out then labour servicing the remaining portion would still be available.

The major reason that adjacent local authorities contracted out was not the cost factor. The reason was strategic in that they either did not have their own tip site or the residents wanted the tip and the problems associated therewith removed from the municipal area.

Cape Town Municipality does not have this problem as it has a transfer station at Athlone and sanitary landfill sites at Strandfontein, Swartklip and Vissershok.

The strike threat vulnerability of the private contractors is a serious danger. The current unrest in South Africa, the revolutionary labour movements and the emergence of strong trade unions will lead to a greater need for labour relations and negotiations. Neither of the contractors' employees are members of a labour union. South Africa is being increasingly subjected to strikes as evidenced by the fact that there were 195 strikes in 1980 and 425 strikes in 1984. (Source: Department of Manpower Utilisation.) The Cape Town Municipality is somewhat protected from strike action through the legislation of the Labour Relations Act. Labour disruptions termed "stayaways" e.g. May 1 and June 16 resulted in no service by the contractors to their client local authorities. Cape

Town's service, although modified, continued. During the unrest in the so-called Coloured areas, the Cape Town Municipality managed to maintain essential services in all areas including some areas where riots were actually taking place. Cape Town has an established Emergency Plan in the event of unrest or civil disaster. The contractors have no such contingency.

The contractors pay a lesser basic wage than the local authorities but they are not competing in the same labour market. The contractors are recruiting Black labour from the Transkei who accept a lower wage. The contractors could be faced with a dilemma if they were awarded a sizeable contract and needed to recruit labour. Should they recruit from the local market they would have to pay the market (higher) wage and this could affect their existing cost structure considerably. It is also considered more advantageous to have the City serviced by inhabitants of the City.

Wasteman has made considerable efforts to alleviate the problem of retrenchment caused by privatisation by offering to employ displaced local authority employees albeit on a small scale (14 in the Strand Municipality). Attempting the same principle on employees of the Cape Town Municipality might become protracted when negotiating with the 12 000 member strong Cape Town Municipal Workers' Association.

Both the Cape Town Municipality and the contractors adhere strongly to and enforce health and safety requirements. Cape Town Municipality supplies a more comprehensive range of safety protective clothing and equipment than the contractors.

The contractors generally supply only an overall and boots.

Cape Town Municipality supplies the following to the collection crews:

2 x overall (orange top)
Safety cap (PVC)
Gloves (knitted)
Oilskins (full suit)
Rubber gumboots

(Interview with the Cape Town Municipality's Occupational Safety Manager.) This is substantiated in "The City of Cape Town's Schedule of Uniform and/or Protective Clothing and Equipment."

The contractors displayed a positive commitment to the protection of the environment.

Satisfaction of the community is a very significant factor and this was achieved by Cape Town's cleansing operation in terms of the criteria of importance and level of satisfaction in the Opinion Survey. Cape Town was placed first in both criteria ratings. (Appendix D.)

ADMINISTRATIVE

A major problem is the drafting of appropriate job descriptions and a satisfactory contract particularly where a full service like solid waste collection and disposal is being contracted out.

After contracting out the local authority could discover that work previously done as a matter of course is not included in the contract.

Contracting out could result in a diminished control over the service and a loss of operational flexibility. Ability to respond to or assist in the special needs of the community or individual ratepayers could be forfeited. A cardinal principle of local

government in South Africa is that elected councillors and the local authorities they represent are ultimately responsible to the citizens. Should a citizen have a complaint he need merely contact the relevant department of the local authority to seek satisfaction. Should this prove fruitless the citizen has redress to his city councillor. Councillors who ignore the complaints of their electorate do so at their own political peril. By contracting the service out a barrier is placed between the citizens and the contractors. Any complaint received can only be passed on to the contractor for corrective action. Therefore the contract rather than the local authority or the councillor becomes the controlling force of the service. The service could tend to become rigid being supplied only in terms of the specifications of the contract.

The contractors proved impressive in their ability to handle and attend to complaints from ratepayers. They are wise in this approach as their ability to satisfy the ratepayers could be a determining factor when the contract is renewed. But this is only significant if competition exists, if not the same contractor would probably gain the contract anyway.

The administration of the contract could be problematic and there exists doubt as to whether any of the "safeguard clauses" written into the contracts could be enforced should the contractor default. In any event such types of financial guarantee are expensive therefore increasing the cost to the local authority .

The contractors have a major managerial advantage leading to efficiency in that they are able to make fast decisions and capitalise on opportunities. The local authorities being bureaucratic organisations are subject to the committee system, which could cause delays in the decision-making process.

In recent years the management of the Cape Town Municipality has been granted greater delegation of powers. This has facilitated the management process resulting in decisions being taken at the lowest level possible. The role of Organisation and Methods has been effective in devising improved methods and procedures.

The contracting out of part of the City would not decrease Cape Town's bureaucratic procedures or administrative burden as the infrastructure for provision thereof would be utilised anyway. In fact the drawing up and administration of a contract would increase the burden.

8.6 CONCLUSION AND RECOMMENDATION

Cape Town's cleansing operation is providing an efficient service and fragmentation of the operation could decrease its operational proficiency.

One way to determine if privatisation could be beneficial to the local authority is to implement it on a trial basis in a limited area. It is essential that there be a means to compare and one equitable way is for the local authority and the private sector to compete. This would ensure that the in-house operation and the private contractor would have to work consistently hard for comparative purposes. Further consideration of privatisation could then take place under practical rather than theoretical conditions. This would determine the optimum balance between the two agencies and it would be competition at its best.

A tender for the collection and disposal of refuse for a suitable suburb of Cape Town should be put out enabling the private contractors and the in-house operation to tender.

The most important conditions of the recommended contract should be:

- that the service meets the standards set by the Medical Officer of Health, and if not, a right of redress must be provided; and
- that adequate financial guarantees acceptable to the City Treasurer are lodged.

Should the contractor prove unsatisfactory for whatever reason the service could be continued by utilising existing employees and plant from other districts on a shift basis in the short term.

It is not economically viable for the smaller local authorities to undertake their own collection and disposal as the contractors are providing an efficient and reliable service at a reasonable price. For the purpose of this thesis "smaller" is defined as local authorities comprising less than 8 000 dwellings. Reference is made to the relevant table on page 104 . Although Milnerton Municipality falls just outside this definition its costs are low because of the availability of disposal facilities within its municipal area. Haulage costs are therefore kept to a minimum. The availability of disposal facilities does not exist in the "defined" smaller local authorities viz. Pinelands and Fish Hoek.

Cape Town should continue to monitor prices for comparative purposes when tenders are put out by neighbouring local authorities.

CHAPTER NINE

CASE STUDY: CIVIL ENGINEERING CONSTRUCTION AND BUILDING
CONSTRUCTION

CHAPTER 9

CASE STUDY: CIVIL ENGINEERING CONSTRUCTION AND BUILDING
CONSTRUCTION

9.1 INTRODUCTION

The purpose of this chapter is to develop a case study of the civil engineering construction and building construction function of the Cape Town City Council and to place it in context with the civil engineering and building construction industries in the Western Cape with the objective of:

- testing the devised methodological approach
- drawing conclusions concerning the construction function.

The selection of the construction function of the Cape Town Municipality for the testing of the devised methodological approach is based on the following motivation.

It is considered to provide a good example as local authorities are expected to continually improve the physical infrastructure of their areas and this involves the undertaking of capital works. Strong competition and claims exist from the private sector to construct these works. It provides a market that is not confined to a few cases but widespread which affords the opportunity to amass data that can be researched and analysed for the purposes of this thesis.

The investigation is framed in terms of the devised methodological approach by firstly the literature survey in the initial part of this thesis and secondly the 'check list' of factors in favour of public sector and private sector provision of this function. The research was undertaken in terms of the three criteria identified viz. economic, strategic and administrative.

The majority of the Cape Town Municipality's construction has already been privatised. Reference is made in the relevant table on page 152. But should all construction work be contracted out? Can private contractors undertake these projects for a lesser cost, and produce the same standard? Is the dissolution of the municipality's construction capacity in the interests of the City and what are the ramifications? What degree of privatisation is desirable and what should the balance be between the public and private sector? This case study seeks to explore these areas.

The background to the construction function of the Cape Town Municipality is described together with that of the associations which represent the civil engineering and building contractors viz. The South African Federation of Civil Engineering Contractors and the Master Builders and Allied Trades Association respectively.

The approach to the study with particular reference to the method, steps and procedures followed is described.

The evidence and information researched is discussed under the economic, strategic and administrative criteria groupings.

Conclusions are drawn.

9.2 BACKGROUND

The Cape Town City Engineer's Department comprises sixteen branches. Three of these branches viz. Building and Production, Roads and Waterworks employ specialised construction units.

A Departmental Construction Unit is a direct labour organisation employed by a local authority which undertakes construction and maintenance work in a specialised sphere of the operations of that local authority.

The Building and Production Branch's housing building unit was established in 1953 for the purpose of building low cost housing and associated civil engineering and road services. Civil engineering works were undertaken departmentally but the policy was to put at least 50 % of the housing contracts out to private enterprise. The construction of mass low cost housing was discontinued in 1977 when it was decided to contract all this work out to private enterprise. Subsequently, departmental construction has been limited to the building of service and leisure type buildings required by the City such as libraries, poly-clinics, fire stations, community civic centres, pavilions, toilet blocks and depot complexes including associated civil engineering works.

Current policy is to retain a balanced workload to maintain the unit at a small but efficient level and put the remainder of the work out to private enterprise. This construction unit employs a total of 146 staff and is hereafter referred to as the "building unit". 140 of the building unit's staff are employed in a special category termed "hire and fire". This affords greater flexibility in response to fluctuating workloads. The Cape Town Municipality is required to employ staff on a permanent basis. Temporary employees may only be engaged on projects of a limited duration not exceeding six months. This requirement is in terms of Condition of Service 7 of the Cape Town Municipality. The 'Hire and Fire' category of employee is specifically precluded from this Condition of Service.

The Roads Branch's construction unit constructs roads, footways, retaining walls and minor concrete works. It also undertakes sewer and stormwater reticulation on behalf of the Sewerage Branch.

Consultants and contractors are employed on the design and construction of new road works where the branch does not have the size or skill of workforce or the equipment to undertake the project. This branch employs design expertise and also makes considerable use of consultants for large projects.

The Waterworks Branch undertakes maintenance work and responds to emergencies such as burst watermains in the municipal reticulation system.

In this branch there is a strong inter-relationship between maintenance and capital works. Construction crews can not be productively employed on maintenance alone. Therefore the laying of pipe mains is economically viable.

Except for specialised work e.g. a geological study, nearly all design work is undertaken by the Waterworks Branch. However, in terms of construction all large projects e.g. Riviersonderend Pipeline, Blackheath Treatment Works and Wemmershoek Treatment Works were constructed by private sector contractors. The Assistant City Engineer (Water) defined 'large projects' as those having a current value in excess of R500 000.

The South African Federation of Civil Engineering Contractors is a Trade Association registered as a non-profit making concern. The purpose of the SAFCEC is to promote civil engineering work by contractors. Its membership nationwide totals 400 (members).

SAFCEC's membership accounts for about 80 % of all civil engineering work carried out by contract in the country.

The objectives of SAFCEC are inter alia:

- to exchange information between members
- to improve working conditions for members
- to improve general conditions of contract under which they work
- to assist in the advantageous purchasing of materials for its members
- to manage the civil engineering training scheme (a Government scheme).

(Source: Interview Regional Manager SAFCEC.)

SAFCEC has employed an expert labour lawyer to handle industrial relations for its members.

