

25 October 2019



Dr Matthew Butlin  
Chair and Chief Executive  
South Australian Productivity Commission  
GPO Box 2343  
ADELAIDE SA 5000

Dear Dr Butlin

**Re: Submission – Inquiry into Local Government Cost Efficiency – Draft Report**

Thank you for the opportunity to provide comment on the *Inquiry into Local Government Cost Efficiency – Draft Report*.

The attached submission provides a response from the City of Port Adelaide Enfield Administration. Council have also considered the Draft Report at its 8 October 2019 Council Meeting and submitted feedback via the Local Government Association.

The attached submission includes details on our Council's experiences in improving community outcomes through effectiveness and efficiency measures. Much of the initiatives have involved collaboration with the Cities of Charles Sturt and Marion. This collaborative approach has demonstrated the importance of resource sharing, data analysis and benchmarking across councils.

If you require further information or would like to discuss this matter, please contact Abby Dickson (Director Corporate Services) on 8405 6778 or [abby.dickson@cityofpae.sa.gov.au](mailto:abby.dickson@cityofpae.sa.gov.au).

I hope the attached information assists you in the development of the final report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Mark Withers'.

Mark Withers  
**Chief Executive Officer**

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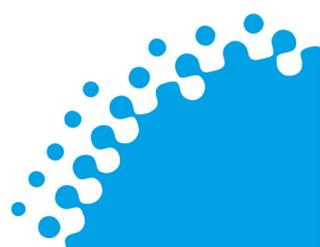
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### 1. **CONTEXT | SECTOR WIDE PERFORMANCE IMPROVEMENT**

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

We have aimed to suggest – where appropriate - ways forward which we believe will drive overall sector performance improvement in a pragmatic way and in a way that won't pose extraordinary burden or risk on the sector.

Our recommendations are based on our own experience in driving performance improvement within our own council, across our collaboration with the Cities of Charles Sturt and Marion, and research focussed on identifying success in changing performance improvement outcomes in local government interstate and overseas.

### 2. **BACKGROUND | COLLABORATIVE 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 performance improvement was founded in the idea that most councils are doing similar things in the majority, albeit probably in a different manner and achieving different outcomes.

It was expected:

- 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 get the benefit of the three council's collective thinking, and the best of everyone's practices, leading to better outcomes overall and that
- the program would pay for itself

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

To date, the original hypothesis has been 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 three councils.

Detailed service reviews of 10% of the total (capital and operating) spend of the three councils have identified around \$2.5M in annual cost reductions. In addition, \$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), while minimising disruption to staff. The change effort has been significant however.

Another important note which is key to the program is there is a compelling commercial case for undertaking this work. The resource employed to define, drive and deliver the program outcomes

across the organisations is more than self-funding and made more affordable to each council by working together and sharing the costs. In addition – there is a detailed and compelling case demonstrating community benefit (based on costs and service levels) for every initiative that has been identified.

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

All that 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 to convert analysis findings into outcomes. A combination of tools, skills and cultural elements are required in order to be able to understand how council performance could be improved and to convert that into actual outcomes for our communities.

The key points to note are, in order to achieve performance improvement, there needs to be committed and visible senior leadership, an organisational drive to be better, 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 performance improvement would need to be somehow 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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## Response to Inquiry into Local Government Costs and Efficiency

**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>• Innovative</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>• Innovation</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> </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> <li>• Committed to public good</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> <li>• Community focussed</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> <li>• Committed to public good</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> <li>• Committed to public good</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>• Community 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> </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>

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> </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 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 in developed countries, however some models have delivered demonstrable improvements in service outcomes.

We did identify several 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

- Informed proactive communication into the community was seen to motivate local government
- Sector level awards and achievements to recognise positive performance were seen as great motivators and also served to lift the profile of the sector and supported attracting capability from the private sector

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 not just be financially based.

It was interesting to note, financial incentives were of low impact as a local government motivator in developed countries which also appears to be the South Australian experience with FAGs.

