

## **Submission to SA Productivity Commission – Inquiry into Local Government Costs and Efficiency**

Alexandrina Council is a widely respected local government body delivering high quality services to our constituents. We are committed and willing to meet the expectations of our local communities, arising from the South Australian Productivity Commission (SAPC) Inquiry into Local Government Costs and Efficiency and appreciate the opportunity to share ideas, both as individual elected members and as a collective body.

Located 85 kilometres from Adelaide on the Southern Fleurieu Peninsula, the region has a dramatic and expansive coastline, rich agricultural hinterland and significant freshwater assets in the form of the Lower Lakes, River Murray and their tributaries. Close knit communities and heritage townships are pride of place for the 27,000 residents who call Alexandrina home.

As our population and local economy grows, it is at the forefront of our Community Strategic Plan 2014-23 to deliver our services in line with our four key aspirations – Innovate throughout our Region; Participate in Wellbeing; Activate our Spaces; and Thrive in Clean, Green Futures.

Alexandrina Council's comments in regards to SAPC's draft high level recommendations are provided below.

### *Draft recommendations to the South Australian Government*

Alexandrina Council supports SAPC's draft recommendation in regards to performance monitoring / benchmarking to the extent it aligns with the LGA's advocacy for sector wide benchmarking. In considering the introduction of sector wide performance monitoring / benchmarking, Council is conscious that it should be easily comparable and meaningful and should not add significant additional burden to limited staff resources.

Alexandrina Council supports and welcomes SAPC's recommendation in regards to clarification of State and Local Government responsibilities and requests that any review of sector roles needs to be done jointly and with early engagement from both parties. Council supports the clarification of roles and the implementation of service level agreements and affirms Council's commitment for the transference of these services not to take place without adequate compensation.

In determining the responsibility of service delivery there needs to be a keen focus on reducing overlap by both levels of government. In addition, Council supports an increase in efficiencies and reduction in regulation, noting that there needs to be more of a business focus in service delivery and where mandated, that fees should be adequately set to recover the costs of service delivery.

Depending on the outcome of natural resource management (NRM) reform in South Australia, Alexandrina Council suggests that service level agreements between local government and Landscape Boards for the collection of levies and/or the delivery by local government of NRM services on behalf of the Boards could be a test case for the basis of a model.

#### *Draft advice to South Australian councils*

Council acknowledges the significant work and improvements already undertaken by the sector to improve consistency but notes SAPC's desire to further enhance transparency and accountability of Council's. Council believes that any proposed framework should identify opportunities for further improvement, without duplicating existing measures or creating greater uncertainty.

Alexandrina Council is committed to improving its systems and is currently undertaking a Corporate System Review to ensure the effective capture of service level data enhancing its ability to proactively analyse and report on information relevant for effective planning, decision making, monitoring and performance management. Alexandrina Council suggests that system upgrade requirements should also apply to State Government and that better information linkages between State Government and Local Government should exist.

Given the significant number of information requests in the draft SAPC report, Alexandrina Council has chosen the key areas below to provide further comment:

#### *Information request 2.1: Funding*

Alexandrina Council has advocated strongly, both on its own and as part of Southern and Hills LGA, in regards to allocations of the Financial Assistance Grant. Advocacy has included both the decreasing share the state receives as a whole across the country, and the distribution of funding across Council's within the state. Alexandrina Council believes the formula for distribution within the state needs revision, in particular in three key areas:

- Use of the SEIFA index - recognising that property values do not adequately reflect the resident's capacity to pay; the index cannot be compared over time; and that the variations within an area can be masked.
- The dispersion and duplication of facilities, particularly in non-metropolitan Councils can greatly impact the cost of service delivery. Towns and villages can vary markedly in number and size and have their own identify and history, requiring council services at similar levels to the main centre of council. It is noted the current distribution methodology doesn't provide sufficient weighting to this aspect.
- Function 50, noting that this is not well understood and peculiar to SA. Council's with high numbers of non-residents and large numbers of tourists are required to provide the same level of facilities with a lower rate base to do so. This should be reflected in the grants commission methodology.

Tied grant funding, while representing an opportunity for Council to leverage funds to carry out projects which may otherwise not be achievable, can actually work against local government's focus on renewal and replacement of existing assets as grant funding is predominately focused on 'new' capital works rather than 'renewal' or 'maintenance'.

