



## **AGENDA**

### **FOR INNOVATION AND BUSINESS DEVELOPMENT SUB COMMITTEE MEETING TO BE HELD ON**

**10 FEBRUARY 2020 AT CONCLUSION OF SPORT, RECREATION AND GRANTS  
COMMITTEE**

**IN WITTBER & DR RUBY DAVY ROOMS, SALISBURY COMMUNITY HUB, 34  
CHURCH STREET, SALISBURY**

#### **MEMBERS**

Cr K Grenfell (Chairman)  
Mayor G Aldridge (ex officio)  
Cr L Braun  
Cr C Buchanan (Deputy Chairman)  
Cr A Duncan  
Cr D Hood  
Cr P Jensen  
Cr J Woodman

#### **REQUIRED STAFF**

Chief Executive Officer, Mr J Harry  
General Manager Business Excellence, Mr C Mansueto  
Manager Governance, Mr M Petrovski

#### **APOLOGIES**

#### **LEAVE OF ABSENCE**

#### **PRESENTATION OF MINUTES**

Presentation of the Minutes of the Innovation and Business Development Sub Committee Meeting held on 13 January 2020.

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**REPORTS**

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**OTHER BUSINESS**

**CLOSE**





**MINUTES OF INNOVATION AND BUSINESS DEVELOPMENT SUB COMMITTEE  
MEETING HELD IN THE WITTBER AND DR RUBY DAVY ROOMS,  
34 CHURCH STREET, SALISBURY ON**

**13 JANUARY 2020**

**MEMBERS PRESENT**

Cr K Grenfell (Chairman)  
Mayor G Aldridge (ex officio)  
Cr C Buchanan (Deputy Chairman)  
Cr A Duncan  
Cr D Hood  
Cr P Jensen  
Cr J Woodman

**OBSERVERS**

Cr M Blackmore and Cr N Henningsen

**STAFF**

Chief Executive Officer, Mr J Harry  
General Manager Business Excellence, Mr C Mansueto  
Manager Governance, Mr M Petrovski  
PA to General Manager Community Development, Mrs B Hatswell

The meeting commenced at 6.39 pm.

The Chairman welcomed the members, staff and the gallery to the meeting.

**APOLOGIES**

An apology was received from Cr L Braun.

**LEAVE OF ABSENCE**

Nil

**PRESENTATION OF MINUTES**

Moved Cr A Duncan  
 Seconded Mayor G Aldridge

The Minutes of the Innovation and Business Development Sub Committee Meeting held on 11 November 2019, be taken and read as confirmed.

**CARRIED**

**REPORTS**

**IBDSC1 Future Reports for the Innovation and Business Development Sub Committee**

Moved Cr A Duncan  
 Seconded Mayor G Aldridge

1. The information be received.

**CARRIED**

**IBDSC2 Salisbury Plays Events**

Moved Cr C Buchanan  
 Seconded Cr P Jensen

1. Following learnings from the 2019 Salisbury Plays events it is recommended the 2020 Salisbury Plays events will be hosted at the following locations, with re-branding at one site:
  - Mawson Lakes Gourmet Event (rebranded from Salisbury Plays)
  - Salisbury Plays at Carisbrooke Reserve
  - Salisbury Plays at Bridgestone Reserve
  - Nature Play Festival at St Kilda
2. The naming of future events be the subject of discussion at a future Informal Strategy session.

**CARRIED**

Cr C Buchanan moved a FURTHER RECOMMENDATION that:

3. The Innovation and Business Development Sub Committee undertake a review of all community events that are held and funded by the City of Salisbury and reported to the Sub Committee in May 2020.

Seconded Cr J Woodman

**CARRIED**

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**IBDSC3 Community Requests - Response Dashboard**

Moved Cr C Buchanan  
Seconded Cr P Jensen

1. The information be received.

**CARRIED**

**OTHER BUSINESS**

Nil.

**CLOSE**

The meeting closed at 7.06 pm.

CHAIRMAN.....

DATE.....



<b>ITEM</b>	IBDSC1
	<b>INNOVATION AND BUSINESS DEVELOPMENT SUB COMMITTEE</b>
<b>DATE</b>	10 February 2020
<b>HEADING</b>	Future Reports for the Innovation and Business Development Sub Committee
<b>AUTHOR</b>	Michelle Woods, Projects Officer Governance, CEO and Governance
<b>CITY PLAN LINKS</b>	4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	This item details reports to be presented to the Innovation and Business Development Sub Committee as a result of a previous Council resolution.

**RECOMMENDATION**

1. The information be received.

**ATTACHMENTS**

There are no attachments to this report.

**1. BACKGROUND**

- 1.1 A list of resolutions requiring a future report to Council is presented to each sub committee and standing committee for noting.
- 1.2 If reports have been deferred to a subsequent month, this will be indicated, along with a reason for the deferral.

**2. CONSULTATION / COMMUNICATION**

- 2.1 Internal
  - 2.1.1 Report authors and General Managers.
- 2.2 External
  - 2.2.1 Nil.

### 3. REPORT

- 3.1 The following table outlines reports to be presented to the Innovation and Business Development Sub Committee as a result of a previous Council resolution:

<b>Meeting Item</b>	<b>- Heading and Resolution</b>	<b>Officer</b>
23/09/2019 IBDSC2 <b>Due:</b>	<b>Salisbury Water Business Unit - Expression of Interest</b> 2. Further update be provided following the finalisation of the Dry Creek proposal. February 2020 March 2020 Details are being finalised to enable an update in March.	Bruce Naumann
28/10/2019 1.1.3 <b>Due:</b>	<b>Collaboration Agreement between Council and Community Centres</b> 3. That the Innovation and Business Development Sub Committee conduct a review of the Collaboration Agreement over the next 12 months and conduct a review of the management model for Community Hubs (Burton, Para Hills and Ingle Farm) by June 2020. November 2020	Jo Cooper
28/10/2019 2.1.1 <b>Due:</b>	<b>Burton Community Hub Project Update</b> 2. That development of a management model be considered as part of a review of community hub models, including the Paddocks Hub by the Innovation and Business Development Sub Committee to be reported to the sub committee by April 2020. April 2020	Adam Trottman
25/11/2019 MON7.3 <b>Due:</b>	<b>Motion on Notice - Community Bus to Service Western Suburbs</b> 1. That staff bring back a report to the Innovation and Business Sub Committee on the viability and service options of a bus service to connect the western suburbs with the rest of Salisbury. (Parts 2-5 of resolution detail requirements of report) March 2020	Julie Douglas

25/11/2019 6.0.2- IBDSC2	<b>Civil Works and Services Circular Economy Opportunities Presentation</b> 2. Staff provide a report on how we can maximise, including the setting of targets and timeframes, and in conjunction with NAWMA, the re-use of materials and use of local recycled resources for gutters, roads and other infrastructure. 3. Staff bring back a policy to be included in the sustainability strategy to construct new roads, re-seal programs and carparks with the highest recycling material amount, and incorporating the targets and timeframes as per part 2. 4. Staff provide a report including comparisons with what the City of Salisbury and Port Adelaide Enfield Councils are doing in road surface trials, with particular reference to the Fulton Hogan report.	Dameon Roy
<b>Due:</b>	March 2020	
25/11/2019 6.0.2- IBDSC4	<b>Verge Maintenance Review</b> 3. A further report be provided at the completion of 2020 on the effectiveness of the trial.	Mark Purdie
<b>Due:</b>	December 2020	
25/11/2019 6.0.2- IBDSC4	<b>Verge Maintenance Review</b> 4. Further work be undertaken over the next 12 months to identify sites for alternative verge treatments with consideration to aligning and funding through existing strategies and capital works programs, and a report be brought back recommending other sites and verge treatments.	Mark Purdie
<b>Due:</b>	December 2020	
25/11/2019 6.0.2- IBDSC4	<b>Verge Maintenance Review</b> 5. A further report be provided on implementing changes to the Verge Development Policy with advice on the potential to provide financial and other incentives to residents to maintain their own verges.	Mark Purdie
<b>Due:</b>	March 2020	
25/11/2019 6.0.2- IBDSC4	<b>Verge Maintenance Review</b> 6. Further advice also be provided discussing issues and costings of reducing verge cutting heights to 30-40mm.	Mark Purdie
<b>Due:</b>	March 2020	
28/01/2020 6.0.2- IBDSC2	<b>Salisbury Plays Events</b> 4. A review of all community events that are held and funded by the City of Salisbury be undertaken including consideration of a food event at Mawson Lakes as part of the Salisbury Food Month in July, in Financial Year 2021/22 and the outcome of the review be provided in a report to the Innovation and Business Development Sub Committee in May 2020.	Julie Kushnir
<b>Due:</b>	May 2020	

**4. CONCLUSION / PROPOSAL**

- 4.1 Future reports for the Innovation and Business Development Sub Committee have been reviewed and are presented to Council for noting.

**CO-ORDINATION**

Officer: Executive Group

Date: 03/02/2020



<b>ITEM</b>	IBDSC2
	<b>INNOVATION AND BUSINESS DEVELOPMENT SUB COMMITTEE</b>
<b>DATE</b>	10 February 2020
<b>HEADING</b>	Community Experience Charter Framework
<b>AUTHOR</b>	Charles Mansueto, General Manager Business Excellence, Business Excellence
<b>CITY PLAN LINKS</b>	4.1 Strengthen partnerships that enable us to better address our community's priorities. 4.2 Develop strong capability and commitment to continually improve Council's performance. 4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	This report provides an updated Community Experience Charter for consideration by the committee prior to endorsement by Council to commence community consultation.

**RECOMMENDATION**

1. That the information be received
2. That subject to any further feedback, the draft Community Experience Charter (as attached) be presented to Council for endorsement and commencement of community consultation.

**ATTACHMENTS**

This document should be read in conjunction with the following attachments:

1. Customer Service Framework and Charter

**1. BACKGROUND**

- 1.1 At the Council meeting held on 28 October 2019 it was resolved:

*Administration bring back a final draft of the Community Experience Charter to the January 2020 Informal Strategy session before presenting to the Innovation & Business Development Sub Committee.*

- 1.2 An informal strategy session was held with Elected Members on the 14 January 2020 to capture feedback from members on the draft charter and framework.
- 1.3 This report provides an updated Community Experience Charter taking into account the feedback from Elected Members at the January Informal Strategy.

**2. CITY PLAN CRITICAL ACTION**

- 2.1 Not applicable

### 3. CONSULTATION / COMMUNICATION

- 3.1 Internal
  - 3.1.1 Elected Members
  - 3.1.2 Staff
- 3.2 External
  - 3.2.1 To be considered in this report

### 4. REPORT

- 4.1 Council has been undertaking a number of initiatives that support enhancing our community's experience. This has included:
  - 4.1.1 Reviewing the existing Customer Service Framework and Charter
  - 4.1.2 Transforming our front facing services to an integrated community experience model as part of the transition to the Salisbury Community Hub
  - 4.1.3 Reviewing and initiating initiatives following the 2018 Community Perception Survey
  - 4.1.4 Enhanced reporting or response times to community service requests
- 4.2 Further to the October 2019 resolution, Council also resolved at its December meeting to:
  - 4.2.1 *Council note that a final draft of the Community Experience Charter will be the subject of discussion at the next Informal Strategy session in January 2020, and includes a requirement for inquiries to be responded to within 10 days.*
  - 4.2.2 *During the Informal Strategy session in January 2020, Council has an opportunity to raise and discuss with the administration, the implications of changed service standards in relation to enquiries / requests for service raised by Elected Members.*
- 4.3 Key feedback from the session held in January included:
  - 4.3.1 Consider renaming "Target Outcomes and Success Indicators"
  - 4.3.2 The various languages which the charter will be available in be highlighted earlier in the document
  - 4.3.3 Consider rewording the purpose to include "make a positive experience when visiting" and reprioritize
  - 4.3.4 Consistent wording of community instead of customer
  - 4.3.5 Rewording Community Perception target to exceeding 7
  - 4.3.6 Review and reword section titled "Our responsiveness to you will be enhanced when you"
  - 4.3.7 Include the term, "community service is everyone's responsibility"
  - 4.3.8 Elected member response process and timeframes should be catered for separate to the Charter

- 4.4 Elected Member service requests are embedded within the overarching charter and supporting process in dealing with requests but as expressed at the Informal Strategy session, its acknowledged that it is the aim to have these requests responded to in a shorter timeframe where possible.
- 4.5 In the majority of cases a request for service from an Elected Member is usually triggered by a community member approaching the Elected Member. The system allows for the Elected Member to be notified of the status of the request, which then allows the Elected Member to personally update the resident on the status.
- 4.6 If a request is not able to be completed within the 10 days, the response to either a community member of an Elected Member will include information on what is being proposed as to the action required to resolve the request and a timeframe to respond. This ensures the resident is informed as to the progress of their request.
- 4.7 As noted in the separate agenda item, overall the organisation is achieving a 76.5% closure on service requests and a 95% compliance of the 10 day response measure.
- 4.8 The Community Experience Charter previously approved by Council is summarized in the following diagram.



- 4.9 This framework has the overarching Community Experience Charter (the subject of this report) which is supported by three focus areas
- 4.9.1 Service Standards
- 4.9.2 Consultation & Engagement
- 4.9.3 Feedback

- 4.10 These supporting focus areas are being separately addressed through reviewing existing documentation to ensure alignment with the new Community Experience Charter.
- 4.11 In regard to Service Standards, Elected Members provided initial feedback on the priority areas to focus on and will be further refined through reports to the committee.
- 4.12 A draft Community Experience Charter is attached updated to reflect the feedback received from Elected Members.
- 4.13 Consideration by the committee is sought to, subject to any further changes present a final draft to Council for endorsement, prior to consulting with the community on the draft charter.
- 4.14 Consultation process will be in line with Council's existing Public Consultation Policy.
- 4.15 Following the consultation process a final draft of the charter will be brought back to Council for endorsement.

## **5. CONCLUSION / PROPOSAL**

- 5.1 The proposed Community Experience Charter is a key document that will provide guidance to the community on the commitments made by the organisation in delivering the services to the community.
- 5.2 Consideration is sought from the committee on the revised draft prior to seeking Council endorsement to commence community consultation.

## **CO-ORDINATION**

Officer: Executive Group  
Date: 03/02/2020

# COMMUNITY EXPERIENCE CHARTER

## OUR VISION

A flourishing city with opportunity for all

## OUR VALUES

### Respectful

- Create a sense of belonging and pride in the Salisbury community
- Respect individual differences
- Speak up when you don't feel respected, or are not being treated respectfully
- Provide our staff with a safe work environment and respectful workplace
- Look after the wellbeing of our community, ourselves and those around us

### Accountable

- Take personal ownership and follow through
- Deliver on what we say we will do
- Believe that the community comes first
- Speak up on matters of importance

### Collaborative

- Work together, committed to a common cause
- Openly share information
- Find ways to connect people for better outcomes

### Helpful

- Listen and focus on what we can do
- Create new futures and look for opportunities
- Make a positive difference

## OUR REASON

To provide a positive experience for those who live in, work in or visit our community and leave our community in a better state for future generations.

## OUR DRIVER

We will work together as one team to deliver an exceptional community experience that exceeds community expectations and delivers a future that we can all be proud of.

## HOW WE WILL BE MEASURED

We will work on behalf of our community to deliver what they value most.

- We will acknowledge requests for service or information within 1 business day
- We will provide a response within 10 business days to update you on the status of the request if not already resolved
- We will answer 80% of calls through our Community Experience Centre within 20 seconds.

We will deliver above and beyond expectations by providing choice and consistent service excellence by empowering our staff to:

- Have a bi-annual Community Perception Survey, that exceeds a 70% satisfaction level
- Conduct monthly surveys to track feedback from our community on services and interactions with Council
- Commit to delivering on the agreed service levels across all services (refer xxx for details of the various service level commitments).

**COMMUNITY SERVICE IS  
EVERYONE'S RESPONSIBILITY**

## WE ARE HERE TO HELP

The City of Salisbury has a formal Compliments, Comments and Complaints Policy and supporting procedure which outlines standards and processes for actioning matters raised by community members quickly and effectively.

This is available on our website [www.salisbury.sa.gov.au/charter](http://www.salisbury.sa.gov.au/charter) or by calling our Community Experience Centre on 8406 8222 during business hours.

We speak your language, if you need assistance please contact us or you can access the Community Experience Charter in the following languages:

- Vietnamese - Tiếng Việt
- Filipino - Tagalog
- Persian - فارسی
- Nepali - नेपाली
- Khmer - ភាសាខ្មែរ
- Arabic - العربية
- Italian - Italiano



## HOW OUR COMMUNITY MEMBERS CAN HELP US TO DELIVER A BETTER SERVICE

We need to have open and transparent communication with our community members in a respectful and collaborative environment.

### In order to assist us best assist you, please:

- Provide accurate and complete information to help us better understand your needs
- Provide reference numbers (if available) when contacting us about an existing application, complaint or query
- Provide a daytime telephone number or email address
- Treat each other with courtesy and respect
- Work together to try to resolve problems

## SERVICE REQUESTS

Service requests or requests for information can be made by the following methods:

- Phone us on 8406 8222
- Email us at [city@salisbury.sa.gov.au](mailto:city@salisbury.sa.gov.au)
- Online on our eServices page that you will find at [www.salisbury.sa.gov.au](http://www.salisbury.sa.gov.au)
- A service request can also be lodged via the My Local Services App that you can download for free from the App Store or Google play

## COMMUNITY FEEDBACK

We value feedback and welcome suggestions, compliments, comments and complaints.

Feedback helps us to review and improve our policies, procedures and services.

Compliments give us encouragement that the service we are providing is a service that is valued.

The community may contact Council with feedback of varying types. Such feedback may include:

- **Request for Service:** This is a request from a community member who has identified the need for Council to perform one of its services in a specific case, e.g. "I would like you to fix a pot-hole in the road".
- **Comment/Compliment:** This is feedback by a community member who wishes to comment on the conduct of a

member of staff, e.g. "I found this staff member to be extremely helpful and knowledgeable," or on the standard of service that has been provided, e.g. "Thank you for mowing our verges they look much neater".

- **Concern/Complaint:** This is feedback by a community member who is unhappy or dissatisfied with operations or services provided by Council, or has not received a response to an earlier request for service.

## HOW TO MAKE A COMPLIMENT, COMMENT OR COMPLAINT

To provide compliments, comments or complaints to the City of Salisbury community members can:



### Access our website: [www.salisbury.sa.gov.au](http://www.salisbury.sa.gov.au)

Compliments, comments or complaints can be lodged online.

Go to [www.salisbury.sa.gov.au/charter](http://www.salisbury.sa.gov.au/charter) to complete the online form or download a hard copy.



### Visit our Community Experience Centre:

**34 Church Street, Salisbury**

Our Community Experience Centre staff can assist to complete a compliments, comment and complaints form.



### Send us an email:

[ccc@salisbury.sa.gov.au](mailto:ccc@salisbury.sa.gov.au) and provide details of the compliment, comment or complaint.



### Telephone us: 8406 8222

Community Experience Centre staff can record details of your compliment, comment or complaint and ensure it is directed to the appropriate person for action.



**Write to us: City of Salisbury, PO Box 8, Salisbury SA 5108** and provide details of the compliment, comment or complaint.

### Social Media:<sup>\*</sup>

Council will accept comments via: [f](#) [t](#) [i](#) [@](#)

[@cityofsalisbury](https://www.facebook.com/cityofsalisbury)

<sup>\*</sup>we encourage the community to not lodge requests for service, formal complaints or submissions on social media but contact us either on 8406 8222 or via one of the contact methods noted above.

## Ombudsman SA

The Ombudsman SA is an independent office that has comprehensive power to investigate complaints made in relation to Local Government.

Customers have the right to contact the Ombudsman SA at any time if they are dissatisfied with an action or inaction of the City of Salisbury.

### The Ombudsman SA may be contacted at:

**Postal:** PO Box 3651, Rundle Mall SA 5001  
**Office:** Level 5, East Wing 50 Grenfell Street, Adelaide SA 5000  
**Telephone:** (08) 8226 8699  
**Fax:** (08) 8226 8602  
**Toll free:** 1800 182 150  
**Email:** [ombudsman@ombudsman.sa.gov.au](mailto:ombudsman@ombudsman.sa.gov.au)

## The Office of Public Integrity

The Office of Public Integrity (OPI) is an independent office that has comprehensive power to investigate complaints, misconduct and maladministration in public administration.

### OPI may be contacted at:

**Postal:** GPO Box 11066, Adelaide SA 5001  
**Office:** Level 1, 55 Currie Street, Adelaide SA 5000  
**Telephone:** (08) 8207 1777  
**Website:** [www.icac.sa.gov.au](http://www.icac.sa.gov.au)



<b>ITEM</b>	IBDSC3  <b>INNOVATION AND BUSINESS DEVELOPMENT SUB COMMITTEE</b>
<b>DATE</b>	10 February 2020
<b>HEADING</b>	Community Requests - Response Dashboard
<b>AUTHOR</b>	Charles Mansueto, General Manager Business Excellence, Business Excellence
<b>CITY PLAN LINKS</b>	4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	As per Council resolution a monthly report on the Community Requests - Response Dashboard is provided for information.

**RECOMMENDATION**

1. The information be received.

**ATTACHMENTS**

This document should be read in conjunction with the following attachments:

1. Community Service Requests - Response Dashboard 31 January 2020

**1. BACKGROUND**

- 1.1** At the council meeting held on 26/08/2019 item IBDSC-OB2 was considered and the following resolved:

*‘That, in order to regularly monitor customer service performance, an update report on the “customer review dashboard” be a standing item on the agenda for the innovation and business development subcommittee, and be provided at each meeting.’*

*Resolution No 0250/2019*

- 1.2** Further, at the November 2019 meeting, the committee also requested that the information be provided by department.

**2. CONSULTATION / COMMUNICATION****2.1 Internal**

- 2.1.1** General Manager Business Excellence

**2.2 External**

- 2.2.1** Nil

### 3. ORGANISATION

- 3.1 The Community Request - Response Dashboard for the period 1 July 2019 to 31 January 2020 is attached for reference.
- 3.2 Only service requests received through the Community Experience Centre are included in this report.
- 3.3 A total of 9,924 (76.5%) requests were closed within 10 days.
- 3.4 Since 1 July the administration has achieved a 95.0% closed/response outcome within the 10 day target from a total of 12,973 requests received.
- 3.5 Year to date, of the requests that had not been closed within the 10 days, 78.9% had been responded to within the 10 day period.
- 3.6 In the 10 days prior and up to 31 January 2020, of the requests that had not been closed within the 10 days, 89.8% had been responded to within the 10 day period.

### 2. DEPARTMENT

Department	Requests Received	% Responded < 10 Days	% Closed < 10 Days	% Not Met 10 Day Response	% Closed/ Responded
Business Excellence	899	0.0%	99.6%	0.4%	99.6%
City Development	3,611	6.3%	81.7%	12.0%	88.0%
Community Development	137	0.0%	97.1%	2.9%	97.1%
City Infrastructure	8,239	26.4%	71.1%	2.5%	97.5%
Epathway	29	0.0%	100.0%	0.0%	100.0%
Information Requests	58	-	-	-	-
<b>Total</b>	<b>11,492</b>	<b>18.5%</b>	<b>76.5%</b>	<b>5.0%</b>	<b>95.0%</b>

- 2.1 The requests captured as Epathway are request previously received online before Council commenced CityWatch (new E-Services application). There will be no further Epathway requests but have been included to reconcile to the total requests received.
- 2.2 Information requests are for when a community member contacts Council to provide some information but it doesn't generate any action.



**4. CONCLUSION / PROPOSAL**

- 4.1 The monthly report on the Community Requests - Response Dashboard be received.

**CO-ORDINATION**

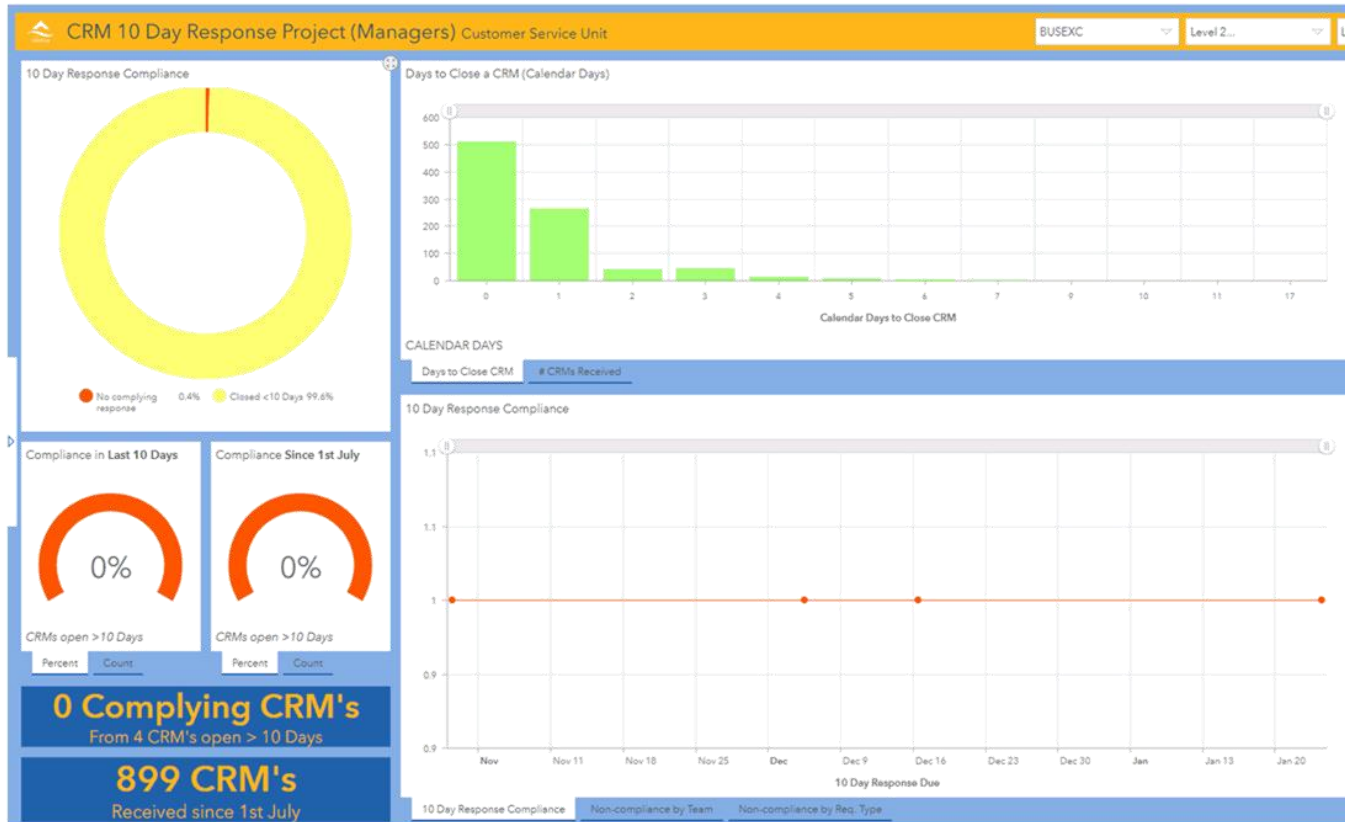
Officer: Executive Group  
Date: 03/02/2020



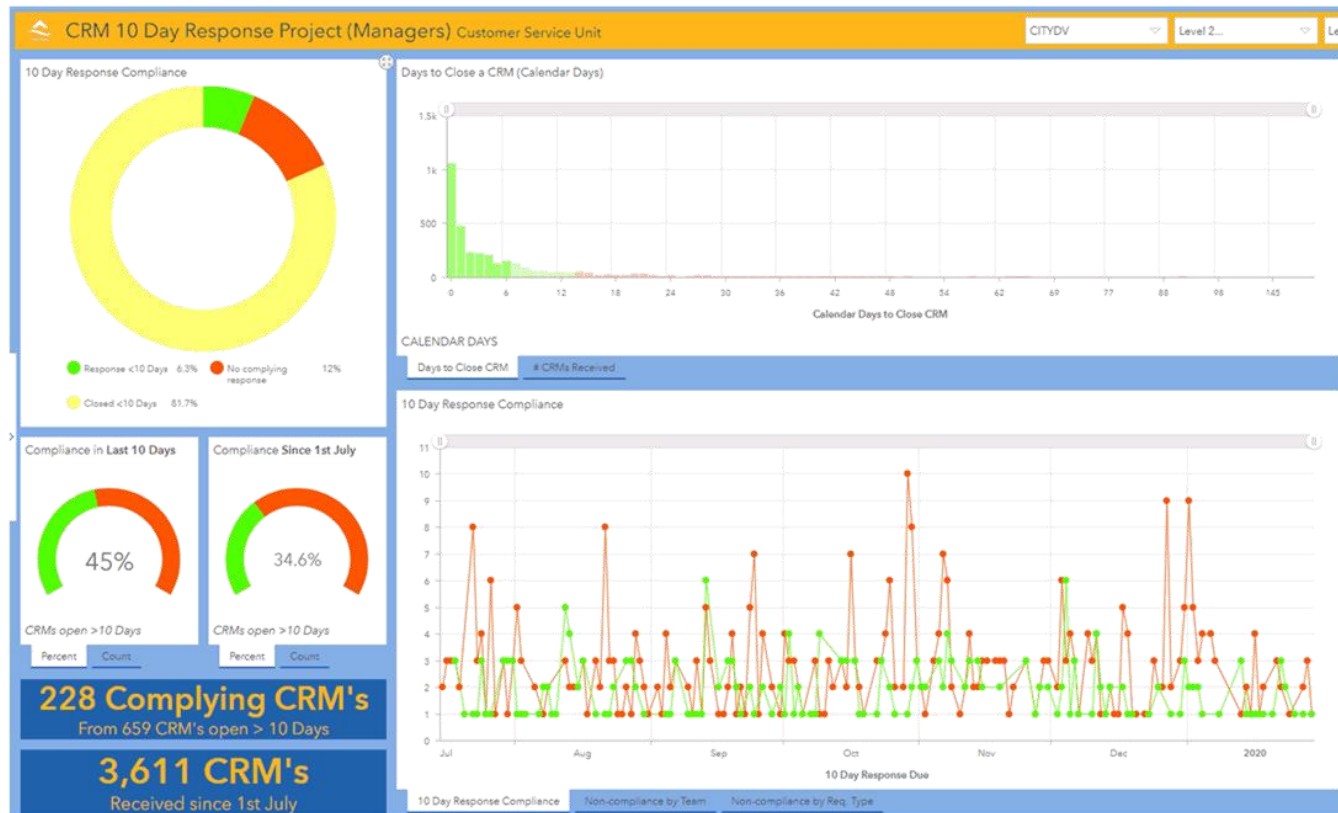
## 10 Day Service Standard Response – 1 July 2019 to 31 January 2020



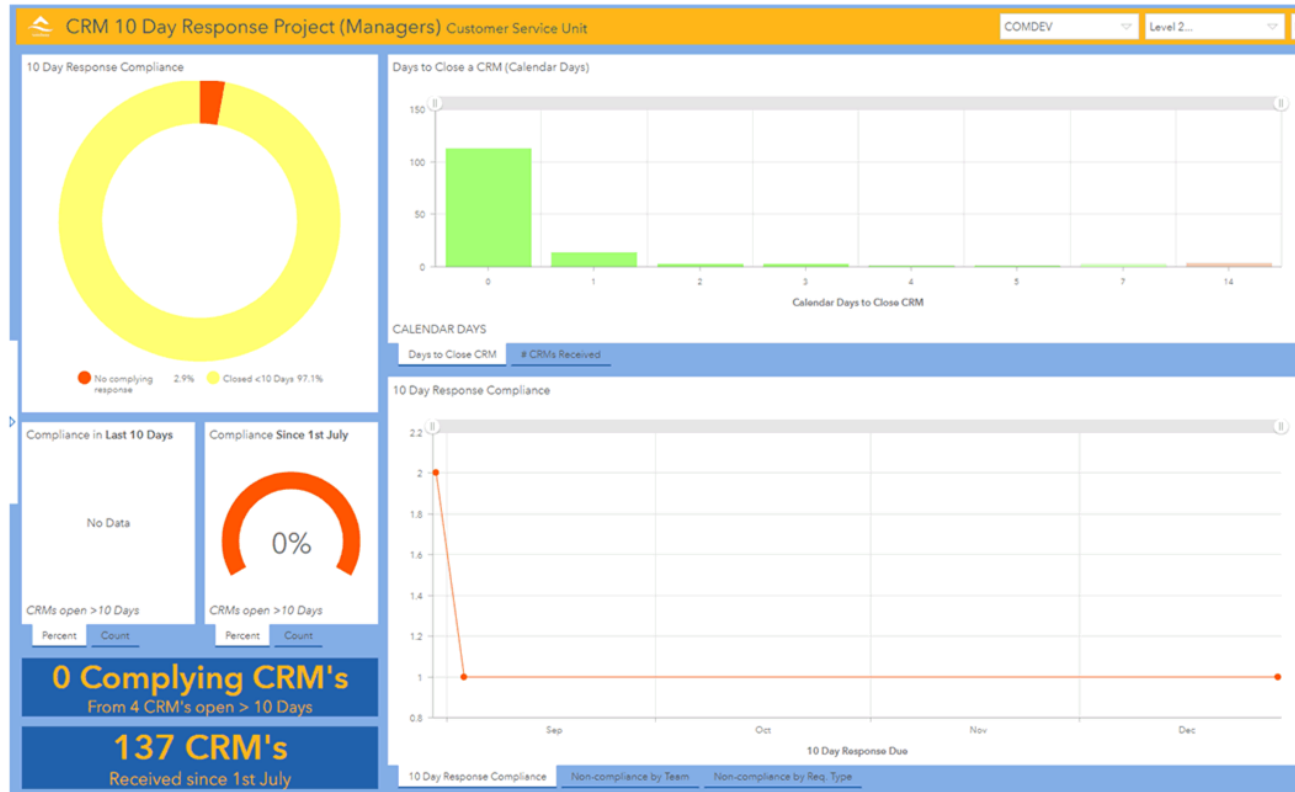
## 10 Day Service Standard Response – 1 July 2019 to 31 January 2020 Business Excellence



## 10 Day Service Standard Response – 1 July 2019 to 31 January 2020 City Development



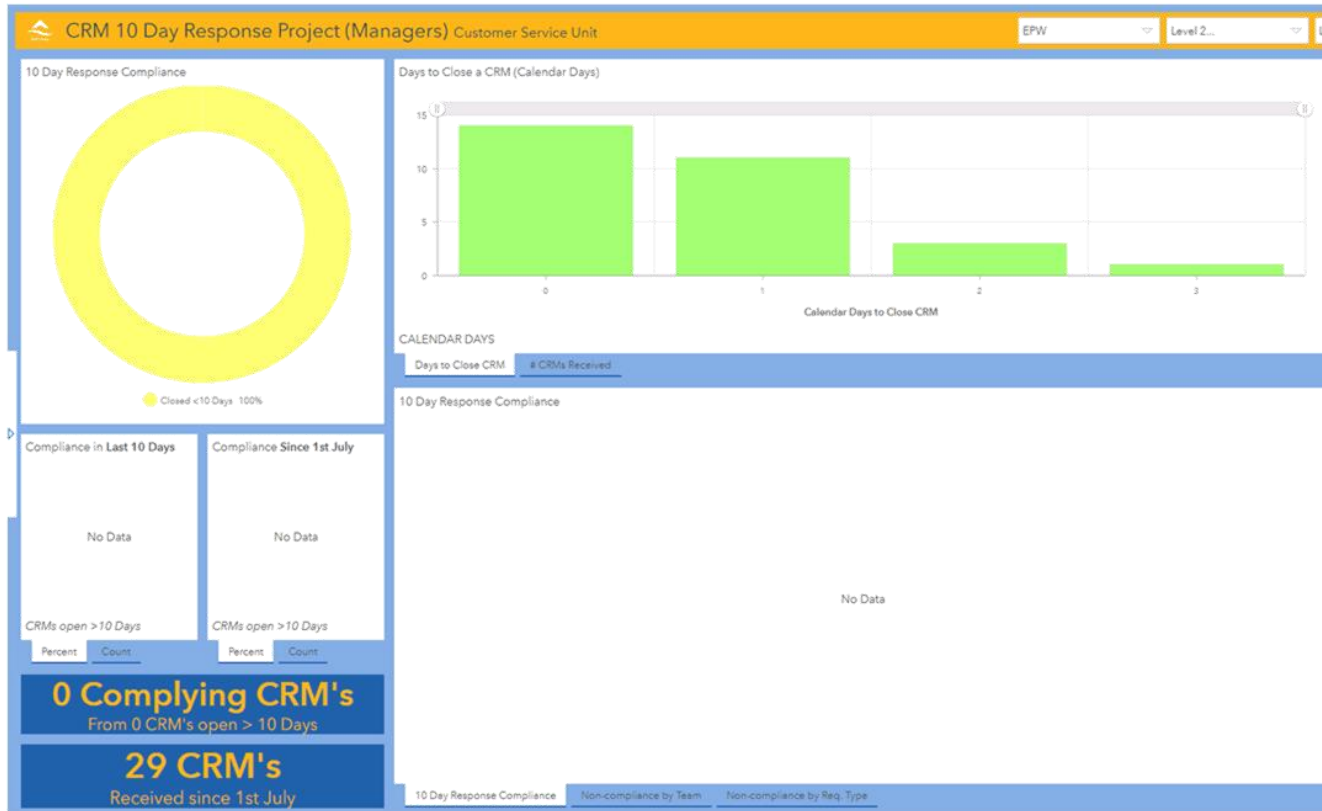
## 10 Day Service Standard Response – 1 July 2019 to 31 January 2020 Community Development



## 10 Day Service Standard Response – 1 July 2019 to 31 January 2020 City Infrastructure

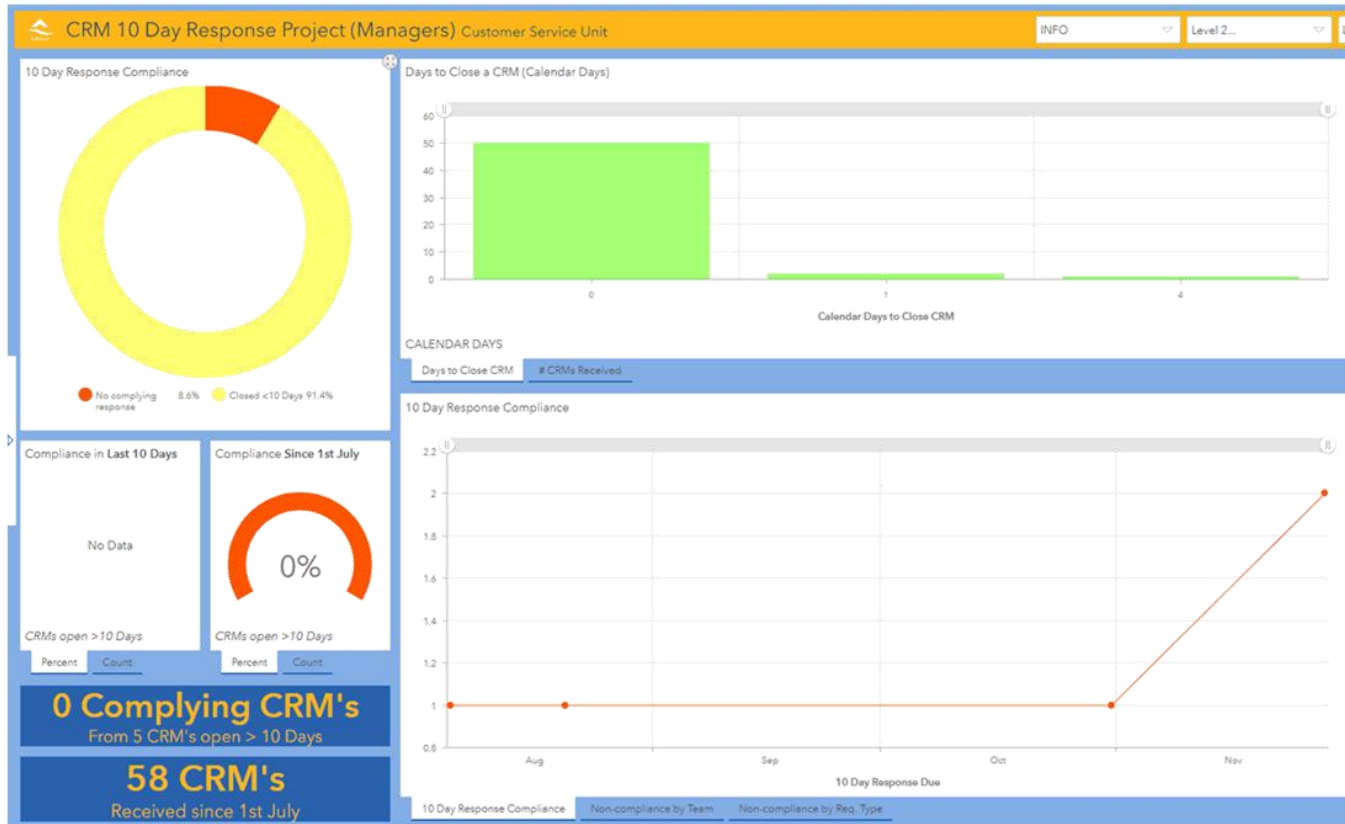


## 10 Day Service Standard Response – 1 July 2019 to 31 January 2020 Epathway





## 10 Day Service Standard Response – 1 July 2019 to 31 January 2020 Information Requests





**INFORMATION ONLY ITEM**

IBDSC4

**INNOVATION AND BUSINESS DEVELOPMENT SUB COMMITTEE**

<b>DATE</b>	10 February 2020
<b>HEADING</b>	Inquiry into Local Government Costs and Efficiency - SA Productivity Commission - Final Report
<b>AUTHOR</b>	Mick Petrovski, Manager Governance - CEO/Governance, CEO and Governance
<b>CITY PLAN LINKS</b>	4.4 Embed long term thinking, planning and innovation across the organisation. 4.3 Have robust processes that support consistent service delivery and informed decision making. 4.2 Develop strong capability and commitment to continually improve Council's performance.
<b>SUMMARY</b>	The South Australian Productivity Commission conducted an inquiry into local government costs and efficiency. The Commission provided its final report to the State Government on 28 November 2019. The final report was made publicly available on the Productivity Commission website on 5 February 2020. The final report is provided for information, along with a copy of the City of Salisbury submission which was approved by Council at its October 2019 meeting and forwarded to the Productivity Commission.

**RECOMMENDATION**

1. That the information be received and noted.

**ATTACHMENTS**

This document should be read in conjunction with the following attachments:

1. Productivity Commission Submission - City of Salisbury - October 2019 submission
2. PRODUCTIVITY COMMISSION - Local-Government-Inquiry-Final-Report
3. Productivity Commission - media release - Minister Knoll

**1. BACKGROUND**

- 1.1 When the SA Productivity Commission released its methodology paper for its inquiry in May 2019, they sought public submissions to help inform their thinking.
- 1.2 Members will recall that a report on the inquiry and a draft submission was considered by Council at its meeting on 22 July 2019, when suggestions were made for amendments to the draft submission before finalization.

- 1.3 That submission was amended and finalized, and submitted accordingly.
- 1.4 The Commission subsequently released a draft report to State Government and sought further submissions on its draft findings prior to finalization and submitting it to the State Government in November 2019.

## 2. CONSULTATION / COMMUNICATION

- 2.1 Internal
  - 2.1.1 Nil.
- 2.2 External
  - 2.2.1 Nil.

## 3. REPORT

- 3.1 Council considered and approved a draft submission at its meeting on Monday, 28 October 2019, which was finalized and sent to the Productivity Commission. The submission is an attachment to this report.
- 3.2 After submissions closed, the Productivity Commission finalised its report and provided it to State Government.
- 3.3 The report was made public on 5 February 2020, and is attached to this report.
- 3.4 On the same day Minister Stephan Knoll's office issued a media release (attached) indicating that The State Government will formally respond to the SAPC's report in the coming weeks, and that the report had nine recommendations, which the Government "*will now progress with the local government sector, including;*
  - *Establishing a website that captures and publishes critical information about all councils to improve ratepayers' engagement with their councils, and to support councils to find efficiencies in their own operations;*
  - *Supporting councils to improve their industrial relations capabilities to assist them to better manage rising employee costs;*
  - *Finding opportunities to improve regulations to reduce costs for residents and businesses;*
  - *Helping councils to improve procurement practices through access to State procurement opportunities and training; and,*
  - *Ensuring a more consistent approach to financial planning and accountability across all councils."*
- 3.5 The administration has not had an opportunity to digest the final report, however it is provided for Elected Members' information and consideration, pending the development of appropriate advice which will be provided in due course.

**4. CONCLUSION / PROPOSAL**

- 4.1 The Productivity Commission report on its inquiry into local government costs and efficiency was provided to State Government in November 2019, and was made public on 5 February 2020.
- 4.2 The administration will now prepare appropriate advice for Council which will be provided in a future report.

**CO-ORDINATION**

Officer:

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29 October 2019

Dr Matthew Butlin  
Presiding Commissioner  
GPO Box 2343  
ADELAIDE SA 5001  
**BY EMAIL**

Dear Dr Butlin

**Re: South Australian Productivity Commission, *Inquiry into Local Government Costs and Efficiency* – draft report, August 2019**

Thank you for the opportunity to provide comment on the South Australian Productivity Commission's (the Commission) draft report of the *Inquiry into Local Government Costs and Efficiency*.

The draft report properly acknowledges the evolution of the local government sector in this State through a long history of reform that commenced in the mid-1990s with the very significant amalgamation process, coinciding with the comprehensive review of the overly prescriptive *Local Government Act 1934*, and culminating in the passing through State Parliament of new legislation to provide the current governing framework that is the *Local Government Act 1999* (the Act).

Unlike its preceding legislation, the new Act provided a more enabling legislative framework; one of several subsequent reforms that, as described in the draft report, "*broadened the discretionary power of councils to perform a range of functions*". The consequence of this shift in emphasis generated several changes in the local government sector; key among them was to provide greater autonomy and clarity for councils to focus on identifying and responding to the needs of their community.

By way of example, a prevailing view in the sector used to be that councils had little or no role to play in economic development beyond the provision of basic infrastructure and efficient regulation.

Internationally, however, contemporary approaches in economic development (for example in the European Union and the United States) increasingly emphasised place-based, bottom up approaches; a reaction to top down approaches which were creating and/or reinforcing regional disparities, as well as a realisation that closer connections between local needs and policies result in more inclusive growth.

Closer to home, the South Australian Centre for Economic Studies has previously found “in relation to the ability of local governments to enhance the long run economic performance of their local economies, we conclude that not only can they do so but that it is important that they actually do so...because it is integral to the achievement of the core purpose and objective of local government – to build and enhance community development”.

In Salisbury, Council plays an active role in building the local economy. In the past eighteen months alone Council has provided assistance and advice to nearly 1,500 businesses looking to start or grow, worked with 60 firms on expansion or inward investment activity and encouraged closer linkages between State Government priorities such as Lot 14 and local research and innovation infrastructure.

The motivation for councils to pursue the economic development of their area may vary according to their perceived need; job creation, investment attraction, service provision, social cohesion or cultural expression, or all of the above. However, it is the thinking and strategizing, and going through a process of identifying need or opportunity or an innovation that will benefit the community that is important. It is one of the keys to improving council performance overall.

The legislative and financial reforms of the mid-2000s further strengthened the local government framework by raising the standard of strategic long term planning and financial management. These reforms required councils to:

- Update their Strategic Management Plans every 4 years;
- have a Long-term Financial Plan as part of their Strategic Management Plans;
- have an Infrastructure and Asset Management Plan;
- have an Audit Committee; and
- rotate external auditors at least once every five years.

More recently we have seen a focus on values and articulating or developing standards of behaviours; the introduction of codes of conduct for elected members and council employees, and strengthening of conflict of interest provisions.

Each wave of reform, however successful or effective, has had at its core a constructive interest in developing the overall autonomy of councils as government, tempered by community accountability measures. In other words, councils work with the community and are accountable to the community.

This in part might help to explain why discussions about what “the sector” does or how “the sector” behaves are narrow and of limited value. Councils do not act uniformly. They represent different communities and different communities of interest, and under circumstances that are often particular to their area at a given time.

So, despite the significant growth in maturity in the sector about its understanding of its responsibilities as “government”, there is still a prevailing view that sector-wide prescriptive solutions can be found and are appropriate.



The Commission's draft report provides many insights into the challenges that confront councils in South Australia. Yet, in its draft advice to South Australian Councils, the Commission refers to providing guidance "to improve efficiency and to create capacity to pass on cost reductions to rate payers". This is too simplistic and poses significant risk for councils because at a high level, it perpetuates the myth that:

1. all councils are the same,
2. the needs of all communities are the same, and
3. prescriptive solutions can be applied (and work) across the sector.

It also reinforces a notion that the functions of a council are well defined and somehow commonly known, agreed upon and understood. Yet there is enormous variation among councils for the services they provide and the standard to which they deliver.

The State Government itself, in proposing a reform agenda for local government, has neither articulated what it considers the role of councils to be, nor what it should be in future.

Of course, it should not go unstated that "cost reductions" are always passed on to ratepayers by way of the broadening list of services that we provide and the Commission itself refers to; services that evolve as community expectations and circumstances change.

In the case of the City of Salisbury, we are a culturally diverse community, with some of the fastest population growth in the state, experiencing significant housing renewal and trying to encourage and manage a transitioning economy.

In fact, Council is focused on maximising efficiency in its service delivery so as to be able maintain a level of investment in local public infrastructure to shape the future of our economy so that we have thriving private industry and a sustainable commercial sector. This means jobs and local services and well maintained streets and parks for our citizens.

Council's biggest challenge is actually cost and revenue optimisation, meaning reducing our costs as much as we can, and identifying sources of revenue, beyond revenue from rates and regulatory charges, so that we can invest in managing and maximising our growth, while maintaining our long-term financial sustainability.

In our previous submission we offered the following:

*"The City of Salisbury recognises that delivering an efficient service effectively means delivering to the community need, and efficiency without effectiveness, as defined this way, might be seen as providing little value. Effectiveness requires us to genuinely engage with our community to develop our understanding of our community's needs. That understanding, in turn, enables appropriate responses to be identified, developed and implemented. Finally, and in order to maintain our capacity to meet emerging needs, our responses must be proportional and efficient.*

*Understanding the circularity of this approach means that our community is the primary driver of cost, and the motivator for continuous improvement."*

This approach is entirely consistent with the need for transparency in developing policies and strategies, and providing necessary local services and infrastructure to the standard required by our ratepayers. It is through transparency that we make ourselves accountable to the community.

While we note that this as one of the suggestions for local government in the draft report, we also note that the current framework already requires that transparency and accountability.

We are certainly encouraged by the Commission's recognition that mandated imposts from State Government have a significant impact on council costs to service the community. Any review that might lead to eliminating unnecessary red tape, overlap of service or provide clarity between the roles of State Government and councils respectively would be welcome.

In conclusion, the City of Salisbury asks that the Commission, in finalising its report to State Government, provide advice that cautions against legislative measures that might have an effect of restraining councils' autonomy and direct accountability to its community.

The standards of transparency and accountability expected of councils (as public authorities) should be and are necessarily high. They are for the purpose of maintaining a productive relationship between the community, their elected representatives and the administration who are charged with the responsibility of providing the services and building the infrastructure.

Yours sincerely



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community management, governance, workplace health and safety, emergency management and procurement.

## 2.6 Reforms in other jurisdictions

The Commission's review of the reforms in other jurisdictions suggests that comprehensive evaluations of initiatives aimed at enhancing council efficiency and lowering costs have been limited. This makes it difficult to judge the overall effectiveness of different jurisdictions' responses to significant issues in the sector on an interjurisdictional level.

It is also a notable feature of recent local government reforms that, with the exception of South Australia, the majority of initiatives have originated with state governments, not as result of collective action from within the local government sector itself.<sup>53</sup>

Reforms aimed at improving councils' capacity for long-term strategic planning, particularly in relation to financial and asset management plans, have become a predominant focus of reform efforts in most jurisdictions. In NSW, all councils are now required to use an integrated planning and reporting framework that is designed to improve councils' capacity for strategic community planning, especially for financial and asset management planning.<sup>54</sup>

The Commission also notes that, as part of a wider strategy to improve councils' capacity to monitor and enhance their own performance, the NSW Office of Local Government is developing a Performance Management Framework to provide councils and the community with a consistent set of performance indicators, including those relating to costs and asset management.

In Victoria, the need to build councils' capacity for long term planning was recently addressed through the *Local Government (Planning and Reporting) Regulations 2014*. These reforms aimed to standardise the way councils report on their long term financial and asset management plans, with a range of documents, including statutory financial statements, now required to conform to the Local Government Model Financial Report.<sup>55</sup> In support of this regulatory requirement, Local Government Victoria issued its revised *Best practice guidance in asset management* guidelines in 2015.

In addition to reforms to the way in which councils undertake strategic planning, the Victorian Local Government Reporting Framework, introduced by the Victorian Government as a mandatory performance reporting system, is designed to address the need for a consistent framework for performance management and reporting. The resultant performance data is presented to the community through the 'Know Your Council' website and represents one of the most developed sector-wide approaches to efficiency comparison.<sup>56</sup>

The Tasmanian government mandated similar strategic planning requirements in 2013. The Commission notes that the Tasmanian legislation assigns responsibility for monitoring compliance to the Auditor-General. Recent audits of compliance with the new reporting regime

<sup>53</sup> Australian Centre of Excellence in Local Government 'Unfinished Business?', p. 5.

<sup>54</sup> Australian Government, *Local Government National Report 2014-15, 2017*, p. 35.

<sup>55</sup> *Ibid*, p. 35.

<sup>56</sup> For the 2018 review of the effectiveness and efficiency with which Victorian councils deliver services to their communities, conducted by the Victorian Auditor-General, see <<https://www.audit.vic.gov.au/report/delivering-local-government-services?section=>>. The Commission is also aware of the work being undertaken by the Queensland Auditor-General's Department in relation to efficiency in the local government sector. See <<https://www.gao.qld.gov.au/audit-program>>.



Final Report

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**Inquiry into Local Government Costs and Efficiency**

22 November 2019

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An appropriate citation for this publication is:

South Australian Productivity Commission 2019, *Inquiry into Local Government Costs and Efficiency – Final Report*, November 2019

## About the South Australian Productivity Commission

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The Commission provides the South Australian Government with independent advice on facilitating productivity growth, unlocking new economic opportunities, supporting job creation and removing existing regulatory barriers.

The Premier and Cabinet Circular PC046 sets out the objectives and functions of the Commission; how inquiries are referred to the Commission, undertaken and reported on; and how the Commission and public sector agencies work together.

The Commission was established to assist the government to:

- i. improve the rate of economic growth and the productivity of the South Australian economy in order to achieve higher living standards for South Australians;
- ii. improve the accessibility, efficiency and quality of services delivered or funded by government;
- iii. improve South Australia's competitiveness for private sector investment;
- iv. reduce the cost of regulation;
- v. facilitate structural economic changes while minimising the social and economic hardship that may result from those changes;
- vi. take into account the interests of industries, employees, consumers and the community;
- vii. increase employment;
- viii. promote regional development; and
- ix. develop South Australia in a way that is ecologically sustainable.

The Commission is supported by the Office of the South Australian Productivity Commission (OSAPC). The Chair of the Commission also serves as the Chief Executive of the OSAPC.

For more information on the Commission, including Premier and Cabinet Circular PC046, visit the website at [www.sapc.sa.gov.au](http://www.sapc.sa.gov.au).