### **Incentives - Organisational**

- Policy backed by program monitoring, system and process support to test whether legislated outcomes were being achieved was a feature
- A justifiable and compelling case for participation / change also was seen to be a driver, making it hard for organisations to not participate

### **Incentives - Individual**

- Sector led training, capability and professional development paths were key to building capability
- Explore Performance based pay at a senior level supported by better performance management practices

While performance based pay featured, it should be noted direct links to all of sector outcomes were low. Key findings were performance based pay supports attracting required skill sets from the private sector as well as provides the impetus to get other work practice changes approved and in place which indirectly supported performance improvement. That said, linking individual performance indicators and sector outcomes was not clear.

### **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

### **Capacity Building**

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

### **Flexibility**

- Trialling and testing models / approaches allowed the sector to move forward faster and continue to improve rather than aiming to work toward a perfect outcome that then doesn't work in practice

### 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
- Benchmarking to provide insight into areas of performance improvement opportunity as well as positive confirmation of outcomes achieved for the community over time
- 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 benchmarking so it provides net benefit for the community.

Capability building (skills and tools) could occur initially through central provision of skills and experience for specialist areas such business analytics and change management. This would allow for change to be progressed in the sector while simultaneously building capability and transferring skills into the sector.

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

We want to emphasise any measures put in place to drive performance in the sector need to be trialled and tested to ensure they:

- Drive net benefit to the community
- Build community and government trust
- Avoid unnecessary bureaucracy and
- Are supported by the right skills and experience to enable delivery

To the extent any measures don't deliver the above, we would recommend they are disbanded.

**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> </ul>	State Government
	<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
	<b>Individual</b>	
	<ul style="list-style-type: none"> <li>• Legislated EBA Reform                             <ul style="list-style-type: none"> <li>• Timeline to transition the sector to one EBA</li> </ul> </li> <li>• Sector led IR reform strategy</li> <li>• Sector EBA reform transition team</li> </ul>	State Government  LGA

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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>	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>Self-nominated trial group in conjunction with SALGGC, OLG or other body independent to the sector</p> <p>State Government / 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, recruitment programs, technology, system and process development</li> </ul>	<ul style="list-style-type: none"> <li>LGA</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> </ul>	<ul style="list-style-type: none"> <li>LGA</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 the LGA</li> <li>SALGGC, OLG or other body independent to the sector</li> </ul>
<b>Recognition</b>	<ul style="list-style-type: none"> <li>Public / Media communication on outcomes of annual benchmarking review – good and otherwise</li> </ul>	<ul style="list-style-type: none"> <li>SALGGC, OLG or other body independent to the sector</li> </ul>
<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>	<ul style="list-style-type: none"> <li>LGA</li> </ul>

### 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. 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 performance improvement. Ability is needed to ensure comparisons are robust, data is critically reviewed and to be able to provide informed and actionable recommendations to convert collected data into performance improvement outcomes for the community.

In addition, sector wide incentives and motivation will be necessary to compel 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 method will increase speed to act and likelihood of success**

We would support development of a sector wide set of benchmarks. In order to expedite this and to trial the effectiveness of benchmarking leading to performance outcomes for the community in a cost effective way - it is recommended:

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

#### **SALGGC 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:

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- 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)
- 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

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

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.

### **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).

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.

### **Incentives could extend from legislated performance improvement plans to 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.

Public reporting has a 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.

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) made it compelling to invest in it. 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 alone is not likely to deliver performance improvement outcomes**

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Having councils self-report in an agreed framework may be practical however we believe this is unlikely to deliver benefit to the community of itself and as such we wouldn't support this.

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 comparability and an inability to determine what the data might be inferring or what might need to change would mean benchmark credibility would be low and therefore of limited use in driving performance.

Centralised reporting and analysis will be critical to ensuring benchmarks are robust, comparisons are meaningful and 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. 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.

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.

There are also opportunities to remove inefficiencies from within the sector created by council boundaries however a certain amount of legislative leadership would be required to enact this effectively.

**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 LGA have 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 performance improvement who participate. Events, information and case studies are shared, however those learnings may not be implemented to the benefit of participant’s communities.