The Master Builders and Allied Trades Association (West Cape) has adopted inter alia the following objectives -

- to promote excellence in work and just and honourable practice in the conduct of business and to suppress malpractices
- to regulate relations between members and their employees and to protect and further the interests of members in relation to their colleagues
- to promote and uphold the status of the Building Industry in general.

(Extract from the constitution in the Master Builders and Allied Trades Association (West Cape)).

The MBA (West Cape) has recently merged with its Boland and Worcester branches and has a membership in excess of 700 contractors. Murray and Roberts, OVCON, LTA and other large contractors are members.

Persons eligible for membership are:

"Building contractors in the Building Industry who shall be persons who observe standard conditions of employment, are employers of labour and who, in the opinion of the Branch Executive Committee, possess the necessary technical qualifications, knowledge and practical experience or who employ in positions of responsibility a person or persons therewith to ensure that all building projects are carried out in a workmanlike and economical manner."

The employees of contractors who are members of the MBA represent 80 % of all employees in the building industry in the country.

9.3 APPROACH

The objective of applying the devised methodological approach is to obtain data, information and evidence with regard to the factors identified in the "check list" under the three criteria to identify the most appropriate agency for the civil engineering and building construction functions.

A preliminary study of the construction function was undertaken to identify its essential characteristics. The essential characteristics identified were that construction must be:

- economic
- efficient and effective
- flexible and responsive (to undertake a variety of work at short notice)
- sensitive to the needs of the community (.e.g. breakdowns and emergency works, design of community facilities, public liability).

Construction was identified in terms of two distinct facets viz. civil engineering construction and building construction and for the purpose of this case study they are investigated separately.

The "check list" of advantage factors for each agency was carefully scrutinised while considering the essential characteristics of construction to obtain the framework for the research.

The investigation is structured around the economic, strategic and administrative criteria which affect the decision for choice of agency.

As a basis for the background to the research, annual reports, journal articles, research papers, and in-house files were scrutinised and informal and ad-hoc discussions were conducted with various persons in the construction industry.

Data, information and evidence were acquired from the Cape Town Municipality particularly the Building and Production, Roads and Waterworks branches, the South African Federation of Civil Engineering Contractors and the Master Builders and Allied Trades Association hereafter referred to as SAFCEC and MBA respectively.

Personal structured interviews were held with senior management personnel in all of the above organisations. The form of questions considered at the interviews was open-ended. The following methodology was considered appropriate.

This case study differs slightly in approach from the solid waste case study in that individual factors are not discussed separately but rather under each of the criteria on a corporate basis. The reason for this is that the two facets of construction operate within the vast environment of the construction industry wherein a large number of private contractors operate. It was considered more beneficial to adopt a macro-viewpoint of the issues for the purpose of this thesis. This also demonstrates that the methodological approach can be applied on either a micro or macro basis.

The selection of candidates for interview was based on the following reasoning. Unlike the solid waste case study which is currently provided totally in-house the construction function (civil engineering and building) has already been privatised to a considerable extent. It was anticipated that the application of the methodological approach to the construction function would conclude whether or not this function should be privatised in toto.

Senior officials directly involved in the civil engineering and building construction function of the Cape Town Municipality were interviewed. Owing to the vast number of contractors operating in the Western Cape it was considered impractical to select only a limited number of civil engineering and building construction contractors for interview. In an attempt to obtain a fair comparison of the relevant characteristics, the President of the Master Builders and Allied Trades Association (West Cape) and the National Past President of the Building Industries Federation (S A), Mr Leon Glaser was interviewed. The M B A (West Cape) has a membership in excess of 700

contractors and the employees of the contractors nationally affiliated thereto represent 80 % of all employees in the building industry in the country.

Mr Glaser's input is considered reliable and valuable not only for his role as representing the MBA and BIFSA but also for the fact that he is the managing director of his own building construction company.

Similarly, for the civil engineering construction function the Regional Manager of the South African Civil Engineering Contractors, Mr J Hollingshead was selected for interview. The Regional Manager represents all affiliated civil engineering contractors in the entire Cape Province. SAFCEC's national membership accounts for 80 % of all civil engineering work carried out by contract in the country. The input from Mr Hollingshead is considered equally valuable and reliable not only for his role in SAFCEC but also for the wealth of experience he has gained from more than thirty-five years in the civil engineering industry.

The personal interviews were structured on the following phases:

- directly factual information relating to the role, purpose, background and dimensions of the in-house construction units and the associations representing the contractors
- factual information relating to the factors that are quantifiable under the criteria groups in the sequence; economic, strategic and administrative
- an open-ended and frank discussion in general terms on factors not easily quantifiable and where opinions and suggestions were gathered. Emotive issues were noted.

A list of questions was used to structure the interviews for each of the following organisations:

- the Association's representing civil engineering and building construction private sector contractors
- the in-house civil engineering and building construction units of the Cape Town Municipality.

The list of questions is found in Appendix H.

The use of a recording device greatly facilitated the pace of discussion and the resultant continuity allowed in-depth consideration of the issues.

The following is the list of persons interviewed in alphabetical order, their designation or function and their respective organisation.

NAME	DESIGNATION/FUNCTION	ORGANISATION
Mr D Bradley	Assistant City Engineer (Mechanical)	Cape Town Municipality
Mr J G Brand	Former City Engineer	Cape Town Municipality
Mr J B Cox	Administrative Control Officer	Cape Town Municipality
Mr L Glaser	Managing Director	D Glaser and Sons Building Contractor
	President	Master Builders and Allied Trades Association
	Past National President and Executive Member	Building Industries Federation of South Africa
Mr D Hodson	Assistant City Engineer (Water)	Cape Town Municipality
Mr J Hollingshead	Regional Manager	South African Federation of Civil Engineering Contractors
Mr R Ortlieb	Director	Master Builders and Allied Trades Association
Mr D Riley	Assistant City Engineer (Roads)	Cape Town Municipality
Mr J Smit	Chief Engineer (Construction)	Cape Town Municipality
Mr E Thompson	Assistant City Engineer (Quantity Survey)	Cape Town Municipality
Mr R Tyler	Deputy City Treasurer	Cape Town Municipality
Dr K Wall	Assistant City Engineer (Building & Production)	Cape Town Municipality

9.4 INVESTIGATION AND ANALYSIS

9.4.1 CIVIL ENGINEERING CONSTRUCTION

ECONOMIC FACTORS

During the interview with the Regional Manager of the South African Federation of Civil Engineering Contractors it was evident that they are sceptical about cost comparisons between the contractors and local authorities. There is a reluctance for contractors to tender against in-house units as they "do not trust their costing systems because they are not comparable on the same basis". SAFCEC cite the costing and audit system differences as the major problems. Encouraging in-house units to tender in competition with private contractors for local authority work does not satisfy the contractors. They perceive this only as an attempt to put the public and private sectors on a competitive basis, but hardly equitable. They do not believe that a local authority like Cape Town knows what it costs to undertake in-house construction work. They feel that transfers of funds are too easily allowed thereby distorting the true costs. This is considered to be subjective comment. Reference is made to Chapter 5, particularly Section 5.8.

The key factor to civil engineering cost is the plant. SAFCEC does not accept that a local authority can administer proper plant costing procedures. The cost of plant is a major element in civil engineering work and could total up to 40 % of the total cost of the project.

The Regional Manager SAFCEC alleged the following: "The procedure for buying the plant is cumbersome, likewise the procedure for disposing of such plant, so

there is a tendency to hang onto it and the yards are stacked with under-utilised plant."

Cape Town's Assistant City Engineer (Mechanical) disputed this claim: "There are no hidden costs as in-house hire rates include all operating, supervision, management and administrative costs." The plant pool operates on the same basis as a plant hire contractor in that all costs and income are accounted for meticulously.

Claims that in-house costs are manipulated are untrue because the City Engineer's Department Cape Town operates its own budgetary control system which is not only monitored by the department but is also subject to audit control by both the City Treasurer and the Provincial Administrator.

It is essential to provide certain items of plant to deal with seasonal and emergency projects e.g. a low ground pressure bulldozer (not available on private hire in Cape Town) which might well be under-utilised but nevertheless necessary for strategic reasons. The in-house plant pool operates a continuous computerised monitoring operation and a regular comparison is undertaken between internal and private sector plant hire rates.

Cape Town's in-house construction units are essential as cost "yardsticks" for comparative purposes with contractual bids and/or as a resource to call upon should the bids be excessive i.e. an anti-exploitation price watchdog. The knowledge that the local authority monitors the cost-effectiveness of the private sector and its own construction units must have an impact on the private sector's tender prices and contract performance.

Local authorities generally believe that it is the necessity for profit that makes private enterprise more expensive. Conversely, private enterprise claims that it is the quest for profit that enables them to achieve the efficiencies necessary to lower the cost.

SAFCEC explained the profit factor as rather the "profit and contingency" factor e.g. this is the margin the contractor must add after assessing the risks involved in the project. They claimed that the published accounts in the construction business revealed that contractors operate at a profitability of 2 % - 3 % on turnover. This even in large, successful and well-run companies like Murray and Roberts, LTA, D & H and Wimpey. They are tendering to get work on about 5 % or 7 % on turnover. (Percentages supplied by Regional Manager SAFCEC.) It is a claimed characteristic of civil engineering that if all goes well the contractor may clear 5 % on a project but if it goes sour he might not only lose 5 % or even 10 %, he could lose 50 %. It was submitted as an estimate that this could happen to one in ten projects.

The private sector has lower personnel costs than the local authorities whose construction employees' salaries and benefits exceed those of their counterparts in the private sector. Contractors work to a wage determination which lays down minimum wages. However, some contractors pay slightly more than the minimum.

To examine this point the wage scales of two categories of employees viz. labourers and artisans in the public sector and the private sector were examined.

The following scales are as at October 1986:

PER HOUR

LABOURER:

Civil engineering contractors*	R1,55
Cape Town Municipality: civil engineering construction unit	R1,91 - R2,02

ARTISAN

Civil engineering contractors*	R3,71
Cape Town Municipality: civil engineering construction unit	R4,75 - R5,30

*Government Gazette No. 10107, 1986-02-28 p.20.

According to SAFCEC the contractor's medical aid and pension contribution is modest compared to the local authority. Contractors book their employees off in the event of inclement weather.

SAFCEC is confident that contractors can carry out any construction ~~work~~ for a lesser cost than the local authority because of competition and the risk factor. The private contractor has to be either as or more efficient than his competitors or he could go out of business. A contractor either does or does not get the contract, but if he gets it by too wide a margin i.e. his price is too low he could suffer substantial losses.

Privatisation could destroy competition thereby creating a monopolistic situation which could be an expensive and inefficient alternative to in-house capacity. Local authorities could place a limit on the

price demanded by private enterprise and force an improvement in the response and quality of the private enterprise alternative.

There was general consensus among Cape Town Municipality officials (listed on page 143) during the interviews that they would advocate putting more construction work out on contract if they operated in a truly free enterprise society where sufficient competition ensured keen prices. They agreed that this worked well in the United States of America but in South Africa there are limited resources controlled by a small number of conglomerates or linked directorships so the prospect of monopolistic tendencies developing is tremendous. The conglomerates referred to are Anglo American, SANLAM, S A Mutual and Rembrandt Group which together control 83 % of shares on the Johannesburg Stock Exchange.

("S A Riddled with Cartels", Argus 1987-02-14.)

According to the Assistant City Engineer Mr D Riley, (previously Director of Works, Mitchells Plain): "During recessionary times we get good service from the contractors but in boom times they would not hang around for Council work, they would rush off to where the profitability is greater. This actually happened during the construction of the Mitchells Plain Development."

