

**Benchmarking
Local Government Performance
in New South Wales**

Final Report

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

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Final Report

Matter No: SPR/96/3

Review Report 1998/1

April 1998

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FOREWORD

There is a widespread consensus among stakeholders that benchmarking can play an important role in improving local government performance. Notwithstanding the efforts of various stakeholders, the Tribunal is of the view that the real potential contribution of benchmarking performance is yet to be fulfilled.

Much has been achieved and this report highlights these achievements. However, getting better value from benchmarking will require:

1. Ongoing improvement in the quality and relevance of benchmarking data
2. An environment for local government which encourages improved performance and provides stronger sanctions for poor performance.

The second point is the most challenging. However, improving the environment in which local government operates is a surer path to better performance than detailed mandatory requirements.

Benchmarking can provide good information about what a local council is doing and how its performance compares with that of other councils. Process benchmarking can produce significant benefits for councils and their communities by identifying ways to improve performance. Importantly, by providing better information to the local community, it strengthens the democratic process which underpins local government.

The Department of Local Government (DoLG) and the Local Government and Shires Associations continue to encourage the use of performance indicators and benchmarking within Local Government. They have established a database on best practice to assist councils to improve their performance. The Tribunal notes that the DoLG, in its most recent report on "Comparative Information on NSW Local Government Councils 1995/96", has included more comparative data and better discussion about these indicators than in the past. There is scope for further improvement. Some suggestions are presented in this report to further enhance the usefulness of this data from the ratepayers and community's perspective.

Performance data must be communicated to the community in an effective manner. It is recommended that as a minimum, Councils should publish in their management plan a comparison of their performance data with those within the same group (based on size and location of councils) as defined by the DoLG. Other means of dissemination such as publication in a local newspaper should also be considered. "Competition by comparison" can prove to be an effective mechanism for improving government monopoly services.

Data problems continue to exist, notably in the reporting of administration costs. The Tribunal recommends that the DoLG provide detailed guidelines for defining and allocating administrative support and corporate overhead costs. The Tribunal considers that there is scope for improving present communication links, particularly in the sharing of any best practice models that have been identified.

As noted, benchmarking is most likely to be effective if councils operate within an environment which encourages good performance in providing what their communities want and are willing to pay for. In conducting this review, the Tribunal has therefore explored factors affecting councils' performance.

The Tribunal recommends that:

- Incentive-based rate capping over the medium term, in the form of $CPI+/-X$, be put in place. The X factor should be specific to individual councils or groups of councils, and take into account the extent of possible efficiency improvements, likely growth and the community's willingness to pay for additional services.
- Councils should regularly assess the level of community satisfaction with their overall performance and their performance of key activities. Councils should also provide a guarantee of services to their communities.
- Local government has accepted the challenge to explore opportunities for rationalising services and voluntary amalgamations. The progress of local government in achieving these improvements should be monitored and assessed over the next 12 months.
- Councils should continue to explore opportunities to publicly tender aspects of their operations and capital works.

These recommendations reflect the culmination of the Tribunal's careful consideration of a large number of submissions placed before it by the various stakeholders. The recommended actions will complement the continuation, and hopefully, improvement of performance indicators and process benchmarking, leading to more efficient and effective service production by local governments.

Thomas G Parry
Chairman
April 1998

EXECUTIVE SUMMARY

Introduction

Under section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Premier asked the Tribunal to review the application of benchmarking to local government in New South Wales (NSW). The terms of reference for this review are provided in Attachment 1. Following a public consultation process, the Tribunal released an Interim Report in December 1997.

Subsequently, over 50 submissions to the Interim Report have been received from councils, other organisations and individuals. The Tribunal is grateful for these contributions to the review. A summary of the submissions is provided in Attachment 2.

The Tribunal has also undertaken ongoing consultation, including a public hearing held in early March 1998.

After considering the submissions and other evidence placed before it by stakeholders, the Tribunal has refined some of the recommendations made in the Interim Report. A summary table showing the changes is provided in Attachment 3. Key findings of the Interim Report, responses to the Interim Report, and the Tribunal's final recommendations are presented below.

