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Dr Matthew Butlin
Presiding Commissioner
Local Government Inquiry
South Australian Productivity Commission
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Dear Mr Butlin

Submission – Methodology Paper- Inquiry into Local Government Costs and Efficiency

Please find below Campbelltown City Council's responses to the questions included in the Methodology Paper regarding the Inquiry into Local Government Costs and Efficiency. Please note that due to time restrictions, these responses have not been considered by Campbelltown's Elected Members, but have been developed by Staff.

Approach to comparative analysis

3.1 Is the Australian Classification of Local Governments an appropriate way to group similar councils for comparison? Is there a better approach?

While these classifications appear reasonable at a global level, further consideration should be made to further categorise metropolitan Councils due to the differing sizes from a geographical, population and financial perspective. This split may assist in highlighting certain factors that are influencing certain groups of Councils.

3.2 Is the proposed ten-year timeframe to analyse costs and efficiency appropriate?

The proposed timeframe of 10 years appears reasonable and would appropriately highlight a range of factors that have significantly influenced Council's costs and income generating ability over this time.

3.3 Are there any other sources of data that would help the Commission?

Campbelltown is not aware of any other sources of data that would assist the Commission.

Analysing council costs

4.1 What are the key determinants or drivers of council costs and how have councils' costs changed over time?

There are a number of determinants that influenced Council's costs over the last 10 years; most notably cost shifting by other tiers of Government. This includes both from an expenditure and income perspective. Examples of additional financial pressures assigned to Councils include:

- Solid Waste Levy – the per tonne rate has increased from approximately \$23.40 to \$100, which represents an increase of 327%, or an increase in costs of \$766,000 between 2008/2009 and 2017/2018. This is in addition to the extra 40% increase that was recently added between 1 July 2018 and 1 January 2020.
- Mandatory Rate Rebates – mandatory rate rebates for Campbelltown have increased by \$440,500 over the 10 year period, representing an index increase of 328. This increase has been influenced by the transfer of SA Housing stock to Community Housing Associations which attracts a mandatory rate rebate of 75%. This has resulted in all Campbelltown ratepayers subsidising these properties for no increase in services provided.

This cost would have previously been paid for by the State Government and therefore funded by all South Australians. This change has resulted in ratepayers making this contribution, with the amount paid dependent on the number of community housing association properties located within the respective Council areas

- Statutory Fees & Charges – fees of this nature (development application fees, parking fines, etc) are set by the State Government. For a number of years, a whole range of fees were not indexed, with some continuing to not cover the cost of the service being provided by Council. This has resulted in ratepayers having to subsidise these services due to the limitation in the amount of income able to be charged.
- Grants Commission Funding – Grants Commission grants were frozen from 2014/2015 to 2016/2017 resulting in a loss of income in real terms, while the Supplementary Road funding provided to South Australian was removed completely during the same time period.

It is pleasing to note that commitment has been made to provide funding for the Supplementary Local Road funding for the next two years. It is hope that this funding continues beyond this time and well into the future.

In addition to these factors, the Campbelltown community have increased their expectations in regards to the level of services provided, including the provision of new services. Costs from suppliers have also played in significant role in cost pressures experienced by Council, such as increases in utility costs and contractor rates.

At a high level, the following table highlights the changes in Campbelltown's operating income and expenditure over the period proposed for this review (excluding capital income received from renewal and replacement works):

	2008/2009 Actual	2017/2018 Actual	Movement	Index
Income				
Rates	(21,805,556)	(36,263,926)	14,458,370	166.31
Statutory Charges	(652,861)	(1,171,918)	519,057	179.51
User Charges	(661,200)	(5,618,374)	4,957,174	849.72
Grants, Subsidies & Contributions	(2,397,184)	(2,917,869)	520,685	121.72
Investment Income	(256,070)	(377,725)	121,656	147.51
Reimbursements	(148,711)	(1,400,666)	1,251,955	941.87
Other Revenues	(353,438)	(815,910)	462,471	230.85
Net Gain-Joint Venture & Associates	(22,594)	(33,488)	10,894	148.22
Total Income	(26,297,613)	(48,599,876)	22,302,263	184.81
Expense				
Employee Costs	7,671,997	12,560,235	4,888,238	163.72
Materials, Contracts & Other Expenses	13,229,740	20,618,968	7,389,228	155.85
Finance Costs	45,278	17,790	(27,488)	39.29
Depreciation, Amortisation & Impairment	7,359,817	11,051,745	3,691,928	150.16
Net Loss-Joint Ventures & Associates	91,265	55,511	(35,754)	60.82
Total Expense	28,398,097	44,304,248	15,906,151	156.01
OPERATING SURPLUS/(DEFICIT)	(2,100,484)	4,295,628	6,396,112	-204.51

Prior to and around 2008/2009 Campbelltown was consistently recording operating deficits, resulting in ratepayers of the time not making a fair contribution towards the services provided. Council established, through its LTFP a planned approach towards achieving operating surpluses and financial sustainability, in accordance with the recommendations coming of the Financial Sustainability Program conducted by the LGA in 2005 (<https://www.lga.sa.gov.au/page.aspx?u=6582>).