### Disclosure

The Commissioners have declared to the South Australian Government all personal interests that could have a bearing on current and future work. The Commissioners confirm their belief that they have no personal conflicts in regard to this inquiry.



## Terms of Reference

### SOUTH AUSTRALIAN PRODUCTIVITY COMMISSION INQUIRY INTO LOCAL GOVERNMENT COSTS AND EFFICIENCY

I, Steven Marshall, Premier, hereby request that the South Australian Productivity Commission (the Commission) undertake an inquiry into local government costs and efficiency.

#### Background

The South Australian Government is concerned that the rising cost of living has put undue pressure on South Australian households and businesses. Every level of government has a duty to ensure service delivery is as efficient and effective as possible to contain costs to taxpayers and ratepayers and ease cost of living pressures.

South Australian councils collectively manage a budget of \$2 billion and maintain infrastructure and other physical assets worth almost \$23 billion. Effective local government can be the mainstay of a strong community. It is responsible for aspects of everyday life from roads and infrastructure, to well-maintained libraries and community services.

Consequently, sustaining good financial and performance management practices and seeking to continually enhance productivity and efficiency are critical factors for councils as they aim to continue to improve the services they provide to their local community.

Improved performance monitoring by councils, combined with meaningful data analysis and reporting, will improve public accountability as well as provide evidence and opportunities for councils and the South Australian Government to drive and support continuous improvement. Further, effective performance reporting by councils is essential for ensuring accountability to residents and ratepayers as to how public money is being spent and the quality of services delivered.

An SAPC public inquiry process would enable full engagement with local councils and other stakeholders, as well as providing to both local and state governments some independent and objective analysis and advice on the issue of local government costs.

#### Terms of Reference

The Minister for Local Government has developed a 12-month plan for local government reform to improve council efficiency and effectiveness and restore confidence in council decision making. The reform elements address:

- Stronger council member capacity and better conduct
- Efficient and transparent local government representation
- Lowering costs and enhanced financial accountability in the local government sector
- Simpler regulation.



The South Australian Government is seeking independent advice on the third element regarding cost and financial accountability. This requires consideration of the key determinants of costs, or "cost drivers" of local council budgets; options to lower council costs; and how to ensure lower costs flow through to ratepayers.

Any interpretation of changes in local government costs, or comparisons between councils, would need to be able to take account of the impacts of factors likely to affect costs such as council size/scale, quality standard and mix of services provided, size of population and geographical area served and urban versus outer metro versus rural and remote locations.

### Scope

The Commission is asked to consider and report on the following matters regarding local government costs and efficiency:

1. Analysis of the information on local government costs and the key drivers of costs including:
  - Identify trends in local government activities and costs of local government operations
  - Identify the drivers of local government costs and assess their impacts.
2. Develop and analyse measures of local government efficiency and productivity.
3. Identify mechanisms and indicators that could be used by the local government sector to measure and improve performance over time.
4. Consider recent reforms in South Australia and other jurisdictions to policy, governance and management practices in the local government sector and their potential to improve council performance.
5. Provide advice on possible options to guide and assist councils to improve efficiency and create capacity to pass on cost reductions to rate payers.
6. Provide recommendations on actions the South Australian Government could take to lower local government costs and enhance local government financial accountability.

In its consideration of the above matters, the Commission is expected to have regard to the changing service expectations of communities and the long term financial sustainability of councils.

### Inquiry Process

The Commission will consult local government and other key stakeholders on the methodology to be used for its analysis.

The Commission is to publish a draft report and seek submissions before presenting a final report to the Government.

The Commission will second and/or engage staff with required analytical expertise and knowledge of the local government sector for the period of the inquiry.

The inquiry will involve state-wide consultation with Councils, community groups and relevant professionals in the public, private and professional bodies as part of the public engagement process.

**Key dates:**

Draft report	August 2019
Submissions on draft report	September 2019
Final report	22 November 2019



Hon Steven Marshall MP  
**PREMIER OF SOUTH AUSTRALIA**  
13/5/2019

## Transmittal Letter



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The Hon Steven Marshall MP  
Premier of South Australia  
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ADELAIDE SA 5001

Dear Premier

### **SAPC Inquiry into Local Government costs and efficiency**

In accordance with the terms of reference received by the Commission on Monday, 13 May 2019 we are pleased to submit the South Australian Productivity Commission's Final Report on the Inquiry into Local Government Costs and Efficiency.

This final report has been prepared after consultation with councils, the Local Government Association, government agencies and other stakeholders, as well as careful deliberation of the submissions they made.

We acknowledge and thank them for their support, together with the Office of the South Australian Productivity Commission staff for their contributions in preparing this Final Report.

We respectfully note that in accordance with the *Premier and Cabinet Circular PC046* "The Commission must ensure that the report is available on its website within ninety days of delivering the report...", unless you specify a shorter period.

Yours sincerely

Dr Matthew Butlin  
**CHAIR**

Mr Jeff Tate  
**COMMISSIONER**

Professor Christopher Findlay  
**COMMISSIONER**

22/11/2019

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## Key Messages

The Commission was tasked to provide advice to councils on improving efficiency and creating capacity to pass on cost reductions to rate payers and to make recommendations to the state government on actions to cut local government costs and enhance financial accountability.

Total operating expenditure for the local government sector grew faster than inflation over the decade to 2017-18 with the fastest growth recorded for employee costs and materials, contracts and other costs. Wages and a changing skill mix appear to have been a significant cost driver.

Key drivers of council expenditure growth have been growth in the volume, scope and quality of both mandated (or legislated) and non-mandated services, explained, in part by population growth. Other cost drivers of less significance include compliance costs and cost shifting by other levels of government.

Analysis of council efficiency, while constrained by data limitations, indicated that compared with each other, most councils achieved high levels of relative efficiency and that further significant improvements were possible.

Enhancing the capacity of councils for sound decision making is key to containing cost growth and increasing efficiency. This includes decisions on what services to deliver, how to deliver them and how to manage cost pressures and allocate efficiency dividends between more and better services or rate reductions.

Proposed reforms require complementary action by the South Australian Government and local government sector.

To support improved council decision making, efficiency and engagement with the community, the Commission recommends the state government establish an information framework to be codesigned with councils and that would also underpin a proposed annual "State of the Sector" report by the Local Government Association of South Australia (LGASA).

Use of the framework for performance comparisons by councils to guide continuous improvement will be strengthened through documentation of service standards and scheduled programs of service reviews. Councils will require new skills, analytical tools and a culture that supports innovation.

Legislative change to develop model templates for council annual reports, long term financial and asset management plans is aimed at enhancing financial accountability and improving decisions.

Management of employee costs will be assisted by legislative reform to enable groups of councils to negotiate enterprise bargaining agreements, coupled with increased council industrial relations capabilities.

Improved council procurement policies and practices, supported by access to state government contracts and procurement training, and greater use of council resource sharing arrangements will offer further cost savings and efficiency gains.

There are three key pillars which, if adopted by councils, will create a lean system that restrains costs and promotes efficiency and effectiveness: financial accountability, engaged rate payers and informed councils.

## Executive Summary

### 1. The task

The Commission's task was to:

- understand the cost base and cost drivers of councils in South Australia;
- develop and analyse measures of local government efficiency;
- identify mechanisms and indicators for use by local government to improve efficiency over time;
- provide advice on possible options to guide and assist councils to improve efficiency and create capacity to pass on cost reductions to rate payers; and
- provide recommendations to the South Australian Government on actions to lower local government costs and enhance local government financial accountability.

In doing this task, the Commission was to have regard to the changing service expectations of communities and the long-term financial sustainability of councils.

The Commission's advice will contribute to the development of a broader plan by the South Australian Government for reforming local government in South Australia, comprising:

- stronger council member capacity and better conduct;
- efficient and transparent local government representation;
- lowering costs and enhanced financial accountability in local government (to which this inquiry is contributing independent advice regarding determinants of costs, options to lower council costs and how to ensure lower costs flow through to ratepayers); and
- simpler regulation.

The drivers of revenue, including the setting of rates, are outside the Commission's terms of reference, except to the extent that revenue sources are tied, that is, when they carry an obligation to be spent on specific programs, services or assets.

### 2. The Commission's approach

The Commission analysed trends in council costs, the drivers of those costs and efficiency in the local government sector over the period 2008-09 to 2017-18. This work was complemented by wide consultation with councils and other key stakeholders, including receipt of written submissions. These consultations, and an examination of recent reforms in South Australia and other jurisdictions, helped to inform the Commission's recommendations to the South Australian Government and complementary advice to councils.

In developing recommendations and advice, the Commission was guided by legislative arrangements governing the operation of councils, reflecting the principle that South Australian councils are primarily accountable to their communities in carrying out their roles and functions. The Commission has also considered the very important role of councils in creating the environments in which ratepayers live and work and their proximity to the community.

### 3. Costs: trends and drivers

Analysis of data provided to the Commission found that council operating expenditure has grown at a faster rate than indicators of changes in prices. Total operating expenses by all councils rose, on average, by 4.2 per cent per annum between 2008-09 and 2017-18.

In comparison, the consumer price index (CPI) rose by 2.1 per cent and the local government price index (LGPI) by 2.6 per cent per annum.

The Commission analysed councils' operating expenditure from two perspectives: the expenditure by service area categories such as waste and transport; and the key aggregate cost components of: employee costs; materials, contracts and other costs; and depreciation which respectively accounted for 35 per cent, 41 per cent and 23 per cent of total sector operating expenditure in 2017-18.

These proportions of spending by expenditure category and by cost components have not changed materially since 2008-09.

### Major cost components

Total sector growth in materials, contracts and other expenditure, averaging 4.0 per cent per annum over the decade to 2017-18, reflects growth in the volume, scope and quality of services provided by councils. Growth in population and property numbers, while low, is likely to have caused some of this growth.

Total sector expenditure on employee costs increased slightly faster at 4.5 per cent per annum and reflects relatively high growth in SA local government sector average weekly earnings of 4.5 per cent per annum compared to 3.0 per cent for the state as whole (as estimated by the Australian Bureau of Statistics).

The rise in depreciation costs, which averaged 4.5 per cent per annum, has largely been driven by growth in the stock of council assets.

Finance costs have been negligible and falling over the decade as councils have tended to finance their operations using internal funds, or equity, rather than debt.

### Service expenditure categories

More than half of councils' operating expenditure is devoted to transport, recreation, other environment and waste management. Analysis of operating expenditure by fourteen service categories indicates that the mix of services delivered has not changed significantly over the last seven years.

Feedback from councils drew out an important distinction between what the Commission has termed mandated functions, where the state or other government requires local government to provide that function by statute, and non-mandated functions where ultimately local government decides whether or not to provide the functions.

The Commission heard that expenditure growth was influenced by a number of factors not fully within council control: mandated requirements by the state and Australian governments (both unfunded and partially funded); population growth and density; and size and location of councils.

While services mandated by the state government are relatively small in number, they accounted for 46 per cent of sector operating expenditure in 2017-18. Mandated services consistently accounted for a higher proportion of operating expenditure for rural councils, at close to 60 per cent, compared to 40 per cent for urban councils, reflecting the relative importance of the transport function, mainly roads.



### Major cost drivers

Councils have varying degrees of control over factors which influence their cost. Some are externally determined, including, for example, the broader regulatory environment or population growth, which drives up demand for services. Other factors, such as the prices councils pay for labour and other inputs, are influenced by council's industrial relations arrangements and procurement practices.

Cost-shifting, regulatory compliance costs and the expansion of mandated responsibilities under state legislation were identified by councils as cost drivers over which they have limited control. On the basis of available evidence, the Commission finds these factors have contributed to council cost pressures. While the Commission was unable to quantify the impact on council costs it considers that, based on available evidence, their impact has been relatively small in recent years during the period examined.

The Commission notes that while councils frequently pointed to cost-shifting as a factor, that is, a requirement to deliver a function without sufficient resources being provided to do so, it is important to distinguish it from cost sharing where local government has the option to accept tied funding with ongoing commitments. In such circumstances, councils may decide to bring forward future planned expenditure to exploit funding opportunities: this is clearly not, in the Commission's view, cost shifting.

Cost drivers that are more strongly controlled by councils include decisions on which non-mandated services to deliver and how to deliver them. Council decisions on scale, scope and quality standards, for both mandated and non-mandated services and choice of technologies and business processes which affect costs and efficiency. A number of councils submitted that wider scope and higher quality of services, in response to community demand, have been significant contributors to growth in expenditure.

Councils have a significant influence over their employee cost expenditure through decisions on staffing, and related decisions on in-house delivery of services versus outsourcing, and their negotiation of enterprise bargaining agreements (EBAs). Similarly, councils directly influence their materials, contracts and other costs through their decisions on procurement policies and practices. Industrial relations and procurement practices have been identified by the Commission as important areas of reform to help contain cost growth for these two major categories of council expenditure.

The majority of councils linked growth in employee cost expenditure to the current industrial relations arrangements. Many councils, particularly in rural areas, also cited difficulties in attracting and retaining skilled staff as contributing to labour cost pressures.

A number of factors were identified by councils as likely to put upward pressure on procurement costs: lack of ability to attract and retain qualified or experienced procurement staff, especially the case in rural councils, a lack of training opportunities for procurement staff, and processes that place excessive red-tape requirements on contractors and suppliers.

Complicated tender documents were also seen as increasing the costs of procurement and over-prescription of outcomes in tendering reducing the potential for innovation from tenderers.

Opportunities to aggregate procurement among councils were viewed as an effective method of lowering costs to councils. However aggregated procurement was not seen as always appropriate by councils where they have different requirements as well as a desire to support local businesses.

In addition to the benefits of aggregated procurement among councils, many councils suggested opportunities to obtain greater bargaining power and economies of scale through access to state government contracts and pricing.

Many councils include a 'buy local' provision in their procurement policy to give weighting to local businesses when tendering for goods and services. This requirement means the pricing is likely to be less cost effective and this cost burden is borne by local communities.

#### **Action to restrain costs**

The Commission's analysis of cost drivers has been constrained by a lack of data, particularly with respect to outputs and service standards. On the evidence available, including consultation with councils, the Commission concluded that increases in the volume, scope and quality of services have been significant drivers of the sector's expenditure over the last decade. This is true of both mandated (or legislated) and non-mandated services and is likely to be strongly influenced by decision making at the local level.

This includes decisions about what services to provide and how to provide them. It also includes decisions on how to improve performance over time, contain expenditure growth and use efficiency dividends to lower rates or provide more and/or better services.

The Commission considers that enhancing councils' capacity for sound, well-informed decision making will improve their performance over time, lift efficiency and financial sustainability and create capacity to pass on the benefits of cost reductions to ratepayers.

The Commission notes that, as a rule, better information on council inputs and outputs and analytical tools will deepen understanding of cost drivers and the capacity to manage their impacts. This will help to clarify, for councils and their ratepayers, the trade-offs between more or better services and higher expenditures, as well as improving transparency and accountability. In short, this contributes to better decision making. The Commission observed many councils are making efforts to improve their understanding of their costs and cost drivers.

#### **Clarify the service mandate**

In the case of services mandated by legislation, the Commission accepts that councils have no control over what services are required. That said, they retain a considerable degree of local autonomy over how they deliver such mandated services and the choice of service standards.

Mandated services are comparatively small in number but accounted for 46 per cent of the sector's operating expenditure in 2017-18, and a larger proportion for rural and remote councils. Councils' decision making on the scope, volume and quality of the services – both mandated and non-mandated – that they provide in their communities could benefit from additional guidance in the Local Government Act. The Commission has formed the view that limited and targeted amendments to sections 6, 7 and 8 of the LG Act – which outline councils' principal roles, functions and the principles that should inform their decision making – could usefully make explicit that there are different ways that councils can undertake functions in the LG Act, without being necessarily directly involved in service delivery.

Alternatives to direct service provision that councils could consider include roles such as, advocate, facilitator or part-funder. Section 7, in particular, would benefit from greater clarity in relation to the different ways in which a council can develop and implement the functions contemplated in the LG Act.

### Workforce

The Commission considers that difficulties in recruiting and retaining skilled labour and deficiencies in education and training systems have exacerbated labour cost pressures, particularly in rural areas. These issues are not just a problem in local government but also impact other sectors, particularly in rural areas.

There are opportunities for councils to engage with training organisations and state and Australian governments to improve the training and skills of council staff. There are further opportunities for groups of councils to share skilled labour, especially in rural areas.

A sector-wide approach to workforce development which complements and utilises South Australian and Australian Government initiatives is likely to be more effective than separate competing individual council efforts to address skill gaps.

### Industrial relations

Notwithstanding the diversity of views in the sector, the current industrial relations environment has also been highlighted by councils as an obstacle to achieving greater efficiencies and containing growth in employee costs in the sector.

It is characterised by high transactions costs and, for a significant proportion of councils, and an imbalance in the negotiating power and requisite skills between councils and unions, especially for some smaller councils. The resulting differences between councils in EBA outcomes have the potential to limit councils' capacity to undertake resource sharing and joint ventures by creating differences in salaries and conditions. This point appears to relate to differences in pay levels, rather than the rates of increases in pay.

Given the significant contribution made by employee costs to councils' total operating expenditure, the Commission sees merit in limited reform of the industrial relations environment to provide for councils to group together to bargain more effectively and lower transaction costs. This could be achieved by enabling groups of councils to negotiate EBAs, thereby facilitating outcomes that more appropriately reflect local circumstances.

The establishment of a 'community of practice' whereby councils can share information about effective tools, methods and approaches to enterprise bargaining would further assist in managing employee costs in the sector.

The Commission notes that both the Australian Workers' Union (AWU) and the Australian Services Union (ASU), which together represent a significant proportion of the local government workforce, have expressed qualified support for limited industrial relations reform, including the formation of groups of councils for the purpose of enterprise bargaining.

The Commission notes that this reform will require amendments to the applicable legislation, potentially including both the *Fair Work Act 1994* and the Local Government Act.

### Procurement

There are varying degrees of sophistication in procurement among councils in South Australia which may have implications for efficiency. Many of the issues experienced by councils were also observed by the Commission, during its separate inquiry into state government procurement, to be shared by state agencies including limited expertise and training, red tape costs, risk aversion, barriers to innovation and poor contract management.



There are opportunities to achieve savings through aggregated procurement among councils, especially with a regional focus, or for sharing procurement expertise across a number of councils.

Many councils procure in thin markets, where there is a limited number of suppliers. Collaborative procurement activities by councils can relieve pressure on costs. The Commission notes that meeting local preferences is important to many councils, and as a result aggregated procurement and cross council contracts are not always appropriate. The Commission considers the increased costs of procurement, and the burden on the rest of the community, should be assessed and made transparent in the application of this policy.

The use of model documents offers cost savings to councils through streamlined processes and assisting non-specialist procurement staff. Standardised templates for procurement documents across councils also reduce costs for suppliers, particularly where suppliers are seeking contracts across multiple councils.

Smaller councils often do not have dedicated procurement teams to develop, improve and update policies, procedures and templates. There is merit in the sector, through the Local Government Association of South Australia (LGASA) developing a model procurement policy and regularly reviewing both the model policy and associated guidelines and templates to assist councils to maintain up-to-date, best practice procurement policies and practices.

#### **Resource sharing**

The Commission was informed of a variety of resource sharing arrangements in which many councils are engaged, ranging from informal sharing of staff and equipment, to the establishment of subsidiaries to deliver services. Resource sharing activities, in some circumstances, have been demonstrated by councils to be an effective mechanism for cost savings and/or service improvements.

Many councils said that resource sharing by councils can deliver efficiency gains and there were further opportunities for cost saving through resource sharing. Some councils identified potential barriers, including differing priorities, differences in IT systems and HR policies, geographical distances and additional overhead costs.

To capitalise on the potential for resource sharing to deliver cost savings the Commission proposes that the local government sector, through the LGASA, develop and provide advice on options for resource sharing and develop skills and systems to enable joint arrangements.

#### **4. Efficiency and continuous improvement**

An analysis of efficiency and productivity in the local government sector was undertaken using data over the period 2008-09 to 2017-18. It showed that most SA councils achieved a high level of relative efficiency when compared to all SA councils; technical efficiency remained relatively constant; and measured total factor productivity fell by an average of 0.8 per cent a year. Based on consultations and considering the technical limitations of the methodology (Data Envelopment Analysis (DEA)), the Commission concludes that the declining trend in measured productivity is most likely to be largely attributable to the unmeasured changes in scope, quality and volume of council services provided.

The findings of the efficiency analysis highlight the importance of concerted and consistent sector-wide efforts to measure efficiency and related aspects of performance. Analysis of council efficiency and productivity is an important starting point in improving business processes and

management decisions aimed at lifting efficiency across the local government sector. These improvements will create the capacity to pass on the benefits of cost reductions to ratepayers.

The Commission notes that recent reforms in the local government sector have focussed on shaping the relationship between state and local government and lifting the financial sustainability of the sector.

### Performance comparisons

In its consideration of mechanisms which the sector could use to improve performance over time, the Commission makes an important distinction between performance comparisons between councils relevant to informing communities and triggering further investigation, and benchmarking relevant to management, for which detailed and specific information is required.

Most councils engage in some form of performance monitoring, and many are engaged in collaborative benchmarking projects with other councils, some of which demonstrated the potential to yield high returns to participating councils in terms of cost savings or capacity improvements. The Commission found the specific example of the project between the City of Charles Sturt, City of Marion and the City of Port Adelaide Enfield very informative.

Such benchmarking places substantial demands on councils' resources, including existing databases, reporting systems and workforce skill sets and needs to be justified by an expectation of significant improvements in efficiency and savings that repay the effort. An expansion of benchmarking between groups of councils will require: councils to develop their workforces to manage data collection and analysis; and a matching upgrade of information systems.

All councils can benefit from access to a shared data set, collected in a consistent fashion and designed in a way which is relevant to their decision making. None of them has the incentive to manage the design and operations of the whole project. There is a case then for the group as a whole to collaborate to do so in cooperation and with leadership from the state government. The results of the efficiency analysis also highlight the value of collaborative efforts to identify continuous improvement opportunities, as well as the importance of council input into the design of a suitable framework and choice of indicators.

The Commission considers a sector-wide performance comparison framework would be an important tool to inform the South Australian community about the performance of its councils and to inform councils about their relative performance. Reliable, comparable information is a foundation of evidence-based decision making. Access to online comparative information on all councils will improve transparency and accountability.

The Commission sees particular value in comparative performance information that better informs council choices on what services to provide and how to provide them. The purpose of this comparative information is to highlight performance gaps among councils. This information will also assist councils in identifying peers with which to conduct detailed benchmarking to drive continuous performance.

There are significant potential benefits to the state government, including increased transparency and accountability of local government, access to more timely information on council performance and developments, and enhanced evidence-based engagement with the local government sector. It will also be an important tool to inform the South Australian community about the performance of its councils.

The Commission therefore proposes that a sector-wide comparative information framework be established, and that reference be made to the framework and its purpose in legislation.

### **Setting performance comparisons in a wider context**

The Commission notes that performance comparisons are set in a broader historical context of the reforms to the local government sector, including financial sustainability, asset management and business planning. There are several indicators of council performance, especially in the area of financial sustainability. Councils are required to report some of these indicators in their annual reports, business plans, budgets, long term financial plans and infrastructure and asset management plans as part of their legislated planning and reporting requirements. A sensible approach would integrate these indicators with the infrastructure of comparative performance measures to provide a complete set of measures for councils and their communities.

While a common data set would be developed, there are different audiences for the use of the data. Some users are managers of councils, who might use the data to interrogate their operations and identify opportunities for improvement. These efforts could involve various forms of benchmarking. Also important is messaging to communities, to give them a sense of the trade-offs involved in decision making about services provisions.

### **Participation by councils**

As noted, councils can benefit from participating in a sector-wide comparative performance framework. The participation of all councils is important to its success. Benefits to councils include access to better quality data to inform decision making and guide continuous improvement, as well as to inform communications with rate payers and the state government.

In terms of implementing a sector-wide performance reporting framework, the Commission concluded there is broad, but not unanimous, support for an approach which allows for design and testing of the framework and sufficient time for councils to build analytical capacity and capability and minimise additional administrative costs. That said, there were differences in view about what should be included and concerns about how such a task might be approached.

The LGASA is the obvious body to lead the work on behalf of the local government sector to establish a broad information framework to enable high level comparisons of performance. An economy of design will be important in reducing the cost and reporting burden on councils.

### **Data integrity to underpin comparisons**

To promote confidence in the framework, state and local governments will need to consider data integrity measures to ensure data are of an appropriate quality.

The Commission concludes that the South Australian Government has an important leadership role in enabling the comparative framework and ensuring the integrity of the data. In the approach proposed by the Commission, the Minister for Local Government would endorse the framework developed jointly by his department and the LGASA. As part of ongoing data integrity measures, the role of council audit committees could be expanded to include an assessment of the data quality.

While the data from the South Australian Local Government Grants Commission (SALGGC) is a starting point, additional information as well as further guidelines and training relating to the treatment of expenditure are required. That will help improve data integrity. An ability to disaggregate the materials, contract and other expenditure category given its significance and



incorporate additional workforce data will be important. Additional controls and processes will contribute to accuracy, comparability, consistency and timeliness of data.

### Reporting

With respect to reporting on the framework, the Commission proposes that the LGASA produce an annual "State of the Sector" report for the Minister that, among other things, would capture sector-wide performance. In addition, the Commission proposes that council annual reporting include performance reporting.

Performance reporting complements the information provided in other areas by councils and adds to an understanding of that information. The Commission is therefore proposing that performance data reporting be integrated with other material.

Good quality long term financial and infrastructure and asset management plans play an important role in improving not only efficiency but also accountability and transparency of council activities. The Commission has observed that the quality of these plans across the sector is variable and that in some cases, up to date plans are not available on council websites. The Commission is of the view that current regulations do not provide sufficient guidance to councils on preparing good quality plans, and that there is value in establishing minimum standards embodied in templates to guide preparation of these plans, similar to those for council financial statements. This would support informed decision making as well as providing consistent data for the sector wide information infrastructure.

The Commission also recognises the importance of minimising increases in costs to councils associated with any increase in reporting requirements.

## 5. Governance, accountability and transparency

The Commission, as part of its terms of reference, was required to consider recommendations on actions the South Australian government could take to enhance local government financial accountability.

### Scope and clarity of local government role

South Australia's legislative framework recognises local government as a separate and legitimate sphere of government and also provides councils with a high degree of autonomy to act as decision makers in their communities. While this is especially important in relation to non-mandated services, where councils' discretionary authority is greatest, it is also important when councils consider the scope and quality of service provision for mandatory services.

The Commission notes that the very general nature in which councils' functions as defined in the LG Act has helped to enable an expansion in the non-mandatory services provided by councils, thereby having a significant effect on costs and efficiency in the sector.

Several councils emphasised that the state's legislative and governance environment, while granting local government considerable autonomy, has also facilitated a generally unfunded transfer of regulatory and service responsibilities by the state government.

Some councils have argued that costs and responsibilities have increased substantially as a direct result of legislation assigning responsibilities to the sector, along with statutory fees and charges that are set by the state government, but which do not always cover councils' costs. Councils have consistently argued that many of the responsibilities transferred or assigned under legislation involve a form of cost shifting.

The Commission accepts that 'cost shifting' accurately describes situations where the higher level of government removes or reduces a previously agreed cost sharing arrangement. This can leave councils with service delivery or regulatory responsibilities without sufficient funding to cover the ongoing costs of delivering the function. In such situations, it would be appropriate for the state government, as the higher level of government mandating the provision of a service by councils, to review its legislated fees and charges on a regular and formal basis. That said, the Commission takes the view that the term 'cost sharing', not cost shifting, is a more accurate description of the division of delivery and funding responsibilities where local government has chosen to accept tied and time-limited funding.

Several councils consider that the LG Act, particularly the principles in section 8, place an obligation on councils to be responsive to community preferences and expectations beyond considerations of efficiency and subsidiarity.

The current legislative framework does not always provide clear or sufficient guidance on the respective responsibilities of the two spheres of government, especially where functions or responsibilities might overlap. A clear and consistent division of responsibilities between state and local governments underpins an efficient allocation of resources between them. This, and legislative clarity regarding mandatory service provision by councils, would assist councils' understanding of the boundaries around their autonomy and would provide a stronger foundation for council decision making and resource management.

This also provides a means for resolving debates about cost-shifting and gives councils a consistent basis on which to engage more effectively with their communities regarding their plans and performance with respect to the scope and quality of facilities and services. That also includes the use of any dividends from efficiency improvements.

### **Service standards**

Documented service standards are an accountability measure and provide information to communities on what they can expect from their council.

Adopting documented service standards will not in itself reduce costs to councils, however it can provide opportunities for improved governance and decision making. By better understanding the impact on costs of council's decisions on service standards, a council can better align service provision to community expectations and outcomes.

Definition and measurement of service standards will enable councils to make informed decisions regarding expenditure and to understand and communicate to ratepayers choices and trade-offs between quality or level of service and costs. Higher spending councils will be in a better position to explain to ratepayers and the South Australian Government where this is a result of community demands for higher service standards, for instance.

The Commission notes that while some councils have not adopted formal service standards, others have well documented and defined service standards and formal reporting against them. The Commission heard that most councils conduct regular service reviews.

While many councils supported the idea of benchmarking themselves against documented service levels as a way of improving efficiency, some smaller councils were concerned about additional administrative and financial burdens that requirements for increased service reviews or documentation of service standards would place on them.



There is value in the sector developing a 'model service standards' template to increase comparability of service standards across councils, as well as to reduce the costs to councils of developing their own. Importantly, the introduction of documented model service standards will help to enable performance comparisons between councils on service delivery. This will also aid in developing the ability of ratepayers and elected members to develop 'rules of thumb' about the relationships between service quality and costs of provision.

While the development of required long term financial plans and infrastructure and asset management plans involves decisions on the level of services, these are not generally explicitly documented. A small number of councils document service standards and report against them. Such information is highly relevant to the design of the suite of comparative performance measures discussed in the preceding section.

The Commission acknowledges that achieving direct comparability across the sector will be challenging, given differences in definitions of services and their scope, but there is value in having documented service standards irrespective of their ease of comparability. The Commission's preferred approach is to encourage councils to adopt documented service standards, rather than to prescribe any particular form of service standards.

Given that around half of council expenditure is on services mandated by the state, but with discretion over how these services are provided and to what standard, there is value in additional guidance from the South Australian Government about minimum expected service standards for mandatory services. Determining a minimum service standard in consultation with the local government sector, would assist councils in service planning delivery, communicating with ratepayers and possibly improve the relationship between councils and the South Australian Government.

#### **Data integrity, performance and financial accountability**

In relation to councils' compliance with their statutory reporting and accountability obligations, the Commission notes councils' consistently expressed views that no independent body, including the Auditor-General, has found evidence that the sector's compliance standards fail to meet the legislated requirements.

The Commission accepts that councils' accountability to their communities could also be usefully enhanced by seeking ways to improve the public consultation processes that are currently required under section 50 of the LG Act. Enhanced public consultation could be utilised to facilitate deeper engagement with ratepayers and increase communities' ability to become more 'demanding' customers of local government. The Commission expects that the indicator framework that it has proposed will assist in achieving this outcome.

The Commission considers that any expansion of the current external auditing requirements would focus, as a first priority, on certifying the integrity of the data that will form the performance comparison framework. This is because the overall quality of councils' data will affect both the quality of council decision making and the usefulness of the proposed sector wide comparison framework. There is a balance to be reached between appropriate oversight and the costs of compliance, The Commission considers that an appropriate first step to ensure ongoing data integrity is through an expansion of the functions of councils' audit committees.

Incorporating information already gathered by councils as part of their administrative and financial planning and reporting obligations will strengthen the value of the broad performance information framework to be developed with only minimal increases in councils' reporting burden

and compliance costs. Adapting and expanding existing audit mechanisms will also contribute to increasing the efficiency, at minimal additional cost, of implementing the framework.

#### **Framework for council decision making**

The thrust of the South Australian approach to the role of councils is to treat them as accountable to their own communities. The framework that the Commission seeks to develop is expected to contribute to that goal. In addition, councils as a group attract regular attention from the media and other interests in the community. The information framework recommended here will assist councils to tell their story to their ratepayers and the wider community.

Consideration of the cost drivers and the institutional framework for council decision making has led the Commission to the view that there are three key pillars which, if adopted by councils, will create a lean system that contains costs and promotes efficiency and effectiveness:

- financial accountability - including a demonstrated commitment to financial sustainability;
- engaged rate payers – informed by documented service standards and comparison across councils about the trade-offs between more/better services and lower rates; and
- informed councils – able to access a system for comparisons of performance across councils and over time.

## Recommendations to the South Australian Government and advice to Councils

The Commission has been asked to provide advice on possible options to guide and assist councils to improve efficiency and create capacity to pass on cost reductions to ratepayers, and to provide recommendations on actions by the South Australian Government to lower local government costs and enhance local government financial accountability. There is significant complementarity between the Commission's recommendations to the South Australian Government and its advice to councils. In this section the Commission presents both recommendations and advice, grouped under the four themes of: information for improved decision making; managing cost pressures; efficiency and continuous improvement; and governance, accountability and transparency. Some recommendations and advice relate to more than one theme but have been placed where they are most relevant.

### Information for improved decision making

#### Recommendations to the South Australian Government

##### Recommendation 1

To support council efficiency improvement, financial accountability and engagement with communities and the state government, the Commission recommends that the South Australian Government establish a broad information framework, with a range of indicators published online, to enable high level comparisons of councils, including with themselves over time, for the purposes of providing:

- a) councils with information to support decision making and continuous improvement;
- b) communities and ratepayers with consistent information about their council performance and productivity, including comparisons with appropriate councils; and
- c) state and Australian governments with information to allow better informed engagement with local government and decisions which affect local government.

##### Recommendation 2

To optimise the value to councils, ratepayers and the government of the information framework, the Commission recommends that the South Australian Government codesign the framework with the Local Government Association of South Australia (LGASA) for endorsement by the Minister for Local Government, taking account of the principles of:

- a) drawing from existing datasets and reports in the first instance;
- b) minimising additional reporting burden on councils and possibly replacing some existing reporting requirements;
- c) achieving high data integrity through common definitions and concepts; and
- d) enabling comparisons across councils.

##### Recommendation 3

To optimise the value of the framework to councils, ratepayers and government, the Commission recommends the South Australian Government codesign with the LGASA a suite of indicators for all councils that provides comparative information on costs, output levels for key services and

measures of efficiency, effectiveness and financial performance as well as characteristics of councils which affect and explain council differences on these measures.

#### **Recommendation 4**

To optimise confidence in the ongoing quality, integrity and management of the information framework the Commission recommends that the South Australian Government locates the ongoing management of the information framework and website in an appropriately independent body.

#### **Advice to councils**

##### **Advice 1**

To guide and assist improvements in efficiency and create capacity to pass on cost reductions to rate payers, the Commission proposes that the LGASA, on behalf of and in conjunction with the local government sector,

- a) work with the South Australian Government to establish a sector wide comparative performance indicator framework that enables comparisons between councils and over time to assist decision making by council leaders and to inform communities; and
- b) compile and provide to the Minister for Local Government an annual 'State of the Sector' report on sector-wide performance.

#### **Managing cost pressures**

##### **Mandatory Services**

##### **Recommendations to the South Australian Government**

##### **Recommendation 5**

To lower local government costs and enhance local government financial accountability, the Commission recommends that the South Australian Government clarify and improve aspects of the relationship between the South Australian Government and local government by:

##### In the short term

- a) identifying and addressing inefficiency and red tape from the South Australian Government mandated services on councils;
- b) adopting a strong review process which provides an assessment of the impacts on local government to inform state government decisions that could have an adverse effect on local government;
- c) clarifying relevant aspects of s6, s7 and s8 of the *Local Government Act 1999* to make clearer the range of options available to councils in the performance of legislated functions.

##### In the medium term

- d) clarifying local government responsibilities, including establishing measurable minimum service standards, for mandated services provided by councils;

##### In the long term

- e) clarifying the respective responsibilities of the South Australian and local governments to remove unnecessary overlaps or duplication and reduce uncertainty between governments.



## Employee costs

### Recommendations to the South Australian Government

#### Recommendation 6

To reduce transactions costs to local government, the Commission recommends that the South Australian Government facilitate more flexible and efficient enterprise bargaining arrangements by making appropriate legislative amendments to allow a group or association of councils to negotiate enterprise bargaining agreements under the *Fair Work Act 1994*.

#### Advice to councils

##### Advice 2

To help contain local government costs the Commission proposes that councils lift industrial relations management capacity by:

- a) advising government of their willingness to make use of the recommended legislative changes to enable councils to form groups, for the purposes of enterprise bargaining arrangements and other industrial relations matters; and
- b) as a sector, through the LGASA, establishing a community of practice to share methods, tools and approaches to enhance councils' capacity to engage in enterprise bargaining more effectively.

## Procurement

### Recommendations to the South Australian Government

#### Recommendation 7

To assist in improving the value to councils from procurement through lower costs, higher capability and efficient procurement process, the Commission recommends the South Australian Government make provision, in implementing its response to the Commission's Government Procurement Inquiry Stage 1, for councils to access:

- a) state government training opportunities for procurement; and
- b) state government contracts and pricing.

#### Advice to councils

##### Advice 3

To further lower council costs through improved procurement policies, practices and capabilities the Commission proposes that the LGASA promote the adoption of contemporary procurement policies and practices by developing a model procurement policy, while continuing to update procurement document templates and guidance as well as facilitate additional training opportunities.

**Advice 4**

To help reduce the costs of materials the Commission proposes that councils place a greater focus on collaboration in procurement, including through:

- a) aggregated procurement through the LGASA, regional groupings, bilateral agreements or other appropriate vehicles;
- b) greater use of pre-qualification processes, including council acceptance of pre-qualifications of other councils; and
- c) greater shared use by councils of panel contracts.

**Resource sharing****Advice to councils****Advice 5**

To capitalise on the potential from the use of resource sharing to deliver efficiency gains the Commission proposes that councils:

- a) seek advice from the LGASA on the range of options for resource sharing (e.g. sharing of service specifications, joint tendering, shared plant, shared staff) and the most appropriate governance arrangements for them (e.g. informal agreements, written agreements or contracts, memoranda of understanding, regional subsidiary under section 43 of the *Local Government Act 1999* or a Joint Planning Board under section 35 of the *Planning, Development and Infrastructure Act 2016*);
- b) develop skills in specific systems that support and facilitate resource sharing (including IT, costing, reporting and problem solving); and
- c) explore opportunities for further resource sharing including a hub and spoke model on a regional basis.

**Efficiency and continuous improvement****Recommendations to the South Australian Government****Recommendation 8**

To foster an environment of continuous improvement in councils, the Commission recommends the South Australian Government establishes a 'Premier's Award' for excellence in continuous improvement and innovation in council administration.

**Advice to councils****Advice 6**

To lift the capacity of councils to identify and address opportunities to reduce their costs and improve their operations, the Commission proposes that the LGASA facilitate in depth benchmarking between councils through:

- a) establishing a community of practice to share among other elements:
  - i. methods, tools and approaches;
  - ii. a panel of competent providers; and
  - iii. lessons learned and examples of success.

- b) assisting in “matchmaking” South Australian councils that seek deeper benchmarking opportunities with other councils, including interstate comparisons;
- c) collectively with councils, undertaking a regular sector-wide analysis of efficiency indicators;
- d) encouraging, in any systems upgrades, a focus on improving collection and retrieval of information for planning, monitoring and managing performance.

## Governance, accountability and transparency

### Recommendations to the South Australian Government

#### Recommendation 9

To improve the capacity of local government to lower costs and increase financial accountability, the Commission recommends that the South Australian Government increase the quality and transparency of council planning and reporting by:

- a) amending the *Local Government Act 1999* to provide that councils’ annual reports include the results of performance comparisons and reporting against service standards;
- b) varying the applicable regulations in the *Local Government (Financial Management) Regulations 2011* to specify a standardised set of model long-term financial plans and infrastructure and asset management plans and council annual reports to support councils to fulfil their statutory reporting obligations under Chapter 8 of the *Local Government Act 1999*.

### Advice to councils

#### Advice 7

To support the application of the recommended sector wide information infrastructure, in decision making by councils the LGASA develop ‘model’ document templates for annual reports, long-term financial plans and infrastructure and asset management plans to guide councils that incorporates the new indicators.

#### Advice 8

To enhance the transparency and accountability of their operations the Commission proposes that councils incorporate service standards in decision making and performance comparisons by:

- a) developing, documenting and reporting publicly against service standards for all services they provide;
- b) incorporating in their published long-term asset and financial plans and draft annual budgets whether changes to the scope or level of services are planned and their implications for council expenditure;
- c) the LGASA supporting council documentation of service standards by:
  - i. developing a model service standard template, incorporating elements of best-practice, to assist councils with documenting service standards; and
  - ii. establishing a library of council service standards and community of practice.

#### Advice 9

To improve decision making the Commission proposes that councils develop and implement a scheduled program of reviews of existing services and undertake a service analysis when considering new, or material changes to, council services. Both service reviews and service analyses would include consideration of:

- a) whether the same or a similar service is provided by other bodies, including business;
- b) whether the council should be the service provider or facilitate the provision of the service by another body;
- c) evidence of the demand for the service and means of reducing that demand; and
- d) whether the service should be provided in-house, by partnering with another body, or be outsourced.

#### **Advice 10**

To support the development of high quality data and sound decision making, the Commission proposes that councils expand the functions of council audit committees to include an examination of:

- a) the processes to provide for data integrity; and
- b) the method of application of service reviews and analysis.



## Acronyms

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<b>ABS</b>	Australian Bureau of Statistics
<b>ATSI</b>	Aboriginal and Torres Strait Islander
<b>ACLG</b>	Australian Classification of Local Governments
<b>ALGA</b>	Australian Local Government Association
<b>CEO</b>	Chief Executive Officer
<b>CNP</b>	Competitive Neutrality Policy
<b>CPA</b>	Competition Principles Agreement
<b>CPI</b>	Consumer Price Index
<b>CRS</b>	Constant Returns to Scale
<b>CWMS</b>	Community wastewater management services
<b>DEA</b>	Data Envelopment Analysis
<b>DRS</b>	Decreasing Returns to Scale
<b>EBA</b>	Enterprise Bargaining Agreement
<b>EHA</b>	Eastern Health Authority
<b>ESC</b>	Essential Services Commission
<b>FAGs</b>	Financial Assistance Grants
<b>FRSB</b>	Financial Review Sustainability Board
<b>FSP</b>	Financial Sustainability Program
<b>FTE</b>	Full-time equivalent
<b>GAROC</b>	Greater Adelaide Regional Organisation of Councils
<b>IRS</b>	Increasing Returns to Scale
<b>LG Act</b>	Local Government Act
<b>LGAP</b>	Local Government Association Procurement
<b>LGAMLS</b>	Local Government Association Mutual Liability Scheme
<b>LGASA</b>	Local Government Association of South Australia
<b>LGAQ</b>	Local Government Association Queensland
<b>LGAWCS</b>	Local Government Workers Compensation Scheme
<b>LGFA</b>	Local Government Finance Authority
<b>LGPI</b>	Local Government Price Index
<b>LGPRF</b>	Local Government Performance Reporting Framework
<b>LGRF</b>	Local Government Reference Group
<b>LGWDG</b>	Local Government Workforce Development Group
<b>MFP</b>	Multi-factor Productivity
<b>NESB</b>	Non-English-Speaking Background

<b>OCA</b>	Outback Communities Authority
<b>RYTP</b>	Regional Youth Traineeship Program
<b>RLGA</b>	Regional Local Government Association
<b>RoGS</b>	Report on Government Services
<b>SALGGC</b>	South Australian Local Government Grants Commission
<b>SALGFMG</b>	South Australian Local Government Finance Managers Group
<b>SAROC</b>	South Australian Regional Organisation of Councils
<b>SE</b>	Scale Efficiency
<b>SFA</b>	Stochastic Frontier Analysis
<b>TASC</b>	Training and Skills Commission
<b>TE</b>	Technical Efficiency
<b>TFP</b>	Total Factor Productivity
<b>VRS</b>	Variable Returns to Scale
<b>WPI</b>	Wage Price Index

## 1. Introduction

### 1.1 Context

The South Australian Government has directed the South Australian Productivity Commission (Commission) to consider and report on a number of matters regarding the costs and efficiency of local government services.

Local government is the level of government closest to individual communities. Local government's performance is important in terms of the human and economic services it provides to meet those individual communities' needs.

South Australia's 68 councils collectively manage an annual operating budget of \$2 billion and maintain infrastructure and other physical assets worth almost \$24 billion. Effective local government can be the mainstay of a strong community. Councils provide a range of services from roads and infrastructure, to well-maintained libraries and community services. Councils are not only direct providers of services but also act as advocates, planners, coordinators, facilitators and regulators. Councils perform specific functions mandated by the South Australian Government and deliver a range of non-mandatory services.

There are long standing, common challenges that councils across Australia have been reviewing and debating for many years<sup>1</sup>, several of which focus on the intersection of service expansion and long-term financial sustainability, including:

- the expansion in the scope, quantity and quality of services provided by councils in response to changing expectations of ratepayers and/or mandated requirements from the State government;
- insufficient expenditure on infrastructure maintenance and renewal;
- capacity for effective asset and financial management arrangements; and
- the ability to achieve economies of scale for smaller councils, particularly in regional or remote areas.

Councils vary in geographical size and topography; population numbers and density; socio-economic characteristics of their residents; and the range of services provided to residents and businesses. The Commission's task included identifying the systemic cost issues and understanding the unique features of councils and their rate payers, which affect their cost and efficiency levels.

The inquiry has examined trends in local government costs and the drivers of these costs as well as developing and analysing measures of efficiency. It has identified mechanisms and indicators that might be used by councils to measure, analyse and improve their performance.

The Commission has taken into consideration recent reforms in South Australia and other jurisdictions to policy, governance and management practices in the local government sector and their potential to afford cost savings and improve council efficiency.

<sup>1</sup> Commonwealth Grants Commission, *Review of the Operation of Local Government (Financial Assistance) Act 1995* (2001) House of Representatives Standing Committee on Economics, Finance and Public Administration ('Hawker Report'), *Rates and Taxes: A Fair Share for Responsible Local Government* (2003); C. Aulich, *Consolidation in Local Government: A Fresh Look*, Volume 1 Report (2011); Victorian Auditor-General's Office, *Reporting on Local Government Performance*, (2019).

## 1.2 Terms of reference

The Minister for Local Government is developing a plan for local government reform to improve council efficiency and effectiveness and restore confidence in council decision making. The reform elements address:

- stronger council member capacity and better conduct;
- lower costs and enhanced financial accountability;
- efficient and transparent local government representation; and
- simpler regulation.

The minister released the *Reforming Local Government in South Australia* discussion paper on Monday, 5 August 2019, proposing options that aim to achieve these key reform elements and give each community certainty that their council is operating efficiently and sustainably.

The South Australian Government sought independent advice on the second element regarding cost and financial accountability from the Commission. This required consideration of the key determinants of costs, or "cost drivers" of local council budgets; options to lower council costs; and how to ensure lower costs flow through to ratepayers. Any interpretation of changes in local government costs, or comparisons between councils, was to take account of the impacts of factors likely to affect costs such as council size/scale, quality standard and mix of services provided, population size and density and geographical area served and whether it is urban, semi-urban, rural or remote.

The terms of reference for the inquiry required the Commission to consult local government and other key stakeholders on the methodology to be used for its analysis and consult state-wide with councils, community groups and relevant professional bodies.

The full terms of reference are contained in this report.

## 1.3 The Commission's approach

The Commission is required to take a broad perspective in developing advice for the South Australian Government. It must consider the broad interests of industry, business, consumers and the community, regional South Australia, social-economic implications and ecological sustainability.

The Commission published a methodology paper<sup>2</sup> on Friday, 31 May 2019 after consultation with councils, the Local Government Association of South Australia (LGASA), the Office of Local Government, the South Australian Local Government Grants Commission (SALGCC) and other stakeholders. The draft report was published on Tuesday, 30 August 2019<sup>3</sup> and sought information on a range of issues, as well as feedback on draft recommendations to the state government and draft advice to councils.

Submissions were invited from stakeholders that addressed any of the issues covered in the draft report and any other matters relevant to the terms of reference where the Commission's understanding was imperfect. Twenty-nine submissions were received in response to the draft report. This input from stakeholders assisted the Commission to develop robust, evidenced based

<sup>2</sup> South Australian Productivity Commission, Methodology Paper: *Inquiry into Local Government Costs and Efficiency* (2019) <<https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper>>

<sup>3</sup> South Australian Productivity Commission, Draft Report: *Inquiry into Local Government Costs and Efficiency* (2019) <[https://www.sapc.sa.gov.au/data/assets/pdf\\_file/0009/114111/Local-Government-Inquiry-Draft-Report.pdf](https://www.sapc.sa.gov.au/data/assets/pdf_file/0009/114111/Local-Government-Inquiry-Draft-Report.pdf)>



conclusions, recommendations and advice in the final report. The full list of submissions is in Appendix 1.

In addition, the Commission undertook wide consultation holding 64 meetings with councils, the LGASA, Greater Adelaide Regional Organisation of Councils (GAROC), South Australian Regional Organisation of Councils (SAROC) and various stakeholders throughout the state, including four roundtables with councils' representatives.

Economic Insights Pty Ltd was engaged to calculate some estimates of relative efficiency and explore potential determinants of efficiency. The Commission also conducted its own analysis, as part of a robust methodology, to strengthen its evidence.

As part of the inquiry and systematic approach to engagement, the Commission established a Local Government Reference Group (LGRG) of key stakeholders who provided expert advice, insights and understanding about the factors that are driving the productivity and efficiency trends across the South Australian local government sector. The LGRG met on five occasions and provided valuable feedback on the Commission's analysis and reform directions. The LGRG assisted the development of thinking reflected in the Commission's final report. The terms of reference and members of the reference group are included in Appendix 2.

The Commission thanks the LGASA, the Office of Local Government, SALGGC, councils, the LGRG, business associations and the public for their assistance.

#### **1.4 Stakeholder feedback**

A wide range of available evidence regarding issues that could impact on local government costs and efficiency was considered. The key topics raised by stakeholders fall into the following areas:

- sound decision making;
- legislative requirements;
- workforce capability and capacity;
- availability of reliable data;
- performance benchmarking;
- procurement; and
- council size and location.

#### **1.5 Report structure**

The report is structured as follows:

- Chapter 2 presents historical information on the development of the local government sector in South Australia. It provides context to understand the local government functions mandated by the South Australian Government. It also examines key reforms to the local government sector in South Australia and other jurisdictions, and their implications for costs and efficiency;
- Chapter 3 considers recent trends in local government costs and identifies some of the key drivers of costs;
- Chapter 4 presents partial and global measures of local government efficiency in South Australia and a discussion of possible determinants. It also discusses mechanisms and indicators that could be used to measure and improve local government performance over time; and

- Chapter 5 synthesises the evidence and conclusions leading to recommendations to the South Australian Government and advice to councils.



## 2. Structure, development and reform

### 2.1 Introduction

The inquiry's terms of reference require the Commission to address the following matter regarding local government costs and efficiency:

- Consider recent reforms in South Australia and other jurisdictions to policy, governance and management practices in the local government sector and their potential to improve council performance.

This chapter examines the history, structure and evolution of the local government sector, particularly the legislative and governance environments which affect councils' decisions on the services delivered to their communities. It also considers the influence of the Australian Government on the capacity of councils to deliver services.

Finally, the chapter briefly examines some key local government reforms aimed at either efficiency improvement or cost reduction in other jurisdictions.

### 2.2 Structure of local government

#### 2.2.1 Legislative framework in South Australia

In South Australia, councils operate within a legislative environment established by the state Parliament. A core principle of this environment is that councils provide services for, and are held accountable to, their local communities. Three Acts provide this framework: the *Local Government Act 1999* (LG Act); the *Local Government (Elections) Act 1999*, and the *Constitution Act 1934*. There are other pieces of legislation, at both the state and national levels, that influence local government, but these three Acts together create the basic framework for council operations.

South Australia's legislation defines the purpose of local government. According to section 6 of the LG Act, a council is established to act in the interests of its community, as well as to represent its interests. Councils provide services but they are also expected to promote initiatives within the community that improve quality of life.

The LG Act also provides the authority for councils to perform a range of functions. These are predominantly set out section 7, which defines the set of functions in broad terms. It says that the functions of a council include to:

- plan at the local and regional level for the development and future requirements of its area;
- provide services and facilities that benefit its area, its ratepayers and residents, and visitors to its area (including general public services or facilities (including electricity, gas and water services, and waste collection, control or disposal services or facilities), health, welfare or community services or facilities, and cultural or recreational services or facilities);
- provide for the welfare, well-being and interests of individuals and groups within its community;
- take measures to protect its area from natural and other hazards and to mitigate the effects of such hazards;

- manage, develop, protect, restore, enhance and conserve the environment in an ecologically sustainable manner, and improve amenity;
- provide infrastructure for its community and for development within its area (including infrastructure that helps to protect any part of the local or broader community from any hazard or other event, or that assists in the management of any area);
- promote its area and provide an attractive climate and locations for the development of business, commerce, industry and tourism;
- establish or support organisations or programs that benefit people in its area or local government generally;
- manage and, if appropriate, develop, public areas vested in, or occupied by, the council;
- manage, improve and develop resources available to the council; and
- undertake other functions and activities conferred by or under an Act.<sup>1</sup>

Section 8 enumerates the principles that councils must uphold in carrying out these functions. As the City of Salisbury observes in its submission, section 8 requires councils to observe a total of 12 principles in their decision making, including, for instance, ensuring that "council resources are used fairly, effectively and efficiently" and ensuring "the sustainability of the council's long-term financial performance and position".

This legislative approach, in which councils' functions are broadly defined, is consistent with reforms in other jurisdictions throughout the 1990s.<sup>2</sup> These coalesced around a broadly similar approach to statutory frameworks that gave councils a range of 'general competence powers'.<sup>3</sup> As Wensing observes:

In most cases the states have granted councils more autonomy and responsibility for planning and managing their local areas...In most states the changes to Local Government Acts have given councils general competence powers that enable them to do what is necessary to better meet local community needs and aspirations.<sup>4</sup>

In contrast to a statutory framework that limits councils to undertaking activities expressly included in legislation, general competence powers provide councils with the authority to carry out those activities necessary to fulfil the functions assigned to them.<sup>5</sup> These functions, in turn, are defined in general terms in contemporary local government legislation, including in South Australia.<sup>6</sup>

The legislative environment in which councils operates is marked by the absence of a strictly prescriptive approach to defining councils' functions.

<sup>1</sup> For the full list of councils' functions under section 7 of the LG Act, as well as its relationship with sections 6 and 8, see <<https://www.legislation.sa.gov.au/LZ/C/A/Local%20Government%20Act%201999.aspx>>.

<sup>2</sup> C Aulich, 'From Convergence to Divergence: Reforming Australian Local Government', (1999) 58 (2) *Australian Journal of Public Administration*, p.12.

<sup>3</sup> Aulich, 'From Convergence to Divergence', p.15.

<sup>4</sup> E Wensing, 'Systemic Reform or Administrative Update? Recent Legislative Changes in Local Government around Australia', in R. Chapman, et al (eds), *Local Government Restructuring in Australia*, (Centre for Public Management and Policy, University of Tasmania, 1997, 24. p. 42.

<sup>5</sup> Aulich, 'From Convergence to Divergence', 14.

<sup>6</sup> C Aulich and J Halligan, 'Reforming Australian Government: Impact and Implications for Local Public Administration' in *Reforming Government: New Concepts and Practices in Local Public Administration*, (Eastern Regional Organisation for Public Administration (EROPA), Local Government Centre, 1998) Tokyo, p. 25.

