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12 July 2019

Dr Matthew Butlin
South Australian Productivity Commission
GPO Box 2343
ADELAIDE SA 5000

By: web upload

Dear Dr Butlin

Re: Submission – Inquiry into Local Government Cost and Efficiency – Methodology paper

Thank you for the opportunity to provide comment on the Methodology paper.

The following submission provides my observations as a CEO of a Metropolitan Council and an experienced Local Government Executive. It has not been considered by Elected Council.

In particular it draws on recent experiences of a program to improve community outcomes through effectiveness and efficiency across the City of Charles Sturt. Much of the initiatives have also involved a collaboration of the City of Port Adelaide Enfield and The City of Marion. This collaborative approach has identified a range of business improvement opportunities that have been meaningful for each of our organisations and our communities.

I hope these comments are useful in your considerations.

Yours sincerely

A handwritten signature in black ink, appearing to read "Paul Sutton".

Paul Sutton
Chief Executive Officer



General Feedback

Clarity of objective

It would be good to be clear on the commission's absolute objective in terms of driving improved costs and efficiency. The paper is focussed on a methodology for understanding efficiency of councils however it would be preferred if it could be oriented toward a methodology to drive performance improvement in councils i.e. build in a process for establishing the way forward rather than a static model of relative efficient vs inefficient.

Overall Methodology

Groupings

Generally, agree with ACLG groupings but suggest the expanded definition with Adelaide City Council excluded. As a capital city it has characteristics unique to a capital city with regards income sources and rating that are not reflective of most councils and causes distortions.

Commission's analysis to support identification of performance improvement opportunities

The different methods of assessing performance efficiency come with varying levels of capacity to inform where performance differences exist and what can be done about those. The closer the analysis gets to analysing performance at an operational and practical level, the closer the analysis will be to informing ways in which performance could be improved.

In addition, skills and capacity are not available at all councils to analyse and determine the basis for differences in performance across councils, or the manner in which those performance differences can be addressed. Sourcing those skills can be difficult due to both cost and general accessibility.

Having the commission's analysis deliver insights into where performance could improve in addition to or instead of where performance appears different would be a valuable service and support to local government. This would also appear to set the commission's approach apart from other approaches to efficiency in local government in Australia.

Ability to drive sustainable and balanced year on year performance

Interstate experience to date has shown that reporting on differences in council performance alone doesn't drive improvements in performance.

In addition, rate capping has demonstrated an ability to quickly contain costs for the community, however it has not yet demonstrated an ability to deliver real year on year improvement in performance in the sector and is likely to deliver minimal real year on year performance improvement in the near term.

Rate capping can also penalise councils which have and do perform better than their peers, and alternatively it may drive less than optimal longer-term decisions as has been the experience in industries where price caps have been applied (such as the utilities industry).

Rate capping is oriented to measurement and management of cost and may, if used alone, drive reductions in cost at the expense of sustainable investment decisions and genuine community needs.

It would be preferable to adopt a model that informs balanced and sustainable performance improvement opportunities that drive improved cost and community outcomes, and which recognise and reward good performance.

Evaluation of alternatives

The different methods of assessing performance efficiency will come with different costs for both councils and the commission, different abilities to influence performance – to different extents and over different timeframes. It would be good to see the varying methods of productivity oversight evaluated in terms of cost and benefit to the South Australian community over time to support testing the merit of different approaches.

Criteria to be used in the evaluation could be:

- 1. Ability to drive Actual Performance Outcomes**
 - a. Performance is likely to be understood and driven
 - b. Provides actionable recommendations on areas for performance improvement
 - c. Additional performance improvement is likely to be driven year on year on a sustainable basis
 - d. Performance improvement is likely to support sustainable inter-generational service provision
 - e. Performance improvement is optimised
 - f. Encourages sharing of resources across council boundaries
 - g. Performance is driven quickly
- 2. Provides motivation for sector improvement**
 - a. Drives sector wide improvement in performance
 - b. Positive recognition of sustainable, balanced and responsible decision making
- 3. Supports balanced decision making**
 - a. Community needs are explicitly considered (ie: community survey data is considered)
 - b. Changes in service levels are acknowledged
 - c. Changes in activity levels acknowledged
 - d. Cost management considered
 - e. Likely to result in active consideration of provision of new services
- 4. Scalable**
 - a. Low resource effort at Council
 - b. Skills available to all councils
- 5. Integrity**
 - a. Costs are comprehensive
 - b. Services focussed on represent the majority of most councils costs
 - c. Data presented is comparable
 - d. Data presented is defensible in a substantial manner
- 6. Transparency**
 - a. Facilitates transparency to community on council costs
 - b. Council to council comparisons enabled easily
- 7. Cost and Benefit of Model**
 - a. Affordability to councils
 - b. Total cost to industry
 - c. Expected performance across industry

Costs of Data Collection

Data collection comes with an impost for councils. There are already a number of external data collection requirements for councils in place. It would be good to build on and refine those rather than replicate. To that end it is good the Grants Commission data is being used as a starting point for the efficiency analysis.