We expect increased support from the sector will not drive better performance in the absence of any additional incentives or motivations for the sector to deliver measurable performance outcomes for the community and is likely to support those organisations already active in the space.

Undertaking a 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.

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 a benchmarking and performance monitoring. In order for this to be effective a number of 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. 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

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 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.

For example, while improvement of service efficiency is a requirement of council members under the Act, service review programs are not a mandatory requirement of the sector and are not undertaken by all councils. As a result external audit of service review programs, if they are in place, doesn't feel like it will have the intended impact of ensuring sector wide performance outcomes are being driven.

Legislated performance improvement programs, such as are in place in the UK, which are assessed for effectiveness by the equivalent of their Auditor General may be more effective in terms of driving performance 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 (regardless of who initiates them) being reviewed as well as the criteria against which they should be reviewed may support greater diligence around decision making regarding service provision changes and the models under which they are delivered.

### 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 does not feature in our decision making.

Budgeting occurs assuming to some degree that FAG grants won't be received as the quantum and timing of payment is not known with certainty from year to year. As a result FAG funding or changes in FAG funding may contribute to unbudgeted surpluses and variation in results from one year to the next.

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 been generated 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 create resourcing and priority conflicts. Some councils are now moving to include project management resource funding in their proposals to ensure there is capacity to deliver on any commitments made in relation to grant funding.

##### 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.

This has not needed to be a material part of our decision making.

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### 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 however there is residual conservatism**

The Financial Sustainability Program reforms have supported councils to improve their financial and asset sustainability however the focus has also brought with it some level of conservatism in budgeting and debt management.

#### **There is opportunity to now responsibly balance financial conservatism with better outcomes for the community**

A review of annual budget history against the funding requirements actually needed (as evidenced by the final reported financial results that occurred in each of those reviewed financial years) demonstrated a relatively systemic pattern of budgeting for more costs and less income than what typically eventuated.

To temper this conservatism, we have focussed on increasing commerciality in our approach to budgeting for costs and have worked to manage risk across the cost portfolio rather than building conservatism into every item of our operational costs and income.

This "budget assurance" process yielded a step reduction in our budgets of \$2.5M/2.1%. We continue to undertake critical reviews of our budgets each year following finalisation of our results to ensure there is preservation of and, where possible, improvement in the budget assurance outcomes.

We are now looking to review our underlying cost trends over the past three years to determine the next steps we will take as we critically review council's cost management practices.

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.

#### **Augmenting local government's existing financial capability with greater focus on partnering with the operations to improve performance**

Until recently the focus of the accounting teams has been on financial accounting, reporting, governance and internal controls. While there has been engagement with the operational business units, conservative budgets have meant detailed focus on actual performance and risk identification, management and mitigation has not been as necessary.

In conjunction with the budget assurance work which resulted in tighter budgets, we have increased engagement of the operational staff with their financial results. This is yielding better overall outcomes as financial awareness has improved, risks and overruns are being identified sooner and therefore able to be mitigated. There is also a greater focus on managing to budget.

#### **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 and the community. This would drive another level of performance again. 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 what the sector has deemed important for its communities. 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?

Stronger compliance in this area may be of benefit as long as it is focussed on the outcomes of asset management and financial planning for the community, and not just checking whether tasks have been completed.

As an example effective tests would be related to what is done to test the impacts of different road rejuvenation treatments on asset life and therefore the financial forecasts of replacement. Checking whether a plan has been produced would not be effective.

Testing whether or not financial sustainability ratios have been optimised, testing the alignment of forecast rate increases against CPI forecasts, and testing historic accuracy of long term financial planning, would all be effective tests. Testing a LTFP exists would not be as effective in driving good community outcomes.

Benchmarking asset performance and LTFP outcomes across councils could be considered in lieu of or addition to greater auditing of asset management and financial planning.

### **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 which is great however, as with budgeting, it may have led to possible over-correction. At present asset forecasts are built into Long Term Financial Plans and tend to be treated as a "given" and a limit to spend to, however there is opportunity to optimise treatments, asset lives and the costs of asset replacement to the significant benefit of the community.

