

Summary analysis of Information Requests within the methodology paper

Approach to comparative analysis

The terms of reference for the inquiry require the Commission to analyse information on local government costs and the key drivers of these costs, as well as to develop and analyse measures of local government efficiency and productivity.¹

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
<p>3.1 Is the Australian Classification of Local Governments an appropriate way to group similar councils for comparison? Is there a better approach?</p>	<p>The proposed ACLG groupings, and aggregation levels, are identical to those used by the LGA in charts located in the LGA's annual Financial Indicators Report.</p> <p>While the LGA agree with ACLG groupings in favour of any other approach, we question whether the proposed aggregation to four groupings only is appropriate.</p> <p>For clarity, 'capital' should be updated to refer to 'capital city'.</p>	<p>Current groupings are general and traditional in nature with regards to geographic size, remoteness, service mix and population density. More relevant and modern groupings should consider stages of growth/development in the Council area. The category of growth needs more definition with regards to new development with and without existing infrastructure and infill. The traditional groupings relate to a traditional lens on Councils as government. Instead a view of Councils as service providers operating in an open market would expand the lens other commercial considerations i.e. stage of business life cycle in terms of growth, expansion, consolidation.</p> <p>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.</p>
<p>3.2 Is the proposed ten-year timeframe to analyse costs and efficiency</p>	<p>The proposed ten-year timeframe aligns with the timeframe currently used by council's to guide their Long Term Financial</p>	<p>Agree with proposed 10 year time frame to ensure relevance and consistency with</p>

¹ <https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper> - Page 8

	appropriate?	Plans and may be considered appropriate.	current regulations
3.3	Are there any other sources of data that would help the Commission?	A copy of the LGA's environmental scan of research/data relating to financial management and cost pressures in South Australian councils previously provided to the Commission can be found at <u>Appendix 2</u> .	Agree with the use of data collated by Commission – though by the Commissions own admission the data collation has issues of inconsistencies and inaccuracies. LG Benchmarking via PWC has other information at differing levels which may be of use.

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.²

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
4.1 What are the key determinants or drivers of council costs and how have councils' costs changed over time?	Possible drivers may include: <ul style="list-style-type: none"> • changes to scope of services • changes in the environment in which councils operate • new legislated responsibilities • ratepayer preferences/expectations • price increases (outside of councils' control) • thin markets (particularly in regional areas) 	Agree with possible drivers listed. As an extension/variation to the thin markets a consideration to the social responsibility drivers cost to services – this is based on the fact there is an increasing push for local service provision which has been built into procurement. Local service providers generally have higher costs and impact service cost but a result of decision to thin the market to benefit local community. Similarly 'green initiatives' may add to cost drivers. A driver associated with level of outsourcing vs insourcing – relevant where EAs, ATO regulation or remote locations force councils to insource or outsource services due to availability of resourcing. Growth may also be a cost driver – growth presents a change in demographics and population. So what might have been a predominantly aged community will now extend into having to cater for the aged, families, disabled and youth issues.
4.2 What is the best approach to defining and measuring costs for comparisons across councils or	Reported expenditures from the SALGGC ³ as total expenditure and expenditure by function may potentially be an appropriate measure.	Capture of non-financial data or external data impacting Council costs is not considered in the SALGGC data. May need to consider additional

² <https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper> - Page 11

³ South Australian Local Government Grants Commission (SALGGC) - https://www.dpti.sa.gov.au/local_govt/LGGC

	through time?		information requests from Councils useful to interpretation or breaking down financial data.
4.3	What is the most appropriate measure of capital expenditure?	Depreciation may potentially be an appropriate treatment of 'capital' – particularly as there have been major distortions in councils' capital expenditure stemming from 'one-off' Federal and State Government grant programs over the proposed ten-year period. CPI ⁴ may be an appropriate choice for a cost deflator. Other options are LGPI ⁵ or WPI ⁶ .	Suggest that a unit rate calculation would be appropriate to account for some underlying factors. Depreciation only considers replacement of capital and not relevant in regards to reasons for new capital. The capital spend on new vs upgrade and renew/replacement is important to determine. The actual category of capital spend relative to the 'group' of Council is relevant. As per 3.1 the capital expenditure for Councils in different stages of their growth cycle would differ dramatically and as such the type of capital spend should be compared to growth stage. Consideration to a combination of CPI or WPI that reflects the same proportion of materials and labour costs for Councils. LGPI combines capital and operating which may not be the same proportions for all Councils.
4.4	What measures of council service quality are available?	Possible examples may include: <ul style="list-style-type: none"> • regular community surveys • service reviews • continuous improvement programs. 	<ul style="list-style-type: none"> • Resident Satisfaction Surveys, • Customer Measurement Tool Surveys, • Efficiency and Effectiveness/Continuous Improvement Programs, • Service Standards

How to estimate local government efficiency

The Commission is required to develop and analyse measures of local government efficiency and productivity.

