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R19/20908

25 October 2019

South Australian Productivity Commission
GPO Box 2343
Adelaide SA 5001

Dear Sir

Re: Council Response - South Australian Productivity Commission

The following is provided by the District Council of Lower Eyre Peninsula in relation to the Productivity Commission Inquiry into Local Government Costs and Efficiency.

Draft Recommendations to South Australian Government

Council supports the recommendation towards clarification of respective responsibilities of the State & Local Governments, as a means of reducing duplication and uncertainty between governments. This should avoid future cost shifting which has been a significant issue for local government in recent years.

Council supports recommendations to address inefficiencies and red tape around state government mandated services and legislative requirements as a means of constraining the ever growing demands and pressures on local government.

Council supports with caution the recommendations around developing a sector wide performance monitoring framework, in particular caution should be exercised to ensure that the resources required to monitor performance do not outweigh the benefits to be achieved for Councils and their communities.

Draft Recommendations to Local government

Council supports the development of bench marking across Councils in a manageable way, with the LGA assisting with tools including data capture mechanisms, in effect overseeing the project.

Council is of the opinion that caution must be exercised in the development of bench marking 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 on Councils and their ratepayers.

Council supports mechanisms to stream line and improve data capture in a consistent manner across the sector. In this regard Council considers that education of staff will be critical to the success of any project.

Council provides the attached responses to the questions posed in chapters two to five of the draft report.

Should you have any queries in relation to this letter, please do not hesitate to contact the undersigned.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Rodney Pearson', with a large, sweeping flourish at the end.

RODNEY PEARSON
CHIEF EXECUTIVE OFFICER

CC: rebecca.muller@lga.sa.gov.au

Chapter 2 Funding

	Information Request	Council Response
2.1: Funding	<p>How does the untied nature of FAG funding affect council decisions to provide non-mandatory services?</p> <p>How does other Australian Government program or project funding to councils, of a more ad hoc nature, affect council expenditure?</p>	<p>FAG funding is combined with general rate revenue to form a funding pool from which non-mandatory services are funded. FAG funding is a means by which Income Tax collected by Federal Government funds issues at a local level through local Councils.</p> <p>It is recognised that this level of funding has reduced over the years, and restoration of FAG funding to be one percent of Commonwealth Taxation would significantly benefit local communities.</p> <p>Council does not support any suggestion to tie General Purpose FAG funding to specific projects but understands the benefit of reporting to the Commonwealth and community as to how FAG's are actually spent. This can be undertaken via the proposed Council Funding Statement, ideally to be included in Annual Business Plans.</p> <p>Project funding more particularly relates to specific capital works, and the ability of Council to source such funding often is the determining factor as to whether the project proceeds.</p> <p>As identified by the LGA, new capital works come with future replacement costs (typically 2% of asset cost for infrastructure), and a further annual maintenance cost.</p> <p>Therefore the nature of Councils being encouraged to spend on new capital works needs to be considered, when a strong case could be made for receiving untied grants that allow for asset renewal.</p>

2.2: Competitive neutrality policy	<p>How, if at all, do the requirements of competitive neutrality policy affect councils' decision making on whether, and how, to provide services to their communities?</p> <p>This may include direct provision of services or contracting the services from private sector providers.</p>	<p>No comment</p>
2.3: Financial management	<p>How have the financial management program reforms affected councils' ability and incentives to manage costs?</p> <p>What changes to the type or quality of financial management information would assist councils to improve their decision making and contribute to better performance?</p> <p>Is there a need for a stronger external auditing process to increase councils' compliance with their legislated responsibility to produce long-term asset and financial management plans and lift the quality of these plans?</p> <p>If so, what form should it take?</p>	<p>Financial management is essential in a local government environment. Policy and procedure, along with correct procurement processes are vital to the sector. The sector has seen a focus on sustainability in recent years, with a majority of Councils now recording an operating surplus.</p> <p>Consolidation of the focus on ratio's, improved procurement practices and further development in the maturity of Long Tern Financial Plans and Asset & Infrastructure Management Plans will also assist Councils in managing finances.</p> <p>More guidance in the format and treatment of inputs to long term asset and financial management plans would be more beneficial than external auditing. The work of audit committee's is evolving, and these committee's taking a broader approach to consider organisational risk and governance is supported.</p> <p>A level of financial expertise related to public entities is supported for Audit Committees.</p>