To help achieve these targets, Campbelltown commenced with annual rate increases of 4.95% plus growth, leading to the current day plan (and 2019/2020 budget) where rate increases are linked to LGPI (Local Government Price Index) plus growth.

This approach has assisted Council maintain operating surplus while also set it on a course to fund future asset renewals without significant, but short term spikes in rate increase.

4.2 *What is the best approach to defining and measuring costs for comparisons across councils or through time?*

Campbelltown are not aware of any extra data other than that produced by the Grants Commission that is not already being produced that can measure and define costs. As this data is already being produced, this would be the most efficient way to source information, noting that the ability for Councils to provide commentary to supplement the outputs generated would also be an important factor to include.

4.3 *What is the most appropriate measure of capital expenditure?*

Campbelltown believe it is important to highlight the level of capital expenditure and specifically, the split between new and renewal and replacement works. These capital costs in turn influence the level of depreciation charged on an annual basis, as well on ongoing maintenance costs.

The provision of grants to fund capital works can provide a false narrative in regards to the future financial implications of Councils. Subsequent to construction, Council would be responsible for the full depreciation and maintenance costs, which adversely impacts on Council's operating result and future renewal works, as well as future rate increases.

A summary of funding sources for capital works may also provide some greater understanding in how capital projects are funded along with the future financial liability of Councils.

4.4 *What measures of council service quality are available?*

Campbelltown uses its community satisfaction surveys to help measure the quality of Council provided services. The following link provides outcomes of the most recent survey undertaken in 2017:

<https://www.campbelltown.sa.gov.au/webdata/resources/files/Community%20Satisfaction%20Survey%202017%20-%20Outcomes.pdf>

How to estimate local government efficiency

5.1 *What is the experience of South Australian councils in measuring and monitoring efficiency?*

Campbelltown uses its LTFP, Annual Business Plan and Budget, Budget Reviews and Annual Financial Statements as well as their key financial targets to help monitor and measure efficiency, albeit at a high level.

Campbelltown has not undertaken formal service reviews that articulate the levels of services provided to the community due to the resources required to do this. Internally, efficiency has been focussed on and has been achieved over the years, however a formal register has not been maintained to identify improvements or savings have come from.

In the past, Campbelltown has engaged consultants to undertake Economy and Efficiency reviews. These reviews have compared various activities and datasets across other metropolitan Councils in South Australia.

The following links provide the content of these reviews as well as the data that was reported on:

- May 2015 - <https://www.campbelltown.sa.gov.au/webdata/resources/files/Efficiency%20and%20Economy%20Review%20-%20May%202015.pdf>
- December 2017 - <https://www.campbelltown.sa.gov.au/webdata/resources/files/Efficiency%20and%20Comparative%20Review%20-%20Council%2015%20December%202017.pdf>

5.2 *Are there any examples of efficiency monitoring programs in other jurisdictions?*

Campbelltown are not aware of any efficiency monitoring programs in other jurisdictions.

5.3 *Have these efficiency monitoring programs resulted in improved council efficiency?*

While not having any formal efficiency monitoring programs, examples of Council related efficiency in recent times include:

- shared service arrangements with other Councils and service providers

- member of subsidiaries, such as East Waste, Eastern Health Authority and Waste Care
- working with the Eastern Region Alliance.

Council has also been part of various LGA initiatives including its Financial Sustainability Program and the Continuous Improvement Program.

5.4 *Is there value in estimating service-specific efficiency of councils?*

The risk with these types of comparisons is that the areas being compared may not be a focus of all Councils. Establishing comparisons of this nature may place an expectation on perceived low performing Councils to improve in this area, meaning that other services may need to be reduced or further rate increases required to fund the extra services.

Greater benefit to individual Councils would be to compare each Council's own performance over time.

Should comparisons be made, the ability to provide commentary for context purposes would be important, as some Council may have distinct differences with other Councils such as different levels of service provided to their communities and additional costs to deliver services due to distance.

Any data to be used should be considered in light of the overheads, resourcing and administrative costs in gathering, recording and reporting this information.

5.5 *What services are most appropriate to estimate council efficiency?*

The categories contained in the Grants Commission database reports are appropriate at this point in time until better reporting processes are identified. The difficulty with determining service efficiency in this manner is that it relies on Councils capturing and reporting the data in the same manner.

For example, one Council may classify a cost as recreation, whereas another Council may choose another classification for the same type of expenditure.

This process may also not identify hidden efficiencies contained within the data. For example, one Council may be more efficient than another Council, however provides the same service at a higher level, thereby negating this efficiency when comparisons are made.

5.6 *How do councils monitor their efficiency over time?*

As referenced in Item 5.1, Campbelltown uses its LTFFP, Annual Business Plan and Budget, Budget Reviews and Annual Financial Statements as well as Council's key financial targets to help monitor efficiency, along with Economy and Efficiency reviews.