Queensland's local government legislation exemplifies the current approach to defining councils' sphere of legitimate activity:

A local government has the power to do anything that is necessary or convenient for the good rule and local government of its local government area.<sup>7</sup>

The Commission found it useful to distinguish between mandatory and non-mandatory functions. Given the broad definition of councils' functions outlined in South Australia's LG Act, the total number of mandatory services and functions is comparatively low.<sup>8</sup> The majority do not arise from the LG Act itself, but flow from other state legislation. Some of the most significant Acts include, but are not limited to, the *Dog and Cat Management Act 1995*, the *Public Health Act 2011*, the *Planning, Development and Infrastructure Act 2016*, the *Disability Inclusion Act 2018*, the *Emergency Management Act 2004* and the *Local Nuisance and Litter Control Act 2016*.<sup>9</sup> Mandatory functions include responsibilities:

- in relation to the state's planning system;
- for some road construction and maintenance;
- for some environmental health services, including the monitoring of cooling towers for potential outbreaks of Legionnaire's disease;
- for fire prevention, both in relation to building inspections and some bushfire prevention; and
- for dog and cat management.

Non-mandatory functions are those adopted, consistent with the role of a council in the LG Act, at their own discretion. Based on advice from LGASA, Appendix 4 includes a full list of council activities, showing the division of mandatory and non-mandatory functions.'

The 1960s, in particular, witnessed a significant expansion of functions undertaken by the local government sector.<sup>10</sup> The Commission notes that the shift away from a focus on 'roads, rates and rubbish' and towards a broader range of services has a long history in South Australia, and predates the legislative reforms of the 1990s. In effect, therefore, the LG Act codified, but did not cause, the enlarged service mix that councils provide within their communities. The LG Act only enables, but does not require, councils to expand the number, scope and quality of services that they provide for their communities.

For the purpose of the report, the Commission found it useful, where possible, to define and distinguish between the terms functions, services and activities. Functions describe the broad areas where councils have delegated authority (under the LG Act and other legislation) to make decisions and take actions in the best interests of their communities (both in relation to mandatory and non-mandatory functions). Services are councils' outputs that deliver mandatory and non-mandatory functions. Activities describe the actions taken by councils to deliver services, including regulatory services.

<sup>7</sup> *Local Government Act 2009 (Qld)* s9: <<https://www.legislation.qld.gov.au/view/html/inforce/current/act-2009-017#>>.

<sup>8</sup> For the purposes of this report, the Commission defines mandatory services as services or activities that are specifically required by statute, and those that are at the full discretion of councils as non-mandatory.

<sup>9</sup> The Commission has not been able to determine the total number of Acts that impose some responsibilities on local government, but the South Australian Local Government Association has estimated the total to be approximately 200. However, not all of these Acts are likely to be equally decisive for all councils.

<sup>10</sup> See, for example, House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government [the Hawker Review]*, (2003).



Where councils perform functions and services mandated by legislation, these functions and services are 'regulated' by the state government. Several mandatory reporting and compliance obligations apply specifically to the local government sector. These are contained principally in the *Local Government Act 1999* (LG Act), which prescribes, under chapter 8, a range of administrative and financial accountability measures with which councils must comply, including the need to produce strategic management plans and the requirement to create and maintain audit committees.

Councils are also required to comply with regulations that are directly connected to their activities, including community service delivery. These compliance and reporting obligations are not specific to councils but are statutory requirements with which private sector service providers, along with other public sector entities, are also required to comply such as workplace health and safety legislation.

### 2.2.2 State and local government relations

In South Australia, local government has had a greater degree of autonomy from state government than in other jurisdictions, with the relationship described as a partnership model, rather than a 'top-down' and prescriptive relationship.<sup>11</sup> The influence of the 'partnership model' in South Australia, especially the greater emphasis on councils' autonomy and accountability to their communities, is also reflected in the LG Act.<sup>12</sup>

This broadly cooperative model of state and local government interaction is underpinned by a 1990 memorandum of understanding between the two levels of government. As Aulich et al observes:

The early 1990s saw the introduction of two key changes that continue to influence local government in South Australia; the adoption of a partnership model to guide state-local government relations and the implementation of a voluntary approach to council amalgamations.<sup>13</sup>

This does not imply that the relationship between state and local government has been free from policy disagreement. Tensions over policy direction have arisen over time in response to a variety of issues, particularly the demarcation between the respective responsibilities of the two levels of government. Nonetheless, as Procter observes, South Australia has differed from other jurisdictions by giving greater expression to the principle that local government is a separate sphere in its own right.<sup>14</sup>

This broad understanding was reaffirmed in 2015 when the two levels of government signed the State-Local Government Relations Agreement. The agreement explicitly recognised that each level of government has its own separate mandate, and that closer strategic alignment is necessary to achieve positive public policy outcomes.<sup>15</sup>

<sup>11</sup> See, for example, C Aulich, C, *Consolidation in Local Government: A Fresh Look – Volume 1: Report*, (2011) p. 24

<sup>12</sup> Ibid, p. 26.

<sup>13</sup> Ibid, p. 24.

<sup>14</sup> C Procter, *Local Government Reform in South Australia*, (paper presented at 'The Cutting Edge of Change: Shaping Local Government for the 21<sup>st</sup> Century' conference, University of New England, Armidale, 14-17 February 2002).

<sup>15</sup> For further details on the agreement, see Premier's State/Local Government Forum, State-Local Government Relations Agreement Signed (2015) <<http://www.lga.sa.gov.au/contentFile.aspx?filename=Premiers%20State%20Local%20Forum%20Executive%20Meeting%2028%20January%202015-2.pdf>>.

The partnership approach has influenced the state government's oversight role in relation to councils' functions.<sup>16</sup> This is reflected in the relevant legislation which is discussed in the previous section.

The general commitment to greater council autonomy influenced major sector-wide reforms, including the last round of council amalgamations, between 1997 and 1998.<sup>17</sup> Rather than a policy of forced amalgamations, which had been adopted in 1994 by the Victorian Government, the South Australian Government appointed a Local Boundary Reform Board in 1995, which was tasked with managing a strategy of encouraging voluntary amalgamations.

Councils and their communities had the final say over whether amalgamations would proceed.<sup>18</sup> The process, while not devoid of tensions, eventually led to the number of councils being reduced from 118 to 68.<sup>19</sup> Amalgamations were seen at the time as a mechanism to reduce costs. In practice, the savings achieved appear to have been mostly directed towards equalising service standards within the merged councils. The Commission notes that only limited evidence is available with which to quantify the impact of amalgamations on councils' costs and efficiency.

The *Local Government (Boundary Adjustment) Amendment Act 2017* commenced on 1 January 2019, and significantly reformed the processes within the LG Act that govern changes to council boundaries.<sup>20</sup>

Although councils are granted a high degree of autonomy by the state's legislative framework – with local government forming, in effect, close to a separate sphere of government – the LG Act nonetheless imposes a range of compliance and reporting obligations on the sector. This compliance framework is developed in chapter 8 of the LG Act and is supplemented by the *Local Government (Financial Management) Regulations 2011*.

As opposed to some other jurisdictions, notably NSW, the comprehensive nature of the state's compliance framework is not matched by an equally developed oversight mechanism. This is broadly in keeping with the autonomy granted to local government as an independent sphere of government in its own right and has the effect of creating a 'self-assessment' framework based on the principle that councils are primarily accountable to their communities. Councils are therefore responsible, with only relatively limited external oversight by the state government, for ensuring that the compliance measures required by statute are fully implemented.<sup>21</sup>

Councils exercise their 'self-assessment' responsibilities primarily on the basis of internal audit committees, whose composition and role are stipulated by statute, and a variety of reporting of obligations, such as annual reports and quarterly budget reviews. The requirements pertaining to both are outlined in the LG Act and the financial management regulations.

In the event that an external audit reveals significant irregularities, the LG Act imposes a duty on the external auditor to prepare a report to the Minister. Section 6(a-h) of the legislation outlines a range of breaches and irregularities, including evidence of serious financial

<sup>16</sup> Aulich, et al *Consolidation in Local Government*, p. 24.

<sup>17</sup> Ian Tilley and Brian Dollery, *Historical Evolution of Local Government Amalgamation in Victoria, Tasmania and South Australia*, (Working Paper, Centre for Local Government, University of New England, 2010) p.4.

<sup>18</sup> Aulich, et al p. 25.

<sup>19</sup> Tilley and Dollery, p. 30.

<sup>20</sup> For further details see <[https://www.dpti.sa.gov.au/local\\_govt](https://www.dpti.sa.gov.au/local_govt)>.

<sup>21</sup> The relatively high degree of autonomy granted under legislation to councils in South Australia contrasts with other jurisdictions, particularly NSW, where the state government has the authority to enforce the compliance regime through investigations and ministerial orders.

impropriety, that impose a legal responsibility on the auditor to inform the Minister. This responsibility extends to irregularities that were previously brought to a council's attention, but not appropriately rectified within a reasonable timeframe (in the auditor's judgement). The Commission understands this is a relatively infrequent event.

A number of statutory officers and state bodies also exercise some degree of investigatory and oversight authority in relation to the local government sector. These powers are exercised by different statutory officers and bodies, including the Auditor-General and the Ombudsman. The Commission notes that the Auditor-General, pursuant to section 32 of the *Public Finance and Audit Act 1987*, has the authority to launch wide-ranging audits of councils, including performance audits.

The LG Act includes provisions that provide the Minister for Local Government with the authority to directly review a council's activities, and also grants the Minister the authority to "take steps to ensure reasonable standards are observed".<sup>22</sup> This review mechanism is buttressed by the Minister's authority to refer a council to the Ombudsman for investigation.<sup>23</sup>

The local government legislative framework, including the *Local Government (Financial Management) Regulations 2011*, also mandates a range of financial compliance and reporting obligations, all of which are designed to enhance councils' transparency and financial accountability.

The legislative framework, both the LG Act and the regulations, requires councils to prepare and adopt the following documents:

- strategic management plans which must include:
  - a long-term financial plan; and
  - an infrastructure and asset management plan;
- an annual business plan;
- an annual budget;
- an annual report; and
- audited financial statements.

The Local Government Association of South Australia (LGASA), provides a suite of model statements, pro forma, guidelines and other templates to assist councils to meet their statutory reporting obligations. Councils generally develop and prepare their plans and documents by using these templates, which provides a degree of consistency in the way in which information is presented. The Commission notes that the 'Model Financial Statements' and the 'Better Practice Model—Internal Financial Controls' have been adopted as mandatory in the *Local Government (Financial Management) Regulations 2011*.

### 2.3 Features of local government

There are 68 councils in South Australia, 21 councils that cover the metropolitan area, with a further 47 in regional areas (for a map of council areas, see Appendix 3). Five Aboriginal communities are also recognised as local government authorities. The Outback Communities Authority (OCA) was established on a statutory basis in 2009 to provide a range of services to

<sup>22</sup> *Local Government Act 1999*, s 271B.

<sup>23</sup> *Local Government Act 1999*, s 272.



outback communities not incorporated into councils. The OCA functions, in effect, as a hybrid between a traditional council and a self-managed community.<sup>24</sup>

The state's 68 councils encompass more than 880,000 rateable properties and are responsible for a total road network of approximately 74,000 kilometres. Councils are responsible for a comparatively small proportion of government revenue raising and expenditure. The sector manages approximately \$24 billion in community infrastructure and other assets, with operating expenditure across the sector amounting to around \$2.2 billion per annum.

Between 2008-09 and 2017-18 the total number of employees in the state's 68 councils, has increased by 7.4 per cent which represents an annual growth rate of 0.8 per cent, identical to the state-wide employment increase over the same period. As at 30<sup>th</sup> June 2018, the total number of FTE positions in the sector was 8,867.

South Australia's councils vary in geography, population size and demographic composition, ranging from larger metropolitan councils like Onkaparinga, with a resident population of around 171,000, to Orroroo Carrieton, with only around 850 residents. Regardless of their size or location, all councils have the same powers and statutory functions. In South Australia, as in other jurisdictions, councils have progressively taken a more active role in various areas of public policy, including economic development initiatives and the provision of some social services (such as aged care services).<sup>25</sup>

The LGASA which is constituted as a public authority under the LG Act with the specific purpose of promoting the interests of the sector, provides support, leadership and a range of services to the state's councils. In its legislated capacity as a peak body, the LGASA undertakes activities that range from policy formulation, including advice on councils' statutory responsibilities, to taking a leading role in the development and implementation of sector-wide initiatives.

Non-metropolitan councils have also formed regional local government associations (RLGAs). These predominantly seek better outcomes for their respective communities through collaboration. RLGAs are established with Ministerial approval, as regional subsidiaries of their member councils, under section 43 of the *Local Government Act 1999*. As a result, they may take on a greater role in promoting or managing regional collaboration or resource sharing arrangements on behalf of member councils. This may require an amendment to their charters, which would require agreement from all member councils. There appears to be no other legal impediment. The six RLGAs collectively form the South Australian Regional Organisation of Councils (SAROC). SAROC's Board comprises two members elected from each of the member RLGAs.<sup>26</sup> SAROC is mirrored on a metropolitan level by the Greater Adelaide Region Organisation of Councils (GAROC), which is made up of eight elected members from councils in the metropolitan region.<sup>27</sup>

Consistent with the principle that councils are primarily accountable to their communities (rather than the state government) the South Australian Government's local government office is one of the smallest in Australia by level of resourcing. Other state governments have a stronger oversight of councils, especially in NSW where the relationship between state and local

<sup>24</sup> For further information on the structure of, and services provided by, the Outback Communities Authority, see <<https://www.oca.sa.gov.au/home>>

<sup>25</sup> Productivity Commission, *Local Government, Shifting the Dial: 5 year Productivity Review*, Supporting Paper No. 16, (2017), p.4.

<sup>26</sup> The Commission notes that both SAROC and GAROC were established on the basis of clause 19 of the LGASA's constitution.

<sup>27</sup> Additional information on a variety of local government networks, including SAROC and GAROC, is provided on the LGASA website – <<https://www.lga.sa.gov.au/page.aspx?u=6871#e9691>>.

government is structurally different. Other states often also administer grant funding programs, typically either for infrastructure or community programs.

## 2.4 Role of the Australian Government

Councils' functions and decision making processes are also influenced by funding and policy decisions taken by the Australian Government (often as a result of agreements with the states and territories). Importantly, the drive for some key local government reforms has been national. This is particularly marked in the areas of financial assistance provided by the Australian Government and national competition policy.

### 2.4.1 Funding

In the mid-1970s, partially as a response to the expansion of local government functions throughout the preceding decade, the Australian Government began to provide direct untied funding to the local government sector. The current Financial Assistance Grants (FAGs) program is provided on the basis of grants to the states and territories, which then distribute the funds to councils.

FAGs are distributed to councils within each state to support an average level of service, irrespective of their location. The South Australian Local Government Grants Commission (SALGGC) assesses councils' share of funding on the basis of the difference in the costs associated with providing services and councils' revenue-raising capacity (compared to the average in South Australia).<sup>28</sup> Grants are only provided to councils that have been established under the LG Act or are defined as prescribed bodies for the purposes of the *South Australian Local Government Grants Commission Act 1992*. FAGs funding is untied once distributed to the local government sector.

Between 2008-09 and 2017-18 the average annual growth rate of FAG funding to councils was 2.2 per cent. Financial assistance grants declined as a proportion of the sector's overall operating expenditure from 8.5 per cent to 7.7 per cent during this period.

From time to time the Australian Government also provides specific purpose grants to councils of either a capital (e.g. GFC school grants scheme) or operating nature (e.g. Adelaide Hills Council case study, Chapter 3) to achieve its particular policy objectives. Councils are generally expected to contribute funds to these programs. Council participation in these programs has impacts on their operating expenditure.<sup>29</sup>

Evidence from submissions, including those from the LGASA and the Barossa Council indicates that grant funding can result in additional and ongoing council operating expenditure. Councils referred to the examples of the *Fund My Neighbourhood Program* (SA Government) and the *Building Better Regions Fund* (Australian Government). However, as discussed in Chapter 3 in regard to cost shifting, councils do have control over decisions to accept such funding, which may have long term effects on operating expenditure. Cost sharing is a more accurate description of this circumstance.

<sup>28</sup> For additional information on the principles and methodology that guide the distribution of FAGs funding in South Australia, see <[https://www.dpti.sa.gov.au/local\\_govt/LGGC](https://www.dpti.sa.gov.au/local_govt/LGGC)>.

<sup>29</sup> For additional information on infrastructure funding programs see <<https://investment.infrastructure.gov.au>>.

### 2.4.2 Competitive neutrality

Competitive neutrality policy (CNP) is based on the principle that significant government business activities should not enjoy, as a result of their public sector ownership, any net competitive advantages over private businesses operating in the same market. It was part of a wider reform process that resulted in the introduction of the *Competition Principles Agreement* (CPA). The principles of competitive neutrality apply to local government.<sup>30</sup>

The Premier is responsible for overseeing competitive neutrality policy, pursuant to the *Government Business Enterprises (Competition) Act 1996* (GBE Act). Complaints are initially assessed by the Department of the Premier and Cabinet, which advises the Premier on whether an investigation is required under the GBE Act. The Premier then determines whether to commence an investigation. The Competition Commissioner is responsible for conducting these investigations under the GBE Act.

Industry groups have stressed in consultations the importance of competitive neutrality policy in councils performing tasks that could be performed by private contractors.

*If councils seek to secure in-house supply of services, when such services are also offered by private civil contractors operating in a competitive market, a revised, updated and robust competitive neutrality policy ought to be applied. (Civil Contractors Federation, FR29, p.4)*

The Commission notes that a council decision to provide a service in-house, rather than engage a private sector contractor, does not contravene competitive neutrality principles. Such decisions would ideally be informed by a service review which considers the costs and benefits of alternative service delivery options.

Council submissions suggest there is a reasonable degree of awareness about competitive neutrality and the importance of considering the policy in deciding on methods of service provision. A business that competes, or seeks to compete, in a particular market may make a complaint alleging infringement of the principles of competitive neutrality. While there have less than ten competitive neutrality complaints lodged against councils in the last 20 years, this on its own, is not necessarily evidence of a high level of council compliance with the policy.

### 2.5 Local government-initiated reforms

The Commission has reviewed key past and current efficiency and cost related reforms initiated by local government in South Australia. The Commission's literature review and consultation process revealed a diverse range of reviews, evidence and reform projects that have been undertaken by councils in the last 20 years.

Local government sector reforms which aim to deliver efficiency gains and reduce costs have included changes to:

- financial circumstances, including changes to revenue and financial management practices;
- workplace and management processes; and

<sup>30</sup> Government of South Australia, *A Guide to the Implementation of Competitive Neutrality Policy*, (2010), p. 1. The principle of competitive neutrality is given legislative expression in South Australia through the *Government Business Enterprises (Competition) Act 1996* and applies to the significant business activities of publicly-owned entities whose activities include "producing goods and/or services for sale in the market place with the intention of making a profit and providing financial returns to their owners".



- number or types of functions or services performed, including collaboration between councils to support service delivery.<sup>31</sup>

The following section addresses these initiatives in more detail.

### 2.5.1 Financial management

As previously discussed, the local government reform process of the 1990s consisted of legislative changes and other structural reforms. Subsequently there was a new focus on financial management reforms.

In 2005 the LGASA established an independent Financial Review Sustainability Board (FRSB) to assess the financial capacity and sustainability of councils throughout the state. Many of the measures developed or adopted by the LGASA – and subsequently supported legislatively by the state government – flowed from the findings and recommendations of the board. The FRSB noted that at the time the balance sheets of councils appeared strong because of their low levels of debt, but the problem was the predominant pattern of deficits, and the likelihood that they would increase, as well as 'substantial infrastructure renewal/replacement backlogs'.<sup>32</sup>

The FRSB put forward 62 recommendations, a substantial number of which have since been implemented through cooperation between the LGASA and the state government.<sup>33</sup>

The LGASA's Financial Sustainability Program (FSP) produced resources to assist councils to achieve and maintain financial sustainability. This includes a discussion and then definition of the meaning of financial sustainability, based on the argument of the FRSB report.<sup>34</sup> The LGASA discussion of the concept refers to the importance of a council managing its finances in order to meet both current and future commitments. It proposes the following definition of financial sustainability:

*A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services*<sup>35</sup>

It also specifies a number of indicators of financial sustainability.<sup>36</sup>

Under the FSP, the LGASA and councils:

- prepared and updated a series of information papers;
- implemented projects to assist councils with financial and asset management reforms;
- undertook training and briefing programs to further assist councils;
- received Australian Government funding to further the financial sustainability reforms that were undertaken by South Australian councils; and
- worked with other governments on intergovernmental issues.<sup>37</sup>

<sup>31</sup> A. Goody, *Review of Current Local Government Reform in Australia and New Zealand* (Australian Centre of Excellence for Local Government, University of Technology, Sydney and Local Government Association of South Australia, 2013), p.3.

<sup>32</sup> Financial Sustainability Review Board, *Rising to the Challenge: Towards Financially Sustainable Local Government in South Australia* (2005) p.3 <[https://www.lga.sa.gov.au/webdata/resources/files/Financially\\_Sustainable\\_LG\\_-\\_Rising\\_to\\_the\\_Challenge\\_-\\_Volume\\_1\\_-\\_Final\\_Report\\_2005.pdf](https://www.lga.sa.gov.au/webdata/resources/files/Financially_Sustainable_LG_-_Rising_to_the_Challenge_-_Volume_1_-_Final_Report_2005.pdf)>.

<sup>33</sup> Australian Centre of Excellence for Local Government, 'Unfinished Business? A Decade of Inquiries into Australian Local Government', (Working Paper no.4, University of Technology Sydney, 2011) p.42.

<sup>34</sup> LGASA, *Financial Sustainability Information Paper No 1: Financial Sustainability*, (2015)

<sup>35</sup> *Ibid* p 3.

<sup>36</sup> LGASA, *Financial Sustainability Information Paper No. 9 Local Government Financial Indicators*, (2015), <<http://www.lga.sa.gov.au/webdata/resources/files/09%20-%20Financial%20Indicators%202015.pdf>>

<sup>37</sup> For additional information on the FSP, see LGASA website.

In submissions to the Commission's methodology paper, several councils<sup>38</sup> identified the FSP as an example of an efficiency monitoring program that resulted in improved financial performance. As noted by the Town of Gawler in its submission:

*With myriad financial accountability measures already in place, Local Government is the most financially accountable tier of Government. Examples of financial accountability measures include the establishment of Audit Committees, legislative financial reporting requirements, consultations on draft Budget / Business Plans, Budget / Business Plan summary provided with annual Rate notices in July, financial performance indicators (and associated performance targets) (Town of Gawler, DR21, p.13)*

While the FSRB's recommendations were largely aimed at the local government sector, the state government, working with the LGASA, introduced amendments to the LG Act to give legislative expression to some of the FSRB's recommendations. Amendments to the LG Act, which commenced in 2007, sought to enhance the accountability of councils and strengthen their financial governance, asset management, auditing arrangements and rate setting methodologies.

These improvements included requirements for councils to:

- establish audit committees;
- prepare and adopt infrastructure and asset management plans;
- prepare and adopt a long-term financial plan;
- adopt several measures to strengthen the independence of external auditors; and
- adopt a consistent and improved reporting format for annual financial statements.<sup>39</sup>

In addition, further legislative amendments, principally in the form of the *Local Government (Accountability Framework) Amendment Act 2009*, were introduced to strengthen the legislative framework for the internal and external review of councils' administration and financial management.

Since 2007 South Australia's councils must develop and adopt long-term financial and asset management plans, each covering a period of at least 10 years. The approach adopted in South Australia became a model for similar reforms in several other states.<sup>40</sup>

The LGASA submission reports the improvement in the financial performance of councils:

*The aggregate level of local government's annual operating deficit reduced steadily from 2000-01 (when expenses exceeded income by \$75 million) until 2007-08 (when the operating deficit was eliminated). Subsequently, an approximate 'break-even' operating result was recorded for five years up until 2012-13. Since then, there has been a significant improvement in the financial performance of councils, culminating in an operating surplus of \$98 million in 2017-18. A total of 56 councils recorded an operating surplus in 2017-18 compared with only 16 councils in 2000-01. (LGASA, DR15, p. 5)*

The Commission notes that while some councils are recording deficits, the sector as a whole has moved from deficit to surplus. This has been achieved through increases in revenue rather than reductions in expenditure.

<sup>38</sup> See LGASA, Playford Council and City of Charles Sturt submissions.

<sup>39</sup> Government of South Australia, *Reforming Local Government in South Australia*, Discussion Paper (2019), p.34.

<sup>40</sup> Australian Centre of Excellence in Local Government, 'Unfinished Business?', p. 14.

The Commission heard that the legislative reforms aimed at increasing financial performance are regarded by councils as having had a positive impact on the sector.

*The 2005 inquiry was the genesis of a series of financial information papers and policy templates prepared by the LGA to facilitate improved financial management practices across the local government sector. Continuation of reforms further to the 2005 inquiry are welcomed to the extent that local decision making by locally elected representation continues to be able to make tangible contributions in this critical area of local government governance. (Town of Gawler, FR27, p. 6)*

There was a consensus from councils that further improvements to the quality of financial reporting would be useful. Councils including Port Adelaide Enfield, Barossa and Marion suggested various ways for councils to do so using existing information, rather than increasing the external auditing requirements.

The LGASA proposed a local government-led local efficiency program, which would:

*capture and report on local government performance measurement data in a consistent way, enhance integration of Asset Management Plans, Long Term Financial Plans and Strategic Management Plans, be based on a maturity model - that helps councils assess their current effectiveness and identifies the capabilities that are needed in order to improve their performance. Delivery of this program will include comprehensive engagement with councils about the type of data that should be consistently reported on to be useful to informed decision making (LGASA, FR19, p. 50)*

The Commission also heard concerns from some councils about the potential administrative burden of any changes.

### 2.5.2 Resource sharing

Within the local government sector, resource sharing currently occurs in a variety of forms and at different levels of legal and administrative formality, ranging from the highly informal, such as information sharing arrangements between councils, to formal legal structures, including subsidiaries established under section 43 of the LG Act.

The Independent Inquiry into the Financial Sustainability of Local Government in NSW in 2005 recommended "that in canvassing alternative methods of delivery, councils consider further resource-sharing initiatives, especially involving the smaller councils, ranging from working together more effectively to more formalised regional groups, area integration and whole-of-sector initiatives".<sup>41</sup>

Various forms of collaboration, which broadly fit under the definition of resource sharing, have been identified as an important example of local government-initiated reform aimed at reducing service cost and improving efficiency.

The LGASA has established several entities and activities to provide services to member councils across South Australia. Examples of sector wide services that the LGASA advised have led to significant cost savings include:

- LGA Mutual Liability Scheme (LGAMLS): the LGAMLS delivered \$4.05 million in bonuses back to the sector in 2018-19, with a contribution rate lower than 10 years ago (LGASA, DR16, pg.40).

<sup>41</sup> Quoted in LGASA *Shared Services in SA Local Government*, (2012) p.2.



- LGA Workers Compensation Scheme (LGAWCS): the LGAWCS delivered \$11.8 million in performance rebates back to the sector in 2018-19. Self-insurance has delivered over \$250 million in savings to the sector since 1986. The number of new LGAWCS claims received in 2018-19 (509), was 3.4 per cent lower than in the previous financial year (LGASA, DR16, pg.40).
- LGA Procurement (LGAP), a company wholly-owned by the LGASA, undertakes procurement for member councils. This has enabled electricity cost savings via LGA's ability to aggregate the load profile and approach the market. Savings have been realised by participating councils of over \$8.2 million over three years (LGASA, DR16, p.38).

Councils also may, pursuant to section 43 of the LG Act, establish a variety of regional subsidiaries to enable more effective service delivery. This has been used to establish two different types of bodies – RLGAs that have a combined advocacy/representative focus (as well as potentially some service delivery); and bodies that focus on service delivery. The Eastern Health Authority (EHA), jointly established by five eastern and north-eastern metropolitan councils, is generally seen as a significant example of service delivery through a regional subsidiary. EHA provides a range of health services to the community, by means of a shared services model in which one entity provides services on behalf of the constituent councils. While subsidiaries have been established for various purposes, the Commission understands waste management remains a common area in which councils have used such arrangements.

The Commission's Local Government Reference Group noted that there has been an increase in the use of resource sharing. It also noted, that there is comparatively little data on resource sharing initiatives, making it difficult to assess their impact on council performance. In addition, resource sharing schemes, such as shared services arrangements, can be complicated to arrange and manage effectively, cost savings are not always realised and the resulting services can become more expensive.<sup>42</sup>

Despite these qualifications, the Commission has also received information on resource sharing initiatives that have produced savings:

*City of Salisbury is a major constituent council of the Northern Adelaide Waste Management Authority who are widely recognised for the great work they do in managing waste and reducing costs for the member councils. (City of Salisbury, DR6, p.2)*

*Town of Gawler has had arrangements with neighbouring councils to share a range of services and provide assistance. Such arrangements drives efficiencies for the Councils involved. Such areas of service provision include IT and HR resources, Library Services, Health, Animal Management etc., which has provided greater capacity, efficiencies and provided professional development for staff. (Town of Gawler, FR2, p.8)*

Many councils also participate in other localised arrangements based on a common interest such as:

- sharing information about activities or services between councils;
- common specifications used by multiple councils for procurement of a service; and
- sharing of resources such as specialist staff and equipment.

A number of councils including Alexandrina, District Council of Streaky Bay and the Town of Gawler put the view that resource sharing drives efficiencies and should be pursued. The City of Playford suggested that there are potential opportunities for resource sharing in legal

<sup>42</sup> Minutes of Local Government Reference Group, 31 July 2019.

services, industrial relations and taxation advisory services, recruitment service provision and pooled bulk purchasing.

The common drivers for considering collaboration between councils identified by the Commission can be summarised as:

- cost savings, efficiencies in service delivery, affordability, economies of scale, helping to improve financial sustainability and reduced duplication of effort and resources;
- increased capacity and value for money, capacity to provide additional services, and capacity to address gaps not otherwise provided for by the market; and
- better risk management due to sharing of risks and improved ability to comply with legislation due to increased capacity and resources.

The Commission's literature review also identified common difficulties and challenges faced by councils in instigating and undertaking resource sharing arrangements.

For example, in its 2017–18 performance audit of shared services, the Audit Office of NSW found that most NSW councils surveyed were not efficiently and effectively sharing services:

*councils don't always assess current service performance before deciding on the best delivery model and build a business case to outline the costs, benefits and risks of a proposed shared service arrangement before entering it.*<sup>43</sup>

The LGASA considered case studies of local government shared services in South Australia:

*one of the key lessons from its analysis is that quantifying the cost efficiencies and the measurement of outcomes provided by certain shared services remains a challenging task.*<sup>44</sup>

The Commission's literature review also identified issues of commitment, lack of equity across councils, low quality of business cases and aspects of governance models among the challenges to collaboration that councils face.

During consultations, the Commission heard that the key impediments to resource sharing/collaborative arrangements include differences in priorities, IT systems, HR policies, work practices, enterprise bargaining arrangements, geographical distance, the additional administrative overhead, the risk of not being able to maintain the levels of service and investment required, size of councils and mutual benefit or return on investment between participating councils.

*in smaller councils' resource sharing doesn't work particularly well with plant and/or equipment due to less equipment available, training in the use of the equipment and inconvenience due to larger road networks. (Regional Council of Goyder, FR21, p.5)*

Several councils have established subsidiaries under section 42 (which provides for a single council subsidiary) and 43 of the LG Act. Councils had varying views on the effectiveness of this provision in the Act. A number of councils including City of Holdfast Bay and City of Playford put the view that the approach is effective and can create greater service outcomes and cost efficiencies.

<sup>43</sup> Audit Office of New South Wales, *Shared Services in Local Government (2018)* <<https://www.audit.nsw.gov.au/our-work/reports/shared-services-in-local-government>>.

<sup>44</sup> South Australian Centre for Economic Studies, *Case Studies in Local Government Shared Services in South Australia*, (2017) p.1.

*Playford is one of the constituent councils in Northern Adelaide Waste Management Authority (NAWMA). This proves the concept that a section 42 [sic] based entity can create greater service outcomes and efficiencies. (City of Playford, FR7, p.5)*

On the other hand, the Barossa Council stated that the provision does not assist with efficiencies and, results in duplication of systems, especially s42 committees:

*The provisions do not assist with efficiencies and in reality result in duplication of systems especially S42 committees who have to replicate or seek support from the parent entity for everything from financial, risk, works, procurement and other day to day activities. Regionally there is also a diminishing interest in membership of Boards which are established as voluntary, due to the legislative burden, ultimately diminishing the pool of required skills to manage matters entrusted to formal S42 and 43 committees. (The Barossa Council, FR25 p.10)*

The City of Marion stated:

*To date we have established a number of collaborative services across councils without establishing a Subsidiary. The Materials Recovery Facility projects will require establishment of Regional Subsidiaries and in time a Regional Subsidiary may be a more pragmatic and sensible approach to facilitation of services across multiple councils.*

*To this end, simplification in the process to establish a subsidiary including removing the need for ministerial approval and the ability of the subsidiary to be able to support more than one mandatory or regulated service would improve the ability for councils to more effectively use Regional Subsidiaries. (City of Marion, FR5 p. 18)*

The Commission notes that there is a range of alternative contractual arrangements which councils can employ to underpin resource sharing, ranging from an exchange of letters between CEOs to a section 43 subsidiary, and observes that it is up to councils to choose an approach that is fit for purpose.

### **2.5.3 Workplace and management initiatives**

#### ***Access to skilled labour***

Training and upskilling can lift labour productivity and the efficiency of local councils. The literature suggests there is considerable variation in the workforce capabilities of councils.<sup>45</sup>

A number of councils advised in their submissions that they face workforce challenges such as:

- not enough apprentices to meet future needs;
- skills shortages in key professional and technical occupations;
- ability to meet new and emerging skills; and
- an ageing workforce.<sup>46</sup>

A 2018 national review, commissioned by the Local Government Workforce Development Group (LGWDG) for the Australian Local Government Association (ALGA), based on ABS data and a skills shortage survey completed by councils, identified that:

<sup>45</sup> Productivity Commission, *Shifting the Dial*, (2017) p.13.

<sup>46</sup> Local Government, *An Ageing Workforce. Are We prepared?* Emerging Leaders Program Project, South Australia, p.2



*Local government professionals across Australia are facing a major skills shortage across key occupations and are not well positioned in new and emerging skills.<sup>47</sup>*

Staff training was found to be lacking, with almost one third of councils reporting having unmet training needs as a result of the high cost and lack of availability of training.<sup>48</sup> Councils that participated in the survey identified a lack of qualified individuals locally, remoteness of some councils, inability of councils to compete with the private sector, and lack of opportunity for career progression as among the forces driving the skills shortage.<sup>49</sup>

The LGASA identified in its submission that 45 per cent of councils have identified some skill gaps, 29 per cent of councils have unmet training needs and 53 per cent of council employees are aged over 45 years compared to 44 per cent for all South Australian industry (57 per cent of the council outdoor workforce is aged over 45 years).

The Commission heard from several councils of difficulties in recruitment and retention of skilled labour and perceived deficiencies in education and training systems which may have exacerbated council labour cost pressures. Staff recruitment and retention was identified as an important issue by rural councils.

*Councils have problems in attracting and retaining employees with the following specific skills: Planning, Building and Civil Engineers, Accountants, HSW and HR professionals (to develop systems rather than process), Works Technical Staff, Environmental Health (currently contracted to the same person across some Councils while others run a shared services model) Community Development and Tourism and Events. (District Council of Robe, FR14, p.4)*

Some, where possible, have responded by sharing professional and technical staff between councils, providing a means for attracting locally based resources in rural areas.

The Commission notes that some specific skill shortage areas, such as surveyors, planners and business analysts are also experienced by other employers. Competition from the private sector also affects local government's ability to recruit. These issues are not specific to local government.

Employers, including those in local government, often express concern about skill shortages. The LGASA offers specific training programs to local government sector employees in South Australia.<sup>50</sup> The LGASA provides a limited range of support services to their members through "LGA Education and Training" and has produced the South Australian local government workforce manual (as part of the LGA's Workforce Planning Project, 2012). The South Australian Government has delivered initiatives aimed at upskilling the workforce, including the Regional Youth Traineeship Program (RYTP) and the Training and Skills Commission (TASC) Skills for Future Jobs 2020 initiative (2017). Australian Government initiatives include training scholarships for vocational education in regional areas experiencing high youth unemployment.

Labour market analysis is carried out by a number of state and national bodies and used to inform policy and decisions by education and training providers. The TASC's independent modelling is informed by Industry Skills Councils (which includes local government

<sup>47</sup> For further details on the Local Government Workforce and Future Skills Report see G Clark, "Councils Face Major Skills Shortages, National Review Finds", Government news, 17 December 2018

<<https://www.governmentnews.com.au/councils-face-major-skills-shortages-national-review-finds/>>.

<sup>48</sup> *Ibid.*

<sup>49</sup> For further details, see Australian Local Government Association, *Local Government Workforce and Future Skills Report Australia*, (2018) p. 72

<sup>50</sup> For more details, see <<http://training.lga.sa.gov.au/>>.

representation) to strengthen industry's voice in skills and workforce development, and to ensure that funding for skills and training is directly aligned to industry priorities.<sup>51</sup>

A significant number of council submissions indicated support for cooperative approaches by councils to address skills issues:

*The ability to grow and develop skill sets in house is invaluable and the only way small and rural councils will be able to achieve this in practicality is in partnership with others in their region and with their larger brothers and sisters in urban and peri-urban areas. This may be an area of opportunity for the LGA to explore as they move toward workforce assistance programs with Councils. (District Council of Streaky Bay, FR15, p.4)*

Submissions also indicated significant interest in a sector wide approach to workforce planning and development:

*councils will predominately look to upskill employees to address emerging skills gaps and the greatest barrier to this is the availability of training. This supports the suggestion that there is value in a sector-wide or region-wide approach particularly around the development of specific skills to support councils (LGASA, FR19, p.57)*

*There is value in a sector-wide or region-wide approach to workforce planning to identify current and emerging gaps. For example: considerable progress has been made on joint planning initiatives, forming strategic partnerships with UniSA and other training providers, and in sharing resources across multiple Councils. (District Council of Robe, FR14, p.4)*

The lack of regular collection of workforce data on a sectoral basis constrains workforce planning and the monitoring of progress in implementing such plans. The Commission observes that there may be value in councils working with the SALGGC to establish a consolidated local government information base on the current sector workforce and emerging skill requirements to inform such planning. The Commission notes that the labour market issues are generally more acute in rural areas, and also in some skills sets, adding to the value of planning.

### **Industrial relations**

A number of councils have suggested that the current industrial relations environment in which local government operates, with every council negotiating separate enterprise bargaining agreements (EBAs), is an area of the sector's operations that is in need of reform. The Commission notes that no significant reforms to the industrial relations framework have been undertaken over the last decade, but submissions to the draft report suggest that the aspects of the framework, particularly in relation to EBAs, would benefit from limited reform.

The City of Marion, for instance, has suggested that a shift to sector-wide bargaining would introduce a number of interrelated benefits into the system, including reducing transaction costs; reducing the pressure on councils to match the salaries paid by the highest paying councils; enhancing mobility in the sector; and providing greater opportunities to align workforce and organisational objectives.

The LGASA has also observed that there are potential benefits to reforming the current industrial relations arrangements, arguing that its own research strongly suggests that an industry-wide framework has the potential to enable a "culture of meaningful, open and respectful engagement between employees, management and unions" (LGASA, FR19, p.85).

The Commission notes the local government's industrial relations framework is wholly structured by state legislation. In South Australia, the national industrial relations system only

<sup>51</sup> For more details, see <<http://www.tasc.sa.gov.au/TaSC-2020-Series/Skills-for-Future-Jobs-2020>>.

applies to employment in the private sector (including universities and NGOs), pursuant to the *Fair Work Act 2009* (Cth). The South Australian public sector, which includes local government, operates under the *Fair Work Act 1994* (SA).

All public sector enterprise bargaining agreements are lodged with the South Australian Employment Tribunal, which exercises jurisdiction over a range of employment matters relating to the state public sector, including local government, pursuant to its own enabling legislation, the *South Australian Employment Tribunal Act 2014* (SA).

At present, while the local government sector falls under the state's industrial relations legislation, every councils' chief executive officer is responsible for "appointing, managing, suspending and dismissing the other employees of the council", pursuant to section 103 of the LG Act.<sup>52</sup> Chief Executives are also responsible for ensuring that all employment decisions are consistent with the strategic policies and budgets approved by the council, while also being accountable for complying fully with the requirements of any industry award, enterprise bargaining agreement (EBA) or other relevant Act.

### **Procurement**

In 2012 the LGASA undertook a series of reforms in the area of procurement, as part of the *Year of Procurement* (Network of Procurement Professionals, FR20, pg.1). The *Year of Procurement* acknowledged the importance of procurement to council operations and the importance of a sector wide approach to improving procurement practices. As part of this the LGASA established LGA Procurement (LGAP) as a separate business to assist councils improve their procurement practices. LGAP, as part of this role, helps councils by undertaking tenders on behalf of councils, providing a procurement handbook and suite of template documents for councils to use and providing a range of procurement support services to councils including training, consultancy services and facilitating exchange of knowledge (LGAP, FR17, pg.4).

### **Other management issues**

With respect to management matters more generally, the LGASA released a discussion paper, 'Sensible Change', in 2017 on further reform ideas and options. As noted in its submission to the methodology paper, the LGASA's proposed reforms concentrate on several areas of local government operations that can be strengthened without the need for legislative intervention. Reforms listed in the LGASA paper that offer potential for efficiency improvement or potential cost savings include:

- an industry-wide industrial relations framework
- a sector wide benchmarking program;
- best practice audit committees;
- standardising external audits; and
- best practice service reviews.

The South Australian local government sector's ongoing interest in continuous improvement is demonstrated by the number of formal and informal network groups operating across councils in South Australia for council staff to share knowledge, lessons learned and best practice. Many of these groups are supported by either the LGASA or Local Government Professionals Australia SA. Currently, network groups are operating in the areas of finance, rates, volunteer management, continuous improvement, communications and marketing, risk, authorised persons/officers, public and environmental health, human resources, grant management,

<sup>52</sup> *Local Government Act 1999*, s 103(1).



suggest that councils' financial and asset management performance has undergone a noticeable improvement.<sup>57</sup>

The Commission notes that the Tasmanian Government, is also currently developing the Local Government Data, Analysis, Transparency, Accountability (LG DATA) project. The initiative aims to enhance transparency in the way that local government performance is reported and provide councils with a tool to identify opportunities for performance enhancement.<sup>58</sup>

## 2.7 Conclusion

The Commission has been asked to consider recent reforms in South Australia and other jurisdictions to policy and management practices in the local government sector and their potential to improve council performance.

The move away from prescribing specific functions to broadening the discretionary power of councils to perform a range of functions in SA has been mirrored in other jurisdictions. The LG Act, in common with local government legislation in other jurisdictions, defines councils' functions and powers broadly, which has enabled councils to undertake a significant number of non-mandatory functions. However, the South Australian local government sector has arguably a greater level of autonomy than other jurisdictions, with the South Australian Government taking a less prescriptive approach.

Additional research and consultation with councils and other stakeholders has revealed a diverse range of reviews and reform projects that have been undertaken by councils. The Commission has noted some evidence linking these changes or reforms to improvements in council performance.

The literature suggests that sector-wide improvement or reform is more likely to be fully implemented if it is mandated by state governments.<sup>59</sup> For example, financial management reforms while initiated by the local government sector, were subsequently incorporated into the LG Act, have strengthened the sector's financial performance.

The Commission's assessment of the evidence suggests that few significant management or work practice reforms have been undertaken in recent years by the sector.

The Commission's assessment of the industrial relations environment in which councils operate, along with councils' submissions to the draft report, suggests that the current framework, which is wholly structured by state legislation, is also an area that would benefit from reform to enable enterprise bargaining agreements between clusters of councils and their employees.

Councils also participate in a large number of collaborative resource sharing arrangements, ranging from relatively informal arrangements to formal legal structures, with varying degrees of success. Again, while councils have argued that such collaborations yield efficiencies and other benefits, it is difficult to quantify the cost or efficiency impacts of these initiatives.

<sup>57</sup> *Ibid*, p. 36. In addition, see Tasmanian Audit Office, *Auditor-General's Report on the Financial Statements of State Entities: Local Government Authorities 2017-18*, (2018) <<https://www.audit.tas.gov.au/publication/local-government-authorities-2017-18/>>.

<sup>58</sup> For additional information, see Tasmanian Local Government Division, Department of the Premier and Cabinet: Measuring Tasmanian Local Government Performance <[http://www.dpac.tas.gov.au/divisions/local\\_government/measuring\\_tasmanian\\_local\\_government\\_performance](http://www.dpac.tas.gov.au/divisions/local_government/measuring_tasmanian_local_government_performance)>.

<sup>59</sup> Australian Centre of Excellence for Local Government, 'Unfinished Business?' p.39.

### 3. Local government costs

#### 3.1 Introduction

The inquiry's terms of reference require the Commission to address the following matters regarding local government costs and efficiency.

- Analysis of the information on local government costs and the key drivers of costs including:
- identify trends in local government activities and costs of local government operations; and
  - identify the drivers of local government costs and assess their impacts.<sup>1</sup>

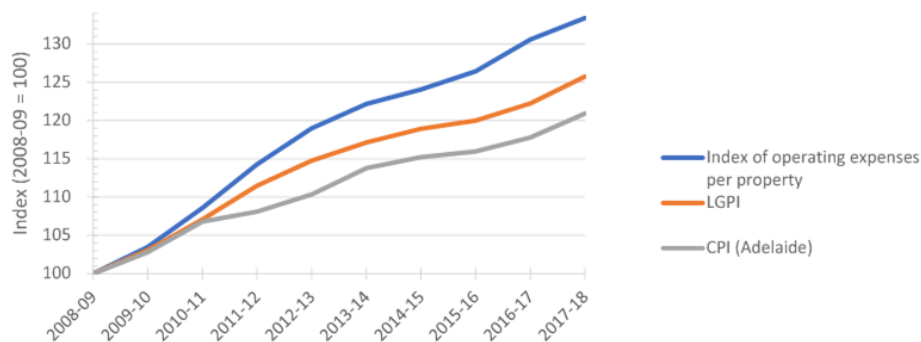
Between 2008-09 and 2017-18, total operating expenditure of all South Australian councils increased from \$1.6 billion to \$2.2 billion at an average annual rate of 4.2 per cent. Adjusting for the change in the number of properties over time, the average annual increase in operating expenditure was 3.3 per cent per annum per property.

In comparison, the two measures of price inflation used by councils — movements in the consumer price index (CPI) and the local government price index (LGPI) — increased by an annual average of 2.1 per cent and 2.6 per cent, respectively over the same time period (refer to Figure 3.1).<sup>2</sup>

The average annual growth of expenditure per property in real terms was therefore in the range of 0.7-1.2 per cent, or an accumulated increase of 6.5-11 per cent from 2008-09 to 2017-18.

This chapter examines trends and changes in council operating expenditure and explanations for these changes. To understand the cost drivers, the Commission examined councils' costs for the period from 2008-09 to 2017-18 on both a resource (or input) basis and a function or service (output) basis.

*Figure 3.1: Index of the change in operating expenditure per property across all councils and price indices*



Source: SALGGC (2017b), ABS (2019), SACES (2019).

<sup>1</sup> For the complete Terms of Reference see pp.4-6.

<sup>2</sup> Inflation as measured by the Australian Bureau of Statistics' Consumer Price Index for Adelaide and the South Australian Centre for Economic Studies' (SACES) Local Government Price Index (LGPI). Information on the construction of the LGPI may be accessed at: <<https://www.adelaide.edu.au/saces/economy/lgpi/>>.

## 3.2 Data sources and council groupings

### 3.2.1 Data sources

The Commission has drawn upon a range of data sources. It thanks the South Australian Local Government Grants Commission (SALGGC) for providing information from councils' annual returns, supplementary surveys and general information returns.<sup>3</sup> The Local Government Association of South Australia (LGASA) provided information and data collated from its member councils. Several councils provided additional information in the two rounds of submissions that has assisted in understanding underlying trends.

The SALGGC provided a database of information and cost data covering the 10-year period from 2008-09 to 2017-18 for all 68 councils. This database included the following indicators:

- general and statistical information;
- operating income;
- operating expenditure;
- physical asset and associated capital expenditure;
- statutory accounting statement of financial position and net financial liabilities; and
- financial ratios.

All councils in South Australia must prepare annual financial statements in accordance with the "Model Financial Statements" as published by the LGA.<sup>4</sup> These statements include guidance on the allocation of costs to activities.

The financial information submitted by councils and collected by the SALGGC is based on these model financial statements. The SALGGC reports the consolidated information collected from councils on their website.<sup>5</sup> The SALGGC notes:

...these reports may include differences from council financial statements and amounts shown in supplementary returns as to enhance data consistency and comparability.<sup>6</sup>

The inquiry has relied on the information contained in these database reports.

### 3.2.2 Council groupings

The Commission used the Australian Classification of Local Governments (ACLG) scheme as detailed in Appendix 6, to group councils to enable meaningful comparisons and conclusions to be drawn.<sup>7</sup>

The Commission used this scheme to assign each council into one of four groups depending on location and population, broadly as follows:

- Urban:
  - Urban – metropolitan and fringe — which includes the capital city, developed (suburban) and fringe (suburban) metropolitan councils; and

<sup>3</sup> Refer to Appendix 5 for an outline of the extent of the information provided by SALGGC.

<sup>4</sup> Refer to the *Local Government Act 1999* (s. 127) and *Local Government (Financial Management) Regulations 2011*, reg 4(3), 13.

<sup>5</sup> The database reports are available from <[https://www.dpti.sa.gov.au/local\\_govt/LGGC](https://www.dpti.sa.gov.au/local_govt/LGGC)>.

<sup>6</sup> SALGGC, *SA Local Government Grants Commission Database Reports 2017-18*, p1. This report can be accessed at: <[https://www.dpti.sa.gov.au/data/assets/pdf\\_file/0003/564177/Database\\_Reports\\_2017-18.pdf](https://www.dpti.sa.gov.au/data/assets/pdf_file/0003/564177/Database_Reports_2017-18.pdf)>.

<sup>7</sup> As outlined in Appendix 6, the ACLG scheme is based on a three-step hierarchy. Each step allocates a prefix made up of three letters to produce a unique identifier for each type of local government area. The system's full classification structure contains 22 separate categories. By way of example, a medium-sized (populated) council in a rural agricultural area would be classified as RAM – Rural, Agricultural, Medium.



- Urban – regional — non-metropolitan councils with urban centres in regional areas.
- Rural:
  - Rural agricultural – large and very large populated councils in rural or agricultural areas; and

Rural agricultural – small and medium populated councils. Table 3.1 shows the differences between the four council groupings.

Table 3.1: Selected statistics by urban and rural type 2017-18

Indicator	Council group	All urban councils	All rural councils	State-wide total	Urban-metro & fringe	Urban-regional	Rural-small and medium	Rural-large and very large
Number of councils		30	38	<b>68</b>	21	9	20	18
Area	Total (square kilometres)	10,600	146,230	<b>156,830</b>	5,139	5,461	82,780	63,450
	Average per council	353	3,848	<b>2,306</b>	245	607	4,139	3,525
Population	Total	1,506,515	223,765	<b>1,730,280</b>	1,350,028	156,487	45,342	178,423
	Average per council	50,217	5,889	<b>25,445</b>	64,287	17,387	2,267	9,912
Employees	Total (FTE)	7,029	1,838	<b>8,867</b>	6,036	993	546	1,292
	Average per council	234	48	<b>130</b>	287	110	27	72
Sealed roads	Total (km)	10,768	8,031	<b>18,799</b>	8,813	1,955	2,030	6,001
	Average per council	359	211	<b>276</b>	420	217	101	333
Unsealed roads	Total (km)	3,945	52,249	<b>56,194</b>	2,192	1,753	27,152	25,097
	Average per council	132	1,375	<b>826</b>	104	195	1,358	1,394
Roads (including laneways)	Total (km)	14,873	60,307	<b>75,180</b>	11,091	3,782	29,184	31,123
	Average per council	496	1,587	<b>1,106</b>	528	420	1,459	1,729
Number of properties	Total	716,175	190,258	<b>906,433</b>	630,838	85,337	51,744	138,514
	Average per council	23,873	5,007	<b>13,330</b>	30,040	9,482	2,587	7,695
Capital value of properties	Total (\$billion) at 1 Jan-19	\$337.9	\$58.6	<b>\$396.5</b>	\$313.3	\$24.5	\$14.5	\$44.1
	Average per property (\$'000)	\$471.8	\$308.0	<b>\$437.4</b>	\$496.7	\$287.5	\$280.0	\$318.5

Source: SALGGC (2019), Valuer-General (2019)

Expenditure by council varies according to a range of factors including population, area, properties and road length.<sup>8</sup> Accordingly, where appropriate, the Commission has also undertaken analyses using the following classifications:

- urban metropolitan and fringe councils were classified to reflect their level of development — suburban (otherwise referred to as developed) or fringe (or developing), and
- rural councils were classified to reflect similar regional areas or geographies,<sup>9</sup> such as:
  - Eyre Peninsula;
  - Legatus Group<sup>10</sup> of councils (includes various Yorke Peninsula, mid-north and other similar regional councils);
  - Limestone Coast;
  - Murraylands and Riverlands; and
  - Southern and Hills.

Submissions provided broad support for the use of the ACLG scheme; for example, the Town of Gawler:

As acknowledged in the Paper, it is inherently difficult to compare Councils, given each Council has distinct and diverse characteristics. Utilisation of the ACLG is deemed appropriate. (Town of Gawler, DR21, p.1)

In contrast, the City of Playford's submission raised the following concern:

The issue with the ACLG grouping is some Councils can be considered in multiple groupings given their diversity. Therefore, groupings are not relevant for all services. (City of Playford, DR18, p.1)

The Commission notes these concerns. Its analysis focused on the underlying drivers of costs and not on making comparisons between individual councils.

### 3.3 Analysis of operating expenditure by resource type

This section discusses the issues that the Commission and various submissions have put forward as drivers of council costs. It examines expenditure by the type of resources, or inputs, employed — these comprise employee costs, materials and contracts costs, depreciation charges and finance costs.

#### 3.3.1 Total operating expenditure

As noted, total operating expenditure by councils has grown more rapidly than inflation between 2008-09 and 2017-18.

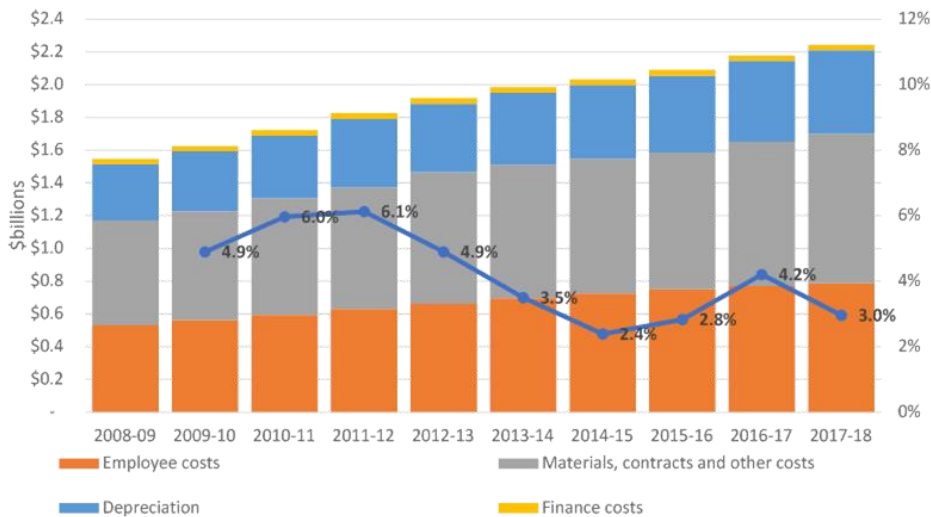
<sup>8</sup> The properties data used in the analysis throughout the report is sourced from the SA Valuer-General and includes both rated and unrated properties to ensure a consistent and reliable time series. The time series data provided by the SALGGC was found to be inconsistent and unreliable primarily due to a change in the data collection and classification systems that were implemented in 2015. A detailed discussion on this matter is provided in Economic Insights, *Efficiency and Productivity Analysis of Local Government in South Australia*, Report prepared for the South Australian Productivity Commission, July (2019), p.9.