Interim report: Key outcomes and initial recommendations

Currently, all levels of government are adopting results or performance measurement benchmarking and process benchmarking. To ensure that maximum benefits are obtained from these initiatives, benchmarking should be:

- implemented as part of an overall management strategy
- supported by an environment which encourages good performance.

Given its importance in the State, and its potential impact on the community, it is important that local government provide the services the community wants and is willing to fund, and that it provide those services efficiently and effectively.

The Tribunal believes that benchmarking and performance measurement have a role to play in improving the performance of local government. Results benchmarking will help identify areas of poor performance and raise questions. It is at this stage that process benchmarking may be most effectively applied, to provide the answers and achieve desired outcomes.

The State Government can support local government's efforts to undertake performance indicator and benchmarking initiatives. Support may include the development of networks, information sharing and technical assistance. Industry bodies can also contribute to the process.

In the Interim Report, the Tribunal made the following recommendations:

- Performance indicator information
 - Changes should be made to improve the Department of Local Government's (DoLG's) comparative indicator publications.
 - DoLG should provide clear guidelines for constructing performance indicators.
 - The State Government and/or councils should fund the auditing of the data/performance indicators.
 - The scope of the indicators should be expanded. Indicators measuring effectiveness and community satisfaction should be incorporated.
 - DoLG should improve the timeliness and presentation of its publication and review how it can best reach its target audiences.
- Process benchmarking
 - Benchmarking should be applied to those areas that constitute a significant share of expenditure, and areas that offer the greatest potential for cost savings and/or service improvement.
 - Local government should continue to explore the option of benchmarking and comparing performance with the private sector.
 - Benchmarking and performance measurement initiatives should attempt to utilise existing data sets, where possible.
- Management plans
 - Independent auditors should be appointed by DoLG to review and report publicly on a sample of management plans, quarterly reports and annual reports of councils.
 - The management plan should show performance for the previous year and state expected performance for the current year.
 - Strong ringfencing (ie accounting separation) of Councils' business and commercial undertakings, should be instituted along with external audits. Performance indicators and a risk analysis for business and commercial undertakings should be reported publicly.

The Tribunal has examined other factors which affect local government performance. Its initial recommendations were:

- *Rate pegging.* The State Government should review the application of rate pegging to local government, and explore alternatives to the current rate cap mechanism such as a CPI-X formula.
- *Amalgamation.* The LGSA should continue to encourage local government to explore the potential for structural reform, particularly opportunities for amalgamation. Local government should explore the potential for amalgamation as a way of improving the cost effectiveness and quality of services provided.
- *Competitive tendering and contracting out.* Councils should explore opportunities to publicly tender aspects of their operations and capital works.

Consideration of responses to the Interim Report

Responses to the Interim Report largely support the continuation and enhancement of performance indicators and benchmarking as management tools to improve local government performance, accountability and transparency. The following issues are emphasised in the responses to the report:

- Should councils' performance data, management plans, quarterly reports and business undertakings be subject to external auditing?
- Should community surveys be undertaken to measure community satisfaction and effectiveness?
- Should a revenue cap (such as CPI-X) be used in place of the existing fixed rate capping mechanism?
- Can voluntary action by councils be relied on to obtain the benefits available from amalgamation?

The Tribunal has considered the latest reports on comparative indicators released by the Departments of Local Government in NSW and Western Australia, the key performance indicator program for local government released recently in Victoria, and the requirement that Victorian councils include a statement of performance in their annual reports from 1998/99.

Some of the Tribunal's initial recommendations, as set out in the Interim Report, have been amended following careful consideration of all the additional material. The Tribunal now recommends:

- Periodical reviews of councils' performance data, management plans and significant business undertakings, with the results of these audits published by DoLG.
- Application of CPI +/- X as an alternative rate pegging mechanism.
- Review of local government's success in rationalising services, improving resource allocation, and achieving structural change over the coming 12 months.

