

24 October 2019

Dr Matthew Butlin  
Chair and Chief Executive  
South Australian Productivity Commission  
GPO Box 2343  
ADELAIDE SA 5001

Dear Dr Butlin

**Re: Feedback – Inquiry into Local Government Costs and Efficiency**

At its meeting on 8 October 2019, Council resolved as follows;

1. *The Director Corporate Services report titled "Feedback – South Australian Productive Commission Draft Report" be received and noted.*
2. *The feedback contained within this report and Attachment 1 of this report form the basis of a submission from the City of Port Adelaide Enfield to the South Australian Productivity Commission in response to the Inquiry into Local Government Cost and Efficiency Draft Report.*

At the same meeting Council also considered the Local Government Reform proposals and noted that this inquiry would support the focus of reform area two into lower costs and efficiencies.

Efforts of individual councils to lower costs and drive performance are recognised within the report. The recognition of the collaboration between Port Adelaide Enfield, Charles Sturt and Marion Council's and the significant community value this delivers represents an opportunity for the sector to create substantial outcomes for communities.

Many of the recommendations within the report are already being implemented by City of Port Adelaide Enfield through budget assurance, budget reporting, external auditing and the Audit Committee.

We note that the draft report poses many questions and seeks to initiate a series of immediate and long term changes which will provide the sector with opportunities to improve cost and community outcomes through collaborative efforts and shared interests.

To assist us to address our position on the draft report we have adapted the LGA table to include an additional column which includes further details of our feedback. (Refer Attachment).

**Port Adelaide Enfield Council Response**

Council's consideration was sought and is contained in the following attachment, which in summary:

- Provides in principle support for a benchmarking framework.
- Recommends that any approach is first trialled with a small number of councils to determine effectiveness and refinement of the approach before it is rolled out across the sector. It is considered that this will help expedite outcomes for the community.
- Notes that the framework should inform balanced and sustainable performance improvement opportunities that drive improved cost and community outcomes.

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- Performance measures should not only include efficiency measures but consider community priorities and outcomes.
- Appropriate levels of support will be required to assist the sector to capture quality data and undertake meaningful analysis.
- Clearly outlines the impact of cost shifting.
- Advocates for Local Government to be considered as a partner with State Government and that we should be provided with an early seat at table when there are proposed changes which will impact on councils.

We appreciate the opportunity to be involved in this discussion to develop some sector wide performance measures to drive efficiencies and focus on the public good.

If you require further information or would like to discuss this matter, please contact Bree Goodchild, Governance Manager on 8405 6851.

Yours sincerely



Bree Goodchild  
**Governance Manager**



## 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:	LGA Secretariat comments	Council comments
<p>1. Lift the capacity of local councils to identify and address opportunities to reduce their cost base and improve their operations by:</p> <p>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:</p> <ul style="list-style-type: none"> <li>i. Establishing common key performance indicators (KPIs) for inputs, outputs, service standards and financial indicators;</li> <li>ii. Optimising existing information held by the South Australian Government, especially that gathered by the South Australian Local Government Grants Commission;</li> <li>iii. Filling the gaps in the current information;</li> <li>iv. Publishing information in a contextualised form designed to assist individual councils.</li> </ul>	<p>This draft recommendation broadly aligns with the LGA's Local Government Reform Agenda advocacy for a sector-wide benchmarking program.</p>	<p><b>Agree.</b> PAE is supportive of sector wide benchmarking. The framework should inform balanced and sustainable performance improvement opportunities that drive improved cost and community outcomes. Appropriate levels of support will be required to assist the sector to capture quality data and undertake meaningful analysis. It is recommended that any approach is first trialled with a small number of Councils to determine effectiveness and refine the approach before it is rolled out across the sector. This will help expedite outcomes for the community. The proposed Framework should meet the following criteria:</p> <ul style="list-style-type: none"> <li>• <b>Ability to drive Actual Performance Outcomes</b> <ul style="list-style-type: none"> <li>○ Performance is well understood and driven</li> <li>○ Provides actionable recommendations on areas for performance improvement</li> <li>○ Additional performance improvement is likely to be driven year on year on a sustainable basis</li> <li>○ Performance improvement is likely to support sustainable inter-generational service provision</li> <li>○ Performance improvement is optimised</li> <li>○ Encourages sharing of resources across council boundaries</li> <li>○ Performance is driven quickly</li> </ul> </li> <li>• <b>Provides motivation for sector improvement</b> <ul style="list-style-type: none"> <li>○ Drives sector wide improvement in performance</li> <li>○ Positive recognition of sustainable, balanced and responsible decision making</li> </ul> </li> <li>• <b>Supports balanced decision making</b> <ul style="list-style-type: none"> <li>○ Community needs are explicitly considered (ie: community survey data is considered)</li> </ul> </li> </ul>