<sup>9</sup> The regional classifications used reflect the regional local government associations to which the councils themselves belong.

<sup>10</sup> The Legatus Group is the trading name of the Central Local Government Region established under the LG Act. It is a collection of councils from the Yorke Peninsula, mid-north and other nearby areas (refer to Appendix 6).

Figure 3.2 illustrates the level of cost components of total operating expenditure and the rate of change in total annual costs from the previous year.

Figure 3.2: Total operating expenditure by input (\$billion) and total annual change (per cent)



Source: SALGGC (2019)

Figure 3.2 shows that the annual growth in operating costs between 2008-09 and 2012-13 ranged between 4.9 per cent and 6.1 per cent, falling to 2.4 per cent in 2014-15. The rate of change was 3 per cent in 2017-18.

Table 3.2 compares the average annual increases in total operating expenditure for all council groups over three different time periods. It shows that growth in operating costs for the urban metropolitan and fringe group of councils was highest over the decade to 2017-18, and remains high, whereas for the urban regional group expenditure slowed (and fell in 2017-18). In addition, the rate of growth in operating expenditure of the rural small and medium group was the smallest among the council groups over the decade and the past seven years.

Table 3.2: Average annual increase in total operating expenditure by council group (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
<b>Urban - metro &amp; fringe</b>	4.3	3.7	4.0
<b>Urban - regional</b>	4.0	3.0	-0.1
<b>Rural - small &amp; medium</b>	3.3	2.2	0.5
<b>Rural - large &amp; very large</b>	4.3	3.3	2.0
<b>All groups</b>	<b>4.2</b>	<b>3.5</b>	<b>3.0</b>

Source: SALGGC (2019)



The two urban and rural council groups experienced similar annual average increases over the 10 years (4.2 per cent and 4.0 per cent per annum, respectively).<sup>11</sup> The capital city and urban fringe councils experienced average annual growth increases of 5.8 per cent and 5.1 per cent, respectively.

The greatest average annual growth in total operating expenditure among the rural councils was experienced by the rural councils of the Murraylands and Riverlands (4.9 per cent).

Figure 3 shows that overall spending in nominal terms increased by approximately 45 per cent (or \$693 million) over the ten years to 2017-18 and that the relative proportions of the individual components have changed little in that time. In 2017-18, the major components of councils' expenditure were:

- materials, contracts and other costs (\$912 million or 41 per cent of total operating expenditure);
- employee costs (\$789 million or 35 per cent); and
- depreciation charges (\$511 million or 23 per cent).

Finance costs represented only 1.4 per cent (or \$31 million) of total operating expenditure in 2017-18. The only other operating charge reported by councils is the loss incurred on their ownership in joint ventures and other businesses.<sup>12</sup>

Each of these cost components is discussed in the following sections.

### 3.3.2 Materials, contracts and other costs

Materials, contracts and other costs is the most substantial category of expenditure for councils, making up approximately 41 per cent of total operating expenditure and, in 2017-18, expenditure in this area reached \$912 million.<sup>13</sup> The average rate of increase for materials and contract expenditure, over the last 10 years, was 4.0 per cent annually and this was similar across both urban and rural councils. The LGPI increased by an average of 2.6 per cent annually and, assuming this represents the changes in materials prices, the real increase or the volume growth of materials (and other costs) spending is approximately 1.4 per cent annually.

Figure 3.3 shows the total operating expenditure by group as well as the annual rate of change in the overall materials and contracts cost.

Urban metropolitan and fringe councils represent 67 per cent of materials and contract costs in 2017-18 and, in comparison:

- large and very large rural councils represent 13 per cent;
- small and medium rural councils represent 12 per cent; and
- urban regional councils represent less than 6 per cent.

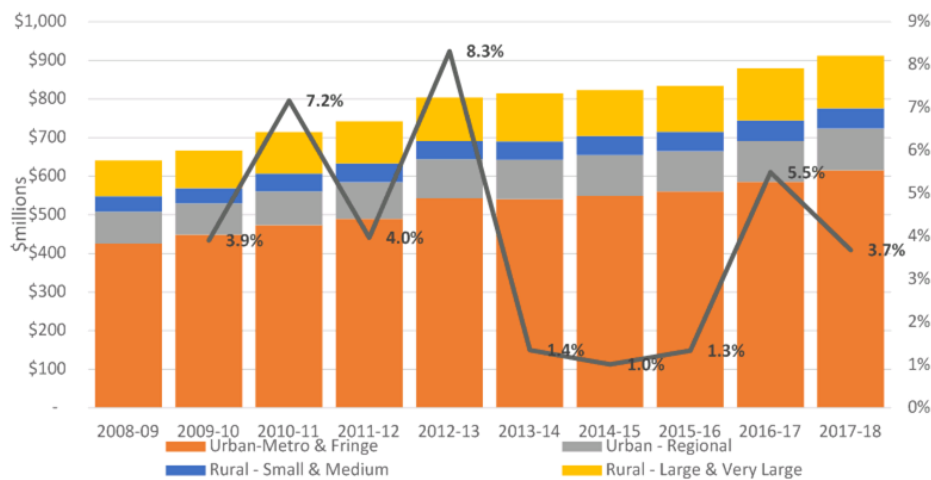
These relative proportions have changed negligibly over time as shown in Figure 3.3.

<sup>11</sup> Similarly, over the last seven years since 2011-12, the average annual rate of increase in total costs has been higher for urban councils, at 3.6 per cent, compared to 3.0 per cent for rural councils.

<sup>12</sup> In 2017-18, this item represented approximately 0.1 per cent of total operating expenditure (or less than \$1.5 million) and is not separately examined. The corresponding profit on these ventures is reported as income in the revenue section of the income statement.

<sup>13</sup> The materials, contracts and other category includes expenditure on a range of items including consultants, contractors, energy, water, waste services, maintenance, legal, levies to state government, advertising, catering, cleaning, communications, entertainment, various project related costs, sponsorships, subscriptions, insurance, security, information technology and other items.

*Figure 3.3: Materials, contracts and other expenditure in total and by group (\$million) and total annual change (per cent)*



Source: SALGGC (2019)

Despite the similar increase in expenditure across both urban and rural councils over the last 10 years, Table 3.3 shows that there are significant differences in the rate of increase in materials costs across the various council groupings:

- the urban metropolitan and fringe council group costs increased by 4.2 per cent per annum on average over the past 10 years. There has been a slight downward trend in the rate of increase (3.9 per cent) over the last seven years but 2017-18 recorded an increase of 5.1 per cent.
- the urban regional group costs increased by 3.0 per cent per annum on average over the 10 years and are moderating — in 2017-18 the increase was 1.8 per cent;
- rural small and medium council group costs increased by 3.1 per cent per annum on average and in 2017-18 costs fell by 1.2 per cent (it is noted that in 2016-17 there was an increase in costs of 7.8 per cent); and
- rural large and very large group costs grew by 4.4 per cent per annum and appear to be falling below the long-term average. In 2016-17, there was an increase of over 13 per cent.

*Table 3.3: Average annual increase in materials, contracts and other costs by council group (per cent)*

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
<b>Urban - metro &amp; fringe</b>	4.2	3.9	5.1
<b>Urban - regional</b>	3.0	2.2	1.8
<b>Rural - small &amp; medium</b>	3.1	1.5	-1.2
<b>Rural - large &amp; very large</b>	4.4	3.7	0.8
<b>All groups</b>	<b>4.0</b>	<b>3.5</b>	<b>3.7</b>

Source: SALGGC (2019)

The City of Adelaide experienced a 6.4 per cent average annual increase over the 10-year period. In contrast, the metropolitan and fringe councils, experienced average increases of 3.5 per cent and 4.5 per cent per annum, respectively.

In the other regions, the largest average annual increases over the 10 years to 2017-18 related to:

- the rural councils of the Murraylands and Riverlands regions which experienced an average increase of 6.7 per cent;
- the rural councils of the Southern and Hills regions: 5.4 per cent; and
- the metropolitan fringe councils: 4.5 per cent.

The increases in the metropolitan fringe and southern and hills councils may be in part due to the growth in population and the demand for greater services in these areas. In contrast, the rural councils of the Murraylands and Riverlands experienced an overall decline in numbers over the last 10 years — although there has been an increase in population in the last two years.

A significant proportion of materials, contracts and other expenditure is likely to have been subject to a procurement process. Data limitations prevent the Commission from estimating the size of that share.

Councils are required under part four of the *Local Government Act 1999* to develop and maintain procurement policies, practices and procedures directed towards:

- obtaining value in the expenditure of public money;
- providing for ethical and fair treatment of participants; and
- ensuring probity, accountability and transparency in procurement operations.

A council is able to set its own policy, and to amend it at any time (but not so as to affect any process that has already commenced).

Many councils also incorporate a 'buy local' provision into their procurement policy, which gives a weighting to local companies in tendering. This is likely to increase the direct cost of procurement. Councils stated that there are benefits to the local community from these policies, but it is not clear to what extent they outweigh the increased costs of procurement.

*Alexandrina Council's procurement policy has in recent years allowed for a 15% price weighting for local suppliers. While this is sustainable on smaller value contracts, for larger value contracts this can come at considerable additional cost to Council. (Alexandrina Council, FR2, p.5)*

The Commission considers the increased costs of procurement, and the burden on the rest of the community, should be assessed and made transparent in the application of this policy.

The LGASA has established a subsidiary called LGA Procurement (LGAP) to provide procurement services. This includes advice on the management of procurement. As part of the Year of Procurement in 2012, LGAP published a suite of model documents, covering contracts and policies and a related procurement handbook to assist councils in improving their procurement processes. Many, but not all, councils use these model documents as the basis for their procurement.

Councils can also outsource their procurement processes to LGAP while paying a commission for the service. LGAP estimates \$10m in savings to councils in 2018-19, through negotiated pricing and red tape reduction (LGAP, FR17, pg5). The Commission identified several other examples of councils collaborating to obtain greater value through procurement, such as the Barossa Regional Procurement Group.



During consultation, the Commission heard that the capacities and skills in conducting procurement vary among (and within) councils. Councils suggested that common challenges not in their control with respect to procurement across the sector include:

- attracting and retaining qualified or experienced procurement and contract management staff; and
- thin markets in which to find suppliers.

Other issues within their control include:

- excessive red-tape requirements on contractors and suppliers;
- complicated tender documents; and
- poor contract management.

Council procurement processes are conducted in a commercial environment that can expose councils to high levels of risk. These risks include not achieving the best possible outcomes in terms of price, issues with the nature of the goods purchased (e.g. not fit for purpose), the failure to achieve appropriate service levels or not achieving procurement outcomes which are accountable and transparent. A high degree of risk aversion, or lesser capacity to manage these risks, can lead to high levels of red tape and other issues just noted, as well as over-specification of outputs of the process and lack of innovation.

These issues are likely to be relevant sector-wide but exacerbated in rural areas where attracting staff and thin markets are particularly problematic. Higher transportation costs and a desire to support local suppliers, even if cheaper alternatives are available, add further to procurement costs in rural areas.

### 3.3.3 Employee costs

Employee costs is the next most substantial expenditure for councils representing approximately 35 per cent (or \$789 million) of total operating expenditure in 2017-18.

Employee costs incorporate:

- total number of employees; and
- costs per employee, including wages, salaries and supplements.

The average annual increase in total employee costs across the local government sector was 4.5 per cent over the last 10 years, with no major difference between urban and rural councils.

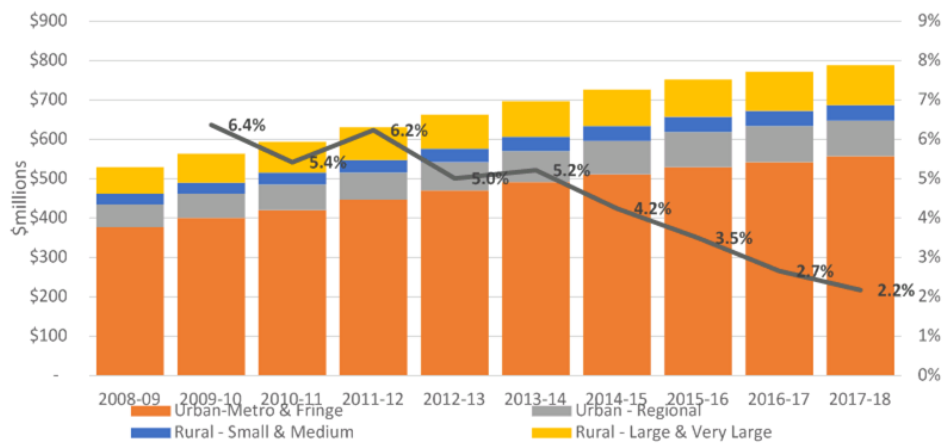
Total employee costs across the four council groups since 2008-09 are shown in Figure 3.4. There may be some variation in employee costs from year to year due to the apportionment of some labour costs to capital projects — the Commission does not have access to this information.

Urban metropolitan and fringe councils represent 71 per cent of total employee costs in 2017-18 and, in comparison:

- large and very large rural councils represent 13 per cent;
- small and medium rural councils represent 11 per cent; and
- urban regional councils represent 5 per cent.

These relative proportions have changed negligibly over time as may be shown from Figure 3.4.

Figure 3.4: Employee costs in total and by council group (\$million) and annual change (per cent)



Source: SALGGC (2019)

Table 3.4 shows that the slowing growth in total employee costs over the last 10 years was experienced across both urban and rural councils. The table also shows that the changes in employee costs tended to diverge more between the various council groupings over time:

- urban metropolitan and fringe councils’ employee costs grew by 4.4 per cent per annum on average over the past 10 years, although there has been a downward trend in the rate of increase (to 3.7 per cent) over the last seven years and the rate of increase slowed to 2.8 per cent during 2017-18;
- urban regional councils’ employee costs grew by 5.1 per cent per annum over the past 10 years and 4.6 per cent over the last seven years. However, in 2017-18 the employee costs of these councils fell by 1.5 per cent;
- rural - small and medium councils’ costs grew by 4.4 per cent per annum over the 10 years and appear to be slowing, experiencing a 1.2 per cent increase during 2017-18; and
- rural - large and very large councils’ costs grew by 4.6 per cent per annum over the 10 years but over the past seven years experienced the smallest rise of all groups (3.5 per cent) and in 2017-18 the rise was 2.6 per cent.

Overall annual growth in employee costs for the entire sector (across all groups) has declined to 2.2 per cent in 2017-18 as shown in Table 3.4.

Table 3.4: Average annual increase in employee costs by council group (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
<b>Urban - metro &amp; fringe</b>	4.4	3.7	2.8
<b>Urban - regional</b>	5.1	4.6	-1.5
<b>Rural - small &amp; medium</b>	4.4	3.8	1.2
<b>Rural - large &amp; very large</b>	4.6	3.5	2.6
<b>All Groups</b>	<b>4.5</b>	<b>3.8</b>	<b>2.2</b>

Source: SALGGC (2019)



As shown in Table 3.5, the urban fringe councils (of all the groups) experienced the greatest increase in employee costs at 5.8 per cent per annum over 10 years and 5.4 per cent per annum over the last seven years. Growth during 2017-18 also remained high at 4.6 per cent.

Similarly, the rural regional groups of Eyre Peninsula and the Legatus Group, and the urban regional council group all experienced increases of 5.1 per cent per annum over the 10 years and increases of between 4.1 per cent and 4.6 per cent per annum over the last seven years.

In contrast, the total employee cost increases of the group of rural councils of the Murraylands and Riverlands averaged approximately 3.5 per cent per annum over the 10 years and 2.3 per cent over the last seven years. In 2017-18, these councils' employee costs grew by 1.0 per cent and the southern and hills councils experienced a growth of 0.7 per cent.

Table 3.5: Average annual change in employee costs by regional council grouping (per cent)

Council type and region	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
Urban capital city	3.9	4.0	2.0
Urban metropolitan	4.0	2.9	2.1
Urban fringe	5.8	5.4	4.6
Urban regional	5.1	4.6	-1.5
Rural Eyre Peninsula	5.1	4.1	1.8
Rural Legatus Group	5.1	4.1	3.4
Rural Limestone Coast	4.3	3.2	1.7
Rural Murraylands & Riverlands	3.5	2.3	1.0
Rural Southern & Hills	4.4	4.7	0.7

Source: SALGGC (2019)

The Commission notes that the average annual growth in the number of council employees (on an FTE basis) has followed the general annual growth rate of the population at around 0.8 per cent. On that basis, the Commission estimates that employee cost per full time employee equivalent for the local government sector grew from \$64,100 in 2008-09 to \$88,900 in 2017-18 — an average annual increase of 3.7 per cent over the decade.<sup>14</sup>

Higher than average wages growth in local government is confirmed by ABS statistics on average weekly earnings. Average weekly earnings for all full-time adult employees in South Australia increased by an average of 3.0 per cent per annum between 2009 and 2018. By contrast the ABS estimates that average weekly earnings for South Australian local government employees grew at an average 4.5 per cent per annum over this same period.

The increase in total employee cost expenditure has been driven by higher salary and wages rather than by the increase in employee numbers.

<sup>14</sup> It is noted that the FTE employee numbers provided by the SALGGC represent the total workforce and, as such, no adjustment is made for the capitalisation rate associated with the split between operating and capital costs.

The increase in salaries and wages may also be due to changes in labour composition to a more skilled workforce, which may explain the reduction measured for the urban regional group of councils.

Unit employee costs have increased at a faster rate for the rural council group compared with the urban council group as shown in Table 3.6. The table also shows the average annual change in unit employee cost by the four major council groups and regional area.

Table 3.6: Average annual change in unit employee cost (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
<b>Urban</b>	3.6	3.3	2.7
<b>Rural</b>	4.0	3.4	2.1
<b>Urban - metro &amp; fringe</b>	3.5	3.2	2.4
<b>Urban - regional</b>	4.4	3.9	4.5
<b>Rural - small &amp; medium</b>	4.4	4.3	-0.8
<b>Rural - large &amp; very large</b>	3.8	3.0	3.3
<b>Urban capital city</b>	3.1	2.9	3.2
<b>Urban metropolitan</b>	3.4	3.0	1.8
<b>Urban fringe</b>	4.0	3.6	3.5
<b>Rural Eyre Peninsula</b>	4.7	4.3	-1.3
<b>Rural Legatus Group</b>	4.3	3.4	3.8
<b>Rural Limestone Coast</b>	3.7	3.6	0.5
<b>Rural Murraylands &amp; Riverlands</b>	3.4	3.1	3.1
<b>Rural Southern &amp; Hills</b>	3.5	2.7	-0.6
<b>All groups</b>	<b>3.7</b>	<b>3.3</b>	<b>2.6</b>
<b>Average weekly earnings - state<sup>15</sup></b>	3.0	2.8	0.6
<b>Average weekly earnings – local government</b>	4.5	3.6	0.6

Source: SALGGC (2019), ABS 6302.0 (2019)

The average cost per FTE employee is generally higher among urban councils compared to rural councils. In particular, the average unit employee cost in 2017-18 for each council group was:

- urban metropolitan and fringe group: \$92,300;
- urban regional group: \$90,500;
- rural small and medium group: \$72,500; and
- rural large and very large group; \$78,800.

<sup>15</sup> ABS, Average Weekly Earnings, Australia (2019) cat.no 63020.

Some stakeholders raised the issue of employee costs and the central role that enterprise agreements play in the wage setting process. In its submission, the City of Charles Sturt stated that:

*Employee expenses comprise approximately 35% of operating costs and governed by Enterprise Bargaining Agreements. In 2008/09 the EBA wages increase at Charles Sturt was 5.5%. It then decreased to 4% until 2013/14 where it was 3% until 2017/18. (City of Charles Sturt, DR3, p.6)*

In addition, the South Australian Finance Management Group (SALGFMG) noted that:

*From 2008/09 many Councils had wages increase in the order of 4% to 6%, falling to around 3% in 2014/15 and more recently in the order of 2%, and more reflective of wages growth in the broader economy. (SALGFMG, DR19, p.10)*

The SALGFMG submission noted that enterprise agreements may have an indirect role by making costs fixed rather than variable:

*Employee costs represent 35% of councils total operating cost .... This cost is driven by Enterprise Bargaining Agreements and often include no forced redundancy clauses resulting in labour being largely a fixed cost. (SALGFMG, DR19, p.10)*

Several submissions, including from the City of Charles Sturt, identified employee costs as a driver of increases in operating costs. In particular, the industrial relations framework within which councils operate has been identified by some stakeholders, including the SALGFMG, as a significant driver of operating costs. The Commission understands that, at present, councils negotiate Enterprise Bargaining Agreements (EBAs) individually, with different conditions in place for staff classified as either 'indoor' or 'outdoor' employees.

There was also broad agreement among both councils and unions that there are significant transaction costs in this current system and that there is scope to reduce these costs:

*Advantages of streamlined industrial relations arrangements would be: The negotiation process is extremely resource intensive. We see potential in gaining efficiencies and reducing duplication across the sector through consolidating enterprise bargaining. This may be alternatively achieved through a sector based EB negotiation team who support the transition (City of Port Adelaide Enfield, FR8, p.33)*

### 3.3.4 Finance costs

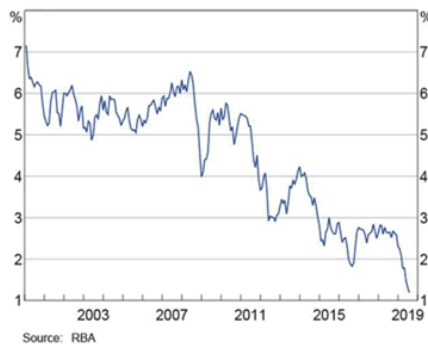
Councils raise funds to finance their operations from a range of sources including:

- grants from governments and gifts in cash or kind from the private sector;
- borrowings from lenders or lending institutions such as banks or non-bank institutions;
- excess funds resulting from operating efficiencies or the deferral (or cancellation) of projects or other programs;
- proceeds from asset sales; and
- funds raised from ratepayers.

In general, the cost of finance is small across councils — making up less than 1.4 per cent (or \$31 million) of total operating expenditure in 2017-18. Councils generally have very low debt levels.

Over the last 10 years, total finance costs have fallen by an average of less than 0.2 per cent per annum but since 2011-12, finance costs have fallen by 3.0 per cent per annum on average. This reflects falling long term borrowing interest rates — as represented by the 10-year Commonwealth bond yields in Figure 3.5 and the subsequent decrease in deposit rates.

Figure 3.5: 10-year Australian government bond yield



Source: LGFA (2019)

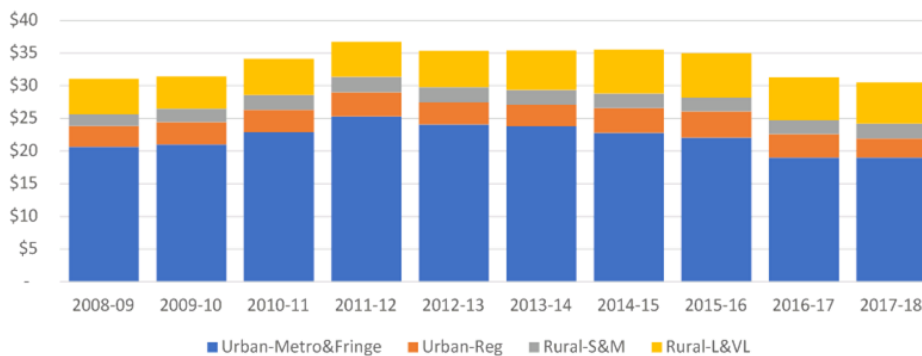
Figure 3.6: Local government real interest rates from 2008 to 2021



Similarly, Figure 3.6 shows the general decline in actual real interest rates that councils were able to access since 2008 from the Local Government Finance Authority (LGFA).<sup>16</sup>

These declines in interest rates (as well as declining levels of net debt) are reflected in the total finance costs incurred by councils as shown in Figure 3.7.

Figure 3.7: Total finance costs by council group (\$million)



Source: SALGGC (2019)

As noted, although there was a slight fall of 0.2 per cent per annum in total finance costs across all councils in the past 10 years, the decline in interest rates has resulted in a decline in finance costs averaging 3 per cent per annum over the last seven years.

Rural councils, as a group, experienced an increase in finance costs of almost 2 per cent per annum over the last 10 years compared with urban councils which experienced a fall of almost 1 per cent. Over the last seven years, rural councils' finance costs fell by 1.8 per cent per annum while urban councils experienced a fall of 4.6 per cent per annum over the same period.

<sup>16</sup> The Local Government Finance Authority of South Australia is a body corporate, which provides financial services exclusively to South Australian councils and local government bodies. It was established in January 1984 by the *Local Government Finance Authority Act, 1983*.



Table 3.7 shows these differences and also shows that the large rural councils faced an increase in finance costs of 2.7 per cent per annum since 2011-12, while other council groups experienced a fall.

Table 3.7: Average annual changes in finance costs by council group (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
Urban - metro & fringe	-0.92	-4.6	-0.01
Urban - regional	-0.98	-3.9	-19.4
Rural - small & medium	2.6	-0.55	9.3
Rural - large & very large	1.7	2.7	-3.9
<b>All groups</b>	<b>-0.2</b>	<b>-3.0</b>	<b>-2.4</b>

Source: SALGGC (2019)

Of the increases in total finance costs in the rural council groups, the largest increase was experienced by the Eyre Peninsula rural councils, which saw an increase of an average of 6.7 per cent per annum over 10 years and 5.5 per cent over the last seven years.

The biggest decline was by the City of Adelaide which saw its total finance costs fall by an average of over 24 per cent per annum over the last 10 years from \$2.4 million down to \$0.2 million; however, in 2017-18, its finance costs increased by over 500 per cent from \$0.03 million to \$0.2 million.

In terms of borrowings, the local government sector held \$668 million at 30 June 2018. This level of borrowings represents approximately 2.7 per cent of the total value of fixed assets.

Councils also incur costs from their use of capital which is funded from channels other than debt. It has the cost of another opportunity for which it might have been used. This opportunity cost is taken into account in project selection and in asset management. The cost of capital for example is reflected in the rate of discount used in cost benefit analysis with respect to the flow of benefits from capital projects. However, these opportunity costs are not generally reported, and their calculation is beyond the scope of this enquiry, which focuses on costs related to expenditures reported in financial statements. However, there is further reference to the matter of the opportunity cost of capital in later sections concerned with the ways in which councils make choices about undertaking projects in-house or contracting them out.

### 3.3.5 Depreciation, amortisation and impairment of assets

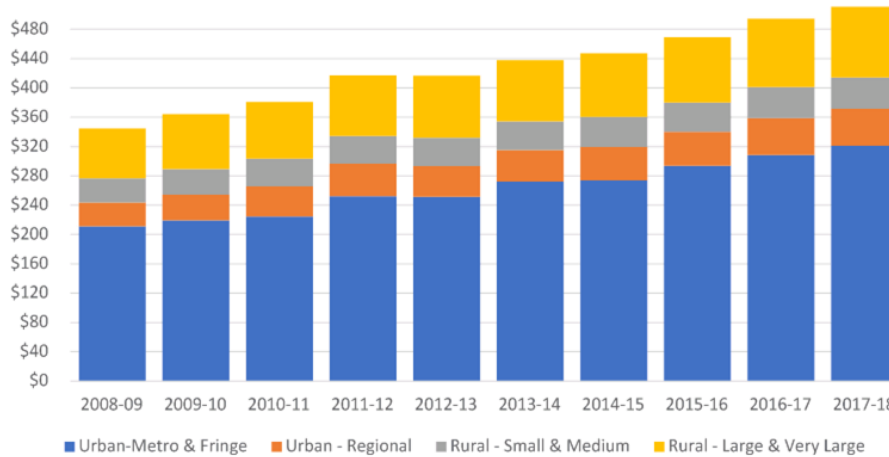
Of all the major resource expenditure categories, depreciation is not an actual cash expense but, in simple terms, an accounting charge that attempts to reflect the loss in the value of an asset as it is consumed over each year of its life.

Although a non-cash item, depreciation is substantial representing approximately 23 per cent (or \$511 million) of total operating expenditure in 2017-18 and reflects the level of the fixed asset base (excluding land).

Figure 3.8 shows that depreciation has increased over the last 10 years by 48.1 per cent from approximately \$345 million in 2008-09 to \$511 million in 2017-18.



Figure 3.8: Depreciation, amortisation and impairment charges (\$million)



Source: SALGGC (2019)

Table 3.8: Average annual changes in depreciation, amortisation and impairment charges by council group (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
<b>Urban - metro &amp; fringe</b>	4.8	4.1	4.0
<b>Urban - regional</b>	5.0	2.3	0.2
<b>Rural - small &amp; medium</b>	2.9	2.0	1.7
<b>Rural - large &amp; very large</b>	4.0	2.6	3.5
<b>All groups</b>	<b>4.1</b>	<b>3.4</b>	<b>3.3</b>

Source: SALGGC (2019)

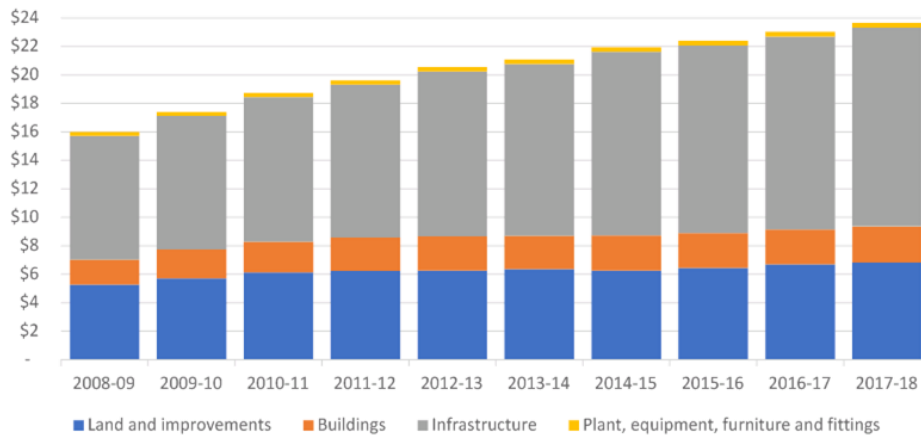
Table 3.8 shows that average annual growth in depreciation charges has been slowing over the decade and is variable across council groups.

Figure 3.9 shows the current value of depreciating assets is approximately \$16.8 billion of the \$23.7 billion of total fixed assets held by the local government sector at 30 June 2018. Over the 10 years since 2008-09, total assets have increased by \$8.2 billion of which the value of net depreciable assets has increased by \$6.1 billion — from a combination of revaluations, write-downs, asset disposals and new additions which is reflected by the levels of capital expenditure.<sup>17</sup>

As a consequence of the levels of capital expenditure in recent years, a total of \$6.3 billion of new and upgraded capital works will have been added to councils’ asset bases over the course of the past 10 years.

<sup>17</sup> New capital works additions include assets gifted to councils by developers and governments.

*Figure 3.9: Infrastructure, building, plant and equipment assets 2008-09 to 2017-18 (\$billion)*



Source: SALGGC (2019)

Depreciation is affected by the level of capital expenditure over time as new assets are commissioned and added to the asset base.

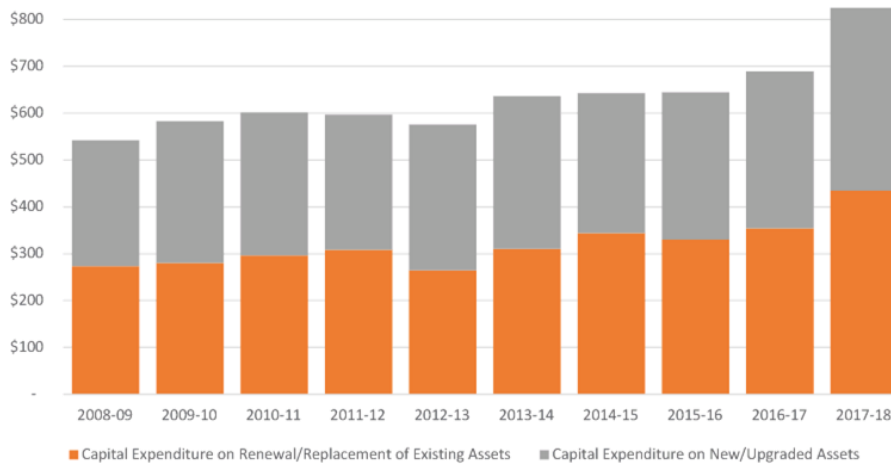
Capital expenditure peaked in 2017-18 at \$825 million compared to \$542 million in 2008-09 as shown in Figure 10 - an increase of over 52 per cent or an annual average increase of 4.8%.

The increase in capital expenditure fluctuates from year to year, as shown in. The increase from 2016-17 to 2017-18 was approximately 20 per cent or over \$135 million as follows:

- the urban metropolitan and fringe council group’s capital expenditure increased by \$99 million (an increase of approximately 23 per cent) — of which \$58 million was incurred by the City of Adelaide;
- the urban regional group decreased capital expenditure by \$700,000 (a decrease of approximately one per cent);
- the rural small and medium council group increased capital expenditure by \$22 million (an increase of approximately 34 per cent); and
- the rural large and very large council group increased capital expenditure by \$15 million (an increase of approximately 12 per cent).

The increase in 2017-18 compares with the 10 year and seven year average annual increases in capital expenditure of 4.8 per cent and 5.5 per cent, respectively — and reflects the increasing level of capital projects being undertaken in recent years.

Figure 3.10: Total capital expenditure by project type across all councils (\$million)

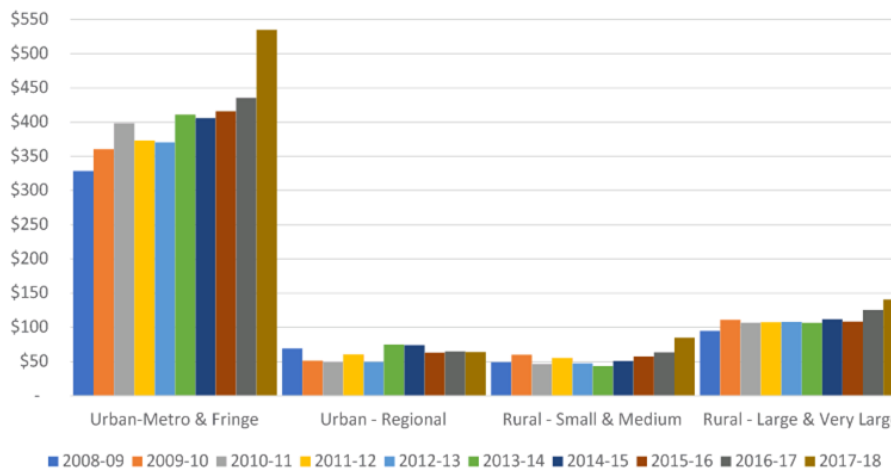


Source: SALGGC (2019)

Figure 3.11 shows capital expenditure for each of the four council groups.

This figure and Table 3.9 show that other than for the urban regional group, capital expenditure increased across all groups in 2017-18.

Figure 3.11: Total capital expenditure by council group (\$million)



Source: SALGGC (2019)

Table 3.9: Average annual change in capital expenditure by council group (\$million) (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
<b>Urban - metro &amp; fringe</b>	5.5	6.2	22.8
<b>Urban - regional</b>	-0.8	1.0	-1.1
<b>Rural - small &amp; medium</b>	6.3	7.5	33.9
<b>Rural - large &amp; very large</b>	4.5	4.6	12.1
<b>All groups</b>	<b>4.8</b>	<b>5.5</b>	<b>19.6</b>

Source: SALGGC (2019)

Depreciation expenses were approximately 23 per cent of total operating expenditure in 2017-18 and this share has not changed significantly since 2008-09. It increased by 48 per cent for the period (an annual average of 4.5 per cent), while the value of depreciable assets increased by 57 per cent. Increased capital expenditure by councils, revaluations of assets and the 'gifting' of new infrastructure from land developments will impact on future changes in depreciation expenses.

### 3.3.6 Summary

Councils' operating costs mostly comprised labour (35 per cent), materials (including other costs, 41 per cent) and depreciation (23 per cent), with these proportions not changing significantly over the past decade.

Councils' overall operating expenditure has risen at an average annual rate of 4.2 per cent over the last decade and this has been well above the rate of inflation. There have been minor differences between each of the council groupings but, on an overall basis, average annual increases were well in excess of inflation — ranging from 3.3 per cent (for the small rural group) up to 4.3 per cent (for the urban and the large rural groups).

In particular, materials, contracts and other costs have increased at an annual average rate of 4 per cent over the last 10 years, driven by urban metropolitan and fringe councils and the rural councils of the Murraylands and Riverlands region.

Growth in this expenditure category has resulted more from volume growth than increases in prices paid for materials, contracts and other costs. This is consistent with the view that both the volume and scope of council services has grown.

Average weekly earnings in the state's local government sector has increased at an annual average of 4.5 per cent over the last 10 years, above the state-wide average weekly earnings growth of 3.0 per cent. These increases are the average outcomes of enterprise bargaining arrangements and contrast sharply with the relatively low average annual growth in employee numbers of 0.8 per cent in the local government sector. Earnings growth has slowed progressively over the decade for both the local government sector and the state as a whole.

Depreciation (and related) charges have increased by over 48 per cent, or \$166 million, from \$345 million in 2008-09 to \$511 million in 2017-18 — equivalent to an average annual increase of 4.5 per cent.

The increase in recent years in capital expenditure can be expected to flow through to higher depreciation charges in coming years. Depreciation is a substantial figure and an important driver of financial sustainability. On the other hand, total finance costs fell from a peak of \$37 million (in 2011-12) to a low of \$31 million (in 2017-18).

### 3.4 Analysis of costs by service

This section considers how the mix of functions provided by councils has changed over time for the sector as a whole and by each of the four council groups.

#### 3.4.1 Mandatory and non-mandatory services

The Commission noted in Chapter 2 that, under section 7 of the LG Act, there is wide scope for a council to determine the exact nature and specific level of the function or service to be delivered; that is, the number, volume, depth and quality of services to be provided to its community and the terms on which it is provided in most cases.

Several submissions to the inquiry noted that, over time, councils have grown from providers of a small number of services (such as roads, rates and rubbish) to delivering an extensive and diverse range of services and functions as noted by the following extracts from three submissions:

*... the Campbelltown community have increased their expectations, in regard to the level of services provided, including the provision of new services ...  
(City of Campbelltown, DR1, p.2)*

and

*Elected Councils ... influence the range and extent of services provided by their council. Each change over time due to aspirations, demographics and interest of a community. For example, a community may place, indeed warrant, more extensive library services - providing increased geographic accessibility to a lower socio demographic community, or conversely, a higher service level consciously chosen by a higher socio demographic community. (City of Charles Sturt, DR3, p.3)*

and

*Changes in service provision and community expectations has increased over the period. Councils are providing additional services in Community Services, Library Services, Economic Development and Recreation and Open Space. (City of Prospect, DR5, p.2)*

Appendix 4 provides a detailed list of mandatory and non-mandatory council activities, based on advice from LGASA.

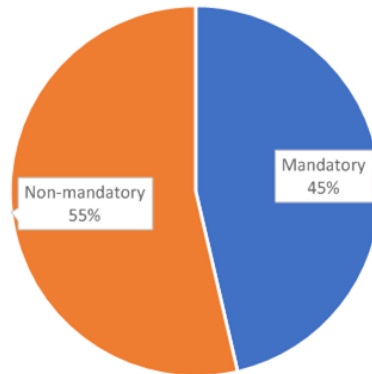
The Commission notes that the delivery of mandatory services (as defined in Chapter 2) by councils to their communities' accounts for less than half (or around 46 per cent) of annual operating expenditure.<sup>18</sup> This proportion has not changed significantly since 2008-09, reflecting similar rates of growth for mandatory and non-mandatory services.

A small number of mandatory services accounts for nearly half of council expenditure. While councils have no choice but to deliver mandated services, they largely decide the service levels and how they deliver these mandated services — which affects their costs.

<sup>18</sup> The operating costs used in arriving at this split excludes governance costs (\$60m), finance charges (\$31m) and the balance of amounts (\$12m) not allocated to other functions or services.



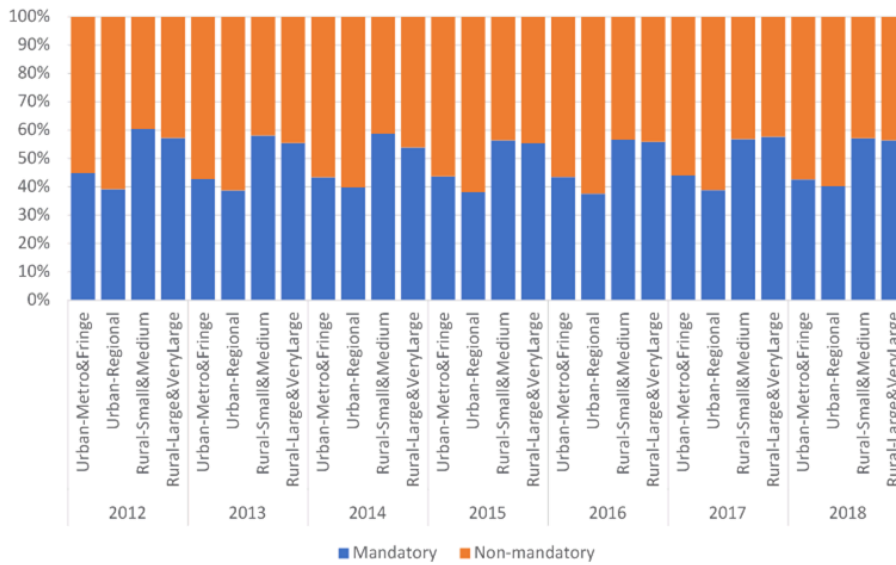
Figure 3.12: Split of operating expenditure by mandatory / non-mandatory service type for all councils, 2017-18



Source: LGASA and SALGGC (2019)

Figure 3.13 and Table 3.10 show the differences between rural and urban council groups in the split of expenditure between mandatory and non-mandatory services.

Figure 3.13 Proportion of operating expenditure by mandatory / non-mandatory service types by council group from 2011-12 to 2017-18 (per cent)



Source: LGA and SALGGC (2019)

Table 3.10: Function mix expenditure proportions for 2017-18 (per cent)

Council group	Mandatory	Non-mandatory
Urban - metro & fringe	42.7	57.3
Urban - regional	40.2	59.8
Rural - small & medium	57.1	42.9
Rural - large & very large	56.4	43.6
All Groups	45.2	54.8

Source: LGA and SALGGC (2019)

Figure 3.13 and Table 3.10 show that rural councils spend relatively more on mandatory services than their urban counterparts. In 2017-18, the rural council groups spent around 57 per cent compared to urban council groups, which are spending around 40 to 43 per cent on mandatory functions. This is consistent with the views of rural councils that they have less flexibility in responding to the preferences of their communities. While total expenditure has grown, these shares have remained stable over time, since the expenditure on mandatory and non-mandatory functions have grown at similar rates. The highest proportion of expenditure on non-mandatory services, about 60%, is by urban regional councils.

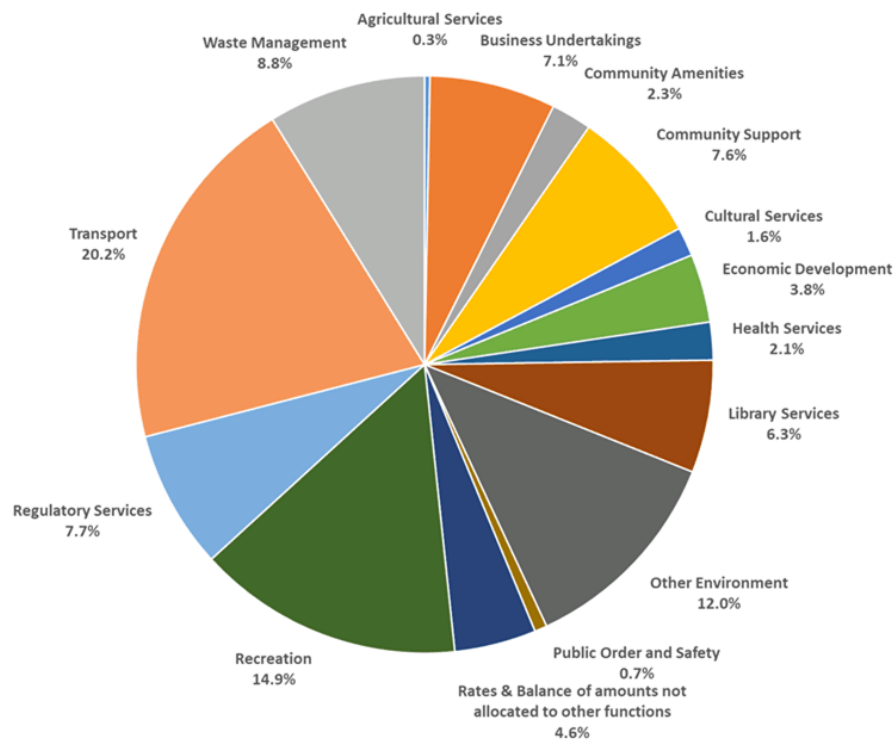
### 3.4.2 Expenditure by service

Councils are required to allocate and report their annual operating expenditure against a set of 14 service functions as follows (Appendix 4 and 5 provides more detail):

- business undertakings;
- transport;
- community services which includes:
  - public order and safety;
  - health services;
  - community support; and
  - community amenities.
- culture which includes:
  - library services; and
  - cultural services.
- regulatory services;
- economic development;
- environment which includes:
  - agricultural services;
  - waste management; and
  - other environmental services.
- recreation.

Of the total operating expenditure of \$2.2 billion incurred in 2017-18, approximately \$2.1 billion (or 95.4 per cent) was allocated to the above service functions. The remaining \$100 million of unallocated expenditure, in the main, relates to council administration, governance and finance costs.

Figure 3.14: Expenditure by function 2017-18 (per cent)



Source: SALGGC (2019)

Figure 3.14 reveals that of the \$2.1 billion in expenditure allocated to the above 14 functions (excluding unallocated expenses) in 2017-18, a total of \$1.9 billion (or 89 per cent) was spent on the following eight functions:

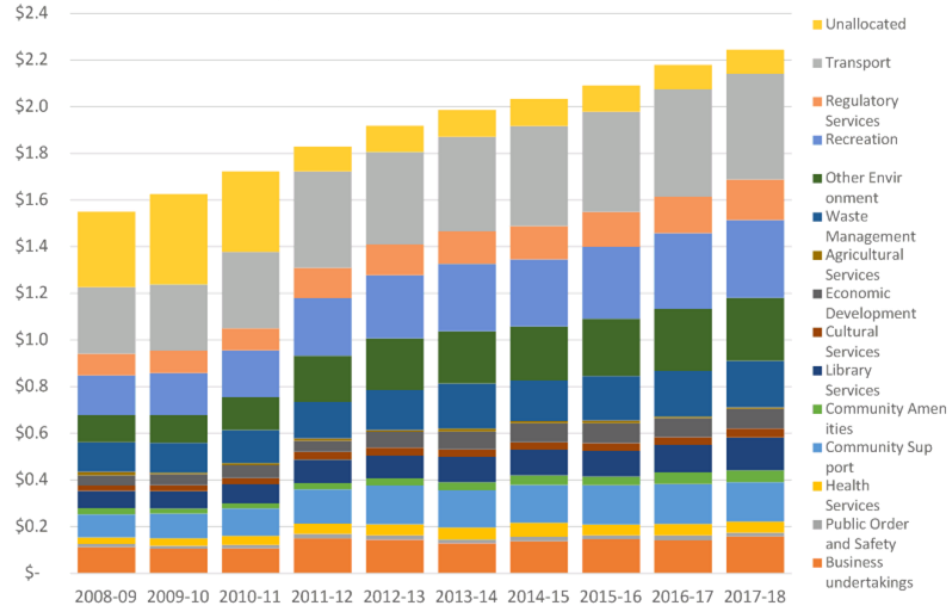
1. transport (\$453m, 20 per cent);
2. recreation (\$334m, 15 per cent);
3. other environment<sup>19</sup> (\$269m, 12 per cent);
4. waste management (\$198m, 8.8 per cent);
5. regulatory services (\$174m, 7.7 per cent);
6. community support (\$169m, 7.6 per cent);
7. business undertakings (\$159m, 7.1 per cent); and
8. library services (\$142m, 6.3 per cent).

Expenditure on the remaining six categories contributed less than 11 per cent of total services expenditure (or \$243 million) with the largest of those being economic development at \$86 million or 3.8 per cent of the total allocated expenditure on services.

<sup>19</sup> Other environment includes expenditure on coastal protection, stormwater management, street cleaning, street lighting, street-scaping and a range of other environmental protection services.

While economic development costs represent 3.8 per cent of the overall total expenditure, the City of Adelaide disproportionately contributes almost 18 per cent to the overall cost in this category reflecting the state’s capital’s role in major events and as a key location for economic activity.

*Figure 3.15: Expenditure by service 2008-09 to 2017-18 (\$billion)*



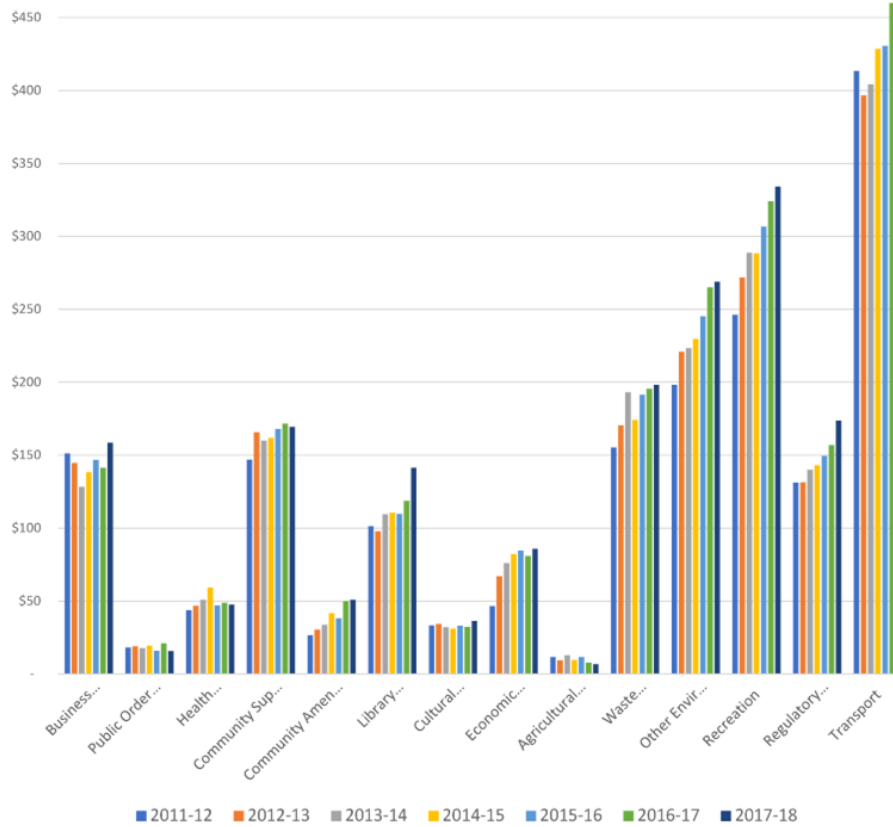
Source: SALGGC (2019)

Figure 3.15 shows that in the first three years 2008-2011, the level of unallocated expenditure was considerable and varied substantially from the levels in subsequent years.<sup>20</sup> Accordingly, the analysis that follows focuses on the years from 2011-12 to 2017-18.

Figure 3.16 provides an overview of the relative expenditure across each of the service functions from 2011-12 to 2017-18 and provides a context for the discussion that follows.

<sup>20</sup> The SALGGC advised that there was a change to the data collection methodology in 2011-12 to address the level of unallocated expenditure.

Figure 3.16: Expenditure by service 2011-12 to 2017-18 (\$million)



Source: SALGGC (2019)

Table 3.11 provides a breakdown of expenditure by function mix and by council group for 2017-18.



Table 3.11: Relative expenditure by service and by council group 2017-18 (per cent)

Service	Urban - metro & fringe		Urban - regional		Rural - small & medium		Rural - large & very large		State-wide total	
	\$millions	%	\$millions	%	\$millions	%	\$millions	%	\$millions	%
<b>Agricultural services</b>	3.1	0.2	1.8	0.7	0.4	0.3	1.4	0.4	<b>6.7</b>	0.3
<b>Business undertakings</b>	87.0	5.7	23.8	9.5	14.2	10.4	33.6	9.9	<b>158.6</b>	7.1
<b>Community amenities</b>	25.9	1.7	10.0	4.0	4.5	3.3	10.3	3.0	<b>50.8</b>	2.3
<b>Community support</b>	122.8	8.1	19.5	7.7	6.9	5.0	20.3	6.0	<b>169.5</b>	7.6
<b>Cultural services</b>	28.4	1.9	5.3	2.1	0.8	0.6	2.0	0.6	<b>36.5</b>	1.6
<b>Economic development</b>	57.1	3.8	12.9	5.1	5.1	3.7	10.8	3.2	<b>85.9</b>	3.8
<b>Health services</b>	31.6	2.1	13.7	5.4	1.3	1.0	0.9	0.3	<b>47.5</b>	2.1
<b>Library services</b>	119.0	7.9	11.1	4.4	1.3	0.9	10.2	3.0	<b>141.6</b>	6.3
<b>Other environment</b>	215.9	14.3	22.9	9.1	7.3	5.3	22.9	6.7	<b>269.0</b>	12.0
<b>Public order and safety</b>	10.0	0.7	2.2	0.9	1.0	0.7	2.4	0.7	<b>15.6</b>	0.7
<b>Recreation</b>	253.9	16.8	34.5	13.7	13.1	9.5	32.8	9.6	<b>334.3</b>	14.9
<b>Regulatory services</b>	124.5	8.2	18.2	7.2	5.8	4.2	25.4	7.4	<b>173.9</b>	7.7
<b>Transport</b>	244.1	16.1	43.8	17.4	51.2	37.3	114.0	33.4	<b>453.0</b>	20.2
<b>Waste management</b>	135.0	8.9	23.1	9.2	9.8	7.2	30.5	8.9	<b>198.4</b>	8.8
Unallocated charges	55.8	3.7	8.9	3.5	14.4	10.5	23.6	6.9	<b>102.7</b>	4.6
<b>Total</b>	<b>1,514.2</b>	<b>100</b>	<b>251.7</b>	<b>100</b>	<b>137.0</b>	<b>100</b>	<b>341.1</b>	<b>100</b>	<b>2,244.0</b>	<b>100</b>

Source: SALGGC (2019)

Between 2011-12 and 2017-18, services that recorded the largest relative increases were:

- economic development — increasing at an annual average of 11 per cent (a total increase of \$40 million over the seven years, which largely reflects increased activity by the City of Adelaide);
- community amenities — increasing at an annual average of 11 per cent (a total increase of \$24 million over the seven years); and
- library services — increasing at an annual average of 6 per cent (a total increase of \$40 million over the seven years).