Productivity is simply defined as the ratio of the outputs that an organisation produces to the inputs that it uses.

Efficiency refers to the relationship between the quantity of inputs used and outputs produced.

An organisation is 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

⁴ Consumer Price Index (CPI) - <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

⁵ Local Government Price Index (LGPI) - <https://www.adelaide.edu.au/saces/economy/lgpi/>

⁶ Wage Price Index (WPI) - <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0>

given level of output.⁷

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
5.1	<p>The LGA has commissioned advice on the technical terms in the paper; this can be found at Appendix 1. The experience of SA councils in measuring and monitoring efficiency varies across the State, however as a minimum, SA councils are required to:</p> <ul style="list-style-type: none"> • develop a Strategic Management Plan (including at a minimum a Long Term Financial Plan and Asset Management Plan for a period of at least ten years) • develop an Annual Business Plan and Budget which outlines amongst other things: <ul style="list-style-type: none"> (i) the council's objectives for the financial year; and (ii) the activities that the council intends to undertake to achieve those objectives; and (iii) the measures (financial and non-financial) that the council intends to use to assess the performance of the council against its objectives over the financial year • prepare an Annual Report which outlines amongst other things: <ul style="list-style-type: none"> (a) the council's performance in implementing its strategic management plans during the relevant financial year, and the council's projections and targets under its plans for the next financial year; (ab) the council's performance against its annual business plan for the relevant financial year; (b) the extent to which activities of the council have been subjected to competitive tender or other measures to ensure services are delivered cost-effectively, and the extent (if any) to which the council has pursued policies for purchasing local goods and services; <p>Possible other examples may include:</p>	<p>Continuous Improvement – moved from targeted cost cutting to focus on efficiencies that improve the overall system not specific to small targeted areas that provide little or no benefit to achievement of the overall community outcomes. Since 2011, a robust efficiency and effectiveness program has delivered \$13.1m in ongoing savings.</p>

⁷ <https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper> - Page 13

	<ul style="list-style-type: none"> • audits/audit committees • community surveys • service reviews • continuous improvement programs • network groups (via sharing of info). <p>In addition, the LGA prepares an annual 'Financial Indicators Report' which provides an analysis of the financial sustainability of the sector via an analysis of the most recent SA Local Government Grants Commission Database Reports (2016-17). This report highlights the very sound financial performance and position of the local government sector as a whole. The evidence shows that South Australian local government is living within its means, has a very low level of indebtedness, and generally is managing its assets satisfactorily.</p>	
5.2	<p>Are there any examples of efficiency monitoring programs in other jurisdictions?</p> <p>The LGA is conducting research into other jurisdictions.</p>	<p>Know Your Council in Victoria. Playford have benchmarked SALGGC data against this</p>

5.3	Have these efficiency monitoring programs resulted in improved council efficiency?	<p>Possible examples may include:</p> <ul style="list-style-type: none"> • strategic alliances between neighbouring councils • shared services • service reviews • continuous improvement programs • LGA Financial Sustainability Program • model financial statements - help councils comply with Australian Accounting Standards and have considerably improved the reliability, consistency, comparability and understanding of publicly available information on council finances • model rates notice template - help councils comply with legislation • LGR&D scheme projects. <p>Councils also gain benefit from membership of the LGA in two ways:</p> <ul style="list-style-type: none"> • savings - where councils are able to spend less on services due to their membership; and • contributions - where councils receive funding due to the work of the LGA. 	Yes \$13.1m over last 8 years in ongoing savings
5.4	Is there value in estimating service-specific efficiency of councils?	<p>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.</p> <p>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.</p>	The non-specific measures ignore the variability in councils and wouldn't be comparative. Service-specific efficiencies would be useful in highlighting further development areas for the LGA with regards to economies of scale and procurement support.
5.5	What services are most appropriate to estimate council efficiency?	According to SALGGC 2016-17 data, the four largest expense categories for South Australian councils were transport, recreation, waste management and other environment. Therefore, these four service areas may be an appropriate estimate of council efficiency.	Agree with the largest expense categories
5.6	How do councils monitor their efficiency over time?	<p>Possible examples may include:</p> <ul style="list-style-type: none"> • regular community surveys • long term financial plans • budget reviews 	Ongoing Budget monitoring and review