		<ul style="list-style-type: none"> <li>○ Changes in service levels are acknowledged</li> <li>○ Changes in activity levels acknowledged</li> <li>○ Cost management considered</li> <li>○ Likely to result in active consideration of provision of new services</li> <li>● <b>Scaleable</b> <ul style="list-style-type: none"> <li>○ Low resource effort at Council</li> <li>○ Skills available to all councils</li> </ul> </li> <li>● <b>Integrity</b> <ul style="list-style-type: none"> <li>○ Costs are comprehensive</li> <li>○ Services focussed on represent the majority of most councils costs</li> <li>○ Data presented is comparable</li> <li>○ Data presented is defensible in a substantial manner</li> </ul> </li> <li>● <b>Transparency</b> <ul style="list-style-type: none"> <li>○ Facilitates transparency to community on council costs</li> <li>○ Council to council comparisons enabled easily</li> </ul> </li> <li>● <b>Cost and Benefit of Model</b> <ul style="list-style-type: none"> <li>○ Affordability to councils</li> <li>○ Total cost to industry</li> <li>○ Expected performance across industry</li> </ul> </li> </ul>
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.	This draft recommendation broadly aligns with the LGA's Local Government Reform Agenda advocacy for a sector-wide benchmarking program.	<b>Agree.</b> Clusters should support benchmarking between comparable councils. PAE is supportive of public reporting to facilitate transparency to community on council costs
3. Further lower council costs by addressing aspects of the relationship between the South Australian Government and local government by: <u>In the short term</u> <ol style="list-style-type: none"> <li>Identifying and addressing inefficiency and red tape from the South Australian Government mandated services and other legislated requirements on: <ol style="list-style-type: none"> <li>councils</li> <li>communities.</li> </ol> </li> <li>Adopting a strong South Australian Government review process for any measures affecting local government;</li> <li>Clarifying local government responsibilities, including service standards, for mandated services.</li> </ol>	<p>This draft recommendation broadly aligns with the LGA's advocacy for Local Government to be considered as a partner in Government and that we should be provided with an early seat at table when there are proposed changes which will impact on councils.</p> <p>The LGA is advocating for the following changes to the governance arrangements between state and local government:</p> <ul style="list-style-type: none"> <li>● Update the State/Local Government Relations Agreement to strengthen engagement with local government on changes to legislation, policies and programs that are likely to have a direct financial impact on councils.</li> <li>● Establish service level agreements for the delivery of state services by local government including agreed responsibilities, cost sharing and funding arrangements.</li> </ul>	<b>Agree with LGA comments.</b> A partnership approach between Local and State Government will deliver the best outcomes for communities and maximise rate payer value.



<p><u>In the medium term</u></p> <p>iv. Clarifying the respective responsibilities of the South Australian and local governments to remove unnecessary overlaps, or duplication and reduce uncertainty between governments.</p>	<p>The LGA is advocating for the following changes to the governance arrangements between state and local government:</p> <ul style="list-style-type: none"> <li>• Establish service level agreements for the delivery of state services by local government including agreed responsibilities, cost sharing and funding arrangements</li> <li>• Cease mandating through state laws that local government must perform functions for the state government.</li> </ul>	<p><b>Agree with LGA comments</b></p>
<p><u>In the long term</u></p> <p>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.</p>	<p>The LGA is advocating for the following changes to the governance arrangements between state and local government:</p> <ul style="list-style-type: none"> <li>• Establish service level agreements for the delivery of state services by local government including agreed responsibilities, cost sharing and funding arrangements</li> <li>• Cease mandating through state laws that local government must perform functions for the state government.</li> </ul>	<p><b>Agree with LGA comments</b></p>
<p><b>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:</b></p>	<p><b>LGA Secretariat comments</b></p>	<p><b>Council comments</b></p>
<p>1. As a body, facilitate in depth benchmarking between councils by:</p> <p>i. Establishing a Community of Practice sponsored by the Local Government Association, to share among other elements:</p> <ol style="list-style-type: none"> <li>a) Methods, tools and approaches;</li> <li>b) Skilling of council staff;</li> <li>c) Panel of competent providers; and</li> <li>d) Lessons learned and examples of success.</li> </ol> <p>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;</p> <p>iii. Collectively undertaking a regular sector-wide analysis of efficiency measures.</p>	<p>The local government sector is working consistently to achieve greater efficiency, transparency and accountability.</p> <p>The LGA currently assists members via LGA Education and Training which provides access to relevant training programs and the LGA Members Site which provides a wide range of guidelines, model policies, tools and best practice examples to assist members.</p> <p>The LGA are open to suggestions of improvements that can be made to further assist member councils.</p>	<p>PAE in collaboration with the cities of Charles Sturt and Marion through benchmarking, analysis, and collaboration have achieved greater levels of efficiencies and effectiveness.</p> <p>It should be noted that skills, tools, systems and capacity are not available at all councils to analyse and determine the basis for differences in performance across councils, or the manner in which those performance differences can be addressed. Sourcing those skills can be difficult due to both cost and general accessibility.</p>
<p>2. Prioritise, in any systems upgrades, focus on improving collection, retrieval, analysis and presentation of information for planning, decision making, monitoring and managing performance.</p>	<p>This advice is broadly consistent with the LGA’s Local Government Reform<sup>1</sup> agenda.</p> <p>The LGA’s sensible plan for local government reform identified that to build trust, communities require certainty that councils are delivering the right services at the right cost.</p> <p>A best practice program of services reviews with strong community</p>	<p>Ease of access to data is essential for a benchmarking and performance monitoring.</p> <p>Data standards will also need to be established to facilitate meaningful comparisons and ensure data integrity.</p>

<sup>1</sup> <https://www.lga.sa.gov.au/localgovernmentreform>

	<p>engagement will assist in building community confidence and demonstrating efficiencies. In addition, the proposal for councils to adopt a revenue policy describing what mix of revenue options it proposes to adopt for each of its services and why it has made such choices would increase transparency and accountability.</p> <p>While the legislative framework should set out clear expectations regarding continuous improvement and service efficiency, it should not limit the sector to one prescribed approach.</p>	
<p>3. Enhance the transparency and accountability of their operations by councils:</p> <p>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;</p> <p>ii. Including in their external audits an examination of service reviews and program evaluations; and</p> <p>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.</p>	<p>Any proposed framework should identify opportunities for further improvement, without duplicating existing measures or creating greater uncertainty.</p> <p>For example, the LGA's Financial Sustainability program and the work done by the SALGFMG and the LG External Auditor's committee in increasing standards and ensuring councils use consistent definitions and interpretation of the Australian Accounting Standards have already contributed towards greater transparency and accountability in local government in South Australia.</p> <p>Clarification was sought from the Productivity Commission in the workshop held on 4 September regarding their intent around the draft advice to conduct 'an independent review' (3.i.). They advised that they consider that the decision to conduct an independent review should reflect the materiality of the proposed change and be scalable in line with the extent of the materiality.</p>	<p>Agree with LGA comments.</p> <p>PAE is committed to building community trust through greater levels of transparency and accountability in the expenditure of public funds.</p> <p>This is achieved through</p> <ul style="list-style-type: none"> <li>Publicly reporting on Council's performance</li> <li>Council engages with its community before undertaking material changes to Council services.</li> <li>Service reviews are reported through to Council's Audit Committee for independent review.</li> <li>Community Survey and Community Indicators</li> </ul>



## Chapter 2 – Structure, development and reform

The chapter examines the history, structure and evolution of the local government sector, particularly the legislative and governance environments which affect councils' decisions on the services delivered to their communities. It also considers the influence of the Australian Government on the capacity of councils to deliver services.

