

# Productivity Commission |

## Response to Inquiry into LG Costs and Efficiency – City of Charles Sturt

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### 1. **CONTEXT** | SECTOR WIDE PERFORMANCE IMPROVEMENT

We understand the Productivity Commission's work is to recommend what is needed to deliver sector wide and sustainable performance improvement and efficiency in Local Government, resulting in improved outcomes for the South Australian community.

We have aimed to suggest ways forward which we believe will drive overall sector performance improvement in a pragmatic way and which seeks to minimise extraordinary burden or risk on the sector.

This submission is based on our own experience in driving performance improvement within our own council, across our collaboration with the City of Marion and Port Adelaide Enfield, and research focussed on identifying success in changing performance improvement outcomes in local government interstate and overseas.

### 2. **BACKGROUND** | COLLABORATIVE BUSINESS PERFORMANCE IMPROVEMENT

The Cities of Marion, Charles Sturt and Port Adelaide Enfield have been working together for two and a half years to drive performance improvement outcomes across the three councils.

This collaborative approach to business performance improvement is based on the notion that most councils are doing similar things in the majority, albeit probably in a different manner and achieving at times slightly different outcomes.

It was expected:

- business performance improvement would be possible in the sector,
- managing this across multiple councils would make bringing in skills at the right level affordable,
- working together would lower the cost of the process by sharing the cost, as well as
- working together would realise the benefit of the three council's collective thinking, and the best of everyone's practices, leading to better outcomes overall
- the program would more than pay for itself

The program was designed to start with lower risk and lower impact change through strengthening organisational financial governance and increasing focus on program and project delivery, working up to more complex and higher return benchmarking, process improvement changes and collaborations.

To date, the original hypothesis has been well proven and the program is successfully delivering improved commercial outcomes to the community.

Governance related improvements have delivered 3% improvement across the cost bases of the councils. Additionally, previously undetected cost increases have been mitigated or reversed to the value of \$1.3M per annum across the councils.

Detailed service reviews of 10% of the total (capital and operating) spend across the three councils have identified around \$2.5M in annual cost reductions and \$1.6M (annual equivalent) in additional work that is being delivered with freed up capacity such as supporting delivery of a programmed tree pruning program and tree watering for increased tree plantings. Service reviews are typically resulting in cost improvements of 10-20% in the areas reviewed.

Identified benefits are being realised in line with expectations. It is important to note, this has been achieved without adversely impacting service provision (and in some cases improving service levels), and with a focus on minimising disruption to staff.

Another important note which is key to the program is that there is a compelling commercial case for undertaking this work. The resource employed to define, drive, support and delivery the program outcomes across the organisations is self-funding and made more affordable to each council by working together and sharing costs. In addition – there is a detailed and compelling case to implement every initiative that has been identified.

### 3. **LEARNINGS** | WHAT HAS BEEN NEEDED TO ACHIEVE PERFORMANCE OUTCOMES

What has been necessary to achieve performance improvement outcomes within and across the councils are summarised in Table 1.

While benchmarking is an important and critical foundation to performance improvement, it takes a lot more than that alone and the form of the benchmarking is critical. A combination of tools, skills and cultural elements are required – all aligned to delivering better tangible outcomes for our communities - in order to be able to understand how to improve council performance and to convert that into actual outcomes for the community.

The key points to note are, in order to achieve performance improvement there needs to be committed and visible senior leadership (ideally from the CEO and executive team), an organisational drive to be better, and an ability for the organisation to accept and adapt to change, as well as having the skills and tools to undertake the analysis, solution identification and implementation itself.

In order to translate this experience into sector wide performance all facets of business performance improvement formula will need to be replicated across the sector – from sector wide motivation to perform better for our communities, to sector wide development or provision of access to the skills and experience required to identify opportunities and implement change.

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**TABLE 1: INPUTS TO PERFORMANCE OUTCOMES**

What is needed	Needs to be:	Tools	Skills	Culture	
Continual and ongoing focus and drive to achieve more for the community	<b>Motivation</b>	<ul style="list-style-type: none"> <li>• Compelling fact based case for change</li> <li>• Community focus</li> <li>• Courageous</li> <li>• Dynamic</li> </ul>	<ul style="list-style-type: none"> <li>• Communication and engagement plans and tools</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership</li> <li>• Courage</li> <li>• Communication</li> <li>• Engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Connected to achieving good community outcomes</li> <li>• Focussed on improving on existing performance</li> </ul>
	<b>Benchmarking and Analysis</b>	<ul style="list-style-type: none"> <li>• Factual and fair</li> <li>• Balanced – service, quality and cost</li> <li>• Comprehensive</li> <li>• Comparable, defensible, and informed</li> <li>• Able to direct to solution/ focus</li> <li>• Based on quality data</li> </ul>	<ul style="list-style-type: none"> <li>• Activity costing and value driver analysis</li> <li>• Benchmarking Comparatives</li> <li>• Historic Analysis</li> <li>• Community surveys</li> </ul>	<ul style="list-style-type: none"> <li>• Critical thinking</li> <li>• Data driven analysis</li> <li>• Operational and financial analytics</li> </ul>	<ul style="list-style-type: none"> <li>• Introspective</li> <li>• Inquisitive</li> <li>• Fact and data driven</li> </ul>
	<b>Improvement Identification</b>	<ul style="list-style-type: none"> <li>• Fact driven</li> <li>• Methodical review of opportunities</li> <li>• Realisable and measurable outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Benchmarking</li> <li>• Performance improvement levers</li> </ul>	<ul style="list-style-type: none"> <li>• Problem Solving</li> <li>• Commerciality</li> <li>• Creativity</li> <li>• Fact based decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative</li> <li>• Collaborative and collegiate</li> <li>• Driven</li> </ul>
	<b>Business Justification</b>	<ul style="list-style-type: none"> <li>• Balanced</li> <li>• Consider commercial and community outcomes</li> <li>• Sustainable</li> <li>• Supported by measurable outcomes</li> <li>• Compelling</li> </ul>	<ul style="list-style-type: none"> <li>• Templates</li> <li>• Financial models</li> <li>• Risk assessments</li> <li>• Measures and targets</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial and analytical decision making</li> <li>• Project Planning</li> <li>• Change Management</li> <li>• Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial</li> <li>• Data Driven</li> <li>• Able to balance decisions</li> </ul>
	<b>Improvement implementation</b>	<ul style="list-style-type: none"> <li>• Planned</li> <li>• Supported by change management disciplines</li> </ul>	<ul style="list-style-type: none"> <li>• Project management tools</li> <li>• Project Plans</li> <li>• Change Management plans</li> <li>• Communication and Engagement Plans</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership</li> <li>• Change Management</li> <li>• Project Delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Focussed</li> <li>• Persistent</li> <li>• Courageous</li> <li>• Change Ready</li> <li>• Agile</li> </ul>
	<b>Benefits Realisation</b>	<ul style="list-style-type: none"> <li>• Measured against a baseline</li> <li>• Evidence based</li> <li>• Focussed on community value</li> <li>• Used as a review and improvement tool</li> <li>• Disciplined over time</li> </ul>	<ul style="list-style-type: none"> <li>• Realisation approach</li> <li>• Budget and LTFP adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• Problem solving</li> <li>• Analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptable</li> <li>• Resilient</li> <li>• Outcome (not just task) focussed</li> <li>• Constructive</li> </ul>

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What is needed	Needs to be:	Tools	Skills	Culture
Recognition	<ul style="list-style-type: none"> <li>Based on community outcomes and genuine measurable performance</li> <li>Consistent over the long run</li> </ul>	<ul style="list-style-type: none"> <li>Communication and engagement plans and tools</li> </ul>	<ul style="list-style-type: none"> <li>Leadership</li> <li>Communication</li> <li>Engagement</li> </ul>	<ul style="list-style-type: none"> <li>Connected to achieving good community outcomes</li> </ul>

#### 4. OTHER EXPERIENCE | INSIGHT FROM INTERSTATE AND OVERSEAS EXPERIENCE

In order to inform this submission, we have undertaken research on local and municipal government business performance improvement overseas and in Australia to gain insight into what might help drive sector wide performance (both service levels and efficiency).

Generally, to date, we haven't found a model that has achieved demonstrable sector wide efficiency improvement over a sustained period of time in developed countries, however some models have delivered demonstrable improvements in service outcomes.

We did identify a number of areas where some sectors had demonstrated some success and believe if a model incorporated many of these individual elements, the model would come closer to driving sector wide performance outcomes.

One of the more interesting observations was structured, focussed, proactive and constructive communication by an independent body to the wider community on sector performance (positive and negative, in terms the community could relate to) was a feature of driving performance. As were independent awards and recognition.

It is also interesting to note funding wasn't generally seen to be a key motivator across the sector in developed countries (albeit it may be for smaller and regional councils or those in financial hardship).

The World Bank summarised their findings on what drove successful performance improvement across developing countries and in doing so provided a framework under which the observed themes could be set out. The key themes identified through our research are summarised under the World Bank's headings below:

##### Political Leadership

- Strong policy helped – legislated performance improvement requirements have been put in place in the UK with outcomes audited by a state government body similar to NSW and Victoria
- Political motivation of elected member bodies through active communication on performance to the community by an independent body featured

It is worth noting many legislated performance requirements were managed through retrospective audit rather than upfront support to drive and deliver outcomes. Partnering upfront, rather than auditing after the fact, would potentially speed up performance achievement through the provision of capability.

##### Incentives - Sector Wide

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- Informed proactive communication into the community was seen to motivate local government
- Sector level awards and achievements to recognise positive performance

Performance (not price) based league tables were relevant and digestible to communities but needed to be well formulated and to reflect efficiency and service levels.

It was interesting to note; financial incentives were of low impact as a local government motivator in developed countries.

### **Incentives - Organisational**

- Policy backed by program monitoring, system and process support to test whether legislated outcomes were being achieved
- A justifiable and compelling case for participation / change

### **Incentives - Individual**

- Sector led career, capability and professional development paths

### **Data**

- Transparency was important
- The ability to use gathered data to obtain insights and drive performance was also important
- Evidence based decision making was key to attaining performance outcomes
- Use of analysis outcomes to communicate performance to the wider community in a way that would engage the community helped incentivise the sector to do better

### **Capability Building**

- Promotion of the sector as being dynamic and achievement focussed to support attracting talent from the private sector
- Sector led capability development, talent and acquisition strategies, technology, system and process development

### **Flexibility**

- Trialling and testing models / approaches to allow the sector to move forward faster and continue to improve rather than aiming to work towards a perfect outcome that then doesn't work in practice
- To ensure that we not only attract, but retain, support, develop and motivate our workforce to meet future challenges with capability and confidence
- Effective leadership capability across the sector at all leadership levels to lead and drive a performance driven and innovative culture

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### 5. SUMMARY | POTENTIAL FRAMEWORK

Based on our experience within our organisation and across councils – and the literature on driving sector performance interstate and overseas – the following could be a framework to use to start driving and supporting the sector to improve performance and to test the value and potential of doing so.

The foundations could be:

- Minimal but focussed legislative change to drive sector-wide engagement
- Appropriately structured Benchmarking to provide insight into areas of performance improvement opportunity as well as positive confirmation of outcomes achieved for the community over time. It is also considered that service level or contextual benchmarking together with efficiency benchmarking may be necessary to ensure service level / policy differences are appropriately considered.
- Independent, proactive and fact based communication to the community on relative performance of councils to drive ongoing motivation of Elected Member bodies and the sector.

It is recommended a trial is conducted initially to determine - in a low risk and low impact manner – how to best establish benchmarks so as to provide net benefit for the community.

Critical capability building (skills and tools) could occur initially through central pool providing the skills and experience for specialist areas such as enterprise bargaining, change and leadership. This would allow for change to be progressed in the sector while simultaneously building capability and transferring skills across the sector.

Positive communication and lifting the profile of the sector could also support attracting more of the skill sets required to the sector.