		<ul style="list-style-type: none"> • community consultations • service review programs • benchmarking. 	
5.7	Are there any examples or case studies of councils benchmarking their costs and efficiency against other councils?	Many councils use benchmarking to inform their annual and long-term budgeting and planning. Some councils undertake their own benchmarking studies, others participate in programs such as the LG Professionals Business Excellence Framework.	Playford has benchmarked against Know Your Council in Vic. LG Professionals Business Excellence Framework

Understanding factors that influence efficiency of councils

The Terms of Reference for the inquiry require the Commission to identify and analyse key local government costs and cost drivers. 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.⁸

The Commission is seeking information and views on:		LGA Secretariat comments	Council comments
6.1	Are the factors used in previous studies likely to influence local government efficiency in South Australia?	<p>Factors⁹ proposed by the Commission include:</p> <ul style="list-style-type: none"> • population/population density; • socio-economic and demographic characteristics (such as proportion of NESB population, proportion of ATSI population; proportion of population over 65); • labour market characteristics (such as unemployment rates; median wage); • geographic/location characteristics; council characteristics (such as size; output mix). <p>Growth areas – may require councils to increase service levels and/or introduce additional services, may also speed up consumption of assets.</p> <p>Ageing populations – Aged care is not a ‘core’ service of local government 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’.</p>	<p>These influences often put pressure on Councils ability to achieve efficiencies, as well as:</p> <p>Cost pressures – those items outside of our control resulting from external factors such as legislation changes.</p> <p>Growth councils where services are non-existent and lack of support from regulatory environments puts added pressure on Council to do work of developers.</p>

⁸ <https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper> - Page 22

⁹ <https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper> - Page 23

		<p>Labour market adjustments (ie. large scale redundancies such as the closure of Mitsubishi or Holden) – may require additional investment from councils in economic development/urban design/place-making activities. Councils operating in thin markets (more likely in regional areas) - may need to pay more to procure certain services or may need to enter the market as service deliverer.</p>	
6.2	<p>Are there any additional factors that could affect the costs and efficiency of South Australian councils?</p>	<p>Possible additional factors may include:</p> <p>(+ve)</p> <ul style="list-style-type: none"> • advancements in technology/products – could reduce costs and improve efficiency • improved relationship with State/Federal government – Local Government is provided with an early seat at the table on matters which may affect its operations and which allows councils to appropriately plan to accommodate changes and/or aggregate projects to achieve better outcomes for the community. <p>(-ve)</p> <ul style="list-style-type: none"> • cost shifting – additional responsibilities are transferred to local government without associated increase in funding. 	<p>Cost shifting between levels of Government</p> <p>Support from regulatory areas to decrease the pressure on Councils to subsidise the regulatory framework and the high cost impacts on infrastructure provision in growth areas.</p>
6.3	<p>What are the key internal and external factors that have impacted councils estimated efficiency over the last ten years?</p>	<p>Possible internal factors may include:</p> <p>(+ve)</p> <ul style="list-style-type: none"> • service improvement reviews/programs • industrial relations – focus on staff development/training creates efficiencies/improves productivity • properly accounting for and maintaining important infrastructure. <p>(-ve)</p> <ul style="list-style-type: none"> • industrial relations - staff turnover/competition in labour market • technology advancing faster than internal systems can accommodate • properly accounting for and maintaining important infrastructure. 	<p>Increase/changes in competitive markets for services e.g. changes in NDIS & My Aged Care</p> <p>Changes in legislation which create unnecessary deviation from actual service provision. Administration spend increased amounts of time in reactions to political and regulatory changes instead of focusing on community outcomes and service delivery</p> <p>Cost shifting between levels of Government</p> <p>Service groups left by State/Federal Government being picked up by Local Government</p>

