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Contact Officer: Chief Executive Officer, Kiki Magro

Telephone: (08) 8342 7100

Facsimile: (08) 8269 7820

Email: walkerville@walkerville.sa.gov.au

www.walkerville.sa.gov.au

21 June 2019

Dr Matthew Butlin
South Australian Productivity Commission
GPO Box 2343
ADELAIDE SA 5000

via email: sapc@sa.gov.au

Dear Dr Butlin,

Re: Submission - Inquiry into Local Government Costs & Efficiency

Please accept this submission, made on behalf of the Town of Walkerville in response to the Commission's *Methodology Paper: Inquiry into Local Government Cost and Efficiency*.

Council considered the methodology paper at its ordinary meeting held on Monday 17 June 2019. Due to the limited time provided (received request to provide feedback on 3 June 2019) we have been unable to undertake a thorough review and respond to the 24 questions posed in the paper.

Council subsequently resolved to provide a general response to the Commission's inquiry into local government costs and efficiency. Accordingly, please find Council's submission below.

1. The Town of Walkerville is a unique Council in South Australia. It is the smallest Council within the metropolitan area of Adelaide and covers an area of 3.5 square kilometres with a population of approximately 8,000.
2. Being a small Council, we have the advantage of a lower ratio of community members to their representatives, the elected members.
3. Analysing performance is important to ensure that the community is getting 'value for money'.
4. Local government is not a homogenous sector. Differences exist between and within metropolitan Councils and rural / regional Councils, which can be further differentiated into a group of peri-urban Councils. Differences between Councils are also reflected by the needs and aspirations of their respective communities. Any system that uses 'relative efficiency' comparisons therefore needs to take such differences into account, to ensure that individuals and communities are not disadvantaged. These differences can be characterized as follows:
 - ability to raise revenue
 - size of municipalities
 - different infrastructure needs
 - ability to provide services
5. Council supports the use of 'relative efficiency' comparisons, within defined parameters and recognising the differences (as listed above) that exist within the local government sector.

Given Council's unique size and positioning as an urban, developed, fringe Council we suggest that Walkerville be 'measured / compared' on two fronts. Firstly, with other UDS (urban, metropolitan developed, small) for its urban characteristic and secondly, with RSG (rural, significant growth) for its annual population growth and size.

6. In reviewing Council costs and efficiency, it is equally important to recognise and understand the distinction between core and non-core services. Local government is required to provide a number of services under legislation (core services). Local government also provides services without a statutory, regulatory or legal requirement (non-core). The value that communities place on non-core services is considered substantial and needs to be factored into any analysis framework. It is likely that non-core services will be reduced or removed if the primary objective of the inquiry is to seek cost reductions.
7. Whilst Councils have an income guaranteed by legislation (rates), it is important to also recognise that there are Councils who are dependent on grant funding. This is vital in the context of sustainability and efficiencies. Walkerville Council does not rely on grant funding to assist in the delivery of its core services. Operational grants and contributions account for only 3.5% of Council's revenue (pre-capital).
8. In February 2015, Council resolved to undertake a benchmark exercise, fashioned on the Victorian Government Performance Reporting Framework introduced in 2014. The first benchmark report prepared for Council was in September 2016, followed by a revised report in June 2018 and again in February 2019. Council is expecting the latest iteration of its benchmark report at or about November 2019. Council supports mandatory benchmarking within an agreed framework.
9. Council notes the similarities with the Commission's scope of work to that of the Victorian Performance Reporting Framework, which is supported.
10. Council supports a framework that would improve local government services and be better informed to make decisions that ensure an effective efficient and sustainable system of local government.
11. Whilst SA does not have the same reporting framework in place, information is reported to the South Australian Local Government Grants Commission by each Council annually. We note that the Commission is proposing to use the Grant Commission reporting data as part of its analysis. This is supported by Council.
12. Councils provide considerable information on their websites and in their Annual Reports. It is recommended that the Commission access relevant data and information from these sources as well, in order to facilitate meaningful comparisons, given the Commission's intention to use measures of 'relative efficiency'.
13. Council recognises that there are inherent limitations in benchmarking activities and benchmarking results should be considered only as an indicator, which can highlight areas requiring further investigation.
14. Council supports comparative data averaged over a number of years in order to give a better understanding of the Councils data and recommends that said data is averaged over a 4-5 year term in line with term of a Council.
15. Council has used and continues to support the following four key areas (Premier & Cabinet, Division of Local Government, NSW Government, 2013) that gauge the overall health of Councils, how they are managing their resources and delivering services that achieve community outcomes:
 - Financial Performance – Council's ability to meet the needs of a local community now and into the future.
 - Asset Management – balancing need with available funds to make the best use of public resources.