**TABLE 2: A POSSIBLE APPROACH**

What is needed	What	Who
Continual and ongoing focus and drive to achieve more for the community	<b>Motivation</b>	
	<b>Sector Wide</b>	
	<ul style="list-style-type: none"> <li>• Legislated requirement to demonstrate performance improvement</li> <li>• Support funding for initial performance trial</li> <li>• Governor Awards for Performance Excellence in Local Government reflecting outstanding performance or progress</li> </ul>	<p>State Government</p> <p>SALGGC, OLG or other body independent to the sector</p>
	<b>Political / Organisational</b>	
	<ul style="list-style-type: none"> <li>• Proactive Communication / Media on sector performance</li> </ul>	SALGGC, OLG or other body independent to the sector together with LGA & Councils
	<ul style="list-style-type: none"> <li>• Legislated IR simplification</li> <li>• Sector led IR reform strategy</li> <li>• Sector EB reform transition team</li> <li>• Support to develop sector skills on PBP</li> </ul>	<p>State Government</p> <p>LGA led</p>

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What is needed	What	Who
<b>Benchmarking and Analysis</b>	<ul style="list-style-type: none"> <li>Commence tactical performance comparisons based on existing data</li> <li>Undertake benchmarking and analysis trial per Attachment A</li> </ul>	Self-nominated trial group in conjunction with SALGGC, OLG or other body independent to the sector
<b>Improvement Identification</b>	<ul style="list-style-type: none"> <li>Determine self-funding model</li> <li>Determine value to sector and case to fund required resources / platform</li> <li>Promotion of case to engage</li> </ul> <p>Subject to above:</p> <ul style="list-style-type: none"> <li>Establishment of sector based performance improvement framework and team</li> <li>Initial analysis on key focus areas and opportunities for participating councils</li> </ul>	<p>LGA</p> <p>SALGGC, OLG or other body independent to the sector</p>
<b>Business Justification</b>	<ul style="list-style-type: none"> <li>Sector led training and capability dev</li> <li>Recruitment programs, technology, system and process development</li> <li>Recruitment programs</li> </ul>	<ul style="list-style-type: none"> <li>LG Professionals</li> <li>Councils</li> <li>Councils</li> </ul>
<b>Improvement implementation</b>	<ul style="list-style-type: none"> <li>Sector based change team to support major change initiatives and change capacity building</li> <li>Recruitment programs</li> </ul>	<ul style="list-style-type: none"> <li>LGA Professionals or possibly LGA</li> <li>Councils</li> </ul>
<b>Benefits Realisation</b>	<ul style="list-style-type: none"> <li>Organisational metric development and performance reporting in line with benchmarks</li> <li>Ongoing benchmarking to determine performance improvement impact</li> </ul>	<ul style="list-style-type: none"> <li>Councils in conjunction with LGA</li> <li>SALGGC, OLG or other body independent to the sector</li> </ul>
<b>Recognition</b>	<ul style="list-style-type: none"> <li>Governor Awards for Performance Excellence in Local Government</li> <li>Media communication on outcomes of annual benchmarking review – good and otherwise</li> </ul>	SALGGC, OLG or other body independent to the sector
<b>Specific Capability Building</b>	<ul style="list-style-type: none"> <li>Promotion of sector as Employer of Choice</li> <li>Sector based graduate program, recruitment and marketing</li> </ul>	LG Professionals & Councils

### 6. RESPONSE | OVERALL SAPC RECOMMENDATIONS

#### **Draft recommendations to the South Australian Productivity Commission Inquiry**

**To lower local government costs and enhance local government financial accountability, the Commission proposes that the South Australian Government:**

1. Lift the capacity of local councils to identify and address opportunities to reduce their cost base and improve their operations by:

In conjunction with local government, defining and establishing a sector wide performance monitoring framework that would enable comparisons between councils and over time to assist decision making by council leaders and to inform communities, including by:

- i. Establishing common key performance indicators (KPIs) for inputs, outputs, service standards and financial indicators;
- ii. Optimising existing information held by the South Australian Government, especially that gathered by the South Australian Local Government Grants Commission;
- iii. Filling the gaps in the current information;
- iv. Publishing information in a contextualised form designed to assist individual councils.

#### **Benchmarking needs to be supported by skills and incentives to act to achieve performance outcomes**

We would like to emphasise that benchmarking alone will not drive performance outcomes and the benchmarking methodology is critical. This has been proven a number of times interstate and overseas.

Benchmarking needs to be supported by the skills and capability to use benchmarking to drive business performance improvement. Ability is needed to ensure comparisons are robust, data is critically reviewed and to use the insight to provide informed and actionable recommendations to convert collected data into performance improvement outcomes for the community and that it's a constructive rather than competitive process to minimise gaming and maximise engagement.

In addition, sector wide incentives and motivation will be necessary to actively support the use of data, insight and recommendations gained through effective benchmarking to drive changes in outcomes for the community and is critically important to unlocking the value of benchmarking for the community.

#### **Trialling a method will increase speed to act, likelihood of success and will reduce the risk of overcommitting to something that doesn't add value to the community**

We would support the development of a sector wide set of benchmarks undertaken in a manner that ensures it is practical, informative, supported by the right skills and approach and, above all, creates valuable outcomes for the community taking into account the costs and benefits.

In order to expedite this and to trial the effectiveness of benchmarking - it is recommended:

- Benchmarking is trialled between a group of self-nominated councils

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- The trial makes the most of work already performed and makes use of benchmarks and drivers already identified through work undertaken across a number of councils to date
- The trial is supported by the analytical capability to convert benchmark data into actionable recommendations
- The success of the trial is measured based on the improved outcomes achieved through benchmarking balanced against the investment required in the trial

### **SALGCC provides a sound starting point to build from**

Leveraging the good work already performed by the Grants Commission makes sense and avoids some potential for duplication however consideration needs to be given to:

- Determining how to accelerate submissions to the Grants Commission by the sector – support would need to be provided to councils to set up their data collection in an efficient and consistent manner
- Determining how to accelerate compilation and analysis of the data by the Commission – current timeliness of data provision makes it easy for the sector to dismiss the data
- Adding greater resolution to the functions reported on at present, removing overhead allocations and augmenting the operational data collection that is currently undertaken (see Attachment A) to ensure service scope and quality are part of the comparators
- Augmenting the data analysis skills of the Grants Commission with strong operational analysis and performance improvement capability to help translate data into insights into performance – and actionable performance improvement opportunities
- Establishing a form of quality control / audit of the GC data to ensure its robustness.

Consideration will need to be given to how these skills are transferred to / provided to / retained in the sector post trial.

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| 2. Facilitating benchmarking by clusters of councils through an appropriate mix of incentives for councils to participate and expectations that they will report information publicly in a format consistent with the framework. |
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### **Benchmarking by clusters of councils makes some sense**

Benchmarking between like groups of councils makes sense in order to support making fair comparisons (ie: regional councils versus metro councils). Maintaining smallness of the cluster groups also ensures accountability to the process.

Benchmarking between dissimilar councils can also give a different perspective and insight into different ways of working and thinking that may lead to more significant changes in the sector.

As a result it would be good to maintain the flexibility to benchmark from multiple perspectives over time.

It should be noted for collaboration, grouping councils in physical proximity to each other makes sense as it enables more practical operational resource, equipment and facility sharing - all of which represent significant opportunities for our communities.

However, the success of any benchmarking is based on achieving the required level of detail, clear definition of scope and quality of services to ensure comparisons are valid and circumstances unique to any council are taken into account.

### **Incentives could extend from legislated performance improvement plans to independent Awards, proactive communication of sector performance to the community to a simple and compelling case to participate**

Aside from rate-capping and legislation of performance improvement plans, the key incentive for the sector to act identified in the research was linked to proactive and independent communication on sector performance to the community.

It may also be that a legislated requirement for Service Plans (as per asset management plans) would provide suitable stimulation.

Awards given from a suitably independent but informed body for performance and improvement, and the subsequent and proactive communication of the outcomes achieved by Award recipients to the community also feature as positive drivers of performance.

The awards and communication are also recognised as having the secondary benefit of lifting awareness of the sector, marketing it as being dynamic and progressive, resulting in talent from other sectors being drawn to local government.

An independently judged Governor's Award might be an appropriate suggestion for South Australia. Promoting well performing councils and their initiatives through media as well as making the award status highly visible to members of the community in the recipient council areas would also support the Award profile and therefore motivation of the sector.

A compelling case to participate in greater performance improvement would also provide incentive to the sector to drive performance. In our own experience the self-funding nature of the program we are undertaking (albeit it has come with cultural and change impacts) has made it compelling to invest in. This has also been the experience in collaboration in the University Sector. A community knowing the potential and opportunity would make it difficult for a council to not participate if the model was established in a way that it would be cost effective for any council to participate.

Funding may be more of a driver for regional councils where resource and funding constraints are more prevalent.

### **Self-reporting is not likely to deliver performance improvement outcomes**

Having councils self-report in an agreed framework may be practical however we believe this is unlikely to deliver the full benefit to the community of itself.

Self-reporting without central review and analysis is likely to experience the same issues that currently exist with even Grants Commission and Performance Excellence Program data (both of which are centrally compiled). Lack of data integrity, comparability and an inability to determine what the data might be inferring or what might need to change means benchmark credibility would be low and therefore of limited use in driving performance. In essence the benchmarking needs to be sufficiently detailed that it points clearly to the drivers of change not simply that there exists a difference.

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Centralised reporting and analysis are important in a sector wide approach to ensuring benchmarks are robust, comparisons are meaningful, fair and to gain effective and actionable insight into what can be done to lift performance when differences present.

It would also serve to support building sector capability in this space in the early stages of driving sector performance and would minimise the impost on individual councils to establish this independently.

### **Proactive communication of sector outcomes will be needed**

Passive transparency and data provision to the community is also unlikely to drive sector performance. This has been demonstrated across South Australia, NSW and even in Victoria's experience where the Know Your Council platform has provided the community with an exceptional tool and significant transparency to some Local Government performance outcomes, but anecdotal commentary suggest it is rarely looked at by communities and hasn't delivered the transparency and promotional benefits envisaged. Despite the availability and accessibility of information, there have not been any notable increases in performance as a result of this data provision. This is likely to be because the community need to be motivated to seek out the information and undertake analysis and comparisons themselves.

Overseas research in particular saw independent constructive and proactive communication to the wider community on sector performance and outcomes as one of the key incentives for the sector to perform. As a result, central analysis and communication of performance outcomes is seen to be key to incentivising the sector to act.

Performance (not price) based league tables were relevant and digestible to communities but needed to be well formulated and to reflect efficiency and service levels and framed in a way that is constructive and supportive of improvement for those involved.

### 3. Further lower council costs by addressing aspects of the relationship between the South Australian Government and local government by:

#### In the short term

- i. Identifying and addressing inefficiency and red tape from the South Australian Government mandated services and other legislated requirements on:
  - a) councils
  - b) communities.
- ii. Adopting a strong South Australian Government review process for any measures affecting local government;
- iii. Clarifying local government responsibilities, including service standards, for mandated services.

#### In the medium term

- iv. Clarifying the respective responsibilities of the South Australian and local governments to remove unnecessary overlaps, or duplication and reduce uncertainty between governments.

#### In the long term

v. Clarifying relevant aspects of s6, s7 and s8 of the Local Government Act 1999 to reflect an appropriate division between the levels of government and to make clearer the range of options available to councils in the performance of legislated functions.

We fully support these recommendations. There are many opportunities to better align services and remove duplication and inefficiencies created by the existing responsibilities between Local and State Government, however changes to these responsibilities need to be managed with appropriate levels of engagement, diligence and funding realignment between State and Local Government prior to them occurring. A regulatory impact assessment should be applied to new legislation as part of the consultation process to ensure new legislation and regulation does not add to further red tape burden. Further, a formalised, structured and methodical approach to evaluating and quantifying red tape burden from existing legislation would seem a worthwhile concept to investigate.

**To guide and assist councils to improve efficiency and to create capacity to pass on cost reductions to rate payers, the Commission suggests that local government:**

1. As a body, facilitate in depth benchmarking between councils by:
  - i. Establishing a Community of Practice sponsored by the Local Government Association, to share among other elements:
    - a) Methods, tools and approaches;
    - b) Skilling of council staff;
    - c) Panel of competent providers; and
    - d) Lessons learned and examples of success.
  - ii. Assisting in “matchmaking” South Australian councils that seek deep benchmarking opportunities (noting value of groups of councils at different levels) with other councils, including interstate comparisons;
  - iii. Collectively undertaking a regular sector-wide analysis of efficiency measures.

The LG Professionals has a continuous improvement network in place, to support building capability and awareness of ways to improve council performance. Participation by councils is elective. Quite often it is those already oriented to business performance improvement who participate. Events, information and case studies are shared, however those learnings may not be implemented to the benefit of their communities.

We expect increased support from the sector will not drive improved performance in the absence of any additional incentives or motivations for the sector to deliver measurable performance outcomes. We believe additional support is likely to be taken up by those organisations already proactively engaged in business improvement already.

Undertaking regular sector wide analysis of efficiency measures is also of itself not likely to drive measurable outcomes. In addition, experience interstate and overseas has shown independent measurement and communication of performance outcomes is likely to be more credible and therefore effective in driving performance outcomes due to the credibility of independent assessment.

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2. Prioritise, in any systems upgrades, focus on improving collection, retrieval, analysis and presentation of information for planning, decision making, monitoring and managing performance.

Ease of access to data is essential for suitable benchmarking and performance monitoring. For this to be effective several items will need to be defined upfront to ensure the sector is moving toward a common outcome:

- A target platform / state and technology would help ensure alignment of the sector to this outcome.
- A prescribed set of functions, activities, drivers and service outcomes would need to be developed to ensure data collection by the councils is focussed and aligned
- Data standards will also need to be established to facilitate meaningful comparisons and ensure data integrity and comparability. The ability to provide data to a detailed or transactional level is critical to allowing for interrogation of data and for comparisons to be tested and analysed to ensure all efficiency opportunities are visible.

3. Enhance the transparency and accountability of their operations by councils:

- i. When considering new, or material changes to, council services, undertaking an independent review that includes consideration and analysis of alternatives to councils providing the service directly, community consultation; and publishing a report;
- ii. Including in their external audits an examination of service reviews and program evaluations; and
- iii. Incorporating in their published long-term asset and financial plans and draft annual budgets advice on whether changes to the scope or level of services are planned and their implications for council expenditure.