It has not undertaken formal service reviews at this time, however Council does aim to improve processes and efficiency on a day to day basis.

5.7 *Are there any examples or case studies of councils benchmarking their costs and efficiency against other councils?*

Please refer to Item 5.1 for links to Council's Economy and Efficiency reviews that have been undertaken in the past. The data from the Grants Commission also provides the

ability to benchmark, while some Councils participate in the LG Professionals Business Excellence Framework.

Campbelltown elected not to be part of this program due to the high cost of participation.

Understanding factors that influence efficiency of councils

6.1 Are the factors used in previous studies likely to influence local government efficiency in South Australia?

Cost shifting and legislation changes impact on Council's efficiencies, along with community demands. Over the years ratepayers have expected an improved level or expansion of services, while also wanting to keep rate increases low.

Examples include mandatory rate rebates, which are outside of the Council's control whereby there is an increase in cost to the ratepayer without any improvement or expansion of services.

6.2 Are there any additional factors that could affect the costs and efficiency of South Australian councils?

Cost shifting and legislation changes impact on Council's efficiencies, along with community demands. Over the years ratepayers have expected an improved level or expansion of services, while also wanting to keep rate increases low.

Examples include mandatory rate rebates, which are outside of the Council's control whereby there is an increase in cost to the ratepayer without any improvement or expansion of services.

Costs associated with capturing data for reporting purposes is also a hidden cost that would require additional resources or the removal or reduction in existing services.

6.3 *What are the key internal and external factors that have impacted councils estimated efficiency over the last ten years?*

Factors that have influenced Campbelltown's efficiency over the past ten years includes, but is not limited to:

- Council's adopted key financial targets, including maintaining an operating surplus
- Council/political decisions on services and projects provided
- Cost shifting from other tiers of government, including Solid Waste Levy, Community Housing Association rebates, NRM Levy and reduction in government grants
- Staff development and training
- Infrastructure Asset Management Plans
- Long Term Financial Plans
- Budgets and Budget Reviews
- technology improvements
- increased number of force majeure events (bushfires, floods)
- shift in ratepayer and resident demand for services
- changes in Strategic Plan focus
- change to Regulations and Legislation
- restrictions in increases in statutory charges not recovering cost of services provided

- changes to services offered to Council, such as the China Sword.

6.4 *What are the key internal and external factors which councils expect to impact their efficiency going forward?*

Campbelltown would expect the items listed in Item 6.3 are likely to also impact on Council's efficiency in the future.

The changing demographics of the local area will also play a significant part to play in the demand for services, along with the efficiency relating to the introduction of new services. Campbelltown has noted that its population is aging, so demands for services for this age profile are likely to increase in future years.

6.5 *What decision-making processes do councils use to determine the scope of services they provide and how these services are provided?*

Council's Strategic Plan provides a high level overview of its service focus in the medium to long term. The Annual Business Plan and Budget articulates the services and projects that Council plan to provide in the following financial year.

These two documents are adopted by Council following extensive review by Council and Staff and consultation with the community. Any feedback from the community is provided to Council to assist them in making an informed decision.

Options for improved council performance

7.1 *What are councils' experiences with recent reforms in policy, governance and management?*

Campbelltown has supported reforms made in the past and has taken these opportunities to improve efficiency and reduce costs.

7.2 *What actions/reforms have councils initiated to improve efficiency or reduce costs?*

Please refer to Item 5.3 above for examples that Campbelltown have initiated to improve efficiency and reduce costs. In addition to this list, Council continues to review costs and processes in its day to day operations to increase efficiency and reduce costs.

7.3 *What reforms in other jurisdictions successfully resulted in improved council efficiency?*

Campbelltown are not aware of any other jurisdictions where reforms have improved Council efficiency.

7.4 *How can financial accountability in the local government sector be enhanced?*

The Local Government sector has undertaken an extensive amount of work and self-regulation over a number of years to demonstrate its financial accountability, which are used by all Councils in South Australia. This includes but is not restricted to:

- development of Long Term Financial Plans
- development of key financial targets/indicators
- Annual Business Plans and Budgets that are subject to extensive community consultation

- Budget Reviews (presented to Council at least 3 times in a financial year)
- Audited Annual Financial Statements
- reporting on audited actual results with the adopted budget for the same financial year
- review, reporting and audit of internal financial controls
- development of Infrastructure Asset Management Plan
- development of Strategic Plans.

It is fair to say that the third tier of Government is the most transparent in its operations, despite representing only 4% of total taxes raised in South Australia.

7.5 Are there examples of actions initiated by councils to increase efficiency? What has worked and what has not worked?

Please refer to Item 5.3 above for examples that Council has initiated in the past, with some still continuing to this day.

Campbelltown appreciates the opportunity to provide a submission to the Productivity Commission on a topic that affects this Council. Staff would be willing to provide additional information or meet with representatives should the Commission wish to do so.

Yours sincerely



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