	<p>Possible external factors may include:</p> <p>(+ve)</p> <ul style="list-style-type: none"> • advancements in technology/products which reduced costs and improve efficiency • improved relationship/coordination with State/Federal government creates efficiencies/improves productivity. <p>(-ve)</p> <ul style="list-style-type: none"> • increase in supplier costs • increased number of force majeure events (bushfires, floods) • shift in demographics (causing significant increase/decrease in demand for services/assets) • skills shortage in region • change in economic contributor to region (major redundancy, industry/market failure in region) • cost shifting – Community Housing Transfers (mandatory rebate), Waste Levy, NRM Levy • the impact of falling government grants • change to regulations and/or legislation that negatively impact on council operations (ie. China Sword) • limits on other revenue sources including user pays fees • climate change • change in ratepayer expectations • communities choosing more and better services. 	
6.4	<p>What are the key internal and external factors which councils expect to impact their efficiency going forward?</p> <ul style="list-style-type: none"> • As above. 	<p>Increased regulatory requirement providing little or no benefit to the community outcomes and service delivery.</p>

6.5	What decision-making processes do councils use to determine the scope of services they provide and how these services are provided?	Possible examples may include: <ul style="list-style-type: none"> • community consultation on Strategic Management Plans (ABP, LTFFP, IAMP, etc) • community surveys • open council meetings • policy and/or procedure for the provision of a service by the council or for the improvement of a service provided by the council¹⁰. 	Resident satisfaction surveys, Customer Management Tool, Engagement Hub
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Options for improved council performance

The Commission has also been asked to provide advice and recommendations on options for both councils and the South Australian Government to improve efficiency, lower costs and enhance local government financial accountability.

Strengthened financial accountability, through, for example increased transparency or enhanced governance arrangements, could be expected to contribute to improvements in efficiency. The Commission is interested in hearing stakeholder views on what enhancements in financial accountability could assist councils to realise efficiency gains.¹¹

The Commission is interested to hear from councils that have introduced improvement initiatives, and the impact of these initiatives on council performance.¹²

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
7.1 What are councils' experiences with recent reforms in policy, governance and management?	<p>Local government should be provided with an early seat at table when there are proposed changes which will impact on councils.</p> <p>In recent years this hasn't always occurred, this has impacted on council's ability to respond appropriately and/or required costly adjustments in systems and processes.</p> <p>Local government considers that councils should not be subject to excessive accountability and transparency standards that do not apply to all tiers of government.</p> <p>Recent examples may include:</p>	<p>State Government Waste Levy is a perfect example of lack of consultation with local and state levels.</p> <p>Changes in policy and governance are often futile and provide minimal actual change.</p> <p>Reforms are not reforms but just a rebadge of older systems. Don't provide a way forward into a new way of doing things but rather present a used method in a slightly different way.</p> <p>Reforms simply see a shift in the burden of</p>

¹⁰ Under s270 of the Local Government Act 1999 (<https://www.legislation.sa.gov.au/LZ/C/A/Local%20Government%20Act%201999.aspx>)

¹¹ <https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper> - Page 24

¹² <https://www.sapc.sa.gov.au/inquiries/inquiries/local-government-inquiry/methodology-paper> - Page 25

7.2	<p>What actions/reforms have council initiated to improve efficiency or</p>	<ul style="list-style-type: none"> • Commonwealth aged care funding reforms - The major impact on local government in recent years has been the anticipated move to integrate the Commonwealth Home Support Programme (CHSP) and the Home Care Packages program into a single care at home program. Local government has traditionally been block funded to provide services and the proposed change to individualised funding may affect the viability of council services funded by these programs. The recent Federal Budget included an announcement to extend the Commonwealth Home Support Program (CHSP) for two years from 2020/21. This is now the third extension to this program. The continual insecurity around the future of this funding has had a negative impact on long term program planning, staffing, moral and service capabilities • community housing transfers - if councils were notified in advance of planned Community Housing transfers and upgrades this would enable associated infrastructure works (road reseals, stormwater upgrades, and waste management routes) to be planned and/or accommodated appropriately within Infrastructure and Asset Management Plans and Long Term Financial Plans • PDI Act - Local government acknowledges its statutory role in planning and shall continue contributing an equitable amount to improvements in governance related to planning, while lobbying the State Government to ensure that costs of the e-Planning solution and the SA Planning Portal are not shifted inequitably onto councils • DACO • conflict of interest • informal gathering • boundary reform • litter and nuisance. <p>In response to the Independent Inquiry into Financial Sustainability of Local Government in 2005¹³, the LGA,</p>	<p>administration rather than true reform.</p> <p>Policies become too prescriptive effectively increasing the cost of administration instead of simplifying.</p> <p>Creation of subsidiaries to create economies of scale efficiencies e.g. NAWMA</p>
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¹³ [Rising To The Challenge Towards Financially Sustainable Local Government in South Australia](#) – Financial Sustainability Review Board 2005