We agree with the general intent of these recommendations however in each case – have concerns the recommendations will not ultimately drive outcomes for the community if they are managed through self-regulation as they have been to date. Additionally, assessing the threshold of scale of service level change that triggers such assessment should also be considered and specified,

Legislated performance improvement programs, such as are in place in the UK, which are assessed for effectiveness may be effective in terms of driving performance outcomes however would prefer a model where greater legislative performance improvement was supported upfront (with the analytical skills and resources) to achieve outcomes.

Similarly, S270 of the Act requires policies and processes to be in place to ensure there is active consideration of any request by the community to improve or add services. Perhaps refining the specification of this part of the legislation to include any change in service levels (once reaching a certain threshold and regardless of who initiates them) being reviewed as well as the criteria against which they should be reviewed may support greater Council diligence around decision making regarding service provision changes and the models under which they are delivered.

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### 7. RESPONSE | SAPC SPECIFIC QUESTIONS

#### Chapter 2 – Structure, development and reform

##### 2.1: Funding

FAGs funding is untied once distributed to the local government sector. From time to time the Australian Government also provides specific purpose grants to councils of either a capital (e.g. GFC School grants scheme) or operating nature (e.g. Adelaide Hills Council case study, Chapter 3) to achieve its particular policy objectives.

How does the untied nature of FAG funding affect council decisions to provide non-mandatory services?

FAG funding is part of the holistic review of the budget. Charles Sturt currently receives the minimum in FAG funding. It is one input considered when viewing the total costs to fund council's services and infrastructure and quantum of rates to be levied. Hence it does not impact council's decision to provide non mandatory services but rather the reduction in rates not required to fund mandatory services for which there is a lack of full cost recovery for fees legislated.

How does other Australian Government program or project funding to councils, of a more ad hoc nature, affect council expenditure?

Australian Government program or project funding to councils can often result in projects being generated that would not have otherwise based on normal strategy and planning approaches.

Grants are often tied, and funding needs to be matched by councils, so while tied grant funding may stimulate additional investment in communities, it can often be unplanned and can at times create resourcing and priority strain, as well as ongoing operational whole of life costs and asset management.

##### 2.2: Competitive neutrality policy

The principle of competitive neutrality is given legislative expression in South Australia through the *Government Business Enterprises (Competition) Act 1996* and applies to the business activities of publicly-owned entities whose activities include “producing goods and/or services for sale in the market place with the intention of making a profit and providing financial returns to their owners”. Local government business activities must also comply with the CPA.

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?

This may include direct provision of services or contracting the services from private sector providers.

Council is mindful when deciding to provide a service as to the most effective solution taking account of cost, risk and capability. Generally, this is considered over the medium term as there can be times when the external market is price volatile and generally council will seek to avoid this as it can lead to budget unpredictability and 'budget shock'.

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Where significant business activities are undertaken that are potentially in competition with the private sector, the LG Act provides ways for transparently dealing with this. For example, Council has recently determined to create an MRF Materials Recycling Facility to process 'yellow bin' materials. To ensure neutrality given the sensitive nature of this market Council is creating a regional subsidiary, as a standalone entity, this ensures all costs are contained and no cross subsidisation from rates occurs.

### 2.3: Financial management

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

The LGASA's Financial Sustainability Program (FSP) produced resources to assist councils to achieve and maintain financial sustainability.

How have the financial management program reforms affected councils' ability and incentives to manage costs?

#### **The Financial Sustainability Program has been great for building sector financial resilience and improved understanding and capability for financial management**

The Financial Sustainability Program reforms have supported councils to improve their financial and asset sustainability. These reforms have been highly successful, they focussed very much on enabling councils to better manage the obligations of long-term assets – there had been instances of councils not sufficiently funding asset replacement – running down asset condition and then not having the capacity to rebuild those assets. It sought to ensure financial sustainability and smoothing rate increases (avoiding rate shock). These objectives are slightly different to the current prevailing focus on minimisation of rates and absolute efficiency.

Notwithstanding this, Councils are at different levels of maturity with regard to their budgeting and monitoring systems, Long Term Financial Planning and Asset management Planning. This allows them to budget for ongoing financial sustainability and ensure they are positioned to meet ongoing service provision without unplanned rates shocks and/or reductions in services. Service Planning remains a potential opportunity for further improvement.

Prior to the sustainability reforms council's general focus was on the annual budget cycle and level of rates for that year without understanding the impacts of its decision on future generations of ratepayers and ensuring each generation was paying for its consumption of resources.

What changes to the type or quality of financial management information would assist councils to improve their decision making and contribute to better performance?

Changes to the way the currently available information is used, as well as changes to the information that is used would be beneficial. Council's systems are largely designed to facilitate financial reporting and a focus on improving the design of systems to capture information on the cost of services and impact for ratepayers would assist the industry in educating its ratepayers. As stated above a consideration of Service Planning could be a further consideration where all services are specified and considered taking account of the

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quality and service level to be provided. This is done with highly varying degrees of explicitness across the sector and could be to operational services what asset management planning was to assets. This would allow elected Councillors to make clear decisions around service levels and for communities to better understand the choices made by the elected representatives versus those at another council. Such planning would be a significant piece of work, come at some cost and would take a number of years to become comprehensive. However, it is suggested this may be worthwhile next step in the evolution of the sectors continuing financial maturity.

### **Operational and community data needs to be incorporated into monthly reporting regimes to drive greater insight and outcomes at an organisational level**

The addition of operational activity level data would improve insight into the cost drivers, service levels and operational outcomes of the organisations. This would drive a greater level of awareness of the changes in the operations and their impact on financial performance and service levels. BI capability is currently being developed which should, combined with the skills to determine appropriate performance measures, support building this greater organisational intelligence.

Ideally these metrics would be aligned to any sector wide performance reporting and benchmarking to ensure actions taken within the organisation directly translate to the sector wide benchmarks. It would also help build the analysis and insight capability needed within the sector.

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? If so, what form should it take?

The External Audit Process is already fit for purpose. The external auditing process is not seen as the appropriate mechanism to ensure compliance with these legislated responsibilities. Those few councils that are not meeting their legislative obligations are in this situation due to significant financial hardship and further support rather than more auditing is likely to lead to the desired outcomes.

### **A greater focus on improving asset management performance (without compromising asset sustainability) would be valuable.**

Improvement in understanding the outcomes for the community of effective asset management and financial management plans would be of benefit.

Prior under-investment in community assets has led to greater discipline in this area. However as with any continuous improvement journey there is opportunity to optimise treatments, asset lives and the costs of asset replacement to the significant benefit of the community.

An area of consideration is how the community is able to understand asset management decisions and service standards of assets. Footpaths may be a good example whereby a differing accepted standard of service of a council's footpath network would have significant financial implications. Communities are currently a long way from understanding these decisions

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Capability is developing in strategic asset management modelling which should support improvement in optimisation of maintenance costs, different asset treatments, capital costs and service levels over time.

### 2.4: Workforce planning

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

Have councils experienced any issues with attracting and retaining workers or securing workers with specific skills?

Attracting traditional skill sets to the sector has not generally been an issue, but noting there are from time to time particular skill sets that are in short demand across the metropolitan labour market.

#### Attracting new skill sets may present an issue

Ensuring effective leadership capability across the sector will ensure councils strive for a performance driven and innovative culture. Leaders need to be able to set clear direction and expectations and to effectively manage their people. Leadership development and support will be a critical element in ensuring our leaders are well equipped to deliver genuine efficiency gains and seek better ways to achieve outcomes for our communities, stakeholders and customers.

The work undertaken on collaborative business performance improvement across Marion, Port Adelaide Enfield and Charles Sturt has highlighted that true collaboration skills are necessary, our observation has been that this is a skill or capability that is often underdeveloped. Additionally, the need for greater levels of commercial acumen, analytical and problem-solving skills to help support the drive for performance and identification and delivery of improved community outcomes.

Are these issues unique to individual councils?

We do not see these issues as being unique to individual councils as the focus on effective and capable leadership and a workforce which possess both technical and “soft” skills is required across all councils.

We do however acknowledge that affording and attracting the right candidates might be even more difficult for smaller and non-metro councils.

Is there value in a sector-wide or region-wide approach to workforce planning and the development of specific skills to support councils?

#### Sector-wide approach to workforce planning would be beneficial

We believe there is significant value in a sector-wide or region-wide approach to workforce planning and the development of specific skills to support councils.

A sector-led workforce planning methodology, developed by a group of nominated HR managers in conjunction with LG Professionals, would be valuable and would support sector and industrial relations alignment as well as facilitate mobility and equity across the sector.

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It would also enable a planned and systematic approach to developing a “pipeline” of skilled workers to fill core technical roles as the sector’s workforce continues to age.

### **Key elements are required for effective workforce planning**

Elements to be included in the workforce planning method are:

- Method for forecasting and modelling workforce needs (skills, attributes as well as numbers) to inform attraction and retention strategies, learning and development plans, career development opportunities and workforce replenishment programs
- Talent management and succession planning approaches
- Replenishment strategies including attraction, selection and development programs including apprenticeship and tertiary graduate programs, traineeships, cadetships and diversity employment strategies
- Retention strategies that may include a range of incentives including career pathways, development programs and learning opportunities to ensure attracted talent stays
- Greater take up of flexible work arrangements
- Options to support an ageing workforce including phased retirement programs, effective knowledge transfer and alternate employment options
- Organisational design solutions and processes to support knowledge sharing and skills transfer

Developing organisational structures and processes to support knowledge sharing and skills transfer is a critical initiative if we are to truly leverage opportunities in this area.

### **Access to sector teams for specific skill sets would be valuable**

Access to and mobilisation of key resources including OD and HR practitioners to support major projects and transformation programs would ensure councils of all sizes could utilise these resources in an efficient and timely manner for specific periods of time when required.

### **2.5: Resource sharing**

Within the local government sector, resource sharing currently occurs in a variety of forms and at different levels of legal and administrative formality, ranging from the highly informal, such as information sharing arrangements between councils, to formal legal structures, including subsidiaries established under sections 42 or 43 of the LG Act.

What is the potential for additional use of resource sharing to deliver efficiencies and other benefits to participating councils?
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### **Resource sharing affords councils greater capability, provides opportunity for existing staff and creates valuable work for freed up capacity**

To date resource sharing has afforded the Cities of Marion, Charles Sturt and Port Adelaide Enfield cost effective access to a collaborative Performance Improvement Lead, Strategic Procurement capability, an in-house irrigation construction crew, a collaborative ICT Program Management Office, central ICT strategy development and roles to support Utilities Management across the councils.

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These resources would not have been able to be justified on a standalone basis and are either self-funding, have been accessed through pooling vacancies or have provided opportunities for resources freed up through productivity improvements.

### **Additional opportunities are likely for resource and equipment and facility sharing**

To date the above councils have reviewed around 10% of our collective activities (on a cost basis) to date we expect more of these opportunities to be identified as being of value to the councils and their communities as we proceed. An additional benefit of the relationship that has been established by the councils is an increased potential for sharing of large plant and equipment through knowledge of availability and increased trust and cooperation to work together.

### **Resource sharing can happen however it does present some change for our people**

To date the resource sharing opportunities realised to date have been planned to occur with minimal impact to existing resources. In a number of cases resource sharing has created new local government positions or opportunities for existing team members while also delivering net commercial and service quality benefit to the community. It needs to be recognised however that, despite minimising disruption to our people being at the forefront of our minds, these arrangements are different and mean we need to ask our people to adapt. Differing industrial arrangements and salary rates (differing EBA's) between the councils has also been a factor to be considered and addressed.

In councils' experiences of resource sharing, what works and what does not? Why?

### **Resource sharing works when shared resources have clear responsibilities and the support of senior executives at each council**

To date in our experience, sharing strategic leadership roles across the three councils works effectively where these roles are supported to create alignment across the councils in their service stream (i.e.: performance improvement, strategic procurement, ICT Strategy and PMO). Those roles are faced with navigating three organisational cultures and ways of doing things, however having responsibility for leadership in that space at each of the councils, and support of senior executives across the councils, helps ensure those roles achieve the outcomes they need to in order to be effective.

### **Resource sharing faces a number of practical considerations, however most can be overcome**

From a practical perspective there are a number of considerations to take into account in supporting cross council resources. Issues range from who manages the performance of the shared resource, to having three lots of system log-ins, calendars and access cards, assigning delegations, disparity in pay and agreeing how costs get shared across the organisations etc. These are all issues that can be worked through and resolved and standardised approaches have been developed to support ensuring the responsibilities of, and the organisations' responsibilities to, shared resources are clear and understood. General compatibility of culture between the relevant organisations is also an important factor in success.

### **Having criteria that support determining when it makes sense to share resources and when it doesn't help**

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We have developed criteria against which services can be assessed for suitability for collaboration as it would not be beneficial for individual organisations to collaborate on every service (in the absence of amalgamation). Collaboration is not promoted if it would:

- not deliver value to the community
- dilute the identity of a council
- fundamentally impact support to employees, the community or elected members
- result in dilution of critical accountabilities

### **Sharing operational teams and equipment is not as effective when there is locational separation**

Sharing operations teams and equipment has limited effectiveness when there is a substantial distance between areas that need to be serviced. That said – where the tasks are of a project nature rather than high volume nature (i.e.: irrigation construction versus irrigation maintenance), distance becomes less of an issue.

### **Resource sharing and collaboration can fail when based on relationships alone – foundations are required to ensure sustainable partnerships**

There is a reasonable amount of local and interstate experience where strong collaborations have failed as the individuals who were the proponents of the collaboration leave, or there is not adequate formalisation of the relationships to manage through when the going gets tough.