Period of any analysis

Using a 10-year time frame for the analysis would be the minimal, although any analysis needs to have regard to a council's journey to being financial sustainable which for most goes back further than that and was for a period an express focus of the sector and which resulted in significant structural adjustment.

For example, Charles Sturt had budget deficits until 2010/11 when it finally achieved a sustainable operating surplus. The average rate increases for Charles Sturt prior to being financially sustainable was 5.6% and subsequent to breakeven was 3.88%. Over this time (subsequent to breakeven) there was included an additional 4.3% over 3 years for a \$60m infrastructure investment in a water reuse and harvesting project - Water Proofing the West. Hence any rate increases must have regard to changes in service delivery.

Impacts on Council costs

The Commission will identify the drivers of the increase in council costs. This may include changes to the scope of services provided by councils, changes in the environment within which councils operate, or ratepayer preferences for greater levels of service.

This is an important element in understanding the changes over time that are contributed to by cost shifting and communities exercising their democratic rights through their Elected Councils to 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.

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. Each of the above require a fine-grained understating to be able to measure the efficiency and effectiveness of comparative Council's. Broad groupings of similar demographic councils is generally inadequate. Each of the above service level choices require long lived and costly asset and operating requirements, choices that cannot be quickly turned on or off.

Figure 1 General rates per rateable property



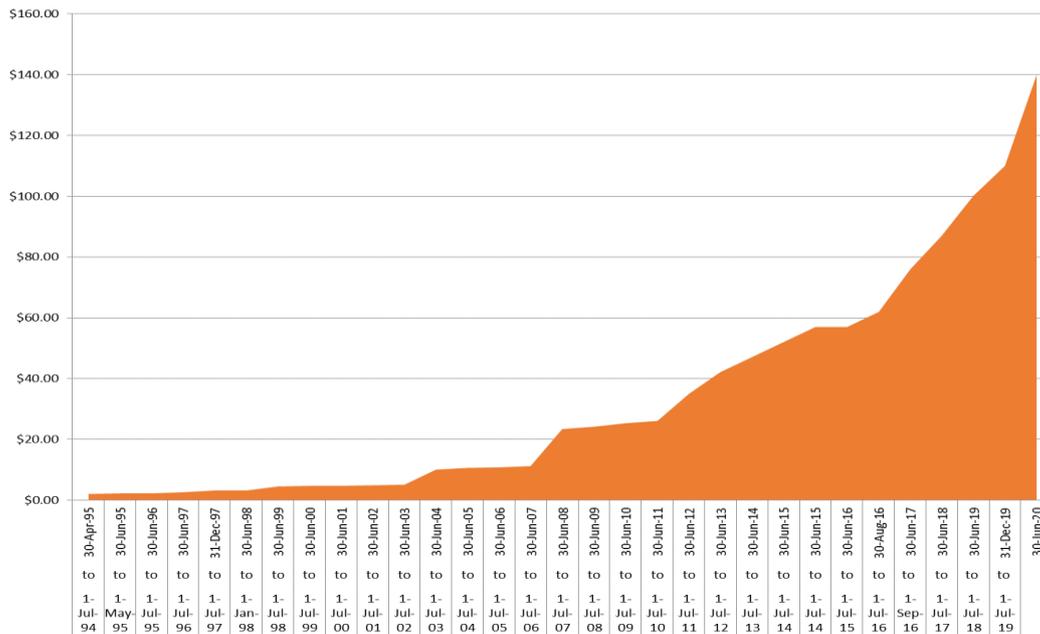
Source: SALGGC (2017b), ABS (2019), SACES (2019).

Section 2.1 Introduction - Purpose and Objectives

Collecting and analysing such data such as the above graph must be done with a deep understanding and contextualised. A key misrepresentation in the graph above (at least using City of Charles Sturt as an example) but which will apply to a range of other Council's is that the General rates per rateable property data doesn't take account of Mandatory Rebates as required under the local Government Act. These should be deducted a net rates (available to spend) used to determine the index. These rebates reduce the amount of revenue contributors within the Council area, thus necessitating increased revenue increases (rate rises) from the remainder. Over the past few years due to an arrangement by the SA State Government it has transferred significant numbers of community housing dwellings from the state to the not for profit sector. This has meant that those dwellings are now required to be given Mandatory Rebates by their Councils. Significantly eroding the contributor base and increasing the applicable rates to the remainder. A further component of this is that such dwellings are not distributed equally cross SA Councils. Indeed, they are highly clustered thus affecting some Council's significantly and other councils not at all. Hence using a graph such as the above and a depicting a change vs CPI is misleading. Separately, other levels of Public Sector expenditure (say State and federal Govt) should also be depicted on such a graph, thus further contextualising the change over time.

At the City of Charles Sturt mandatory rate rebates for housing associations cost \$800k in 2008/09 and increased to \$2.13m in 2017/18 (169% increase).