The alleged lack of competition was disputed by the Regional Manager of SAFCEC: "There never has been and there never will be a cartel in the civil engineering construction industry." He claimed that they are not a price-fixing organisation and that they believed in competition and the competitive tender system. Their aim is to see that all tenders are put on an equal footing as far as possible. They support the "select

list system" in that contractors should be selected on the basis of their experience for particular projects. SAFCEC is adamant that competition in civil engineering construction will always be free because anyone can start out as a civil engineering contractor if he has the knowledge, the energy and he is prepared to take the risk.

SAFCEC claims that there will always be strong competition for work put out by local authorities provided that the conditions of tender are equitable, and that the supervising engineers are fair. Local authorities must themselves not become the reason for restrictive tenders in that contractors might not want to do work for the local authority if they can do work for some other client. This situation can occur with difficult and unreasonable clients and non-payers, and could restrict the number of tenders.

In America the tendency is for nearly all large projects to be undertaken by a group of contractors (a consortium) in order to spread the risk.

The risk of the contractor defaulting or going insolvent was examined. Should this occur and it became necessary to change contractors, the inherent costs could be very high. SAFCEC acknowledged this but counter-claimed that this did not occur very often. If it did occur it was usually as a result of inadequate pre-tender information, or inexperienced contractors e.g. the contractor is induced to 'stick his neck out' and does not go into detail sufficiently. The most common cause of financial failure in the construction industry according to SAFCEC, is lack of liquid funds owing to over-trading or delay in being paid by the client.

Design is a critical part of construction projects and it is claimed that consultants are only interested in profitable jobs and do not pay much attention to detail. But it is the detail that determines how well the project performs.

The Assistant City Engineer (Water), Mr D Hodson substantiated this point : "The worst plant we have is Voëlvlei - an absolute disaster designed by private enterprise. In-house engineers can achieve much better designs because they have specialised expertise and training and actually operate existing plants and know their operation."

The consultancy costs of a few civil engineering projects which were undertaken in-house in recent years were compared with fees which would have been paid to consultants. The fees are in accordance with the prescribed minimum fee scales, disbursements excluded.

PROJECT	IN-HOUSE COST	PROPOSED CONSULTANT'S FEES
Mitchells Plain : Contract No. 81	R 327,442	R 574,908
Riviersonderend Pipeline	R 456,000	R1 346,000
Blackheath Reservoir	R 304,000	R 768,000

The Cape Town Municipality takes the following criteria into account before in-house construction is utilised: cost, expertise, expediency, urgency, experience and co-ordination required, current economic conditions, specialised nature of the work and departmental resources available.

According to the Regional Manager of SAFCEC there is a universal movement towards the privatisation of every form of economic activity, on the grounds of greater efficiency and the need to use available public funds to the best advantage. SAFCEC urged the Cape Town Municipality not to lag behind.

STRATEGIC FACTORS

Maintenance work is largely undertaken in-house at present but there have been times when a contractor was unattainable to carry out the necessary work. Waterworks and Roads kept only the nucleus of the workforce to undertake basic maintenance work. There is a strong inter-relationship between maintenance and capital works. Construction crews can not be employed productively on maintenance work alone and therefore the laying of all pipelines by private enterprise is not an economically viable proposition. It is vital that Waterworks does not relinquish the knowledge and expertise of laying watermains in case an urgent job has to be undertaken requiring in-house expertise. In-house capacity is at least necessary in retaining the basic skills, equipment and some staff to cater for emergencies, as an insurance against contractor default, and as a control of costs.

SAFCEC believes that privatisation, properly controlled, is the most effective way of carrying out capital works. They concede that there is no doubt that every public authority should retain a small nucleus of in-house construction capacity for maintenance work and emergency work i.e. work which can not be readily measured for payment or organised on a contract basis. Apart from this, they see no reason why all construction can not be contracted out. They are concerned about the possible expansion of in-house capacity.

It is claimed that South Africa has the highest proportion in the western world of people working in the public sector. SAFCEC claims that despite this, frequent appeals are made by the Government for the private sector to assist in the economic revival of the country. They allege that the public sector becomes involved in matters that it should not be involved in.

SAFCEC is reluctant to state what it feels is a fair balance of work to be undertaken between the private sector and the public sector. They advocate the basis that the local authority should put out all conceivable work possible to the private contractors. To examine further the question of balance of work, the author extracted and analysed the expenditure on civil engineering construction undertaken by the City Engineer's Department over the past five years. The following table refers:

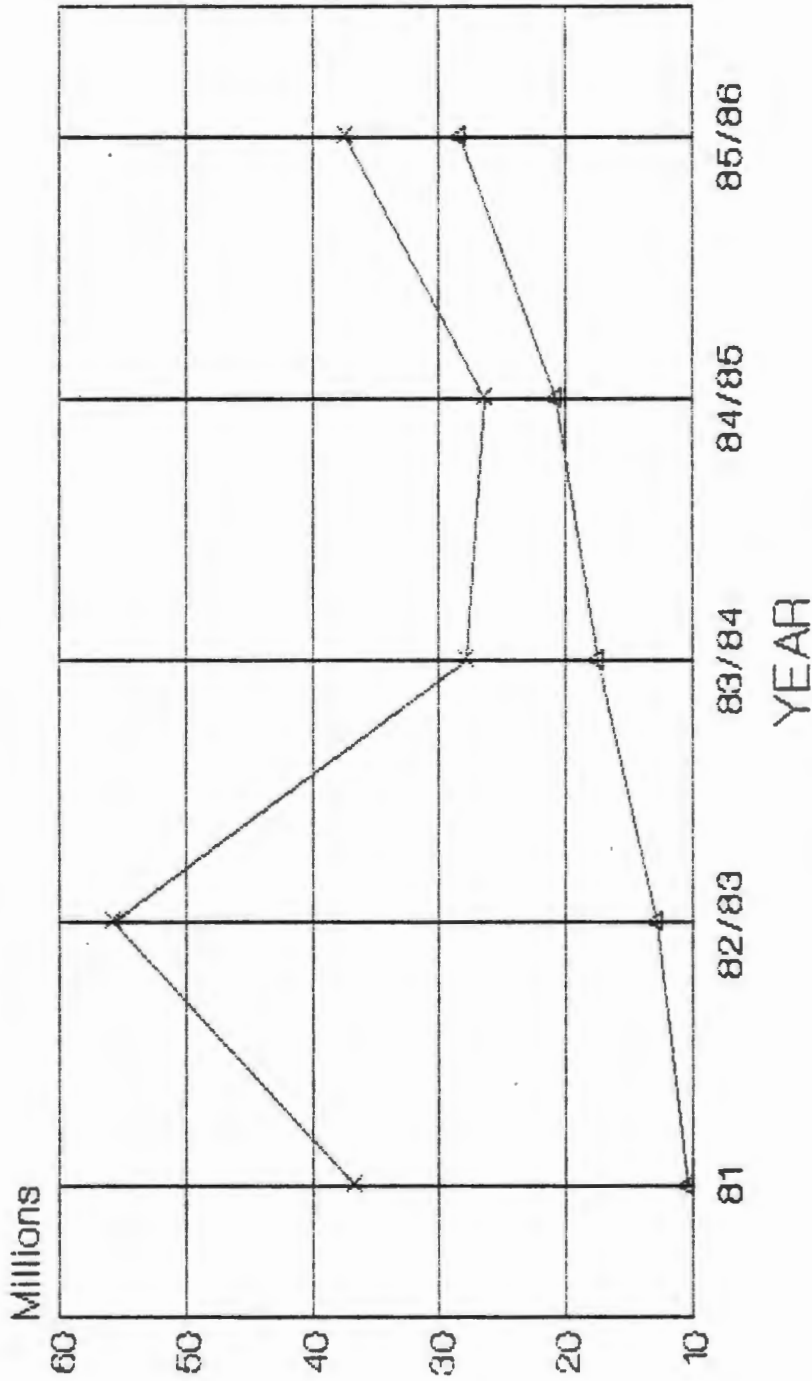
CAPE TOWN MUNICIPALITY

EXPENDITURE ON CIVIL ENGINEERING CONSTRUCTION WORK

YEAR	CONTRACTUAL		DEPARTMENTAL		TOTAL
	R million	% of Total	R million	% of Total	R million
1981	36,671	78	10,334	22	47,005
1982/83 (18 months)	55,779	81	12,791	19	68,570
1983/84	27,798	61	17,480	39	45,278
1984/85	26,359	56	20,707	44	47,066
1985/86	<u>37,327</u>	<u>57</u>	<u>28,370</u>	<u>43</u>	<u>65,697</u>
TOTAL	<u>183,934</u>	<u>67%</u>	<u>89,682</u>	<u>33%</u>	<u>279,616</u>

This information is represented graphically overleaf.

CAPE TOWN MUNICIPALITY C.E. DEPT. - EXPENDITURE



—x— CONTRACTUAL —▲— DEPARTMENTAL



CIVIL ENGINEERING CONSTRUCTION WORK

It is evident from the totals of the above table that two-thirds of the average expenditure on civil engineering construction over the past five years have been channelled to the private sector.

However an examination of the trend over the same period revealed the following:

	CONTRACTUAL	DEPARTMENTAL	TOTAL
1981	36,671 (78%)	10,334 (22%)	47,005
1985/86	37,327 (57%)	28,370 (43%)	65,697
Adjusted for inflation to 1981 values	20,176	15,336	35,512

The percentage of the total of contractual work has decreased from 78 % (1981) to 57 % (1986), a decrease of 45 % in real terms, while the percentage of departmental work has increased from 22 % (1981) to 43 % (1986). It can be concluded that over the above period Cape Town's in-house construction unit has increased its turnover by 50 % in real terms. The significant change in the ratio of contractual to departmental work from 1983/84 may be attributed to a reduction in expenditure on contractual works arising from the completion of:

- major civil contracts at Mitchells Plain
- Mitchells Plain pulverising station
- Riviersonderend water augmentation scheme.

There was a concurrent increase in expenditure on departmental works viz:

- roadworks in areas such as Athlone, Hanover Park and Newfields together with sewers and stormwater drains
- earthworks at Khayelitsha
- waterworks trunk mains and distribution mains.

These relate to preparatory works while tender documents were being prepared and tenders invited and were undertaken in-house to save time. Construction commenced immediately after tenders were awarded.