The largest increases by value were:

- recreation — increasing by a total of \$88 million or an annual average 5.2 per cent;
- other environment — increasing by a total of \$71 million or annual average 5.2 per cent;
- waste management — increasing by a total of \$43 million or annual average 4.2 per cent; and
- regulatory services — increasing by a total of \$43 million or annual average 4.8 per cent.

The services that decreased were:

- agricultural — decreasing at an annual average of 9 per cent (a total decrease of \$5 million over the seven years); and
- public order and safety — decreasing at an annual average of 3 per cent (a total decrease of \$3 million over the seven years).

### 3.4.3 Summary

Based on an analysis of 14 service categories, the mix of services provided by the local government sector has not changed significantly over the last decade. The split between mandatory and non-mandatory activities for the sector as a whole has also remained steady at 46 per cent and 54 per cent, respectively.

Urban councils are spending relatively more on non-mandatory activities than rural councils — in particular, rural councils spend approximately 60 per cent of expenditure on mandatory activities compared to urban councils which are spending around 40 per cent on their mandatory activities.

While there may have been some increase in the number of mandated activities, the Commission understands that councils generally make decisions regarding the extent and quality of the service levels for those activities.

Of the services provided by councils, expenditure on transport is the biggest expenditure at \$453 million in 2017-18, followed by recreation, other environment and waste management. Rapidly growing areas were recreational and environmental services, as well as regulatory services. Slower growing areas of expenditure were agriculture and public safety.

The analysis suggests to the Commission that, at the sector level, there is no particular function, or change in service mix which has driven growth in council expenditure.

### 3.5 Other cost drivers

The Commission has studied the existing data and sought council views through consultation and submissions to identify and understand what councils' cost drivers are.

In doing so, the Commission has reviewed costs, both at the input level and at the output level. Input costs have been addressed earlier in the chapter and the following section provides detail on the costs of outputs, including those related to demographic change, scope and standards of services.

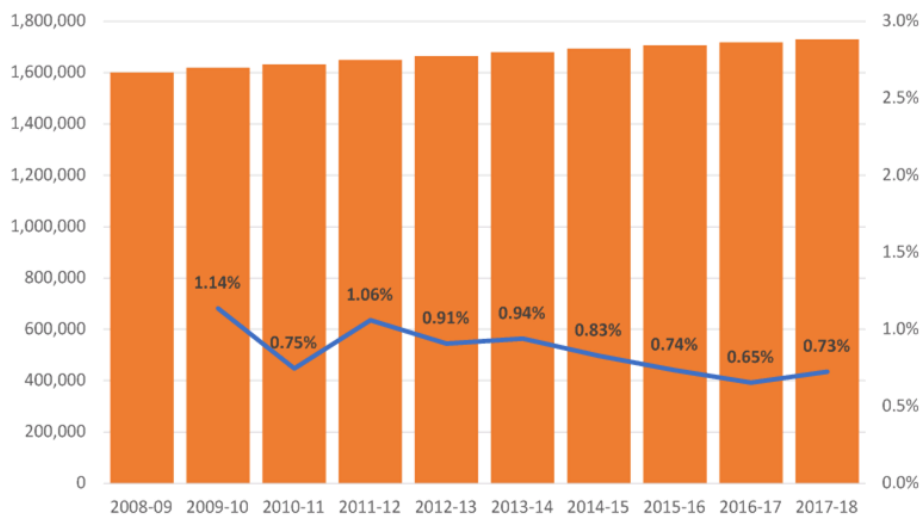
**3.5.1 Demographics**

Funding and service delivery requirements are very different for fast-growing population councils compared to councils facing slow growth or declining growth. Fast population growth places pressure on existing infrastructure (e.g. road networks) and demands investments in new or augmented infrastructure.<sup>21</sup>

*Growth areas – may require councils to increase service levels and/or introduce additional services, may also speed up consumption of assets. (LGASA, DR15, p.8)*

The total population across all councils has increased from 1.6 million to 1.7 million over the 10 years as shown in Figure 3.17 — this reflects an average annual increase of 0.9 per cent over the period. As the Figure 3.17 shows, population growth is also slowing.

*Figure 3.17: Estimated resident population of all councils (by number) and annual change (per cent)*



Source: ABS (2019)

Over the 10 years, urban areas recorded average population growth of 0.9 per cent per annum compared with a 0.5 per cent per annum growth for rural councils — almost double the rate of growth.

The growth in population across the various council groupings is shown in Table 3.12.

<sup>21</sup> New Zealand Productivity Commission, *Local Government Funding and Financing Issues Paper*, (2018), p.30.

Table 3.12: Annual increases in population by council group (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
<b>Urban - metro &amp; fringe</b>	0.93	0.85	0.82
<b>Urban - regional</b>	0.82	0.70	0.69
<b>Rural - small &amp; medium</b>	-0.03	0.11	-0.36
<b>Rural - large &amp; very large</b>	0.60	0.66	0.32
<b>All groups</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>

Source: SALGGC (2019)

Table 3.12 shows a general decline in the rate of growth in population generally among all groups over the 10 years. Rural small and medium councils have experienced declines in their resident populations.

The City of Adelaide has experienced an increase in its population of approximately 2.5 per cent per annum over the 10 years compared with 1.2 per cent for the fringe councils and 0.8 per cent for all councils on average.

Urban regional councils have experienced an average increase of 0.8 per cent per annum over the 10 years (close to the state average) while rural regional councils have experienced very low population growth in the range of 0.2 per cent to 0.6 per cent per annum. The only big mover was the southern and hills regional councils which experienced an average increase of 1.7 per cent per annum largely driven by the growth of Yankalilla with 2.4 per cent per annum (off a very low base).

Demographic changes also affect the level and mix of council services demanded by ratepayers:

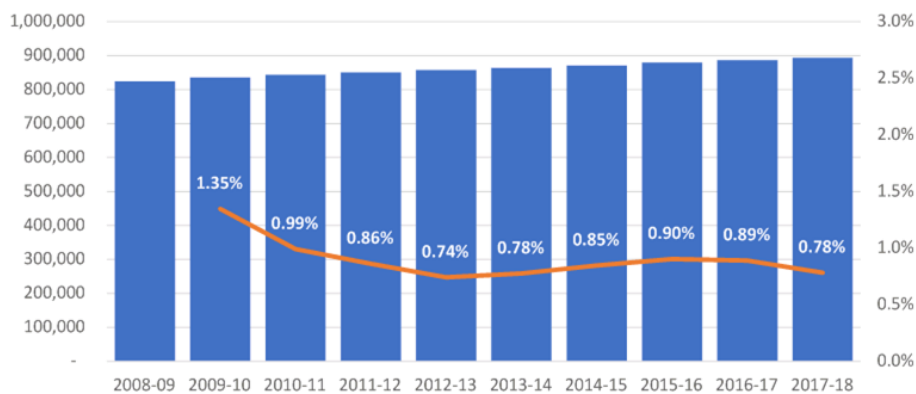
*Aged care is not a 'core' service of councils however demand is growing in a context of reducing external funding and a focus of Commonwealth aged care funding reforms towards 'functional' improvement at the expense of 'social connectivity' (LGASA, DR15, p.8).*

*The changing demographics of the local area will also play a significant part in the demand for services, along with the efficiency relating to the introduction of new services. Campbelltown has noted that its population is aging, so demands for services for this age profile are likely to increase in future years. (City of Campbelltown, DR1, p.7).*

Property numbers across all councils have increased at a rate similar to that of population — increasing from around 824,300 to 893,900 over the 10 years, as shown in Figure 3.18, at an average annual rate of increase of 0.9 per cent over the period although, as can be observed, the growth in property numbers appears to be slowing.<sup>22</sup>

<sup>22</sup> As previously discussed, the properties data used in this analysis includes both rated and unrated properties to ensure a consistent time series of data. This was necessary due to a change in data collection and classification systems implemented in 2015 that resulted in unexplained data inconsistencies.

Figure 3.18: Estimated number of properties (including annual change in number) of all councils under review



Source: Valuer-General (2019)

The increase in urban properties was double that of rural properties — 1.0 per cent per annum for urban areas compared to 0.5 per cent per annum for rural areas.

The growth in the number of properties across the various council groupings is shown in Table 3.13.

Table 3.13: Estimated annual growth in property numbers by council group (per cent)

Council Group	2008-09 to 2017-18	2011-12 to 2017-18	2016-17 to 2017-18
Urban - metro & fringe	1.01	0.94	0.95
Urban - regional	1.05	0.95	0.83
Rural - small & medium	0.47	0.38	0.36
Rural - large & very large	0.53	0.41	0.16
<b>All groups</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>

Source: SALGGC (2019)

Note the general decline in the rate of growth in properties in all council groups over the 10 years and, in particular, that rural small and medium councils are experiencing very slow growth in property numbers.

Urban regional councils have experienced an average increase of 1 per cent per annum over the 10 years, while rural regional councils have experienced very low growth in property numbers – except for Eyre Peninsula which also experienced growth of 1 per cent. In contrast to the increase in population, property numbers in the southern and hills regional councils experienced an average increase of 0.4 per cent per annum. This outcome may be explained by the take-up of the existing stock of unoccupied or vacant properties rather than the development of new properties.



Other factors also change the level of services provided over time, even for a given population. For example, development of an area is a cost driver through extending service delivery, perhaps faster than the increment in population.

Council submissions from Port Adelaide Enfield, Town of Gawler and the Barossa suggest that population growth in the urban metropolitan and fringe council group will potentially exacerbate council cost pressures:

*15-20% of council costs are directly linked to resident numbers. Increasing population density does impact on some council service costs, however not all costs are variable and in proportion to population growth and many costs of council are fixed in the short term. Around 15-20% of total recurrent costs (excluding depreciation) are typically linked to properties and / or ratepayers. (Port Adelaide Enfield, FR8, p.21)*

*An example of increased costs that result from increased population density and urban infill impact are the increased demand for public open-space facilities as a result of diminished urban block sizes. The costs of reengineering an existing community to accommodate new and increasing population is not covered by increased rates because of new residents coming into an area. When considering whole of life infrastructure consequences the long-term financial consequences on Councils (and existing communities) is invariably negative. (Town of Gawler, FR27, p.9)*

*This will depend on the development. Small infill results in increasing costs without the return. Larger infill and greenfield sites, again depending on a raft of issues such as location to essential infrastructure, community, social and health services (at all levels of government), topography, soil types and the like will add cost but does have some mechanism (especially large greenfield sites) to structure financially sustainable long-term models. (The Barossa Council, FR25, p.13)*

Increasing population density and infill can have an impact on council services. The increase in population density in the urban and fringe areas, in part due to development activity such as urban infill, has additional externalities that affect other residents such as infrastructure pressures, for example stormwater systems. From an operational perspective there would be an increase in council maintenance and depreciation costs.

The Commission notes that the impact of increasing population density on council services is a cost driver for some councils that is not fully within their control and as indicated by the submissions, population growth or density externalities do not affect all councils.

### 3.5.2 Service quality and standards

Changes in service quality and standards will often affect operating costs and councils largely determine the level of the service to be delivered for both mandatory and non-mandatory services.

In submissions to the Commission's methodology paper, councils noted that changes in community demands for facilities and services have contributed to increases in councils' operating expenditure. For example, the City of Charles Sturt observed:

*Another community may require its Council to provide higher quality of footpaths to accommodate either or both ageing residents or young families who may have children in strollers. Later that community may have a higher demand for playgrounds and later still for structured sports facilities. Over time community expectation changes for example the current unmet demand for women's change rooms and the increase in women's participation in field sports as they transfer from traditional court sports. (City of Charles Sturt, DR3, p.3)*

Some councils have employed or are considering employing a formal system for establishing service levels and reviewing the services they provide to their communities.

*Councils are at various stages of understanding service delivery and measurement of service standards ... Some councils undertake formal service reviews and/or community surveys to ensure the services they provide are relevant to their communities and are financially sustainable in the long term. (LGASA, FR19, p.66)*

*The Barossa Council has undertaken service reviews of its main components of its organisation and developed community and corporate plans and where possible report quarterly on output and outcome measures. We believe this is the way of the future to truly understand the cost of service delivery being provided. The work is progressing and maturing through definition and then reporting linked back to service plans and ultimately our community plan. (Barossa Council, FR25, p.13)*

While acknowledging the use of surveys by a number of councils, the Commission has not been able to obtain any standardised sector-wide quality or service standard data to analyse the effects of changes in service standards on council operating costs (for further discussion see Chapter 4).

There is a broad consensus among councils that more can be done to expand collaboration amongst councils in the planning, delivery and reviews of services. However there have been varying views on how this would be achieved:

*We agree that benchmarking of service levels is the key to improving and demonstrating the efficiency of the sector and to date have been undertaking this at a service by service level as part of our Efficiency and Effectiveness framework, seeking out the relevant benchmark data as part of each review ... We also support clear guidance from the State about its expected service levels and standards of compliance for services. (City of Mitcham, FR6, p.1)*

*A sector-wide approach would need to start small and build in terms of what might be appropriate for the South Australian sector as the maturity across the sector builds ... The LGA proposes the development of a best practice guide to undertaking service reviews. Service reviews should consider service levels, unit costs, community demand, community satisfaction, alternative providers and links to financial sustainability. Standardising the approach to measuring and reporting these factors will assist councils and communities to understand the value of the financial and community value of the services delivered. (LGASA, FR19, p.67)*

In contrast, the District Council of Tatiara raised the following concern:

*independent service reviews will not only add a considerable administrative burden but also a significant financial one. "Fresh eyes" may be beneficial in reviewing services that have been provided in the same way for a long period of time but so is subject matter knowledge and local experience. (Tatiara District Council, FR24, p.3)*

The Commission notes that the LGASA, as part of their 'Sensible Change' program, has proposed establishing a consistent sector-wide service planning and service review methodology which considers service levels, unit costs, community demand, community satisfaction, alternative providers and links to financial sustainability.

### 3.5.3 Cost shifting

Evidence from councils indicates that the state government has engaged in cost shifting:

*Alexandrina Council does not support cost shifting practices that have a significant impact on regional communities. Recent examples include the Solid Waste Levy and rate rebates associated with Community Housing. These changes are required to be passed on to council ratepayers, who have limited understanding that these are costs have been imposed on council and are unable to be controlled yet are recoverable from their ratepayer dollars. (Alexandrina Council, FR2, p.6)*

In the Commission's view forms of cost shifting include:<sup>23</sup>

- transferring responsibility for a function to councils without transferring an adequate funding source;
- requiring (usually by law) councils to deliver services or collect taxes for another sphere of government without being provided with enough funds to cover the costs;
- requiring councils to forego revenue by providing mandatory rebates for activities to implement a policy of the state government; and
- cost recovery – fees and charges that are fixed by state government statute leaving councils with a mandated work without being able to set fees and charges that cover costs.

Examples of cost shifting identified by councils are transferring the responsibility for managing libraries, increased planning and development assessment costs and community housing mandatory rate rebates. For example, the City of Marion noted the following changes in legislation and sector responsibilities over the last few years:

- *260% increase in the solid waste levy over 10 years which is expected to be \$2.6M in 19/20. This original temporary levy is now more than 4% of the total cost base for council.*
- *Increased Mandatory Rebates reducing revenue as community housing transferred from councils to community housing organisations. These rebates have increased by \$0.8M for Marion in the last 3 years.*
- *Electricity and water costs including public lighting have increased 82% over the 10-year period which is more than \$0.8M. ... Implementation of DACO and the funding required to support the provision of that service ongoing (council to estimate cost) without there being opportunity to reduce costs at the councils to the same extent*
- *Transfer of responsibility of nuisance by-laws from the EPA to local government increasing resourcing requirements by up to 2 FTE at each of the partner councils*
- *Imposition of additional planning and development and safety regulations including roof truss legislation and health and safety compliance including the required regime of auditing of food businesses.*
- *Increased planning and development costs while Local government legislated fees did not increase for at least 10 years. A comparison of planning fees across Australia demonstrates South Australian is significantly lower with a market for certifiers emerging with commercially charged fees are significantly higher than those afforded to councils.*
- *Implications of Heritage Law changes resulting in additional costs of reviewing greater numbers of demolitions along with amendment of development plans*
- *Implementation of the e-Planning portal will result in costs to local government in addressing changes to legislation, implementing the process and change impacts of the new portal as well as providing explicit funding to support its implementation. (City of Marion, FR5, p.22)*

The scale of the impacts of cost shifting are more difficult to identify. The Commission accepts that there have been instances of cost shifting which raised council costs. That said, there also appear to be a number of cases where councils have control over expenditure decisions and to which the term cost-shifting should not be applied. The general term "cost shifting" in practice is unhelpful where it includes a choice by councils to accept tied funding.

In such circumstances the Commission considers that the phrase "cost sharing" rather than "cost shifting", is a more accurate description. An example is provided in Box 3.1.

<sup>23</sup> LGASA, *Delivering the LGA 2018 State Election Agenda: Stopping Cost Shifting*, (2018), p.1.



The Commission notes that the SALGFMG has previously advocated and supports a thorough review of fees set by State Government for the recovery of the cost of delivering mandated services.

The LGASA states:

*South Australian councils receive the lowest total revenue per capita of all mainland states, and this is in part attributed to the significant gap between the fees and charges that can be raised by interstate councils for undertaking regulatory functions such as planning and building assessments and food safety inspections. (LGASA, FR19, p.68)*

The Commission notes that there are cases where regulated user fees do not recover associated expenditure on mandatory services.

*Box. 3.1 Cost Sharing: Case study of Adelaide Hills Council continuing government digital hub program*

Cost sharing in most cases is stopping or reducing funding for a service or program when communities expect that councils will continue to provide it.

Adelaide Hills council entered into a three year agreement with the Commonwealth to provide a 'digital hub' to showcase the potential of the NBN and provide direct assistance to community members seeking help connecting to and using online technology.

The Commonwealth was the prominent funding partner, with the council providing in-kind contributions through the provision of space, management and employment of the hub staff, IT support, etc. The Hub was essentially a 2 FTE function.

At the end of the three year agreement, Commonwealth funding ended in accordance with the arrangement. There was a community expectation that people could still seek support from the council for connecting to and using online technology.

The council subsequently reallocated approximately 0.5 FTE from other areas to enable ongoing provision of digital literacy and support services to the community, albeit limited in comparison to the former hub. In response to continued community demand, the council allocated an additional 0.5 FTE resource in 2018-19 to expand digital literacy and support services to the community.

When the digital hub funding ended in 2015, the council experienced continued community demand for digital literacy and support. The council's administration reprioritised resource allocation to enable continuation of some level of community support in this space. In 2018, the council adopted a budget containing additional allocation of funding for further resources to meet community demand.

The total attached cost to continue the showcase for the council is \$90,000 per annum, including technology costs of nominally \$8,000 per year, additional space and employment support.

*Source: Adelaide Hills Council case study*

### 3.5.4 Compliance costs

Councils incur costs of complying with state regulation. A large proportion of councils submitted that increases in the range and complexity of state government regulations applying to councils have created cost pressures.

For example, the Town of Gawler noted:

*that legislative compliance processes over the last 10 years have dramatically extended the process timelines required to develop and adopt the annual budget, such that the new budget cycle is effectively now an ongoing 12-month cycle. (Town of Gawler, FR27, p. 10).*

Complying with state government legislation has added to councils' costs. In addition to the costs of compliance, other legislative changes and changes in the interpretation of accounting standards have added to costs. Councils indicated that when legislation does not provide clarity, councils are required to obtain external legal advice regarding compliance.

Limitations in available data and the anecdotal nature of the evidence supplied by councils make it difficult for the Commission to quantify the impacts of compliance costs on councils' costs and efficiency. As a result, there may be benefit from reviewing the impact of state regulations applying to local government to identify actions to streamline requirements and reduce the red tape burden on councils.

### 3.5.5 Further cost pressures

A large proportion of submissions have indicated that increases in the number of council cost drivers have created significant cost pressures.<sup>24</sup> For example, the Town of Gawler listed the cost pressures which councils face:

- *industrial relations – staff turnover/competition in labour market;*
- *population growth – which may trigger the need for expanded services;*
- *properly accounting for and maintaining important infrastructure;*
- *ratepayer expectations;*
- *red tape; and*
- *cost shifting/sharing. (Town of Gawler, FR 27, p.12)*

Councils have varying degrees of control over factors which influence their costs. After additional evidence from submissions, the Commission confirmed the view that there have been a number of cost drivers that impact on councils cost and efficiency. These potentially include internal factors such as:

- increased depreciation and superannuation; and
- investment in technology advancement;

and external factors such as:

- rising prices for inputs (suppliers' costs);
- climate change and the implications for flood, fire and other associated hazard management;
- increasing environmental costs including waste management and waste levies; and
- statutory fees and charges that do not fully cover costs incurred.

Limitations in available data and anecdotal evidence supplied by councils makes it difficult for the Commission to quantify the impacts of these cost drivers on councils' costs and efficiency.

### 3.5.6 Summary

The growth in councils' operating expenditure is explained in part by growth in the output costs such as the volume and range of services supplied, as well as increases in the quality of these services. A significant number of individual councils conduct formal service reviews to ensure the services they provide are financially sustainable in the long term. Despite this, the

<sup>24</sup> See City of Charles Sturt (FR3) Attachment A for quantified key cost drivers from 2007 – to 2019.



Commission has not been able to obtain sector-wide data on service quality to enable conclusions to be drawn on the extent to which quality standards have changed and what impact this has had on council operating costs.

The population of South Australia continues to grow, and its composition is changing. This growth is creating external cost pressure in many councils. The annual increase in population growth in the urban metropolitan and fringe council group will potentially exacerbate cost pressures. Changes in the demographic composition will also drive changes in expenditures as an ageing population brings increased demand for access to its services.

In addition, the increase in population density in the urban metropolitan and fringe councils, which includes development activity such as urban infill, places additional externalities on other residents such as infrastructure pressures.

Anecdotal evidence from councils suggests that state governments have contributed to pressures on council resources by cost shifting. While this would put upward pressure on council costs, the full impact on councils' costs is difficult to quantify.

### 3.6 Conclusions

Total operating expenditure by the local government sector has grown more rapidly than inflation between 2008-09 and 2017-18.

Urban metropolitan and fringe councils consistently recorded higher growth in operating expenditure than other councils over this period.

Council operating costs are comprised mainly of employee costs and materials, contracts and other costs, which accounted for 35 per cent and 41 per cent of total sector operating expenditure in 2017-18. These proportions have not changed significantly since 2008-09.

The average annual growth in materials (and other costs) of 4.0 per cent exceeds growth in the LGPI over the last decade suggesting that increases in the volume of materials and other costs has been the main cause of growing expenditure. This growth may reflect a trend towards greater use of contracting out or shared services arrangements.

A significant portion of this expenditure is subject to a procurement process, and there are varying degrees of capacity and sophistication in procurement among councils. Rural councils in particular face constraints in containing procurement costs including access to skilled staff, transport costs, thin markets and a community expectation to 'buy local'.

Sector expenditure on employee costs increased more rapidly over the decade than materials, contracts and other costs at an annual average increase of 4.5 per cent, although it has moderated over the decade in both urban and rural councils. While these costs include modest increases in the number of employees, the ABS information shows local government average weekly earnings grew faster than both the public sector average weekly earnings in SA and in the SA economy more broadly.

The number of council employees across the state has increased by an annual average of 0.8 per cent over the decade, resulting in higher employee costs expenditure per FTE. The rate of increase in expenditure on employee costs per FTE, particularly in the early part of the decade, has been consistently higher than the growth in average weekly earnings in South Australia over the decade to 2017-18. There is broad agreement among both councils and unions that there are significant transaction costs related to the industrial relations arrangements that apply in the sector and that there is scope to reduce these costs.

The extent to which growth in employee costs expenditure per FTE has been offset by productivity growth is difficult to determine in the absence of data on council outputs.

Depreciation expenses were approximately 23 per cent of total operating expenditure in 2017-18 and this share has not changed significantly since 2008-09. It increased by 48 per cent for the period (an annual average of 4.5 per cent) while the value of depreciable assets increased by 57 per cent. Increased capital expenditure by councils, revaluations of assets and the 'gifting' of new infrastructure from land developments will impact on future levels of depreciation expense.

Finance costs have been negligible and falling over the decade as councils have tended to finance their operations using internal funds, or equity, rather than debt. This results in their operating costs being lower than they would be if debt levels approaching economy wide norms were used by councils.

More than half of councils operating expenditure is accounted for by the four largest service categories: – transport, recreation, other environment and waste management. Analysis of councils' operating expenditure by 14 service categories indicates that the mix of services delivered has not changed significantly over the last seven years.

While mandated services are relatively small in number, they accounted for 46 per cent of sector's operating expenditure in 2017-18.

Mandatory services consistently accounted for a higher proportion of operating expenditure for rural councils (close to 60 per cent) compared to urban councils (around 40 to 43 per cent) throughout the decade. Urban regional councils had the highest proportion of expenditure on non-mandated services at 60 per cent. The Commission notes that while councils have no choice but to deliver mandated services, they generally have discretion to determine how these services are delivered, thereby affecting their costs. Expenditure on mandatory and non-mandatory services has grown at similar rates, both for the sector as a whole and across all council groupings.

In respect of the service mix, the most significant difference between the council groupings is that the proportion of expenditure on the transport function is substantially greater for the rural council groups than urban councils.

Growth in population and property numbers (except for small and medium rural councils), while low, would have caused some increase in the demand for council services, which would explain part of the growth in council operating expenditure. Slowing population growth in the later part of the decade would likely have contributed to the observed moderation in operating expenditure growth.

Population ageing can also be expected to have altered the mix of services demanded, although this impact is not evident in the 14 service categories examined by the Commission.

A number of councils have submitted that rising service standards have been a significant contributor to growth in expenditure. However, the Commission has not been able to obtain any sector-wide service level data to enable an assessment of the extent to which increases in the quality of services or facilities have caused increases in councils' costs.

Councils have argued that instances of cost shifting from the state governments to local government have increased their costs. The Commission is not in a position to quantify the cost impact of cost shifting at this stage. Councils have sometimes decided to continue to deliver a service or program after federal or state funding commitments have expired, presumably in

response to community expectations. Such instances, in the Commission's view, do not constitute cost shifting and are better described as cost sharing.

Some councils argued that the burden of complying with state government legislation has grown, thereby adding to their costs, but data limitations have prevented quantification. Consultation with councils suggests the cost impact may be small compared to overall operating expenditure.

Councils have varying degrees of control over factors which influence their costs. Some, like the regulatory or taxation environment, or growth in ratepayer or property numbers that drive up demand for services, are externally determined. Others, like the prices they pay for labour and other inputs, can be influenced through industrial relations arrangements and council procurement practices. Councils are also able to influence community expectations through consultation and informing ratepayers regarding changes in service mix and quality.

A third group of cost drivers is more strongly controlled by councils and includes scale, scope and quality standards particularly for non-mandated services, and productivity and efficiency through choice of technology and business processes.

The Commission has reached the following conclusions regarding growth in local government operating expenditure over the last decade.

In terms of inputs:

- labour costs (in percentage terms) have been the main cost driver, followed closely by materials, contracts and other costs;
- depreciation charges have also been a significant driver of costs but off a smaller base; and
- cost shifting and compliance costs have contributed to expenditure growth, but to a lesser extent.

In terms of outputs:

- the most significant cost driver is likely to be changes in the volume, scope and quality of services provided by councils;
- growth in demand arising from growth in the number of ratepayers and properties explains, in part, the growth in the volume of services.



## 4. Local government efficiency and productivity

### 4.1 Introduction

The terms of reference for the inquiry require the Commission to:

- develop and analyse measures of local government efficiency and productivity; and
- identify mechanisms and indicators that could be used by the local government sector to measure and improve performance over time.

The Commission released a methodology paper in May 2019, outlining the technical and analytical issues in estimating local government efficiency and productivity. The Commission has used an approach that is a robust methodology portfolio, consisting of a suite of complementary tools including partial productivity measures, global efficiency measures using Data Envelopment Analysis (DEA), case studies and submissions.

The Commission acknowledges that both partial productivity and DEA measures have their limitations. Taken together, they add significant value and complementary insights to assist councils to understand their performance relative to other councils or their performance through time.

The terms productivity, efficiency and effectiveness are related but different concepts. They are all elements of the performance of an organisation. Productivity is defined as the ratio of the output(s) that an organisation produces to the input(s) used.<sup>1</sup> Productivity can refer to measures of partial productivity, which is a single-input, single-output measure such as output per worker. When all inputs and outputs are considered, it is referred to as total factor productivity (TFP) or multifactor productivity (MFP).

The term efficiency in this chapter refers to technical efficiency. An organisation is technically efficient if it produces the largest possible output from a given set of inputs, or if it uses the least possible quantity of inputs to produce a given level of output. However, as discussed below, there are practical challenges in the application of this concept to local government operations, because of the problem of accurately measuring the outputs produced, particularly their quality and scope.

There is an important distinction between outputs and outcomes. Outputs are measured as a level of activity while outcomes are defined as the impact of an output, program or service. As efficiency relates to the relationship between inputs and outputs rather than outcomes, it does not include an assessment of how well these outputs contribute to organisational objectives or the value of these outputs to the community.

In addition to efficiency, a measure of effectiveness is sometimes used to analyse the overall performance of a program or service.<sup>2</sup> Effectiveness commonly refers to the extent to which stated objectives are met. This includes both cost effectiveness (achieving an outcome for the

<sup>1</sup> For a more detailed discussion of the concepts of productivity and efficiency see T Coelli, P Rao, C O'Donnell, and G Battese, *Introduction to Efficiency and Productivity Analysis* (Springer, 2<sup>nd</sup> ed, 2005).

<sup>2</sup> Estimating measures of local government effectiveness is outside the scope of this inquiry. However, the Commission has examined how indicators of effectiveness are adopted in other jurisdictions.

lowest cost) and program effectiveness (how well the outputs of a program achieve the desired and valued outcome).<sup>3</sup>

This chapter presents the principal methodological approaches used in the Commission's analysis of efficiency and performance monitoring and the results of the analysis. The first section introduces the concepts of productivity and efficiency and the experience and lessons of local government efficiency monitoring in South Australia and other jurisdictions. Section 4.2 discusses the experience of local government performance monitoring, Section 4.3 presents the partial productivity analysis and Section 4.4 presents the global measures of efficiency using DEA. Section 4.5 presents the Commission's conclusions.

## 4.2 Experience of local government performance monitoring

Performance and efficiency measurement play a role in helping councils understand their business and improve outcomes through reduced costs or better services. This section describes performance-monitoring activities across Australia to assist the identification of mechanisms and indicators that might usefully be employed by councils in South Australia.

Performance measurement is most meaningful when comparisons can be made both over time and across organisations.

Comparisons across councils can be difficult if they provide different types and levels of service or face different underlying cost structures. However, such comparisons can help councils identify attainable levels of performance and learn from peers that are delivering higher quality and/or more cost-effective services. Comparisons of council performance and efficiency, both across councils and through time, can assist in identifying opportunities to improve their performance.

### 4.2.1 Current performance-monitoring programs

#### **South Australia**

Throughout the Commission's consultation process, a consistent theme raised was that while most councils monitor their own performance, there has been little performance monitoring conducted across the local government sector as a whole. Nevertheless, there have been attempts made across the sector by the LGASA, groups of councils and individual councils to estimate their performance relative to other councils or the sector.

Submissions to the inquiry from councils including the City of Salisbury, Town of Walkerville, City of Playford, Campbell Town City Council, Copper Coast Council, City of Prospect, City of Tea Tree Gully, Town of Gawler and City of Charles Sturt provided examples of council level programs to evaluate and compare their performance over time or against similar councils.

The Commission notes that councils have their own service review processes to ensure the services they are delivering are effective in meeting the demands of the community.

*Councils already undertake regular reviews of key services to ensure they are meeting community needs, being delivered in an efficient manner and not impacting on the long-term financial sustainability of the council. Sometimes difficult and unpopular decisions need to be made about reducing or consolidating services for the sake of greater efficiency and sustainability. It is important that these decisions*

<sup>3</sup> Productivity Commission, *On Efficiency and Effectiveness: Some Definitions*, Productivity Commission staff research note, (2013).



*about the range and level of local services provided remain in the hands of councils and their communities. (LGASA, DR16, p.19)*

*In the past six years we have undertaken a comprehensive review of service levels across the organisation, followed by a review on how we deliver the agreed service levels. This has required some benchmarking as part of the process, but more importantly identified areas within our operations that can be improved to deliver the best outcome for our community. (City of Salisbury, DR6, p.3)*

*The Barossa Council is developing service plans with levels of service and measurable outcomes as part of its current internal reform and change program. (The Barossa Council, FR25, p.19)*

The Commission also identified several councils that sought to make comparisons of their performance against other councils:

*In February 2015, Council resolved to undertake a benchmark exercise, fashioned on the Victorian Government Performance Reporting Framework introduced in 2014. The first benchmark report prepared for Council was in September 2016, followed by a revised report in June 2018 and again in February 2019. Council is expecting the latest iteration of its benchmark report at or about November 2019. Council supports mandatory benchmarking within an agreed framework. (Town of Walkerville, DR23, p.2)*

*City of Prospect has previously conducted various efficiency and economy audits and various Service Reviews. Most of these reviews included comparisons with other Councils of similar size. (City of Prospect, DR5, p.8)*

*Council has recently participated in the Local Government Performance Excellence Program (LGPEP), which compares performance against approximately 150 other Councils. (Town of Gawler, DR22, p.5)*

*Playford already uses the "Know Your Council" Victorian benchmarking system as another way to benchmark ourselves and monitor our own performance. Council also participates in the LG Professional benchmarking which provides opportunities for comparison across Australia. Resident Satisfaction Survey information can also often be benchmarked. (City of Playford, FR7, p.10)*

Establishing service standards is another mechanism for councils to identify areas of improvement and monitor performance, as illustrated by the example from the City of Playford described in Box 4.1.

#### Box 4.1 City of Playford Community Service Standards System

The City of Playford introduced a Community Service Standards System in 2014-15 to help define, measure and analyse the outcomes of services provided by the council. Prior to this, there was no standard process, with ad-hoc reports being manually created when required. The system is a consultative process providing clarity around council activities which can inform and contextualise communication with elected members and the community.

The establishment of service standards is an iterative process which includes defining service outcomes and how they will be measured. Service Standards go through a review process every three years as a regular internal process, or as required by organisational alignment. Currently there are 25 service standards with community outcomes, including one to five related measures per service standard.

Creating quality service standards involve the following:

- consultation with the community and staff to better understand service standards;
- ensuring services align with the council's community vision and strategic priorities, policies and procedures;
- research into industry best practices and benchmarking;
- monitoring and evaluation, including pre and post-testing implementation of new standards; and
- staff engagement and ownership.

The system was primarily designed to improve delivery of services and their alignment to community expectations and outcomes. Any financial savings are an additional benefit. The creation of the standards was the foundation of a variety of improvements. These include:

- cost avoidance of approximately \$2 million over seven years, where the council was able to improve the effectiveness of the service and reduce exposure to cost pressures of service delivery; and
- efficiency savings of \$1.2m from the "City Operations" area alone (Streetscapes, illegal dumping, city maintenance programs). The savings were re-invested to expand the area of delivery or increase the standard of service to meet community need without increasing the cost of service.

In addition, there were improvements in consistency and streamlining of processes and procedures, evidence-based decision making and improvements in data accuracy and integrity.

The standards created a measure of performance that is reported on a quarterly basis to the community.

The City of Playford describes the system as a journey, not a rigid implementation exercise. The system is a basis for continuous improvement and the system itself continues to be reviewed and improved. While initial implementation occurred with external assistance, it was quickly learnt that further development and effectiveness of the system benefited from the ownership of each service owner internally.

As an example, the council previously picked up illegally dumped rubbish in a reactive manner. Analysis by the council indicated that picking up illegal dumping within ten days would maintain community satisfaction while minimising complaints. This helped establish the service standard and associated measures so that the council could hold the service accountable in terms of its effectiveness. Subsequent review of this service generated improvement to create planned and timed collection to align with the standard. This has led to a decrease in costs by 20% over the last five years (after adjustment for the waste levy increases).

Most councils have not developed formal service standards:

*Campbelltown has not undertaken formal service reviews that articulate the levels of services provided to the community due to the resources required to do this. Internally, efficiency has been focussed on and has been achieved over the years, however a formal register has not been maintained to identify improvements or where savings have come from. (Campbelltown City Council, DR1, p.4)*

Some councils are collaborating to identify possible opportunities to reduce costs and to improve operations and efficiency, as illustrated by the submission from the City of Marion:

*The Cities of Marion, Charles Sturt and Port Adelaide Enfield have been working together for two and a half years to drive performance improvement outcomes across the three councils. This collaborative approach to performance improvement was founded on the idea that most councils are doing similar things in the majority, albeit probably in a different manner and achieving different outcomes. (City of Marion, FR5, p.2)*

The submission from the City of Charles Sturt illustrates the collaborative approach:

*City of Charles Sturt, Marion and Port Adelaide Enfield have been working on benchmarking between the councils. All council costs are allocated to the activities of councils (around 350 possible activities) and these each have drivers (some of which aren't able to be collected as yet). These activities are rolled up into sub-functions (35) and these are rolled up into 11 functions. The sub functions and functions also have primary drivers. Comparisons occur at the function and sub function level and the activity level data is used to inform improvement areas. (City of Charles Sturt, DR3, p.13)*

*The strength of this approach relative to models like the Performance Excellence Program and the Victorian Performance Reporting Framework is that the benchmarks are comparable and at a level where the basis for differences in performance can be explained and therefore ways to improve performance are identifiable. Internal charge and allocation impacts are removed, there is transparency around corporate service related costs (and performance). (City of Charles Sturt, DR3, p.14)*

Further detail on the collaboration between the Cities of Marion, Charles Sturt and Port Adelaide Enfield is available in Appendix 8.

The only example of a sector wide attempt to conduct comparisons across councils that the Commission has been able to identify is a series of reports prepared for the LGASA by UHY Haines Norton.<sup>4</sup> The reports attempt to replicate the Victorian Local Government Performance Reporting Framework using SALGGC data. Due to data limitations, including a lack of data on activities and outputs, this is limited to estimates of expenditure per ratepayer for each of the service areas examined.

In addition, the LGASA has created a web-based tool that consolidates data available from the SALGGC. The tool is available to members and provides a range of financial, socio-economic

<sup>4</sup> UHY Haines Norton, 'Analysis of Council Data – South Australia- Part 1 and Part 2'. Prepared for the Local Government Association of South Australia, (2019).



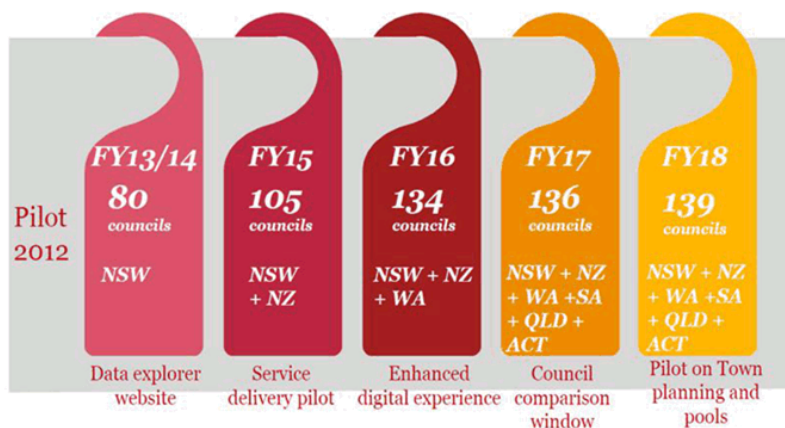
and other information by council for the period from 2011 to 2017.<sup>5</sup> It allows councils to compare themselves to other councils across a range of measures constructed using SALGGC data.

**Other jurisdictions**

The Local Government Professionals 'Australasian LG Performance Excellence Program'<sup>6</sup> provides comparative information, including a range of partial productivity measures, on participating councils. It is a voluntary benchmarking and performance initiative aimed at improving management and operational decision making and planning.

It comprises an annual survey that collects, compares and benchmarks information from the 163 participating councils across New South Wales, Western Australia, South Australia, Queensland, the ACT and New Zealand. The program is managed through Local Government Professionals Australia, NSW. The program started with a pilot in NSW in 2012 and has added additional features and councils each year, as shown in Figure 4.1. The first South Australian councils joined in 2016-17.

Figure 4.1: Local Government Professionals Performance Excellence Program progression



Source: Local Government Professionals (2019)<sup>7</sup>

The Australasian LG Performance Excellence Program includes:<sup>8</sup>

- a semi-customised individual Performance Excellence Report (which includes information on corporate leadership, workforce, finance, operations, risk and asset management, and service delivery);
- a Comparative Analysis Tool that enables each council to analyse their own data; and
- networking.

<sup>5</sup> The web tool is based on a series of reports commissioned by the LGASA that consolidates the data. See UHY Haines Norton, *Analysis of Council Data*.

<sup>6</sup> Local Government Professionals, *Australasian LG Performance Excellence Program 2019 Prospectus* (2019), <[https://www.lgprofessionalssa.org.au/resources/LG%20Professionals/PEP/2019/e\\_PwC\\_Prospectus\\_2019.pdf](https://www.lgprofessionalssa.org.au/resources/LG%20Professionals/PEP/2019/e_PwC_Prospectus_2019.pdf)>.

<sup>7</sup> LG Professionals, Presentation to the South Australian Productivity Commission, 28 June 2019.

<sup>8</sup> Local Government Professionals, *Australasian LG Performance Excellence Program 2019 Prospectus*.

This information is confidential to each council, with aggregated information being provided to member councils. While this is a useful tool for member councils to track and measure their own performance, it is not a sector-wide performance monitoring mechanism.

The City of Charles Sturt noted in their submission that the Performance Excellence Program currently only presents differences across councils on each metric. It does not attempt to explain the differences:

*It should be noted the Performance Excellence Program is undertaken at two of the three councils [that are part of the above-mentioned collaboration]. The PEP has highlighted similar performance differences however does not yet inform the councils on why those differences exist or how they can be addressed, and the data remains focussed on a number of key areas of councils' operations rather than covering all activity areas. (City of Charles Sturt, DR3, p.14)*

### Victoria

Victoria's Local Government Performance Reporting Framework (LGPRF) was the first state-wide performance reporting framework for local government in Australia.

The Victorian Government established the LGPRF in 2014 in response to a Victorian Auditor-General's observation that performance reporting in local government had limited relevance to ratepayers because it lacked information about the quality of council services, the outcomes being achieved and how these related to councils' strategic objectives.<sup>9</sup>

The 'Know Your Council' Compare Councils tool<sup>10</sup> produces graphs of council performance over the previous four financial years across 12 service areas<sup>11</sup> and allows for direct comparisons of groups of similar councils and all councils.

The framework is a platform that delivers comprehensive performance information in a consistent manner. It provides:

- councils with information to support strategic decision making and continuous improvement;
- communities and ratepayers with information about council performance and productivity;
- regulators with information to monitor compliance with relevant reporting requirements; and
- state and federal governments with information to allow better informed decisions that insure an effective, efficient and sustainable system of local government.

To provide a comprehensive picture of council performance, four sets of indicators are provided: service performance, financial performance, sustainable capacity, and governance and management. These were developed across three thematic areas: service performance, financial performance and sustainability.<sup>12</sup> Figure 4.2 provides further detail.

<sup>9</sup> Local Government Victoria, the Department of Environment, Land, Water and Planning, *Local Government Best Practice Guide: Performance Reporting Framework Indicator Workbook* (2019).

<sup>10</sup> Local Government Victoria, *Know Your Council Website*, (2019) <<https://knowyourcouncil.vic.gov.au/>>.

<sup>11</sup> The 12 service areas are: animal management, aquatic facilities, food safety, governance, home and community care, libraries, maternal and child health, roads, statutory planning, waste collection, financial performance and sustainable capacity.

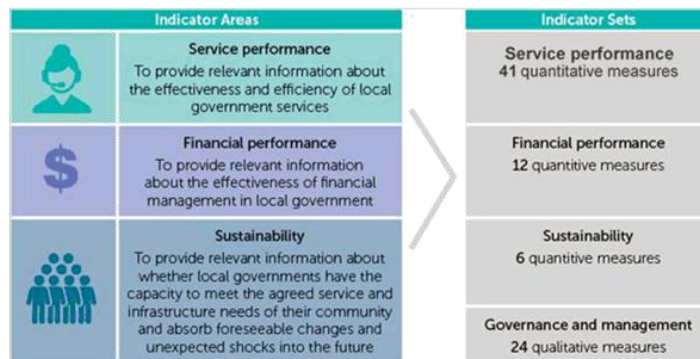
<sup>12</sup> Additional information is available from <<https://knowyourcouncil.vic.gov.au/>>.



An objective for assessing performance against each thematic area has been established to inform the development of performance indicators.

The specific measures of efficiency included in the LGPRF all relate to the average cost per unit of output.<sup>13</sup>

Figure 4.2: Scope of the LGPRF



Source: Local Government Victoria, the Department of Environment, Land, Water and Planning (2019)

**New South Wales**

The Office of Local Government in New South Wales publishes a range of time series data annually for each council.<sup>14</sup> The data are collected from a range of sources including the ABS, the Grants Commission process and councils financial reporting to the Office of Local Government. The focus of the time series data is not specifically on efficiency monitoring, but rather to assist the community to have a greater understanding of their council.

The newly launched 'Your Council' website provides detailed profiles of councils as well as comparisons across similar councils on a number of indicators that will be updated annually.<sup>15</sup> The information provided includes:

- council expenditure in key areas including roads, bridges, footpaths, libraries, recreation and culture, community services, and the environment;
- community facilities such as the number of swimming pools, public halls, and libraries, open spaces and road length;
- council operational information that captures staffing levels and average rates and charges, and
- demographic and economic information including age composition of population, unemployment rate, average income, and number of businesses.

<sup>13</sup> They include: direct cost of indoor aquatic facilities less income received per visit; direct cost of the animal management service per number of registered animals; direct cost of the food safety service per number of food premises; direct cost of the governance service per number of councillors elected at the last council general election; direct cost of the library service per visit; cost of the maternal and child health (MCH) service per hour work by MCH nurses; direct cost of sealed local roads, reconstructed per square meter of sealed local roads reconstructed; direct cost of the statutory planning service per planning application received; and direct cost of the kerbside garbage bin collection service per kerbside garbage collection bin.

<sup>14</sup> NSW Government, *Your Council Report*, (2019) <<https://www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website>>.

<sup>15</sup> <<https://yourcouncil.nsw.gov.au/>>.

### Queensland

The Department of Local Government, Racing and Multicultural Affairs collects information from local governments about the key services they provide and publishes it in the annual 'Queensland Local Government Comparative Information Report'.<sup>16</sup> The report includes a suite of efficiency, effectiveness and quality-of-service indicators across the areas of finance, personnel, road lengths, water services, waste management, library services and parks and gardens.

Most of the information is collected in the local government annual consolidated data collection, similar to the SALGGC process.<sup>17</sup> This data is then published in Excel format to allow comparisons in performance across councils.

Another resource in development is 'LG Sherlock', a data storage and analysis tool that is facilitated and funded by the Local Government Association of Queensland (LGAQ). The primary objective of the system is to help Queensland councils use their data to "support better decision making that will improve financial sustainability, enhance sector reputation and reduce exposure to risk".<sup>18</sup> The system uses artificial intelligence to convert data into information and insights that will help councils in their decision making. Currently the areas of energy, waste, fuel, fleet management, library services and corporate travel are included in the system.

### Western Australia

The Western Australian Government has established the 'MyCouncil' website as a central place to access and compare information on councils.<sup>19</sup> The website provides a geographic, demographic and financial snapshot of each council. It allows data such as council expenditure by program, rates and other revenue and services delivered to be viewed for each council and compared to others. The MyCouncil website relies on data from existing local government reporting requirements and selected ABS data.

### Tasmania

The Tasmanian Government's Local Government Data, Analysis, Transparency, Accountability (LG DATA) project has published local government performance information since 2016-17.<sup>20</sup>

The project aims to enhance transparency and accountability of local government performance and help councils to identify opportunities to improve performance. This includes publishing 'snapshot reports' including comparative information for all Tasmanian councils over a financial year, along with a range of performance indicators related to the snapshot theme.

LG DATA also publishes raw, open datasets from the *Tasmanian Local Government Consolidated Data Collection* for public use through the Tasmanian Government's Open Data

<sup>16</sup> Department of Local Government, Racing and Multicultural Affairs, *Local Government Comparative Reports* (2019). <<https://www.dlgrma.qld.gov.au/resources-ilgp/plans-strategies-reports/local-government-comparative-reports.html>>.

<sup>17</sup> South Australian Local Government Grants Commission (SALGGC), *2016-17 Annual Report* (2017).

<sup>18</sup> LGAQ, *What is Sherlock* (2019). <<https://sherlock.lgaq.asn.au/what-is-sherlock>>.

<sup>19</sup> Department of Local Government, Sport and Cultural Industries *My Council: Frequently Asked Questions* (2019). <<https://mycouncil.wa.gov.au/Home/fags>>.

<sup>20</sup> Tasmanian Government, *Measuring Tasmanian Local Government Performance* (2019).

<<http://www.dpac.tas.gov.au/divisions/local-government/measuring-tasmanian-local-government-performance>>.

website.<sup>21</sup> In addition to the LG DATA program, the Auditor-General produces annual reports on local government financial sustainability.

#### **Report on government services**

While not specific to local government, the Productivity Commission's *Report on Government Services* (RoGS) provides another example of monitoring the efficiency of government delivered services. RoGS publishes annual data on the equity, efficiency and effectiveness of government services in Australia. The Report is used by governments to inform planning and evaluation of policies, for budgeting (including to assess the resource demands and performance of government agencies) and to demonstrate government accountability.<sup>22</sup>

#### **4.2.2 Lessons from performance-monitoring programs**

The Commission has examined the existing performance-monitoring programs in other jurisdictions to understand what does and does not work, and what are some common barriers to success. These lessons have been identified from initial program documentation, program reviews, audits, consultation, submissions and other literature on efficiency and productivity measurement.

This section is not a formal evaluation of existing monitoring programs; rather it draws lessons that could be applied to any state-wide performance-monitoring program adopted in South Australia.

#### **Standardised reporting of performance indicators**

The Victorian Auditor-General's Office reviewed the LGPRF using indicators in three service areas (maternal and child health, statutory planning and waste collection) across five councils.<sup>23</sup> The review highlighted inconsistent performance reporting by councils as a sector-wide issue and found that "councils need to identify a consistent set of performance indicators that they report to their leadership team".<sup>24</sup>

The case for standardised performance reporting was also supported by the LGASA and several councils. Their submission makes the case for a sector-wide performance reporting framework:

*While there is a considerable amount of information already available to communities about what their council is doing; this information is often spread across multiple documents and platforms, can be difficult to find and is not easy to compare with other councils.*

*Sector wide benchmarking would create a suite of meaningful performance measures that build a more complete picture of the financial and governance health of the sector and the public value of the services and programs delivered by councils. This would support council planning and increase meaningful community consultation to enable local government to continually improve. (LGASA, DR16, p.16)*

<sup>21</sup> Tasmanian Government, *Open Data* (2019) <<http://listdata.thelist.tas.gov.au/opendata/>>.

<sup>22</sup> Productivity Commission, *Report on Government Services*, (2019).

<sup>23</sup> Victorian Auditor-General's Office (VAGO), *Reporting on Local Government Performance* (2019).

<sup>24</sup> *Ibid.* p13.



The submission from the City of Prospect:

*There is merit in developing a sophisticated online platform for councils to share and compare meaningful data about their performance and enhance the transparency and accessibility of council data for the community. (City of Prospect, DR5, p.6)*

The Town of Walkerville:

*We believe that a sector wide benchmark, possibly mandated, will go a long way to:*

- *ensure consistent reporting;*
- *ensure that Councils will have evidence-based information to support strategic decision making;*
- *ensure that communities will have accurate information about their respective Council performance;*
- *Councils and other tiers of Government will be better informed to make decisions that support an effective, efficient and sustainable system of local government;*
- *identify areas for improvement; and*
- *promote accountability and transparency across the sector. (Town of Walkerville, DR24)*

There was also some support from councils for a performance reporting framework that is led and managed by the sector, as indicated by the examples below:

*Council supports the development of benchmarking across Councils in a manageable way, with the LGA assisting with tools including data capture mechanisms, in effect overseeing the project. (District Council of Lower Eyre Peninsula, FR13, p.1)*

*We agree that there is value in building capacity within the sector. This is best supported by a Local Government Association SA (LGASA) led performance and monitoring framework that would enable councils to compare performance, learn from each other and partner to deliver further significant improvements. (City of Mitcham, FR6, p.1)*

*Alexandrina Council supports SAPC's draft recommendation in regard to performance monitoring / benchmarking to the extent it aligns with the LGA's advocacy for sector wide benchmarking. In considering the introduction of sector wide performance monitoring / benchmarking, Council is conscious that it should be easily comparable and meaningful and should not add significant additional burden to limited staff resources. (Alexandrina Council, FR2, p.1)*

This view was not universally shared:

*Benchmarking across Councils will not improve efficiency, it takes resources away from service delivery, increases red tape and administrative overheads and is a distraction from improvement initiatives. The rationale for this is that each Council calibrates its services to meet their community's needs. When we compare across Councils it takes time to understand whether we are comparing on a like for like basis and further time to understand the remaining level of difference. It is found that services are intentionally different because each Council is serving the needs of its distinct community. (SALGFMG, DR20, p.11)*

*The report proposes to lower costs and enhance financial accountability by defining and establishing a sector wide performance monitoring framework that would enable comparisons between councils to assist decision makers and inform communities. It is based on the premise that a) the current lack of sector wide KPIs leads to bad decisions, b) the setting of KPIs is synonymous with cost savings, and c) there is a current information gap that communities would like to see addressed. In doing so, it mixes two disparate aims and is likely to achieve little for either. (Tatiara District Council, FR23, pp.1-2)*

Submissions also stressed the importance of allowing for local conditions and choices about quality.

*Costs alone also provide no insight into the quality of work undertaken or different construction methods, which may be reflected in the total expenditure. (Tatiara District Council, DR21, pp.1-2)*

These issues, and other comments in submissions, point to a number of other lessons for the design of performance monitoring programs.

### **Standardised comparators**

A consistent theme in performance monitoring programs across jurisdictions is the value of standardised comparator groups. Due to the partial nature of many of the measures, it is important that 'like-for-like' councils are compared. This limits to some extent, comparisons between councils which face structurally different costs or different demands for services.

For example, the Victorian LGPRF specifies five 'comparator groups' based on geographic and population criteria.<sup>25</sup> The comparator groups are:

- metropolitan;
- interface;
- regional city;
- large shire (>15,000 population); and
- small shire (<15,000 population).

As council characteristics can change over time, Local Government Victoria has committed to reviewing the groupings every five years in line with the national census.

### **Consistent reporting over time**

Because of underlying differences between councils in the range, quality and cost of service delivery, sometimes the most suitable comparator for a council to benchmark against is themselves over time. The use of trend data can demonstrate whether a council is improving its performance.

According to the submission of the Campbelltown City Council:

*Greater benefit to individual Councils would be to compare each Council's own performance over time. (Campbelltown City Council, DR1, p.5)*

<sup>25</sup> Local Government Victoria, *Victorian Local Government Comparator Groups*, LGPRF Practice Note, no. 5, VIC, (2015).