The Tribunal considers that these recommendations, when implemented, will further enhance local government's accountability. They have the potential to reduce costs of services, and most importantly, to ensure the delivery of the services that the community desires. The Tribunal's final recommendations and the bases for these recommendations are set out below.

Performance indicator information

Submissions to the review generally accept that performance indicators and benchmarking could, and should, be utilised by local government as management tools to improve performance.

Given the existing data problems, the statewide application of global measures such as data envelopment analysis (DEA) is difficult. Nevertheless, it is important that the use of global measures such as DEA should continue to be tested and explored. The Tribunal notes that NSW Treasury is willing to assist DoLG and LGSA in this endeavour.

DoLG publications of comparative data

DoLG has published comparative information on councils annually since 1991. The Tribunal has received a significant number of comments on this publication, largely concerning comparability, the scope of indicators and presentation.

The latest DoLG report, *Comparative Information on NSW Local Government Councils 1995/96* has some improvements. It reports on 24 performance indicators that span a broad spectrum of council activities including: finance and corporate activities, library services, domestic waste management and recycling services, and community services. Improvements to the publication include the presentation of performance data for two years, and re-grouping of councils to make comparisons more meaningful.

The Tribunal recommends that further changes be made to improve DoLG's comparative indicator publication. In particular, improvements are needed in the way in which data is presented, and in linking performance indicators to targets. The United Kingdom Audit Commission's approach to the publication and dissemination of local government benchmarking information provides a model for the DoLG publication.

Auditing and performance measurement

Although the General Manager must certify the data used for the performance indicators, problems of comparability and accuracy continue. For example, it is noted that in the database collected by DoLG, administration costs as a percentage of total expenses, range from nil to over 50 percent. It is not clear how administration costs are allocated for various activities.

Several submissions argue that the reliability of indicators should be improved. It has been suggested that priority should be given to improving the definitions and providing more detailed guidelines for compiling indicators.

Under the *Local Government Act 1993*, councils appoint a financial auditor for a fixed term under a competitive tendering process. The Tribunal accepts that it is practical for the council appointed auditor to review council's performance data and performance indicators, rather than using DoLG appointed auditors for this purpose. Nevertheless, the NSW government should periodically review the effectiveness of local government auditing.

The Tribunal recommends that DoLG provide clear definitions and guidelines for the construction of performance indicators. Guidelines for cost recording and allocation need to be developed in consultation with councils.

Council auditors should ensure that the performance indicator data compiled by councils each year complies with DoLG's definitions and guidelines.

Dissemination of performance indicator information

Better dissemination of the results will improve the effectiveness of benchmarking and performance analysis. Management needs the information for input to its decisions on strategic planning, resource allocation and management improvement initiatives. The public's needs are clearly different. Better knowledge of the performance of councils by stakeholders will increase the pressure on councils to improve performance.

Some councils have queried who the target audiences are for comparative indicator information. Of course, the data is essential to effective management. In the Tribunal's view considerable efforts should be made to provide this information to the general community as well. Information can be provided to the community through local newspapers, distributed in brochure form along with rates notices, or be advertised as/and available from council.

The Tribunal recommends the provision of comparative information on councils to the community:

- ***In their management plans, councils should publish the DoLG comparative indicators for all councils in their category.***
- ***Trend data should be published in management plans.***
- ***Councils should publish a comparison of indicators in local newspapers, or include this information in brochures or newsletters mailed to ratepayers. This should be published within two weeks of release of a DoLG publication. The requirements of the UK Audit Commission provide a model here.***

Process benchmarking

Having considering the benchmarking projects undertaken to date, and stakeholders' comments, the Tribunal has concluded that process benchmarking can produce significant benefits for councils and their communities, and that this work should continue.

The dissemination of information on process benchmarking can be further improved. Industry organisations, including DoLG, LGSA, Regional Organisations of Councils (ROCs), Institute of Municipal Management and Institute of Municipal Engineering Australia:

- provide advice and assistance with networking
- facilitate the exchange of skills and knowledge between councils.