Details of capital expenditure of the City Engineer's Department, Cape Town Municipality, from 1981 to 1986 was extracted and analysed. The following table refers:

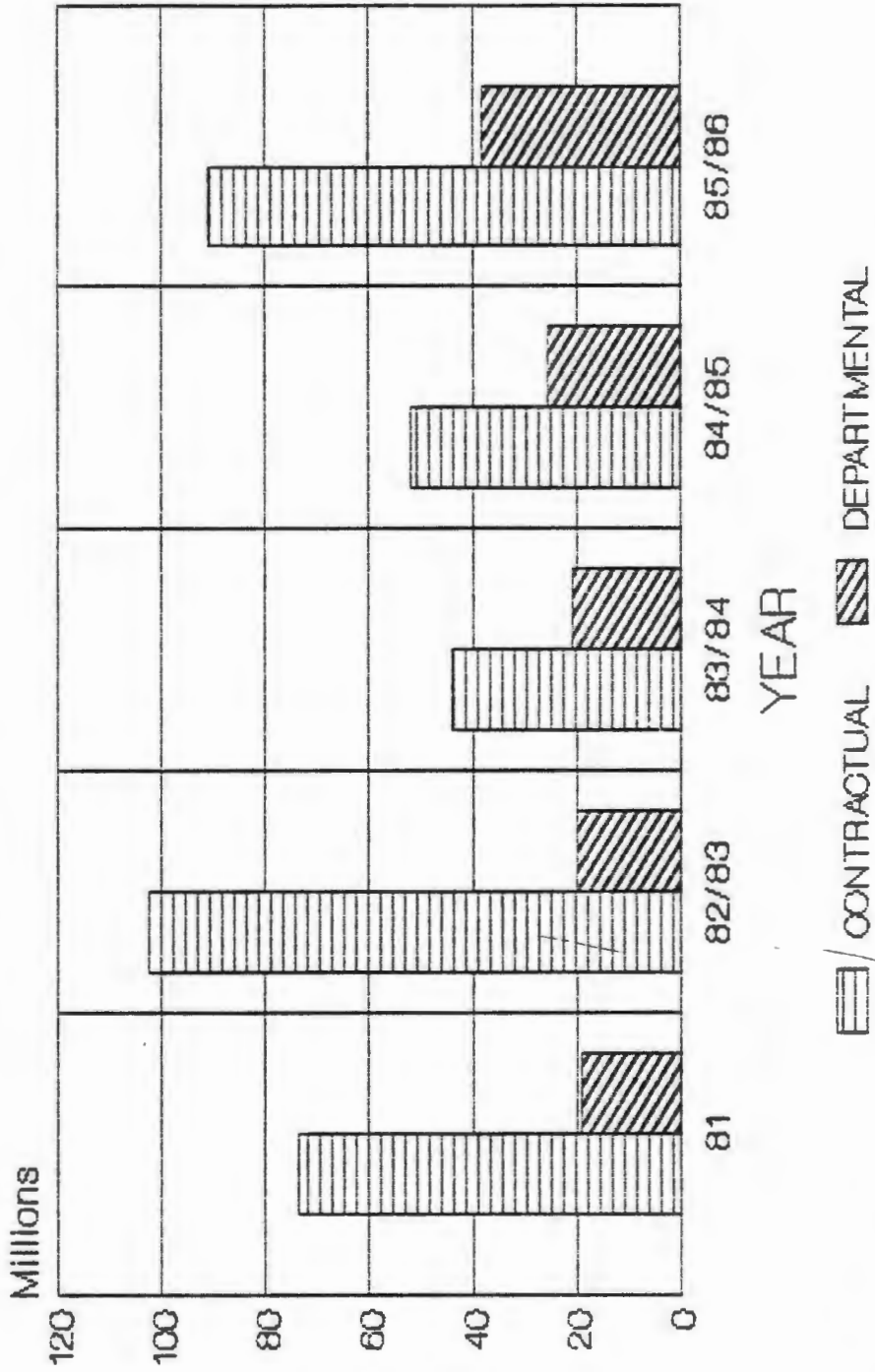
CAPE TOWN MUNICIPALITY

CITY ENGINEER'S DEPARTMENT: CAPITAL EXPENDITURE PERIOD: 1981 TO 1986

YEAR	CONTRACTUAL		DEPARTMENTAL		TOTAL
	R MILLION	% OF TOTAL	R MILLION	% OF TOTAL	R MILLION
1981	73 677	80	18 907	20	92 584
1982/83	102 319	84	19 989	16	122 308
1983/84	43 934	68	20 734	32	64 668
1984/85	51 950	67	25 511	33	77 461
1985/86	<u>91 138</u>	<u>71</u>	<u>37 972</u>	<u>29</u>	<u>129 110</u>
TOTAL	<u>363 018</u>	<u>75</u>	<u>123 113</u>	<u>25</u>	<u>486 131</u>

Graphical representation of the above table is presented overleaf.

CAPE TOWN MUNICIPALITY C.E. DEPT.- CAPITAL EXPENDITURE



PERIOD 1981 TO 1986

It can be concluded from the above table that for the period 1981 to 1986 on average, 75 % of the total capital expenditure of the City Engineer's Department is diverted to the private sector. This draws attention to the considerable extent to which private enterprise has been used for capital works.

The Civil Engineering Advisory Council (CEAC) provided guidelines for the balance of work between the private and public sectors in its circular to inter alia the Cape Town City Engineer's Department dated 1981-11-20. The correspondence referred to as the Memorandum in respect of Planning, Design and Construction of Public Civil Engineering Works stated inter alia:

"..... it was of major importance that Government departments and agencies should be adequately staffed, that sufficient civil engineering design and construction should be carried out directly by them to provide adequate training and experience for this staff and to provide the required overall guidance and control of such work."

"That public bodies should be provided with basic staff to carry out work not suitable for assigning to the private sector, to carry out maintenance and to be in a position to deal with emergencies."

The full text of this memorandum is provided in Appendix E.

The construction units enable Cape Town to respond to emergencies and civil defence demands.

What is the extent or frequency of emergency construction work?

Over the last three years 51 burst watermains occurred in Rondebosch, Newlands and Camps Bay while 18 bursts occurred in Hanover Park, Heideveld, Manenberg, Surrey Estate and Sherwood Park to take just two groups of suburbs.

SAFCEC concede that the local authority should have the necessary capacity to respond to emergencies such as burst watermains. The construction industry contractors could however respond if the necessary mechanism could be set up. They are concerned that they have never been approached by Cape Town's Civil Defence Organisation with the objective of assisting in an emergency as there are many contractors with considerable capacity in plant, labour, management and vehicles. This facility needs to be organised.

The Assistant City Engineer (Water) referred to occasions in the past where private enterprise has not been interested in undertaking certain types of projects at a reasonable price due to factors such as danger, smell and nuisance. Reference was made to routine maintenance of watermains and the laying of small mains in the municipal area. This is considered troublesome and time-consuming work because of the many underground services involved and it is not attractive in terms of profit.

SAFCEC does not agree that a contractor would charge an exorbitant fee if he were required to carry out emergency work for a local authority as there are standard rates for most jobs and standard plant hire rates.

In-house design and construction ensure that the necessary quality is attained and that there is no cutting of standards.

SAFCEC agreed that design should not be done on a competitive basis and if a contractor (many of whom operate design facilities) were requested or offered to undertake a project on a design and construct basis then the client should examine this very carefully "to ensure that corners are not cut".

ADMINISTRATIVE

In-house construction units can be more flexibly employed and have the capacity to respond to unforeseen circumstances. This comes to the fore when they handle work of a special nature, requiring specialised knowledge, experience and a close co-ordination with other municipal services.

SAFCEC is concerned that where in-house units are operated there is a built-in tendency to enlarge them.

"The managers running them have a vested interest in increasing the size and scope of the unit. Construction work ebbs and flows with the seasons not only with the money supply and work available. An in-house unit has to "mark time" if work falls away until something comes up. The "ebb and flow" could be taken care of by taking on temporary staff but the tendency is that they become permanent." They claim that the system is inflexible in that employees can not be paid off or benefits reduced according to work flows.

It must be acknowledged that a large direct labour organisation can only be economically viable if it receives a sufficient and consistent volume of work. Even if a substantial ratio of labour was employed on a temporary basis, the local authority inevitably has a high percentage of overhead costs on a fixed basis which can not be adjusted rapidly to respond to variations in work volumes.

Is the claim that there is an inherent tendency to enlarge construction units justified? An examination of the personnel records of employees involved in construction in the Waterworks and Roads Branches over the period 1982 - 1986 reveals the following:

	1982	1983	1984	1985	1986
Waterworks	338	355	291	289	272
Roads	388	341	336	336	335

This analysis reveals that the Waterworks construction personnel have decreased by 20 % and the Roads by 14 % over the last five years.

Reference is made to the table headed "Expenditure in civil engineering construction work" on page 152 . This demonstrated an increase in the percentage of construction work carried out departmentally from 1981 to 1986. It is not possible to correlate a definite relationship between the two aspects of data viz. increase in percentage of expenditure and decrease in personnel involved in construction. The reason is as follows. The table on page 152 details expenditure in R Million. Although this figure has increased from 1981 to 1986, this is owing mainly to the fact that approximately 50 % of the expenditure on civil engineering construction is spent on materials which are purchased from the private sector. Inflation has increased the cost of material considerably over the period concerned.

The decrease in the number of construction employees may be largely attributed to the recession which has caused the Cape Town Municipality to "freeze" vacant posts. This policy came into effect in 1983. The second reason is that the City Engineer's Department Cape Town's construction has been subjected since 1983 to a productivity drive led by the P E Consultants Group who were employed to audit productivity studies. The productivity drive, applicable to both the Waterworks and Roads branches, has contributed to the decrease in personnel.

"A sample of productivity drives in the City Engineer's Department shows an annual saving of R200 000, according to independent consultants.

The saving was identified by consultants after studying productivity efforts by only 12 % of the department's direct labour force." (Argus 1985-06-12.)

Further claims are that:

- Contractors can save on the purchasing of material and services as they are able to capitalise on fast decisions as opposed to local authorities who are compelled to use time-consuming and bureaucratic tender procedures and necessary approval of committees.
- Privatisation clarifies the accountability and responsibility of the project in terms of the contract, but SAFCEC states conversely that problems of the in-house unit are "hidden".
- A great many advanced and innovative ideas have been initiated by contractors stimulated by economic pressure. SAFCEC is doubtful whether local authorities have this impetus.

In this regard Cape Town has proved its innovation in civil engineering projects by winning the following awards, (only three are listed):

- The Most Outstanding Civil Engineering Achievement in 1967, awarded by the S A Institution of Civil Engineers, for the freeways of Cape Town
- The Most Outstanding Civil Engineering Achievement in 1979, for Mitchells Plain

- The S A Institution of Civil Engineers' Regional Award for Excellence in Civil Engineering in the Western Cape Areas in 1982, for the Blackheath water treatment plant

Cape Town Municipality stressed the importance of being able to attract and retain professional staff and training them in planning and management functions.

Job satisfaction is of paramount importance and expertise can only be gained from all-round experience. Competent engineers will not remain in the employ of the local authority if most of the interesting and exciting jobs are always designed and constructed by the private sector. There would be no job satisfaction if in-house staff were only responsible for routine maintenance jobs. As the local authority puts out more and more work on contract so it would generate less and less expertise within its own ranks and probably have to pay higher salaries to attract suitable professionals into a somewhat routine activity service.

SAFCEC does not believe that it is necessary for staff to be trained by local authorities as they feel that they could be trained by the private sector.

9.4.2 BUILDING CONSTRUCTION

ECONOMIC FACTORS

The building unit provides a "yardstick" for comparison of the private contractors' prices and serves as an in-house check on tenders received. The MBA contended that for the in-house unit to provide a "yardstick" for comparison of costs it could only be effective if it were comparable on the same basis. They are sceptical

of the true costs of local authority projects. The President of MBA/BIFSA strongly emphasised: "We have never yet seen published in any document any projects undertaken by the Cape Town Municipality taking into account its true costs including overheads, plant, etc." "How is the administration and the plant charged and what about the time of engineers going out on site?" Reference is made to last paragraph on page 68 for comment on this statement.

They complained about the vast value of idle plant and equipment owned by the Cape Town Municipality. The principle of alleged "unfair depreciation facilities" of local authorities was propounded. This matter was previously commented on under the civil engineering construction section.

They claimed further that a local authority's function of purchasing goods and materials is time consuming and wasteful and items are not ordered economically. It was alleged that a contractor could go out of business on this basis.

The maintenance and cost of rectifying defects would be the responsibility of the contractor. This matter was examined further. A recent project undertaken by the building unit was the Mitchells Plain Fire Station. The total construction cost was R1 651 252 and the subsequent cost of rectifying defects was only R877 or 0,053 % of the total construction cost.

Cape Town's building unit is regarded as the City's protection against inflated industry prices particularly during peak economic conditions.

Morris (1973 : 18 - 19) explains: "The departmental building units established in most major local

authorities have more than proved themselves. Their primary aim has not been to compete with private enterprise but to ensure a steady output of houses while at the same time maintaining an effective yardstick for cost control."

The building unit serves a valuable role as a buffer against the excesses of consultants and contractors. There have been times when due to the buoyant state of the economy tenders have been exorbitant or few in number. On these occasions the availability of in-house construction has been a great source of economy to the City.