Finally, the chapter briefly examines some key local government reforms aimed at either efficiency improvement or cost reduction in other jurisdictions.<sup>2</sup>

### 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.<sup>3</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
How does the untied nature of FAG funding affect council decisions to provide non-mandatory services?	<p>Financial Assistance Grants (FAGs), which are un-tied in the hands of local Councils, are intended to improve Local Government's capacity to provide communities with an equitable level of services and to increase the effectiveness and efficiency of Local Government.</p> <p>The LGA Policy Manual (7.3.6 Untied and Specific Purpose Grants) states: <i>Local government acknowledges that grants from other spheres of government are most beneficial when untied, and available unconditionally for a wide range of purposes. Local government shall continue to welcome grants from federal/state governments and negotiate terms that will most benefit local communities.</i></p> <p>The LGA would not be supportive of any suggestion to 'tie' FAG funding to specific purposes however advice is sought from member councils regarding whether it would be beneficial to have a 'statement of expectations' for any further increases above the current level of FAGs funding which expresses the priorities of the Commonwealth and would allow councils to better articulate back to the Commonwealth how councils activities are assisting in the delivery of those priorities.</p>	<p>The current flexibility within the FAG funding program enables Councils to allocate funds towards local priorities.</p> <p>For budget purposes Council currently anticipate and budget 50% of the FAG distribution being paid by the Federal Government in June in advance of the financial year in which the grant is intended, the remainder being paid in the current financial year. This has been consistent with previous years.</p> <p>The grant enables Council to prioritise local community projects and services, in addition to the capital works program.</p>
How does other Australian Government program or project funding to councils, of a more ad hoc nature, affect council expenditure?	<p>Grant funding, whilst representing an opportunity to leverage funds to carry out projects which may otherwise not be achievable, can actually work against local government's focus on renewal and replacement of existing assets as grant funding is predominately focused on capital 'new' works rather than 'renewal' or 'maintenance'.</p> <p>Often within grant programs there is also a requirement to provide matching funding, plus there are the associated increase in interest costs, maintenance and depreciation following the construction of the asset. These additional costs also apply for assets vested by developers or by other levels of government.</p> <p>Grant funding is also often tied to a particular outcome or function (for</p>	<p>Grant Funding from Federal and State Government is valued by PAE and enables projects to be delivered. PAE submits grant application for projects which are a priority and Council has capacity to deliver.</p> <p>At times grant criteria can be too specific and not support the diversity of projects Council is seeking partnership funding.</p>

<sup>2</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 31)

<sup>3</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 37)



	<p>example – funds must be used on open space or arts/culture projects) these areas may not be the highest priority area within a council's asset management plan however, in order not to miss out on funding opportunities, projects are brought forward or re-prioritised.</p> <p>There may also be examples of some grant programs which are set up with the best intentions but, for various reasons, SA councils have limited access to as they don't fit the current guidelines.</p> <p>For example, the Commonwealth Government will provide \$640 million from 2015-16 to 2022-23, with an on-going commitment of \$85 million each following year to upgrade and replace bridges to enhance access for local communities and facilitate higher productivity vehicle access. However, over the life of the program, South Australia has been awarded 23 projects (out of 511 projects awarded nationally) and received total funding of just \$12 million (out of over \$395 million awarded nationally).</p> <p>The criteria for program and project funding need to be fit for purpose to support council needs, if Commonwealth funding is to support council financial sustainability.</p>	
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## 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.<sup>4</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
<p>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?</p> <p>This may include direct provision of services or contracting the services from private sector providers.</p>	<p>The LGA Secretariat is currently exploring local, national and international business models used by the local government sector to manage commercial operations and explore any current legislative barriers or opportunities that would enable greater innovation and investment in commercial activities, in order to offset the cost of council services for the community.</p> <p>A survey of councils has been completed and a discussion paper is being prepared that will be presented to GAROC for consideration in November 2019.</p>	<p>PAE will await further research into this matter.</p>

<sup>4</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 37)



## 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.<sup>5</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
How have the financial management program reforms affected councils' ability and incentives to manage costs?	The LGA's submission in response to the Commission's Methodology Paper reported the improvement in the financial performance of councils and the Commission noted that, while some councils are recording deficits, the sector as a whole has moved from deficit to surplus.	<p>PAE is supportive and committed to the current financial management controls and measures which include:</p> <ul style="list-style-type: none"> <li>• Financial reporting to Council and Audit Committee</li> <li>• Audit Committee</li> <li>• Internal Audit</li> <li>• External Audit</li> <li>• Financial indicators</li> <li>• Community Consultation on ABPB</li> <li>• Quarterly Budget reviews</li> <li>• Adoption of Long Term Financial Plan</li> </ul> <p>PAE continues to be on the front foot of proactive cost management, having undertaken a budget efficiency project a couple of years ago it resulted in not only significant cost savings, but increased the awareness of more disciplined cost management and that practice has continued today. As a result Council reflected on modest surpluses in its last two years financial reports.</p>
What changes to the type or quality of financial management information would assist councils to improve their decision making and contribute to better performance?	The LGA are open to suggestions of improvements that can be made to further assist member councils.	<p>Council's internal management reporting has been a new initiative over the last 12 months which has improved the level of financial literacy across Council, provided Senior Managers &amp; Executive with tools for better decision making and has provided better performance indicators and KPIs that are now being measured on a regular basis.</p> <p>PAE has also engaged a Business Analyst who has worked across PA, Charles Sturt and Marion to assist in budget assurance and identify opportunities for improved efficiencies.</p>
Is there a need for a stronger external auditing process to increase councils' compliance with their legislated responsibility to produce long-term asset and financial management plans and lift the quality of these plans? If so, what form should it take?	The LGA notes that there is no independent or external body (including the SA Auditor-General) that has adversely commented on the standard of external audits conducted by SA councils. We also note that the Auditor-General does not support the suggestion, in the recent Office of Local Government Discussion Paper on Local Government Reform, that he be given oversight of the external audit	<p><b>Agree with LGA Comments.</b></p> <p>Additionally, the outcomes from sector wide bench marking has the potential to identify where improvements can be made to financial, risk and asset management plans</p>