	<p>reduce costs?</p> <p>with the support of Councils, subsequently embarked on a comprehensive Financial Sustainability Program to implement the Inquiry's recommendations and support improved Council performance.</p> <p>Over the last decade, Local Government net debt in South Australia has decreased by 48%¹⁴ suggesting that Councils recognise that maintaining debt to a reasonable level is important in ensuring the long term financial sustainability of their local regions.</p> <p>Possible examples may include:</p> <ul style="list-style-type: none"> • continuous improvement programs • shared services • alliance/group procurement (aggregation between neighbouring councils) • LGA Procurement Panels • LGA Mutual Liability Scheme • Financial Sustainability Program • model financial statements • model rates notice template • LGR&D Scheme projects. 	<p>Infrastructure deeds and land management agreements with growth areas</p> <p>Changes in policy to improve customer engagement eg. Rates hardship</p> <p>Community Engagement Framework</p>
7.3	<p>What reforms in other jurisdictions successfully resulted in improved council efficiency?</p> <p>The LGA is conducting research into other jurisdictions.</p>	<p>Aware that in NSW co-ordination of key resource areas/ shared resourcing has improved council efficiencies e.g. shared procurement and legal. Opportunity for LGA to become more co-ordinated in resource efforts</p>
7.4	<p>How can financial accountability in the local government sector be enhanced?</p> <p>Local government acknowledges its statutory obligation to be sustainable and that this can only be achieved through attainment and maintenance of financial sustainability. Councils shall continue to proactively improve its practices, while complying with legislative and regulatory requirements for governance and reporting.</p> <p>The LGA has previously outlined a plan for sensible change¹⁵ which includes:</p> <ul style="list-style-type: none"> • sector wide benchmarking program • strengthening the Council Members Code of Conduct 	<p>Strong service standards system that works in a full circle – input, output, report, review. This would provide a framework where costs are captured by measure, made comparable and drive improvement.</p>

¹⁴ Source: 5512.0 - Government Finance Statistics, Australia, 2016-17

¹⁵ <https://www.lga.sa.gov.au/localgovernmentreform>

	<ul style="list-style-type: none"> • best practice audit committees • standardising external audits • introduce a revenue policy • diversifying local government revenue • best practice service reviews • supporting new boundary reform processes • industry-wide industrial relations framework • review representation reviews • local government elections reform. 	
<p>7.5 Are there examples of actions initiated by councils to increase efficiency? What has worked and what has not worked?</p>	<p>South Australian councils have undertaken self-imposed steps to improve their efficiency over recent years without needing heavy-handed regulatory intervention. A report¹⁶ prepared by Professor Brian Dollery (the Dollery report) calculated expenditure per household (as a proxy for council efficiency) and found that the expenditure per capita of SA councils fell between 2013 and 2016 - indicating an increase in efficiency for these councils on average.</p> <p>Possible examples may include:</p> <p>(+ve)</p> <ul style="list-style-type: none"> • continuous improvement programs • shared services • alliance/group procurement (aggregation between neighbouring councils) • LGA Procurement Panels • LGA Mutual Liability Scheme • Financial Sustainability Program • LGR&D Scheme • LGR&D Scheme projects. <p>(-ve)</p> <ul style="list-style-type: none"> • there is evidence from interstate that Rate Capping/Pegging has not worked, the Dollery report found that average expenditure per household was higher in NSW (where rate capping has been in place for a number of decades) suggesting that rate-capping has not created superior performance in terms of the 	<p>E&E/CI programs Service standards system</p>

¹⁶ [An Empirical Assessment of the Impact of Rate-Pegging on South Australian Local Government](#)

efficiency of NSW councils.