A further example of an external factor having significant influence on the total cost base is the solid waste levy which has increased 260% over 10 years from \$24.20 to \$87 per tonne. Subsequent to 2017/18 the levy has been increased to \$140 per tonne from 1 January 2020



Solid Waste Levy (Metro)					
1-Jul-94	to	30-Apr-95	\$2.07	per tonne	
1-May-95	to	30-Jun-95	\$2.17	per tonne	
1-Jul-95	to	30-Jun-96	\$2.27	per tonne	
1-Jul-96	to	30-Jun-97	\$2.48	per tonne	
1-Jul-97	to	31-Dec-97	\$3.08	per tonne	
1-Jan-98	to	30-Jun-98	\$3.22	per tonne	
1-Jul-98	to	30-Jun-99	\$4.52	per tonne	
1-Jul-99	to	30-Jun-00	\$4.64	per tonne	
1-Jul-00	to	30-Jun-01	\$4.76	per tonne	
1-Jul-01	to	30-Jun-02	\$4.88	per tonne	
1-Jul-02	to	30-Jun-03	\$5.09	per tonne	
1-Jul-03	to	30-Jun-04	\$10.10	per tonne	
1-Jul-04	to	30-Jun-05	\$10.50	per tonne	
1-Jul-05	to	30-Jun-06	\$10.80	per tonne	
1-Jul-06	to	30-Jun-07	\$11.20	per tonne	
1-Jul-07	to	30-Jun-08	\$23.40	per tonne	
1-Jul-08	to	30-Jun-09	\$24.20	per tonne	
1-Jul-09	to	30-Jun-10	\$25.20	per tonne	
1-Jul-10	to	30-Jun-11	\$26.00	per tonne	
1-Jul-11	to	30-Jun-12	\$35.00	per tonne	
1-Jul-12	to	30-Jun-13	\$42.00	per tonne	
1-Jul-13	to	30-Jun-14	\$47.00	per tonne	
1-Jul-14	to	30-Jun-15	\$52.00	per tonne	
1-Jul-14	to	30-Jun-15	\$57.00	per tonne	
1-Jul-15	to	30-Jun-16	\$57.00	per tonne	
1-Jul-16	to	30-Aug-16	\$62.00	per tonne	
1-Sep-16	to	30-Jun-17	\$76.00	per tonne	
1-Jul-17	to	30-Jun-18	\$87.00	per tonne	
1-Jul-18	to	30-Jun-19	\$100.00	per tonne	
1-Jul-19	to	31-Dec-19	\$110.00	per tonne	
31-Dec-19	to	30-Jun-20	\$140.00	per tonne	

Another is the Emergency Services levy that has increased 196% over 10 years for Charles Sturt

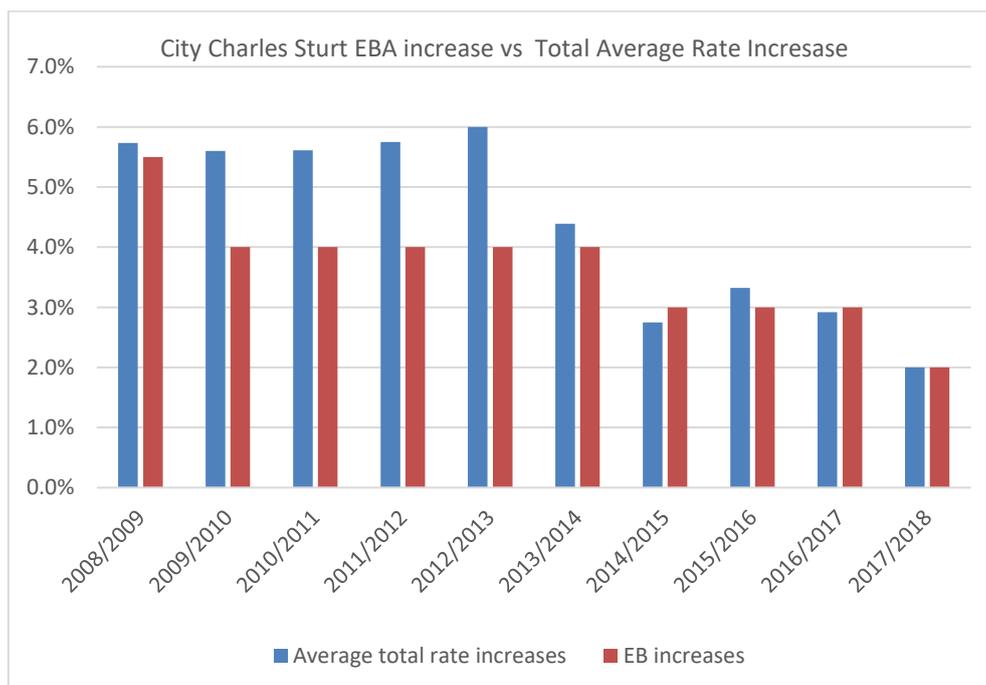
Increased regulation, compliance and governance impacting service provision including roof truss legislation, nuisance bylaws, health and safety compliance including the required regime of auditing of food businesses.

