

# **Hunter Water, Corporatisation and Employment Relations: A Research Agenda**

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## **Abstract**

Corporatisation seeks to transform the performance of government trading entities; a transformation which often relies on changing how work is performed and how management and labour interact. Hunter Water - as it is now known - was the first water utility in Australia to undergo corporatisation. Against the broader corporatisation literature, this paper reviews how, from the 1980s, Hunter Water's operations were initially restructured around a commercialisation imperative and, then corporatised in 1992. The responses of the unions, including (shelved) privatisation plans are outlined. The case study highlights that more research is needed to record and analyse changes in employment relations which followed the utility's corporatisation, especially, in terms of employment regulation, management strategy, the structure and coverage of unions and organisational performance.

## **Introduction**

Since the 1980s government business enterprises (GBEs) in Australia – both federally and in the states – have been transformed through the adoption of private sector imperatives following corporatisation and ultimately, in some cases, by privatisation (Yeatman, 1994; Bottomley, 1994; Hamilton, 1995; Hogbin, 1995; Clark and Corbett, 1999; Collier and Pitkin, 1999; Gates and Steane, 2007). There have been profound changes to the structure, management, financing, regulation and ownership of public utilities (such as water, electricity and communications) and infrastructure. This restructuring, while intuitively most closely associated with conservative governments pursuing an economic rationalist agenda, and, of course, subject to constraints such as the potential sale price of the GBE measured against future income streams and public resistance, has occurred under successive state and federal governments irrespective of the political party in power.

As part of the adoption of 'new public management' models, these changes in ownership were designed, without any supposed threats to services or supply, to achieve higher efficiency and returns to the government or other shareholders through private sector-aligned management practices. Much was made of the promise of new ways to better manage the 'labour problem'. Enterprise-based bargaining, more co-operative workplace relations and, perhaps, de-emphasised levels of collective engagement, were the changes sought in the shift from the earlier centralised, pluralist and arguably more rigid approaches to work. Better employment relations were considered a touchstone of increased organisational performance (Fairbrother, Svenson and Teicher, 1997).

Of course, these changes to GBEs has been strongly critiqued over concerns, for instance, that the new entities have not performed optimally, that they have had significant negative impact on their workforces and, more fundamentally, that they have infringed principles which have lingered since colonisation over the (nationalistic) role of the state especially as a provider of key infrastructure and essential services (Kaul, 1995; Webber and Crooks, 1996; Quiggin, 1997; Hossain and Malbon, 1998; Bryan, 2000; Walker and Walker, 2000; James, 2005). Indeed, for most of Australia's history, the provision of utilities and services such as water, electricity, roads, railways and telecommunications was assumed to be a government

responsibility, as only the state could provide the capital for their development, the mandate to operate them for the general good and had the power to regulate them. Water supply, for instance, and its treatment was a natural monopoly, depending on resources (rain, rivers) and involving large, expensive and long lasting infrastructure (dams, pipelines) which could not realistically be duplicated by competitors. National security, economic growth and the well-being of the people depended on reliable provision of such essential services.

While, as Orchard (1988) found, an ideological commitment to reducing the role of government in the economy was important, and arose from both the 'left' and the 'right' of politics, developments in world financial markets and the globalisation of the economy put new pressures on governments to re-think ways of providing services in the most cost-efficient way; this included tapping in to the financial resources available within and beyond national borders and outside the traditional avenues of government borrowing. Promoting competition between service providers or parts of public sector organisations was regarded as necessary to ensure the best value for the consumer; defined as lower costs, more innovation and the exploitation of new market opportunities (Greiner, 1992). Commercialisation, corporatisation and privatisation were routes to achieve this increased value for taxpayers, who were also consumers of public services. Reduced government interference in what were essentially commercial operations was seen as socially desirable.

The conviction that the public sector was too large, too inefficient and too inflexible in comparison with private enterprise grew in the final decades of the twentieth century (Brown, Waterhouse and Flynn, 2003). Orchard (1988) traced this impetus toward public sector reform to a number of separate imperatives. First, from both sides of politics, an ideological desire to roll back the power of central governments through privatisation, decentralisation, competition, contracting out of government services and the introduction of approaches within the public sector which closely reflected the market-driven responses of private enterprise came to prevail. Second was the growth of new theories about management and the way in which better management practices could rescue public administration from, or so it was claimed, inertia and ossification. Importantly, the separation of regulatory functions from service delivery became a cornerstone for government policy.