<sup>5</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 38)

	<p>function of SA councils.</p> <p>The LGA proposes to use a best practice approach to encourage councils to make the best use of their audit committees. Each council is required to establish an Audit Committee to, among other things, review the financial statements of the council, provide advice on council's Strategic Management Plan and Annual Business Plan and review the adequacy of council's internal controls and financial management systems.</p> <p>Many councils have voluntarily expanded the role of their audit committee beyond what is legally required.</p> <p>Each audit committee must have at least one independent member and it is widely acknowledged within the sector that having more than one independent member, including an independent Chair is best practice.</p> <p>The way in which many councils have established their audit committees demonstrates that a heavy-handed legislative response is not always required to achieve positive change within local government.</p>	
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## 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.<sup>6</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
Have councils experienced any issues with attracting and retaining workers or securing workers with specific skills?	<p>Anecdotally, the recruitment and retention of staff can be difficult particularly for regional councils.</p> <p>Drivers may include a lack of qualified individuals locally, remoteness of location, the inability of councils to compete with the private sector and the lack of opportunity for career progression.</p>	<p>Over the past five years there have been only a few positions that have been difficult to attract workers for. The reasons for this can be summarised as:</p> <ul style="list-style-type: none"> <li>• Insufficient numbers of potential applicants in the labour market (particularly for local government specific occupations)</li> <li>• Wage competition from the private sector</li> <li>• The scope of the roles required not adequately reflected in the generic labour market</li> <li>• Possible misconceptions about the sector</li> <li>• Country/regional locations</li> </ul> <p>PAE turnover has been consistently low (between 5% to 7%). Many of the exiting staff seek career/promotional opportunities remaining in the sector. Council salaries may not be competitive with some private sector employers however can offer very</p>

<sup>6</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 40)



		beneficial employment and work conditions which does support retention. We may face further challenges as we require new skill sets in areas such as commercial acumen, business analysis or change management.
Are these issues unique to individual councils?	The LGA will be guided by comments from member councils.	Most aspects of these challenges would be sector wide to different degrees. The State economic context impacts supply and demand in the labour market. How individual issues, or combinations of issues, impact specific councils may vary significantly and could require a range of approaches to address the issues.
Is there value in a sector-wide or region-wide approach to workforce planning and the development of specific skills to support councils?	<p>The LGA currently assists members via LGA Education and Training which provides access to relevant training programs.</p> <p>The LGA are open to suggestions of improvements that can be made to further assist member councils.</p>	<p>There is definite value to the sector in developing cross-council collaborations to meet workforce demands and skills development. Considered collaboration could provide councils with opportunities to share knowledge, skills, and learning from the human resources within the sector. Collaboration provides a much greater scope and capacity than any individual council could possess. Collaboration and capability sharing in the areas of ICT and HR between PAE, CCS and MCC have already expanded the scope of work that can be undertaken within these areas with subsequent benefits in efficiency and costs.</p> <p>Direct collaboration has also opened up development opportunities for staff through secondments between the three councils. In addition, sharing of resources and functions improve levels of specialised services (such as procurement) and have greater negotiating/buying capability to obtain cost efficiencies. Within the local government sector there are numerous sub-grouping (beyond locality based groups, metropolitan vs regional etc) and consideration of how to maximise opportunities for communities via council cooperation/collaboration should be the focus.</p>

## 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.<sup>7</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
What is the potential for additional use of resource sharing to deliver efficiencies and other benefits to participating councils?	The LGA will be guided by comments from member councils.	<p>City of PAE have worked collaboratively with cities of Charles Sturt &amp; Marion to share resources in the following areas:</p> <ul style="list-style-type: none"> <li>Employee Secondments</li> </ul>

<sup>7</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 41)

Proposed Feedback - SA Productivity Commission Inquiry into Local Government Costs and Efficiency

		<ul style="list-style-type: none"> <li>• Creation of Cross Council functions</li> <li>• Joint training and professional development</li> <li>• Collaborative ICT projects</li> <li>• Information/Knowledge sharing</li> <li>• Sharing of Plant &amp; Equipment and specialist operational teams</li> <li>• Joint procurement</li> <li>• Regional approaches to Risk</li> <li>• Regional approach to economic development</li> <li>• Analysis, benchmarking and performance improvement</li> </ul> <p>The above has facilitated greater levels of knowledge transfer, up skilled staff, reduced costs and the ability to afford capability not likely to be afforded on a standalone basis.</p>
In councils' experiences of resource sharing, what works and what does not? Why?	Councils are asked to provide further examples of resource sharing.	<p>PAE's experience has demonstrated effective resource sharing can occur where there is a high degree of shared functionality and where similar outcomes are sought.</p> <p>Successful resource sharing requires executive support, leadership, a genuine commitment to collaboration, effective staff engagement and change management. The Cities of PAE, Charles Sturt and Marion have signed a MOU and developed governance framework to support collaboration efforts and invest significant time in stakeholder engagement to make it work.</p> <p>As the organisations implement more collaborative functions, different EB conditions present some challenges which need to be navigated.</p>
Are there any impediments to the greater uptake of various forms of collaboration or resource sharing?	The LGA will be guided by comments from member councils.	<ul style="list-style-type: none"> <li>• Conflicting priorities for individual Councils</li> <li>• Disparate systems</li> <li>• Industrial matters</li> <li>• Skills in the areas of analysis and collaboration</li> </ul>
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?	<p>The LGA Secretariat is currently exploring local, national and international business models used by the local government sector to manage commercial operations and explore any current legislative barriers or opportunities that would enable greater innovation and investment in commercial activities, in order to offset the cost of council services for the community.</p> <p>A survey of councils has been completed and a discussion paper is being prepared that will be presented to GAROC for consideration in November 2019.</p>	<p>Awaiting the LGA research is important. Simplifying the process of forming a subsidiary would be beneficial</p>