To that end we have put in place an MOU, principles for collaboration and procedural frameworks. We also have a head agreement and have developed (and are implementing) agreements for each initiative to ensure roles and responsibilities are clear, terms of engagement are explicit and there are processes around managing issues should they arise.

These foundational documents and processes are there for exceptional circumstances and to ensure the arrangements sustain beyond the people who established them. This infrastructure was a sizeable effort, albeit an internal one, and may also be an impediment to sustainable resource sharing and collaboration efforts being put in place for other councils. Having such collaboration tools available to the sector may support making it easier for others to establish effective collaboration frameworks.

Are there any impediments to the greater uptake of various forms of collaboration or resource sharing?

### **Collaboration can be seen to be a painful option rather than a way to get things done more effectively for the community in the longer term – “go fast alone, go far together”**

The key impediment to greater uptake of working together to drive improved outcomes for all of our communities is the fact that this is not a priority for all parties in the sector. Collaboration takes effort and if there isn't a driver to push through that effort – either through the priority given it by leadership or through a legislative requirement or incentive.

While having councils who aren't in physical proximity to each other, but who are aligned in their desire to work together, isn't an impediment to sharing all services it does reduce cost effective sharing of equipment and facilities.

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Appropriate incentives and motivations to drive greater alignment across the sector will greatly support improved collaboration.

### **When the sector is aligned, collaboration is easier**

The shared insurance schemes across Local Government have seamlessly supported resource and equipment sharing across the councils.

Disparity in industrial relations arrangements can present a barrier to resource sharing and we have experienced employees declining secondment and employment opportunities due to remuneration being lower than the employing Council or wanting an unreasonable premium to operate across multiple worksites.

The fact that the sector is made up of over 60 organisations each with their own leadership, cultures and ethos also affects collaboration, while providing very similar sets of services and operating under the same legislation provides commonality that enhances opportunities. Engagement with other councils to encourage collaboration can sometimes be met with a “no thank you” as it is not seen across the sector as a way to get things done and simply due to the competitive nature of organisations. This limits the potential to have the most optimal collaboration arrangements in the sector.

### **Having sector based industrial relations arrangements would support collaboration and resource sharing, however could pose risk to community value if not managed carefully**

Having a sector based industrial instrument could support collaboration and resource sharing, however, it also poses significant risk in relation to increased pay rates as unions would push for all Councils to move to the current highest pay rate for each role. Transition arrangements would be critical.

The introduction of a sector based EB negotiation team to support the sector skills base in this area, provide strategic alignment and support ensuring there is transition to a sector based EB.

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?

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

The establishment and management of a Regional Subsidiary comes at significant cost and formality so should be reserved for significant undertakings. Such things as being required to have its own audit committee, having to consult on a budget, its own independent insurance arrangement and if it employs staff the requisite suite of policies and employment arrangements are all simple examples.

### Chapter 3 – Local government costs

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

#### 3.1: Materials, contracts and other costs

Materials, contracts and other costs is the most substantial category of expenditure for councils making up approximately 41 per cent of total operating expenditure.

The average rate of increase for materials and contract expenditure, over the last 10 years, was 4.0 per cent annually and this was similar across both urban and rural councils.

What are the main drivers of materials, contracts and other costs for rural small and medium councils?

N/A

In what ways do current council procurement practices affect expenditure on materials, contracts and other costs?

#### **There are many ways to access large scale contracts in the sector and having access to State contracts would support this further**

There are many procurement options available for councils through Procurement Australia, LGAP and Council Solutions which are utilised when beneficial (i.e. Energy, IT panels, Telco etc)

Whilst there are a number of procurement options available for aggregated expenditure, accessing State Government contracts and pricing would deliver a large benefit to local government. There are synergies with a number of State Govt contracts, however, access to these has always proven difficult with a lack of clarity from State Procurement as to whether Local Government can access these arrangements, this advice has varied from time to time from SP. Other state governments – Qld, NSW and Victoria in particular provide this to local government and public sector organisations.

#### **Buying power can be diluted if individual council preferences are retained**

The contracting options provided by the local government related bodies can tend to be diluted by trying to meet the specific needs of individual councils rather than the overall objective of getting the best outcomes for the sector in terms of price and quality for contracted goods and services i.e.: specific vendors being included on panels due to local preference. There may be potential to re-structure contracts and panels moving forward to enable flexibility through contract addendums or annexures which will still allow for the sector to leverage the aggregated buying power without diluting it. Councils need to be open minded and avoid 'specialness' when considering this so as to not create unnecessary complexity which drives up cost.

#### **Appointment of a collaborative Strategic Procurement Lead has provided immediate benefit to the councils and is self-funding**

We continue to leverage the strategic opportunities available across the sector to ensure effective procurement delivery. In addition to these sector wide resources, we have recently

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appointed a shared Strategic Procurement Lead and team working across Charles Sturt and Marion Councils to:

- understand spend and contracts across the councils and to use this information to develop the best approach to market for contracted goods and services given all of the arrangements available
- build commercial capability and provide commercial and strategic procurement advice across the councils
- lead both organisations' procurement teams to ensure there is facilitated and active engagement in collaborative procurement and a commercial approach to every procurement

Having this capability engaged at the councils has already proven valuable:

- procurement is being lifted from a transactional “have-to” to a strategic tool to deliver value to the community
- active strategies regarding fleet management, energy procurement, contracting for construction materials and services already underway.
- active and proactive management of significant vendors has also already provided value to our communities within the first 9 months.
- having the resource embedded in the councils is also allowing for commercial and contracting skills and capability to be developed within the operations and construction teams with insights such as peer review of designs upfront supporting reduction in the opportunity for variations to be issued by contractors during construction.

The Strategic Procurement Lead has complemented existing capability available to the councils and is delivering value that would not have been achieved otherwise. The role will be self-funding and will deliver quantitative cost reductions as well as qualitative value through improved service quality, reduced risk and intrinsic valued adds through contracts.

### **MATERIAL RECOVERY FACILITY MRF**

Charles Sturt and Port Adelaide Enfield have announced they will build a \$12.8 million Material Recovery Facility (MRF) to process their kerbside recyclables. The aim is to provide a continuous, affordable, stable, and sustainable service for residents.

The move seeks to minimise the impacts of the Chinese National Sword Policy on recycling costs, provide a transparent processing of recycling and support circular economy industries. Additionally, it aims to respond to the State Government's increase to the Solid Waste Levy, which has increased costs to councils by minimising land fill.

The MRF will be jointly owned by both councils and operated through a Local Government Regional Subsidiary.

### **3.2: Population density**

The population of South Australia continues to grow, and its composition is changing. This growth is creating external cost pressure in many councils. The annual increase in population growth in the urban metropolitan and fringe council group will potentially exacerbate cost pressures. Changes in the demographic composition will also drive changes in expenditures as an ageing population brings increased demand for access to its services.

How does increasing population density and urban infill impact on council service costs?

### **15-20% of council costs are directly linked to resident numbers**

Increasing population density does impact on some council service costs (waste management, postage collection and receipting costs etc) however not all costs are variable and in proportion to population growth and many costs of council are fixed in the short term. Around 15-20% of total recurrent costs (excluding depreciation) are typically linked to properties and / or ratepayers.

### **High amenity at new developments will drive increased maintenance costs as assets are contributed**

Large scale development infill is presenting an emerging issue. The service levels inherited from property developers who invest in high levels of amenity (i.e.: proportionately high density of playgrounds and open space, grassed verges, dual footpaths etc) to attract buyers are proving to be an emerging issue for councils who need to maintain the associated assets when developments are completed and handed over to council to maintain. Developments such as Bowden, St Clair and West all have high levels of amenity relative to the rest of the council area and will attract relatively higher maintenance costs as a result.

Charles Sturt has on a number of occasions prior to the commencement of such developments undertaken a detailed cost study to ensure the new development pays for itself rather than creating an impost on the existing part of the community. In each case the development was found to be a net contributor with the costs more than paid for via the improved rates notwithstanding the higher amenity levels within such developments.

### **Greater demands on planning and infrastructure will present other cost increases or impacts**

In addition, other impacts occur as greater demand is placed on infrastructure and the environment such as:

- Increase demand on stormwater infrastructure
- Increased pressure on councils to provide open space / play spaces as backyards reduce
- Increased issues with on street car parking requiring additional enforcement/monitoring
- Development issues with overlooking, over shadowing
- Loss of greenspace, more restricted streetscapes and places for tree planting – with resultant increased urban heat island effect if not well planned and planted.

### **3.3: Sector wide service standards**

While acknowledging the use of surveys by a significant number of councils, the Commission has not been able to obtain any standardised sector-wide quality or service standard data to analyse the effects of changes in service standards on council operating costs.

How do councils currently define and measure standards of service delivery?

While we have historic established levels of service, the current focus is on understanding actual levels of service provision with service levels being measured based on numbers of activities delivered (outcomes) and the community's satisfaction with those service levels

based on the volume and nature of their feedback captured through various channels - typically call centre interactions, online requests and web interactions.

The development of Service Plans possibly supported by a legislative requirement is an initiative that is seen as worthy of investigation.

What measures could be developed on a sector wide basis to measure quality standards for either mandated or non-mandated services?

### **Service standards should be measured based on activity outcomes and the community's satisfaction with them**

It is recommended service standards are based on activity level outcomes and are measured in conjunction with the community's view of the importance of and their satisfaction with each activity. In the absence of comprehensive community surveys, data from various communication channels could be used to establish a baseline against which to improve (i.e.: call centres, online communication and email).

### **Establishing a sector wide community survey could be cost effective and would allow for service level comparisons**

Over time measuring the community's satisfaction with any given service, as well as their view on the relative importance of the service, in a consistent manner, across the sector, would give better insight into the community's overall satisfaction with existing service standards on a consistent basis and would allow fair comparatives on service delivery outcomes between councils.

It would also provide a sound factual insight from the community against which changes in service levels and service provision could be assessed. This would ensure cost effective delivery of the right level of service to the community based on their genuine needs and priorities. But must also allow for individual communities (though their councils) to make policy or service level decisions that they prefer and are prepared to fund. As such a common community survey would need to reflect that base of the service level decision and assess satisfaction with its achievement (or not).

This would be a worthy sector wide initiative and interstate models exist that would provide a sound foundation upon which to build. Comparable community satisfaction data was a key feature of the UK's CPA model.

In summary, it is suggested a greater understanding of current actual service levels, and the community's relative happiness with those is the initial focus for service standards. Setting service standard targets without an appreciation of current levels actually being attained may lead to changes in service levels being recommended which drive adverse and inadvertent impacts for the community and cost without there being a genuine desire or need from the community for that change. Service Plans would allow for the effective understanding and communication of these decisions.

### **3.4: Cost shifting**

The Commission has formed the view that there have been some instances of cost shifting which have raised council costs. However there also appear to be a number of cases where councils have control over expenditure decisions and the term cost-shifting should not be

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applied. The term cost shifting in practice is unhelpful particularly where it includes a choice by councils to accept tied funding. In such circumstances the commission considers cost sharing rather than cost shifting, is a more accurate description. The Commission is seeking clarification on this from councils.

To what extent do councils receive external funding or an ability to charge fees for delivery of mandatory services?

A number of fees are able to be charged for delivery of mandatory services. However, in many instances the fees are determined by regulation and allowed through Government Statute but often do not reflect the cost of service provision and are rarely reviewed.

At present we don't consider fees and charges to reflect cost recovery for mandatory services and support the LGA and FMG's request for a review of fees and charges that are fixed by Government Statute.

To what extent are councils able to fully recover costs for the mandatory services listed in appendix 4?

The fees allowed do not enable full recovery of the costs of provision of the service with the most material example being planning and development fees allowing for 40-45% of the cost of the function to be recovered. Having had the fees fixed for more than 10 years while regulations increased has resulted in a significant under-recovery of the fees.

How are service scope and standards determined for mandatory services?

Councils are asked to provide further information on instances of cost shifting and quantify how they have impacted on councils' costs.

The following changes in legislation and sector responsibilities have driven changes in revenue and costs over the last few years:

- 260% increase in the solid waste levy 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.
- Increased Mandatory Rating Rebates has significantly reduced revenue as community housing transferred to community housing organisations who are eligible for a mandatory rebate. Further the distribution of these premises is highly inconsistent across the state meaning some councils are heavily affected and others not. The net effect is a cost shift from the State Government (broadly based) to a few Council's (narrowly based) heightening the inequity.

Mandatory rebates for housing associations has cost \$800k in 2008/09 and increased to \$2.13m in 2017/18 (169%) and costing Charles Sturt \$1.34m in lost revenue from rates levied.

- Associations Electricity and water costs including public lighting have increased 95% over the 10-year period which is more than \$2.55M.
- Local Government Election costs being borne by councils (levied from the Electoral Commission) with election costs increasing for the 18/19 round of elections by \$136K or 45% in 4 years.

