

25 October 2019

Dr Matthew Butlin
Chair and Chief Executive
South Australian Productivity Commission
GPO Box 2343
ADELAIDE SA 5001
Emailed: sapc@sa.gov.au

Dear Dr Butlin,

RE: Inquiry into Local Government Costs and Efficiency – Draft Report

Having reviewed the Draft Report: Inquiry into Local Government Costs and Efficiency, and subsequent to Commissioner Tate’s attendance at our September SALGFMG Executive meeting our membership would like to provide the following feedback for further consideration. Our approach has been to provide feedback on the draft advice to South Australian Councils, and to also provide information for consideration with respect to Information Requests which are regarding policy or potential legislative change.

Draft advice to South Australian councils

Firstly the Draft advice to South Australian Councils includes three recommendations, the first being:

Draft advice to South Australian councils

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 measure



Response: SALGFMG has concerns about the use of Benchmarking and KPIs that are shallow and only further place an administrative burden on Local Government entities with little to no benefit to our communities. The Local Government sector has existing wide reaching networks that thrive through collaboration, sharing ideas and best practice. By being able to draw on the experiences and learnings of others, and at times implement a single solution to a shared problem, the sector has been able to deliver greater value for its communities. However, this also takes time and resources, and is not evenly shared across the sector. In terms of benchmarking we agree that a deep understanding of the drivers that result in differences is important, and that often benchmarks are not a comparison of like with like. Councils currently participate in a number of data collection activities which are used by Local Government entities to drive performance and lessons learned, examples of existing benchmarking are the Local Government Grants Commission General Information Return and the Local Government Supplementary Return.

Given the diverse range of infrastructure and services provided and requested by our unique communities, providing Councils with the tools and knowledge to not only benchmark against themselves over time, but also to conduct service reviews would be invaluable, however consideration must be given to the impacts. If it is left to the sector to implement this sort of benchmarking with the care and consideration it requires to do it well, it will necessitate the redirection of resources away from service delivery to communities and lead to productivity declines during this period.

Draft advice to South Australian councils
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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.
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Response: The IT systems landscape for many councils typically includes a number of core with a range of peripheral systems which are all required to support business as usual. Costs to reconfigure systems, or to consolidate into a more refined number of systems, is expensive and often prohibitive. Also, as systems are changed often historical information is no longer accessible. So whilst we share the view that systems should provide relevant data for analysis and to assist decision making, we remain concerned that fundamental change in this area will remain limited due to resource constraints.

Our members are cognisant of the evolving landscape with respect to Cloud technology and AI learning, and as a sector collectively developing solutions which ensure that we can spend less time on administration and more time providing value added services to our communities, through smart city initiatives would have significant positive impacts.





Draft advice to South Australian councils

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.

Response: In relation to Part ii the scope of external audits is govern by Auditing Standards, and legislative requirements. Section 22 of the *Local Government (Financial Management) Regulations 2011* provides:

22—Independence of council auditor

- (1) Subject to subregulation (2), a council, council subsidiary or regional subsidiary must not engage its auditor to provide services to the council outside the scope of the auditor's functions under the Act.

This subsection specifically limits the ability of a Council's external auditors to undertake any other work for Council. To include in the scope of the external audit an examination of any service reviews and program evaluations, creates a number of issues, including:

- I. It is in conflict to the legislation
- II. It will create variability from year to year in the complexity and requirements of the audit, and as the timeframes for audit are already relatively tight, to expand the scope and meet the legislatively required timeframes will be problematic
- III. If the service review has been undertaken by an external consultant, and then reviewed by technically skilled resources internally, having this work then subject to external audit will only add costs with little benefit.

Transparency and accountability would be better delivered through enhanced Internal Audits and reporting through an Audit Committee with a broader remit.

In relation to part iii, Long Term Financial Plans, Annual Business Plans and Budgets, provide our communities with the forecast and planned infrastructure and services for our communities, the implications of service level changes, and new infrastructure are reported alongside treasury management principle ratios which provide guidance on the Financial Sustainability of the Council.



Information requests

In relation to the information requests we trust that the Commission receives specific examples from Councils that will contribute to clarifying these areas for further consideration. As such, SALGFMG are not seeking to specifically address many of the information requests as we think it is more appropriate for these inputs to and examples to be provided by individual Councils. This submission focuses on providing comment on information requests that have broader policy / legislative implications across the sector.