## 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.<sup>8</sup>

### 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.<sup>9</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
What are the main drivers of materials, contracts and other costs for rural small and medium councils?	Drivers may include a lack of suppliers locally, remoteness of location and competition with the private sector. Councils are asked to provide examples.	PAE is a large Council, therefore resources are not as sparse as they may be for a regional Council. Procurement opportunities are highly competitive.  Key cost drivers include: Labour, sourcing strategies (i.e. outsourcing), increased reliance on information technology & suppliers monopoly on the industry, service levels (i.e.: increased irrigation – leading to higher water costs, higher mowing & tree maintenance costs, higher green waste /clippings disposal costs but higher community amenity), external activities undertaken (i.e.: community housing transfers which increase the amount of rate rebates), waste and other state-based levies, external drivers such as energy pricing, investment in water recycling etc.
In what ways do current council procurement practices affect expenditure on materials, contracts and other costs?	The LGA will be guided by comments from member councils.	PAE has not identified any issues with procurement practices.

### 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.<sup>10</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
How does increasing population density and urban infill impact on council service costs?	Growth areas – may require councils to increase service levels and/or introduce additional services, may also speed up consumption of assets.	<ul style="list-style-type: none"> <li>• Increase demand on infrastructure i.e. stormwater</li> <li>• Increased issues with on street car parking requiring additional enforcement/monitoring</li> <li>• Development issues with overlooking, over shadowing</li> <li>• Loss of greenspace and increased urban heat island</li> </ul>

<sup>8</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 47)

<sup>9</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 53)

<sup>10</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 79)

		<p>effect</p> <ul style="list-style-type: none"> <li>• Community complaints</li> <li>• Transfer of infrastructure to Council ownership which has been developed at a higher standard requiring higher maintenance and renewal costs</li> </ul>
<b>3.3: Sector wide service standards</b> <p>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.<sup>11</sup></p>		
The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
How do councils currently define and measure standards of service delivery?	Some councils undertake formal service reviews and/or community surveys to ensure the services they provide are relevant to their communities and are financially sustainable in the long term, a number of known examples of these have been provided to the Commission as part of the LGA's previous submissions.	<p>PAE utilise a range of measures at varying levels including:</p> <ul style="list-style-type: none"> <li>• Customer Service KPIs</li> <li>• Community Indicators</li> <li>• Community feedback</li> <li>• Utilisation rates</li> <li>• Industry standards</li> </ul>
What measures could be developed on a sector wide basis to measure quality standards for either mandated or non-mandated services?	<p>The LGA proposes the development of a best practice guide to undertaking service reviews. Service reviews should consider service levels, unit costs, community demand, community satisfaction, alternative providers and links to financial sustainability. Standardising the approach to measuring and reporting these factors will assist councils and communities to understand the value of the financial and community value of the services delivered.</p> <p>A prescriptive approach to undertaking service reviews must be avoided to ensure that efficiency gains are not eroded by additional red tape and compliance costs.</p>	<p>Measures should consider the following factors:</p> <ul style="list-style-type: none"> <li>• Efficiency</li> <li>• Industry standards (where applicable)</li> <li>• Community satisfaction</li> <li>• Community outcomes</li> <li>• Asset condition</li> <li>• Environmental impacts</li> </ul>

<sup>11</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 80)



### 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.<sup>12</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
To what extent do councils receive external funding or an ability to charge fees for delivery of mandatory services?	<p>South Australian councils receive the lowest total revenue per capita of all mainland states, and this is in part attributed to the significant gap between the fees and charges that can be raised by interstate councils for undertaking regulatory functions such as planning and building assessments and food safety inspections.</p> <p>The LGA continues to advocate, as part of our Local Government Reform agenda, for a comprehensive review of local government fees and charges regulated by the State Government to establish modern price setting principles which promote efficiency, flexibility and fairness in service delivery.</p>	<p>Agree with LGA comments.</p> <p>A review of statutory charges is welcomed by PAE to ensure they better reflect costs of delivering services.</p>
To what extent are councils able to fully recover costs for the mandatory services listed in appendix 4?	<p>The LGA's submission in response to the Commission's Methodology Paper outlined:</p> <p><b>Cost recovery – fees and charges</b></p> <p>The LGA and the South Australian Financial Management Group (FMG) has raised concerns for some years regarding fees and charges that are fixed by State Government Statute. Many of these fees and charges have not been reviewed for many years and there has been concern that the lack of review is leaving councils with a burden of legislated work without being able to charge adequate fees and charges to cover costs.</p> <p><b>Planning and Development</b></p> <p>Councils are covering a large portion the cost of implementing the new e-planning system under the Planning, Development and Infrastructure Act 2016. The fees applicable to councils to support the cost of maintaining the SA Planning Portal are a significant impost for many councils. There are also costs and fees incurred by both professional staff and/or councils under the new accredited professional schemes. Further, there is a significant shortfall in the development and compliance income councils receive from undertaking these functions. Our member councils tell us that their total income is only 29 percent of total costs and that development assessment income only covers 31 percent of their assessment costs.</p>	<p><b>Agree with LGA comments.</b></p>