The MBA argues that Cape Town's building unit should never have been allowed to undertake the construction projects that they have because it could not have been an efficient program.

This opinion can be disputed.

The building unit does operate efficiently and this was borne out by the management consultants Pim Goldby in their recent maintenance report. "The building unit in general is a well-run unit with high professional standards which provides Council with all the necessary technical building skills and backup."

(Building Maintenance Report 1985 : p43.)

The MBA perceives the building industry as "self-policing" because in current times there are up to 30 contractors on a tender list. Most of the contractors are tendering and they have to be competitive to get work so the absolute lowest price is offered.

"There is plenty of competition because it costs a contractor money to tender. They will not tender just to test the market - they tender to get the job and they know that if their price is too high they will be unsuccessful."

The MBA stands firm: "There is no cartel in the construction industry because contractors are all different and individual. How could there be a cartel between a public company like LTA or Murray & Roberts, R H Morris or Stocks and Stocks which is a Pretoria based company."

They warned local authorities not to expect keen prices if they put out a "rubbish document". They cited the example of the contractor being expected to take ridiculous risks or being asked for a fixed price contract for a three year period. "Cape Town does not accept the Haylett formula but all other authorities in the country accept it. This is totally unreasonable - even government organisations accept this formula."

This comment can only be accepted as opinion. An investigation revealed that ESCOM, S A Transport Services, the United Municipal Executive, SANLAM and Southern Suns for example do not accept the Haylett formula. They negotiate fixed price tenders.

Both BIFSA and the MBA compel their members to tender using the Haylett formula and have instituted a system of marking tender envelopes accordingly. Clients must make a choice when opening the tenders. Either BIFSA/MBA members or non-members - but not both!

MBA By-Law 5: Official tender envelope.

"5.1 A member shall not tender in competition with a non-member for services in excess of R250 000 or for services in excess of R25 000 if normally classified as sub-contract work except in the envelope officially approved by BIFSA bearing an endorsement to the effect that"

Developers claim that the system smacks of a cartel and is highly inflationary. Members who do not comply

with BIFSA/MBA rules of tender could face a fine or even expulsion. The application of the Haylett formula has been criticised for its inflationary effect as there is little, if any, incentive for builders to contain costs if they can be passed on to developers. (Financial Mail 1984-10-12 p.71.)

The Cape Town Municipality does not accept the Haylett formula because it is considered inflationary and is therefore not in the interests of its citizens. The above substantiates that the building industry certainly could have cartel tendencies and at the least is restricting free competition amongst competitors in the building industry.

The building unit provides the Cape Town Municipality with the ability to spend State or Provincial monies that are allocated at short notice towards the end of the State's financial year, failing which the monies are forfeited.

The building unit is beneficial for maintenance or smaller new works, where the tender or even negotiated contract process would be expensive and time consuming in proportion to the value of the job.

The MBA is in agreement with this advantage.

Where time is of the essence, departmental work can usually commence at very short notice, depending on present workload and the availability of materials. Five or more months of documentation, tendering and contract award time, as well as escalation and quantity survey fees, could be saved. At the average rate of inflation, this delay could result in a significantly increased basic cost.

The MBA does not accept this as an advantage. They claim that if such an urgent project arises, it can not

be started before plans are available. They argue that it is possible to get a tender on a set of plans within 10 - 14 days. Special permission could be obtained to go out on tender without a bill of quantities or the quantity surveyor could be brought in simultaneously.

The ability of a private contractor to match the speedy start-up time of an in-house construction unit was challenged during the interview with Mr Leon Glaser. The following statement was enthusiastically forthcoming: "If Cape Town has an absolute urgent situation or time is of the essence, call in 6 or 7 contractors that they have worked with and they know can handle the job. Put the plans on the table and come to a method of pricing it and having schedules of rates, etc. - there are all sorts of technical ways. There is no way that the Council can carry out construction quicker than a contractor whose business it is to get things done."

However, after the 1984 storm in Cape Town the construction unit repaired more than 500 roofs in the municipal area within 10 days. Private contractors quoted earliest start dates for roof repairs which varied between 4 and 12 weeks.

STRATEGIC FACTORS

The building unit allows the local authority to switch activities quickly to accommodate at short notice a change in its priorities.

This factor was not accepted by the MBA who retaliated: "Council must get its act together in this day and age. A contractor can not run a business on these lines so why should a local authority?"

Cape Town's Assistant City Engineer (Building and Production) claimed that their standard of workmanship is equal to or higher than the best in the Western Cape construction industry. Could a contractor ensure this level of quality?

The MBA emphasised that the contractor's standard must be up to the standard of workmanship required and documented for the job. "Whatever the local authority wants it must get, so get the right contractors and know their standard." (Quoting Mr Leon Glaser.)

In-house construction allows for minimal disruption to the public, for example, during the construction of Muizenberg Pavilion certain facilities remained open while construction was in progress.

Contractors would have no difficulty in meeting this requirement. The example was cited of Murray and Roberts building the Cape Sun Hotel in the centre of the City on negotiating public facilities not being disrupted.

Cape Town claims that through its experience of building public amenities it is sensitive to the needs of the community.

ADMINISTRATIVE FACTORS

The building unit provides project management "package deals" for Cape Town. An example is the construction of the Muizenberg Pavilion where all aspects of the project were co-ordinated by the building unit i.e. sub-contracted works, civil work, horticultural work and electrical installations.

The MBA was confident that any of its member contractors could provide this same service as a matter of course.

Where documentation or design information are to a greater or lesser extent not available at project commencement stage, departmental construction can commence immediately. In-house construction allows for flexibility in that alterations to designs and specifications can be made while the project is under construction. Under similar circumstances contractors could, and often would, exploit the situation to their financial advantage.

The MBA disputes that a contractor could exploit this situation. The basis is that in the bill of quantities which is submitted, every item has been priced. If an alteration to specifications is made then the particular item on the bill of quantities is amended either up or down in the standard way. This can not be exploited as the quantity surveyor can monitor the priced bill of quantities. They concede that the only argument that could be raised is on time but not financial terms i.e. if adjustments are required it might require extra time to effect such.

The building unit provides an estimating service for planning and for capital estimates, an advisory service on feasibility of projects, and a professional technical advisory service to all departments of the Cape Town Municipality.

The importance of providing staff, particularly the professionals, with a satisfactory variety of experience is stressed. If the work handled by the local authority were simply confined to maintaining existing facilities then it would experience even greater difficulty in recruiting suitably qualified and motivated staff. It is essential that the local authority handles work that is interesting and requires conceptualisation and innovative ability.

The future managers of the local authority must have

experience that is both balanced and complex to enable them to effectively initiate, plan and direct with flair and efficiency, whether the work is carried out in-house or by consultants and contractors.

The last two factors did not raise any objective comment from the MBA.

9.5 CONCLUSION AND RECOMMENDATION

The major portion of the Cape Town Municipality's civil construction function is already privatised. Reference to the relevant table on page 152 reveals that on average over the period 1981 to 1986, 67 % has been undertaken by the private sector while 33 % has been undertaken in-house. Similarly, from the applicable table on page 155 it is concluded that over the period 1981 to 1986 on average 75 % of all the City Engineer's Department's capital expenditure has been channelled to the private sector. It is essential that this local authority retains its own capacity to undertake both civil engineering construction and building construction to ensure continuity and protection against market and economic fluctuations. This conclusion is supported by Imeson (1984 : 3) "there are now 532 local authorities in Britain with some kind of direct labour building department". Hepworth (1976 : 17) confirms that there are 548 local authorities in Britain. It is therefore concluded that 97 % of all British local authorities utilise some form of direct labour building capacity. This must be some proof of their worth.

The civil engineering construction units (Building and Production, Roads and Waterworks of the Cape Town Municipality) have increased their turnover by 50 % in

real terms over the last five years. The recessionary state of the economy has led to a considerably reduced amount of work in the industry and although the construction units have not increased their capacity, the balance, on total value of work is no longer equitable.

In this regard the Cape Town Municipality should decrease its share of civil engineering construction and embark on a planned programme over the next few years of putting more work out to the private sector. This programme should be undertaken on a phased basis to avoid the problems and costs of redundancies and retrenchments. Staff levels could be reduced in most cases by natural wastage.

The phased reduction of in-house construction will enable the local authority to closely monitor the programme in terms of results achieved. An analysis of the results will reveal when an optimum and fair balance has been restored by taking into account expected and sustained competition, resultant costs, and the level of civil engineering construction work available.

Although a considerable number of building contractors exist in the marketplace they are not subject to free and unrestricted competition. Cape Town's building unit is providing the necessary competition and this is a sound strategy which is in the interests of the citizens of the local authority.

The number of employees engaged on building work represents only 0,3 % of the building industry labour force in the Western Cape.

(Source: BIFSA Annual Report 1985.) This hardly represents a threat to the building industry.

The building unit has not increased in size over the last five years but nevertheless has retained a consistent level of work even though the total value of

building construction in the industry has decreased considerably. Currently the degree of balance between the building unit and the private sector in terms of available work is not equitable.

The building unit's work programme should be reassessed with the objective of determining an optimum staff level and commensurate volume of work (in monetary terms) per annum to achieve maximum efficiency. This would determine an economic limit on the building unit's work programme and all work over this limit should be put out to the private sector.

Should the optimum level of staff be determined at less than the present workforce then a reduction could readily be affected as the majority of its employees are on a "hire and fire" basis and redundancies would be avoided.

The above recommendations may be viewed as enhancing a principal advantage of privatisation which is the fostering of competition among organisations whether they be in the public or private sector.

CHAPTER TEN

EVALUATION

CHAPTER TEN

EVALUATION

10.1 GUIDELINES FOR CONTRACTING OUT

The advantages of privatisation and the advantages of in-house provision of local authority services provide a fair indication of the strength and complexity of the issue and what clearly emerges is that success can not be guaranteed by change.

The proof lies in whether the local authority obtains a more efficient and cost effective service and can only be achieved if change is made, even experimentally. If change is made to the private sector then the following crucial factors should be considered:

- the extent of competition in the area
- the record of the potential contractors in terms of reliability and strength; and
- the problem of how to use departmental staff declared redundant.

If a contract is to be let for the performance of a local authority service by the private sector then the following guidelines are recommended:

- each tenderer should be required to submit his audited final accounts for the last three years as well as a banker's report and a banker's guarantee
- the conditions of contract should be attached to the tender form and should be clear and precise as to the rights and obligations of the respective parties

- the local authority should have sufficient supervisory staff to monitor the performance of the contractor and these costs would have to be added to the cost of the service
- the tenderer should be required to indicate his system of organisation and the approved organisation system should form part of the contract; and
- the contractor should provide for the commandeering of the service during any disaster or civil defence emergency. (Vivier 1982 : 12.)

Atkinson (1984 : 40) suggests that local authorities should examine the range of experiences that the contractor has shown including :

- the nature of the plant or project
- the length of time the company has been in business
- the companies references and past experiences; and
- the companies record of renewals.

P S Florestano, "Contracting with the Private Sector" National Civic Review 1982, pp 352 - 353.) suggests consideration of the following factors before deciding which types of services might best be contracted out.

- Legal:

Ordinances or other legislation should be checked to determine whether it is legally possible to contract a particular service. In South Africa local authorities have permissive powers and the legal

nature thereof does not require the local authority itself to render the service. Special care should be taken in the area of industrial relations and labour law.

- Political tradition:

The political beliefs or traditions of the community should be considered. Some communities may prefer a dominant private sector with local government providing the infrastructure and the private sector bringing strong competition into the process. Other communities may be concerned over local government growth and perceive local authorities as inefficient and are therefore supportive of a reduction of employees in that sector. Yet other communities may perceive contracting negatively as they view local government as an instrument to provide citizens with jobs or to accomplish other social or economic objectives. They might also be concerned about the sensitivity and responsiveness of private contractors to the attainment of public goals.