This sentiment was reiterated in the submissions from the City of Playford and the Limestone Coast Local Government Association:

*Council recommends that benchmarking should be undertaken, however in order to truly overcome the difficulties and inconsistencies across council comparisons, it should be considered to conduct benchmarking councils against themselves. (City of Playford, FR7, p.2)*

*We draw attention to our submission on the SAPC methodology and again assert that the difficulties and complexities in data sets to normalise inputs and outputs, means the best approach is to measure the changes in performance of a Council over time rather than seek comparative measures. (Limestone Coast Local Government Association, FR18, p.1)*

The availability of trend data is likely to increase the possibility of councils viewing a performance-monitoring framework as a useful exercise, rather than simply a compliance activity. A review of Victoria’s LGPRF in 2017<sup>26</sup> found that 24 per cent of councils did not access the ‘Know Your Council’ website until it was updated to include year-on-year trend data.

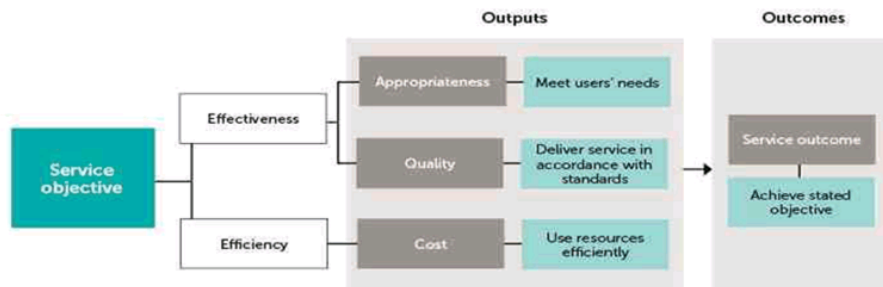
**Measures of quality and timing**

Performance information needs to provide a full picture of service performance including cost and quality. A range of additional performance measures is required to provide a context around which the productivity estimates can be interpreted.

*The Review should take into account the varying degree of service standards and expectations of the community. The review should delve down into unit rates and introduce the benchmarking results in order to properly compare one council with another. (City of Tea Tree Gully, DR7, p.3)*

Victoria’s LGPRF addresses this by incorporating measures of effectiveness, including the appropriateness of services and their quality for each of the service objectives being evaluated (see Figure 4.3).

Figure 4.3: LGPRF services performance framework



Source: Local Government Victoria (2019)

<sup>26</sup> Local Government Victoria, *Local Government Performance Reporting Framework, 2015/16 Reporting Period Review* (2017).

The LGPRF was developed based on the Productivity Commission’s *Report on Government Services* (RoGS).<sup>27</sup> The RoGS framework goes further and includes measures of accessibility and equity.

**Councils’ comments on publicly reported measures**

For many measures, there can be plausible explanations why one council’s estimated productivity differs from others or over time. Incorporating explanations from the council when publicly reporting on performance measures can assist the public in understanding what the measure indicates as well as enabling other councils to understand why their performance differs.

*Should comparisons be made, the ability to provide commentary for context purposes would be important, as some Councils may have distinct differences with other Councils such as different levels of service provided to their communities and additional costs to deliver services due to distance. (Campbelltown City Council, DR1, p.5)*

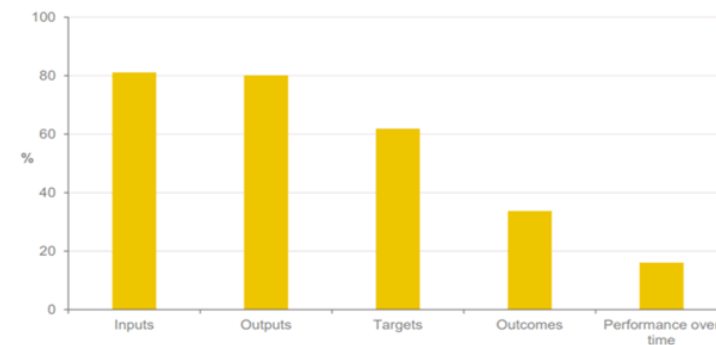
The Victorian Government’s ‘compare councils’ tool achieves this by allowing councils the opportunity to comment on a particular metric prior to publication. This is then linked to the ‘compare councils’ tool on the website, where data are presented for the current year.<sup>28</sup>

**Outcomes in addition to outputs**

Data on council outputs are more easily recorded and collected than data on outcomes. As a result, it is easier to construct a measure of performance comparing inputs to outputs.

The NSW Auditor General<sup>29</sup> found that “while councils report on outputs, reporting on outcomes and performance over time can be improved”. An analysis of NSW councils’ annual reports, presented in Figure 4.4, found that 80 per cent of reporting measures included measures of outputs, but less than 40 per cent included measures of outcomes.

Figure 4.4: Frequency of reporting measures by type, NSW



Source: Audit Office analysis of 105 published 2015–16 annual reports, 2017.

<sup>27</sup> Productivity Commission, *Report on Government Services* (2019) <<https://www.pc.gov.au/research/ongoing/report-on-government-services>>.

<sup>28</sup> <<https://knowyourcouncil.vic.gov.au/compare-councils>>.

<sup>29</sup> Audit Office of New South Wales, *Council Reporting on Service Delivery* (2018).

Source: Audit Office of New South Wales (2018)

Reporting on inputs and outputs provides communities with a general understanding of a council's day-to-day activities. However, this type of reporting cannot demonstrate to communities whether councils are delivering services effectively or making improvements over time. The Victorian Auditor-General's Office also concluded that the LGPRF is "not yet realising its full potential because it lacks good outcomes measures..."<sup>30</sup>

The same report acknowledges that measuring outcomes is complicated by difficulties in identifying their drivers. This is especially the case when activities or services provided by councils are part of a complex web of services by multiple government agencies. In addition, there are external factors: for example, variations in business conditions are likely to have more impact than council effort under an economic development banner. In such situations, the Victorian Auditor-General's office suggests drawing on proxy indicators "such as community views about the performance of a council service".<sup>31</sup>

### **Targets and service standards**

Targets provide a context around what a council is attempting to achieve and therefore can help to make performance information easier to understand.

*The effectiveness of a program should be measured by the change in the outcome relative to this counterfactual. Operationalising this usually requires setting targets that imply an improvement on what would otherwise have happened. Where the counterfactual is an expected deterioration in the outcome, the appropriate target may be no change, or a smaller decline, which can be conceptually hard to explain. As targets should be achievable, this can create a quandary for measuring effectiveness.*<sup>32</sup>

The LGPRF currently does not require councils to adopt targets, however the Victorian Auditor-General's Office found that three of the five councils they audited had adopted targets for some of the LGPRF indicators.<sup>33</sup> Based on a previous audit, Local Government Victoria has committed to introducing targets for a subset of indicators, the 28 indicators that councils include in their annual performance statement, into the LGPRF from 2020-21.

An audit of council reporting on service delivery by the Audit Office of New South Wales found that one third of council reports did not have related targets, making it difficult for the community to assess a council's achievements in implementing its service delivery program.<sup>34</sup>

Targets can also be embodied in statements of service standards, the documentation and review of which attracted attention in consultations. While the process of undertaking service reviews may not necessarily lead to efficiency gains, it is an effective tool in documenting processes and communicating with elected members and the community. The Commission

<sup>30</sup> Victorian Auditor-General's Office, *Reporting on Local Government Performance* (2019), p.8.

<sup>31</sup> *Ibid*, p.32.

<sup>32</sup> Australian Productivity Commission, *On Efficiency and Effectiveness*, (2013) p.7.

<sup>33</sup> *Ibid*.

<sup>34</sup> Audit Office of New South Wales, *Council Reporting on Service Delivery*, (2018)



notes that there are on-going initiatives across several councils. For example, The Barossa Council strongly supported the use of service plans.<sup>35</sup>

*We should move toward a service plan, level and standard based system with one integrated planning, delivery, reporting and improvement system and move away from traditional disjointed estimations of economic or financial outcomes. (The Barossa Council, FR25, p.19)*

### **Costs of reporting**

Councils have expressed concerns about the additional burdens including costs of increased reporting requirements on councils. For example, the submissions from the City of Charles Sturt, City of Port Adelaide Enfield and the City of Marion refers to the "number of external data collection requirements for council in place" and suggests making use of and building on what is already in existence such as the SALGGC data (City of Charles Sturt, DR3, p.2; City of Port Adelaide Enfield, FR8, p.8; City of Marion, FR5, p.7).

*SALGGC provides a sound starting point to build from leveraging the good work already performed by the Grants Commission makes sense and avoids some potential for duplication. (City of Port Adelaide Enfield-Administration, FR8, p.8)*

*For some years, the Victorian Government has collected large amounts of data and cost comparisons from local government and shared them on the "Know Your Council" website. Unfortunately, the reporting regime created significant administrative costs for councils. While these costs can be easily quantified by councils, I am not aware that the Victorian Government has been able to quantify any efficiencies that the system has achieved for the sector. Should regular reporting of additional council data be a part of the Commission's proposed approach to improving efficiency and financial accountability of local government, it is essential to undertake this cost-benefit comparison from the outset. (Tatiara District Council, DR21, p.2)*

*Achieving consistent data reporting across 68 councils will be a resource intensive exercise and consideration will need to be given to the items that are reported to ensure that they deliver some strategic, operational and policy benefit. Consideration should be given to the cost to implement any proposed model and that this doesn't become an additional cost driver that works against local government's efforts to put downward pressure on council rates. (LGASA, DR16, p.16)*

*Council is of the opinion that caution must be exercised in the development of benchmarking projects, noting the variety of factors identified as being variable between Councils, and to ensure that the project is achievable by all classes of Councils without having a negative financial impact of councils and their ratepayers. (District Council of Lower Eyre Peninsula, FR13, p.1)*

A review of the first two years of operation of the Victorian LGPRF conducted by Local Government Victoria in 2017 found that on average each council had more than 10 interactions per year with the Performance Reporting Analysis and Support Team.<sup>36</sup> This is an indication of the level of support and associated resources that are necessary in the initial stages of

<sup>35</sup>An example is available at:

<https://www.barossa.sa.gov.au/Media/Default/Council/Strategies,%20Policies%20and%20Bylaws/The%20Barossa%20Council%20Performance%20&%20Activity%20Report%20-%20Quarter%204%20-%202018%2019.pdf>.

<sup>36</sup> Local Government Victoria, *Local Government Performance Reporting Framework, 2015/16 Reporting Period*.



implementing a new system. While the Commission understands that the number of interactions per year has reduced in more recent years as councils become familiar with the LGPRF and improve their internal reporting processes, councils have been required to allocate resources to the reporting.

### ***Streamlining reporting to the state government***

In all states, councils are required to report to state government departments on a range of statutory functions such as waste collection, health inspections and expenditure of government infrastructure grants. To minimise any additional costs to councils of a state-wide performance reporting approach, a streamlined reporting framework which minimises duplication in reporting is desirable.

In Victoria, one key barrier to minimising duplication in reporting has been timelines and frequency of reporting where regulatory periods differ across services and do not fully align with the performance reporting period.<sup>37</sup>

There is no central reporting system in place in NSW, and a recent report by the Auditor-General concludes that consolidating and coordinating the reporting requirements will help lower councils' reporting burden and duplication, and lead to better reporting over time.<sup>38</sup>

Another barrier is the different IT systems used by different councils and state government departments which have been developed to meet their individual circumstances. These different systems make data sharing difficult, resulting in increased reporting burden for councils.

### ***Council input in the design of a framework***

Performance monitoring improves transparency and provides the potential for decision making that can lead to better outcomes for the community. In order to achieve this, the Victorian Auditor General considers that performance indicators should provide information which help leadership teams to make decisions. These indicators would "support leadership teams to manage strategic risks to the council and assess if the council is delivering services and meeting its strategic objectives".<sup>39</sup> Therefore, it is important to give councils the opportunity to shape information that would help them compare themselves to other councils and identify opportunities to improve service delivery and reduce costs.

Several councils including the City of Charles Sturt, the City of Marion and the City of Port Adelaide Enfield supported a trial and test approach to implementing a sector-wide framework:

*Trialling and testing models / approaches to allow the sector to move forward faster and continue to improve rather than aiming to work towards a perfect outcome that then doesn't work in practice. (City of Charles Sturt, FR3, p.5)*

*It is recommended a trial is conducted initially to determine - in a low risk and low impact manner - how to best establish benchmarks so as to provide net benefit for the community. (City of Charles Sturt, FR3, p.6)*

<sup>37</sup> Victorian Auditor-General's Office, *Reporting on Local Government Performance*.

<sup>38</sup> Audit Office of New South Wales, *Council Reporting on Service Delivery*.

<sup>39</sup> *Ibid.*

The submission from Tatiara District Council suggested choosing a few select service categories to be used in the framework.

*To minimise the additional administrative burden and maximise any potential return from such KPIs, they should only consider the four largest service categories identified by the Commission. (Tatiara District Council, FR23, p.2)*

The Victorian Auditor General's *Report on Local Government Performance* highlights the value of shifting councils' perception of performance reporting and monitoring from compliance to an opportunity for improvement.<sup>40</sup>

Involvement of councils in the development of a performance monitoring framework can also help to minimise the reporting burden on councils by designing indicators which are closely aligned with existing council recording systems and relatively easy for councils to collect.

Local Government Victoria established a steering committee, consisting of council CEOs, for the LGPRF. This steering committee oversees an annual program of review and continuous improvement of the framework and has responsibilities including providing recommendations on the overarching framework, the set of indicators and the content of reporting by councils and the state government.

#### 4.2.3 Summary

Possible mechanisms that could be used by the local government sector to measure and improve performance over time include:

- a sector-wide public reporting framework;
- collaborations among councils to identify opportunities to improve processes and efficiency; and
- documenting service standards and reporting performance against those service standards.

These mechanisms are not mutually exclusive.

There are several examples of sector-wide local government performance-monitoring frameworks in other jurisdictions. There is currently no sector-wide approach in South Australia. The Commission notes that 25 South Australian councils have joined the Local Government Professional's 'Australasian LG Performance Excellence Program' to benchmark their performance against other councils. In addition, the Commission identified many examples of councils attempting to compare their performance with other councils. That said, the lack of a state-wide framework for performance reporting limits the comparability of data and the ability of councils, residents and ratepayers to make meaningful comparisons of performance.

Upon examining the performance monitoring frameworks in other jurisdictions and based on consultations, the Commission considers that:

- standardised reporting on performance across the sector would assist decision making by councils, better inform residents and ratepayers, and assist discussions between councils about their results;
- not all councils can be directly compared, therefore the definition of standardised comparator groups is valuable;

<sup>40</sup> Victorian Auditor-General's Office, *Reporting on Local Government Performance*.

- performance reporting is more valuable when it is applied in a manner consistent over time whether being used to track performance of a council over time or compare councils at a point in time;
- there is value in incorporating measures of effectiveness as well as efficiency in a mature performance reporting framework;
- context and circumstances are important, and it is important that councils are able to comment on their performance before the results are reported publicly;
- targets and service standards are useful for councils to explain their priorities;
- the cost incurred by councils in additional data collection and reporting to be taken into consideration when designing a new system and streamlining any public reporting;
- high data integrity is central to valid comparisons, hence attention to consistency in definition and recording is important;
- council input into the design of the framework and choice of indicators is important; and
- a trial and test approach to implementing a sector-wide framework will help councils build capacity, test the framework as it is developed and manage costs of their participation.

### 4.3 Partial productivity measures

The most widely used measures of local government productivity are partial productivity measures, which relate a single output to a single input. Labour productivity (output per hour worked) and capital productivity (output per unit of capital) are common examples of partial productivity measures.

Such measures are commonly used for benchmarking and provide a useful way of comparing a council's performance against similar councils. These measures have the advantage of being computationally simple and easy to understand. They also provide valuable insight into where a council's costs are higher or lower than comparable councils in certain areas.

However, owing to their simplicity, partial productivity measures do not account for differences in council size, scale, service standards and underlying cost structures. As with all partial productivity measures, these estimates do not capture the effects of the scope and quality of service provided.

The Commission heard some concerns about the usefulness of partial productivity measures.

*Partial productivity analysis is a very sound economic tool however it is not widely understood. It tends to be used in more macro scale analysis when the links between inputs and outputs are being explored and aren't known. As the relationships between inputs and outputs are necessarily inferred, sometimes inconclusive. (City of Marion, FR5, p.27)*

*These provide little value due to the inherent issues in these estimates and create over-arching guesstimates of efficiencies that hold little meaning. (City of Playford, FR7, p.10)*

The Commission acknowledges the limitations of these measures, and notes that the interpretation of direct comparisons between councils using partial productivity measures should be undertaken with care.

While productivity is defined as output per unit of input, in this section the Commission has chosen to present the inverse, or inputs per unit of output. The indicator used here is total



expenditure divided by an indicator of the level of activity in a service area. These can be interpreted as a unit cost. An increase in unit costs represents a decrease in productivity, and vice versa.

#### 4.3.1 Estimates for South Australian councils

While South Australian councils use a range of different productivity measures, the Commission has not identified any sector-wide measurement and reporting of recognisable measures of productivity and efficiency. As part of the analytical approach to understanding patterns in local government productivity and efficiency, the Commission has created a set of partial productivity estimates for South Australian councils. These partial productivity measures could be used by the local government sector to measure and improve performance over time.

These estimates are based on data from the SALGGC, with estimates calculated for selected service areas where consistent data are available for both the quantity and expenditure categories reported.

Data availability has limited the number and quality of partial productivity indicators that the Commission has been able to estimate. There are also some concerns with the consistency of the financial data at the individual service level and their comparability across councils. For instance, there may be differences in how councils apportion indirect costs across services and allocate costs to each of the SALGGC expenditure subcategories. Moreover, output quantity data that are reported to the SALGGC but not used by them are subject to less thorough checking than the financial data.

The Commission's consultations on partial productivity measures raised the issue of data limitations in constructing meaningful measures. It is clear that current data collection processes do not support efficiency or productivity measurement across the sector, and there is room to improve existing data.

The Commission also notes the limitations of partial productivity measures highlighted in submissions, in particular, the inability to capture changes in quality or scope of services, community expectations and cost structures.

Several councils, including the City of Charles Sturt, City of Playford, the Limestone Coast Local Government Association and The Barossa Council, have raised concerns about the accuracy of the SALGGC data.

*Data provided to the grants commission is of low interest generally in driving efficiency and improvement as it is purely financial with some measures of performance on an activity basis, comparisons are difficult and often the story on any comparison done is not accurate due to the differing communities and service levels provided or expected. (The Barossa Council, FR25, p.21)*

However, there was broad agreement that using existing SALGG data is the best available and that it is an appropriate starting point for analysis:

*Data collection comes with an impost for councils thus Grants Commission data is a good starting point and is generally comprehensive for financial data. However, the sector has a not unreasonable degree of scepticism as to accuracy of some contained data sets due to the self-reporting nature of data collection and the inconsistency that arises from this and little structure around collection methodology. It would be preferable for consideration to be given as to how the*



*data collection and compilation effort for councils can be minimised as the commission progresses its investigations. (City of Charles Sturt, DR7, p.7)*

*The reliance on data from existing data bases (grants data bases for example), the existing data sets available, such as the grants data base, were developed for a range of purposes, evaluating performance and efficiency to inform economic models was not one of them. Therefore, these data bases are unlikely to provide valid information for the model and indeed a recent analysis using the SA Grants data base shows that this data has some significant difficulties. (Limestone Coast LGA, DR15, p.2)*

*It should also be noted, that Councils are already required to provide extensive data reporting to a number of different bodies, and organisations. Additional reporting should be considered carefully for its impacts on administrative burden. (The Rural City of Murray Bridge, FR26, p.32)*

The Commission made efforts to 'clean' the data, including adjusting some council expenditure data where expenditure appears to have been reported in thousands of dollars in the earlier years but dollars in the later years. Councils that did not report expenditure in at least one year, while still providing that service, were excluded from the estimation of time series trends. There are likely to be some remaining issues with the data, largely relating to the consistency across councils of what expenditure is reported. All expenditure figures used by the Commission have been converted to 'real' 2018 dollars using the LGPI discussed in Chapter 3.

While data are available from 2008-09 to 2017-18, the Commission's calculations excluded the first three years of this period from service level analysis due to changes in the reporting of service-level expenditure. In the years 2008-09 to 2010-11, a significantly higher proportion of council expenditure was allocated to the category of 'rates and balance of amounts not allocated to other functions'. Therefore, councils' reported service-level expenditure is likely to be much more accurate from 2011-12 onwards.

A summary of the types of services provided by councils across the 14 SALGGC service categories (excluding rates and balance of amounts not allocated to other functions) is available in Appendix 5.

The service areas that are responsible for the largest proportions of expenditure are likely to explain the greatest proportion of overall council productivity. Therefore, priority was given to the larger expense categories discussed in Chapter 3.

The Commission examined the following sectors:

- transport (sealed and unsealed roads);
- waste management (recycling, general waste and green waste collection);
- planning; and
- library services.

### **Transport**

Transport is the largest expense category for councils, accounting for 20 per cent of local government expenditure in 2017-18.

Councils currently report expenditure on sealed roads, unsealed roads, bridges and major culverts to the SALGGC. This expenditure includes depreciation, capital renewal, maintenance, upgrades and capital expansion. Councils are also required to report on the total length of sealed and unsealed roads and laneways and the estimated replacement cost for each.

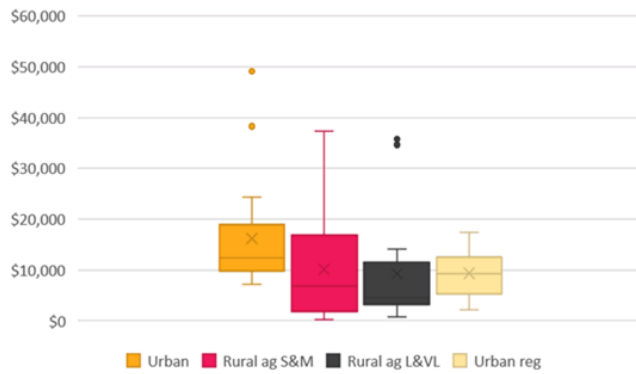
Estimating a partial productivity ratio for the entire category of transport is likely to be misleading and difficult to interpret as councils have different types of roads and related expenditure. Therefore, separate ratios for sealed and unsealed roads have been estimated. No indicators for bridges and major culverts have been estimated as many councils did not have any and the underlying costs vary significantly depending on their size and topography.

*Reported expenditure on roads compared to total kilometres of roads provides no insight into efficiency. Expenditure would have to be compared against kilometres of work completed, and possibly councils' sustainability ratios. Even then, low costs will not necessarily equate greater efficiencies but can simply be a reflection of construction materials like limestone having to be transported significant distances compared to a limestone quarry close by. Costs alone provide no insight into the quality of the work undertaken or different construction methods, which may be reflected in the total expenditure. (Tatiara District Council, DR21, p. 1)*

**Sealed roads**

There are significant differences between councils in total expenditure per kilometre of sealed roads (excluding depreciation). As a result, this measure may be difficult for benchmarking across the sector as some investigation would be required to identify reasonable 'peers' for councils to compare themselves. The distribution shown in Figure 4.5 appears to be similar to that of earlier years in the sample, although there was one significant 'outlier' in 2013-14 and 2014-15.

*Figure 4.5: Distribution of expenditure per kilometre of sealed roads, by council group, 2017-2018*



Source: SALGGC, SAPC estimates

Analysis of the expenditure/kilometre of sealed roads for the four groupings of councils, discussed in Chapter 3 shows that there is considerable variation within each group, as

demonstrated in Figure 4.5.<sup>41</sup> The analysis also shows that overall expenditure per kilometre of sealed roads is higher for urban councils than for regional councils, and that the variation is highest among rural agricultural (small and medium) councils

Five councils that reported zero expenditure in any one year<sup>42</sup> were excluded from the calculation of average expenditure per kilometre of sealed roads. Over the seven-year period analysed, there has been an average annual increase of three per cent in the total expenditure per kilometre of sealed roads. This is mainly observed in rural areas, with rural agricultural large and very-large (9 per cent) and rural agricultural small and medium councils (2 per cent) having the greatest increase.

As this measure is based on total expenditure on sealed roads, the observed changes in expenditure per kilometre could be a result of greater capital expenditure rather than maintaining or improving the quality of sealed roads. To test this, the Commission estimated reported expenditure on maintenance of sealed roads per kilometre.<sup>43</sup>

Overall average expenditure per kilometre on the maintenance of sealed roads has fallen by four per cent a year across the state over the period. The reduction in expenditure is observed across all council groups but is greatest among urban councils and rural agricultural small and medium councils.

This may indicate that the increase in expenditure per kilometre of sealed roads is a result of upgrades to existing roads rather than increased maintenance, however there is insufficient data available to test this further. There has also been an increase in total kilometres of sealed roads while the length of unsealed roads has slightly declined suggesting some upgrading of unsealed roads to sealed roads.

#### ***Unsealed roads***

Across the state, there has been a two percent average annual increase in total annual expenditure per kilometre on unsealed roads. Urban councils were excluded from this calculation as they have very few unsealed roads.

#### ***Waste management***

As discussed in Chapter 3, waste management (including recycling) accounted for 9 per cent of total council expenditure in 2017-18. Councils report the type and tonnage of waste collected annually to the SALGGC. This section presents partial productivity measures relating to recycling, and general and green waste collection based on the data available.

#### ***Recycling***

During 2011-12 to 2017-18, approximately 88 to 98 per cent of councils reported tonnes of recycling collected annually. However, during the same period, only 60 to 74 per cent of councils recorded expenditure on recycling.

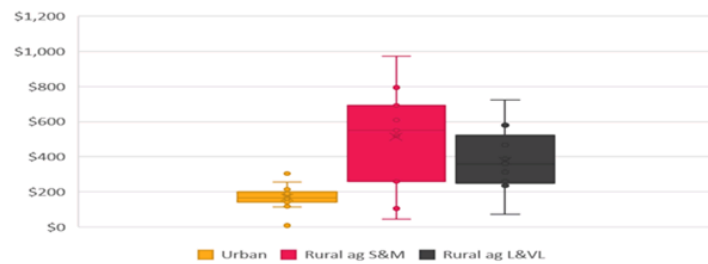
<sup>41</sup> The lines in a box and whisker plot correspond to the quartiles of the data, ranked in decreasing order, with the top line representing the maximum, then 75<sup>th</sup> percentile, the median, 25<sup>th</sup> percentile and the minimum. The cross represents the mean and the dots outside this range represent outliers, defined as data that is more than 1.5 times the interquartile range (the 75<sup>th</sup> percentile minus the 25<sup>th</sup> percentile).

<sup>42</sup> One urban, three rural small and medium and one urban regional council.

<sup>43</sup> Reported expenditure on sealed roads is classified as either maintenance, capital renewal, capital expansion (expenditure on new roads) or upgrade. Comparing these other categories to total kilometres of roads is not meaningful and no data is available for quantifying these other activities (such as the distance of road upgraded).



Figure 4.6: Distribution of expenditure per tonne of recycling collected, by council group, 2017-18



Source: SALGGC, SAPC estimates

The distribution of expenditure per tonne of recycling for 2017-2018 is presented in Figure 4.6, which illustrates its variation across councils. Urban regional councils have been excluded from this calculation as only four out of the nine councils in this group reported expenditure in 2017-18.

A council not reporting expenditure in any one year may reflect differences in reporting and accounting practices, including where recycling is managed by regional subsidiaries. As a result, this expenditure is likely to be included elsewhere in the SALGGC data but not separated out. The Commission has not been able to investigate this at depth with the available data.

As illustrated in Figure 4.6, urban councils had the lowest cost per tonne of recycling and rural councils had the highest cost between 2011-12 and 2017-18. As properties tend to be more spread out in rural and regional areas, the unit cost of waste collection can be higher compared with urban councils.

Overall, there has been a reduction in the cost of recycling per tonne across all councils. Total expenditure fell by an average of four per cent per year, whereas the total tonnes of recycling collected remained relatively constant over the seven-year period analysed.

#### **General waste collection**

The average real expenditure per tonne of general waste collected between 2011-12 and 2017-18 shows that unit costs increased by approximately two per cent during this period. This increase was not evenly shared by councils. Large and extra-large rural agricultural councils had the greatest cost increase, while urban regional councils achieved cost reductions during the same period.

The total tonnes of general waste collected have remained relatively constant for both urban and small and medium rural agricultural councils. Rural agricultural large and very-large councils reported a decline in the tonnes of waste collected by an average of over five per cent per year, while the unit cost of general waste collection in urban regional councils increased by three per cent per year.

#### **Green waste collection**

Only 15 of the 68 councils reported expenditure on green waste in all seven years analysed, therefore examination by council grouping is not meaningful in this instance.



Among the councils whose data was available for all years, average expenditure per tonne of green waste collected declined by six per cent per year.

There is some evidence of an expansion of green waste collection by councils over this period. Approximately 70 per cent of councils reported having collected green waste in 2011-12. This figure rose to 79 per cent by 2017-18. There has also been an increase in total tonnes of green waste collected by an average of four per cent per year.

### **Planning**

Town planning is the largest regulatory function that councils perform, accounting for over 47 per cent of regulatory services expenditure in 2017-18. Councils report to the SALGGC their total planning costs, as well as quantity data relating to the number of new development applications and additions and alterations by type. The costs of assessing a planning application vary significantly depending on its complexity.

Factors other than the type of development may also affect the costs of planning. For example, proximity to areas such as the Hills Face Zone and other environmentally sensitive areas affect the level of analysis by a council as well as state authorities where concurrent advice is required. Council consideration of the impacts on existing infrastructure can affect timeframes and costs of development assessment. In addition, if a council approves groups of the same type of house in bulk in a new development, compared to different houses each with a separate assessment process, their 'productivity' would be higher.

Therefore, comparisons across councils and over time should be interpreted with caution as they may reflect differences in the type and location of development activity rather than differences in efficiency. Nonetheless an estimate of the costs to councils per application can be useful in examining trends in council expenditure and activity.

The Commission has not received any data that separates planning costs by type. Its analysis is based on constructing partial productivity ratios of the total planning expenditure per number of applications for each new development and additions and alterations.

A council that has a higher proportion of additions and alteration applications can be expected to have a significantly higher total planning expenditure per number of new planning applications. Similarly, a shift in the type and level of development occurring in any year will have a significant impact on the estimated ratios.

Overall, real costs per planning application have fallen for urban councils, with costs per new application falling by an average of three per cent per year and costs per addition and alteration application remaining constant. On the other hand, costs for rural agricultural small and medium and urban regional councils have increased across both measures.

### **Provision of library services**

Library services accounted for six per cent of total expenditure across all councils in 2017-18. The LGASA estimates that library services cost \$89 per ratepayer per year on average for the period 2012-2018.<sup>44</sup>

Councils report to the SALGGC the number of 'active borrowers' and the number of 'active borrowers' who reside outside the council area. The data indicate that the proportion of

<sup>44</sup> UHY Haines Norton, *Analysis of Council Data*

borrowers who reside outside the council area varied across councils from zero to 98 per cent in 2017. Therefore, expenditure per ratepayer may not be the best measure to estimate the productivity of libraries. Instead the Commission has estimated real expenditure per 'active borrower'.

The analysis showed that across the state, average annual real expenditure on libraries per 'active borrower' has increased by over eight per cent. This increase is across all councils, except urban regional councils where real expenditure per active borrower fell by an annual average of 0.4 per cent.

This apparent decline in productivity reflects falling numbers of active borrowers, as real expenditure has increased by only 1.5 per cent per year, while the number of active borrowers across the state fell by an annual average of 8.3 per cent.

One possible weakness of this measure is that the number of 'active borrowers' may not accurately reflect the number of people who use library services. Submissions from stakeholders also highlight that the type and number of services offered by libraries has expanded beyond the traditional provision of no-cost access to books.

*A library service can be a simple online service, it could be just books, or it could provide a community hub for knowledge, learning and to connect community. In each case the costs are for a library, but the inputs and outputs are different, and their cost allocations will vary across each Council. It will also vary over time as the nature and scope of services change, for example the outputs for a library 10 years ago will be different to the outputs provided today. (Limestone Coast LGA, DR15, p3)*

The Commission notes that in light of these limitations, the Victorian LGPRF used an estimated number of visits to the library as the denominator of their productivity measure. A review of the LGPRF in 2017<sup>45</sup> recommended that this be expanded as the door counts did not include online visits, whereas the expenditure amount included the costs of e-books.

#### 4.3.2 Summary

Current data availability and quality issues severely limit the ability to conduct meaningful analysis of council performance at the service level. While there are data on expenditures on higher level service types, there are issues with the consistency of reporting across councils and missing values for some councils in single years limits the ability to analyse sector-wide trends over time.

Accounting changes in 2011-12 further limit the ability to compare service level expenditure prior to this period as changes to the amount of expenditure not allocated to a function decreased substantially. These issues need to be addressed as part of a strategy to develop a common performance framework across all councils.

Nevertheless, the data demonstrate that urban councils face different unit costs than rural councils, and that metropolitan urban councils differ from urban regional councils. For example, urban councils have significantly higher expenditure per kilometre of sealed roads than other councils, but lower expenditure per tonne on waste collection. Furthermore, there is significant variation within each council group.

<sup>45</sup> Local Government Victoria, *Local Government Performance Reporting Framework 2015/16 Reporting Period Review*.

Despite the issues with the data, the Commission found some evidence of an expansion in the scope of services as the number of councils reporting expenditure on green waste collection increased from 70 to 79 per cent over the time period analysed. As discussed in Chapter 3, several councils argued that the scope of their services had expanded, and this had driven up expenditure.

There is also some suggestion that the increased expenditure on roads is a result of an uplift in quality of roads. This is a result of real total expenditure per kilometre of sealed roads increasing over this period, while real expenditure on maintenance of sealed roads per kilometre has not. However, there are issues with measuring expenditure per kilometre of total roads. Without data on the level of activity conducted, these estimates must be interpreted with caution.

#### 4.4 Global efficiency measures

In addition to the partial productivity measures described above, the Commission undertook a global analysis that enabled the estimation of multiple-input, multiple-output estimates of local government efficiency. This also enabled some allowance for local conditions that affect performance.

##### *Box 4.2 Data Envelopment Analysis*

The application of the DEA requires data on outputs and inputs. It produces a measure of the ratio of actual inputs used to an estimated minimum achievable amount of inputs, which is defined by the observed inputs used by the best performing councils in the sample if they were to operate in similar circumstances. For example, a score of 0.9 indicates that the council of interest could produce its current output using 10 per cent fewer inputs, according to the experience of others, while a score of 1 indicates the council is producing its current output using less inputs than other similar councils. The measures of technical efficiency are relative to the performance of others in the sample: they are not indicators of what can be achieved in absolute terms.

The challenge, because of gaps in the available data, is that the method can produce measures of performance which may be the consequence of factors other than the drivers of technical efficiency. The most serious of these gaps is that related to measuring output. This issue is examined in more detail in Appendix 7. Care must therefore be taken when interpreting the results in terms of either levels of technical efficiency or the patterns of technical change. Even so, the results can be used to identify interesting questions for further analysis. Examples of these situations and their consequences for the analysis are provided in the discussion of the results below.

As noted in section 4.1, the focus of this chapter is on the measurement of efficiency in terms of multiple inputs and outputs, which is referred to as technical efficiency.<sup>46</sup> For analytical purposes the Commission has chosen Data Envelopment Analysis (DEA). Box 4.2 provides an overview of DEA, including constraints in the application of the methodology in the local government sector and their implications.

<sup>46</sup> A discussion of the methods of estimating global efficiency measures is available in Appendix 7.



#### 4.4.1 Previous research on local government efficiency using DEA

The Commission reviewed previous research on estimating local government efficiency to identify appropriate methodologies and lessons that could be applied to South Australia. It is important to note that the results of separate DEA studies cannot be compared as they relate to different frontiers and there is an established relationship between DEA efficiency scores and sample size<sup>47</sup> (in this case the number of councils). Furthermore, as DEA efficiency scores are relative to those included in the study, it cannot be said whether South Australian councils are on average more or less efficient than those in other states.

The existing body of literature on measuring global efficiency using DEA in local government in Australia mainly relates to Victoria and New South Wales. The choice of inputs and outputs used in the DEA models is based on several factors including the research or policy questions analysed, data availability and quality, and applicability within local government. An overview of existing studies is summarised in Table 4.1.

The Commission is aware of only one available study that estimates relative efficiency in local government in South Australia.<sup>48</sup> The analysis used an input-oriented DEA with operational and staff expenditure as inputs and a series of output measures that capture the number of planning assessments and length of roads. It concluded that the relative efficiency of a typical council in South Australia had slightly decreased during the study period. The average relative efficiency fell from 0.863 in 2013 to 0.835 in 2014 and further decreased to 0.823 in 2016. The study also concluded that rural councils, on average, have a higher relative technical efficiency than their urban counterparts.

Table 4.1: Summary of Methodologies for Australian Local Government Efficiency Measurement

Author	Inputs	Outputs	Data
<b>Victorian Essential Services Commission (2017)</b> <sup>49</sup>	Council staff (\$), capital (\$)	Households, businesses, length of roads	79 Victorian councils
<b>Victorian Essential Services Commission (2017)</b> <sup>50</sup>	Council staff (FTE), capital (\$)	Households, businesses, length of roads	79 Victorian councils
<b>Victorian Essential Services Commission (2017)</b> <sup>51</sup>	Council staff (\$) capital (\$)	Households, businesses, length of roads, waste collected	79 Victorian councils
<b>Victorian Essential Services Commission (2017)</b> <sup>52</sup>	capital (\$) operating expenses (excl. depreciation) (\$)	Households, businesses, length of roads	79 Victorian councils
<b>Victorian Essential Services Commission (2017)</b> <sup>53</sup>	operating expenses (excl. depreciation) (\$) + depreciation (\$)	Households, businesses, length of roads	79 Victorian councils

<sup>47</sup> Y Zhang and R Bartels, 'The Effect of Sample Size on the Mean Efficiency in DEA with an Application to Electricity Distribution in Australia, Sweden and New Zealand' (1998) 9; *Journal of Productivity Analysis* 187.

<sup>48</sup> J Drew, *Measuring Relative Technical Efficiency of South Australian Local Governments*, University of Technology Sydney Centre for Local Government, NSW (2018).

<sup>49</sup> Essential Services Commission (ESC), *Measuring Productivity in the Local Government Sector: Consultation Paper*, (2017).

<sup>50</sup> *Ibid.*

<sup>51</sup> *Ibid.*

<sup>52</sup> *Ibid.*

<sup>53</sup> *Ibid.*



Author	Inputs	Outputs	Data
<b>Fogarty and Mugera (2013)</b> <sup>54</sup>	employee costs, physical expenses and financial expenses	Population, number of properties, length of sealed and unsealed roads	98 Western Australian councils (2009,2010)
<b>Worthington (2000)</b> <sup>55</sup>	Number of workers, financial expenditures (except depreciation), other expenditures	Total population, number of properties acquired to provide the following services: potable water, domestic waste collection, surface of rural and urban roads (km).	177 New South Wales councils (1993)
<b>Drew, Kortt and Dollery (2015)</b> <sup>56</sup>	Staff (\$), Capital (\$)	Businesses, Households, Roads	152 New South Wales councils
<b>Drew (2018)</b> <sup>57</sup>	Operational expenditure (\$), staff expenditure (\$)	Number of assessments (residential, business, other), length of roads (sealed, unsealed)	68 South Australian councils (2012-2016)

Other studies have used several different combinations of inputs and outputs in the DEA model which allows comparison of relative efficiency estimates under different specifications. For example, the models estimated by the Essential Services Commission (ESC) of Victoria found that total factor productivity across Victoria’s local government sector decreased between the period 2010-11 to 2015-16, which was attributed to reductions in technological change.

DEA models estimated across 152 councils in New South Wales for the year 2011 found average efficiency scores ranging from 0.66 to 0.72. Based on a series of robustness analysis, the study presented a preferred model which consists of staff and capital expenditure as inputs and the number of businesses, households and length of roads as outputs.<sup>58</sup>

**4.4.2 Global efficiency measures for South Australian councils**

The methodology paper released by the Commission in May 2019 proposed a model for estimating the technical efficiency of South Australian local governments.<sup>59</sup> The Commission consulted extensively on the proposed model and analysed the suitability of data available.

The Commission also engaged Economic Insights Pty. Ltd. to provide advice on issues relating to productivity and technical efficiency measurement and to estimate local government efficiency using DEA.<sup>60</sup>

In order to produce meaningful estimates for each of the 68 councils in South Australia, Economic Insights advised that a single model for all councils, with a maximum of five or six variables, was required. As a result, it was not possible to include data on all council outputs

<sup>54</sup> J Forgarty and A Mugera, *Local Government Efficiency: Evidence from Western Australia* (2013) 46(3) *Australian Economic Review*, 300.

<sup>55</sup> A Worthington, *Cost Efficiency in Australian Local Government: A Comparative Analysis of Mathematical Programming and Econometric Approaches* (2000) 16(3) *Financial Accountability and Management*, 201.

<sup>56</sup> J Drew, M Kortt, and B Dollery ‘What Determines Efficiency in Local Government?’ A DEA Analysis of NSW Local Government’ (2015) 34(4) *Economic Papers* 243.

<sup>57</sup> Drew, *Measuring Relative Technical Efficiency*.

<sup>58</sup> Drew et al ‘What Determines Efficiency in Local Government.

<sup>59</sup> This methodology was similar to the one discussed in Drew, Kortt and Dollery ‘What Determines Efficiency in Local Government?’.

<sup>60</sup> A detailed analysis available in Economic Insights, (2019).

(even if available). Several proxies were chosen that are likely to represent the outputs of a council. Clearly, these proxies do not capture all the outputs produced by any council, therefore the estimated efficiency scores must be interpreted with caution.

After consideration, the preferred DEA model proposed by Economic Insights and agreed by the Commission was:<sup>61</sup>

**Inputs:**

Opex = labour expenses + materials, contracts and other expenses

Capital = depreciation expenses

**Outputs:**

Residential properties

Other properties

Total road length

A detailed discussion of the variables included in the model is available in the Economic Insights report.<sup>62</sup>

Having analysed the peers selected by the model, the Commission decided to exclude one council, the City of Adelaide, from the results. As described in their submission, the City of Adelaide faces significantly different expenditures than other metropolitan councils, and as a result, the peers selected by the model for the City of Adelaide were not informative.

*A direct comparison with other metro Councils to determine efficiency may be misleading as being a Capital City Council, our service provision often extends to those outside its ratepayers' catchment area. This is particularly evident in Council's support for key city events and activation activities such as the Adelaide Fringe, Supaloo500 and the various Christmas and New Year's Eve events extending beyond the event itself to the cost impact associated with the management of key infrastructure components that enable these activities. (City of Adelaide, DR2, p.1)*

While the City of Adelaide has been excluded from the presentation of the results, it was included in the model estimation. This treatment does not affect the results for any other council. Figure 4.17 presents technical efficiency scores of each council in the four council groups, estimated using the single 68 council model.

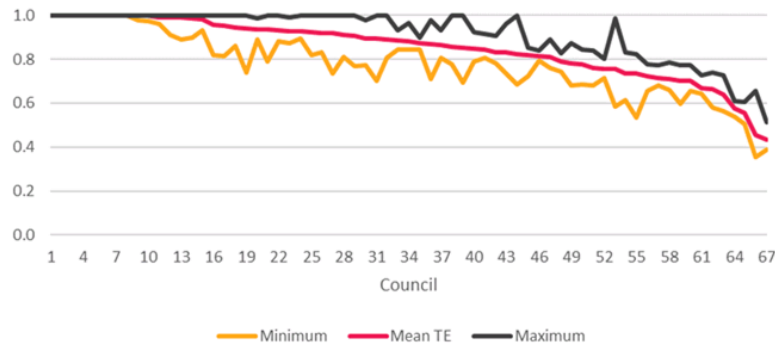
***Sector-wide estimates***

The analysis by Economic Insights indicates that with a few notable exceptions, South Australian councils overall estimated technical efficiency scores were relatively close to the maximum score of one. For example, 43 per cent of South Australia's councils had an estimated mean technical efficiency over the 10-year period greater than 90 per cent. A further 35 per cent of councils had a mean technical efficiency of over 75 per cent. This is demonstrated in Figure 4.7, which presents the mean technical efficiency for each of the 67 councils over the ten-year period (in descending order) as well as the maximum and minimum technical efficiency score by each council in any year.

<sup>61</sup> *Ibid.*

<sup>62</sup> Economic Insights (2019)

*Figure 4.7: Minimum, Maximum and Mean Technical Efficiency Scores, by council ranked in descending order of mean score 2008-09 to 2017-18*



Source: *Economic Insights (2019), SAPC estimates*

The efficiency scores in Figure 4.7 are an estimate of efficiency relative to all other councils in the sample, not an estimate of absolute efficiency. The Commission is unable to estimate the levels of council efficiency relative to a concept of potential performance defined in engineering terms. Therefore, even with a value of one, a council can become more efficient.

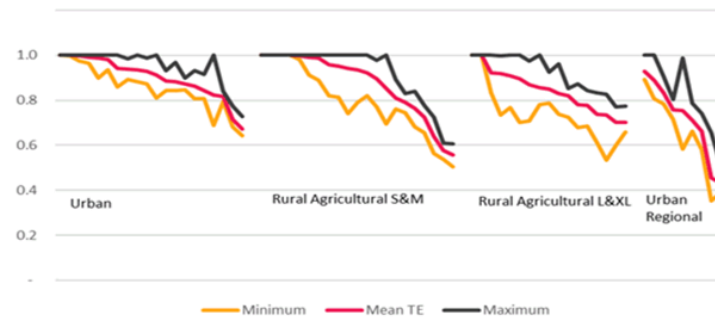
**Analysis by council group**

The methodology paper proposed to conduct separate DEA studies for each of the groupings of councils used in Chapter 3. However, advice from Economic Insights was that this may result in too few observations in each model to have reliable estimates and that a single model for all councils is preferred.

This single model would then self-select appropriate ‘peers’ for each council and rural councils would be compared against other rural councils (based on their high ratio of roads to properties) and urban councils would be compared against other urban councils.

Compared to urban councils, rural and urban regional councils had a higher variation in mean technical efficiency (Figure 4.8). Urban regional councils had the widest range of estimated technical efficiency, which could be because it is a small group with a few members that are unique. As discussed in Chapter 3, urban regional councils also had the highest proportion of expenditure on non-mandated services. A discussion of potential drivers of performance across councils is provided in section 4.4.5.

Figure 4.8: Minimum, Maximum and Mean Technical Efficiency Scores, by council type ranked in descending order 2008-09 to 2017-18



Source: *Economic Insights (2019)*, SAPC estimates

#### 4.4.3 Service-specific DEA estimates

Estimating service-specific global efficiency of councils can potentially avoid some of the limitations of whole of council estimations, particularly in defining a comparable and comprehensive set of inputs and outputs. Estimating service-specific efficiency also largely addresses the criticism that councils providing additional services may be deemed inefficient as variability of costs between councils is likely to be more contained when looking at specific services and analysis of differences is simpler than for whole-of-council comparisons.

Several submissions from councils also supported estimating service-specific efficiency (for example, City of Tea Tree Gully, City of Charles Sturt, Copper Coast Council, and Playford City Council). Councils noted that as “non-specific” measures do not account for the variability across councils, they are not comparable.

Other submissions, including those from Campbelltown City Council and the LGASA raised concerns about such measures:

*Due to the differences in service levels between councils (and also potentially in the way a council financially accounts for that service) it may be difficult to get to a point where service-specific metrics are directly comparable. There is also a risk that councils operating in thin markets (more likely in regional areas) which need to pay more to procure certain services could be viewed as 'inefficient' when compared to others. (LGASA, DR16, p.29)*

*The risk with these types of comparisons is that the areas being compared may not be a focus of all Councils. Establishing comparisons of this nature may place an expectation on perceived low performing Councils to improve in this area, meaning that other services may need to be reduced or further rate increases required to fund the extra services. (Campbelltown City Council, DR1, p.5)*

There were also concerns from councils about the potential administrative burden and costs of producing relevant data required for calculating service-specific efficiency measures.<sup>63</sup> There

<sup>63</sup> For example, submissions from the District Council of Streaky Bay, FR15 and the Town of Gawler, FR27.



was particular emphasis on the importance of improving SALGGC reporting guidelines particularly in relation to the treatment of costs.

The Commission investigated possible options for measuring service-specific global efficiency estimates, including obtaining expert advice from Economic Insights, and has concluded that currently available data do not permit this exercise.

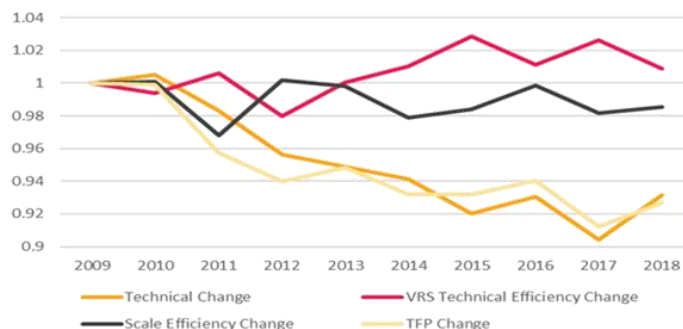
**4.4.4 Efficiency changes through time**

As previously discussed, DEA efficiency scores are defined relative to the efficiency frontier of the sample under consideration. It is therefore not meaningful to compare efficiency scores calculated against different efficiency frontiers. This means that it is not possible to directly compare estimated efficiency scores over different time periods, even for the same underlying sample.

The technical efficiency scores, discussed in section 4.4.2, relate to the distance from the frontier. However, over time the frontier can also move. This is known as technical change, which, when combined with changes in efficiency, contributes to changes in TFP.

Economic Insights estimated changes in efficiency and TFP for each council over each pair of adjacent years for the 10-year period from 2008-09 to 2017-18. These estimates can be decomposed into measures of changes in technical efficiency and in technical change, as well as changes in scale efficiency.<sup>64</sup> This technique enables comparisons of productivity and efficiency over time without directly comparing the estimated efficiency scores. The results are presented in Figure 4.9.

*Figure 4.9: The Decomposition of TFP change, 2008-09 to 2017-18*



Source: Economic Insights (2019)

The results indicate that TFP (yellow line) has fallen by an average of 0.8 per cent per year over the ten-year period. This decline is primarily due to the technical change component (orange line) declining by an average of 0.8 per cent per year over this period. There are also minor contributions from technical efficiency (red line) and scale efficiency (black line) but these are minor compared to the larger effect of technical change.

<sup>64</sup> Further details are available in Economic Insights (2019).

In most sectors one would expect technical change to be positive. There are several explanations for the estimated negative technical change. They include:

- declining performance across the sample;
- an increase in the volume, scope or quality of services that are not measured by the output proxies used in the model; or
- measurement issues.

Based on the feedback from the Local Government Reference Group and consultation with stakeholders, the Commission understands that increases in scope, quality and quantity of services are likely to be factors in the explanation of these results. This is consistent with the Commission's findings in Chapter 2 that the legislative framework has enabled an expansion in functions and in Chapter 3 that growth in the volume and quality of outputs are a significant driver of increased operating expenditure.

Quantifying changes in the volume and scope of council services is problematic. The Commission has not been able to identify any standardised measures of service quality across councils, which limits incorporating service quality into the model.

*Some Councils have embarked on community surveys to ascertain Council service quality. In my view, it is considered that a sector wide community survey could be explored, but subject to a review of the cost benefit of such survey. Previously, some years ago, the Local Government Association of South Australia coordinated a community survey for councils that chose to participate on a cost basis. (Copper Coast Council, DR9, p.4)*

Data issues have also prevented the Commission from quantifying any expansion in the scope of services provided by councils. Therefore, estimates of declining productivity should be interpreted with caution.

#### **4.4.5 Understanding factors that influence efficiency of councils**

Council performance may be influenced by factors outside their control, including socio-economic and demographic characteristics of council areas, their geographic location, and operating and policy environments, as discussed in Chapter 3. Submissions from stakeholders also noted factors such as growth areas, ageing populations, labour market shocks (for example, large scale redundancies such as the closure of automotive manufacturers) and thin markets (LGASA, DR16, p.32).

Some of the limitations of the DEA efficiency estimation described in earlier sections can be addressed by analysing the effect of external factors on council efficiency scores. This will also assist in establishing a context with which the estimated efficiency scores from the DEA analysis can be more meaningfully interpreted.

The most commonly used methodology is Two-Stage DEA. It involves using the DEA efficiency scores in a regression model to explain differences in estimated efficiency scores of councils. The Commission acknowledges that such an analysis will be limited by the data available and may not capture the context in which councils operate in its entirety.

#### ***Previous studies of two-stage DEA in local government***

The type of factors analysed depends on the specific research or policy questions addressed. Existing studies have used a range of variables summarised in Table 4.2. While it is not possible

to directly compare possible factors that are associated with council efficiency across different jurisdictions, they provide useful insight into the nature and extent of differences and similarities of councils.

*Table 4.2: Factors associated with council efficiency*

Study	Factors used in the study
Comparing cost efficiency of NSW councils. Worthington (2000) <sup>65</sup>	Grant dependence; debt service; current assets; number of staff; average residential property rate
Local government efficiency in WA. Fogarty and Mugerá (2013) <sup>66</sup>	Population density; rate share of total expenses; ABS disadvantage index; employee cost per resident
Local government efficiency in NSW. Drew et al (2015) <sup>67</sup>	Population; population density; percentage of population over/under 65; percentage of ATSI <sup>68</sup> population; percentage of NESB <sup>69</sup> population; annual unemployment rate; average annual wage; total liabilities; total infrastructure value; grant funding; depreciation; sealed and unsealed roads (km)
Planning and regulatory efficiency in NSW. Worthington and Dollery (2000) <sup>70</sup> Waste management in NSW. Worthington and Dollery (2001) <sup>71</sup>	Geographic and demographic conditions classified into five categories (urban developed; urban fringe; urban regional; rural significant growth' rural agricultural)
Efficiency measurement in municipal water services in NSW. Woodbury and Dollery (2004) <sup>72</sup>	Population, properties per km of main location; rainfall; proportion of residential properties; unfiltered water; groundwater.
Measuring productivity in the local government sector in VIC. Applied Econometrics (2017) <sup>73</sup>	Population, population density, proportion of population under 15; proportion of population over 65, percentage of ATSI population, percentage of NESB population; unemployment rate; median annual wage rate; total liabilities; total infrastructure value; total grants, annual depreciation; length of roads
Local government efficiency in SA. Drew (2018) <sup>74</sup>	Population, population density, proportion of population under 15, on Newstart allowance, NESB, ATSI; median wage; financial assistance grants; urban; shared services

<sup>65</sup> Worthington, 'Cost Efficiency in Australian Local Government'

<sup>66</sup> Fogarty and Mugerá, 'Local Government Efficiency'.

<sup>67</sup> Drew et al., 'What Determines Efficiency in Local Government?'

<sup>68</sup> Aboriginal and Torres Strait Islander.

<sup>69</sup> Non-English-speaking background.

<sup>70</sup> A Worthington and B Dollery, 'Measuring Efficiency in Local Governments' Planning and Regulatory Functions' (2000) 23(4) *Public Productivity and Performance Review*, 469-485.

<sup>71</sup> A Worthington and B Dollery, 'Measuring Efficiency in Local Government: An Analysis of New South Wales Municipalities' Domestic Waste Management Function' (2001) 29(2) *Policy Studies Journal*, 232-249.

<sup>72</sup> K Woodbury and B Dollery, 'Efficiency Measurement in Australian Local Government: The Case of New South Wales Municipal Water Services' (200) 27(2), *Review of Policy Research*, 77-91.

<sup>73</sup> Applied Econometrics, *Measuring Productivity in the Local Government Sector, A Reply to Stakeholder Comments concerning DEA* (2017).

<sup>74</sup> Drew, Measuring Relative Technical Efficiency.