At a more local and practical level, a drive for flexible approaches to the provision of public services supported revised management styles. Management practices in public sector organisations came to be seen, from the mid 1970s, as archaic and inefficient. In response, managerial reforms were introduced with the aim of achieving more cost-efficient, accountable, and customer-focussed organisations (Dixon, 1996). Reforms incorporated increased emphasis on flexibility, adaptability and performance management within decentralised operations units in organisations and the expectation of more innovative, entrepreneurial and productive practices (Parker and Bradley, 2000). One aspect of this was the enthusiastic embrace of the contracting out of government services. In New South Wales a drive to greater efficiency and reduced costs was evident from the early 1980s (at least) initiated by the Wran ALP government. At the same time, the appearance of economic rationalist thinking in the public service in NSW reinforced the push for 'effective and efficient' public services. Added to this was a tightening of credit and a lack of guaranteed funding from central governments as a response to global changes (Sheil, 2000).

Privatisation and corporatisation have come to be questioned as a political process and as an economic strategy (King and Pitchford, 1998). This assessment turns on factors such as the impact of market forces, including capital markets, the way in which ownership is determined

or controlled, the nature of management incentives, the extent of regulatory demands and the social impact of changed structures: all of which complicate the assessment of corporatised and privatised entities. The whole process of state restructuring is multi-faceted and complex, takes a long time and resists easy analysis. As well, as Fairbrother, Paddon and Teicher (2002: 23) observed, 'in these debates thus far, there has been a stunning neglect of the impact of state restructuring on labour, on those who work within the current state structures and the former ones'. Their book, *Privatisation, Globalisation and Labour: Studies from Australia* analysed, sectors of the telecommunications, power generation and supply, international aviation and the gas and fuel industries. The authors concluded that, *inter alia*, (ibid.: 231) '(T)he recent history of the restructuring of the public services in Australia points to a dramatic and lasting rearticulation of class relations, with profound implications for both managerial organisation and activity as well as unionism in these sectors'.

Some important research on changes which have been pursued since the 1980s in the water utilities have been published: Shiel (2000) and (2004) provides an Australian-wide overview of the changes following deregulation – an analysis titled as an 'incomplete hypothesis'; Ranald and Black (2000) examine changes in South Australia and a number of studies have assessed changes in Sydney Water (Watkins, 1997; Jane and Dollery, 2006). As yet no study has been published which has specifically analysed the corporatisation of Hunter Water – the utility at the vanguard of the change, in effect, the experimental 'guinea pig'. Constituted originally in New South Wales in 1892 the (then) Hunter District Water Supply and Sewerage Board was corporatised 100 years later as Hunter Water in 1992 (Hunter Water, n.d.). This paper reviews the reasons underpinning the decision to corporatise Hunter Water and reviews the initial changes which occurred. It concludes with an outline of a proposed research agenda. Data is drawn from publicly available records.

### **The Hunter District Water Board: Commercialisation then Corporatisation**

Hunter Water (in 2008) manages over \$2 billion in assets in the provision of water and wastewater services to in the order of half a million people over a 5.5km<sup>2</sup> area across the lower Hunter region. On average, the state owned corporation delivers 200 megalitres of water daily. It is also responsible for stormwater services (ibid.).

The (former) Hunter District Water Board (HDWB) had provided a safe and reliable supply of water and sewage system to households, businesses and industry for 90 years before it commissioned the international consultants Bennie and Partners Pty Ltd to report on its operations and assist in the preparation of guidelines and strategies for the future. The president of the Board, Professor Alan Carmichael, who had encountered hostility from employees over his attempts to change work practices, presumably may not have been that surprised to read the Report's findings that 'there is no evidence of any progressive improvement in productivity, or a systematic and consistent approach to matters such as manpower planning, improvement in industrial relations, improvement in control and information systems and improvements in financial management' (Binnie and Partners Pty Ltd 1981, quoted in Lloyd, Troy and Schreiner, 1992: 224) and that its situation was characterised by 'an inflexible management style of management [sic] low motivation and low morale' (Reid 1988, quoted in Lloyd, Troy and Schreiner 1992: 224). Revenue was insufficient to pay for recurrent operations and maintenance, resulting in a backlog of 'deferred maintenance' and the failure of sewer connections to keep pace with new urban development. From Binnie's point of view, which apparently was also Carmichael's, a rigid system of promotion by seniority, a reluctance to engage workers from outside the