For example, in 2014/15 Council were legislated to pay \$18 for each compliance expiation to the State Government Fines Payment Unit at a cost of approx. \$70k. Roof truss legislation was introduced with no resultant increase in income and as per work undertaken by the SALGFMG in conjunction with Haynes Norton has shown, a fee of approximately \$67 per application would have been required to cover councils' costs incurred.

Many fees are legislative by State Government and are do not achieve full cost recovery with some remaining unchanged for decades. The resultant impact being the cost burden f covered from general rates revenue. For example, cost of planning function with increased cost of compliance and fact that 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 (being cross subsidised by rate revenue).

Electricity and water costs including public lighting have increased 82% over the 10-year period.

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. The graph below illustrates the impact of wages increases on a reasonably fixed labour cost, noting until 2011/12 Charles Sturt rates rises were higher due to being unsustainable and then incurred an additional 4.3% increase over 3 years for a change in service level with Water Proofing the West (a \$70m water harvesting and reuse project).



Costs of Data

Are there any other sources of data that would help the Commission?

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.

Operational driver data collected by SALGGC covers in the order of <20% of the operational costs (adjusted for removal of indirect and overhead costs) of the organisations, so some work may need to be done on collecting additional high level indicators to support better insight into historic cost drivers.

Use of grants commission data for comparative purposes also needs to be tested as different approaches to capitalisation of overheads and allocation of overheads across the operational expenditure categories exists.

Data extraction to support deeper operational analysis of the ten year history may be significant impost for councils and may not be accurate enough to warrant the effort. It is recommended key KPI data in relation to the most significant costs inherent in the operations of councils are collected for the historic analysis to augment what is already collected by the grants commission

Grant funding Impacts

The Commonwealth Government imposed an indexation freeze on grants from 2014/15 to 2016/17, which has reduced the income of South Australian Councils by \$36M over this period (<https://www.lga.sa.gov.au/page.aspx?u=6868&c=75855>). In addition the Local Roads Supplementary grant was removed in 2014/15 before being reinstated in 2017/18 which resulted in loss of income by Councils of \$37M.

(<https://www.lga.sa.gov.au/page.aspx?u=6737&c=37491>)

For Charles Sturt this was a reduction in revenue of approximately \$350k to \$400k over the 3 years.

Measure of Capital

We do not believe depreciation is an appropriate measure of capital. Depreciation is an accounting measure of asset consumption, not efficiency.

Councils expenditure on renewal/upgrade is a measure of how a council is performing against its asset management planning. Capital expenditure on say roads must consider the council componentisation, remaining useful life, road treatments, current soil types and road conditions. Each of which varies across councils even within the metropolitan area of Adelaide and thus has an unavoidable impact on cost. For example, a City with significant bay-of-biscay soil or large numbers of street trees will have significantly shorter kerb and gutter and road payment life cycles and or increased repair and maintenance costs than those that are on more stable soil types.

Factors influencing efficiency

Over the past 10 years Councils in South Australia have adapted and improved in a number of ways including the embedment of the model financial statements, standardised reporting on financial sustainability indicators, implementation of the Better Practice Internal Controls Framework, implementation and increased sophistication of long-term financial planning, and increasing maturity in asset management.

A Council will always strive to provide efficient and effective service delivery, but it is for the services the community demand (via their Elected Representatives) from the taxes they pay. To ensure that occurs they elect representatives from their community. Councils only collect enough in rates to pay for the cost of services and infrastructure required; there is no windfall gain with all rates levied being invested in each community.

There is opportunity for Councils to improve communication with their communities to ensure that the community is informed about services and the associated costs, and the impacts of adding services or raising service standards.

As the form of government closest to the people often we “inherit” service provision given expectation of the community on services they expect “government” to provide. For example, frequent requests are made to Council for bus stop shelters and the like which are State Government responsibilities. 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.

Charles Sturt has 4 surf lifesaving clubs in Charles Sturt and a significant coastal area which is both costly to maintain and requires a high level of amenity to meet (broader SA as well as CITY OF CHARLES STURT) community expectation.

Councils also support many sporting clubs who may have relatively small membership relative to the asset value required for their sport. Structurally this is not efficient in the current form but community expectations demand a council to support and provide facilities which often if having regard to efficiency would not be provided.

Libraries are a service many of our community are passionate about. Charles Sturt has 5 libraries (and 8 Community Centre facilities) which would not be deemed efficient, but the community expect this level of service provision and many attempts to consolidate have not been realised due to significant community backlash.

4. Analysing Council costs

The Commission has been asked to conduct an analysis of local government costs and the key drivers of these costs.

To enable comparisons between councils and over time, some consideration will need to be given to the most appropriate way to treat the data. Some options for presenting and analysing cost data include:

- *analysing costs as total costs, unit costs or proportions of total costs;*
- *deflating time-series data by an appropriate deflator to enable comparisons across time; and*
- *comparing costs across all councils or only similar councils.*

The total costs as reported in the SALGGC include employee costs; materials, contracts and other expenses; depreciation/amortisation; and finance costs (including interest payments).