Grant funding is also often tied to a particular outcome or function seen as a priority for Federal or State Government (for example – funds must be used on open space or arts/culture projects). These outcome areas may not be the highest priority area within a council's strategic or asset management plans however, in order to maximise funding opportunities, projects are brought forward or re-prioritised, or new services introduced to take advantage of available funding streams.

Often overlooked in the initial excitement of available grant funding is the ongoing requirement associated with new / additional infrastructure or services. These costs include an increase in interest costs, maintenance and depreciation following the construction of the asset or the ongoing provision of services. These additional costs also apply for assets vested by developers or by other levels of government.

Grant funding, particularly for service delivery can set unrealistic community expectations that services will be provided once funding ends, a recent example of this for local government is the Obesity Prevention and Lifestyle Program (OPAL) successfully rolled out and grant supported for a number of years until the funding was withdrawn and community expectation remained in regards to services delivered. Council is left to communicate with the community that these services are no longer supported or use general rate revenue to offset the loss of income.

#### *Information request 2.2: Competitive neutrality policy*

The requirements of the competitive neutrality policy can be overly burdensome to justify why services are provided to the community that may be perceived as impacting private sector business providers. It can be challenging to identify where council is perceived as competing and where services are provided to support a broader community outcome. This is particularly challenging in delivering large community based infrastructure where private sector investment would deem the venture unviable, however the health, social and other benefits generated form part of a council's core function.

An example for Alexandrina Council is the Fleurieu Aquatic Centre. It could be argued if the facility was or had the ability to be a profit making business that the private sector would have recognised the market opportunity. This community facility, long advocated for by the community and only made possible by combining federal, state and local government funding, houses a number of ancillary services to make the offering cost effective. As a result Department of Premier and Cabinet (DPC) is currently investigating a competitive neutrality complaint against the centre. The time taken and costs associated with proving the centre is operating in the best interests of the community have been significant.

We understand that a number of other council provided aquatic facilities in the state are currently subject to reviews associated with competitive neutrality. Consideration needs to be given to more than the financial return that is generated by these facilities and the considerable community benefit, pride and sense of place that these facilities offer.

#### *Information request 2.5: Resource sharing*

Alexandrina Council strongly supports resource sharing arrangements across the sector and sees significant benefit for councils in entering these types of arrangements.

Resource sharing arrangements support access to specialised labour and services that may not exist for a council on its own. Shared service arrangements provide job diversification and career pathways for staff that may not be available working for one organisation. In addition, leave periods and sickness are better able to be covered resulting in no change to service delivery for the customer.

Depending on the nature of the agreement entered into, significant cost savings are available when bundling services across several organisations together when approaching large market players, Alexandrina Council has realised these benefits particularly for IT software and telecommunications services.

Alexandrina Council is currently in a number of shared service arrangements with neighbouring councils and section 43 subsidiaries. These shared service arrangements include the provision of:

- Payroll;
- Strategic Planning and Planning Assessment;
- Building Services;
- Finance Services; and
- Information Technology Services.

In addition, Council is party to a number of joint contracts with neighbouring councils.

Alexandrina Council sees opportunity to further enhance resource sharing arrangements in the space of Council committees, particularly for those committees or groups whose topic of interest does not necessarily neatly align with council boundaries. These may include interest groups such as economic development panels, arts and cultural advisory panels and agricultural based groups.

In addition, Council sees significant benefit in consideration of resource sharing arrangements for council Audit Committees.

#### *Information request 3.1: Materials, contract and other costs*

Rural and regional Councils can pay significantly more for materials and contracts than their metro counterparts. This can be related to a number of factors including:

- Number of / Access to suppliers - often in regional areas there are a limited number of suppliers that can meet requirements, this may be due to limitations in skills, access to staff or inability to meet legislative requirements including the depth of required paperwork.
- Geographical size – the size and distances of travel in a council area can impact the cost of service delivery, with transport or access to more remote locations adding significant cost from both a plant and labour perspective.
- Economies of scale – are often unable to be realised in regional areas where contractors need to be a 'jack of all trades' to sustain income levels.
- Preference for 'local' suppliers – in order to support local economic development and growth many regional councils have a preference for local suppliers stipulated in procurement policies, which can equate to increased costs of project or service delivery.