<sup>12</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 81)

<p>How are service scope and standards determined for mandatory services?</p>	<p>SA councils are required to develop an Annual Business Plan and Budget which outlines amongst other things:</p> <ul style="list-style-type: none"> <li>(i) the council's objectives for the financial year; and</li> <li>(ii) the activities that the council intends to undertake to achieve those objectives; and</li> <li>(iii) the measures (financial and non-financial) that the council intends to use to assess the performance of the council against its objectives over the financial year.</li> </ul>	<p>PAE conducts regular consultation activities with the community and seeks and receives feedback on services daily. This includes an annual community survey Employees as experts and professionals research broadly to ensure the delivery of service meets expectations and is reasonable and balanced in terms of costs..</p>
<p>Councils are asked to provide further information on instances of cost shifting and quantify how they have impacted on councils' costs.</p>	<p>The LGA's previous submissions to the Commission included information on the broad cost shifting areas such as Solid Waste Levy and Community Housing mandatory rebates.</p> <p>The Commission is particularly interested in what this means for individual councils and has asked for further examples of cost shifting along with information on how these have impacted on councils' costs.</p>	<p><b>Local Nuisance and Litter Control Bill</b> - Legislation increase Council responsibilities and has impacted on allocated community safety resources. Over the past three years the number of complaints (excluding litter) has increased each year from 290 in 2016/17 to 821 in 2018/19. This has required approximately 1.8FTE</p> <p><b>2018 Local Government Elections</b> - Additional cost to PAE community with 25% increase on the previous election, with no change or improvement to the process. Council administration also undertook more responsibilities than previous elections. Council were required to provide mandatory funding towards software upgrades for ECSA, with no plan or indication of electronic voting on the horizon. The quality for the election process was not improved as a result of this expenditure. Postal costs are increasing exponentially, and it is vital that an electronic solution is reached. Communities cannot afford another 25% increase in costs.</p> <p><b>Waste Levy</b> - In late June 2019, after Councils annual business plan and budget was completed and community consultation considered, the State Government increased the solid waste levy from \$103/tonne to \$110/tonne until 31<sup>st</sup> December 2019, with another increase to \$140/tonne from 1<sup>st</sup> January 2020. This resulted in an additional cost shift of \$612,700 to Council which required last minute consultation with Elected members, required financial models to be amended and updated, and provided no opportunity to engage in the community before having to be adopted by Council the following week.</p>



### 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.<sup>13</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
Councils are asked to provide further examples of compliance costs and quantify how they have impacted on councils' costs.	<p>The LGA's previous submissions to the Commission included broad information on:</p> <p><b>Local Government Elections</b> - costs of carrying out official duties and arranging advertising for local government elections.</p> <p><b>Nuisance and Litter Control Act</b> - since July 2017, local councils have been responsible for enforcing the Local Nuisance and Litter Control Act. Some councils are indicating they are finding it difficult to keep up with the volume of complaints.</p> <p><b>Implications of changes to heritage system</b> - the changes proposed by the State Planning Commission (SPC) will lead to about 11,000 Contributory Items being unprotected from demolition control. The cost of review of each of these items has been estimated to cost between \$300-500 per item (consultant costs), plus additional internal resourcing in amending development plans.</p> <p>The Commission is particularly interested in what this means for individual councils and has asked for further examples of compliance costs and quantify information on how they have impacted on councils' costs.</p>	Agree with LGA comments.

### 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.<sup>14</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
What are the most significant cost pressures (and their impact on costs) which councils expect to face over the next 5 years?	<p>This may include:</p> <ul style="list-style-type: none"> <li>• industrial relations – staff turnover/competition in labour market</li> <li>• properly accounting for and maintaining important infrastructure</li> <li>• technology advancements</li> <li>• grant timing and reliability</li> <li>• increase in supplier costs</li> <li>• increased number of force majeure events (bushfires, floods)</li> <li>• shift in demographics (causing significant increase/decrease in demand for services/assets)</li> <li>• skills shortage in region</li> <li>• change in economic contributor to region (major redundancy,</li> </ul>	<p>Agree with LGA comments. Additional cost consideration include:</p> <ul style="list-style-type: none"> <li>• Community support and development (limited funding opportunities)</li> <li>• Community transport to support liveability in our region.</li> <li>• Waste Management</li> </ul>

<sup>13</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 82)

<sup>14</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 83)

	<p>industry/market failure in region)</p> <ul style="list-style-type: none"><li>• cost shifting/sharing</li><li>• change to regulations and/or legislation</li><li>• limits on other revenue sources including user pays fees</li><li>• climate change</li><li>• ratepayer expectations</li><li>• red tape.</li></ul>	
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## 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.<sup>15</sup>

This chapter presents the principal methodological approaches used in the Commission's analysis.<sup>16</sup>

### 4.1: Performance reporting

The LGA will be conducting further analysis of this section however councils are directed to pages 90 to 101 of the draft report which discusses the performance monitoring in other jurisdictions.