organisation, which applied to both the Waged and Salaried Divisions of the Hunter District Water Board Employees' Association (HDWBEA) severely constrained the Board's ability to become more cost efficient (Lloyd, Troy and Schreiner, 1992: 274). Formed in 1913 the Hunter District Water Board Employees' Association was an establishment union with exclusive coverage of the water utility.

It was left to the incoming President of the HDWB, John Paterson, to consider and implement the recommendations of the Binnie Report. While Paterson's most widely acknowledged legacy is the user-pays system of charging for water use instead of the traditional rates based on property value, these reforms of the Water Board represent only part of the profound changes that accompanied his two years at the head of the organisation. Paterson, who came from a background in both public and private sectors adopted a tactic which he himself variously described as 'blitzkrieg' and 'cultural revolution'. In a series of moves calculated to unsettle Water Board managers and their industrial arm - the Salaried Division of the HDWBEA - Paterson managed, by his own admission 'by those somewhat harsh means to change about half of my top 15 people in the first twelve months'. The 'harsh' means included a controversial advertisement in the *Sydney Morning Herald* calling for external applicants in positions which would, by tradition, have been filled by internal appointment. This implied Patterson's lack of confidence, and public criticism, of the performance of the senior managers. Some of his methods came in for serious criticism from the NSW Conciliation Commission, but Paterson persisted in his reform agenda, calling in a Review Team from the Public Service Board (PSB) to overhaul the HDWB's management practices and structure.

The PSB review pointed to an unproductive compartmentalisation of activity (especially between engineers and administrators) and an excessive reliance on informal networks in the staff structure in the absence of formal inter-disciplinary co-operation (PSB 1982, vol 1: 11, quoted in Lloyd, Troy and Schreiner, 1992). The 'archaic' work practices identified by the review team included promotion by seniority 'which ignores qualifications, relevant experience, past performance and work attitudes'. The review thus paved the way for the introduction of a new, flatter management structure. Instead of most operations being centralised in the Hunter Street (Head) office, a number of district offices were established; in each of these business units a district manager was responsible for budget preparation, control and accountability for a multidisciplinary team including clerical and engineering functions and could direct the staff according to work loads. For Paterson, this was a way of circumventing the inflexibilities of the 'old guard' and providing opportunities for younger officers to gain experience and prove their worth. The appointment of an Employment Relations Manager was another of Paterson's initiatives designed to maintain the swift pace of his 'cultural revolution' (Lloyd, Troy and Schreiner, 1992: 292).

The relationship between Dr Paterson and the HDWBEA was analysed in Lloyd, Troy and Schreiner's (1992) commissioned history of the Water Board, however they did not appear to access the records of the HDWBEA's, but rather relied heavily on Paterson's own account of his dealings with the union; supported by Reid's analysis. It is not surprising that Paterson's agenda met with serious resistance. The Board's historians concluded that in spite of some initial wariness, the Wages Division finally embraced much of the change agenda apparent, for instance, in the acceptance of more responsibility of the day to day management of employee relations being devolved to line managers. By Paterson's own account (John Patterson's papers, 22 November, 1993 cited in Lloyd, Troy and Schreiner, 1992: 297):

An increasing number of our people are actually enjoying the exercise, although the majority are still in shock. It is all supporting my long-held belief in the possibility of cultural revolution, using a form of guerrilla warfare from the top.