Alexandrina Council notes that for large infrastructure projects, local suppliers are often unable to meet resourcing or legislative requirements associated with large contracts and where they can, often come at an increased cost. Alexandrina Council's procurement policy has in recent years allowed for a 15% price weighting for local suppliers. While this is sustainable on smaller value contracts, for larger value contracts this can come at considerable additional cost to Council.

Alexandrina Council wholeheartedly supports SAPC's recommendation in identifying and addressing inefficiency and red tape for the South Australian Government and hopes this can flow through to more user friendly procurement practices for suppliers. Feedback from suppliers is often that Council's legislative requirements restrict them from undertaking relatively non-complex tasks within their skill levels. Alexandrina Council sees benefit in local government being able to access a range of State Government contracts, particularly for utilities including electricity and water.

*Information request 3.1: Population density*

Increasing population density and infill can have significant impact on Council services. Given its close proximity to Adelaide, Alexandrina Council has seen an increase in commuters and retirees moving into the region from metro areas. These relocated residents often come with high expectations of community infrastructure and services that are unable to be easily met in geographically large councils. Unlike established metro councils, Alexandrina Council is still developing and often what metropolitan house owners assume is basic infrastructure is not available in all areas; this includes footpaths, kerbing and guttering, public transport, and easy access to doctors and hospitals. These new residents put increased pressure on Council's budgets, which are constrained in income generating ability by limited residential population.

The below table is an extract from a recent internal comparative exercise using 2016-17 Grants Commission data showing the increased burden placed on residents of geographically large councils (such as Alexandrina). In this example road length per property has been compared.

	Alexandrina	Adelaide Hills	Barossa	Mount Barker	Prospect	Victor Harbor
Total Kilometres of Roads including Laneways	1,376	1,010	976	780	91	402
Road length (m) per Property	75	58	77	47	9	38

In addition, a council like Alexandrina has a number of towns and two main population centres spread over its large geographic area. Each of these centres expects access to similar services requiring duplication of services and effort across the council area.

For councils like Alexandrina, access to accurate community profiling and expected growth and demographic patterns is critical to ensuring effective long term decisions are made on the location of key infrastructure and services.

*Information request 3.1: Cost shifting*

Alexandrina Council does not support cost shifting practices that have a significant impact on regional communities. Recent examples include the Solid Waste Levy and rate rebates associated with Community Housing. These changes are required to be passed on to council ratepayers, who have limited understanding that these are costs have been imposed on council and are unable to be controlled, yet are recoverable from their ratepayer dollars.

In 2019-20 Alexandrina Council experienced a \$100,000 or 0.3% rate increase in the Solid Waste Levy, with future increases of \$180,000 or a 0.5% rate increase per annum ongoing. The lateness of this announcement meant that Council was unable to effectively communicate this increase to ratepayers. The impact to Council of increases in the Solid Waste Levy above CPI using July 2010 as a base is equivalent to \$528,000 per annum, 417% above CPI.

Previous changes to legislation requiring Council to provide additional rate rebates to community housing providers resulted in \$105,000 or 0.3% rate increase per annum to Council's ratepayers.

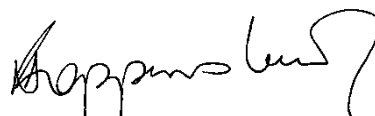
Alexandrina Council supports a thorough review of fees set by State Government for the recovery of legislated services. Previous analysis of these fees has shown that the fees as set don't recover associated expenditure and as such the entire ratepayer base is subsidising the services covered by these fees. In addition, in regional areas in particular there is no ability to recover additional costs associated with greater distances to travel and more labour hours associated with travel time. 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. Despite the proven cost variations for geographically large councils compared to geographically small councils, a single fee was set resulting in cross subsidisation from general revenue for Alexandrina Council.

Fees for accessing discretionary council services that don't have a broader community benefit should be based on user pays principles ensuring those accessing the services are adequately contributing to associated expenditure and reducing the burden on councils entire ratepayer base.

Alexandrina Council looks forward to the final report of the South Australian Productivity Commission Inquiry into Local Government costs and efficiency and supports the strengthening of the sector into the future.



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