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.<sup>17</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
How can these lessons from state-wide performance reporting frameworks in other jurisdictions be applied to South Australia?	<p>Consideration should be given to the cost to implement any proposed model and that this doesn't become an additional cost driver that works against local government's efforts to put downward pressure on council rates.</p> <p>Councils should be provided with assistance to implement reporting systems, and care should be taken to limit duplication with any existing data collections (so councils don't have to replicate data with slightly different requirements, time periods and formats).</p>	<p>The proposed Framework should take into account:</p> <ul style="list-style-type: none"> <li>• Ability to drive Actual Performance Outcomes</li> <li>• Provides motivation for sector improvement</li> <li>• Support balanced decision making</li> <li>• Be scaleable</li> <li>• Data Integrity</li> <li>• Lift Transparency</li> <li>• Be Cost effective and deliver community benefit</li> </ul> <p>Councils will require access to the right tools and systems, support in implementing the framework and data analysis</p>
Which indicators used in other jurisdictions would be appropriate for South Australian councils?	<p>Achieving consistent data reporting across 68 councils will be a resource intensive exercise and consideration will need to be given to the items that are reported to ensure that they deliver some strategic, operational and policy benefit.</p> <p>The LGA would welcome suggestions from member councils.</p>	<p>It is recommended the approach used is relatively comprehensive in its data collection to help ensure benchmarks are credible and support the ability to drive the right performance outcomes - however it is recommended the approach is trialled with a smaller number of councils prior to being fully rolled out.</p> <p>An approach could be piloted using a tactical solution across a reference group of larger councils before there is any significant investment in systems and before being rolled out across all 68 councils. This would allow an approach to be tested and refined with lower risk and greater speed to delivery and for the larger councils to support the impost of the development process. It will also allow us to test the ability of the approach to meet the criteria above before</p>

<sup>15</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 86)

<sup>16</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 87)

<sup>17</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 87)



investing heavily in a solution.

## 4.2: Partial productivity estimates

The LGA will be conducting further analysis of this section however Councils are directed to pages 102 to 113 of the draft report which discusses the partial productivity measure estimates for South Australian councils for the selected services areas of Transport, Waste Management, Planning and Library Services.

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.<sup>18</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
What do these partial productivity estimates tell us about local government efficiency?	<p>Technical efficiency is an important element in defining efficiency but this should also be underpinned by the principles of meeting community needs or desires (which may include a request for increased service levels), achievement against strategic management plans, achieving increased/enhanced community/social outcomes and sound asset management practices (where higher quality costs may be deemed to be relatively less technically efficient but are optimising asset lifecycle costs or performance).</p> <p>A true estimation of local government efficiency should consider additional indicators at an individual council level such as the existing Financial Indicators, community satisfaction survey results and an assessment of achievements against Annual Business Plans.</p>	<p>Agree with LGA comments. Additionally:</p> <ul style="list-style-type: none"> <li>The metrics used should be comprehensive and account for all activities and costs of council. This helps ensure metrics are comparable and defensible.</li> <li>Financial indicators should be accompanied by activity drivers to a level to help allow for volume adjusted comparisons – and where possible composition adjusted comparisons.</li> </ul> <p>The findings of the analysis conducted by the commission to date indicate what we find with our high level benchmarks between councils. While high level analysis is good for 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.</p>
What other partial productivity estimates can be used with currently available data?	The LGA will be guided by comments from member councils.	Any additional productivity estimates need to follow the principles detailed above
What additional data would councils be able to report on for minimal additional cost which would improve our understanding of council efficiency?	The LGA will be guided by comments from member councils.	Further analysis is required before we are able to comment.
Is there any other evidence of an expansion in the scope of council services, or improvement in quality over this time period?	The LGA will be guided by comments from member councils.	Further analysis is required before we are able to comment.
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?	The LGA will be guided by comments from member councils.	Councils already provide information to the Grants Commission annually and expanding the requirement makes sense, rather than repeating the process. Longer term there may be value in streamlining the process around submission and compilation of data. Quality control of data is also required to ensure integrity.

<sup>18</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 87)



### 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.<sup>19</sup>

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.<sup>20</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
Acknowledging the gaps in data currently available, how can data quality be improved in order to measure service-specific efficiency across councils?	<p>The LGA recognises the need for a sector-led performance management system, with a primary aim of providing reliable data with which councils can make informed decision.</p> <p>Much of the data is already collected by councils and stored on their corporate IT systems. Optimally, a central system would automatically extract the required data from the 68 councils, collate, analyse and present it in a meaningful manner. In doing so, such a system could increase council efficiency and reduce the considerable time currently devoted to collection, analysis and reporting of data.</p> <p>A performance measurement system with subsequent analysis of information would lead to a more efficient local government sector and, hence, a more productive state. As such there is a case for state government financial support for the scoping and then creation (but not ongoing costs) of such a system.</p>	<p>Data standards and subsequent analysis of data will need to be established to ensure integrity and usability of comparisons.</p> <p>Australian and overseas experience has demonstrated that measurement alone is not enough. In addition such a system and process would need to be supported by :</p> <ul style="list-style-type: none"> <li>• incentives to drive performance improvement such as independent recognition,</li> <li>• wide communication and engagement with the community on performance outcomes</li> <li>• capability development within the sector to enable use of analysis outcomes to implement performance improvement with the council organisations.</li> </ul> <p>In order to realise actual sector wide performance improvement</p>

### 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.<sup>21</sup>

Data issues have also prevented the Commission from quantifying any expansion in the scope of services provided by councils.<sup>22</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
How can the change in volume, scope or quality of services be quantified or otherwise incorporated into an evaluation of local government efficiency?	To build trust, communities require certainty that councils are delivering the right services at the right cost. A best practice program of services reviews with strong community engagement will assist in building community confidence and demonstrating efficiencies.	Measures need to demonstrate community value.