The focus on asset sustainability can also tend to see savings made against planned costs in a given year being used to bring forward investment from future years rather than being returned to the community undermining the efficiency of the asset planning process with assets replaced sooner than necessary.

Capability is being built 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 historically been an issue.

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

The work undertaken on collaborative performance improvement has highlighted the need for greater levels of analytical, commercial and problem solving skills in the councils to help support the drive for performance and identification and delivery of improved community outcomes.

In addition, the degree of change stimulated by the program has also highlighted the need for greater change management and collaboration capability.

These skill sets are prevalent in the private sector but not as much in Local Government due to the different historic drivers in the sectors.

Identifying appropriately skilled candidates when the skill set is new to a council needs to be supported to ensure candidates will bring the required outcomes to the sector and may be something that can be supported more proactively by the sector. Being able to pitch roles to attract the right level of candidate - especially for roles that should ultimately self-fund – has also posed a challenge.

Are these issues unique to individual councils?

We do not see these issues as being unique to individual councils as the skills required across the councils appear to be quite common.

We do however expect 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?

We believe this would assist greatly in pooling resources and to understand and plan for the future.

Approaches that would support diversification of the workforce and would help develop and address some of the needed skills and experience could include:

- Local government marketing to university graduates – career days and events etc
- Sector initiated graduate programs
- An engagement strategy to attract private sector talent

New Zealand appear to have had some success in lifting the sector profile and attracting private sector experience to local government through proactive marketing of the sector as being diverse and dynamic and through engagement of the community the achievements of the sector.

Sector wide change management training would be of value as would access to a central pool of skilled change management resources that could be accessed across councils to support major projects and transformation programs.

### 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?

#### **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.

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**

As we have only reviewed 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.

#### **Resource sharing can be undertaken with minimal adverse disruption to staff**

It should also be noted these opportunities have occurred with minimal impact to existing resources, and in a number of cases have created new local government positions or opportunities for existing team members while also delivering net commercial and service quality benefit to the community.

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 (ie: 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, help 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.

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

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 (ie: 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?
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### **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 sheer will of elective participants or through an imposed incentive of meeting performance targets - then it isn't likely to be consistently adopted across the sector.

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 limit cost effective sharing of equipment and facilities.

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

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### **When the sector 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 however. We have experienced employees declining secondment and employment opportunities due to remuneration being lower than the employing Council.

The simple fact that the sector is made up of over 60 organisations each with their own leadership, cultures and ethos also limits collaboration. Engagement with other councils to encourage collaboration can often 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 sector wide IR arrangements would help collaboration and resource sharing however it is acknowledged this could pose a risk to community value and would need to be managed carefully. An outcome where the sector transitions to the highest pay level, and those who have achieved equilibrium with their teams are disrupted, would counter benefit.

A transition strategy that minimises risk, designed by Human Resource leaders from within the sector and supported by resources from the LGA would be a good place to start. Having this leadership group supported by a sector based EB negotiation team would help support skills and capacity in this area, provide strategic alignment and also support ensuring there is transition to a sector based EB.

IR reform will require legislative support.

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.

To this end, simplification in the process to establish a subsidiary including removing the need for ministerial approval and the ability of the subsidiary to be able to support more than one mandatory or regulated service would improve the ability for councils to more effectively use Regional Subsidiaries.

### 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 a large number of ways to access large scale contracts in the sector and having access to State contracts would support this further**

There are a large number of 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. 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 ie: specific vendors being included on panels due to 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.

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

In addition to sector wide resources, we have recruited a shared Strategic Procurement Leader across Charles Sturt and Marion 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.

### **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?
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#### **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 (ie: 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 Lightsview, St Clair, Tonsley and Blackwood Park all have high levels of amenity relative to the rest of council areas and will attract relatively higher maintenance costs as a result.

#### **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 / playspaces 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

### 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.

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 (ie: call centres, online communication and email).