But the Salaried Division of the HDWBEA remained opposed to many of the recommendations of the PSB review, notably in relation to classification and grading and issues around selection and promotion which threatened the long-entrenched principle of seniority. The considerable enmity marking the relationship between the salaried officers and the Board's management was remarkably highlighted in (presumably) Patterson's language in the Board's 1982-1983 *Annual Report*. It pulled no punches. In response to the cultural and industrial restructuring program, much of the report juxtaposes the 'collaborative, problem solving approach' of the union's Wages Division, against the Salaried Division threats 'to impose work bans unless Dr Patterson publicly recanted his view that staff numbers could be halved over the coming decade' (HDWB, 1983; 8). Other protest action taken by the salaried officers were to 'single out' employee relations staff 'for both active and passive hostility on a personal level'; rejecting 'all but a minute proportion of management's proposals' 'despite having spent considerable time at workshops and meetings' and that a recommendation by a member of the NSW Industrial Relations Commission was a 'watershed' particularly over higher grade positions which the salaried officers had regarded 'more as "entitlements" than a source for getting the job done'. The Salaried Officers' Division were 'isolated and on the defensive' because of the 'successful' negotiations with the Wages Division which had achieved 'progress' (ibid.: 9).

Nevertheless, new employment agreements, mirroring the award restructuring processes occurring elsewhere in other industries were negotiated with both wages and salaried employees. Significant progress was made in work organisation and staff development, including the recruiting of more women.

This did not, however, mean that the Board's salaried officers were suddenly compliant; even in the face of decisions against the union in the Industrial Relations Commission and railing against perceived attempts to reduce the total number of employees in the interests of greater efficiency and reduced costs. Equally, the Board's determination to achieve significant restructuring was maintained. For instance, the HDWB's 1988 *Business Plan* is instructive. It stated that a key organisational objective over the next five years to 1993 was to increase employee productivity by 15 per cent. This was to be achieved by (HDWB, 1988: 13)

- Introduction of more flexible forms of management
- Co-operation at all levels to reduce job management
- Extending training and development opportunities for our employees to acquire new skills particularly in the operations of new technology
- Reducing employee numbers through a process of natural attrition and targeted redundancies
- Maintaining strategies that have reduced lost time accidents/annum by 118 per cent in the last three years with a consequent 50 per cent reduction in both accident costs and work hours lost

Paterson's challenge to organisational structures and financial arrangements in the HDWB were timely. They marked the beginning of wide-ranging reforms that resulted in the commercialisation and corporatisation of the Board. Although Paterson had long departed to

spread his enthusiasm for public sector reform first at the Sydney Water Board and later in Victoria his influence was pervasive and long-lasting. His obituary published in the *Sydney Morning Herald* described him as ‘the best and most talented public servant of our time’ (Smith, Whitehouse, and Read: 2003).

His successor as President of the HDWB, Allan McLachlan, maintained the thrust of administrative reform, water-pricing reform, and increased efficiency within the organisation. Although described as reform ‘at a more subdued pace’ (Lloyd, Troy and Schreiner, 1992: 306) the next few years were marked as much by industrial disputation as they were by progressive restructuring. McLachlan and his Industrial Relations Section on the one hand, and the secretary of the union on the other, blamed each other for the lack of trust and inability to negotiate on a number of issues. At the same time, the number of employees in the Wages Division was drastically reduced.

Within the HDWB, the changes of the 1980s were carried to completion with the passing of the *Hunter Water Board Act* in 1988, reconstituting the Board to comprise seven members, one of whom was elected directly from the Board’s employees and creating the role of managing director as the chief executive officer. The user-pays tariff reforms were carried to completion in 1992 under the leadership of the new managing director Paul Broad (ibid.: 307). Broad was one of the young staff members Paterson had identified for advancement in his earlier management changes (ibid.: 290). This consolidated the work of the previous seven years or so, achieving a degree of commercialisation of the water utility which made it a pioneer of its time. The concepts of efficiency, accountability and effectiveness, at least as they had been constructed by the government and the board’s leadership, had prevailed.