Ready access to case study material, and to contacts in councils which have undertaken successful benchmarking projects, may assist councils which have not embarked on process benchmarking. The dissemination of case study material, which will assist networking and knowledge exchange amongst councils, may best be undertaken by one organisation. LGSA has set up a benchmarking and best practice information centre. All councils are encouraged to contribute to and make use of this service.

The Tribunal recommends that:

- ***Local government continue to benchmark its performance between councils, and with the private sector. To minimise the costs of benchmarking and to achieve optimum outcomes, councils, in particular smaller non-metropolitan councils, should participate in joint projects where possible.***
- ***Benchmarking should be applied to those areas which:***
 - ***constitute a significant proportion of expenditure***
 - ***offer the greatest potential for cost savings, and***
 - ***are identified by the community as requiring improvement in service standards.***
- ***One industry organisation (such as LGSA) should act as the clearing house for best practice and case study material.***

Community satisfaction and consultation

The Interim Report recommends the use of community surveys for two purposes:

- Measuring community satisfaction with councils' overall performance and key services and activities.
- Assisting with councils' strategic planning by gauging community needs and priority.

Measurement of community satisfaction

The key performance indicators currently published by DoLG are activity specific. However, they do not measure the extent to which a community is satisfied with the performance of its council. Community satisfaction can be measured by annual survey. However, it is important that the research methodology, survey questions and sample size are applied consistently across councils. A statewide survey may be a cost effective approach.

The Tribunal notes that some councils have undertaken surveys to measure community satisfaction with key activities. LGSA is working towards the development of a model survey for use by councils throughout NSW. DoLG and LGSA should continue to pursue this matter so that community satisfaction can be measured in a consistent manner. DoLG's annual comparative data report should include community satisfaction measures.

Community consultation and councils' planning process

In addition to the statewide survey, councils should undertake their own surveys to gauge the needs and priorities of their communities. The frequency of such surveys should be decided on the basis of the council's business planning cycle, local conditions, and the resourcing requirement.

The Tribunal recommends that the following measures be adopted:

To gauge community satisfaction:

- ***DoLG should continue to work with LGSA to determine whether a measure of community satisfaction should be included in the DoLG publication of comparative indicators.***
- ***Each council should, on an annual basis, measure community satisfaction with its performance of the activities reported in the DoLG's comparative data. DoLG and LGSA should develop a survey which can be used by all councils.***

To enhance community input:

- ***Councils should consider obtaining information on the preferences and priorities of their communities in conjunction with their survey of customer satisfaction.***
- ***The frequency of the survey should depend on the type of council. For large councils (urban and rural) and medium size urban councils, surveys should be conducted at least once every two years. For smaller councils and medium rural councils, surveys should be conducted at least once every four years.***
- ***Details of the community consultation initiatives used by councils should be included in their management plans. For each major activity, the management plans should include discussion of what the community expects from the service and issues that influence the council's ability to provide this level of service.***

Management plans

The *Local Government Act 1993* has significantly changed local government. The introduction of management plans is an important aspect of the changes. Management plans are important for accountability, transparency, and community satisfaction and participation.

The Tribunal's Secretariat has conducted a review of the management planning process, and the content of these plans. The study indicates that:

- community members do not generally get involved in the management planning process
- the quality of performance indicators used by councils to assess the performance of their principal activities is generally poor
- the poor quality of the performance indicators may blunt the usefulness of the general manager's quarterly performance reports to council
- some councils are involved in business/commercial activities that entail significantly more risk than traditional local government services. The reporting requirements for these activities may be inadequate.

In its Interim Report, the Tribunal suggests that external auditors be appointed to review a sample of management plans, quarterly reports and annual reports. Many councils and LGSA have opposed this suggestion. They hold that priority should be given to the development of "best practice" management plans.

At the Tribunal's Public Hearing, DoLG indicated that it had previously focused on reviewing councils' annual reports. DoLG now plans to review councils' management plans and reporting, and intends to provide guidance on best practice.