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- Greater than CPI rate changes by SAPN for public lighting have eroded the benefits of the significant investment in LED lighting by around 50% or \$0.1M per annum for lights installed to date.
- 196% increase in the Emergency Services levy over 10 years which, while a pass-through to the community and does not have a net impact on council costs, there is a perception the increase is related to council activities

Other instances of changes to responsibilities or added requirements include:

- Implementation of DACO (Dogs and Cats Online) and the funding required to support the provision of that service ongoing without there being opportunity to reduce costs at the councils to the same extent
- Transfer of responsibility of nuisance by-laws from the EPA to local government increasing resourcing requirements by up to 1 FTE at each of the partner councils
- Increased compliance and governance impacting service provision including roof truss legislation, nuisance bylaws, health and safety compliance including auditing of food businesses.

For example, in 2014/15 Council were legislated to pay \$18 for each compliance expiation to the 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 a fee of approximately \$67 per application would have been required to cover councils' costs incurred.

- Increased planning and development costs while Local government legislated fees did not increase for at least 10 years. A comparison of planning fees across Australia demonstrates South Australian is significantly lower with a market for certifiers emerging with commercially charged fees are significantly higher than those afforded to councils.

Refer Attachment A - Cost drivers 2007-2019

### 3.5: Compliance costs

A number of submissions from councils...argued that the costs of complying with legislation and regulation have increased council operating costs.

Councils are asked to provide further examples of compliance costs and quantify how they have impacted on councils' costs.

- Please see above

### 3.6: Cost pressures

The Commission is seeking additional information and evidence from councils to identify and understand drivers of councils' costs, the extent to which they are internal or external to councils, the extent to which cost pressures are systematic or unique to particular councils, and their impacts on council costs.

What are the most significant cost pressures (and their impact on costs) which councils expect to face over the next 5 years?

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### **The existing exposures are likely to continue into the future**

Key drivers of expected increased costs in our long term financial plans and their impacts are:

- \$6.0M (>30% over 10 years) increased depreciation flowing on from increased investment in community infrastructure
- Increased superannuation levies will drive an additional \$1.3M in costs over and above CPI per annum over the course of the plan

Other likely drivers of increased costs not reflected in the plan are:

- Waste Management Costs
- Continuing Industrial Relations costs – every 1% increase above CPI will add \$0.4M to annual costs which will accumulate for every year that it occurs
- Investment in technology advancement
- Climate change and the implications on flood, fire and other associated hazard management
- Ever increasing environmental costs include waste management and waste levies
- Economic welfare of the state
- Cost shifting and changes to regulation and or legislation
- Ongoing changes in ratepayer expectations and service levels
- Cost of maintenance of contributed assets
- Increased community engagement and consultation requirements

### **Any performance improvement initiative has to support net cost reductions**

We see performance improvement as a way in which these costs may be able to be partially mitigated however it is important that sector wide investment in driving performance outcomes is proven to be of net benefit to the community of itself also.

### Chapter 4 – Local government efficiency and productivity

The term efficiency in this chapter refers to technical efficiency. An organisation is technically efficient if it produces the largest possible output from a given set of inputs, or if it uses the least possible quantity of inputs to produce a given level of output.

This chapter presents the principal methodological approaches used in the Commission’s analysis.

#### 4.1: Performance reporting

Performance and efficiency measurement play a role in helping councils to understand of their business and to improve outcomes through reduced costs or better services. This section describes performance monitoring activities across Australia to assist the identification of mechanisms and indicators that might usefully be employed by local government in South Australia.

How can these lessons from state-wide performance reporting frameworks in other jurisdictions be applied to South Australia?

#### **Vic, NSW and SALGC show data alone won’t drive performance – it needs to be timely, relevant and come with analysis and insight**

The Victorian Performance Reporting framework is an example of efficiency comparisons and benchmarking implemented across the 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.

Similarly, the imposition of rate capping in other jurisdictions has led to asset run downs and many councils now suffering significant financial stress if total asset value condition is taken into account.

#### **Auditor General based oversight may tend toward governance and control improvements**

NSW oversight has largely focussed on financial sustainability 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.

#### **A lot of time and effort can be expended before a start can be made**

Metric development has taken a number of years in most jurisdictions with the sector only to find that once it is implemented, there are many lessons learned and improvements to be made and nor has the data been well utilised.

Significant time can be invested working up a solution that may already exist. Based on what has been published to date we have a number of different and incomplete metric sets. If we took them all we may well find a very complementary and close to complete set of metrics that could form a solid foundation to test.

A lot of time and effort was invested in developing detailed definitions in Victoria only for the ESC to find data was still not comparable in an audit. The ability to centrally review detailed data that make up submissions would help reduce time refining definitions and increase the likelihood of being able to achieve comparable data.

As mentioned previously providing contextual or service level of benchmarking side by side with the efficiency benchmark measures may be a key to unlocking the relative differences that typically erode the comparability between benchmark partners.

Overseas experience has also demonstrated it is better to be flexible and test and learn as you go (with a plan on what the end state is that is being aimed for).

### **Lessons learned and possible resolutions are summarised below**

- **Benchmarking alone doesn't drive sector performance outcomes – it needs to be supported by analysis and insight to have any impact**

Provision of central resources and support with the ability to undertake central review, refinement and analysis of reported data would help improve accuracy as well as provide insight into areas of opportunity and build capability across the sector

- **Analysis and insight needs to be shared with the community**

This needs to be done in a proactive and simple way to help the community understand how the sector is performing so they can respond

- **Focus on getting the method 80% right first**

- **Don't overinvest in gaining alignment before you gather proof**

An initial trial between a small number of councils who represent the interests of the sector may minimise the time to develop a framework and test its effectiveness as well as minimise the impost and burden on all South Australian councils in its development. This will however require trust to be placed in the representative councils by the rest of the sector.

- **Build on what is already available – and refine it**

The Grants Commission data, interstate models, work undertaken by the three councils, the service standards defined by the City of Playford and the work undertaken to date by the FMG on local government disclosures would provide a solid foundation to start with.

- **Gather transactional level data centrally so refinement of comparisons can occur without having to impact councils – it will help integrity of comparisons later on**

Provision of a detailed transaction listing from each council to support submissions would allow for central and preliminary assessment of apparent anomalies in cost reporting and performance and to allow for more direct queries to be directed to councils. This would need to be supported by central analytical resourced however.

- **Find a way to make it easy and repeatable for councils to remove a barrier to engagement**

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Most councils have a finance system from which they would be able to extract a transactional dump and a detailed chart of accounts.

As a starting point to sector wide reporting, each council could be supported to map their chart of accounts to activities to support preliminary data allocation and to make this largely repeatable by council from year to year.

Collection of operational data requirements may not be as straight forward however support could be provided to councils to determine how to collect operational data systematically and consistently throughout the course of a financial year to remove the impost of annual data collection.

Over time systems could be refined and more automated provision of data and some level of analysis could be refined.

Which indicators used in other jurisdictions would be appropriate for South Australian councils?

See above

### 4.2: Partial productivity estimates

The data demonstrates that urban councils face different unit costs than rural councils, and that metropolitan urban councils differ from urban regional councils. For example, urban councils have significantly higher expenditure per kilometre of sealed roads than other councils, but lower expenditure per tonne on waste collection. Furthermore, there is significant variation within each council group.

What do these partial productivity estimates tell us about local government efficiency?

Greater insight is required into the drivers of costs to be able to form informed conclusions about why performance between councils appears different.

The findings of the analysis conducted by the commission to date reflect sector wide experience with high level benchmarks. While high level analysis is good for macro performance measurement and trend analysis – transactional level insight is then needed to explain and interpret what is causing variation in performance between councils and what might be able to be done about it.

What other partial productivity estimates can be used with currently available data?

Partial productivity analysis is a very sound economic tool however it is not widely understood. It tends to be used in more macro scale analysis when the links between inputs and outputs are being explored and aren't known. As the relationships between inputs and outputs are necessarily inferred, sometimes inconclusive it is not clear in the conclusions that can be drawn from it.

We would prefer an approach that is based on value driver analysis where costs of activities are linked to the volumes of outcomes of those activities and the drivers of those volumes. This method creates explicit relationships between inputs and outputs and the connections are easy for most people to understand.

It is recommended the focus turns to activity costing and value driver analysis and some insight into community satisfaction to ensure that additional work undertaken is working

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toward the likely benchmarking metric set which will yield insight into relative council efficiency.

### **There are key features of benchmarking we would want to achieve regardless of where the function is performed**

The following comments are based on our experience in benchmarking performance.

In order to maximise the impact of benchmarking:

- measures need to be comprehensive (i.e.: all costs are allocated to an activity and the ability to omit or shift costs is minimised),
- their composition needs to be understood to a detailed level to be able to manage gaining acceptance of the comparability of benchmarks
- measures need to be comparable between each other and over time
- overheads need to be treated as activities in their own right, rather than allocated across all other direct activities to ensure overhead costs are actively managed and benchmark comparisons aren't impacted due to differences in overhead allocation practices

Using a value driver approach ensures the key differences between the nature of councils are considered when benchmarking performance between councils.

Benchmarking between councils provides insight into differences in performance. Benchmarking to a detailed level informs what is driving those differences in performance and drives understanding the impact of different ways of doing things. This in turn drives insight into what might be an actionable improvement opportunity.

Benchmarking individual councils against their own performance over time supports understanding each council's individual contribution to the improvement in overall sector performance.

Metric sets need to be supported by detailed analysis into understanding differences to they in turn can drive performance.

What additional data would councils be able to report on for minimal additional cost which would improve our understanding of council efficiency?

See comments in 4.1

Is there any other evidence of an expansion in the scope of council services, or improvement in quality over this time period?

See comments in 4.1

Is the current reporting to the SALGGC an appropriate process for any additional reporting by councils? Is there value in making any changes to this reporting?

### **Leveraging the SALGGC process makes sense and will reduce risk of duplication**

Leveraging and developing the current SALGGC process would be appropriate subject to the comments made in earlier in the report regarding timeliness of information and support of the

production of information with analysis and insight. As mentioned previously data integrity should also be addressed.

### 4.3: Service-specific efficiency

Data availability has limited the number and quality of partial productivity indicators that the Commission has been able to estimate. There are also some concerns with the consistency of the financial data at the individual service level and their comparability across councils. For instance, there may be differences in how councils apportion indirect costs across services and allocate costs to each of the SALGGC expenditure subcategories. Moreover, output quantity data that are reported to the SALGGC but not used by them are subject to less thorough checking than the financial data.

The Commission investigated possible options for measuring service-specific global efficiency estimates, including obtaining expert advice from Economic Insights, and has concluded that currently available data do not support this exercise at this point. Nevertheless, the Commission sees value in further work in this area.

Acknowledging the gaps in data currently available, how can data quality be improved in order to measure service-specific efficiency across councils?

Value driver analysis for the major spend areas of council (i.e.: ensuring that the 20% of activities that drive the 80% of costs are covered in detail) 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.

### **Increasing the resolution of spend categories will yield greater insight and make historic changes in external factors more transparent**

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

Significant cost impacts in recent years have been driven through:

- changes in state levies and charges,
- changes in sourcing models,
- energy costs,
- open space service levels

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 its major cost drivers:

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

This will facilitate greater insight.

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### **Overhead functions should be treated as activities in their own right**

Some councils allocate the cost of their overhead activities to the costs of operational activities. This causes distortion in comparisons due to different approaches to allocation, and overheads being different proportions of overall costs between councils. It is recommended the SALGGC method treats overhead functions as activities and internal overhead cost allocations are excluded.

### **Greater resolution in discretely reported activities**

It is recommended there is greater resolution in the specific activities captured by the SALGGC in their activity costs. The functions developed for Model Financial Statements could be used as a starting point as each council should be reporting in that format already. These functions could be tested against other metric sets available and aligned or improved over time.

### **Increased operational metrics**

It would be preferable to capture a primary driver at least for each of the reported activities. This will require an increase in the number of operational statistics captured. Primary driver data could be obtained from the City of Playford service standards and the benchmarking used the collaboration.

### **Provision of transactional data**

Provision of transactions extracts (including as many attributes as practical) as part of the submissions will provide the SALGGC with the ability to stress test comparisons themselves to a degree. Resource and system capability to manage this data analysis at SALGGC may need to be assessed.

### **4.4: Efficiency changes through time**

Quantifying changes in the volume and scope of council services is problematic. The Commission has not been able to identify any standardised measures of service quality across councils, which limits incorporating service quality into the model.

Data issues have also prevented the Commission from quantifying any expansion in the scope of services provided by councils.

How can the change in volume, scope or quality of services be quantified or otherwise incorporated into an evaluation of local government efficiency?

Looking at benchmark data (costs and drivers) for a time series for a given council will give insight into the drivers of changes over time for any given council and therefore the sector. Categorisation of movements in drivers and unit rates into their root causes (i.e.: increase in service levels, new services, increase in residents, externally driven unit cost changes, one off events and projects, wages increases etc) will allow for calculations to be performed that demonstrate the overall impact to councils and sectors of underlying cost performance.

This categorisation could be prepared as part of annual reports or as part of benchmarking analysis activities. It could also trigger assessment of whether or not recommendations relating to greater scrutiny of changes in services and service levels would be valuable to the community.

This would need to also be considered in the context of trend data (measured consistently) on community satisfaction.

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### 4.5: Factors that influence estimated council efficiency

Council performance may be influenced by factors outside their control, including socio-economic and demographic characteristics of council areas, their geographic location, and operating and policy environments, as discussed in Chapter 3. Submissions from stakeholders also noted factors such as growth areas, ageing populations, labour market shocks (for example, large scale redundancies such as the closure of automotive manufacturers) and thin markets (LGASA submission, p.32).