- Administrative:

Consider the characteristics of the service, as a tangible service with clear-cut dimensions, is more readily contracted. New services are more apt to be contracted than those services which have been provided by the local authority for decades. Consider frequency and uniqueness criteria e.g. a seasonal service or the use of specialised equipment or facilities at intermittent intervals make contracting more viable. If there is a good number of suppliers it is assumed that competition will lower the cost; but if there are no potential suppliers then further consideration is futile.

- Financial:

Cost is of primary concern - is it cheaper for in-house provision or contracting? The size of a local authority affects finances: small local authorities usually contract for selected services because they lack the resources to provide them or conversely they may elect to provide fewer services. But a word of caution. Local authorities must realise that paying an inadequate fee is advantageous only in the short term. A private enterprise that does not make a profit will reduce the quality of service until it either receives a satisfactory return on investment or it goes out of business.

10.2 CONCLUSION

The debate continues whether it is beneficial for local authority services to be provided in-house or under contract to the private sector. It evolves around questions such as whether in-house work is cheaper or more expensive, more efficient or less efficient than work undertaken by private contractors. One can be in agreement that both sectors are competent to provide local authority services. Each has its role to play and each agency has its advantages and disadvantages.

Local authorities should continually evaluate the efficiency of their service delivery and where advantageous the private sector should be afforded the opportunity of performing part of the service. Similarly those services contracted out to private enterprise should be subject to a constant re-evaluation by the local authority. This would allow a continuous comparison which would be in the interests of both the public and the private sectors.

It is essential to strike a proper balance between the public and private sectors bearing in mind inter alia the urgency, experience and co-ordination required, the prevailing economic conditions, the specialised nature of the service and the local authorities' resources available. Optimum balance should be determined by what is in the best interests of the citizens of the local authority.

Adequate and free competition is the most important factor in achieving cost-efficient services.

Privatisation could lead to the destruction of competition and conversely the local authorities' entry into the market may create competition where a monopoly has previously existed.

Privatisation has many disadvantages as well as advantages and each potential case should be examined on its merits. No overall standard can be applied, particularly when community services with a public health facet are under consideration.

The profit motive factor is not necessarily a guarantee for cost-efficient service delivery particularly if work is plentiful and competition is inadequate.

Efficient provision of local authority services is dependent upon sound management principles whether they are provided by the public sector or the private sector. Responsible cost-conscious management is essential to obtain maximum results from limited resources available.

The decided commitment to privatisation as a policy, by local authorities before such campaign is embarked upon is essential for optimum results. In all instances the decision should be for a good reason and not merely for the sake of privatisation.

10.3 THE OBJECTIVES ACHIEVED

In Chapter 1, Section 1.2 the primary objective of this thesis was stated as being "to contribute to a methodology which will assist the choice between a public sector agency and a private sector agency for the provision of certain local authority services."

A methodological approach was devised in the earlier chapters and formulated in Chapter 7. It is anticipated that this methodological approach could be of practical value to any local authority. This study is applicable to a particular set of time, circumstance and background and conclusions drawn should not be construed as being generally applicable anywhere else at any other time.

In summary, the three other objectives of the thesis relate to:

- examining the issues involved in comparing private and public sector agencies (Chapters 2 to 5)
- establishing criteria for the assessment of both agencies (Chapter 6)
- examining the devised methodological approach and illustrating its application (Chapters 8 and 9).

This thesis has endeavoured to achieve the stated objectives.

APPENDICES

CAPE TOWN CITY COUNCIL: SURVEY OF PRIVATISED SERVICES

CITY ENGINEER'S DEPARTMENT

1. ARCHITECTURE: Large works are not normally designed by the Architectural Branch, but rather allocated to private firms.
2. BUILDING AND PRODUCTION: Council has a building unit which can undertake emergency work, work which must be completed before the end of a financial year and work which from time to time can be used for comparison with the private sector. Effectively, however, 95 % of building construction is contracted to the private sector.
3. ROAD CONSTRUCTION: Council is chiefly responsible for the maintenance of roads and undertakes only small road construction works. Major road construction is largely handled by private contractors and recently the construction of carriageway crossings was privatised on a trial basis. This was not successful, however, the quality being inferior to and the cost no cheaper than that provided by Council.
4. STORES: Uniforms and protective clothing for Council staff are manufactured by private contractors and redundant equipment, plant and stores are auctioned by private auction firms.
5. TOWN PLANNING: Specialist planning surveys are given to consultants, however, much of the Town Planning work is done by the branch itself.
6. TRANSPORT AND MECHANICAL PLANT: Additional vehicles and plant particularly specialist plant are regularly hired to supplement Council's transport and mechanical plant pool.
7. TRANSPORT PLANNING: Council makes use of consultants to some degree in this area.
8. WATERWORKS: The department undertakes minor pipelines and maintenance work, however, larger projects are contracted out.

ELECTRICITY DEPARTMENT

Capital works represent the only significant area of privatisation in the department.

CITY TREASURER'S DEPARTMENT

1. ATTORNEYS: Private attorneys are employed to deal with debt collection, non-payments, litigation, etc.
2. BROKERS: Insurance brokers advise the department on insurance matters.

3. CONSULTANTS: Council has made use of consultants to revise accountancy systems and computer and systems analyst consultants to design most computer systems.
4. FINANCIAL ADVISORS: Loan-raising and general financial advice is provided by private firms.
5. INVESTMENT ADVISORS: Pension Fund decisions are taken in consultation with private investment advisors.
6. MERCHANT BANKS: Council makes use of the various services provided by Merchant Banks.

CITY ADMINISTRATION DEPARTMENT

1. ABATTOIR: The gut factory, the slaughtering, flaying and dressing of carcasses, the salvaging of hides and processing of offal have all been privatised.
2. AMBULANCE SERVICE: Only the Hospital Transport Service, a taxi service for out-patients not including casualty conveyance, has been privatised.
3. BATHING AMENITIES: Beach and swimming pool restaurants and kiosks, amusement activities e.g. miniature trains, boat rides, water slides and miniature golf are all run by the private sector. Similarly life saving services are only augmented by Council which hires temporary life savers during the summer months.
4. CATERING: Catering in the staff restaurants and for some Mayoral functions is performed by a private catering management service, however, attempts to privatise the catering service for the Fire Brigade proved unsuccessful and this service is now provided in-house.
5. CIVIC BUILDINGS: Office cleaning in the Civic Centre and specialist building maintenance aspects have been privatised, although routine building maintenance is undertaken internally. At present the Council is considering the employment of a marketing agency to promote the use of the Good Hope Centre and other exhibition facilities.
6. ESTATES: The sale and valuation of property is given to agents on occasion.
7. FRESH PRODUCE MARKETS: Sales of fresh produce are handled by agents who rent space on the market floor.
8. HOUSING: The sale of Council houses is handled by Estate Agents on occasion.
9. LEGAL ADVICE: Council makes extensive use of attorneys for items requiring senior counsel opinion, arbitration, conciliation, conveyancing and litigation, although it has its own team of legal advisors.

10. **MANAGEMENT SERVICES:** Council employs consultants for special assignments relating to the organisational structure and the investigation of operational systems, however, it also makes extensive use of its own Organisation and Methods Unit.
11. **PERSONNEL:** Some staff training is undertaken by private training bodies e.g. the Graduate School of Business of the University of Cape Town, Deltek, etc. Council has recently undertaken its own job evaluation project, however, on two previous occasions consultants were employed to do this. Recruitment advertising is handled by a private agency.
12. **PRINTING:** Certain high quality colour work and continuous stationery is given to private printing firms. Council's own printing division handles all other printing requirements.
13. **PUBLIC RELATIONS:** Specialist projects e.g. the completion of a special supplement to the Financial Mail on Cape Town are contracted out, however, many aspects of Public Relations are handled by Council's own Public Relations Officer.
14. **SECURITY:** Private security patrol services are employed to protect depots etc. and a security firm transports cash from collection points to the Council's bank. Council has its own security division for the protection of the Civic Centre, vital installations and national key points.
15. **SYMPHONY ORCHESTRA:** This was recently privatised with the establishment of a company in terms of Section 21 of the Companies Act. It is believed that the Orchestra could function more successfully if run less bureaucratically.
16. **TOURIST AUTHORITY:** Captour provides this service, receiving a grant-in-aid to cover a large percentage of its operating expenses.
17. **TRAFFIC:** Private contractors operate certain parking garages owned by Council.
18. **TYPING SERVICES:** A private secretarial agency has provided assistance on occasion.

HEALTH DEPARTMENT

At present no privatisation in health services, which are subsidised by the State, has been achieved. A Health Matters Advisory Committee is investigating health services rendered by local authorities and a cabinet committee will be looking at privatisation in its review of health services.

18 SUNDAY TIMES, Business Times, April 27, 1986

Deputy Director:

Privatisation Investigations

Pretoria

Commencing salary **R38 568** per annum.

Requirements

- An appropriate three-year qualification PLUS
- Extensive appropriate experience.

Duties

- Responsible for the execution of investigations to determine whether government activities can be privatised.
- Give guidance to investigation officers.
- Control investigations executed by investigation officers.
- Liaise with parties concerned.

Note

- Experience of the following will be a recommendation:
 - ★ Organisation and Work Study
 - ★ Research
 - ★ Investigations
- Applications must be submitted on form Z.83 and be accompanied by certified copies of qualifications.

Applications, stating reference number 19970, to the Secretary, Commission for Administration, Private Bag X121, Pretoria 0001.

Enquiries: Mr S.A. Visser, tel. (012) 21-4411 x 224.

Closing date: 16 May 1986.

THE PUBLIC SERVICE WHERE YOU COUNT



Commission for Administration

Investigation Officer:

Privatisation (Various posts)

Pretoria

Salary negotiable up to **R33 468** per annum depending on experience and qualifications.

Requirements

- An appropriate three-year qualification PLUS
- At least four years appropriate experience.

Duties

- Execute investigations to determine whether government activities can be privatised.
- Implementation of privatisation actions.

Note

- Experience of the following will be a recommendation:
 - ★ Organisation and Work Study
 - ★ Research
 - ★ Investigations
- Applications must be submitted on form Z.83 and be accompanied by certified copies of qualifications.

Applications, stating reference number 19971, to the Secretary, Commission for Administration, Private Bag X121, Pretoria 0001.

Enquiries: Mr S.A. Visser, tel. (012) 21-4411 x 224.

Closing date: 16 May 1986.