Other significant Cost Drivers in recent years have included:

- changes in state levies and charges,
- changes in sourcing models,
- energy costs,
- open space service levels and
- the impacts of an ageing community.

Materials, Contractor and Other expenses is a significant category and the classification of costs between Materials, Contractors and Other can vary significantly between councils depending on outsourcing levels.

For analysis purposes there is likely to be value in separating Materials, Contractors and Other into:

- Water
- Electricity and Gas
- Temporary Labour Hire
- ICT licencing and support costs
- Waste Costs
- Waste Levy
- Other State Levies
- Other contracted Services
- Materials
- Other spend

Unless a strong argument can be found for using a different definition, the Commission will analyse the determinants of costs using the reported expenditures from the SALGGC as total expenditure and expenditure by function⁶.

Other issues on which the Commission has not yet formed a view include:

- ***the best treatment of capital (total expenditure, average across several years or using depreciation);***
Depreciation is a good proxy to use. If it was augmented with rolling indicators that assess depreciation against “replacement / renewal” spend over time historically and forecast in the LTFP (with inputs derived from Asset Management Plans) to – at a very approximate level assess trends in asset sustainability it would be better again
- ***whether FTEs or total wages is the better measure of staff numbers;***
Reference to both total employee costs (including temporary labour) supported by actual (not budgeted) FTEs including agency labour FTEs is important. This will help more readily understand whether it is the average cost of labour or FTE deployed that is driving any change in costs. That will inform what may need to change or what needs to be investigated next with respect to employee costs. However, consideration also needs to be given to services that have been contracted out and the implications this has on FTE and or Wages costs. For example, the City of Onkaparinga uses in house staff and a fleet of trucks to collect waste (as distinct from processing and disposal) whereas most other Councils contract out this service. Such a service delivery decision will have significant impacts on contracted services, wages and salaries, plant and equipment and depreciation budget lines in Onkaparinga vs other Councils.

and

- ***how to account for differences in quality of outputs.***

A simple metric source to determine quality of outputs is customer events (calls / emails / web events) in relation to each of the service areas of council. The contacts by the community in relation to underlying service issues (ie: a call about a pot hole or a reserve needing mowing as opposed to a call about a public event or road closure) relative to the underlying assets would serve to give some indication of whether the community are satisfied with the quality of council services or outputs.

Figure 3 SALGGC approach to expenditure functions

Expenditure Function	Standard Cost	Units of Measure
Waste Management	Reported expenditures ¹	Number of Residential, Rural and Commercial (Shop) Properties
Aged Care Services	Reported expenditures ¹	Population aged 65+ from the ABS Census and estimated resident population
Services to Families and Children	Reported expenditures ¹	Population aged 0-14 years from the ABS Census and estimated resident population
Health Inspection	Reported expenditures ¹	Establishments to inspect
Libraries	Reported expenditures ¹	Estimated Resident Population
Sport, Recreation & Culture	Reported expenditures ¹	Population aged 5-64 years from the ABS Census and Estimated Resident Population
Sealed Roads – Built-Up ⁵	Reported expenditures ¹	Kilometres of built-up sealed road as reported in GIR
Sealed Roads - Non-built-up ⁵	Reported expenditures ¹	Kilometres of non-built-up sealed road as reported in GIR
Sealed Roads - Footpaths etc	Reported expenditures ¹	Kilometres of built-up sealed road as reported in GIR
Unsealed Roads – Built-up ⁵	Reported expenditures ¹	Kilometres of built-up unsealed road as reported in GIR
Unsealed Roads - Non-built-up ⁵	Reported expenditures ¹	Kilometres of non-built-up unsealed road as reported in GIR
Unformed Roads ⁵	Reported expenditures ¹	Kilometres of unformed road as reported in GIR Roads
Stormwater Drainage Maintenance 2,3	Reported expenditures ¹	Number of urban properties ⁴
Community Support	Reported expenditures ¹	3yr average population * SEIFA Advantage Disadvantage CRI
Jetties and Wharves	Reported expenditures ¹	Number of jetties and wharves
Public Order and Safety	Reported expenditures ¹	Total number of properties
Planning and Building Control	Reported expenditures ¹	Number of new developments and additions
Bridges	Reported expenditures ¹	Number of bridges as reported in GIR
Environment and Coastal Protection	Reported Expenditures ¹	Estimated Resident Population
Other Needs Assessments	Set at 1.00.	Based on Commission determined relative expenditure needs in a number of areas ⁶

Source: South Australian Local Government Grants Commission (2017)

The units of measure in the table are quite high level which will be useful for pointing to areas of difference however they are unlikely to provide answers as to why.

The high-level nature of the indicators may also mean there is the possibility that the findings of the commission aren't accepted by councils as they are too broad.

While it might not be practical for the historic analysis, it would be good to adopt a value driver approach to comparisons of effectiveness.

As an example - with respect to waste – in the SALGGC approach to waste, total waste costs will be divided by number of residents.