2.4: Workforce planning	<p>Have councils experienced any issues with attracting and retaining workers or securing workers with specific skills?</p> <p>Are these issues unique to individual councils? Is there value in a sector-wide or region-wide approach to workforce planning and the development of specific skills to support councils?</p>	<p>Attracting skilled workers remains an issue for small, rural and/or remote Councils.</p> <p>Region wide workforce planning, leading to filling of specialised difficult to attract positions is generally pursued in the sector, and can only be of benefit.</p>
2.5: Resource sharing	<p>What is the potential for additional use of resource sharing to deliver efficiencies and other benefits to participating councils?</p> <p>In councils' experiences of resource sharing, what works and what does not? Why?</p> <p>Councils are asked to provide further examples of resource sharing.</p> <p>Are there any impediments to the greater uptake of various forms of collaboration or resource sharing?</p> <p>What challenges, if any, do councils face in making use of the provisions contained in sections 42 and 43 and Schedule 2 of the Local Government Act 1999 to deliver effective and efficient services to their communities?</p>	<p>There is clearly scope for resource sharing of specialist positions within geographic locations.</p> <p>Resource sharing requires an open commitment from Councils, in particular development of a positive culture seen as beneficial to either party to the agreement.</p> <p>Organisational culture needs to be preserved, including in relation to ownership of work across multiple Councils</p> <p>Resource sharing on a simple cost recovery basis is the simplest form, and avoids significant work associated with the introduction of a subsidiary, such as budgets, financial statements, agendas, minutes, insurances, policies, audit functions and committees.</p> <p>A certain scale of resource sharing may trigger a subsidiary, and the subsidiary may overcome some of the cultural issues mentioned above.</p>

Chapter 3 Materials, Contracts & Other Costs

3.1: Materials, contracts and other costs	<p>What are the main drivers of materials, contracts and other costs for rural small and medium councils?</p> <p>In what ways do current council procurement practices affect expenditure on materials, contracts and other costs</p>	<p>The limited number of suitable local contractors impacts significantly on the cost of engaging contractors, particularly related to construction projects.</p> <p>The LGA introducing their LG Procurement arm has been of benefit in procuring at better costs – this can only be of increased value going forward.</p> <p>Decisions related to local spending obviously can impact the bottom line, but most Councils are likely to have a balance in their approach to local purchase.</p>
3.2: Population density	<p>How does increasing population density and urban infill impact on council service costs?</p>	<p>Urban infill adds property owners who typically use the range of council services, such as boat ramps, libraries, waste collection.</p> <p>Infill may or may not require additional streets and footpaths to be constructed and maintained.</p> <p>Funding Council growth in relation to rate revenue is typically very difficult to explain to rate payers and the media and has resulted in mixed messages in relation to rate increases.</p>
3.3: Sector wide service standards	<p>How do councils currently define and measure standards of service delivery?</p> <p>What measures could be developed on a sector wide basis to measure quality standards for either mandated or non-mandated services?</p>	<p>Development of quality standards would be difficult to achieve, as for example the varying standard of available materials available at a reasonable price and within a reasonable vicinity for use in road construction is extremely variable.</p> <p>Council supports the proposal from the LGA to develop a best practice guide to undertaking service reviews, considering aspects such as matching community demand to service levels, unit costs, alternative means of delivering services. It is important that the administrative resource required to undertake any such reviews does not out-weigh benefits achieved – for the benefit of Council and its rate payers.</p>