Information request 2.3: Financial Management
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How have the financial management program reforms affected councils' ability and incentives to manage costs?
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What changes to the type or quality of financial management information would assist councils to improve their decision making and contribute to better performance?
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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?
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Response: Rather than extending the scope of external audits which is for a defined purpose and governed by audit standards, we believe a better approach is to consider the audit committees role and strengthen the focus on risk and internal audit requirements as part of their remit. If strategic plans such as the long term financial plan and asset management plans are not in place this is not merely a compliance issue, it adds significantly to the risk profile of the Council through lack of visibility of financial sustainability now and into the future, and the risk of asset deterioration, and concerns for intergenerational equity. By strengthening the requirements of the audit committee in evaluating council risks and putting in place strategies to monitor, evaluate and manage risk, not only will compliance issues be reduced, but in our opinion greater organisational value will be created through this process.

In terms of transparency in decision making, Audit Committees comprise of a majority of independent members typically with a mix of risk, financial and governance skills, together with elected members. Audit Committees, as with all council committees, make recommendations to council for consideration, and councils are able to endorse the recommendation or make any alternative decision it chooses. In making decisions, Councils may well have a broader scope of factors to consider than that of the Audit Committee, however, in Western Australia, where Council decides to take a different decision to that provided by the Audit Committee not only is the decision minuted, so too is the rationale. This approach strengthens transparency in decision making and ensures that the professional advice of audit committees is given due consideration, whilst not detracting from the important role that Council plays in representing the community.





Information request 3.4: Cost shifting

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

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

How are service scope and standards determined for mandatory services?

Response: SALGFMG has previously advocated and supports a thorough review of fees set by State Government for the recovery of legislated services. Previous analysis of these fees has shown that the fees as set do not recover associated expenditure, and as such the entire ratepayer base is subsidising the services covered by these fees. This was demonstrated in a study by UHY Haines Norton when the Roof Truss Inspection requirement was introduced “Development (Trusses) Variation Regulations 2011 Cost of Compliance and Cost Recovery Fees” May 2013.

In addition, in regional or geographically large areas in particular, there is no ability to recover additional costs associated with greater distances to travel and more labour hours associated with increased travel time. The SALGFMG supports having scaled fees that take into account these important distinctions.

Fees for accessing discretionary council services, that do not have a broader community benefit, should be based on user pays principles, ensuring those accessing these services are adequately contributing to associated expenditure and are not obtaining benefit cross subsidised by ratepayers.

Information request 5.3: Strengthening councils’ accountability and transparency

Should councils be required to undertake an independent external audit of their expenditure and efficiency in the event of recording relatively high operating expenditure growth in a given period?

Response: Current reporting requirements already result in this information being available and consulted on through annual budget processes, end of financial year statements, and the long term financial plan. The additional requirement for external audit will not, in our view, increase the accessibility of the community to relevant information, or increase the validity of the information already provided. It will add a further financial burden and further bureaucracy.

Further, if costs increase as anticipated by the Long Term Financial Plan, which is subject to consultation under S122 of the Local Government Act, then the fact that these costs may be higher than a given index is not relevant, as the organisation has operated as intended, and as communicated with the community.



Information request 5.3: Strengthening councils' accountability and transparency

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?

Response: Whilst we remain unconvinced that external audits in these circumstances is appropriate as detailed above, we also believe that the LGPI is not an appropriate indicator for consideration as it is not a purely cost index. The LGPI is influenced by the volume of what is purchased which varies year to year, and therefore does not reflect the cost increases faced by the sector. It is also based on grant commission data which is not audited and may be incorrect in some instances, which detracts from the indicators reliability. We believe that an appropriate indicator is a hybrid of 50% Wage Price Index, 30% Road and Bridge construction Index and 20% Consumer Price Index. It is reliable and independent, transparent and efficient to produce, and is reflective of Local Government cost structures.

Further, there may be a number of reasons where Council and the community have endorsed additional cost increase; these may include high growth councils looking to implement new infrastructure or services for their community or councils that have experienced some unexpected hardship or disaster such as bushfires and floods. Endorsement of the Long Term Financial Plan by Council following significant community consultation indicates that these cost increases are supported.

In closing, we would like to thank the South Australian Productivity Commission for the engagement with the South Australian Financial Management Group, and providing the opportunity for feedback through these discussions and through this written submission. Further we understand the tight timeframes that are required for the South Australian Productivity Commission to meet the South Australian Government's reporting deadlines in relation to this inquiry, and note that the scale of this inquiry having been undertaken with little notice does limit the ability of the Local Government sector to be able to engage and respond.

Yours sincerely,

Kate George
President