

11/7/19

Committee Secretariat
South Australian Productivity Commission
GPO Box 2343
ADELAIDE SA 5001

To the South Australian Productivity Commission

RE: INQUIRY INTO LOCAL GOVERNMENT COSTS AND EFFICIENCY

Thank you for the opportunity to provide a submission to the *Inquiry into Local Government Costs and Efficiency*. This submission is provided to the Commission by the Limestone Coast Local Government Association. The Limestone Coast Local Government Association (LCLGA) is formed from the seven Local Government Councils in the Limestone Coast.

The LCLGA represents the interest of the following councils and their communities:

- Naracoorte Lucindale Council
- District Council of Grant
- City of Mount Gambier
- Kingston District Council
- Wattle Range Council
- Tatiara District Council
- District Council of Robe

The LCLGA is active in a wide range of regional issues and works in partnership with other regional organisations to deliver benefits for the Limestone Coast economy and communities.

Through our members we represent a population base of more than 65,000 residents.

Many of the LCLGA activities facilitate efficient outcomes for our members from avoiding duplication (reduced costs), creating regional perspectives from joint investments and planning; and leveraging the regions contributions to funding partners to amplify the size and value of investments in regional programs.

The LCLGA believe this inquiry has the potential to provide valuable insights into Local Government operations and performance with pathways for continuous improvement. It also has the potential to provide out of context analysis leading to erroneous conclusions or comparisons which is why we are supportive of the SA Productivity Commissions process in seeking feedback on the proposed methodology.

We recognise that each of our members reserves the right to express their individual views direct to the Commission on the areas raised for comment.

LCLGA also support the submission from LGASA on the proposed methodology and note they will be making a further submission with supporting evidence for the Commission to consider. We believe the LGASA submission captures the salient points regarding the model limitations and challenges in proposed analysis.

Our response does not seek to replicate the LGASA submissions but to highlight some of the main questions we have regarding the validity and limitations of the inputs and outputs, which if not adequately addressed, will potentially render the analysis meaningless.

The challenge is to have valid and comparable input and output data so meaningful analysis can be made. This is a significant challenge is due to:

- The timeframe for the inquiry,
 - The relatively short-time frame for the inquiry means there will be a high reliance on established datasets, a reliance on methods to normalise the data with little time for industry engagement to properly understand or correct data.
- The reliance on data from existing data bases (grants data bases for example),
 - The existing data sets available, such as the grants data base, were developed for a range of purposes, evaluating performance and efficiency to inform economic models was not one of them. Therefore, these data bases are unlikely to provide valid information for the model and indeed a recent analysis using the SA Grants data base shows that this data has some significant difficulties.
 - In 2018 the SA Grants data base was used to test an approach for comparative performance benchmarking. It was concluded the data and the inherent differences between Councils rating models, geography, demographics, services and customer expectations meant comparisons between Councils were meaningless.
- Difficulty in extracting data from legacy systems,
 - Our members have reported to us that many are running entrenched systems that were not developed to provide flexible reporting and therefore adapting these systems for new reporting or changed reporting parameters is very difficult. For example, in a recent trial to assess information for performance management by one of our members the task of extracting data for new purposes was problematic.
- The lack of clear definitions around outputs and cost allocations,
 - The way each council allocates its costs for services or communities will vary from Council to Council. For example, some don't attribute overall administrative or governance costs across other functions at all, some use budget percentages, some staffing percentages, some other percentages. Unless the Commission can agree on a sector wide method, we will be potentially comparing 68 different types of cost allocation models.

- Wide range of services not immediately comparable,
 - For many services the scope and quality can vary significantly, for example libraries. A library service can be a simple online service, it could be just books, or it could provide a community hub for knowledge, learning and to connect community. In each case the costs are for a library, but the inputs and outputs are different, and their cost allocations will vary across each Council. It will also vary over time as the nature and scope of services change, for example the outputs for a library 10 years ago will be different to the outputs provided today.
- The wide range of services, including service provider of last resort, due to community aspirations facing service and cost shifting from State and Federal Government or lack of suppliers,
 - Councils provide services to sustain the social and economic fabric of their communities. This occurs when other levels of government fail or withdraw from providing services or where the market cannot provide a service.
 - For example, Wattle Ranges sponsors an Early Learning Centre as this is essential to the community in being able to attract workers and support families. This is not a profitable enterprise but returns a significant social and economic dividend to the community. Compare this to another Council that does not need to provide the service due to a healthy market with private sector operators.
- Correction for externalities from demographic and geographic factors,
 - Each community will have different demographic factors that impact their aspirations, priorities and capacity to fund services.
 - A lowest cost approach for a basic level of service will work for some communities however increasingly communities are seeking Councils to provide a wider range of social services. For some less affluent communities the demand and reliance for Council services may be higher as there are less options for alternative service providers in these communities.
 - Geographic and climatic impacts vary across regions and have material impact on Council costs, for example the Coastal Councils are managing the significant impact of coastal erosion and requiring significant investments in sustaining assets and protecting communities.
- Asset lifecycle, depreciation and valuation,
 - The asset lifecycle becomes an important consideration for trend analysis. For instance, roads have an asset life far greater than 10 years (the suggested period for the trend analysis) and the asset life will have a different impact on the road's repairs and maintenance costs.

- The way assets are grouped and defined, as well as, their revaluation cycles and approach to estimating replacement costs or (if comparing against for profit benchmarks) economic value will yield different outcomes.
 - For example, in the Limestone Coast the depreciation per km of roads can range from \$2,200 to \$8,000 depending on the type of road, geography, proximity to rubble, impacts from services in and near the road; and when the asset was last revalued.
 - Councils revalue their assets every five years and each council is on a different valuation cycle meaning asset data can be up to five years out of date between Councils.
- Community Lifecycle
 - Aging communities will need different services and expectations to those with high growth and a young community.

The points above highlight some of the challenges in creating normalized data sets to ensure the proposed model is providing a valid analysis of Council costs and efficiency.

It is likely that given these challenges the analysis will be measuring the differences between Councils services and their operating environment rather than any meaningful comparisons of their relative costs and efficiency.

A more useful approach may be to establish performance benchmarks for each Council to allow their costs and efficiency to be reported overtime i.e. are Councils improving and what has caused a change in costs and efficiency.

Thank you for the opportunity to provide our feedback into the methodology of the Inquiry.

Yours sincerely



Tony Wright | Executive Officer
Limestone Coast Local Government Association