- Governance / Community Leadership – strong governance frameworks.
- Service Delivery – agreed levels of service.

16. In 2018, following public consultation, Council adopted its first '[Financial guiding principles for Council](#)'. Council supports mandating similar guidelines across the local government sector.

- The principles provide direction and context for decision making that guides the allocation, management and use of its financial resources.
- They ensure the Council remains financially sustainable while giving focus to financing key priorities through strong financial management.
- They serve as the catalyst for improving efficiency, continuous improvement initiatives and releasing resources to improve frontline services to deliver and meet community expectations.
- They set out clearly defined parameters within which Council agrees to operate in order to maintain accepted financial outcomes and defined as measures that enable:
 - stability
 - affordability
 - efficiency (i.e. value for money).

17. Undertaking a review of the terms of reference of Audit Committees of Council, may assist in entrenching an 'affordability' and 'value for money' mantra.

18. Councils deliver annual budgets, mid-year reviews, 10 year long term financial plans, 10 year asset management plans and report on annual financial results. These ensure that existing assets are maintained at a desired condition level. If funding is not sufficiently allocated to asset renewal then investment in those assets will be reduced along with the capacity to deliver services to the community. Hence any analysis should include the three specific financial indicators set out in the Local Government (Financial Management) Regulations 2011:

- an operating surplus ratio
- a net financial liabilities ratio, and
- an asset sustainability ratio.

19. Council is of the view that the inquiry into costs and efficiencies should also address the use of debt. Council believes that debt funding should only be used to fund capital expenditure and the term of any debt should not exceed the life of the asset. Council believes that debt is a financing mechanism not a funding mechanism and therefore should not be adversely treated in any analysis / comparison framework.

20. It would be remiss not to reference the recent release of the State Budget and specifically what appears to be the 'punitive' increase to the solid waste levy, which was delivered well after Councils across SA had already developed their draft 2019/20 budget and consulted with their respective communities. These type of costs are well and truly outside of the control of Councils. How does the Commission plan to address the injustice of the Governments egregious exploit of local government when the sector has been widely criticised in relation to rate increases and within the current review of Council 'costs and efficiencies'?

21. As a small Council we have been challenged and have adapted on a daily basis to achieve cost efficiencies. We continue to review and outsource services (which include shared service arrangements) that deliver value for money without compromising community's expectations. Understanding both the incremental and full cost of service delivery is vital to making decisions on what is the most cost-effective method of service-delivery. Council believes that it is critical to use a consistent approach to analyse the available service delivery options. For example:

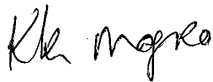
- What will the costs to supervise a contractor be compared to supervision of in-house service delivery?
- What additional costs will be incurred in switching to external service delivery – staff redundancies, early disposal of plant etc.?
- In the short-term, what costs will not be avoided, e.g. staff not redeployed?
- Are there implications for overhead allocation for other services?
- If external service delivery proves unsatisfactory will there be the capacity (skills, re-acquisition of plant etc.) to return to in-house service delivery?
- Opportunity costs – e.g. cost of capital?

Finally, it is Council's view that the period of review should be extended, given the significance of the task at hand and the technical complexities that sit around 'efficiency measures'. This submission was put together very quickly to meet the time frames presented. Had we have been provided with an extra 1 month, our submission would have been able to specifically address the 24 questions posed in the methodology paper.

On behalf of Council, we welcomed the opportunity to provide feedback on the methodology paper and look forward to receiving the draft report in due course.

I invite you to contact me at kmagro@walkerville.sa.gov.au should you have any questions or seek further explanation in relation to this submission.

Yours sincerely



Kiki Magro
Chief Executive Officer