What other factors can explain the estimated efficiency differences between councils or over time?

There are a significant number of factors that affect council output and efficiency including:

- Varying numbers of precincts, high streets and activity areas
- Climatic factors
- Soil Types
- Topographical differences
- Tourism
- Service quality expectations
- Legacy conditions such as relative asset condition
- Elected Member policy choices
- Service levels / standards

This demonstrates the importance of the driver data and analysis aspect of benchmarking and there being a deep and consistent understanding of the benchmark data provided across councils to ensure realistic, informed and fair comparisons are made.

What factors can explain the estimated productivity differences between councils over time?

See above

What other possible data sources can improve this analysis?

See above

What further information could be considered to analyse and interpret estimated partial and global efficiency scores?

See prior responses.

### Chapter 5 – Costs and efficiency improvements

Trends in, and possible drivers of, expenditure in the local government sector shows that the growth in local government operating expenditure over the last decade has been relatively high. Urban metropolitan and fringe councils consistently recorded higher growth in operating expenditure than other councils during this period. This growth has been greater than underlying measures of inflation and has been funded, in the main, by increases in rate revenue, thereby putting upward pressure on the cost of living for ratepayers.

#### 5.1: Employee costs

The Commission has found that councils' operating expenditure is mainly made up of employee costs and materials, contracts and other costs, which accounted for 35 per cent and 41 per cent of total sector operating expenditure in 2017-18. These proportions have not changed significantly since 2008-09.

Sector expenditure on employee costs increased more, in percentage terms, over the decade than any other expenditure category at an annual average increase of 4.5 per cent, although growth has moderated over the decade in both urban and rural councils.

Are there any benefits from streamlining the current industrial relations arrangements by moving to sector-wide enterprise bargaining?

- We believe there would be several benefits from streamlining the current industrial relations arrangements. Transaction costs would reduce. The negotiation process is extremely resource intensive, which would be the case for all Councils. We see real potential in gaining efficiencies and reducing duplication across the sector through consolidating enterprise bargaining.
- Pressure on councils to move wages to match the highest paying councils and pattern bargaining would reduce. Disparity in existing rates as a result of legacy arrangements creates pressure on Councils to provide the same quantum increase, regardless of the actual wages and conditions that exist in the individual Council, which creates either an adversarial process by not reaching an agreement and/or wage creep.
- Mobility across the sector would improve. The difference in wages across Council can be a deterrent for employees to take opportunities with another Council. We have experienced employees declining secondment opportunities due to the wage being lower than the employing Council.
- Opportunity to better align workforce and organisational objectives - Building in pay for performance across the sector (would be more achievable if we were to progress as a sector rather than individually), positively impacting motivation, accountability, engagement and performance.

#### 5.2: Quality and quantity of data

The Commission's identification of cost drivers has been constrained by a lack of data, particularly with respect to outputs and quality. It has formed the provisional view, through consultation with councils, that increases in the scope, volume and quality of outputs have been a significant driver of growth in councils' operating expenditure.

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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?

Agreeing on and using a standard set of metrics for sector wide benchmarking (there may be variances across different clusters of councils (say metro vs regional) , and establishing an expectation that, from a point in time, councils could report on these metrics on a monthly basis would focus councils on developing a comprehensive and appropriate set of metrics quickly as well as getting councils to a level of capability with respect to monthly operational performance reporting more quickly than if not mandated. It would also reduce the cost of separate development and refinement of metrics across all councils.

### **5.3: Strengthening councils' accountability and transparency**

South Australia's legislative framework, particularly the LG Act itself, not only recognises local government as a separate and legitimate sphere of government in its own right, but also provides councils with a high degree of autonomy to act as decision makers in their communities. The quality of councils' decision-making will therefore have a significant effect on the service mix that councils provide in their communities. This is especially important in relation to non-mandatory services, where councils' discretionary authority is greatest, but is also important when councils consider the scope and quality of service provision for mandatory services.

How can the South Australian Government strengthen the accountability and transparency of councils?

Possible instruments include:

- 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.

Any measures must be assessed via a cost/benefit and concern that increased legislative compliance adds resource burden. Currently all council documents are publicly available.

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?

We believe this would be best managed through effective benchmarking and review if it can be achieved.

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?

See above

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Attachment A

Charles Sturt Key Cost Drivers 2007 - 2019

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### Attachment B

#### POTENTIAL NEXT STEPS FOR THE SECTOR

##### **Step 1 | Budget Assurance**

- Existing grants commission data
- Assess for surpluses and larger outcomes against published budgets
- Low level analytical effort
- Consider incentive to act

##### **Step 2 | Historic Trend Analysis**

- Existing grants commission data
- Trends at expenditure type level
- Low level analytical effort
- Consider incentive to act

##### **Step 3 | Expanded functional analysis**

- Modifications to grants commission data
- Comparisons of around 40 functions
  - Use Local Government Financial Reporting Functions
  - Separation out of overhead functions / internal cost allocations from operational costs
  - Capital spend breakdown by type
  - Addition of ~20 operational indicators and ~10 capital indicators to cover majority of services
  - Customer event data to allow for preliminary community indicators
- Would require augmented analytical effort
  - use as a trial and pilot on larger councils
  - central function that would ultimately be funded by councils out of generated savings?
  - State government funded trial? Self-elected participants?
  - Provision of transactional supporting data for central validation / comparison to ensure comparability and credibility of analysis
- Consider incentive to act

##### **Step 4 | Sector Wide Implementation**

- Post-trial period - Move to next level analysis with increased driver data capture on priority functions
- Likely investment required in centralised analysis platform and capability to make effective

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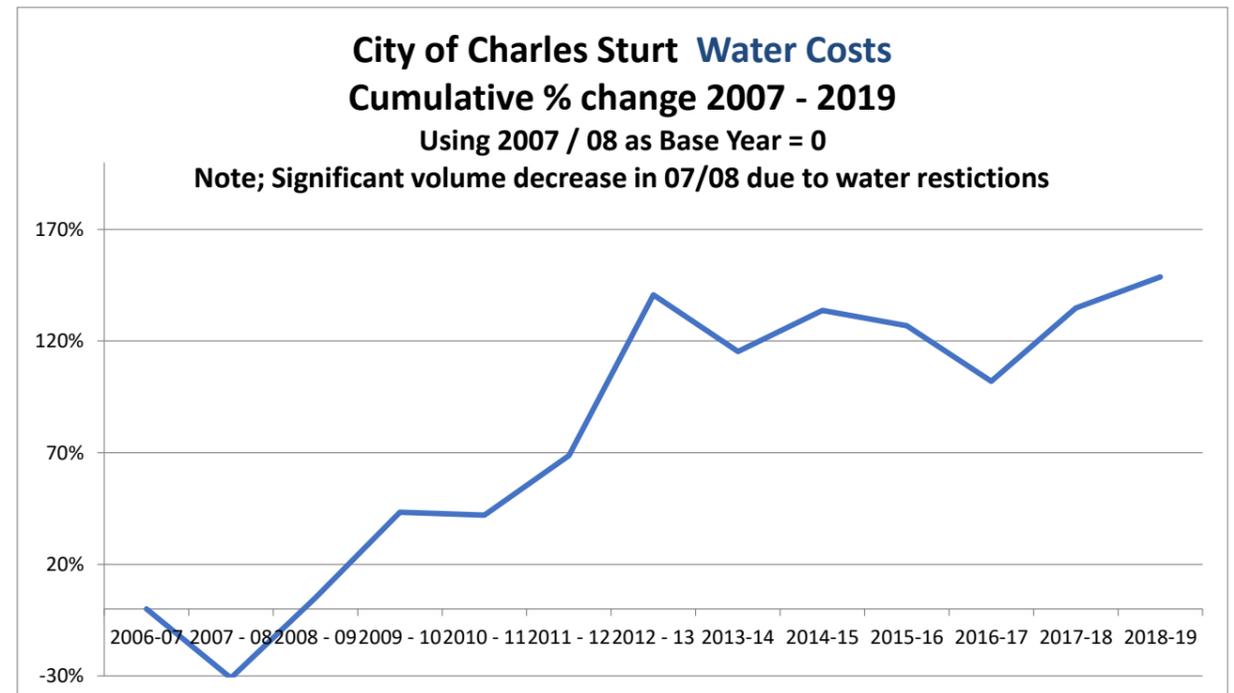
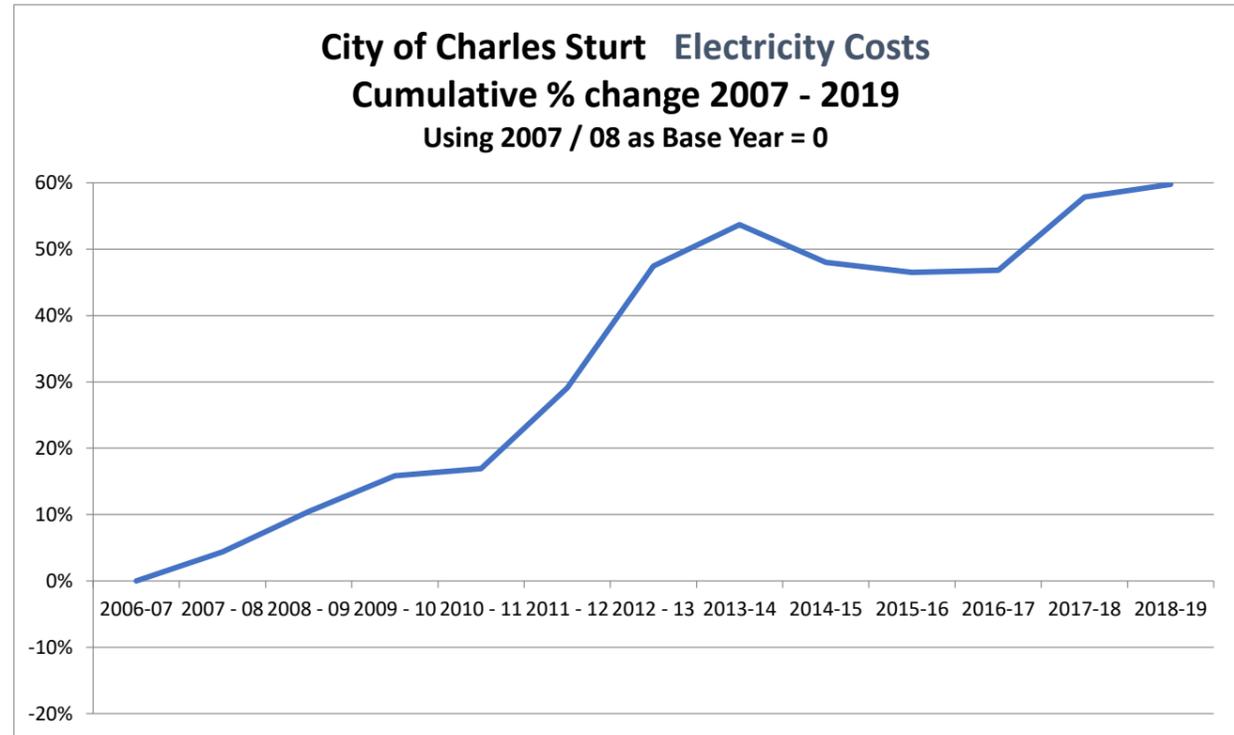
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- Sector Wide Community Survey – satisfaction and importance ratings
- Expect collaboration opportunities would be one of the many performance improvement recommendations that should / could / would be generated

## Charles Sturt Key Cost Drivers 2007 - 2019

<b>Electricity</b> <i>(Include Street Lighting and maintenance)</i>			
Year	\$	% change on prior year	Cumulative % change
2006-07	1,694,970		0
2007 - 08	1,769,007	4.4%	4.4%
2008 - 09	1,876,852	6.1%	10.5%
2009 - 10	1,977,722	5.4%	15.8%
2010 - 11	1,998,967	1.1%	16.9%
2011 - 12	2,242,630	12.2%	29.1%
2012 - 13	2,654,132	18.3%	47.5%
2013-14	2,820,038	6.3%	53.7%
2014-15	2,659,693	-5.7%	48.0%
2015-16	2,619,433	-1.5%	46.5%
2016-17	2,627,901	0.3%	46.8%
2017-18	2,917,747	11.0%	57.9%
2018-19	2,973,828	1.9%	59.8%
<b>12 Year Average Cost Increase</b>			<b>5.0%</b>