If there is a change in waste cost per resident from one year to the next or if there is a difference between councils in waste cost per resident, then there will need to be further data gathering and analysis to understand the root causes of those differences.

In a value driver approach to waste costs, waste costs would be split between types of waste and the costs of delivery and disposal. These costs would then be assessed in terms of number of pick-ups per resident per year and the average cost of pick up, and in addition for the costs of disposal the average tonnage per pick up and the average cost per tonne.

Using residents alone may point to an area to investigate however it may not inform next actions, however capturing the value drivers would enable whoever is undertaking the analysis and comparisons to determine more closely what the potential areas of opportunity are and what can be done about them and the value of doing something about them (ie: tonnages in landfill are high relative to recycling – then waste education may be needed, average cost per pick up is relatively high may point to sourcing etc)

There are differing views on the most appropriate measure of capital. Some have argued that reported expenditure is not an appropriate measure as it can be highly variable between years, which could affect efficiency estimates.

The two key aspects of capital spend are whether over the life of the assets, investment is adequate and secondly whether there is the general efficiency associated with capital spend in any given year.

The Commission is seeking information and views on:

- 4.1 What are the key determinants or drivers of council costs and how have councils' costs changed over time?
- 4.2 What is the best approach to defining and measuring costs for comparisons across councils or through time?
- 4.3 What is the most appropriate measure of capital expenditure?
- 4.4 What measures of council service quality are available?

4.1 Key determinants and drivers of council costs are:

Labour, sourcing strategies (ie: outsourcing), increased reliance on information technology, service levels (ie: increased irrigation – leading to higher water costs, higher mowing costs, higher green waste /clippings disposal costs but higher community amenity), activities undertaken (ie: community housing transfers), waste and other state-based levies, external drivers such as energy pricing, investment in water recycling etc

4.2 Best approach to defining and measuring costs for comparisons across councils or through time:

The best approach would result in a comprehensive assessment of council activities, costs being analysed at the activity level and clear of internal reallocations of costs between activities and capital. Corporate service-based activities would be treated as an activity in their own right rather than being reallocated across the costs of other council services to increase transparency of cost drivers.

The indicators would need to be at a granular enough level such that they are genuinely

comparable and defensible and minimise the effort from producing the comparison to understanding what needs to change to drive performance.

Value driver analysis for the major spend areas of council (ie: ensuring that the 20% of activities that drive the 80% of costs) would enable detailed central comparison of performance and would mean the commission could support councils in identifying the manner in which performance could be improved in addition to highlighting where performance is deficient.

4.3 Most appropriate measure of capital performance:

Asset sustainability ratio trends over time (historic and forecast) should support testing the adequacy of maintenance of infrastructure service levels (these are subject to asset management plan unit rates etc).

Value driver analysis for capital spend for the major capital spend types (and the treatments within those) would also enable comparison of the efficiency of capital spend through time and between councils.

Need to be able to take the impact of revaluations into account also in capital analysis - assess true replacement against historic / original costs (adjusted for CPI).

4.4 What measures of council service quality are available:

Community survey data based on the *relative* importance of and satisfaction with council services is a manner in which service quality can be measured. Not all councils undertake community surveys however and not all community surveys are structured in this way.

In lieu of anything else analysis of customer contact data (calls, emails, web contacts) to determine the rate at which the community calls regarding service issues by service would provide good insight into quality of services provided as determined by the community

5. How to estimate local government efficiency

5.1 What is the experience of South Australia Councils in measuring and monitoring efficiency:

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.

The fact the allocations and drivers are undertaken by a common resource across the 3 entities and are performed at close to a transactional level has meant the benchmark comparisons are factual, fair and impartial. This has contributed significantly to the effectiveness of the change mgt program that follows to enable improvements to be made and reduces the ability for stakeholders to discredit the comparability of functions.

Stakeholders are also fully informed and the reasons for differences are able to be relatively clearly articulated.

The benchmarking is used to determine priority areas for action or more detailed reviews and performance improvement initiatives.

The benchmarking may be augmented by additional analysis to confirm the benchmark findings and also to support greater understanding of the specific action plans needed to implement performance improvement initiatives.

There is significant support from the three CEOs to drive performance improvement and that drive is key to this measurement of efficiency resulting in actual changes in performance.

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).

It should be noted the Performance Excellence Program is undertaken at 2 of the three councils. 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.

5.2 Are there examples of efficiency monitoring programs in other jurisdictions?

Have these monitoring systems resulted in improved efficiency?

The Victorian Performance Reporting framework is an example of efficiency comparisons and benchmarking implemented across sector. It has recently been reviewed by the Essential Services Commission ESC and while it provides a highly accessible 'front end' and is the outcome of significant engagement with the local government sector, it has been deemed not entirely accurate and not necessarily a driver of performance.

The Vic ESC review addresses the important aspect of reporting alone not being a driver of performance.