### ***Estimates for South Australian councils***

The Commission engaged Economic Insights to conduct second-stage DEA analysis of a range of social and economic factors that might influence council efficiency. A detailed discussion of the analysis is available in the Economic Insights report.<sup>75</sup>

The Commission notes that factors not incorporated in the analysis due to data and/or analytical constraints may contribute to differences between councils in measured efficiency scores. Some of these noted in the consultation process are outlined below:

- multiple towns/service delivery centres – might reduce efficiency because a duplication of services such as libraries may be required;
- climatic factors – such as higher rainfall might influence efficiency through increasing maintenance requirements on roads and bridges due to water damage;
- soil types – such as reactive clays versus more stable gravels and loams might affect road maintenance costs;
- topographic differences – such as hilly versus flat terrain might also influence maintenance costs of roads and parks to some degree;
- coastal versus inland setting – humid salty air might imply extra maintenance is valuable for buildings plus there might be more parks, jetties and wharves in coastal areas;
- tourism – seasonal populations might put pressure on parks and waste facilities;
- quality of services – some councils might deliver higher quality services because they are demanded by their residents;
- distance to supply chain, particularly in regional and remote councils; and
- skills, commitment and effectiveness of council administration.

The issue of quality of services provided by councils was regularly raised in the consultation process. However, the absence of appropriate data that captures service quality in a consistent manner across the sector has precluded further analysis. The Commission received a number of suggestions to improve the quality of data, including:

- enhancing the collection and presentation of data provided to the SALGGC;
- additional guidance and controls around how data are collected and collated to facilitate comparison across councils;
- standardisation of information provided to the SALGGC;
- ensuring that councils have access to necessary technology will help facilitate efficient data collection; and
- a centralised system to extract the required data from councils, collate, analyse and present in a meaningful manner.

#### **4.4.6 Summary**

While mean technical efficiency of the sector has remained relatively constant over the ten-year period, an application of the DEA model found that TFP has fallen by an average of 0.8 per cent per year. This observation may be at least partially explained by a combination of declining performance, an increase in the volume, scope or quality of services that are not measured by the outputs chosen in the model, or inherent measurement issues.

<sup>75</sup> Details of the two-stage DEA analysis are available in Economic Insights, *Efficiency and Productivity Analysis of Local Government*. The Commission undertook further analysis of possible factors influencing council efficiency, but the results were inconclusive and therefore do not provide any useful insights.



There is anecdotal evidence supporting the expansion of some services over time. Examples provided in the submissions referred to the delivery of community services, economic development, environmental management and regulatory services, waste management, parks and gardens and reserves maintenance as examples.

In terms of the relative efficiency scores by council grouping, compared to urban councils, rural and urban regional councils had a higher variation in mean technical efficiency. The Commission sought to analyse the situation of councils that were identified as either relatively efficient or inefficient and possible reasons for those outcomes as well as problems with the DEA model. However, further comment is constrained by the Commission's commitment to not publicly identify individual councils.

Many of the less 'efficient' councils according to the DEA study were unique in terms of their size, location or service mix. As a result, their levels of operational expenditure per property or kilometre of roads is higher than their 'peers' in the model.

Establishing and reviewing service standards was an emerging issue from consultations. While service reviews may not necessarily lead to efficiency gains, they are an effective tool in documenting processes and communicating with elected members and the community. The Commission notes that there are on-going initiatives across several councils.

The lack of appropriate data for calculating consistent sector-wide efficiency and productivity measures was a significant constraint in the analysis of factors that influence council efficiency. There was general agreement across councils that while SALGGC data provide a good starting point for analysis, there is room to improve their quality, consistency and timeliness.

The Commission heard some concerns from councils about the potential administrative burden and costs of producing relevant data required for calculating service-specific efficiency measures. There was particular emphasis on the importance of improving reporting SALGGC guidelines including the treatment of costs.

#### 4.5 Conclusions

This chapter brings together the Commission's analysis of local government efficiency, which includes partial and global efficiency measures and qualitative information available from submissions and consultations. It is expected that this analysis will help initiate constructive conversations across the local government sector.

Based on a review of local government performance monitoring nationally, the Commission considers best practice in performance monitoring to include standardised comparator groups to enable meaningful comparisons across councils and over time. Any estimate of council efficiency should also acknowledge the context influencing this efficiency estimate, including measures of quality and effectiveness as well as council targets or service standards. The value of performance monitoring can be further improved by allowing councils the opportunity to comment publicly on their performance, prior to any estimates being publicly released. Furthermore, any reporting framework should balance the costs of reporting against the benefits of the additional information and every effort made to streamline existing reporting and remove duplication. Council input into the design of the framework and choice of indicators is critical to its success.

The Commission notes that many councils are attempting to compare their performance against other councils. However, it is evident that issues around the comparability and quality of

currently available data limit the usefulness of such comparisons and impose analytical constraints with respect to efficiency analysis across the sector as a whole. The Commission's analysis also highlighted the benefits of a standardised sector-wide performance measurement reporting framework.

The Commission's estimates of partial productivity underscored the limitations of available data for this purpose, particularly relating to the quality and consistency of reported data, across councils and over time.

The analysis using global efficiency measures found that while mean technical efficiency of the sector has remained relatively constant over the ten-year period, TFP has fallen by an average of 0.8 per cent per year. Based on stakeholder consultations, the Commission is of the view that this fall could largely be attributed to the unmeasured changes in volume, scope or quality of services provided. However, quantifying changes in scope of services requires additional information and data, highlighting the value of further work to understand the underlying influences on efficiency.

While DEA provides an important starting point for an analysis of council efficiency and is the best methodology available to provide an overall estimate of council efficiency, it is imperfect. The inability to capture all council outputs requires the use of proxies that are unable to capture all aspects of every councils' activities. Therefore, DEA is an important first step in efficiency analysis and can be more meaningful when complemented by analysis of partial productivity and service quality measures.

The broad consensus across councils that provided input to the Commission is that sector-wide performance reporting is useful as a tool for continuous improvement, and moreover that it is best managed by the sector. That said, councils had varying views on the details of what a potential framework would look like and how it would be implemented. They also raised concerns about making meaningful comparisons across the sector. Any performance reporting framework has to be useful to councils and consider the costs of implementation and burden on limited resources. Also, the distinction between performance comparisons and benchmarking is relevant, practical and important.

The majority of councils support the use of existing data for performance reporting, including existing SALGGC and council held data. The Commission notes that while data collection through the SALGGC is useful, further guidelines and additional controls and processes to ensure accuracy, comparability, consistency and timeliness of data would be valuable.

In terms of implementation, there is broad council support for a staged approach, initially trialling with a small number of councils. In this view, such an approach would help councils build capacity and test the framework as it is developed while minimising costs and administrative burden.

## 5. Cost and efficiency improvements

### 5.1 Introduction

The inquiry's terms of reference require the Commission to:

- provide advice on possible options to guide and assist councils to improve efficiency and create capacity to pass on cost reductions to ratepayers; and
- provide recommendations on actions by the South Australian Government to lower local government costs and enhance local government financial accountability.

In doing so, the Commission is expected to have regard to the changing service expectations of communities and the long-term financial sustainability of councils.

The Commission's analysis of the observable trends in, and potential drivers of, costs and efficiency in the sector, together with consideration of input received from councils and other stakeholders, provide the basis for the recommendations to the South Australian Government and advice to councils presented in this chapter.

The Commission's focus has been on identifying measures that can be implemented by state and local governments in the short to medium term to effectively frame and inform councils' decision making. These measures can be broken down into three broad elements.

The first is how councils can better understand their costs and related aspects of their performance to better inform their decisions on what services to provide. More informed decision making, in turn, will lead to improved efficiency and create a capacity to pass on benefits to ratepayers. The Commission's recommendations and advice in this area are focused on enabling councils to respond more effectively to their communities' preferences and priorities.

The second is how councils can choose the ways in which services are provided, improve their performance over time, contain expenditure growth and use efficiency dividends. The Commission's recommendations and advice in this area relate to improving the ways in which councils monitor and improve performance.

The third is ways in which councils can use performance and expenditure reporting to show and achieve greater accountability and financial sustainability. This involves considering the way in which councils interact with other levels of government and their ratepayers.

In sum, the recommendations and advice aim to achieve the following interrelated key outcomes required by the terms of reference:

- reduce growth in councils' costs;
- improve efficiency in the sector;
- create capacity to pass on any reductions in costs to ratepayers; and
- enhance councils' financial accountability.

The Commission's analysis, views and councils' views on costs, efficiency and accountability are discussed below. This is followed by recommendations to the South Australian Government and advice to councils. The Commission's recommendations and advice are consistent with the principle underpinning the local government system in South Australia that councils are primarily accountable to their communities in carrying out their roles and functions and achieving their objectives.



## 5.2 Cost drivers and improved decision making

### 5.2.1 Commission's analysis

The analysis in Chapter 3 of trends in, and possible drivers of, expenditure in the local government sector shows that the councils' operating expenditure over the last decade has grown in real terms. Urban metropolitan and fringe councils consistently recorded higher growth in operating expenditure than other councils during this period. This real growth has been funded, in the main, by increases in rate revenue.

The Commission analysed councils' operating expenditure from two perspectives: the expenditure by service area categories such as waste and transport; and the key aggregate cost components of: employee costs; materials, contracts and other costs; and depreciation which respectively accounted for 35 per cent, 41 per cent and 23 per cent of total sector operating expenditure in 2017-18.

These proportions of spending by expenditure category and cost components have not changed materially since 2008-09.<sup>1</sup>

#### **Major cost components**

Council procurement practices play a significant part in expenditure on materials, contracts and other costs. They include decisions about what is to be procured as well as the skills and capability of procurement staff. The Commission examined this area further after the release of the draft report.

Total sector expenditure on employee costs increased slightly faster than other expenditures, in percentage terms, over the decade to 2017-18 (4.5 per cent per annum, compared with 4.0 per cent for materials). Expenditure growth has moderated over the decade in both urban and rural councils.

Higher than average wages growth in local government is confirmed by ABS statistics on average weekly earnings. Average weekly earnings for all full-time adult employees in South Australia increased by an average of 3.0 per cent per annum between 2009 and 2018. By contrast, the ABS estimates that average weekly earnings for South Australian local government employees grew at an average of 4.5 per cent per annum over this same period. The extent to which this has been offset by productivity growth is difficult to determine in the absence of data on council outputs.

South Australia's councils have a workforce which is considerably older than the Australian all-industry workforce and have a declining proportion of workers under 30 years of age. The Australian Local Government Association's *Local Government Workforce and Future Skills Report – South Australia*<sup>2</sup> also found that the sector is facing what it referred to as skills shortages in key professional and technical occupations and that it does not have enough apprentices to meet the positions expected to be created. These challenges are found to be greater in rural areas. These challenges may become more significant over time due to retirements from an ageing workforce.

<sup>1</sup> As noted in Chapter 3, data limitations have prevented the Commission from analysing the extent to which the average annual growth in materials (and other costs) reflect increases in prices paid, volumes purchased or changes in efficiency.

<sup>2</sup> ALGA (2018), *Local Government Workforce and Future Skills Report – South Australia*



Depreciation costs are largely driven by the stock of council assets, their estimated value and lives and estimated rates of capital consumption. This element tends to be an area where council has little influence in the short term other than from its decisions on asset additions and disposals.

Finance costs have been negligible and falling over the decade as councils have tended to finance their operations using internal funds, or equity, rather than debt.

#### ***Service expenditure categories***

More than half of councils' operating expenditure is accounted for by the four largest service categories – transport, recreation, other environment and waste management. Analysis of operating expenditure by the fourteen service categories indicates that the mix of services delivered has not changed significantly over the last seven years.

The Commission was told of several independent factors that influenced council expenditures that either removed or significantly limited councils' discretionary decision making, including: mandated requirements by the state and Australian governments (both unfunded and partially funded); population growth and density; and size and location of councils. These factors have also driven council costs.

While services mandated by the state government, as defined in Chapter 2, are relatively small in number, they accounted for 46 per cent of sector operating expenditure in 2017-18.

Mandated services consistently accounted for a higher proportion of operating expenditure for rural councils, at close to 60 per cent, compared to 40 per cent for urban councils. The most significant service mix difference between council groupings is that the share of expenditure on the transport function was greater for rural councils than urban councils.

#### ***Cost drivers***

Growth in population and property numbers, while low, is likely to have caused some increase in the volume of services demanded, with the exception of small and medium rural councils. This could explain part of the growth in council operating expenditure. Slowing population growth in the later part of the decade would likely have contributed to the observed moderation in operating expenditure growth. In addition, the effect of an ageing population is likely to have altered the mix of services demanded. The Commission has been unable to find evidence of this in the fourteen categories of operating expenditure examined. Consultations on the Commission's draft report indicated that increases in population density have been a cost driver for some councils and one which is not fully within their control.

Instances of cost-shifting from the state government to local government have been argued by councils to have increased their costs. Councils cited reduced state government funding for libraries and the 75 per cent annual rate rebate on public housing transferred to community housing providers as examples of cost shifting. On the basis of available evidence, the Commission finds that cost shifting is occurring but is unable to quantify the impact on council costs. Councils have sometimes decided to continue to deliver a service or program after fixed term Australian or state government funding commitments have expired, possibly in response to community expectations. In the Commission's view, a decision to continue to provide a service after such funding by a higher level of government has ended is more accurately described as cost sharing. Cost shifting is discussed further in section 5.4.

In addition to the expansion of responsibilities under various pieces of state legislation, some of which are unfunded, councils have cited cost pressure from an increased regulatory compliance burden imposed by the state government. While councils provided further examples of this compliance burden during consultations, the evidence was not sufficient to enable the Commission to quantify compliance costs.

Councils have varying degrees of control over factors which influence their cost. Some are externally determined, including, for example, the broader regulatory or taxation environment or growth in ratepayer or property numbers, which drive up demand for services. Other factors, such as the prices councils pay for labour and other inputs, are influenced by industrial relations arrangements and procurement practices. Councils are also able to influence community expectations through consultation with ratepayers including on the costs of changes in service mix and quality.

Other cost drivers are more strongly controlled by councils and include decisions on delivery of non-mandated services, scale, scope and quality standards and through choice of technologies and business processes which affect productivity and efficiency.

#### ***Industrial relations framework***

Councils currently operate within an industrial relations system established under the *Fair Work Act 1994* (SA) and its associated regulations.

At present, councils negotiate enterprise bargaining agreements (EBAs) individually, with different agreements in place for staff classified as either 'indoor' or 'outdoor' employees. These arrangements affect the expenditure category 'employee costs' which, as noted previously has grown by an annual average 4.5 per cent over the past ten years.

In addition, under the LG Act, chief executive officers are accountable for complying fully with the requirements of any industry award or enterprise bargaining agreement (EBA).

#### ***Resource sharing***

The Commission was informed of a variety of resource sharing arrangements in which many councils are engaged, ranging from informal information or resource sharing to the establishment of subsidiaries to deliver services. Resource sharing activities, in some circumstances, have been demonstrated by councils to be an effective mechanism for cost savings and/or service improvements.

Many councils expressed the view that resource sharing by councils can deliver benefits in terms of efficiency gains and there are further opportunities for cost saving through resource sharing. Some councils identified potential barriers, including differing priorities, differences in IT systems and HR policies, geographical distances and additional overhead costs.

#### **5.2.2 Councils' views**

The Commission notes that councils have highlighted a range of factors that could, either separately or collectively, account for the observed increase in expenditure in the sector over the last decade.

A large number of councils, both in metropolitan and rural areas, noted in their submissions that state government legislation has expanded the scope of councils' responsibilities. Councils have contended, in particular, that the increased scope of their responsibilities under new or

amended legislation has not been matched by an increase in state government funding sufficient to cover the costs of providing additional services or regulatory functions.

The City of Prospect, for instance, cites examples of legislative requirements imposing greater costs on the local government sector, including functions under the *Dog and Cat Management Act 1995* and the *Local Nuisance and Litter Control Act 2016*. Under the latter piece of legislation councils are defined as the principal authority for dealing with local nuisance and littering in their areas.

Several councils, including the City of Charles Sturt, have argued that some legislated requirements, such as the mandatory 75 per cent rate rebate for community housing properties, have become a substantial cost burden.<sup>3</sup>

Other councils argued that the burden of complying with state and Australian government legislation has grown significantly over the last decade, thereby increasing their overall cost burden. While data limitations have prevented quantification, consultations with councils have suggested that the cost impact is likely to be relatively small as a percentage of total operating expenditure.

A number of councils have submitted that wider scope and higher quality of services in response to community demand have been a significant contributor to growth in expenditure. However, the Commission has not been able to obtain any sector-wide service level data to enable an assessment of the extent to which increases in the scope or quality of services or facilities explain observed increases in councils' costs.

Councils have also highlighted other fees imposed by the state government as significant cost drivers, including the solid waste levy. Councils have been clear in their submissions to the Commission that the levy – which is seen by the local government sector as a prominent example of cost shifting – contributes significantly to overall costs:

*The waste levy increase equates to 0.58% increase in rates and Council has no choice but to pass the cost of the State Government Tax on to our ratepayers.<sup>4</sup>*

The Commission notes that a concern about the costs mandated by state legislation are pervasive within the sector, taking in a range of areas beyond community housing and the waste levy.

Councils have also expressed concerns about the overall effects, which are borne out by the Commission's analysis in Chapter 3, that employee costs have had, and are likely to continue to have, on councils' costs. As discussed in Chapter 3, a number of councils drew a link between enterprise bargaining arrangements and growth in employee costs and have contended that Enterprise Bargaining Agreements have been a major cost pressure point. The South Australian Local Government Financial Management Group (SALGFMG) points out that, beginning in 2008-09, annual wage increases for many councils were in the order of 4 to 6 per cent. This had fallen to approximately 3 per cent by 2014-15, with more recent increases averaging around 2 per cent, which is broadly reflective of growth in wages throughout the wider economy.<sup>5</sup> Submissions also noted the costs incurred (by both councils and unions) in negotiating the EBAs council by council.

<sup>3</sup> City of Charles Sturt, FR3, p.4

<sup>4</sup> *Ibid.*, p.2

<sup>5</sup> SALGFMG, FR22, p.10.



While the majority of councils take the view that the current industrial relations arrangements are problematic, their views are not aligned on the most appropriate direction for reform. Some councils have expressed qualified support for a move to sector-wide enterprise bargaining, while others have argued that this is likely to introduce its own risks and difficulties. A number of councils, such as Clare and Gilbert Valleys Council, have argued that a sector-wide approach might enhance councils' capacity to bargain effectively. Others, including the District Council of Lower Eyre, have suggested that it would be preferable for EBAs to apply to groupings of councils. Several councils observed that productivity gains under enterprise bargaining have been largely exhausted; consequently, adjustment in recent years are said to reflect costs of living increases. The Barossa Council, for instance, has argued that the current system, while appropriate in the past, is now more of a hindrance than an enabler of significant gains in efficiency, innovation or costs savings:

*The system is also set up to work against contemporary and efficient organisational culture models in that it is adversarial rather than collaborative. Fundamentally the system is not serving anyone well anymore and we need to find new ways and modernise our industrial relations framework for the benefit of communities, staff and Council. (Barossa Council, FR25, p.24)*

The District Council of Streaky Bay was equally strong on the need for reform:

*Many councils do not have access to staff with sufficient IR / ER skills to properly manage and engage in an enterprise bargaining process...Bargaining at the local council level further leads to unfair and sometimes uninformed comparisons between agreements where local conditions are not factored into the agreements reached in each district. (District Council of Streaky Bay, FR15, p.9).*

By contrast, the City of Playford indicated that it sees no benefit in moving to a sector-wide model if the proposed model is not, from the outset, developed by the local government sector:

*The unique value add of each council requires ability for flexibility within the Enterprise Bargaining agreement process including the impact that this has on the culture within each individual organisation (City of Playford, DR6, p.11).*

The importance of introducing greater flexibility into the current EBA environment was highlighted by a number of councils. For example, Regional Council of Goyder linked its support for regional-wide enterprise bargaining arrangements with the need for the inclusion of "flexible working arrangements" (*Regional Council of Goyder, FR21, p.8*). Others have observed that there is scope for flexibility with human resources practices and policies, which can be applied as long as they are consistent with the EBA.

It is possible, as suggested by the City of Marion, that a sector-wide approach might lead to a reduction in the pressure on some councils to match the higher salary rates embedded within the EBAs of other councils.

This position was broadly echoed by the District Council of Lower Eyre Peninsula, which suggested that, while sector-wide bargaining has some merit, it would be preferable if "...sector-wide EBs apply to groupings of councils" (*District Council of Lower Eyre Peninsula, DR11, p.11*).

In addition, the Commission notes that both the Australian Workers' Union (AWU) and the Australian Services Union (ASU), which together represent a significant proportion of the local government workforce, have expressed qualified support for limited industrial relations reform, including the formation of groups of councils for the purpose of enterprise bargaining.



The submissions received confirm that the local government sector faces workforce challenges such as, not enough apprentices to meet future needs, skills shortages in key professional and technical occupations and preparedness to meet new and emerging requirements. These challenges are relevant to the entire sector yet exacerbated in rural areas.

The LGASA submission noted that 45 per cent of councils have identified some skill gaps and 29 per cent of councils have unmet training needs. The LGASA also suggested that key barriers to councils meeting their training needs include travel costs for staff to attend training, the availability of quality trainers locally, high costs of training and a lack of time for staff to attend training.

There was wide support from councils on the need for workforce planning and that this be pursued on a sector basis.

During consultations councils identified a number of factors likely to put upward pressure on procurement costs. Councils consistently commented on their lack of ability to attract and retain qualified or experienced procurement staff as a barrier to effective council procurement. This was especially the case in rural councils, but also applied to many urban councils. The Commission also heard concerns about a lack of training opportunities for procurement staff. The Local Government Association Procurement (LGAP) offers face-to-face and online procurement courses specific to local government. The proportion of staff who have undertaken formal procurement training was said to be low with most staff learning on the job. The Commission also heard that most staff conducting procurement in smaller councils do it as only one of their many responsibilities.

Some councils were of the view that their processes place excessive red-tape requirements on contractors and suppliers which is reflected in higher prices in tenders.

*Most tenders build in additional costs to cover the additional administrative work that is required by Local Government (Clare and Gilbert Valleys, FR12 p.3)*

*Feedback from suppliers is often that Council's legislative requirements restrict them from undertaking relatively non-complex tasks within their skill levels. (Alexandrina Council, FR2 p.5)*

Complicated tender documents were also seen as increasing the costs of procurement and over-prescription of outcomes in tendering reducing the potential for innovation from tenderers.

*Overly difficult &/or complex tendering documentation that causes doubt amongst suppliers in how to respond resulting in a risk premium being included in pricing, or a low tender response rate being realised; (LGA Procurement, FR17 p.8)*

In addition, the Commission heard that councils are often unable to calculate their indirect costs of procurement and contract management. This is partially due to the decentralised way procurement is done in councils, meaning that time spent conducting procurement by line employees is not included in procurement expenditure. Knowledge of these costs would be required to inform choices of procurement strategy and to increase efficiency.

Opportunities to aggregate procurement among councils were viewed as an effective method of achieving increased bargaining power, economies of scale and reducing competition between councils, resulting in lower costs to councils. However aggregated procurement was not seen as always appropriate with councils often having different requirements as well as a desire to support local businesses.

Where aggregated procurement was not necessarily appropriate there were still other gains from collaboration among councils. These include opportunities to share specialist procurement expertise among several councils.

In addition to the benefits of aggregated procurement among councils, many councils suggested opportunities to obtain greater bargaining power and economies of scale through access to state government contracts and pricing. The main examples given were for state government electricity and water contracts.

Councils acknowledged the important role they play in their community in conducting procurement. Many councils include a 'buy local' provision in their procurement policy to give weighting to local businesses when tendering for goods and services. Some councils noted that these provisions increase the direct costs of procurement.

*The requirement to 'buy local' often means the pricing is less cost effective than if we were able to purchase outside of the local area. Increasing our ability to source, even from neighbouring councils, products and services available in this district, would increase competition but may also have a detrimental affect on the local economy. This is a balance council must consider when purchasing so one answer is not necessarily true in all situations. (District Council of Streaky Bay, FR15, p.5)*

The Commission also heard during consultations that post-procurement contract management could often be improved and that variations in contracts are not matched with procurement outcomes in evaluating procurement processes.

### 5.2.3 Commission's view

As noted above, the Commission's analysis of councils' costs showed that, over the last decade, there has been real growth in operating costs, but no major change in the broad composition of input costs and output mix.

Moreover, the Commission's analysis of the sector's major cost drivers, both in relation to inputs and outputs, suggest that the most plausible explanation, at least in part, for the real increase in the sector's expenditure over the last decade is a growth in output costs, including the volume, scope and quality of services supplied. Some of these services are mandated by legislation, while others are provided on a non-mandatory basis.

The Commission considers that enhancing councils' capacity for sound decision making will have a positive effect on their performance over time, enhancing efficiency and financial sustainability and creating capacity to pass on cost reductions to ratepayers.

#### ***The remit of councils***

As local decision makers, councils have a broad remit. The LG Act, for instance, makes clear that councils are expected to take a leading role in ensuring, either by direct provision or through coordination, equitable access to "public services and facilities", and to ensure that their communities and resources are developed in a "socially just and ecologically sustainable manner".<sup>6</sup>

Given councils' broad legislated remit, especially in relation to non-mandated services, it is possible for councils to provide a wide range of services reflecting community preferences and values. As already noted, councils' expenditure has been increasing at a higher rate than

<sup>6</sup> See section 6(b) of the Local Government Act 1999, p. 2.

underlying measures of inflation. This is true of both mandated and non-mandated services and is likely to be strongly influenced by decision making at the local level.

In the Commission's thinking, sound decision making by councils requires a clear conception of which services are most effectively and efficiently delivered at the level of local communities.<sup>7</sup>

Considerations to guide this decision making are:

- whether there is a case for any action by council;
- understand the contribution of councils relative to other levels of government;
- be responsive to local preferences, innovative and efficient;
- operate in a financially sustainable manner;
- weigh the interests of current and future generations; and
- consider options for cooperation with other councils, state government agencies, not for profit organisations, and other bodies.

Councils would then:

- consider a range of alternatives to direct service provision, including different roles such as, advocate, facilitator or part-funder;
- foster the development of a variety of forms of cooperation which might provide the capacity to undertake existing services or meet new demands that emerge;
- look for options to reduce the dependency on funding from governments, including through joint arrangements with users and/or councils (among other service providers), or methods of managing demand through pricing or other forms of rationing;
- regularly review current service functions, and divest if the case is made for some form of cooperation or the private sector or other service provider, if possible, to provide the service;
- regularly consider the options for service provision including comparisons of in-house provision to contracting out in order to lower costs;
- make transparent the relationships between taxpayers and recipients of funds and make users accountable for funds; and
- apply mechanisms that demonstrate in a credible manner the accountability of local government elected officials and staff for their decisions and use of the funds.

The Commission proposes that councils develop and implement a scheduled program of reviews of existing services and undertake a service analysis when considering new, or material changes to, council services. Councils can also be supported in these processes by operating in a legal and policy framework that is defined by a higher level of government, in which these principles are embodied, and which creates the expectation of reporting against them.

<sup>7</sup> A relevant principle for this discussion is that of subsidiarity, which is commonly stated to mean that when more than one level of government can take decisions then they are best made at the most decentralised level practicable. There are however more dimensions to this principle than evident in this common statement. For an assessment of the principle of subsidiarity see Drew, J and Grant, B., (2017), 'Subsidiarity: more than a principle of decentralization – a view from local government', *Publius: The Journal of Federalism*, 47(4), pp. 522-545.



### ***Mandated services***

In the case of services mandated by legislation, the Commission accepts that councils have no control over the ultimate decision about *what* services are required by legislation. However, they retain a considerable degree of local autonomy over decisions on *how* they deliver such mandated services.

Mandated services are comparatively small in number but accounted for 46 per cent of the sector's operating expenditure in 2017-18, and a larger proportion for rural and remote councils. The Commission has formed the view that councils could achieve greater efficiency and lower costs by improving information and analysis as a basis for decisions on what services they provide and how they deliver them. Adjusting the scope, volume and quality of services, both mandatory and non-mandatory, can help councils to manage the further expansion of their operating expenditure.

Councils' decision making on the scope, volume and quality of the services – both mandatory and non-mandatory – that they provide in their communities could be enhanced by additional guidance in the LG Act. The Commission has formed the view that limited and targeted amendments to sections 6, 7 and 8 of the LG Act – which outline councils' principal roles, functions and the principles that should inform their decision making – could usefully make explicit that there are different ways that councils can undertake functions in the LG Act, without being directly involved in the delivery.

Alternatives to direct service provision that councils could consider include roles such as, advocate, facilitator, part-funder or regulator. Section 7, in particular, would benefit from greater clarity in relation to the different ways in which a council can develop and implement the functions contemplated in the LG Act.

### ***Data***

The Commission's identification of cost drivers has been constrained by a lack of data, particularly with respect to outputs and quality. It has formed the view, through further consultation with councils, that increases in the scope, volume and quality of outputs have been significant drivers of growth in councils' operating expenditure.

The Commission notes that managing and containing this growth requires improved data on council inputs and outputs. It also requires the development of analytical tools to deepen understanding of cost drivers and manage their impacts. Council decisions on volume, scope and standard of services, if based on quality data and robust analytical techniques, will help to clarify the trade-offs between more or better services and higher expenditures and improve transparency and accountability.

### ***Workforce***

The Commission considers that difficulties in recruitment and retention of skilled labour and deficiencies in education and training systems have exacerbated labour cost pressures. These issues are not just a problem in local government but also impact other sectors, particularly in rural areas.

The lack of a regular collection of workforce data constrains workforce planning and the monitoring of progress against any plans to attract, retain and train local government workers.



There are opportunities for councils to engage with training organisations and state and Australian governments to improve the training and skills of council staff. There are further opportunities for groups of councils to share skilled labour, especially in rural areas.

A sector-wide approach to workforce development which complements and utilises South Australian and Australian Government initiatives is likely to be more effective than separate competing individual council efforts in that respect.

### **Industrial relations**

Notwithstanding the diversity of views in the sector, the current industrial relations environment has also been highlighted by councils as an obstacle to achieving greater efficiencies and containing growth in employee costs in the sector.

It is evident from all parties, including the relevant unions, that the current framework produces high transactions costs as a direct result of all 68 councils negotiating at least two separate EBAs. The highly fragmented nature of the process also appears to create an imbalance in the negotiating power and requisite skills between councils and unions, especially for some smaller councils. The resulting differences between councils in EBA outcomes have the potential to limit councils' capacity to undertake resource sharing and joint ventures by creating different conditions, as well as differing salary rates, between councils.

Several councils including the City of Holdfast Bay, argued that industrial relations reform in the sector could proceed on the basis of amendments to the underlying local government industrial awards. However, given that the awards apply to the sector as whole and act as a 'safety net' below which wages and conditions cannot fall, the Commission is of the view that changes to the underlying awards are unlikely to be the most effective way to introduce reforms that aim to enhance the efficiency of, and lower costs in, the local government sector. This is especially the case when, as the submissions stressed, local conditions are to be considered.

As an alternative to wide-scale changes to the underlying awards, the Commission has formed the view that councils' capacity to bargain more effectively would be enhanced by a combination of aggregated or group bargaining, coupled with the establishment of a 'community of practice' on the basis of which councils can share information about effective tools, methods and approaches to enterprise bargaining.

Given the significant contribution made by employee costs to councils' total operating expenditure, the Commission sees merit in limited reform of the industrial relations environment to provide greater flexibility for councils to group together and lower transaction costs. This could be achieved by enabling groups of councils to negotiate EBAs, thereby facilitating the outcomes that more appropriately reflect local conditions and circumstances.

The Commission notes that an approach to industrial relations reform that proceeds on the basis of aggregation of councils will require amendments to the applicable legislation, potentially including both the *Fair Work Act 1994* and the LG Act. These amendments would be necessary to facilitate groups, or associations, of councils to become an employer for the purposes of the *Fair Work Act 1994*.

### **Procurement and resource sharing**

The Commission found that there are different degrees of sophistication in the management of procurement among councils. Procurement staff frequently have many responsibilities

especially in rural areas. Training is not frequently available and more guidance for non-expert staff would be helpful.

The Commission heard that there appears to be a high degree of risk aversion in procurement, both in terms of adopting strategic procurement and in approaches to engaging with industry before and after a procurement process. This limits a council's ability to conduct market research by engaging with industry. It may also lead to tender scopes which are too narrow, and which may inhibit innovation.

*The above hesitance may be a direct result of a fear or misunderstanding of how the Office of Public Integrity may interpret such actions (LGA Procurement, FR17 p.8)*

There are opportunities to achieve savings through aggregated procurement among councils, especially with a regional focus, such as the Barossa Regional Procurement Group, or for sharing procurement expertise across a number of councils such as the Charles Sturt and Marion example.

Many councils procure in thin markets, where there is a limited number of suppliers. A greater focus on coordinating business and procurement activities across a region could limit competition among councils for limited resources and relieve pressure on costs. While noting that meeting local preferences is important to councils, the Commission considers the increased costs of procurement, and the burden on the rest of the community, should be assessed and made transparent in the application of this policy.

The Commission suggests councils and the LGASA further exploit opportunities for resource sharing, including developing advice on the range of options and addressing barriers to such activity.

The use of model documents such as those produced by LGAP can result in savings to councils through streamlined processes and assisting non-specialist procurement staff. Standardised templates for procurement documents across councils also can reduce costs for councils and suppliers, particularly where suppliers are seeking contracts across multiple councils.

The Commission heard some concerns from councils about the ability of these model documents to be adapted to all types of procurement. There may be some value in reviewing these templates and addressing any gaps should they exist.

Smaller councils often do not have dedicated procurement teams to develop, improve and update policies, procedures and templates. Therefore, there is merit in the sector, through the LGASA, developing a model procurement policy and regularly reviewing both the model policy and associated guidelines and templates to assist councils who do not have the policy expertise to maintain up-to-date, best practice procurement policies and practices.

The dual role of LGAP, being both to provide advice to councils to improve their procurement processes and to provide procurement services on a commercial basis, in some cases has resulted in hesitancy by some councils to engage with it.

## **5.3 Efficiency and continuous improvement**

### **5.3.1 Commission's analysis**

An analysis of efficiency and productivity in the local government sector was undertaken using data over the period 2008-09 to 2017-18, as discussed in Chapter 4. It showed that most councils achieved a high level of relative efficiency when compared to all councils; technical

efficiency remained relatively constant; and measured total factor productivity fell by an average of 0.8 per cent a year.

While the Commission has been unable to determine the causal relationships that might fully explain the third observation, it could be partly explained by increases in the volume, scope or quality of services that are not measured by the outputs chosen in the model. Based on consultations and considering the technical limitations of the methodology (Data Envelopment Analysis (DEA)), the Commission concludes that the declining trend in measured productivity is most likely to be largely attributable to the unmeasured changes in scope, quality and volume of council services provided.

This conclusion is also supported by the analysis of cost drivers in Chapter 3. Consultations on the draft report revealed anecdotal evidence supporting the expansion of some services over time, including in the areas of community services, economic development, environmental management and regulatory services, waste management, and parks and gardens maintenance.

While DEA provides a useful starting point for an analysis of council efficiency, it is clearly imperfect, and should be interpreted with caution. It is therefore only a first step, albeit an important one, in analysing council efficiency and requires additional analysis to put the results in context.

#### ***Benchmarking and comparative performance***

The Commission makes an important distinction between performance comparisons between councils relevant to informing communities and triggering further investigation, and benchmarking to inform management decision making, for which detailed and specific information is generally required. This distinction appears to have general support from councils.

The Commission's estimates of partial productivity (ratios of output and expenditure for particular services) and subsequent consultations highlighted the significant limitations in available data for performance comparisons or benchmarking purposes. This is particularly marked in relation to the quality and consistency of reported input and output data, both across councils and over time. While the data available from the SALGGC provide an important starting point, they do not cover all the likely areas and the integrity of the data could be enhanced. Improved reporting guidelines, timeframes and definitions will help improve data quality and consistency.

Councils provided the Commission with examples of the benchmarking and continuous improvement activities that have been or are currently being undertaken.

The submissions from the City of Charles Sturt, City of Marion and the City of Port Adelaide Enfield provided the Commission with a detailed overview of the collaborative benchmarking project between these three councils.<sup>8</sup> The Commission notes that, given the methodological and data limitations that affect comparisons of diverse council activities, a feature of the councils' project is that comparisons use activity-level data at the function and sub-function levels. The experience reported to the Commission suggests that these efforts can yield high returns to councils partnering in these benchmarking projects.

<sup>8</sup> City of Charles Sturt, DR3, p13; DR3, p25; City of Marion, DR5, p25; City of Port Adelaide Enfield, DR8, p26



The Commission notes that many councils are currently engaged in some form of benchmarking and/or comparative performance reporting, but there is currently no sector-wide system to support this activity.

Consultations on the draft report highlighted the value of establishing sector-wide information infrastructure that enables high-level performance comparisons between councils. Existing sector wide frameworks in other jurisdictions are managed by state governments. They focus on comparative performance reporting, not the more detailed information requirements for benchmarking.

There is support among councils for using existing data as a starting point for a sector-wide performance framework and the SALGGC reporting process to minimise costs and administrative burden on councils.

### 5.3.2 Councils' views

There appears to be broad support for the development of a sector-wide comparative performance measurement framework as proposed in the Commission's draft report, provided the project is led by the sector and not by the state government, as evident from councils' engagement with the inquiry and through submissions.

*Council supports the development of benchmarking across Councils in a manageable way, with the LGA assisting with tools including data capture mechanisms, in effect overseeing the project. (District Council of Lower Eyre Peninsula, DR11, p.1)*

*We agree that there is value in building capacity within the sector. This is best supported by a Local Government Association SA (LGASA) led performance and monitoring framework that would enable councils to compare performance, learn from each other and partner to deliver further significant improvements. (City of Mitcham, DR6, p1)*

*Alexandrina Council supports SAPC's draft recommendation in regard to performance monitoring / benchmarking to the extent it aligns with the LGA's advocacy for sector wide benchmarking. (Alexandrina councils, DR2, p1)*

The Commission also notes the LGASA's view, which is supported by several councils, that much of the data on councils' performance are currently dispersed and difficult for stakeholders to access in a meaningful form. This contributes to the overall difficulty of developing performance measurement standards for councils' activities. As submissions make clear, this caveat supports the use of a form of performance reporting that is appropriate to the sector's diversity.

A number of councils, including the City of Salisbury and the City of Prospect, the Rural City of Murray Bridge and the Town of Gawler, noted any comparative performance framework would require, as a minimum, a source of consistent and reliable data. It must also have sufficient flexibility to account for the differences in councils' characteristics that affect costs and efficiency. Councils have suggested that these differences are particularly important in relation to explaining differences in service mix, which may often arise from the diversity between council areas.

The Commission also notes councils' concerns around the comparability and quality of currently available data. These limitations, when linked with the diversity of council services, impose significant analytical constraints on any form of efficiency analysis across the sector as a whole.



As discussed in Chapter 4, the majority of councils supported the use of existing data for comparative performance reporting, including SALGGC data and council level data that are already captured by their systems.<sup>9</sup> This will minimise additional costs and reduce administrative burden on councils. In consultations the SALGGC indicated that it was open to a dialogue with councils on changes to its data collection, although mindful of resource implications for councils and itself.

Some council submissions to the Commission cautioned that any form of performance measurement and analysis involves potentially significant administrative costs and could lead to the redirection of considerable resources from other activities. The submission from the District Council of Lower Eyre Peninsula notes potential issues in addressing differences across councils while minimising the costs of such an exercise:

*Council is of the opinion that caution must be exercised in the development of benchmarking projects, noting the variety of factors identified as being variable between Councils, and to ensure that the project is achievable by all classes of Councils without having a negative financial impact of councils and their ratepayers. (District Council of Lower Eyre, DR11, p.1)*

In terms of implementing a sector-wide performance reporting framework, there is broad support for a staged roll out, initially trialling on a small number of councils using a few prioritised indicators. For example, submissions from the City of Marion, City of Charles Sturt, the City of Port Adelaide Enfield, and Tatiara District Council support a flexible approach. This will enable a consultative approach to design and testing of the framework while allowing sufficient time for councils to build capacity and capability and minimise costs and administrative burden.

*Trialling and testing models / approaches allowed the sector to move forward faster and continue to improve rather than aiming to work toward a perfect outcome that then doesn't work in practice. (City of Port Adelaide Enfield- Administration, FR8, p.6)*

### 5.3.3 Commission's view

The Commission notes that recent reforms in the local government sector have focussed on shaping the relationship between state and local government and lifting the financial sustainability of the sector. The findings of the efficiency analysis highlight the importance of concerted and consistent sector-wide efforts to measure and improve efficiency and related aspects of performance. These improvements will create the capacity to pass on cost reductions to ratepayers as an alternative to more or better services.

All councils can benefit from access to a shared data set collected in a consistent fashion, designed in a way which is relevant to their decision making. None of them has the incentive to manage the design and operations of the whole project. There is a case then for the group as a whole to collaborate to do so in cooperation and with leadership from the state government. The results of the efficiency analysis also highlight the value of collaborative efforts to identify continuous improvement opportunities, as well as the importance of council input into the design of a suitable framework and choice of indicators.

<sup>9</sup> For example, submissions from the District Council of Lower Eyre Peninsula, Streak Bay Council, Clare and Gilbert Valleys Council, District Council of Robe, the Town of Gawler, The Barossa Council, the Rural City of Murray Bridge and the LGASA supported the use of existing data for performance monitoring.

### ***Performance comparisons***

Most councils appear to engage in some form of performance monitoring at the council level, and many are engaged in collaborative benchmarking projects with other councils. That said, there is no sector-wide framework to support rigorous and consistent comparisons or monitoring of productivity or efficiency over time. Analysis of council efficiency and productivity is an important starting point in improving business processes and management decisions aimed at lifting efficiency across the local government sector. Access to timely and reliable information on comparative council performance provides the basis for the development of continuous improvement programs at the council level.

Benchmarking projects have much greater information requirements, which are not costless and need to be justified by an expectation of significant improvements in efficiency and savings that repay the effort. The Commission notes that the joint efforts by the cities of Marion, Charles Sturt and Port Adelaide Enfield, require detailed information at the level of activity and have delivered significant benefits. Cost savings or capacity improvements of 11-22 per cent in the areas examined have been achieved as a result of detailed review by the three councils.

Such benchmarking places substantial demands on councils' resources, including existing databases, reporting systems and workforce skill sets. An expansion of benchmarking activity between groups of councils will require councils to develop their workforce to manage data 'collection' and analysis. The investment in staff skills will also demand a matching upgrade of information systems to support larger-scale data analytics.

The Commission considers a sector-wide performance comparison framework would be an important tool to inform the South Australian community about the performance of its councils and to inform councils about their relative performance. Reliable, comparable information is a foundation of evidence-based decision making. Access to online comparative information on all councils will improve transparency and accountability.

The Commission sees particular value in comparative performance information that better informs council choices on what services to provide and how to provide them. The purpose of this comparative information is to highlight performance gaps among councils. This information will also assist councils in identifying peers with which to conduct detailed benchmarking to drive continuous performance.

The Commission therefore proposes that a sector-wide comparative information framework be established, and that reference be made to the framework and its purpose in legislation.

### ***Setting performance comparisons in the wider context***

The Commission notes that performance comparisons are set in a broader historical context of the reforms to the local government sector, including financial sustainability, asset management and business planning. There are several indicators of council performance, especially in the area of financial sustainability. Councils are required to report some of these indicators in their annual reports, business plans, budgets, long term financial plans and infrastructure and asset management plans as part of their legislative reporting requirements. A sensible approach would integrate these indicators with the infrastructure of comparative performance measures to provide a complete set of measures for councils and their communities.

While a common data set would be developed, there are different audiences for the use of the data. Some users are managers of councils, who might use the data to interrogate their operations and identify opportunities for improvement. These efforts could involve various

forms of benchmarking. Also important is messaging to communities, to give them a sense of the trade-offs involved in decision making about service provision.

### ***Participation by councils***

As noted, councils can benefit from participating in a sector-wide comparative performance framework. The participation of all councils is important to its success. Benefits to councils include access to better quality data to inform decision making and guide continuous improvement, as well as to inform communications with rate payers and the state government. There are significant potential benefits to the state government, including increased transparency and accountability of local government, access to more timely information on council performance and developments, and enhanced evidence-based engagement with the local government sector.

The LGASA is the obvious body to lead the work on behalf of the local government sector to establish a broad information framework to enable high level comparisons of performance. An economy of design will be important in reducing the cost and reporting burden on councils.

### ***Data integrity to underpin comparisons***

To promote confidence in the framework, state and local government will need to consider data integrity measures to ensure data are of an appropriate quality.

The Commission concludes that the South Australian Government has an important leadership role in enabling the comparative framework and ensuring the integrity of the data. In this approach, the Minister for Local Government would be responsible for endorsing the framework developed jointly by the Minister's department and the LGASA. As part of ongoing data integrity measures, the role of council audit committees could be expanded to include an assessment of the data quality.

As discussed in Chapter 4, while the data from the SALGGC is a starting point, additional information and further guidelines and training relating to the treatment of expenditure are required. That will help improve data integrity. An ability to disaggregate the materials, contract and other expenditure category given its significance and incorporate additional workforce data will be important. Additional controls and processes will contribute to accuracy, comparability, consistency and timeliness of data.

### ***Reporting***

With respect to reporting on the framework, the Commission proposes that the LGASA produce an annual "State of the Sector" report for the Minister that, among other things, would capture sector-wide performance. In addition, the Commission proposes that council annual reporting include performance reporting.

Performance reporting complements the information provided in other areas by councils and adds to an understanding of that information. The Commission is therefore proposing that performance data reporting be integrated with other material.

Good quality long-term financial and asset management plans play an important role in improving not only efficiency but also accountability and transparency of council activities. The Commission has observed that the quality of these plans across the sector is variable and that in some cases, up to date plans are not available on council websites. The Commission is of the view that current regulations do not provide sufficient guidance to councils on preparing good quality plans, and that there is value in establishing minimum standards embodied in templates



to guide preparation of these plans, similar to those for council financial statements. This would support informed decision making as well as providing consistent data for the sector wide information infrastructure.

The Commission also recognises the importance of minimising increases in costs to councils associated with any increase in reporting requirements.

## **5.4 Governance, accountability and transparency**

### **5.4.1 Commission's analysis**

The Commission, as part of its terms of reference, is required to consider recommendations on actions the South Australian government could take to enhance local government financial accountability in conjunction with lowering local government costs.

#### ***Scope and clarity of local government role***

South Australian councils exercise a comparatively high degree of autonomy compared to councils in other jurisdictions. As discussed in Chapter 2, successive legislative reforms had the effect of increasing autonomy, combined with strengthening governance and transparency, with an expectation that councils would take responsibility for managing their activities in an efficient manner. On the basis of the available evidence, however, reforms initiated by the local government sector have focussed predominantly on efforts to ensure councils' financial sustainability.

The relative autonomy of councils in relation to oversight by the state government, along with the broad powers and functions assigned to the local government sector, is a fundamental feature of the LG Act, especially in the provisions, contained in sections 7 and 8, which define councils' functions and the principles that must inform their decision making.

The Commission notes that the very general nature in which councils' functions are defined in the act has helped to enable an expansion in the non-mandatory services provided by councils. While the LG Act did not cause the current mix of non-mandatory services – with councils' current service mix being the outcome of a number of complex causes, including community preferences – the legislative and governance environment has a significant effect on costs and efficiency in the sector as a result of the very broad scope of non-mandatory services.

The Commission observed that councils' decision making processes, especially in relation to changes in the mix, scope and standards of their services, are not always articulated clearly by councils or communicated to ratepayers. This could adversely affect councils' capacity to justify subsequent decisions to withdraw from, or contain the expansion of, non-mandatory services.

#### ***Compliance and audit***

In relation to the interconnected issues of compliance, oversight and external auditing, the analysis undertaken by the Commission since the publication of its draft report, coupled with wide-ranging stakeholder consultation, suggests that South Australia's accountability and compliance framework has an important role to play in guiding the quality, effectiveness and efficiency of councils' decision making. Importantly, a significant proportion of the information that councils currently provide as part of their statutory reporting obligations, such as information contained in their long term financial and infrastructure and asset management plans, would form part of the indicator framework outlined in the preceding section.



The Office of Local Government (OLG), as part of a larger suite of potential reforms outlined in its *Reforming Local Government in South Australia Discussion Paper*, has partly addressed the issue of compliance and oversight by proposing that the Auditor-General be required to oversee councils' external financial audits (on an out-sourced basis, rather than in-house). With the exception of the Northern Territory, all jurisdictions have appointed their Auditors-General as the external auditor of local government.

The Commission's analysis of cost drivers undertaken in chapter 3 lends some weight to the contention that improving councils' decision making processes – as a way of lowering costs, increasing efficiency and enhancing councils' accountability – could be aided by strengthening the current external and internal auditing requirements and expanding the responsibilities of council audit committees.

### **Service standards**

The choices of the standards of services, such as frequency, opening hours, scale and quality of infrastructure and facilities, are within councils' control and have a direct and measurable effect on their costs. As the Commission found in Chapter 3, increasing council costs are likely a result of increases in the scope and quality of services, but there is insufficient data to quantify this.

The LG Act requires council strategic management plans to include assessments of the "extent or levels of services that will be required to be provided by the council to achieve its objectives"<sup>10</sup>

While the development of required long-term financial plans and asset management plans involves decisions on the level of services, these are not generally explicitly documented. A small number of councils, including City of Playford and the Barossa Council, have commenced documenting their service standards and reporting against them. Such information is highly relevant to the design of the suite of comparative performance measures discussed in the preceding section.

The lack of documented service standards is a barrier to informed council decision making. It also prevents meaningful comparisons of costs and efficiency among councils as a greater effort is required in understanding how differences in service standards affect costs.

Documented service standards are also an accountability measure and provide information to communities on what they can expect from their council.

### **5.4.2 Councils' views**

In their submissions to the Commission, several councils have highlighted the fact that the state's legislative and governance environment, while granting local government considerable autonomy, has also facilitated a generally unfunded transfer of regulatory and service responsibilities by both the state and Australian governments.

Some councils, such as Campbelltown City Council, have argued that councils' costs and responsibilities have increased substantially as a direct result of legislation assigning responsibilities to the sector, along with statutory fees and charges that are set by the state government, but which do not always cover councils' costs.<sup>11</sup>

Councils have consistently argued that many of the responsibilities transferred or assigned under legislation involve a form of cost shifting.

<sup>10</sup> Local Government Act S122 (i) (ab) (ii)

<sup>11</sup> Campbelltown City Council, DR1, p.2.

Several councils consider that the LG Act, particularly the principles in section 8, place an obligation on councils to be responsive to community preferences and expectations beyond considerations of efficiency and subsidiarity. The City of Salisbury, for instance, argues that section 8 demands a focus on ensuring that councils are meeting the expectations of their communities, both in terms of the scope and quality of service delivery:

*Proper consideration of these principles requires broader thinking as well as innovative approaches that add greater value when delivering council services to a standard that at least meets community expectations, rather than focussing solely on efficiency and effectiveness. (City of Salisbury, DR6, p.4)*

Apart from the potentially rivalrous nature of community expectations, the Commission notes councils' concerns that the current legislative and governance arrangements are frequently affected by an imprecise division of responsibilities between the state and local levels of government.

The current legislative framework does not always provide clear or sufficient guidance on the respective responsibilities of the two spheres of government, especially where functions or responsibilities might overlap. As the City of Charles Sturt observed, "Unfortunately without clear roles defined in the Local Government Act 1999 for local government, much cost shifting occurs with associated impact on costs to Council".<sup>12</sup>

Although marked by a diversity of views, councils' submissions suggest a broad consensus within the sector that the current external auditing requirements, as set out in Chapter 8 of the LG Act, are being implemented effectively and that the compliance framework is achieving its aims.

The LGASA also observes that no independent external body, including the Auditor-General, has found deficiencies in the way that external audits of the sector are carried out, which is an indication, the LGASA argues, that the current model of 'self-assessment' is working as contemplated by the LG Act (LGASA, FR19, p.50).

The District Council of Streaky Bay takes a similarly sceptical position in relation to the value of additional external auditing requirements, suggesting that:

*Councils are already audited to infinity. High operating expenditure may be the result of many things beyond council control (poor currency exchanged, increased fees, increased regulatory burden). If Council's Annual Business Plans and financial reports are not able to explain high operating expenditure already then further audits and governance burdens will not help (District Council of Streaky Bay, FR15, p. 10).*

The SALGFMG is also of the view that additional reporting requirements, including in the form of an additional external audit or assessment requirement, would be of little benefit as a way of enhancing the sector's efficiency and potentially lowering costs:

*...The additional requirement for external audit will not, in our view, increase the accessibility of the community to relevant information, or increase the validity of the information already provided. It will add a further financial burden and further bureaucracy (SALGFMG, FR22, p.5).*

<sup>12</sup> City of Charles Sturt, DR5, p. 8.

As noted by the LGASA in their submission, councils in South Australia are “at various stages of understanding service delivery and measurement of service standards”.<sup>13</sup> This ranges from councils that have not adopted formal service standards, to councils with well documented and defined service standards and formal reporting against these standards such as City of Playford as discussed in Chapter 4. The Commission heard that most councils, while not having formal service standards, do conduct regular service reviews.

Many councils supported the idea of councils benchmarking themselves against documented service levels as a way of improving efficiency.

*We agree that benchmarking of service levels is the key to improving and demonstrating the efficiency of the sector and to date have been undertaking this at a service by service level as part of our Efficiency and Effectiveness framework, seeking out the relevant benchmark data as part of each review. We also support clear guidance from the State about its expected service levels and standards of compliance for services (City of Mitcham, FR6 p.1)*

*All departments have a set of service levels relating to the functions they undertake. This is reviewed annually. There are more comprehensive reviews of things like waste collection when there appears to be an issue with the service; the community raise issues about a service; or the community ask for a higher level of service. Current staffing levels make ad hoc reviews difficult to undertake internally and often need to be contracted out. (Clare and Gilbert Valleys, FR12 p.4)*

Some smaller councils expressed concerns about the additional administrative and financial burden that any requirement for increased service reviews or documentation of service standards would place on smaller councils.

#### 5.4.3 Commission’s view

South Australia’s legislative framework, particularly the LG Act itself, not only recognises local government as a separate and legitimate sphere of government in its own right, but also provides councils with a high degree of autonomy to act as decision makers in their communities. The quality of councils’ decision making will therefore have a significant effect on the service mix that councils provide in their communities. While this is especially important in relation to non-mandatory services, where councils’ discretionary authority is greatest, it is also important when councils consider the scope and quality of service provision for mandatory services.

The Commission acknowledges the important role that councils play as decision makers in relation to services that can be provided at a local scale and at least cost. Similarly, communities have legitimate preferences in relation to the most locally appropriate service mix, including in relation to scale and quality. These preferences are more easily determined and addressed at the local level, as envisaged by the LG Act.

<sup>13</sup> LGASA DR15, p.67



### ***Cost shifting and cost sharing***

Councils' capacity to exercise autonomy in making decisions in the best interests of their communities, however, can be affected by a variety of forms of 'cost shifting' by other levels of government. The Commission notes that the LG Act can facilitate 'cost shifting' by requiring that councils "...undertake other functions and activities conferred by or under an Act". The Commission is aware that councils have repeatedly emphasised the adverse effects on their overall costs of functions and services required under other state legislation. Submissions received by the Commission generally argue that this amounts to a form of cost shifting, where the higher level of government 'shifts' responsibility for service delivery without commensurate funding to councils.