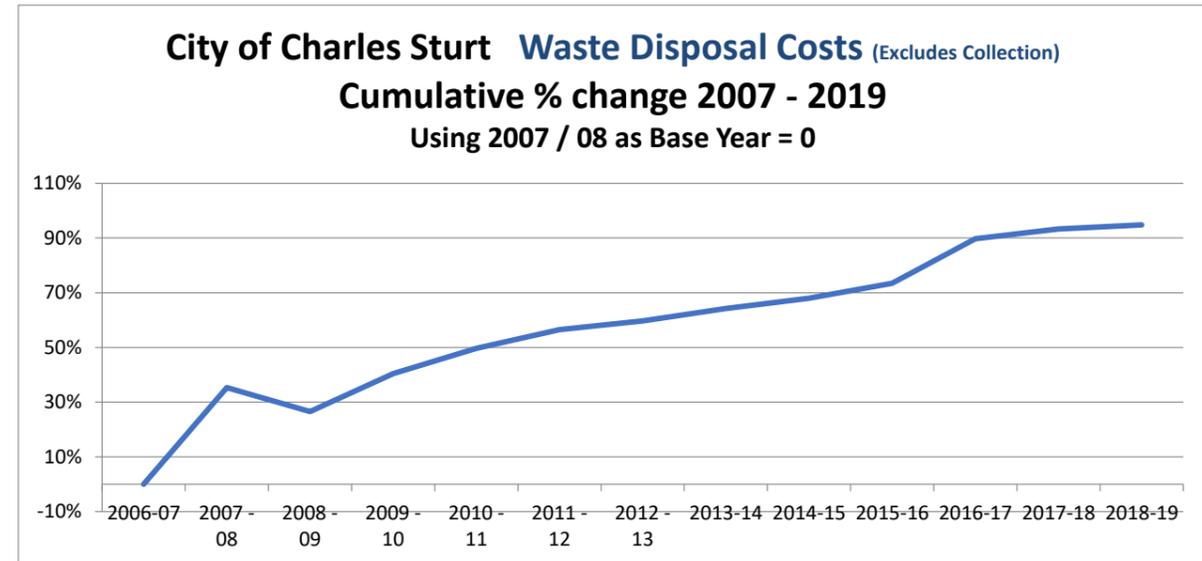
<b>Water</b>			
Year	\$	% change	Cumulative % change
2006-07	868,906		0.0%
2007 - 08	600,148	-30.9%	-30.9%
2008 - 09	815,879	35.9%	5.0%
2009 - 10	1,128,657	38.3%	43.4%
2010 - 11	1,114,429	-1.3%	42.1%
2011 - 12	1,411,767	26.7%	68.8%
2012 - 13	2,428,035	72.0%	140.8%
2013-14	1,809,962	-25.5%	115.3%
2014-15	2,143,702	18.4%	133.7%
2015-16	1,996,818	-6.9%	126.9%
2016-17	1,499,813	-24.9%	102.0%
2017-18	1,991,317	32.8%	134.8%
2018-19	2,269,686	14.0%	148.7%
<b>12 Year Average Cost Increase</b>			<b>12.4%</b>



## Charles Sturt Key Cost Drivers 2007 - 2019

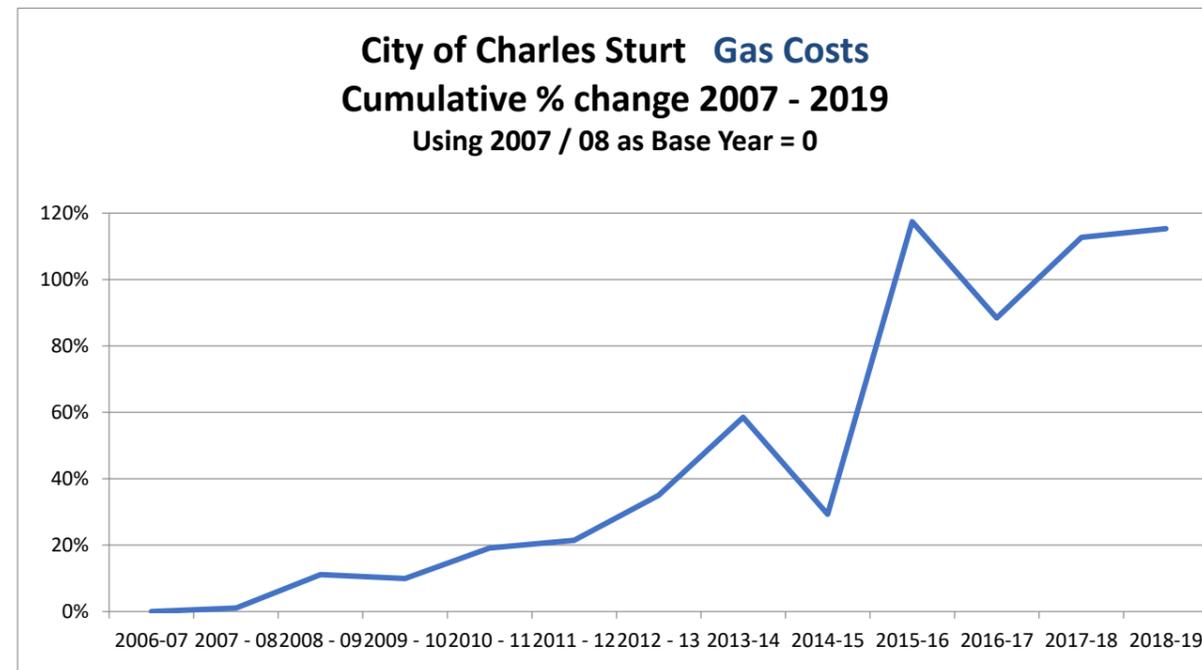
### Waste Disposal (excludes collection costs)

Year	\$	% change	Cumulative % change	
2006-07	1,651,388			<b>0</b>
2007 - 08	2,234,294	35.3%	35.3%	
2008 - 09	2,037,987	-8.8%	26.5%	
2009 - 10	2,322,213	13.9%	40.5%	
2010 - 11	2,536,414	9.2%	49.7%	
2011 - 12	2,709,976	6.8%	56.5%	
2012 - 13	2,795,987	3.2%	59.7%	
2013-14	2,922,341	4.5%	64.2%	
2014-15	3,033,021	3.8%	68.0%	
2015-16	3,198,294	5.4%	73.5%	
2016-17	3,719,501	16.3%	89.8%	
2017-18	3,851,616	3.6%	93.3%	
2018-19	3,909,138	1.5%	94.8%	
<b>12 Year Average Cost Increase</b>			<b>7.9%</b>	



### Gas

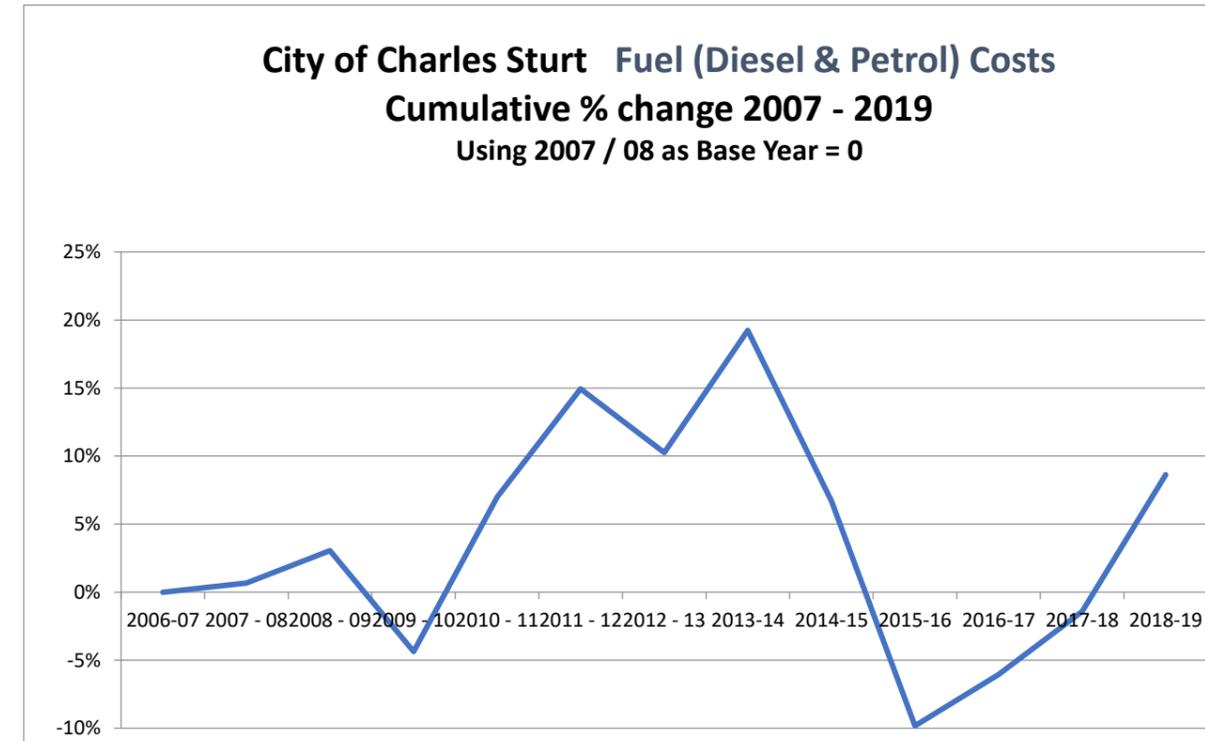
Year	\$	% change	Cumulative % change	
2006-07	13,877			<b>0</b>
2007 - 08	14,021	1.0%	1.0%	
2008 - 09	15,433	10.1%	11.1%	
2009 - 10	15,256	-1.1%	10.0%	
2010 - 11	16,658	9.2%	19.2%	
2011 - 12	17,041	2.3%	21.5%	
2012 - 13	19,358	13.6%	35.0%	
2013-14	23,892	23.4%	58.5%	
2014-15	16,928	-29.1%	29.3%	
2015-16	31,841	88.1%	117.4%	
2016-17	22,608	-29.0%	88.4%	
2017-18	28,098	24.3%	112.7%	
2018-19	28,824	2.6%	115.3%	
<b>12 Year Average Cost Increase</b>			<b>9.6%</b>	



## Charles Sturt Key Cost Drivers 2007 - 2019

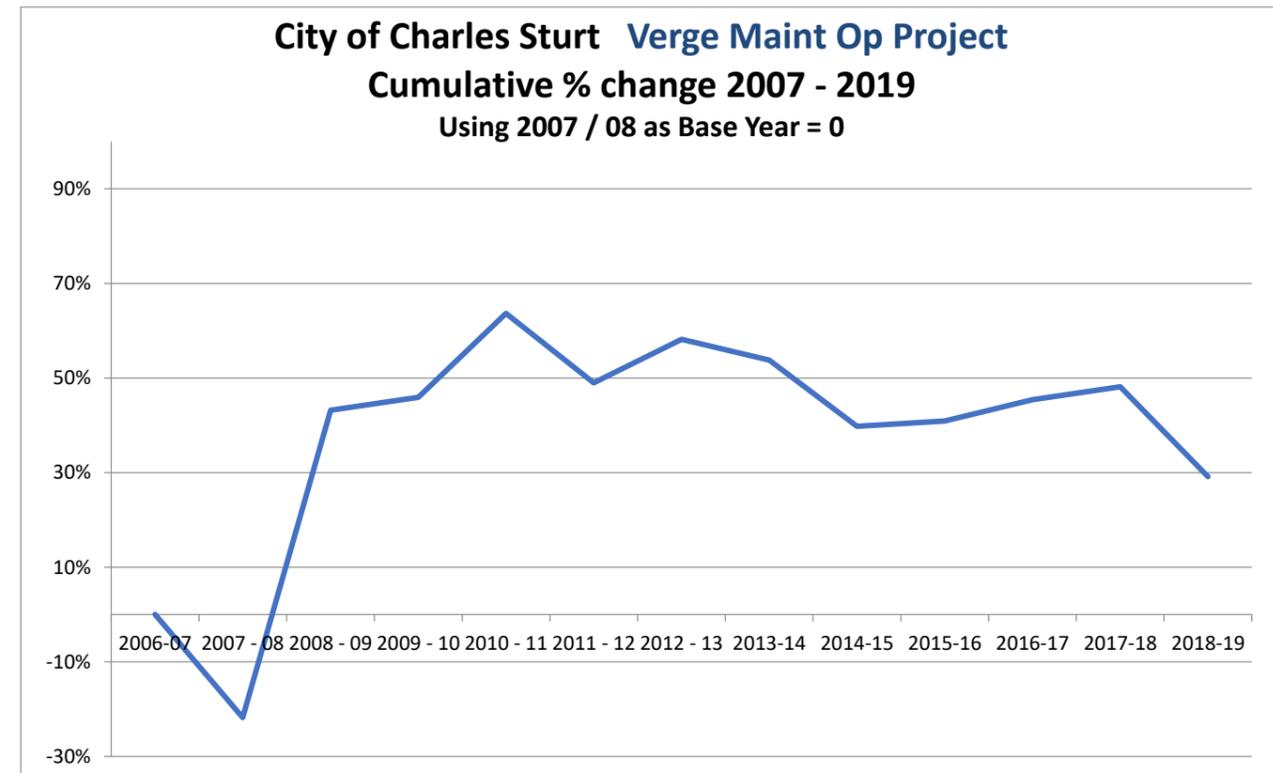
### Fuel (Diesel & Petrol)

Year	\$	% change	Cumulative % change
2006-07	618,403		0
2007 - 08	622,518	0.7%	0.7%
2008 - 09	637,314	2.4%	3.0%
2009 - 10	590,129	-7.4%	-4.4%
2010 - 11	657,022	11.3%	7.0%
2011 - 12	709,417	8.0%	14.9%
2012 - 13	676,174	-4.7%	10.3%
2013-14	736,862	9.0%	19.2%
2014-15	644,429	-12.5%	6.7%
2015-16	537,966	-16.5%	-9.8%
2016-17	558,278	3.8%	-6.1%
2017-18	584,144	4.6%	-1.4%
2018-19	642,880	10.1%	8.6%
<b>12 Year Average Cost Increase</b>			<b>0.7%</b>