SA Local Government has had some comparative data prepared for a significant number of years through the SALGC. This data presents a comprehensive overview of financial performance and a partial view of operational effectiveness. The comparisons and inferences need to be drawn by the user of the data and so the comparatives aren't fully transparent to the community or the uninitiated. Availability of this data has not driven performance due to the absence of explicit insight into what it means, the compulsion for people to use the data and consequences of relative good or bad performance. While available it could not be described as easily accessible and also suffers from a significant lag from the relevant reporting period to publication thus eroding perceived relevance.

NSW oversight focusses on financial sustainability rather than efficiency with the AG undertaking performance audits across local government as instructed by the minister each year. These performance audits to date have not addressed overall efficiency and implementation of an efficiency reporting framework has been recommended as part of a recent AG performance audit.

Table 2 Summary of Past Methodologies for Service Specific Efficiency Measurement

Author	Service	Inputs	Outputs	Data
Worthington (1999)	Library Services	Gross library expenditure, population, area, NESB, socio-economic index	Number of library issues	168 NSW Councils
Worthington and Dollery (2000)	Planning and regulatory services	Planning expenditure, legal expenditure, no. full-time planning staff, population growth, development activity index, heritage and environment index, proportion of non-residential properties, population distribution, NESB	No. building applications, no. development applications determined	173 NSW Councils
Worthington and Dollery (2001)	Domestic waste services	Waste collection expenditure, no. properties served, average occupancy rate, population density, population distribution, waste disposal cost index	Total garbage and recyclables collected, implied recycling rate	103 NSW Councils
Worthington and Dollery (2002)	Planning and regulatory services	Planning expenditure, legal expenditure, no. full-time planning staff, population growth, development activity index, heritage and environment index, proportion of non-residential properties, population distribution, NESB	No. building applications and development applications determined and approved	173 NSW Councils
Worthington and Dollery (2002)	Water Services	Cost for management, maintenance and operations, energy and chemicals and capital replacement	No. assessments, water consumption, water quality index, service index	Note: South Australian councils do not provide water services

Would need to include all events including online contacts and services rendered and program attendance.

Would add collection events in to output analysis to support assessment of service levels.

Need to consider and asses dvt complexity.

The Commission is seeking information and views on:

- 5.4 Is there value in estimating service-specific efficiency of councils? What
- 5.5 services are most appropriate to estimate council efficiency?

5.4 Is there value in estimating service-specific efficiency of councils

Yes – there is more value in estimating service specific efficiency than total council efficiency as it yields a greater insight into what might be driving differences in overall council efficiency. It would be preferable again to use Value Driver Analysis rather than DEA analysis as that would provide greater insight into the basis for productivity differences.

5.5 What services are most appropriate to estimate council efficiency?

It would be preferable to use activity based costs that exclude allocations of indirect and overhead costs (these are included in the SALGGC costs and may distort findings) and to assess the efficiency of indirect and overhead activities in their own right.

In light of this comment the services that would be important to include to ensure comprehensive and informed coverage of council activities would be (using SALGGC definitions):

- Corporate Services
- Transport
- Recreation
- Waste Management
- Other Environment
- Libraries
- Planning and Development
- Community Support

And as stated above, efficiency assessments should be targeted at individual services / activities where a line of site for improvements can be made, rather than simply ‘rolling up’ to efficient vs inefficient councils which is unlikely to lead to constructive improvement.

The Commission is seeking information and views on:

- 5.6 How do councils monitor their efficiency over time?
- 5.7 Are there any examples or case studies of councils benchmarking their costs and efficiency against other councils?

5.6 How do councils monitor their efficiency over time?

To date - year on year by spend type and activity – developing greater sophistication around this with the development of BI reporting and gaining the ability to incorporate operational driver analysis into routinely produced operational reporting. An anecdotal observation is there exists a high degree of variability among councils in this regard.

5.5 Are there examples of councils benchmarking against each other?

See comments above

Note there are activity, sub-function and functional lists and definitions available to provide if there is opportunity / need.

The Commission is seeking information and views on:

- 6.1 Are the factors used in previous studies likely to influence local government efficiency in South Australia?
- 6.2 Are there any additional factors that could affect the costs and efficiency of South Australian councils?

6.1 Are the factors used in previous studies likely to influence local government efficiency in South Australia?

It would be more beneficial to invest the time and energy in operational comparative techniques like value driver analysis to support identification of areas for performance improvement rather than models that may not deliver insight into what can be done to improve performance.

In regards to external factors that specifically relate to activities can be taken into account in value driver analysis also and the various examples cited earlier in the paper: legislative and regulatory burden, cost shifting, failure of pricing adjustment to reflect cost of services where prices are set by another level of government, transferring of housing stock to enable them to qualify for mandatory rate relief among other reasons all contribute to this and must be explicitly taken account of as different factors impact different communities / councils to different extents.

6.2 Are there any additional factors that could affect the costs and efficiency of South Australian councils?

As above

The Commission is seeking information and views on:

- 6.3 What are the key internal and external factors that have impacted councils estimated efficiency over the last ten years?
- 6.4 What are the key internal and external factors which councils expect to impact their efficiency going forward?
- 6.5 What decision-making processes do councils use to determine the scope of services they provide and how these services are provided?