As an example, reserve mowing could be measured based on mows per reserve per year/week and the number of contacts from the community per year related as a result of dissatisfaction with mowing of a reserve. "Complaints" per ratepayer per annum with respect to mowing could then be a service comparator across councils.

#### **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.

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 recommended a greater understanding of current actual service levels, and the community's relative satisfaction 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.

### 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 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. The fees in many instances are determined and allowed through Government Statute.

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:

- 67% increase in the solid waste levy over two years which is expected to be \$3.4M in 19/20. This original temporary levy is now approximately 2.8% of the total cost base for council.
- Increased Mandatory Rebates reducing revenue as community housing transferred from councils to community housing organisations. These additional rebates for Port Adelaide Enfield in the last 3 years equate to \$2.9M
- Electricity and water costs including public lighting have increased 81% over the 10-year period which is more than \$2.9M.
- Local Government Election costs being borne by councils with election costs increasing between 18/19 round of elections by \$151K or 48% in 4 years.
- Higher than market increases in EBA costs have cost \$1.4M.

Other instances of changes to responsibilities or added requirements include:

- Implementation of DACO 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.
- Imposition of additional planning and development and safety regulations including roof truss legislation and health and safety compliance including the required regime of auditing of food businesses.

In many cases legislated fees have not recovered the costs of the underlying activity (ie: Haynes Norton analysis showed a fee of approximately \$67 per application would have been required to cover councils' costs for roof truss inspections with an equivalent of \$18 being allowed)

- 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.
- Implications of Heritage Law changes resulting in additional costs of reviewing greater numbers of demolitions along with amendment of development plans
- Implementation of the e-Planning portal will result in costs to local government in addressing changes to legislation, implementing the process and change impacts of the new portal as well as providing explicit funding to support its implementation.

### 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?

### 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:

- \$11.2M (>34% over 10 years) increased depreciation flowing on from increased investment in community infrastructure
- Increased superannuation levies will drive an additional \$795k 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:

- 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 SALGGC 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.

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

NSW oversight has largely focussed on financial sustainability rather than efficiency 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 a large number of lessons learned and improvements to be made.

Significant time can be invested with the entire sector 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 would 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

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submissions would help reduce time refining definitions and increase the likelihood of being able to achieve comparable data.

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.

- **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**

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. To map a chart of accounts to activities would take around 1-2 days depending on the size of the council and assuming the person undertaking the mapping understands the activity definitions.

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 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 (ie: 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 taken into account 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

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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.

### **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 (ie: 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:

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

This will facilitate greater insight.

### **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 in 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 (ie: 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.

### 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 preferences

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

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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 a number of benefits from streamlining the current industrial relations arrangements.

As mentioned earlier there are risks to community value if this is not managed carefully and consideration needs to be given to how a transition would be facilitated without significant cost increases to the community and disruption to Councils who have achieved equilibrium. Advantages of streamlined industrial relations arrangements would be:

- Transaction costs would reduce. The negotiation process is extremely resource intensive. We see potential in gaining efficiencies and reducing duplication across the sector through consolidating enterprise bargaining. This may be alternatively achieved through a sector based EB negotiation team who support the transition
- Pressure on councils to move wages to match the highest paying councils 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 at senior levels would be more achievable if we were to progress as a sector rather than individually, positively impacting motivation, accountability, engagement and performance. Again this would need to be managed carefully and over time as supporting a performance based system would require new skills and capability through all levels of the organisations in order to be effective. Time and support would need to be given to the development of this capability to ensure pay for performance delivered outcomes for the community.

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We would support the development of a sector-wide strategy and action on industrial relations reform as an initial and important step towards streamlining current industrial relations arrangements. A transition strategy that minimises risk, designed by Human Resource leaders from within the sector and supported by resources from the LGA would be a good place to start. Having this leadership group supported by a sector based EB negotiation team would help support skills and capacity in this area, provide strategic alignment and also support ensuring there is transition to a sector based EB.

Legislative change may also support the impetus for all parties to act.

### 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.

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, 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.

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

### 8. ATTACHMENT A

#### **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
- 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