The election of the Coalition under Nick Greiner to government in 1989 signalled more changes for the Water Board, but it is fair to note that these rested on initiatives supported by the Wran and Unsworth (ALP) governments that went before them. The HDWB has been seen as a test case or ‘guinea pig’ of what was to come in the commercialisation, then the corporatisation of large public utilities, and might perhaps have become a model for the privatisation of government owned enterprises in slightly different economic and/or political circumstances. In a report commissioned for the Hunter Water Board Corporation Steering Committee of the NSW government by the consultants Tasman Economic Research<sup>i</sup> all the claimed advantages of corporatisation were enumerated. Chief among these were the efficiency gains stemming from making management responsible for the Board’s operation, based on the assumption that ‘As a consequence of these reforms a more economic pricing structure will emerge, with service charges reflecting costs’ (Tasman Economic Research Pty Ltd., 1990) and that the productivity gains already achieved would be followed by further efficiencies of a similar kind. The report clearly foreshadowed privatisation as a subsequent step to include ‘franchising techniques for delivery of some, or, all of the water and waste water services of the region’ (ibid.: 7.). The report is redolent with the language that the NSW government would have appreciated; the corporatised structure would be ‘wealth-maximising, cost-minimising’, ‘income generating’ and the like. As to the employees, performance-related contracts were designed to enhance managerial outcomes, although Board members themselves might need to be offered ‘specialised training’ to fit them for their new responsibilities. One presumption was the anticipation that workers would ‘shift off existing awards onto new contractual agreements or other forms of employment contracts, which are mutually beneficial to the corporation and the staff’ (ibid.: 21-22). Employees in a corporatised Water Board were, according to the government, destined to benefit from a ‘new found capacity to negotiate directly with business oriented managers’ (ibid.: 23) resulting in

new initiatives and new services, the development of new market niches, and a contribution to economic development. The Tasman Report was not antithetical to organised labour though stating that ‘appropriate industrial organisation and union structures are vital’ (ibid.: 22).

The Salaried Division of the HDWBEA opposed corporatisation. Correspondence from the union to management set out in the Salaried Division’s 1990 *Annual Report* including a letter dated 11 December from the General Manager Services which stated, *inter alia*, that (HDWBEA, 1990: 13) ‘Paul Broad has asked me to respond to your letter of 30 November 1990. At this stage there has not been a definite commitment made to corporatise the Hunter Water Board . . .’. The union then notes that ‘seven days after the receipt of the letter . . . a public announcement, made jointly by Mr N. Greiner and Mr P Broad, indicated that the Hunter Water Board would in fact be corporatised’.

Even post the announcement the Salaried Officers’ Division was maintaining its objections. The 1990 *Annual Report* detailed their arguments that under the award the union had to be consulted prior to the Board making a decision about the ‘monumental’ restructure which would occur from corporatisation and that the division had ‘been party to revolutionary changes over the past ten years’ which had resulted in ‘massive gains in structural efficiency’ (ibid.). Accordingly there was ‘already the framework in existence for ongoing reforms’ and there was ‘a genuine fear amongst all employees of the government’s proposal to corporatise’ (HDWBA, 1991: 67-68). In the period 1988-89, for instance the Board downsized by 12% of the workforce or over 150 employees (HDWB, 1989).

When the *Hunter Water Board (Corporatisation) Bill* was introduced to the NSW Legislative Assembly by the Minister Joe Schipp in November 1991, he noted that it was to be the first of the natural monopolies to be corporatised. Public sector reform such as this was ‘fundamental to good economic and social management’ (Schipp, 1991a: 4244). Schipp emphasised that corporatisation was not to be seen as an avenue toward privatisation, although it flowed from the commercialisation initiatives of the preceding decade which included the changed composition of the Board to reflect ‘business acumen and capacity to contribute’ to the issues facing the Board. For employees at all levels, the only comment was ‘that rewards and sanctions must be based on performance’ (ibid.: 4250). Further (ibid.: 4249):

The staff of the corporation will benefit from a more commercial operating environment with a more flexible incentive structure. Corporatisation is not an instrument to erode employment conditions. Existing award provisions and entitlements will be carried over to the new organisation. However, corporatisation will provide the focus to pursue more flexible staffing arrangements, which will contribute to the efficiency improvements and further the professional opportunities of the corporation’s staff.

In his own assessment of the task imposed by corporatisation published in 1994, the Managing Director of the Hunter Water Corporation, David Evans noted the pressures imposed on publicly owned entities in an economic environment where they were increasingly exposed to reduced funding and the demand that they provide returns to government had necessitated a more commercial focus and improvements in efficiency. Evans acknowledged that the reduction in staff numbers was ‘extremely difficult’ but nonetheless fundamental. A new Board with a more commercial focus came with the Greiner government, and corporatisation allowed a range of changes. Evans noted that among these

the 'increased flexibility of employment conditions, capacity to attract managers with relevant commercial skills, etc' was a major benefit. Management accountability was one aspect of this new organisational arrangement with separate business units within the organisation able to compete for work internally and externally; the political and regulatory functions of the organisation were separated from the trading business units (Evans, 1994).