6.3 What are the key internal and external factors which councils expect to impact their efficiency going forward?

Not in priority:

- External factors such as new levies or assignment of responsibilities
- Ageing community
- Impacts of dealing with climate change (ie: heat zone management, water security, flood management and fire mitigation etc)
- Ability to adopt new technology effectively
- changes in and additional levies driven externally
- water and energy prices
- greater application of technology
- employee costs
- changes in service sourcing / contractual services
- addition of assets and services including contributed assets
- increased service levels as demanded by communities
- (minor) centralisation of services with state government (ie: DACO)

Among others

6.4 What decision-making processes do councils use to determine the scope of services they provide and how these services are provided?

The Annual Business Plan and Budget process, combined with a S270 of the Local Government Act requires Council's to elicit from their communities through consultation processes areas where the community would like additional or changed service levels. Councillors play an important role in listening to their communities and acting as a conduit to the Council to reflect the service aspirations (together with the communities' appetite to fund them) and this provides a gateway for consideration of services and activity levels

Service reviews are undertaken at some councils to determine how services can be provided more effectively. In some cases this is a structured or programmed function at others it takes more the form of business case or service review analysis in response to identified areas of focus.

Benchmarking between City of Charles Sturt, Marion and PAE has been used to inform the areas to be assessed from a productivity and performance perspective.

Role evaluation and the removal of existing services has not been a focus to date with the emphasis being on providing existing services more efficiently and effectively – role evaluation may in time potentially support ongoing and further improvement in effectiveness however removal of community services is seen to be complex and requiring significant political will and extensive community engagement. The initial step has been seen to be ensuring existing services are provided efficiently first.

Community survey data (Community and Customer Satisfaction data, generally also reflecting the importance level of individual services) also adds another dimension to service evaluation by informing councils of the relative importance and satisfaction placed on services by the community, including overall value for money.

The Commission is seeking information and views on:

- 7.1 What are councils' experiences with recent reforms in policy, governance and management?
- 7.2 What actions/reforms have council initiated to improve efficiency or reduce costs? What reforms in other jurisdictions successfully resulted in improved council efficiency?
- 7.3 How can financial accountability in the local government sector be enhanced?
- 7.4 Are there examples of actions initiated by councils to increase efficiency? What has worked and what has not worked?
- 7.5

7.2 What actions/reforms have council initiated to improve efficiency or reduce costs?

- Forensic budget reviews
- Program and project delivery management
- Greater oversight of financial performance through all layers of management
- Value driven service reviews
- Cross council service reviews to get the best of everyone's performance
- Collaboration on services to manage cost and make elevated capability affordable and get the best of everyone's thinking
- Shared service initiatives to maximise efficiency and create service resilience (especially in specialised areas where the scale creates a key person/team risk for example).
- Cross council benchmarking and analysis

7.3 How can financial accountability in the local government sector be enhanced?

Benchmarking budgets against prior year actual spend to ensure only what is needed is sought to be recovered from the community. More accurate budgets drive more precise decision making around additional services and costs.

Ensuring there is accountability for actual performance against budget at all levels of leadership, throughout the year and through to the finalisation of full year results. Many councils have outcomes that vary significantly from budget with costs often underspent.

Effective accrual accounting so results are materially known through the course of the year rather than three months after year end.

Management of capital and project delivery against budget and timelines to meet commitments to the community.

Building operational and financial indicators into monthly performance meetings to ensure there is a balanced approach to managing people, community, cost, asset and risk outcomes - across generations.

Incentives for councils to perform better year on year.

7.4 Are there examples of actions initiated by councils to increase efficiency? 7.5 What has worked and what has not worked?

Service review programs have been reviewed and oriented to creation of community value proving simultaneous efficiency and service level improvements are possible.

City of Charles Sturt, Marion and PAE have implemented cross council benchmarking and community value based service reviews. These reviews have in some cases led to cross council services being established which address gaps in capability and at the same time improve cost and service outcomes. Community data is used as an input to all of these reviews.

The benchmarking appears to be successful as it has been undertaken at a detailed transactional level, is supported by operational driver data, cost capture is comprehensive and excludes the impact of overhead allocations with corporate activities assessed as a service in their own right.

As the data compilation and analysis is undertaken centrally, comparability is quite high and the ability to explain performance differences in operational terms comes as a result of that. The comparisons are able to be discussed in detail when concerns regarding specific operational factors are raised which results in greater confidence in the comparisons and an ability to get down to specific performance improvement opportunities.

The benchmarking informs focus areas for service reviews or the change that is needed.

This approach has been effective in delivering significant savings as well as increased project delivery and record low rate outcomes.

2016/17	2.9%	Average Rate Rise	
2017/18	2.0%	"	
2018/19	1.4%	"	
2019/20	1.4%	"	(excl Solid Waste Levy) 2.0% including SWL

<http://www.charlessturt.sa.gov.au/page.aspx?u=395>