3.4: Cost shifting	<p>To what extent do councils receive external funding or an ability to charge fees for delivery of mandatory services?</p> <p>To what extent are councils able to fully recover costs for the mandatory services listed in appendix 4?</p> <p>How are service scope and standards determined for mandatory services?</p> <p>Councils are asked to provide further information on instances of cost shifting and quantify how they have impacted on councils' costs.</p>	<p>Funding is available from the government annually for road works from programs such as Roads to Recovery, Local FAG Road Grants, Supplementary Road funding.</p> <p>Fees for services such as development assessment are prescribed by the state, and Council estimated that in 2018/19 fees accounted for 45% of service costs.</p> <p>Councils do set their own fees for other activities such as animal management, although it needs to be noted that this is within guidelines set by the Dog & Cat Management Board.</p> <p>Regulation will set the standards for some mandatory services, such as in relation to development. There are many examples where Council set their own standards, such as in road management and animal management and other issues covered by by-laws.</p> <p>Council has been impacted by cost shifting over the years, obvious examples including: -</p> <ul style="list-style-type: none"> • Funding support for Regional Development Australia, including employment of a tourism officer • Collection of NRM Levy, and reduction in state contribution towards NRM activities • Payment of Solid Waste Levy mostly absorbed within State Government consolidated finances. • Payment of Rubble Royalties – now removed • Activity in relation to Local Litter & Nuisance Act • Picking up gaps in health services • Provision of child care (appears on horizon)
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3.5: Compliance costs	Councils are asked to provide further examples of compliance costs and quantify how they have impacted on councils' costs.	<p>Council has added resources to deal with records management, governance policies and accounting requirements in the last decade – it is estimated that this involves an additional 2 FTE's, for what is effectively a small council.</p> <p>Council estimate that 10 percent of rate revenue is apportioned to cover what effectively amounts to cost shifting or enhanced legislative requirements over the past decade.</p>
3.6: Cost pressures	What are the most significant cost pressures (and their impact on costs) which councils expect to face over the next 5 years?	<p>Council supports the list of cost pressures supplied by the LGA, but notes the following as having a big impact on Council: -</p> <ul style="list-style-type: none"> • Costs in relation to engagement of contractors for construction projects. • Skills shortages in the region • Managing rate payer expectations • Red Tape • Regulatory Requirements • Cost shifting •

Chapter 4 Performance Reporting

4.1: Performance reporting	<p>How can these lessons from state-wide performance reporting frameworks in other jurisdictions be applied to South Australia?</p> <p>Which indicators used in other jurisdictions would be appropriate for South Australian councils?</p>	Council supports the comments of the LGA that the implementation of reporting systems should not duplicate existing work, and consideration of costs and resources needs to ensure that the work load does not out weigh the benefit to Council and its rate payers.
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4.2: Partial productivity estimates	<p>What do these partial productivity estimates tell us about local government efficiency? What other partial productivity estimates can be used with currently available data?</p> <p>What additional data would councils be able to report on for minimal additional cost which would improve our understanding of council efficiency?</p> <p>Is there any other evidence of an expansion in the scope of council services, or improvement in quality over this time period?</p> <p>Is the current reporting to the SALGGC an appropriate process for any additional reporting by councils?</p> <p>Is there value in making any changes to this reporting?</p>	<p>Productivity estimates need to reflect quality of service or product, in particular to ensure that a built asset returns medium and long term financial outcomes for the Council. In other words the actual cost of building an asset does not present the whole picture.</p> <p>Community expectations and willingness to pay in relation to assets and services forms a big part of Council decision making.</p> <p>Reporting to the Grants Commission is valuable, and further guidelines related to the treatment of expenditure is warranted.</p>
4.3: Service-specific efficiency	<p>Acknowledging the gaps in data currently available, how can data quality be improved in order to measure service-specific efficiency across councils?</p>	<p>Council supports the comments of the LGA in relation to the provision of reliable data being integral to assessment of service efficiency.</p> <p>Improvement and education in regard to the guidelines in relation to the accounting treatment of various activities of Council should be a priority to any efficiency project, This would include improved guidelines in relation to the treatment of Full Cost Attribution across the sector, to avoid varied treatment.</p>