THE PUBLIC SERVICE WHERE YOU COUNT



Commission for Administration

COMPARATIVE IMPACT OF CAPITAL CHARGES - VEHICLES AND PLANT

	YEAR						
	1	2	3	4	5	6	7
	R	R	R	R	R	R	R

Branch with 1 vehicle:-

1. Annual redemption charge	25 000	25 000	25 000	25 000	25 000	25 000	25 000
2. Depreciation charge	10 714	10 714	10 714	10 714	10 714	10 714	10 714

Branch with 98 vehicles:

3. Annual redemption charge	1 050 000	1 050 000	1 050 000	1 050 000	1 050 000	1 050 000	1 050 000
6. Depreciation charge	1 050 000	1 050 000	1 050 000	1 050 000	1 050 000	1 050 000	1 050 000

CALCULATIONS

1. $\frac{75\ 000}{3} = R25\ 000$

2. $\frac{75\ 000}{7} = R10\ 714$

3. 14 vehicles replaced this year @ R25 000 p.a. R 350 000
 14 vehicles replaced last year @ R25 000 p.a. R 350 000
 14 vehicles replaced previous year @ R25 000 p.a. = R 350 000

R1 050 000

4. $\frac{98\ \text{vehicles @ } R75\ 000}{7} = R1\ 050\ 000$

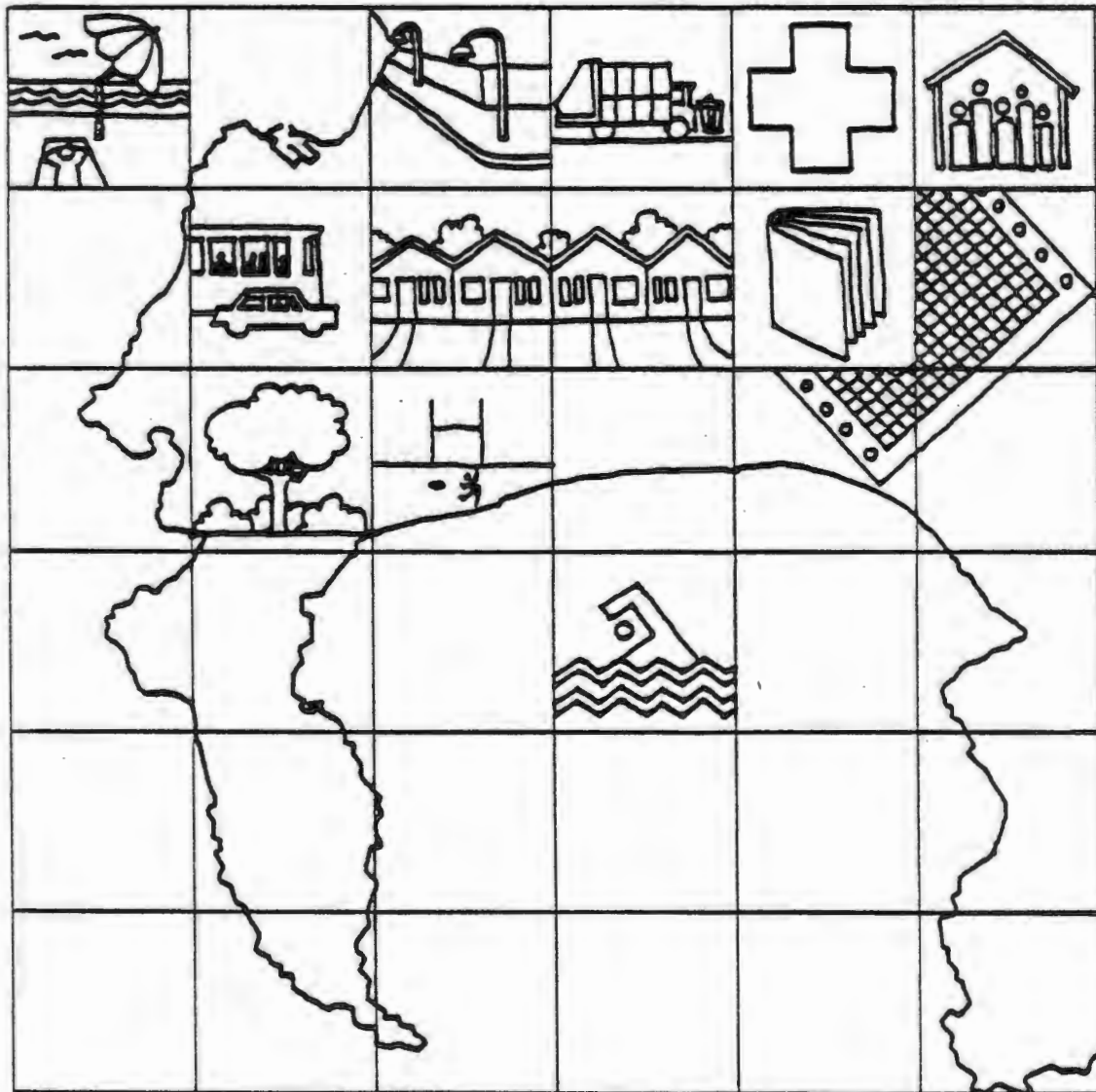
ASSUMPTIONS

1. Cost of replacement vehicle R75 000.
2. Life of vehicle - 7 years.
3. Redemption period - 3 years.
4. In the case of the large branch - 14 vehicles replaced each year.
5. Straight line depreciation.

CAPE TOWN OPINION SURVEY

Services Provision by the City Council

PART 1: PSYCHOMETRIC MODEL & RANKING ANALYSIS



CITY OF CAPE TOWN
CITY ENGINEER'S DEPARTMENT
TECHNICAL MANAGEMENT SERVICES
OCTOBER 1984

HIERARCHY OF IMPORTANCE

	MUNICIPAL OVERVIEW	CONSOLIDATED AREAS: A	CONSOLIDATED AREAS: B	MITCHELLS PLAIN	C C C HOUSING EST.	HOME OWN - CAPE FLATS	HOME OWN - MAIN LINE	KENSINGTON/WOODSTOCK	ATLANTIC SUBURBS	N W ATLANTIC SUBURBS	CENTRE SUBURBS	SOUTHERN SUBURBS	FALSE BAY	DIEP RIVER/SOUTHFIELD
Library Services	5	5	6	5	6	4	6	5	6	12	8	5	7	3
Halls/Community Centres	23	23	18	18	18	18	20	19	23	22	23	23	23	15
Childrens Playgrounds	13	4	10	10	9	11	8	8	15	9	13	15	13	14
Swimming Pools	22	22	19	19	20	20	19	23	19	21	21	22	19	20
Sportsfields	21	21	16	15	16	16	16	16	20	19	22	21	22	23
Health Services	4	6	1	1	1	1	2	3	7	4	7	8	8	8
Traffic Control	2	2	3	2	7	6	5	9	2	3	3	2	2	12
Council Housing														
- Home Ownership	19	19	13	9	14	13	17	12	22	15	19	19	20	18
Council Housing - Rented	20	20	14	12	13	15	15	15	21	16	20	20	21	17
Rubbish Collection	1	1	4	6	3	2	1	1	1	1	1	1	1	1
Roads in Res. Areas	12	12	11	14	11	8	10	10	12	10	11	11	10	9
Sidewalks/Pavements	11	11	9	13	10	5	7	4	10	6	12	12	12	13
Street Lighting	3	3	5	8	2	3	3	2	3	2	2	3	3	7
Mass Public Housing														
for the Poor	6	9	2	3	4	7	4	6	9	8	6	9	9	21
Landscaping	16	15	20	22	19	19	18	18	17	17	15	14	16	6
Parks e.g. Wynberg	18	18	21	23	22	21	22	20	20	23	16	16	15	5
Conserving Natural Beauty	7	4	17	17	15	17	13	17	5	11	4	4	5	10
Preserving Old Buildings	15	13	23	21	23	23	21	22	14	18	14	13	17	16
Grass and Flowers														
Along Roads	17	17	22	20	21	22	23	21	18	20	18	17	18	2
Main Roads and Freeways	10	7	15	16	17	14	14	14	8	7	10	7	6	4
Public Transport - Buses	9	10	8	7	5	9	12	7	4	5	9	10	11	22
Public Transport - Trains	8	8	7	4	8	10	9	11	11	13	5	6	4	11
Beach Amenities	14	16	12	11	12	12	11	13	16	14	17	18	14	19

HIERARCHY OF SATISFACTION

	MUNICIPAL OVERVIEW	CONSOLIDATED AREAS : A	CONSOLIDATED AREAS : B	MITCHELLS PLAIN	C C HOUSING EST.	HOME OWN - CAPE FLATS	HOME OWN - MAIN LINE	KENSINGTON/WOODSTOCK	ATLANTIC SUBURBS	N W ATLANTIC SUBURBS	CENTRE SUBURBS	SOUTHERN SUBURBS	FALSE BAY	DIEP RIVER/SOUTHFIELD
Library Services	5	4	4	6	4	6	6	3	1	4	6	6	5	4
Halls/Community Centres	11	15	10	7	8	9	12	6	12	13	17	15	14	14
Childrens Playgrounds	13	11	22	20	22	18	14	16	13	12	16	12	10	13
Swimming Pools	14	12	21	23	10	20	17	12	14	22	8	11	13	19
Sportsfields	12	13	13	8	13	15	21	15	11	14	13	14	15	17
Health Services	10	10	6	14	3	7	5	4	10	5	12	10	11	8
Traffic Control	17	17	17	18	18	12	11	13	16	11	15	17	19	12
Council Housing														
- Home Ownership	21	21	18	16	20	16	16	17	21	17	21	21	20	21
Council Housing - Rented	22	22	20	21	16	19	20	20	22	20	23	22	23	22
Rubbish Collection	1	2	1	1	1	1	1	1	3	1	2	2	2	1
Roads in Res. Areas	8	8	9	4	12	13	9	10	8	10	10	8	9	9
Sidewalks/Pavements	16	16	12	3	21	22	18	22	15	19	14	16	17	18
Street Lighting	4	5	3	2	7	5	4	9	5	3	4	5	3	5
Mass Public Housing														
for the Poor	23	23	23	22	23	23	23	23	23	23	22	23	22	23
Landscaping	7	7	11	15	11	10	10	11	7	8	7	7	6	7
Parks e.g. Wynberg	6	6	5	11	5	3	3	5	6	6	5	4	4	6
Conserving Natural Beauty	9	9	8	10	9	4	8	8	9	9	9	9	8	10
Preserving Old Buildings	18	18	16	19	15	11	13	14	18	16	19	18	18	15
Grass and Flowers														
Along Roads	3	1	7	9	6	8	7	7	4	7	1	1	1	3
Main Roads and Freeways	2	3	2	5	2	2	2	2	2	2	3	3	7	2
Public Transport - Buses	20	20	14	12	14	17	19	18	20	21	20	20	21	20
Public Transport - Trains	15	14	15	17	17	14	15	19	17	15	11	13	12	11
Beach Amenities	19	19	19	13	19	21	22	21	19	18	18	19	16	16

MEMORANDUM IN RESPECT OF
PLANNING, DESIGN AND CONSTRUCTION
OF PUBLIC CIVIL ENGINEERING WORKS.

1. The Civil Engineering Advisory Council found it necessary to consider, and make recommendations in respect of, the planning, design and construction of public civil engineering works and particularly in the sharing of this work between the public and the private sectors.
2. The Council found that while the declared policy of Government of not doing work itself unless it had good reasons for doing so was the guideline, it was of major importance that Government departments and agencies should be adequately staffed, that sufficient civil engineering design and construction should be carried out directly by them to provide adequate training and experience for this staff and to provide the required overall guidance and control of such work.
3. The Council also found that uniformity and compatibility in public civil engineering works was necessary, together with appropriate and adequate standards, and codes of procedure, and this made it necessary for the public sector to be responsible for overall and long term planning.
4. Council's views are summarised as:-
 - 4.1 Government's stated policy of not doing work itself unless it had good reasons for doing so was the guideline.
 - 4.2 The public sector should ensure that unnecessary costs are avoided in civil engineering works carried out by itself or the private sector.
 - 4.3 Long term planning and even preliminary design, or basic planning, should be done by public bodies with expert assistance from the private sector when necessary.
 - 4.4 Adequate guidance and monitoring of design must be carried out to ensure that safe and adequate but not unduly expensive standards are used.
 - 4.5 The public sector should itself prepare sufficient designs to ensure that adequate expertise is developed and maintained within it and to ensure that design requirements for public works are complied with and also to ensure adequate development of staff.