Greiner openly espoused a policy which encompassed major changes to the structure of those essential services which had historically been government-owned and controlled. The Australian Labor Party in Opposition supported these moves, quibbling only about the details since both parties considered corporatisation a vehicle for microeconomic reform. Corporatisation was a necessary precursor to the privatisation of the water supply. Although the Labor Opposition had a number of concerns regarding the corporatisation of the Hunter Water Board, including the possibility that it would be privatised in the future and that 'significant formal consultation' had not taken place with the employees' unions, the proposal had general support. According to Pam Allan, the HDWB claimed that extensive consultation was not required because 'little change will occur in its work force' with corporatisation. The general secretary of the Wages Division (Tobin) raised thirteen issues of concern, including the issue of future privatisation as well as the fate of superannuation benefits, the use of contractors and the undermining of long-held conditions. The nature of the operating license and the method by which assets would be valued and transferred to the new entity were questioned by the Salaried Division, in addition to matters relating to pay and conditions. It is clear from Ms Allan's speech that the unions considered they had not been sufficiently consulted and that some issues they raised had not received adequate consideration (Allan, 1991).

John Price, the Member for Waratah in the NSW Legislative Assembly, feared that the Hunter was 'once again being used as a trial horse for yet another government experiment' (Price, 1991: 5108) and subsequent developments proved him correct. However the corporatisation of the Hunter Water Board has generally been hailed as a success. Sheil (2000: 95) describes it as almost effortless, and as 'one of the most successful examples of the format' and no serious attempts have been made to modify the corporate model in any significant way. Some 'tidying up', as Greiner described it, included adjustments to superannuation and related benefits (Larriera, 1992).

In 1992, the Premier, Nick Greiner, made his important *Facing the World* statement on the fourth anniversary of the government in which he announced the future privatisation of state owned coal mines and electricity generation (Greiner, 1992). The *Sydney Morning Herald* reported that the sale of Hunter Water Corporation would be likely in 'two or three years' with the shares being made available to 'the people of the Hunter' (Larriera, 1992). That this did not occur is not doubt due in large measure to the return of a Labor government, but perhaps equally by the demonstrated failure of two specific facilities, one in Sydney and the other in Adelaide, where private contractors became associated with the failure of safe drinking water supplies (Sydney) and effective waste water management (Adelaide). In each case, cost cutting was blamed for inappropriate equipment or lack of adequate maintenance that resulted in significant breaches of safe operations in the network (Sheil, 2000).

## **Conclusion**

This paper has sought, albeit briefly, to review the phased shift undertaken at Hunter Water during the 1980s from commercialisation through to corporatisation with an emphasis on the arguments used to promote the change and how the change and the tensions it produced was



managed. Of course, much more of the ‘story’ in this case study needs to be told. More data from primary source - especially interviews with key informants - would facilitate further analysis of the union’s resistance and accommodation of the radical change agenda pursued by the Board in response to government policy. Having an establishment union is especially unusual in Australian industrial relations, but one, with such opposed factionalised divisions – one ‘white’, the other ‘blue’ collar - is therefore worthy of extensive investigation. So too, how employment relations changed post-corporatisation requires detailed inquiry. Can it be shown, for example, whether corporatisation had a major impact on labour costs, conflict and productivity? This then raises issues as to the subsequent effect on the overall organisational performance of Hunter Water. Finally, the case study itself needs to be located in the wider change literature both for water utilities specifically and corporatisation generally.

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iTasman Economic Research (now the Tasman Institute) is affiliated with the University of Melbourne. Some of its work as an agency in the promotion of corporatisation and privatisation was been critically reviewed – see, for example, Cahill, D. and Beder, S. (2005) ‘Neo-liberal think tanks and neo-liberal restructuring: Learning the lessons from Project Victoria and the privatisation of Victoria’s electricity industry’, *Social Alternatives*, 24(1) 43-8.

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