4.4: Efficiency changes through time	How can the change in volume, scope or quality of services be quantified or otherwise incorporated into an evaluation of local government efficiency?	Engagement with community is needed to understand changing levels of service desired by communities As mentioned above, the development of best practice guides to undertaking service reviews is supported.
4.5 Factors that Influence Estimated Council Efficiency	What other factors can explain estimated differences in efficiency between Councils	There are a range of factors including: - <ul style="list-style-type: none"> • Population versus Council area • The number of diverse locations • Climate • Coastline length • Length of roads per capita / property • Topography • Access to materials eg rubble • Business make up • Quality of service provided / sought • Wealth of a community • Types and number of discretionary services provided
4.5: Factors that influence estimated council efficiency	<p>What other factors can explain the estimated efficiency differences between councils or over time?</p> <p>What factors can explain the estimated productivity differences between councils over time? What other possible data sources can improve this analysis?</p> <p>What further information could be considered to analyse and interpret estimated partial and global efficiency scores?</p>	<p>There are many factors, for instance in road making: -</p> <ul style="list-style-type: none"> • Availability of suitable rubble within vicinity of the job. • Traffic volumes, and thus the pavement thickness required • Traffic volumes impacting on life of road • Precipitation, and propensity to flooding • Terrain in which a road is being constructed <p>This doesn't mean that bench marking in some format is not worthwhile, rather factors need to be taken into account when assessing outcomes.</p> <p>The questions re global efficiency scores needs much more thorough investigation across the sector.</p>

Chapter 5 Employee Costs

5.1: Employee costs	Are there any benefits from streamlining the current industrial relations arrangements by moving to sector-wide enterprise bargaining?	<p>Sector wide enterprise bargaining has merit, noting that consideration needs to be given to pay rates at metropolitan councils from small or large rural councils.</p> <p>Pay rates at remote councils may attract a premium, but likewise lesser qualifications for employees might mean a lower pay rate is reasonable.</p> <p>It might be that sector wide EB's apply to groupings of Councils.</p>
5.2: Quality and quantity of data	How can councils be assisted to work collectively to improve the quantity and quality of the available data on inputs, outputs and outcomes for services?	This question needs much more thorough investigation across the sector.

<p>5.3: Strengthening councils' accountability and transparency</p>	<p>How can the South Australian Government strengthen the accountability and transparency of councils? Possible instruments include:</p> <ul style="list-style-type: none"> • funding; • legislation and monitoring of implementation through audits of the processes of local government decision making; and • an agreement with councils and regular dialogue to reinforce the expectation that councils will conduct audits of the processes of local government decision making. <p>Should councils be required to undertake an independent external audit of their expenditure and efficiency in the event of that they record relatively high operating expenditure growth in a given period? Would growth in operating expenditure over any three-year period (normalised for population growth) which exceeds the rise in the Local Government Price Index for that period be an appropriate trigger for such an audit?</p>	<p>This is largely dealt with through the LG Reform proposals, but inclusion of Audit, Risk & Governance committee with a defined and reasonable work plan would be a good start.</p> <p>The process of local government decision making is important, and training is important in this regard. Routine auditing of decision making will be counter productive to the aim of reducing costs.</p> <p>Routine internal auditing of expenditure and efficiency triggered by expenditure growth exceeding the LGPI seems an extreme measure, as fluctuations to operating expenditure do frequently occur, such as increased depreciation following a review of asset valuations and lifes, and to accommodate unexpected maintenance works.</p> <p>Rather, the reporting of predicted Council expenditure via transparent Annual Business Plan mechanisms such as the inclusion of rating policy statements is supported.</p> <p>A mechanism for reporting operating expenditure against budgeted expenditure should be sufficient if included in the Annual Report.</p>
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