The Commission accepts that 'cost shifting' accurately describes situations where the higher level of government removes or reduces a previously agreed cost sharing arrangement. This can leave councils with service delivery or regulatory responsibilities without sufficient funding to cover the ongoing costs of delivering the function. In such situations, it would be appropriate for the state government, as the higher level of government mandating the provision of a service by councils, to review its legislated fees and charges on a regular and formal basis. That said, the Commission takes the view that the term 'cost sharing', not cost shifting, is a more accurate description of the division of delivery and funding responsibilities where local government has chosen to accept tied and time-limited funding.

While mindful of the complex nature of service delivery responsibility, the Commission considers that councils' decision making could become more effective. As already noted, councils' legitimate authority as decision makers, as outlined in the LG Act, imposes a corresponding responsibility to make decisions that take seriously the distinction between mandated services and non-mandated services.

A clear and consistent division of responsibilities between state and local governments is fundamental to the efficient allocation of resources between them. This, and legislative clarity regarding mandatory service provision by councils, would assist council understanding of the boundaries around their autonomy and would provide a stronger foundation for council decision making and resource management.

This also provides a means for resolving debates about cost-shifting and gives councils a consistent basis on which to engage more effectively with their communities regarding their plans and performance with respect to the scope and quality of facilities and services. That also includes the use of any dividends from efficiency improvements.

### ***Data integrity, performance and financial accountability***

In relation to councils' compliance with their statutory reporting and accountability obligations, the Commission notes councils' consistently expressed views that no independent body, including the Auditor-General, has found evidence that the sector's compliance standards fail to meet the legislated requirements.

The LGASA, for instance, takes the view that the sector as a whole is already "highly transparent and accountable", and that one of the most effective areas for additional reform involves strengthening the independence and enhancing the role of councils' audit committees.

The LGASA's preferred approach involves reforming the current system of internal audit committees by introducing a best practice model, including "requiring a majority of independent members, while recognising the importance of maintaining elected member participation" and



"expanding responsibilities to include greater oversight of strategic management plans, rating practices, performance monitoring, quality of financial management, and the council's use of public resources" (LGASA, FR19, p.88).

The Commission accepts the LGASA's position that councils' accountability to their communities could also be usefully enhanced by seeking ways to improve the public consultation processes that are currently required under section 50 of the LG Act. Enhanced public consultation could be utilised to facilitate deeper engagement with ratepayers and increase communities' ability to become more 'demanding' customers of local government. The Commission expects that the indicator framework that it has proposed in section 5.3 will assist in achieving this outcome.

The Commission is of the view that any expansion of the current external auditing requirements would focus, as a first priority, on certifying the integrity of the data that will form the performance comparison framework. This is because the overall quality of councils' data will affect both the quality of council decision making and the usefulness of the proposed sector wide comparison framework.

There is a balance to be reached between appropriate oversight and the costs of compliance, so a first step to ensure ongoing data integrity involves an expansion of the functions of councils' audit committees. This could be complemented by legislative amendments to expand the current external audit function to include annual certification by the external auditor of the integrity of councils' data. While these are the Commission's conclusions at this point, better options may be identified once the issues are considered by the relevant parties in Recommendations 1, 2 and 3 below.

As a starting point, using information already reported by councils as part of their administrative and financial accountability obligations will allow the performance information framework to be developed efficiently and with only minimal increases in councils' reporting burden and compliance costs. Adapting and expanding existing audit mechanisms will also contribute to increasing the efficiency, at minimal additional cost of implementing the framework. In addition, a staged approach to implementation would help councils to build capacity, agree on and test indicators and minimise associated costs and administrative burdens.

### ***Service standards***

Documented service standards are an accountability measure and provide information to communities on what they can expect from their council.

Adopting documented service standards will not in itself reduce costs to councils, however it can provide opportunities for improved governance and decision making. By better understanding the impact on costs of council's decisions on service standards, a council can better align service provision to community expectations and outcomes.

Definition and measurement of service standards will enable councils to make informed decisions regarding expenditure and to understand and communicate to rate payers' choices and trade-offs between quality or level of service and costs. Higher spending councils will be in a better position to explain to ratepayers and the South Australian Government where this is a result of community demands for higher service standards, for instance.

There is value in the sector developing a 'model service standards' template to increase comparability of service standards across councils, as well as to reduce the costs to councils of developing their own. Importantly, the introduction of documented model service standards will

help to enable performance comparisons between councils on service delivery. This will also aid in developing the ability of rate payers and elected members to develop 'rules of thumb' about the relationships between service quality and costs of provision.

The Commission acknowledges that achieving direct comparability across the sector will be challenging, given differences in definitions of services and their scope, but there is value in having documented service standards irrespective of their ease of comparability. The Commission's preferred approach is therefore to encourage councils to adopt documented service standards, rather than to prescribe service standards.

Given that approximately half of council expenditure is on services mandated by the state, but with discretion over how these services are provided and to what standard, there is value in additional guidance from the South Australian Government about minimum expected service standards for mandatory services. Determining a minimum service standard in consultation with the local government sector, would assist councils in service planning delivery, communicating with ratepayers and possibly improve the relationship between councils and the South Australian Government.

#### ***Framework for council decision making***

The thrust of the South Australian approach to the role of councils is to treat them as accountable to their own communities. The framework that the Commission seeks to develop is expected to contribute to that goal. In addition, councils as a group attract regular attention from the media and other interests in the community. The information framework recommended here will assist councils to tell their story to their ratepayers and the wider community.

Consideration of the cost drivers and the institutional framework for council decision making has led the Commission to the view that there are three key pillars which, if adopted by councils, will create a lean system that restrains costs and promotes efficiency and effectiveness:

- financial accountability - including a demonstrated commitment to financial sustainability;
- engaged rate payers – informed by documented service standards and comparison across councils about the trade-offs between more/better services and lower rates; and
- informed councils – able to access a system for comparisons of performance across councils and over time.

## Recommendations to the South Australian Government and advice to Councils

The Commission has been asked to provide advice on possible options to guide and assist councils to improve efficiency and create capacity to pass on cost reductions to ratepayers, and to provide recommendations on actions by the South Australian Government to lower local government costs and enhance local government financial accountability. There is significant complementarity between the Commission's recommendations to the South Australian Government and its advice to councils. In this section the Commission presents both recommendations and advice, grouped under the four themes of: information for improved decision making; managing cost pressures; efficiency and continuous improvement; and governance, accountability and transparency. Some recommendations and advice relate to more than one theme but have been placed where they are most relevant.

### Information for improved decision making

#### Recommendations to the South Australian Government

##### Recommendation 1

To support council efficiency improvement, financial accountability and engagement with communities and the state government, the Commission recommends that the South Australian Government establish a broad information framework, with a range of indicators published online, to enable high level comparisons of councils, including with themselves over time, for the purposes of providing:

- a) councils with information to support decision making and continuous improvement;
- b) communities and ratepayers with consistent information about their council performance and productivity, including comparisons with appropriate councils; and
- c) state and Australian governments with information to allow better informed engagement with local government and decisions which affect local government.

##### Recommendation 2

To optimise the value to councils, ratepayers and the government of the information framework, the Commission recommends that the South Australian Government codesign the framework with the Local Government Association of South Australia (LGASA) for endorsement by the Minister for Local Government, taking account of the principles of:

- a) drawing from existing datasets and reports in the first instance;
- b) minimising additional reporting burden on councils and possibly replacing some existing reporting requirements;
- c) achieving high data integrity through common definitions and concepts; and
- d) enabling comparisons across councils.

##### Recommendation 3

To optimise the value of the framework to councils, ratepayers and government, the Commission recommends the South Australian Government codesign with the LGASA a suite of indicators for all councils that provides comparative information on costs, output levels for key



services and measures of efficiency, effectiveness and financial performance as well as characteristics of councils which affect and explain council differences on these measures.

#### **Recommendation 4**

To optimise confidence in the ongoing quality, integrity and management of the information framework the Commission recommends that the South Australian Government locates the ongoing management of the information framework and website in an appropriately independent body.

#### **Advice to councils**

##### **Advice 1**

To guide and assist improvements in efficiency and create capacity to pass on cost reductions to rate payers, the Commission proposes that the LGASA, on behalf of and in conjunction with the local government sector,

- a) work with the South Australian Government to establish a sector wide comparative performance indicator framework that enables comparisons between councils and over time to assist decision making by council leaders and to inform communities; and
- b) compile and provide to the Minister for Local Government an annual 'State of the Sector' report on sector-wide performance.

#### **Managing cost pressures**

##### **Mandatory Services**

#### **Recommendations to the South Australian Government**

##### **Recommendation 5**

To lower local government costs and enhance local government financial accountability, the Commission recommends that the South Australian Government clarify and improve aspects of the relationship between the South Australian Government and local government by:

##### In the short term

- a) identifying and addressing inefficiency and red tape from the South Australian Government mandated services on councils;
- b) adopting a strong review process which provides an assessment of the impacts on local government to inform state government decisions that could have an adverse effect on local government;
- c) clarifying relevant aspects of s6, s7 and s8 of the *Local Government Act 1999* to make clearer the range of options available to councils in the performance of legislated functions.

##### In the medium term

- d) clarifying local government responsibilities, including establishing measurable minimum service standards, for mandated services provided by councils;

##### In the long term

- e) clarifying the respective responsibilities of the South Australian and local governments to remove unnecessary overlaps or duplication and reduce uncertainty between governments.



## Employee costs

### Recommendations to the South Australian Government

#### Recommendation 6

To reduce transactions costs to local government, the Commission recommends that the South Australian Government facilitate more flexible and efficient enterprise bargaining arrangements by making appropriate legislative amendments to allow a group or association of councils to negotiate enterprise bargaining agreements under the *Fair Work Act 1994*.

### Advice to councils

#### Advice 2

To help contain local government costs the Commission proposes that councils lift industrial relations management capacity by:

- a) advising government of their willingness to make use of the recommended legislative changes to enable councils to form groups, for the purposes of enterprise bargaining arrangements and other industrial relations matters; and
- b) as a sector, through the LGASA, establishing a community of practice to share methods, tools and approaches to enhance councils' capacity to engage in enterprise bargaining more effectively.

## Procurement

### Recommendations to the South Australian Government

#### Recommendation 7

To assist in improving the value to councils from procurement through lower costs, higher capability and efficient procurement process, the Commission recommends the South Australian Government make provision, in implementing its response to the Commission's Government Procurement Inquiry Stage 1, for councils to access:

- a) state government training opportunities for procurement; and
- b) state government contracts and pricing.

### Advice to councils

#### Advice 3

To further lower council costs through improved procurement policies, practices and capabilities the Commission proposes that the LGASA promote the adoption of contemporary procurement policies and practices by developing a model procurement policy, while continuing to update procurement document templates and guidance as well as facilitate additional training opportunities.

**Advice 4**

To help reduce the costs of materials the Commission proposes that councils place a greater focus on collaboration in procurement, including through:

- a) aggregated procurement through the LGASA, regional groupings, bilateral agreements or other appropriate vehicles;
- b) greater use of pre-qualification processes, including council acceptance of pre-qualifications of other councils; and
- c) greater shared use by councils of panel contracts.

**Resource sharing****Advice to councils****Advice 5**

To capitalise on the potential from the use of resource sharing to deliver efficiency gains the Commission proposes that councils:

- a) seek advice from the LGASA on the range of options for resource sharing (e.g. sharing of service specifications, joint tendering, shared plant, shared staff) and the most appropriate governance arrangements for them (e.g. informal agreements, written agreements or contracts, memoranda of understanding, regional subsidiary under section 43 of the *Local Government Act 1999* or a Joint Planning Board under section 35 of the *Planning, Development and Infrastructure Act 2016*);
- b) develop skills in specific systems that support and facilitate resource sharing (including IT, costing, reporting and problem solving); and
- c) explore opportunities for further resource sharing including a hub and spoke model on a regional basis.

**Efficiency and continuous improvement****Recommendations to the South Australian Government****Recommendation 8**

To foster an environment of continuous improvement in councils, the Commission recommends the South Australian Government establishes a 'Premier's Award' for excellence in continuous improvement and innovation in council administration.

**Advice to councils****Advice 6**

To lift the capacity of councils to identify and address opportunities to reduce their costs and improve their operations, the Commission proposes that the LGASA facilitate in depth benchmarking between councils through:

- a) establishing a community of practice to share among other elements:
  - i. methods, tools and approaches;
  - ii. a panel of competent providers; and
  - iii. lessons learned and examples of success.

- b) assisting in "matchmaking" South Australian councils that seek deeper benchmarking opportunities with other councils, including interstate comparisons;
- c) collectively with councils, undertaking a regular sector-wide analysis of efficiency indicators;
- d) encouraging, in any systems upgrades, a focus on improving collection and retrieval of information for planning, monitoring and managing performance.

## Governance, accountability and transparency

### Recommendations to the South Australian Government

#### Recommendation 9

To improve the capacity of local government to lower costs and increase financial accountability, the Commission recommends that the South Australian Government increase the quality and transparency of council planning and reporting by:

- a) amending the *Local Government Act 1999* to provide that councils' annual reports include the results of performance comparisons and reporting against service standards;
- b) varying the applicable regulations in the *Local Government (Financial Management) Regulations 2011* to specify a standardised set of model long-term financial plans and infrastructure and asset management plans and council annual reports to support councils to fulfil their statutory reporting obligations under Chapter 8 of the *Local Government Act 1999*.

#### Advice to councils

##### Advice 7

To support the application of the recommended sector wide information infrastructure, in decision making by councils the LGASA develop 'model' document templates for annual reports, long-term financial plans and infrastructure and asset management plans to guide councils that incorporates the new indicators.

##### Advice 8

To enhance the transparency and accountability of their operations the Commission proposes that councils incorporate service standards in decision making and performance comparisons by:

- a) developing, documenting and reporting publicly against service standards for all services they provide;
- b) incorporating in their published long-term asset and financial plans and draft annual budgets whether changes to the scope or level of services are planned and their implications for council expenditure;
- c) the LGASA supporting council documentation of service standards by:
  - i. developing a model service standard template, incorporating elements of best-practice, to assist councils with documenting service standards; and
  - ii. establishing a library of council service standards and community of practice.

**Advice 9**

To improve decision making the Commission proposes that councils develop and implement a scheduled program of reviews of existing services and undertake a service analysis when considering new, or material changes to, council services. Both service reviews and service analyses would include consideration of:

- a) whether the same or a similar service is provided by other bodies, including business;
- b) whether the council should be the service provider or facilitate the provision of the service by another body;
- c) evidence of the demand for the service and means of reducing that demand; and
- d) whether the service should be provided in-house, by partnering with another body, or be outsourced.

**Advice 10**

To support the development of high quality data and sound decision making, the Commission proposes that councils expand the functions of council audit committees to include an examination of:

- a) the processes to provide for data integrity; and
- b) the method of application of service reviews and analysis.



## Appendices

### Appendix 1 a. Submissions to the final inquiry report

<i>Submission Number</i>	<i>Organisation</i>
FR1	<a href="#">Adelaide Hills Council</a>
FR2	<a href="#">Alexandrina Council</a>
FR3	<a href="#">City of Charles Sturt</a>
FR4	<a href="#">City of Holdfast Bay</a>
FR5	<a href="#">City of Marion</a>
FR6	<a href="#">City of Mitcham</a>
FR7	<a href="#">City of Playford</a>
FR8	<a href="#">City of Port Adelaide Enfield - Administration</a>
FR9	<a href="#">City of Port Adelaide Enfield - Council</a>
FR10	<a href="#">City of Salisbury</a>
FR11	<a href="#">City of Unley</a>
FR12	<a href="#">Clare and Gilbert Valleys Council</a>
FR13	<a href="#">District Council of Lower Eyre Peninsula</a>
FR14	<a href="#">District Council of Robe</a>
FR15	<a href="#">District Council of Streaky Bay</a>
FR16	<a href="#">LG Professionals SA</a>
FR17	<a href="#">LGA Procurement</a>
FR18	<a href="#">Limestone Coast Local Government Association</a>
FR19	<a href="#">Local Government Association</a>
FR20	<a href="#">Network of Procurement Professionals</a>
FR21	<a href="#">Regional Council of Goyder</a>
FR22	<a href="#">SALGFMG</a>
FR23	<a href="#">Tatiara District Council</a>
FR24	<a href="#">The Australian Workers' Union</a>
FR25	<a href="#">The Barossa Council</a>
FR26	<a href="#">The Rural City of Murray Bridge</a>
FR27	<a href="#">Town of Gawler</a>
FR28	<a href="#">PMH Insights</a>
FR29	<a href="#">Civil Contractors Federation of SA</a>

**Appendix 1 b. Submissions to the inquiry draft report**

<i>Submission number</i>	<i>Organisation</i>
DR1	<a href="#">Campbelltown City Council</a>
DR2	<a href="#">City of Adelaide</a>
DR3	<a href="#">City of Charles Sturt</a>
DR4	<a href="#">City of Mitcham</a>
DR5	<a href="#">City of Prospect</a>
DR6	<a href="#">City of Salisbury</a>
DR7	<a href="#">City of Tea Tree Gully</a>
DR8	<a href="#">City of West Torrens</a>
DR9	<a href="#">Copper Coast Council - includes Appendices 1 to 2 Copper Coast Council - includes Appendices 3 to 4</a>
DR10	<a href="#">Councillor Martin Bray</a>
DR11	<a href="#">Councillor Ruth Trigg</a>
DR12	<a href="#">Councillor Ruth Trigg - Supplementary</a>
DR13	<a href="#">HomeStart Finance</a>
DR14	<a href="#">Limestone Coast LGA</a>
DR15	<a href="#">Local Government Association</a>
DR16	<a href="#">Local Government Association - Supplementary</a>
DR17	<a href="#">Martin Morris</a>
DR18	<a href="#">Playford Council</a>
DR19	<a href="#">SALGFMG</a>
DR20	<a href="#">Tatiara District Council</a>
DR21	<a href="#">Town of Gawler</a>
DR22	<a href="#">Town of Walkerville</a>
DR23	<a href="#">Town of Walkerville - Supplementary</a>
DR24	<a href="#">Winni Pelz</a>

## Appendix 2: Local Government Reference Group Terms of Reference

As part of the inquiry and the systematic approach to engagement the commission has established a reference group which will assist the SAPC by providing:

- relevant data and information;
- expert advice, insights and understanding about the drivers of productivity and efficiency in the South Australian local government sector;
- feedback on the commission's analysis and possible improvement options: and
- advice on communicating with stakeholders.

The group will last for the duration of the inquiry and have an advisory status only. Meetings will be chaired by the Commission. The meeting agenda will be distributed to members and meeting notes will be circulated to members of the group following each meeting.

The Local Government reference group comprises:

Dr Helen MacDonald, Chief Executive Officer, Clare and Gilbert Valley Council

Ms Annette Martin, Manager Financial Services, City of Charles Sturt

Mr John Comrie, Consultant

Ms Natasha Cheshire, Director, ESCOSA

Mr Matt Pinnegar, Chief Executive Officer, Local Government Association of South Australia

Mr Peter Ilee, Executive Officer, South Australian Local Government Grants Commission

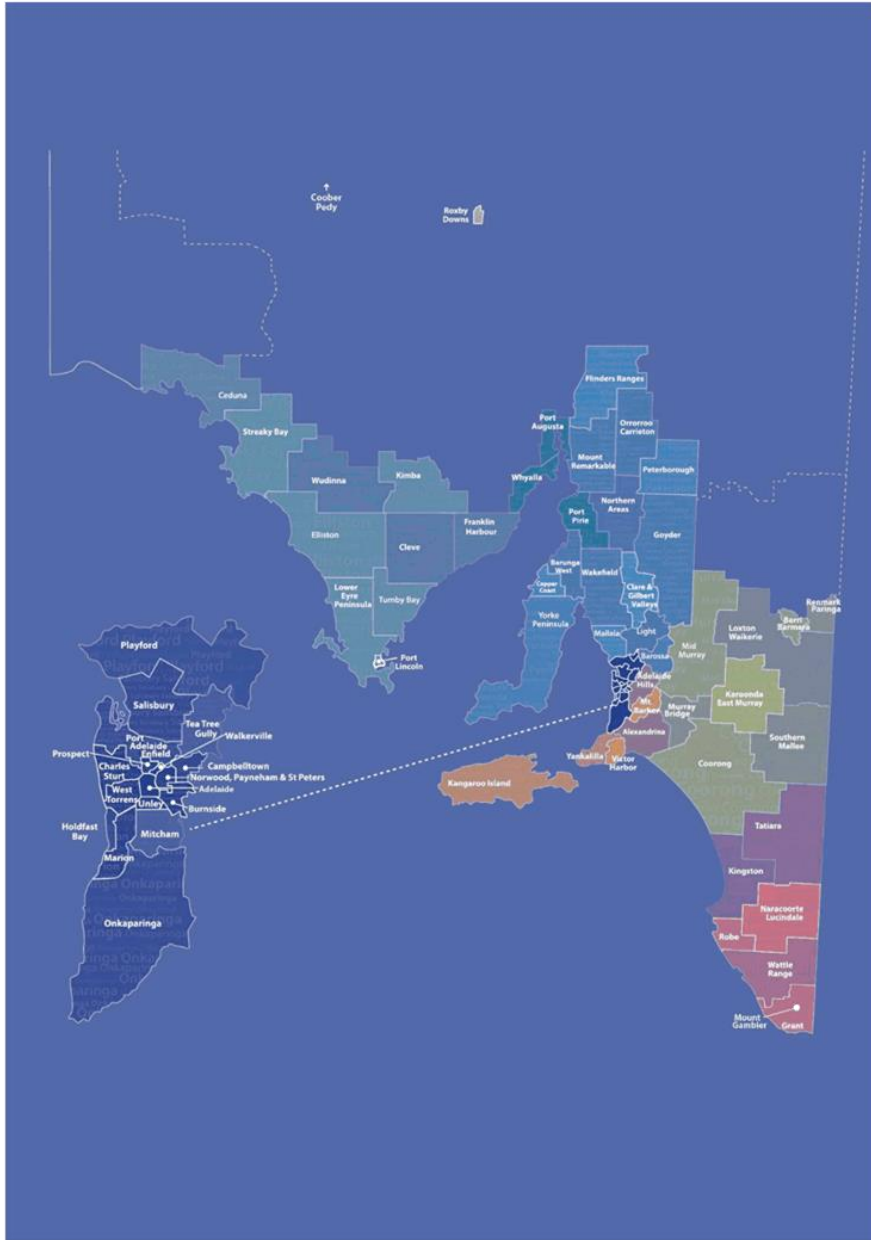
Mr Adrian Skull, Chief Executive Officer, City of Marion

Dr Matthew Butlin, Chair SAPC

Mr Jeff Tate, Commissioner SAPC

Professor Christopher Findlay, Commissioner SAPC

Appendix 3: Map of councils and SA Government regions



Source: Local Government Association of South Australia



**Appendix 4: List of mandatory and non-mandatory activities**

<p><b>Community Services</b> Community Centres and Halls * Libraries x* Home Library Services * Literacy Programs * Community transport (passenger networks)*  Town Bus Service x* Aged care home support and facilities *  Services for the Aged and Disabled x* Food Business Health Inspections ^ <b>Cooling Tower Inspections</b> □ Management of Hoarding and Squalor *  <b>Environmental Protection Control</b> □  Shaded recreational areas * Public Health and Community Wellbeing * Heritage Advisory Service *  <b>Heritage Assessment</b> □ Museums and art galleries * Other arts and culture programs *  Heat refuges * Migrant resource centres *  Busking permits* Community IT Programs * Youth outreach services *  Volunteers programs * Immunisation – Infants and Youth x* Disability services*</p>	<p>Art gallery services and programs *  Cultural development * Child care centres x* Worksite Immunisations * Children and youth services * Holiday programs for youth * Family and neighbourhood support *  Community networks *  Victims of domestic violence support* <b>Cemeteries/Crematoria</b> □*  Drug action teams * <b>Health Risk from hoarding and squalor</b> □  <b>Environmental Services</b>  <b>Rubbish collection</b> □ <b>Recycling Metro</b> □  Recycling Regional * <b>Green waste – Metro councils</b> □ Green waste – Regional councils * Hard Rubbish Collection * <b>Waste disposal facilities</b>□ *  <b>Coastal protection</b> □ <b>Stormwater and drainage</b> □  <b>Flood mitigation</b> □ <b>Noise and nuisance controls</b> □ <b>Dog management and control</b> □ Cat management and control *</p>	<p>Control of soil erosion * Land reclamation and conservation * Landcare programs x*  Agriculture pest control *  Street cleaning *  <b>Infrastructure</b>  <b>Road construction and maintenance</b> □ x  Car parking - off street *  Street scaping *  Street lighting *  <b>Heritage protection</b> □  Footpath Construction and maintenance * Playground Construction &amp; Maintenance * <b>Community wastewater management</b> □ ^  Water supply – domestic * Electricity supply undertakings *  Pedestrian malls *  Drinking fountains *  Public clocks *  Street furniture *  Bicycle racks * Development assessment □ Bicycle path construction and maintenance*  Graffiti removal *  Drainage Maintenance □ Private works *</p>	<p>Telecommunications networks *  Bus shelters * Jetties ^ *  <b>Roadside verges</b> □  Marine facilities x* Sports facilities – indoor x*  Sports facilities – outdoor x*  Swimming centres x*  <b>Building control</b> □  <b>Town planning</b> □  Public toilets *  <b>Parks and Gardens</b>  Caravan Parks / Tourist accommodation *  Irrigation * Landscaping and Management *  Street Tree Program * Public Reserves – Maintenance *  Street Beautification *  <b>Economic Development</b>  Regional development x* Support to local businesses x* Employment creation programs *  Youth work experience *  Youth traineeships ^ x Tourism and regional promotion x*</p>	<p>Visitor centres x*  Markets /Saleyards *  <b>Emergency Management</b> <b>Fire Prevention Enforcement</b> □ <b>Emergency Management</b> □  Public order and safety * Climate Adaptation Planning x* Coastal Risk Management Planning x*  <b>Community Events</b> Citizenship ceremonies *  Community Days *  Australia Day events *  Christmas Decorations *  Christmas Parades *  Carols by Candlelight *  Event Support * Sponsorship and grants *</p> <p><b>Finance</b>  <b>Rate Postponement for seniors</b> □ Rate postponement for others *</p>
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**Legend**  
□ – Required by legislation/regulation  
^ – MOU or agreement  
x – Receives Funding  
\* – non-mandatory activities

Source: LGA of SA ECM 65110 2017 – Council Service List

## Appendix 5: Summary of SALGGC data sets used

Statistical and general information (Database Report 1); for example:

- *size of council area*
- *population (resident)*
- *employees*
- *road lengths (various categories)*
- *rateable properties (total number)*
- *capital value of properties*

Operating income **information** (Database Report 2 and Report 10); for example:

- *general rates and other rates collected*
- *late payment charges etc*
- *rebates, remissions and write-offs*
- *statutory charges*
- *user charges*
- *grants, subsidies and contributions*
- *investment income*
- *Joint venture profits*

Operating income information is further broken down (in Report 10) on a functional basis.

**Operating expenditure** information (Database Report 3); for example:

- *employee costs*
- *material, contracts, and other expenses*
- *finance costs*
- *depreciation and other charges*
- *Joint venture losses*

Operating expenditure information is further broken down (in Report 9) on a functional basis.

Physical asset and associated capital expenditure information (Database Report 4); for example:

- *expenditure on renewal/replacement of existing assets*
- *expenditure on new/upgraded assets*
- *amounts received for new/upgraded assets*
- *proceeds from sale of replaced assets*
- *proceeds from sale of surplus assets*

Summary statement of financial position statutory accounting information (Database Report 5) and **net financial liabilities** information (Database Report 7)

Council rates and rating information (Database Report 6); for example

- *total rates*
- *rateable residential properties (number)*
- *minimum rate*
- *rates as a proportion of total operating income*
- *total residential rates (including on a per property basis)*
- *rating basis*
- *fixed charge declared*
- *percentage of general rates raised by fixed charge*
- *total rate income change from previous year*

Financial ratio information (Database Report 8); for example

- *operating surplus ratio*
- *net financial liabilities ratios*
- *adjusted operating surplus ratio*
- *adjusted net financial liabilities ratio*

Table 14 Summary of activities provided by councils by SALGGC service area

Service area	Types of activities	
Business Undertakings	Caravan/tourist accommodation Real estate development Car parking – on street controlled Car parking – fee paying Community Waste Water Management Domestic Water Supply	Town Bus Service Gravel Pits/Quarries Markets/Saleyards Private works Investment Property Electricity
Public Order & Safety	Emergency Services & fire prevention Beach inspections and patrols; Surf life saving	Crime prevention Road safety/driving schools General Inspectors
Health Services	Immunisations Nursing Homes Support for home nursing Community health and dental clinics	Family planning CAFHS/CAMHS Housing for health workers
Community Support	Community Centres & Halls Child Care Centres Community Transport Services for Aged and Disabled; Children and Youth Services; Family & Neighbourhood support Grants, donations or 'in-kind' assistance to persons and community welfare groups	Assistance for homeless people Aboriginal welfare programmes Immigrants/refugees Disaster relief Suicide prevention programs Community Halls/centres used by welfare groups
Community Amenities	Cemeteries/Crematoria Telecommunications Networks; Public Conveniences Street furniture Bicycle racks	Pedestrian Malls Drinking fountains Public clocks Bus shelters Municipal directories Free off-street parking
Library Services	Static Libraries Mobile Libraries	Housebound services
Cultural Services	Performing Arts Museums & Art Galleries Heritage	festivals/concerts/artist/writers; Flora and Fauna parks Zoos; Botanical Gardens
Economic Activity	Employment Creation Programs Support for Local Businesses	Regional Development Tourism and regional promotion
Agricultural Services	Agriculture water Agriculture pest control	Agriculture Land
Waste Management	Ordinary solid waste collection & disposal Recycling collection and disposal; Green waste collection and disposal Waste disposal facilities	Street bins; Public area bins Hard rubbish collection Drum Muster; Chemicals and paint collection Purchase and sale of wheelie bins

Service area	Types of activities	
Other Environment	Coastal Protection Street Cleaning Streetscaping Stormwater & Drainage Street Lighting	Flood mitigation works Riverbank environment protection; Non-agricultural land programmes; Water conservation programmes
Recreation	Jetties; Parks & Gardens Sports Facilities	Marine Facilities Swimming Centres
Regulatory Services	Dog & Cat Control; Town planning; Environmental Protection Control	Building Control Health Inspection
Transport	Aerodromes Footpaths & Kerbing Roads	Bridges & Culverts Traffic Management Wager Transport

Source: LGASA (2019) Analysis of Council Data -South Australia – Part 2 – Services.



## Appendix 6: Local government groupings

Step 1	Step 2	Step 3	Identifiers	Category
<b>URBAN (U)</b>				
Population more than 20 000	CAPITAL CITY (CC)	Not applicable		UCC
OR	METROPOLITAN DEVELOPED (D)	SMALL	up to 30 000	UDS
If population less than 20 000,	Part of an urban centre of more than 1 000 000 or population density more than 600 per square kilometre	MEDIUM	30 001–70 000	UDM
EITHER		LARGE (L)	70 001–120 000	UDL
		VERY LARGE (V)	more than 120 000	UDV
Population density more than 30 persons per square kilometre	REGIONAL TOWNS/CITY (R)	SMALL	up to 30 000	URS
OR	Part of an urban centre with population less than 1 000 000 and predominantly urban in nature	MEDIUM	30 001–70 000	URM
90 per cent or more of the local governing body population is urban		LARGE (L)	70 001–120 000	URL
		VERY LARGE (V)	more than 120 000	URV
	FRINGE (F)	SMALL	up to 30 000	UFS
	A developing LGA on the margin of a developed or regional urban centre	MEDIUM	30 001–70 000	UFM
		LARGE (L)	70 001–120 000	UFL
		VERY LARGE (V)	more than 120 000	UFV
<b>RURAL (R)</b>				
A local governing body with population less than 20,000	SIGNIFICANT GROWTH (SG)	Not applicable		RSG
AND	Average annual population growth more than three per cent, population more than 5000 and not remote			
Population density less than 30 persons per square kilometre	AGRICULTURAL (A)	SMALL	up to 2000	RAS
AND		MEDIUM	2001–5000	RAM
Less than 90 per cent of local governing body population is urban		LARGE (L)	5001–10 000	RAL
		VERY LARGE (V)	10 001–20 000	RAV
	REMOTE	EXTRA SMALL (X)	up to 400	RTX
		SMALL	401–1000	RTS
		MEDIUM	1001–3000	RTM
		LARGE (L)	3001–20 000	RTL

Source: Department of Infrastructure and Regional Development (2015), Local Government National Report, 2012-13, Canberra

**Rural – Small and medium: 20 councils**

Council Name	Group	ACLG	Other Association	Regional grouping
Barunga West	Rural-Small & Medium	RAM	Legatus Group	Yorke Peninsula
Ceduna	Rural-Small & Medium	RAM	Eyre Peninsula LGA	Eyre
Cleve	Rural-Small & Medium	RAS	Eyre Peninsula LGA	Eyre
Elliston	Rural-Small & Medium	RAS	Eyre Peninsula LGA	Eyre
Flinders Ranges	Rural-Small & Medium	RAS	Legatus Group	Far North
Franklin Harbour	Rural-Small & Medium	RAS	Eyre Peninsula LGA	Eyre
Goyder	Rural-Small & Medium	RAM	Legatus Group	Mid-North
Kangaroo Island	Rural-Small & Medium	RAM	Southern & Hills LGA	Fleurieu
Karoonda East Murray	Rural-Small & Medium	RAS	Murraylands & Riverlands LGA	Murraylands
Kimba	Rural-Small & Medium	RAS	Eyre Peninsula LGA	Eyre
Kingston	Rural-Small & Medium	RAM	Limestone Coast LGA	South East
Mount Remarkable	Rural-Small & Medium	RAM	Legatus Group	Mid-North
Northern Areas	Rural-Small & Medium	RAM	Legatus Group	Mid-North
Orroroo Carrieton	Rural-Small & Medium	RAS	Legatus Group	Mid-North
Peterborough	Rural-Small & Medium	RAS	Legatus Group	Mid-North
Robe	Rural-Small & Medium	RAS	Limestone Coast LGA	South East
Southern Mallee	Rural-Small & Medium	RAM	Murraylands & Riverlands LGA	Murraylands
Streaky Bay	Rural-Small & Medium	RAM	Eyre Peninsula LGA	Eyre
Tumby Bay	Rural-Small & Medium	RAM	Eyre Peninsula LGA	Eyre
Wudinna	Rural-Small & Medium	RAS	Eyre Peninsula LGA	Eyre

**Rural – Large and very large: 18 councils**

Council Name	Group	ACLG	Other Association	Regional grouping
Adelaide Plains	Rural-Large & Very Large	RAL	Legatus Group	Barossa Light and Lower North
Berri Barmera	Rural-Large & Very Large	RAV	Murraylands & Riverlands LGA	Riverlands
Clare & Gilbert Valleys	Rural-Large & Very Large	RAL	Legatus Group	Mid-North
Coorong	Rural-Large & Very Large	RAL	Murraylands & Riverlands LGA	Murraylands
Copper Coast	Rural-Large & Very Large	RAV	Legatus Group	Yorke Peninsula
Grant	Rural-Large & Very Large	RAL	Limestone Coast LGA	South East
Light	Rural-Large & Very Large	RAV	Legatus Group	Barossa Light and Lower North
Lower Eyre Peninsula	Rural-Large & Very Large	RAL	Eyre Peninsula LGA	Eyre
Loxton Waikerie	Rural-Large & Very Large	RAV	Murraylands & Riverlands LGA	Riverlands
Mid Murray	Rural-Large & Very Large	RAL	Murraylands & Riverlands LGA	Murraylands
Naracoorte Lucindale	Rural-Large & Very Large	RAL	Limestone Coast LGA	South East
Port Pirie	Rural-Large & Very Large	RAV	Legatus Group	Mid-North
Renmark Paringa	Rural-Large & Very Large	RAL	Murraylands & Riverlands LGA	Riverlands
Tatiara	Rural-Large & Very Large	RAL	Limestone Coast LGA	South East
Wakefield	Rural-Large & Very Large	RAL	Legatus Group	Mid-North
Wattle Range	Rural-Large & Very Large	RAV	Limestone Coast LGA	South East
Yankalilla	Rural-Large & Very Large	RSG	Southern & Hills LGA	Fleurieu
Yorke Peninsula	Rural-Large & Very Large	RAV	Legatus Group	Yorke Peninsula

**Urban – Metropolitan & fringe: 21 councils**

Council Name	Group	ACLG	Other Association	Regional grouping
Adelaide	Urban-Metro	UCC	n/a	Capital City
Adelaide Hills	Urban-Metro	UFM	Southern & Hills LGA	Adelaide Hills
Alexandrina	Urban-Metro	UFS	Southern & Hills LGA	Fleurieu
Barossa	Urban-Metro	UFS	Legatus Group	Barossa Light and Lower North
Burnside	Urban-Metro	UDM	Eastern Region Alliance	Eastern Adelaide
Campbelltown	Urban-Metro	UDM	Eastern Region Alliance	Eastern Adelaide
Charles Sturt	Urban-Metro	UDL	n/a	Western Adelaide
Gawler	Urban-Metro	UFS	n/a	Barossa Light and Lower North
Holdfast Bay	Urban-Metro	UDM	n/a	Southern Adelaide
Marion	Urban-Metro	UDL	n/a	Southern Adelaide
Mitcham	Urban-Metro	UDM	n/a	Southern Adelaide
Norwood, Payneham & St Peters	Urban-Metro	UDM	Eastern Region Alliance	Eastern Adelaide
Onkaparinga	Urban-Metro	UFV	n/a	Southern Adelaide
Playford	Urban-Metro	UFL	n/a	Northern Adelaide
Port Adelaide Enfield	Urban-Metro	UDV	n/a	Western Adelaide
Prospect	Urban-Metro	UDS	Eastern Region Alliance	Eastern Adelaide
Salisbury	Urban-Metro	UDV	n/a	Northern Adelaide
Tea Tree Gully	Urban-Metro	UDL	Eastern Region Alliance	Northern Adelaide
Unley	Urban-Metro	UDM	Eastern Region Alliance	Eastern Adelaide
Walkerville	Urban-Metro	UDS	Eastern Region Alliance	Eastern Adelaide
West Torrens	Urban-Metro	UDM	n/a	Western Adelaide



**Urban – Regional towns/cities: 9 councils**

Council Name	Group	ACLG	Other Association	Regional grouping
Coober Pedy	Urban – Regional	URS	n/a	Far North
Mount Barker	Urban – Regional	URM	Southern & Hills LGA	Adelaide Hills
Mount Gambier	Urban – Regional	URS	Limestone Coast LGA	South East
Murray Bridge	Urban – Regional	URS	Murraylands & Riverlands LGA	Murraylands
Port Augusta	Urban – Regional	URS	Upper Spencer Gulf Common Purpose Group	Far North
Port Lincoln	Urban – Regional	URS	Eyre Peninsula LGA	Eyre
Roxby Downs	Urban – Regional	URS	n/a	Far North
Victor Harbor	Urban – Regional	URS	Southern & Hills LGA	Fleurieu
Whyalla	Urban – Regional	URS	Eyre Peninsula LGA Upper Spencer Gulf Common Purpose Group	Eyre

**Numbers of councils by geographic category**

Type	Geographic category	Number
Urban – Metro & Fringe	Capital City	1
Urban – Metro & Fringe	Metropolitan Developed (suburban)	14
Urban – Metro & Fringe	Metropolitan Fringe (developing)	6
Urban – Regional	Non-metropolitan regional urban centre	9
Rural	Eyre Peninsula	9
Rural	Legatus Group	14
Rural	Limestone Coast	6
Rural	Murraylands and Riverlands	7
Rural	Southern and Hills	2
<b>Total</b>		<b>68</b>

## Appendix 7: Estimation of global efficiency measures

### Data Envelopment Analysis (DEA)

DEA is the most commonly used methodology in measuring the relative efficiency of local councils in Australia. This approach does not require assumptions regarding the relationship between inputs and outputs. It uses a technique known as linear programming to construct an 'efficiency frontier' (comprising of councils that convert inputs into outputs most efficiently), and then estimates the relative efficiency of councils based on the distance from the frontier.

The results from the DEA estimation can be further analysed to examine the effect of external factors and council characteristics on estimated council efficiency.

Questions that can be answered using DEA<sup>1</sup>:

- How to select an appropriate role model to serve as a benchmark for performance improvement?
- What are the most efficient councils within a local government area?
- What are the characteristics of efficient councils?

Advantages of using DEA in analysing local government performance are that it:

- provides the observed efficiencies of individual councils, which helps in benchmarking against performance targets;
- identifies possible peers or role models, which also helps in benchmarking;
- readily incorporates multiple inputs and outputs using information on output and input quantities.
- does not require price data – this makes it particularly useful in analysing efficiency in government service providers (such as councils), where it may be difficult to assign prices to inputs and outputs;
- provides a way of identifying possible sources of inefficiency as well as levels of efficiency;
- provides simple efficiency scores that are easy to interpret and understand;
- does not require an assumption regarding the relationship between inputs and outputs (as is required in the use of the SFA approach); and
- allows for different assumptions regarding economies of scale (see Box 1).

The literature discusses several limitations of DEA including the following:

- DEA measures efficiency relative to best practice with the given sample – therefore, it is not meaningful to compare across groups outside the sample;
- efficiency scores are sensitive to input and output specification and the size of the sample.

The Commission acknowledges the limitations of DEA, particularly within the context of a policy framework. However, it is useful in providing a broad understanding of the relative efficiency of councils and is the most widely used methodology in local government efficiency analysis, including by the Essential Services Commission of Victoria (ESC 2017).

<sup>1</sup> Steering Committee for the Review of Commonwealth/State Service Provision (1997)

### Stochastic Frontier Analysis (SFA)

An alternative to DEA efficiency estimation is Stochastic Frontier Analysis (SFA). The concepts are similar, however SFA is a parametric method for estimating the production frontier, first proposed by Aigner, Lovel and Schmidt (1977) and Meeusen and Ben den Broeck (1977).

Under SFA, rather than the production frontier being a series of straight lines between the most efficient firms, the production frontier can be represented mathematically as a function of the inputs used by councils.

The main advantage of SFA is its parametric nature, which means that it is less sensitive to outliers or measurement issues with the data. It is also simple to obtain measures of reliability for estimates such as standard errors, making it relatively easy to conduct statistical inference using confidence intervals and hypothesis testing.

However, SFA has several disadvantages including the need to assume the form of the production function (typically Cobb-Douglas, however there are several alternatives), and the results can be sensitive to the choice of function. In addition, results can be unreliable in small samples and estimation of models with multiple-inputs and multiple-outputs can be problematic.

Because of these factors, SFA is usually preferred to DEA when a single measure of output is available (such as GDP when measuring total factor productivity of economies), and DEA is usually preferred for multi-input, multi-output models. Most economic studies of local government efficiency have applied DEA for these reasons.

### Further considerations

Regardless of the choice of DEA or SFA methodology, a few additional considerations need to be made about the nature of local government production, and as a result, their efficiency. This includes whether local governments face constant or variable returns to scale, and whether they seek to maximise their output or to produce a certain level of output for the minimum amount of inputs.

### Returns to scale

The shape of the production frontier depends on the scale assumptions that underpin the model. There are two scale assumptions generally used: constant returns to scale (CRS), and variable returns to scale (VRS).

Given that councils have little control over the scale of their operations, it is preferred to estimate a VRS frontier. This will ensure that councils that are 'scale inefficient', either smaller or larger than the point of optimum scale, are not unfairly labelled as inefficient due to their size.

However, the Commission's analysis also includes estimating the CRS frontier to allow for investigation of the extent to which council size might affect their efficiency.

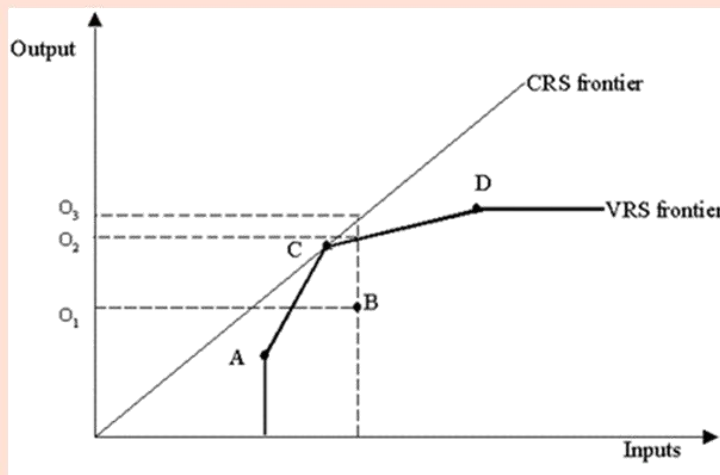
Box 1 Returns to scale

**Constant Returns to Scale (CRS) and Variable Returns to Scale (VRS) frontiers**

CRS assumes that output will change in the same proportion as the proportionate change in inputs (e.g. a doubling of all inputs will double output). It evaluates inefficient councils against any peer on the frontier (regardless of size).

VRS takes into account the fact that production technology may exhibit increasing, constant and decreasing returns to scale. The effect of the scale assumption on the efficiency measure is illustrated in Figure 19.

Figure 19 Simplified single-input -output production frontiers



Source: Pascoe et al (2003)

Points A, B, C, and D (which refer to input and output pairs for different councils) in Figure 19 are used to estimate the efficient frontier under both scale assumptions. Points along the frontier are defined as efficient. With constant returns to scale, the frontier is defined by point C, with all other points falling below the frontier (hence indicating relative inefficiency).

Under variable returns to scale, the frontier is defined by points A, C and D. In this scenario, only point B lies below the frontier indicating relative inefficiency. Under both estimates, efficient councils are given a score of 1 and (relatively) inefficient councils are assigned a score between 0 and 1, with a lower score indicating lower relative efficiency.

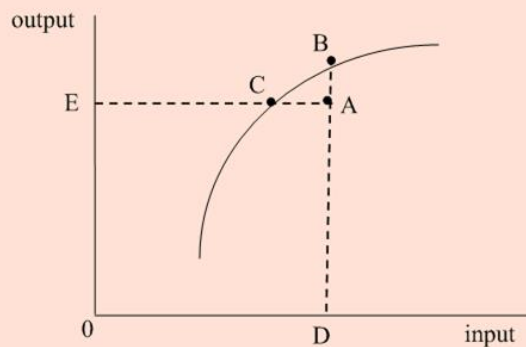


**Input/output orientation**

DEA models can be constructed as either input-oriented or output-oriented depending on the assumptions made about the behaviour of firms, or in this case councils, in the model. An input-oriented DEA assumes that a firm attempts to minimise the level of inputs to produce a given level of output, whereas an output-oriented model assumes that a firm attempts to maximise its outputs for a given level of inputs.

*Box 2 Output and input orientation*

**Figure 20 Output and input orientation**



*Source: Coelli (2019)*

Figure 20 above demonstrates the difference between an output and input orientation. In an output-oriented model, for firm A, the maximum amount possible to produce for a given level of inputs, therefore firm A’s output-oriented technical efficiency is defined as the ratio of the distance AD to BD. Similarly, in an input-oriented model, firm A’s input-oriented technical efficiency is defined as the ratio of the distance EC to EA.

Given that local councils are obliged to service the residents, ratepayers and roads that are within their jurisdiction, an input-oriented model is likely to be more appropriate for an analysis of local government efficiency as council management have more control over input levels than output levels.

**Estimating productivity and efficiency change over time**

DEA efficiency measures are defined relative to the efficiency frontier of the sample under consideration. It is therefore not meaningful to compare efficiency scores across different samples as all calculations are based on different efficiency frontiers. This also means that it is not possible to directly compare estimated efficiency scores over different time periods, even for the same underlying sample.

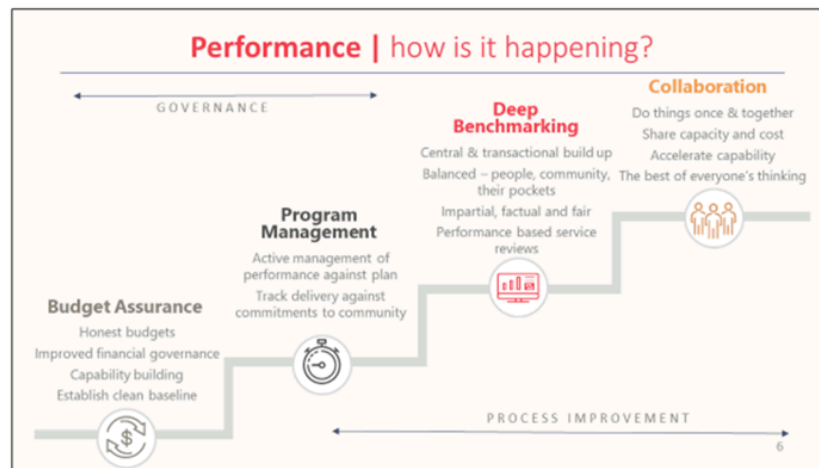
One way of comparing efficiency through time is to construct a Malmquist TFP index, which can be decomposed into measures of changes in technical efficiency (catch up to the frontier), changes in scale efficiency and technical change (shifts in the frontier). A full discussion of how Malmquist indexes are calculated can be found in the Economic Insights report.

## Appendix 8: Performance improvement

### BACKGROUND

Since 2017, the Cities of Marion, Charles Sturt and Port Adelaide Enfield have been working collaboratively on performance improvement. The three councils partnered based on the shared values of the Chief Executive Officers (CEO's) and their collective aspiration to contain rate increases and do more for their communities.

The councils jointly funded a performance improvement resource to lead a program across the councils to identify, justify and deliver performance improvement into the three organisations.



### GOVERNANCE | ACHIEVEMENTS

Initial stages of the program focussed on financial governance, supporting the finance teams to drive increased ownership of financial outcomes, trimming funds from budgets that were no longer required and increasing rigour around project delivery to ensure commitments to the community were both met and achieved as cost effectively as possible.

This activity has driven greater engagement in how community funds are used at all levels of the organisations. Budgets have been reduced by more than three per cent to date (with more possible as the change process continues) and two of the councils achieved record low rate rises in 2018 and 2019. Two of the three councils were in the lowest four rate increases in South Australia in 2019, with Charles Sturt achieving its lowest ever rate rise since amalgamation 22 years ago. Project delivery has increased by more than 80% at one of the councils with all having greater data-driven focus on delivery than two years prior.

### PROCESS IMPROVEMENT | ACHIEVEMENTS

The second phase of the program has focussed on sustainable performance improvement through process change. This has been informed by detailed activity and driver analysis which has enabled benchmarking and identification of an opportunity pipeline.

This critical phase was undertaken centrally for the three councils to ensure comparability and meaningfulness of the data from the ground up. The benchmarking is sufficiently detailed to not only point to areas where difference in performance or costs exists, but to inform each

council on what to focus on to improve. Improvements are generated by taking the best of each council's performance, and then testing the functions under review against criteria designed to find further improvement opportunities.

Initiatives implemented to date include open space transformation at Marion, shared procurement between Charles Sturt and Marion and a cross-council irrigation construction crew operating across all three council boundaries. A further three initiatives are underway and will be implemented by the end of the 19/20 financial year.

To date less than 10% of the costs of the organisations have been subject to detailed optimisation reviews. Outcomes range from 11-22% improvement in costs and capacity (17% overall) with reviews typically identifying around 20% improvement. These improvements have been achieved with minimal disruption to staff and an increase in service levels delivered. The additional optimisation analysis has seen even the "better" performing areas of the three councils improve by up to 20% again, demonstrating good sector performance can be improved upon. Collaboration has also allowed the councils to deliver benefits beyond what the any of the councils could achieve alone.

### CHALLENGES

Key challenges have been:

- Reliance on key individuals, in particular the CEO's to drive the program. Driving performance is more challenging in the public sector than the private sector due to the absence of dynamic price signals to provide rapid performance feedback. With a focus on rate stability and avoiding price shocks, an unintended consequence can be an organisational reluctance to vigorously pursue performance improvement.
- The magnitude of change the program has driven has at times been underestimated and required effort and consistency of vision to remain on track.
- Being equipped with change and collaboration capabilities throughout the organisations at a level that actively supports the program, combined with a willingness to be humble and open to new ways of doing things cannot be underestimated.

The ability to attract, develop and retain highly developed analytical and commercial skills to the public sector on scale is also expected to be a challenge.

### SUPPORT FOR THE SECTOR

The experience of the councils and the sector to date has highlighted that league table benchmarks alone will not drive sector performance. They can typically lead to defensiveness rather than encouraging people to be open to improvement and actively seeking the best solution.

Detailed, comparable, data-based benchmarking is considered an important foundation to performance improvement. This needs to be supported in turn by the skills and capability to convert observations to realised performance outcomes, and these skills need to be accessible and affordable to all councils.

Additionally, measurement needs to be supported by motivators for good performance (and consequences for poor performance) and active change management in order to drive deep and sustainable sector wide improvement.

**Benchmarking | sector experience**

Different models appear to drive performance to different degrees

Method Comparison	Budget assurance / rate capping	PEP	Know your council	AG	Grants Commission	Cross Council	Published Value Driver Analysis	Supported performance improvement
Irrefutable comparisons						✓	✓	✓
Drives performance	✓					✓	✓	✓
Sustainable performance improvement		✓	✓			✓	✓	✓
Better than sector performance						✓		✓
External drivers	✓						✓	✓
Community needs considered			✓			✓		✓
Transparent performance			✓				✓	✓
Able to be supported/afforded by individual councils	✓		✓	✓	✓			✓





# Productivity Commission report measures to reduce council rates

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- **Media release**

05/02/2020 | Stephan Knoll MP | Better Services | Lower Costs

A South Australian Productivity Commission (SAPC) report has found there is scope to reduce council rates for South Australian households and businesses and improve transparency.

The SAPC *Inquiry into Local Government Costs and Efficiency* also recommended all councils publish comparative information about costs and output levels of key services so the public can hold them to account.

The Marshall Government went to the election with a commitment to lower costs for South Australians and we are focussed on delivering that.

“The Productivity Commission’s report confirms there is a way forward to reduce council rates for South Australians households and businesses,” said Minister for Transport, Infrastructure and Local Government Stephan Knoll.

“The Report has nine recommendations to Government and ten pieces of advice for councils that the State Government will now work closely with the local government sector to progress.

“At the heart of these recommendations are ways to reduce costs and improve efficiencies that can be passed on to homeowners and businesses through lower bills.

“If ratepayers can compare and understand how different councils are performing with delivering key services and keeping their costs down, they can effectively engage with their councils on their most important decisions.

“Some councils are already engaging in benchmarking and the report highlights that the City of Charles Sturt, Marion and Port Adelaide and Enfield councils have already had positive results.

“The report notes that benchmarking has resulted in cost savings and capacity improvements of 11-22 per cent in these council areas.

“Last year the Labor Party blocked our plan to cap council rates and denied South Australians much needed financial relief on their council rates.

“That’s why this year we will be introducing new draft legislation into Parliament that will reform the local government sector.”

The State Government will formally respond to the SAPC’s report in the coming weeks.

The SAPC *Inquiry into Local Government Costs and Efficiency*, requested by Premier Marshall in May last year, had nine recommendations the Marshall Government will now progress with the local government sector, including;

- Establishing a website that captures and publishes critical information about all councils to improve ratepayers’ engagement with their councils, and to support councils to find efficiencies in their own operations;
- Supporting councils to improve their industrial relations capabilities to assist them to better manage rising employee costs;
- Finding opportunities to improve regulations to reduce costs for residents and businesses;
- Helping councils to improve procurement practices through access to State procurement opportunities and training; and,
- Ensuring a more consistent approach to financial planning and accountability across all councils.