

23 October 2019

Dr Matthew Butlin
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South Australian Productivity Commission
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CITY OF
MITCHAM

Dear Dr Butlin

Thank you for providing us with the opportunity to respond to your draft Inquiry into Local Government Costs and Efficiency report. We are pleased to offer our support to its recommendations and welcome this collaborative inquiry.

The City of Mitcham maintains a long-standing commitment to efficiency and effectiveness. Our program has delivered over 100 reviews and change projects since commencement in 2012, generating over \$5 million in recurrent operational savings. Our learnings through this program support many of the findings of the draft report.

We agree that there is value in building capacity within the sector. This is best supported by a Local Government Association SA (LGASA) led performance and monitoring framework that would enable councils to compare performance, learn from each other and partner to deliver further significant improvements. We agree that benchmarking of service levels is the key to improving and demonstrating the efficiency of the sector and to date have been undertaking this at a service by service level as part of our Efficiency and Effectiveness framework, seeking out the relevant benchmark data as part of each review.

We also support clear guidance from the State about its expected service levels and standards of compliance for services; however, there is an element of caution we would suggest being applied to the recommendation around the State Government identifying mandated services. This carries the risk of diverting potentially significant resources across the industry into theoretical and philosophical discussions around service delivery, potentially ignoring the reality that ultimately the community determines the services that it deems mandatory. Our experience is that service level reduction or cessation is very rarely agreed to by the community whenever proposed by local governments.

In addition to our support for the draft report recommendations, the City of Mitcham wishes to take the opportunity to highlight four further areas for consideration that we think are very important for exploration by the Commission as it works to finalise its report for presentation to the State Government.

Standardised Rate Rise Setting and Reporting

We believe that the State Government should explore (in partnership with the LGASA) improved standardisation for defining and articulating proposed annual rate rises.

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Councils' annual % rate rises are commonly the subject of media and political interest. Rate rises routinely form the key item for debate within the community and often are considered a reflection of the council's financial efficiency or competence. The annual rate rise does not measure the efficiency of a council; councils are able to routinely avoid public scrutiny of their relative efficiency by limiting the public and community debate to an annual discussion of the rate rise.

Compounding this issue, there is no agreed standard for how the local government sector has this discussion with the community at budget time. The City of Mitcham is of the view that it should be mandated that all councils as part of their annual budget must simply and accurately describe the financial impact of:

- new services*
- increased service levels*
- levies and new or increased state or federal charges
- delivery of existing services as compared to the previous year
- changes to the operating position (refer more below).

*(*including the cost of complying with new or altered responsibilities as directed by the State Government, and the full lifecycle costs of these changes)*

The sector and the community suffer from a limited understanding of these elements and the impact they have on funding requirements. Until we improve this understanding and agree on a common language, we will continue to struggle to have discussions about the relative efficiency of local government.

The City of Mitcham prides itself on the transparency with which it calculates and declares its rates including being very clear with the Community on what the proposed rates increase is contributing to including, crucially, the portion which is required to continue to deliver existing services. Last year this was 0.96% against a CPI figure of 1.3% and a LGPI of 2.1% (net decrease in the cost of services in real terms) with the rest of the increase being for new additional services, addressing asset backlogs, the waste levy, a considered increase in the operating surplus to a more sustainable level, and cost shifting from other levels of government, all itemised.

We are very supportive of the fact that councils should be accountable to the community for rate increases and service decisions and also for their efficiency of service delivery, however the total rates increase is not an accurate indication of either without knowing its component parts.

If these elements were declared by all councils, it would immediately establish a key and primary efficiency benchmark for every council for the cost of delivering all services in the upcoming year as compared to the cost of delivering those same services last year. At the moment, this is obscured by the introduction of new services and the ability to reduce an existing surplus.

Other inconsistencies that can cause community confusion are how councils determine and report on:

- the proposed rate 'in the dollar', as opposed to the total rate increase in revenue;
- differential rates by land uses (eg residential and commercial split);
- separate rates; and
- projected budget surplus (refer more below).

We strongly encourage the Commission to consider and explore these opportunities for greater standardisation to ensure that there is consistency between councils and that the discussion with the community is focussed on what matters; being the impact of new services, the impact of changes to services, the impact of new or changed requirements and the benchmarking of the cost of delivery of existing services from one year to the next.

Operating Surplus Management

In addition to the current focus being on the annual rate rise, despite the current limits in the ability to use this as an effective benchmark, there is also very little public scrutiny placed on the operating position of each council. These vary significantly from large surpluses to operating deficits and it is arguable that these have significant implications for being able to effectively benchmark the efficiency of councils.

We are of the view that a focus on the operating result of councils is equally as important as a focus on rate increases in conjunction with an industry coordinated benchmarking program. We would encourage the commission to consider placing an upper limit on the size of a councils operating surplus to ensure that communities are not being overtaxed or that significant rate revenue streams from other sectors of the community are not masking inefficient service delivery.

Research, Development and Innovation

We are also concerned that the local government sector is not supported to invest in research, development and innovation. Rather, the sector's success is routinely judged by the annual rate rise, which is currently not consistently calculated or reported and includes many factors. Benchmarking a service encourages the sector to do things cheaper or faster, which is a good outcome. However, the sector and individual councils also need to be investing in innovation to ensure efficient services can be delivered in the medium and long term, an outcome that would become evident in a standardised rate setting and reporting framework. We may inadvertently 'race each other to the bottom' if we do not take time to stop and rethink our approach. Equally, our capacity to anticipate changing needs and opportunities is dependent on our ability to research, innovate and, in some circumstances, learn through trial and error.

We would like the State Government to provide incentives for exploring new ideas, delivery options, iteration, experimentation and exploration, including encouraging partnerships with industry and tertiary education sector and apprenticeships. We would like to work together to find methods to provide space for this important work – without fear of failure and with practicable support for exploration (such as through grants and collaborative initiatives). We call on the Commission to raise this as part of the final report.

Lifecycle Costs of New or Changes to Services

Lastly, we encourage the Commission to highlight the importance of considering the full life-cycle costs of new services or changes to services upfront. These indications are often overlooked when exploring new projects or shifting compliance responsibilities. However, day-to-day operational costs of service delivery (including maintenance and renewal costs) severely outweigh the upfront impact of capital expenditure. These costs also have a far more significant impact on the rate revenue required by a council to deliver its business.

We believe that there is a need for increased financial maturity across the sector to identify full life-cycle implications upfront before commitments are made. Without this understanding, our budget pressures continue to grow in future years as the day-to-day implications become more apparent – ultimately resulting in rate rises or mismanagement of assets (or both).

We call on the Commission to consider this in its recommendations to the State Government. We need to find ways to build this maturity and develop practicable mechanisms for having the right discussions before commitments are made.

The City of Mitcham is pleased to submit these further ideas for consideration by the Commission as it finalises its report to the State Government.

We would value the opportunity to meet with you or your commissioners to discuss these ideas further.

Yours sincerely



Heather Holmes-Ross
MAYOR

cc Mr Stephan Knoll MP, Minister for Transport, Infrastructure and Local Government
 Mr Sam Duluk MP, State Member for Waite
 Mrs Carolyn Power MP, State Member for Elder
 Mr Steve Murray MP, State Member for Davenport
 The Hon Vickie Chapman MP, State Member for Bragg
 Ms Jayne Stinson MP, State Member for Badcoe
 City of Mitcham Audit Committee