- 4.6 The public sector should itself carry out sufficient construction work, the extent of which should be a minority of new construction, and also supervise sufficient construction carried out under contract by the private sector, to ensure that adequate expertise is developed and maintained within it and to ensure adequate development of staff.
- 4.7 That tenders from the private sector for "design and construction" of works should be considered when suitable.
- 4.8 That public bodies should be provided with basic staff to carry out work not suitable for assigning to the private sector, to carry out maintenance and to be in a position to deal with emergencies.
- 4.9 That public bodies should have sufficient professional and technical staff to draw up, or guide the production of appropriate codes, standards and guides, for their civil engineering works.
- 4.10 That provision for adequate dissemination of information on design and construction practice and experience should be ensured.

DESCRIPTION OF TERMS

- bureaucracy : a mechanism that achieves results by means of a formal organisation.
- bureaucratic environment : an environment having different levels of authority, where work is governed by definite and impersonal rules. Each official has his own particular function and his own set of rules to apply.
- cartel : a market situation in which the sellers of the good or service make joint rather than independent decisions about the price output and other policies.
- competition : exists in a given market wherever each buyer and each seller of a good or service in that market can improve his own economic position only by offering more for less.
- Consolidated Capital Development and Loans Fund : the object of this fund is to concentrate all loans raised and all monies in the hands of the Council which are not immediately required for the defrayment of expenditure therefrom in one central fund so as to facilitate the control and management thereof, the payment of interest on loans raised and the investment of funds.
- Haylett formula : a work group, index-based contract price adjustment formula used for the calculation of any fluctuations in building costs within the work groups during the contract period. Based on indices released by the Central Statistical Services in Pretoria.
- monopolistic market : unlimited influence over the provision of a good or service on the market place where price is not influenced by competition.
- red tape : a proliferation of forms and an over-concern with strict adherence to regulations.

SOLID WASTE: COLLECTION AND DISPOSAL

LIST OF QUESTIONS CONSIDERED AT THE INTERVIEWS CONDUCTED WITH LOCAL AUTHORITIES WHICH HAVE CONTRACTED OUT

What is the population of your local authority?

How many premises are serviced?

How many refuse removal vehicles (compactors) are involved in this operation?

When did your local authority first contract out this service?

What was the motivation for this decision?

Which company currently holds your contract and for how long?

How many tenderers competed at each change of contract? Who were they?

Have you had occasion to change contractors? Why?

What is your Council's policy towards privatisation generally?

What is your opinion of the extent of competition for the supply of this service?

What advantages or benefits has contracting out brought to your local authority?

What disadvantages or problems have you encountered since contracting out?

What is the cost of this service in terms of the present contract?

What is the frequency and timing of the service?

During periods of civil unrest or during "stayaways" has this service been disrupted and to what extent? What interim remedial measures are available to your local authority?

Have the service quality or operational activities provided by the contractor declined during the duration of the contract? What aspects and to what extent? e.g. has the contractor employed inferior staff, cut corners on certain aspects or tried to shed the least profitable aspects? Please supply data or evidence, if any.

How do you measure and control the quality of the service provided by the contractor?

What methods and channels are used for handling citizens' complaints?

What has the extent and frequency been of complaints over the duration of the contract? What is the attitude and response time of the contractor?

Would your local authority consider resuming this service by using direct labour? Why? Why not?

To what extent (if any) has contract preparation, administration and contract monitoring increased the cost of the service?

Has your local authority ever possessed its own dump/tip facilities?

Have you ever had reason to consider that the contract is too rigid or narrow to maintain a quality service?

In general terms, is the contract flexible enough in the event of a special circumstance?

If your local authority experienced a disaster or civil emergency, would you have immediate access to a "pool of labour"?

What contingency plan do you have if your contractor were to become insolvent? What safeguards are included in the contract?

When the service was contracted out what arrangements were concluded for your employees previously providing the service? What problems, if any, were encountered? What settlements or costs, if any, were encountered?

The remainder of the interviews involved open-ended discussions on applicable factors listed in Chapter 6.

SOLID WASTE: COLLECTION AND DISPOSAL

LIST OF QUESTIONS CONSIDERED AT THE INTERVIEWS CONDUCTED WITH LOCAL AUTHORITIES WHICH HAVE NOT CONTRACTED OUT

Brief background and history to the provision of the service.

Description of the service and its objectives.

What are the most important characteristics of the service?

What are the resources utilised to provide the service e.g. personnel, equipment, vehicles and materials?

What is the timing and frequency of the service?

What is the number of premises serviced in your local authority?

What is the operating expenditure for the current year?

What disposal sites do you possess?

Has your local authority ever considered contracting out? Why? Why not?

What economies of scale can you achieve? Details?

What are your current costs for delivering this service? e.g. price per bin or cubic metre.

Why do you feel that this service can best be delivered in-house?

Has your local authority ever put out a tender for this service? Details?

What in your opinion is the extent of competition for the provision of this service?

Why are other local authorities and private contractors prevented from utilising your pulverising plants?

In the absence of profit what is your primary motivation?

What means do you have for measuring productivity and efficiency? What evidence can you supply?

How do you measure and evaluate the quality of the service you provide?

Do you have evidence on how your ratepayers perceive this service? How are ratepayers' complaints handled?

What is the salary range in your local authority for (a) a labourer (b) a driver?

What fringe benefits are provided?

Please supply details of incentive schemes operated for motivational purposes.

Have you ever had occasion to use this "pool of labour" for any emergencies. What were the circumstances and results?

In times of civil unrest or "stayaways" has the continuity of this service ever been disrupted? What were the circumstances and results?

To what extent does your local authority adhere to health and safety requirements for your employees providing this service?

The remainder of the interviews involved open-ended discussions on applicable factors listed in Section 6.3 "Advantages of public sector agencies".

LIST OF QUESTIONS CONSIDERED AT THE INTERVIEWS CONDUCTED WITH PRIVATE CONTRACTORS

Brief background history of your organisation.

What are your capital budget and operating budget for the current year?

Details of staff employed.

How many collection vehicles (compactors) do you operate?

Are they purchased, leased or financed in any other way?

What dump/tip facilities do you operate?

Please supply details of contracts currently operated by your company?

What economic or financial advantages do you claim for private enterprise in respect of the provision of this service?

What is your charge per household, per bin or per cubic metre? Please supply a breakdown of your costs.

What comparative cost information can you supply for the provision of this service in the public sector and in the private sector?

Can you provide this service for a lesser cost than the Cape Town Municipality? Can you substantiate?

What is the extent of competition in this industry? What information can you supply to demonstrate the effect of competition on prices for the provision of this service?

Can you provide any competitive tendering data?

To what extent can economies of scale be achieved in the provision of this service by your organisation? What information or comparative data can you supply?

How do you measure and evaluate productivity and efficiency?

What productivity incentive schemes do you operate for (a) management (b) other employees.

Please supply details of personnel costs particularly (a) a labourer and (b) a driver.

What fringe benefits are offered?

What degree of flexibility can you exercise in the operational activities of this service?

How quickly and to what extent can you adjust levels of service or type of service offered if necessary?

How quickly can persons be employed and conversely dismissed if necessary?

Does your organisation have an Industrial Relations policy? Please describe.

Is there any form of recognition agreement in practice?

Have labour disruptions or 'stayaways' had any detrimental effect on the provision of your service?

What contingency plan do you have in the event of being subjected to a strike?

Can you provide a better quality service at a lower price than a local authority? Why? How?

What extraordinary management expertise does your organisation possess?

Do you have any specialised skills which e.g. might be difficult for some other organisation or local authority to recruit?

What protection do you have against insolvency? How do you allay obvious fears a local authority might have in this regard?

Please supply details of your organisation's adherence to health and safety requirements for your employees?

The remainder of the interviews involved open-ended discussions on applicable factors listed in Section 6.2 "Advantages of private sector agencies".

CIVIL ENGINEERING AND BUILDING CONSTRUCTION

LIST OF QUESTIONS CONSIDERED AT THE INTERVIEWS CONDUCTED WITH ASSOCIATIONS REPRESENTING PRIVATE SECTOR CONTRACTORS

Briefly describe the background of your Association.

What is the primary function of your Association?

What are its objectives?

Please supply data concerning the scale and level of influence of the contractors that you represent.

What do you deem to be the essential characteristics of construction?

What economic or financial advantages do you claim for privatisation?

Do you feel that private contractors can undertake construction for a local authority at a lesser cost?

What evidence can you supply to substantiate your answer?

Is it not reasonable that a local authority possesses the capacity to undertake certain construction works which provide a cost yardstick for comparative purposes with contractual bids? Why? Why not?

What is the extent of competition in the construction industry? Could you demonstrate that this competition is free and unrestricted?

To what extent can economies of scale be effected if private contractors undertake construction for local authorities?

What effect does the profit motivation factor have on the performance of contractors?

What do you feel is the effect of the absence of this motivation from local authorities providing the service?

To what do you attribute the claim of higher productivity for the private sector?

What are the primary motivators and incentives generally applicable to contractors?

Please supply details of remuneration per hour in terms of applicable legislation for (a) labourers (b) artisans.

What fringe benefits are offered?

Do you claim greater efficiency among contractors in the private sector?

To what do you attribute this?

To what extent do you believe that "red tape" affects the performance of a local authority providing this service?

Do you consider that a local authority should provide a construction function in the first instance?

What comment do you offer regarding a local authority performing routine maintenance and emergency construction works?

In your opinion would contractors be interested in undertaking this type of work?

For what reason do you consider that contractors could provide a better quality of construction?

Do contractors possess special skills or expertise which a local authority might find difficult to obtain?

Is the management of contractors superior to that of local authorities? Why? Is there greater flexibility for innovation?

What safeguards could be provided in the event of a contractor defaulting or going insolvent?

Why does your Association insist on all your member contractors including the Haylett formula in each contract? Why can they not decide for themselves?

The remainder of the interviews involved an open-ended discussion on applicable factors listed in Chapter 6, "Advantages of Private Sector Agency", Section 6.2.

LIST OF QUESTIONS CONSIDERED AT THE INTERVIEWS WITH SENIOR
MANAGEMENT OF THE CAPE TOWN MUNICIPALITY'S IN-HOUSE CIVIL
ENGINEERING AND BUILDING CONSTRUCTION UNITS

Briefly describe the background to your construction unit?

What is the nature or specialised expertise of the construction undertaken?

How many employees are involved?

What do you deem to be the essential characteristics of the particular construction undertaken by your unit?

Could you provide the construction function for a lesser cost than a contractor? Why?

What economies of scale could be achieved?

To what extent would contract preparation, administration and monitoring increase the price of the contracted service?

What economic advantages do you claim for a local authority undertaking this function?

If all construction works of your local authority were privatised what would be the effect and resultant cost of retrenchments and redundancies?

Local authorities have been accused of hiding costs when undertaking projects. What comment do you offer?

Do you feel that there is adequate competition amongst the contractors in the construction industry?

If a contractor defaulted or went insolvent while providing this service how serious would the consequences be?

What advantages does the pool of direct labour provide in the event of an emergency or civil disaster?

What is your local authority's policy regarding privatisation generally?

Contractors are driven by the motivation of profit. What is your motivation?

Do you provide an adequate training scheme and job satisfaction for professionals and apprentices? Please elaborate.

What is your local authority's current salary for (a) a labourer (b) an artisan?

To what extent does your local authority comply with health and safety requirements?

In what way can you provide a higher quality level of service than a contractor?

What difficulties could be experienced in drafting contracts or specifications for the type of construction that you provide?

How do you measure the efficiency of your construction unit?

What criteria are taken into account before in-house construction is utilised?

Do you consider that there is adequate expertise amongst local contractors to undertake the type of construction presently provided by your unit?

Can your unit be more flexibly employed than a contractor?
How?

What has been the growth or decrease of your construction staff over the past five years? Please supply details.

Why does your local authority not accept the Haylett formula?

The remainder of the interviews involved an open-ended discussion on applicable factors listed in Chapter 6, "Advantages of Public Sector Agency", Section 6.3.

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