### Verge Maintenance Annual Recurrent Operational Project costs

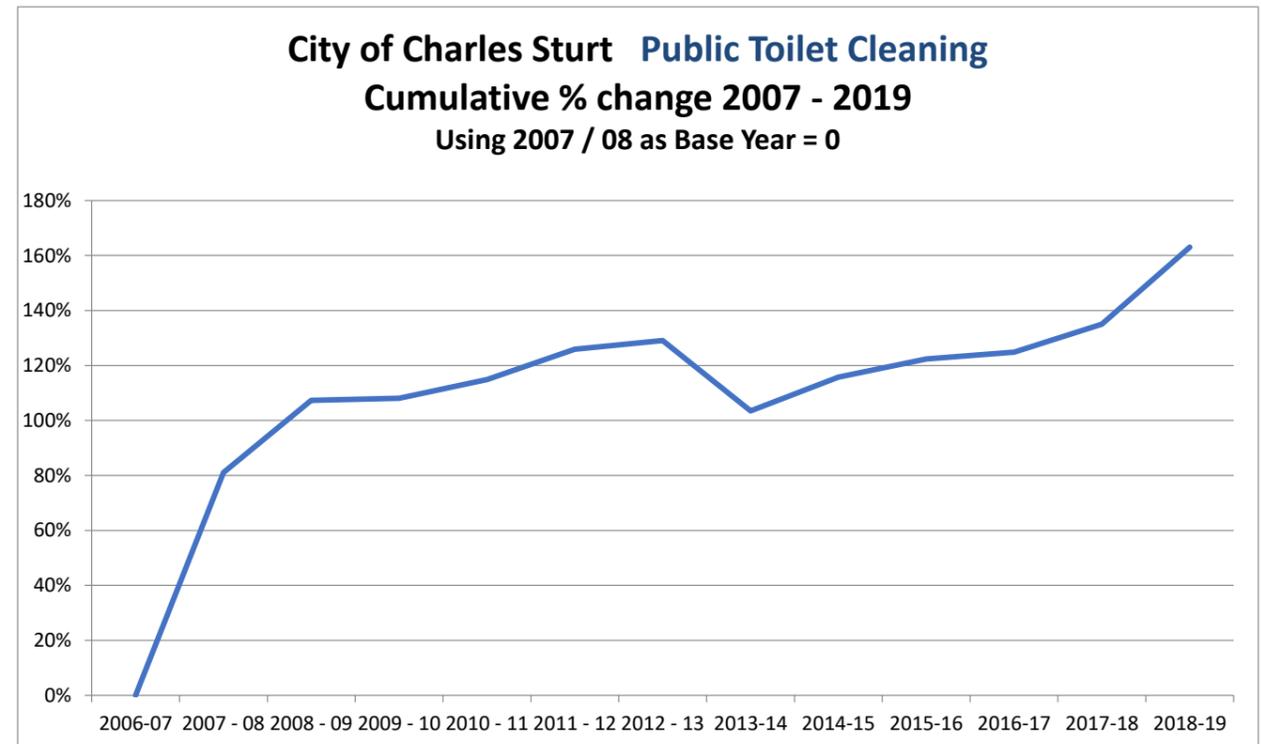
Year	\$	% change	Cumulative % change
2006-07	1,055,785		0
2007 - 08	825,861	-21.8%	-21.8%
2008 - 09	1,362,466	65.0%	43.2%
2009 - 10	1,399,910	2.7%	45.9%
2010 - 11	1,647,848	17.7%	63.7%
2011 - 12	1,405,758	-14.7%	49.0%
2012 - 13	1,535,041	9.2%	58.2%
2013-14	1,467,964	-4.4%	53.8%
2014-15	1,262,486	-14.0%	39.8%
2015-16	1,276,374	1.1%	40.9%
2016-17	1,333,775	4.5%	45.4%
2017-18	1,370,327	2.7%	48.1%
2018-19	1,109,936	-19.0%	29.1%
<b>12 Year Average Cost Increase</b>			<b>2.4%</b>



## Charles Sturt Key Cost Drivers 2007 - 2019

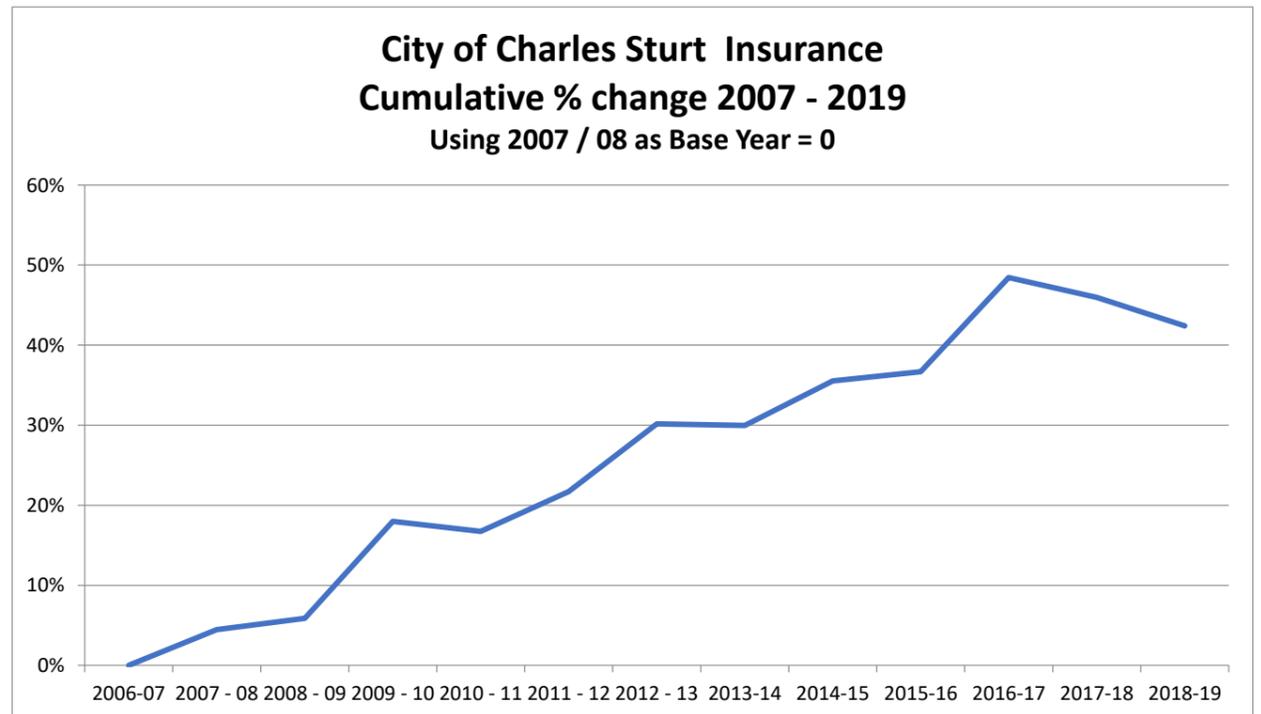
### Public Toilet Cleaning Costs

Year	\$	% change	Cumulative % change
2006-07	86,759		0
2007 - 08	157,116	81.1%	81.1%
2008 - 09	198,232	26.2%	107.3%
2009 - 10	199,773	0.8%	108.0%
2010 - 11	213,530	6.9%	114.9%
2011 - 12	236,998	11.0%	125.9%
2012 - 13	244,542	3.2%	129.1%
2013-14	181,973	-25.6%	103.5%
2014-15	204,283	12.3%	115.8%
2015-16	217,777	6.6%	122.4%
2016-17	223,155	2.5%	124.9%
2017-18	245,840	10.2%	135.0%
2018-19	314,699	28.0%	163.0%
<b>12 Year Average Cost Increase</b>			<b>13.6%</b>



### Insurance Costs ( exclusive of work-cover )

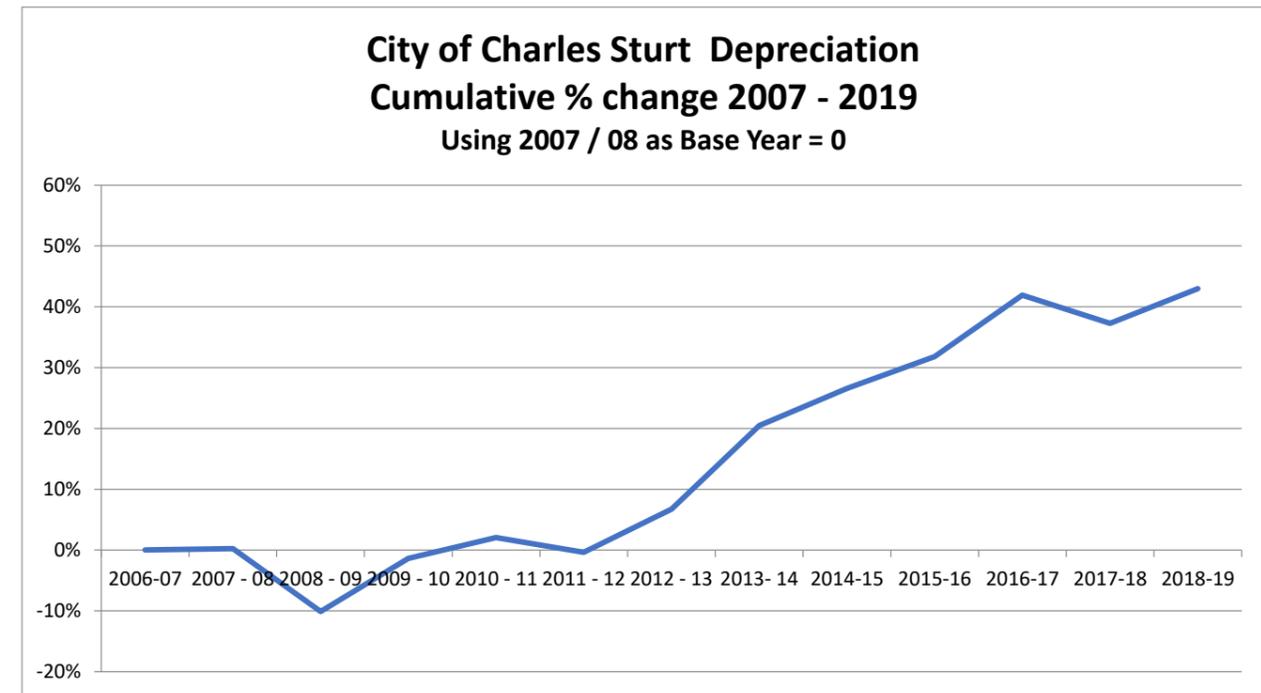
Year	\$	% change	Cumulative % change
2006-07	849,906		0
2007 - 08	887,796	4.5%	4.5%
2008 - 09	900,348	1.4%	5.9%
2009 - 10	1,009,441	12.1%	18.0%
2010 - 11	996,625	-1.3%	16.7%
2011 - 12	1,046,468	5.0%	21.7%
2012 - 13	1,134,763	8.4%	30.2%
2013-14	1,132,499	-0.2%	30.0%
2014-15	1,195,468	5.6%	35.5%
2015-16	1,209,540	1.2%	36.7%
2016-17	1,351,727	11.8%	48.5%
2017-18	1,318,203	-2.5%	46.0%
2018-19	1,271,113	-3.6%	42.4%
<b>12 Year Average Cost Increase</b>			<b>3.5%</b>



## Charles Sturt Key Cost Drivers 2007 - 2019

### Depreciation

Year	\$	% change	Cumulative % change
2006-07	19,239,975		0
2007 - 08	19,284,516	0.2%	0.2%
2008 - 09	17,291,165	-10.3%	-10.1%
2009 - 10	18,798,509	8.7%	-1.4%
2010 - 11	19,448,588	3.5%	2.1%
2011 - 12	18,973,403	-2.4%	-0.4%
2012 - 13	20,325,973	7.1%	6.8%
2013- 14	23,117,200	13.7%	20.5%
2014-15	24,528,834	6.1%	26.6%
2015-16	25,815,853	5.2%	31.8%
2016-17	28,419,460	10.1%	41.9%
2017-18	27,100,622	-4.6%	37.3%
2018-19	28,645,331	5.7%	43.0%
<b>12 Year Average Cost Increase</b>			<b>3.6%</b>



### Operational Staff costs (excludes capitalised labour costs)

Year	\$	% change	Cumulative % change
2006-07	23,417,867		0
2007 - 08	24,995,527	6.7%	6.7%
2008 - 09	26,696,941	6.8%	13.5%
2009 - 10	28,235,041	5.8%	19.3%
2010 - 11	29,868,217	5.8%	25.1%
2011 - 12	31,568,613	5.7%	30.8%
2012 - 13	33,800,821	7.1%	37.9%
2013-14	35,099,351	3.8%	41.7%
2014-15	37,599,613	7.1%	48.8%
2015-16	38,726,597	3.0%	51.8%
2016-17	39,832,444	2.9%	54.7%
2017-18	40,397,540	1.4%	56.1%
2018-19	41,806,627	3.5%	59.6%
<b>12 Year Average Cost Increase</b>			<b>5.0%</b>