<sup>19</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 103) <sup>20</sup>  
 South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 120) <sup>21</sup>  
 South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 121)

<sup>22</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 122)



	<p>Councils already undertake regular reviews of key services to ensure they are meeting community needs, being delivered in an efficient manner and not impacting on the long-term financial sustainability of the council. Sometimes difficult and unpopular decisions need to be made about reducing or consolidating services for the sake of greater efficiency and sustainability. It is important that these decisions about the range and level of local services provided remain in the hands of councils and their communities.</p> <p>The LGA proposes to develop a best practice guide to undertaking service reviews. Service reviews should consider service levels, unit costs, community demand, community satisfaction, alternative providers and links to financial sustainability. A sector-led consistent approach to measuring and reporting these factors will assist councils and communities to understand the value of the financial and community value of the services delivered.</p>	
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#### 4.5: Factors that influence estimated council efficiency

Council performance may be influenced by factors outside their control, including socio-economic and demographic characteristics of council areas, their geographic location, and operating and policy environments, as discussed in Chapter 3. Submissions from stakeholders also noted factors such as growth areas, ageing populations, labour market shocks (for example, large scale redundancies such as the closure of automotive manufacturers) and thin markets (LGASA submission, p.32).<sup>23</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
What other factors can explain the estimated efficiency differences between councils or over time?	<p>Some of these noted in the consultation process, including submissions, are outlined below<sup>24</sup>:</p> <ul style="list-style-type: none"> <li>• multiple towns/service delivery centres</li> <li>• climatic factors</li> <li>• soil types</li> <li>• topographic differences</li> <li>• coastal versus inland setting</li> <li>• tourism</li> <li>• quality of services.</li> </ul>	<p>Agree with LGA Comments. Communities needs and desires vary significantly even within one Council let alone across Council borders and define service standards and costs.</p> <p>This demonstrates the importance of the analysis aspect of benchmarking and there being a deep and consistent understanding of the data provided across councils to ensure that realistic, informed and fair comparisons are made.</p>
What factors can explain the estimated productivity differences between councils over time?	As above.	As above. Access to a variety of revenue sources has a significant impact also
What other possible data sources can improve this analysis?	The LGA is conducting further research on other data sources however suggestions from member councils is welcomed.	As per comments throughout response
What further information could be considered to analyse and interpret estimated partial and global efficiency scores?		As per comments throughout response

<sup>23</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 122)

<sup>24</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 124)



## 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.<sup>25</sup>

### 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.<sup>26</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
Are there any benefits from streamlining the current industrial relations arrangements by moving to sector-wide enterprise bargaining?	<p>The LGA has started looking at opportunities to streamline processes within local government through an industry-wide industrial relations framework which enables a culture of meaningful, open and respectful engagement between employees, management and unions.</p> <p>Our work to date demonstrates there is an opportunity to align the sector workforce through a modernised industrial relations framework. An aligned workforce will provide individual councils with continued success and simultaneously deliver wellbeing to employees through shared values and commitments; support individual council's strategic and business plans; secure a multi-skilled and engaged workforce; foster flexibility and continuous improvement in the local government sector; enhance productivity and significantly reduce duplicated costs and effort.</p>	<p>PAE are in support of streamlining current IR arrangements however sector wide bargaining may not be an appropriate way to achieve this. Certainly there could be advantages in clusters of 'similar' councils collaborating in enterprise bargaining. Progress could also be made towards streamlining by updating the South Australian Municipal Salaried Officers Award to provide a better standardised set of conditions and entitlements which could then be used as a more appropriate base for all councils to incorporate into specific Agreements. In the context of the diversity of workplace cultures, and conditions consideration should be given to a staged alignment of these factors to best facilitate a successful implementation and achieve the streamlining current IR arrangements.</p>

### 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.<sup>27</sup>

The Commission is seeking information and views on:	LGA Secretariat comments	Council comments
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?	<p>The LGA would welcome a local government-led Local Government Efficiency Program, which would:</p> <ul style="list-style-type: none"> <li>capture and report on local government performance measurement data in a consistent way</li> <li>enhance integration of Asset Management Plans, Long Term Financial Plans and</li> </ul>	See comments in section 1

<sup>25</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 128)

<sup>26</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 128)

<sup>27</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 133)



	<p>Strategic Management Plans</p> <ul style="list-style-type: none"> <li>• be based on a maturity model - that helps councils assess their current effectiveness and identifies the capabilities that are needed in order to improve their performance.</li> </ul> <p>The LGA are open to suggestions of improvements that can be made to further assist member councils.</p>	
<b>5.3: Strengthening councils' accountability and transparency</b> <p>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.<sup>28</sup></p>		
<b>The Commission is seeking information and views on:</b>	<b>LGA Secretariat comments</b>	<b>Council comments</b>
<p>How can the South Australian Government strengthen the accountability and transparency of councils? Possible instruments include:</p> <ul style="list-style-type: none"> <li>• funding;</li> <li>• legislation and monitoring of implementation through audits of the processes of local government decision making; and</li> <li>• an agreement with councils and regular dialogue to reinforce the expectation that councils will conduct audits of the processes of local government decision making.</li> </ul>	<p>The LGA would welcome a local government-led Local Government Efficiency Program, which would:</p> <ul style="list-style-type: none"> <li>• capture and report on local government performance measurement data in a consistent way</li> <li>• enhance integration of Asset Management Plans, Long Term Financial Plans and Strategic Management Plans</li> <li>• be based on a maturity model - that helps councils assess their current effectiveness and identifies the capabilities that are needed in order to improve their performance.</li> </ul> <p>The LGA are open to suggestions of improvements that can be made to further assist member councils.</p>	See comments in section 1
<p>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?</p>	<p>A heavy-handed legislative response is not always required to achieve positive change within local government, the LGA proposes to use a best practice approach to encourage councils to make the best use of their audit committees. Consideration should be given to the cost to implement any proposed model and that this doesn't become an additional cost driver that works against local government's efforts to put downward pressure on council rates.</p>	Agree with LGA comments
<p>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?</p>	<p>Current legislation requires councils to publicly report broadly on where their revenue comes from. However, councils are not required to adopt a revenue policy describing what mix, of this suite of revenue options, it proposes to adopt for each of its services and why it has made such choices. A revenue policy would create a single point of reference to enable the community to understand how a council proposes to pay for the services it chooses to deliver over a period of time, taking into account rates, grants, fees and charges and commercial activities.</p>	Agree with LGA comments

<sup>28</sup> South Australian Productivity Commission Draft Report – Inquiry into Local Government Costs and Efficiency (page 138)