The Tribunal has been persuaded that it would be advantageous for management plans to be reviewed by councils' own appointed auditors. Such reviews should include compliance with the requirements of the *Local Government Act*. They should be conducted on a cyclical basis coinciding with each council's planning horizon. DoLG should publish the outcomes of such reviews. These reports may best be presented by looking at performance for a particular service across a sample of councils. The aim of the DoLG reports would be to assist councils to improve their efficiency and service delivery.

The Tribunal recommends that:

- ***Local government explore the issues of organisational structure and objectives, with the aim of improving performance outcomes and assisting in the development of effective performance indicator and benchmarking initiatives. DoLG and LGSA may be able to assist with this process.***
- ***Council auditors review council performance periodically as part of the management plan and annual report process. DoLG should produce public reports on the outcomes of these performance reviews.***

Business undertakings

The interim recommendation on ringfencing and reporting of councils' business undertakings also attracted a large number of submissions. There was general agreement about the need to improve reporting for business undertakings.

The Tribunal notes that competitive neutrality policy and principles will be applied to certain council activities which are classified as business activities. This will require separate business activity accounts that will apply from 1998/99. Subsidies, tax equivalent regime payments and dividends will be explicit for each Category 1¹ (over \$2m turnover) business activity.

The Tribunal recommends that in respect of:

- ***Business reporting***
 - ***Councils should be obliged to disclose their business and commercial undertakings in their management plans and annual reports.***
 - ***Strong ringfencing (ie. accounting separation) of business activities be put in place.***
 - ***DoLG report on the monitoring of significant business for both accounting and performance purposes.***
- ***Business risk***
 - ***Councils should bear responsibility for assessing business risk.***
 - ***Industry organisations need to provide more support and assistance for councils, particularly small councils, in undertaking risk and business analyses.***
 - ***LGSA should act as a clearing house for information about these activities.***

Rate pegging

In the Interim Report, the Tribunal suggests that implementing a CPI-X cap over the medium term is an alternative to rate pegging which should be considered by the Government.

DoLG administers the rate pegging scheme and makes recommendation to the Minister for Local Government who determines rate increases above the limit. DoLG supports the continuation of this approach.

Several submissions address the issue of rate regulation. Some argue that rate pegging should be abandoned because it can discourage efficiencies and innovation. A few submissions propose that ratepayers should determine the level of rate increases which should apply.

Some submissions argue that a CPI-X cap would result in continuing reductions of rate income in real terms. There is some support for a CPI +/- X approach because it would allow the particular circumstances of different groups of councils to be taken into account.

¹ The NSW Government policy statement on the application of National Competition Policy to local government, defines significant business as category 1 "business activity with a turnover of \$2m" and above.

The Tribunal recommends that:

- ***The State Government should consider alternatives to the current rate pegging mechanism. One alternative would be to regulate rate increases using a CPI +/- X formula for a period of three to five years, where X could be set for individual councils or groups of councils.***
- ***Any review of rate pegging may need to be undertaken in conjunction with a review of other local government accountability mechanisms, and may need to take into account any structural changes to local government.***

Economies of scope and scale

Those who made submissions to the Tribunal generally agree that economies of scope and scale exist in the provision of local government services. Larger organisations may be able to attract a wider range of expertise, and achieve significant economies in the use of resources. However, the Tribunal is aware that there are limits to economies of scale, and loss of local accountability could occur if councils amalgamated.

By helping to identify economies of scope or economies of scale, benchmarking can provide a guide to the performance improvements potentially available.

The Tribunal has examined the per capita operating expenses of councils in 1995/96². It found a significant cost differential between rural and urban councils, and between very large and small councils. The per capita cost differential between very large and small councils ranges from 28 percent for metropolitan developed councils to 136 percent for rural councils.

Many factors help to explain such differences. These include: types and quality of services provided, location, differing cost of governance, local circumstances and councils' efficiency. Nevertheless, to reduce the costs of service delivery, it is important that local government explore the scope for amalgamation.

The evidence suggests that Councils' cost of operation falls with the size of councils. This is true for councils as a whole but also for groups of councils (urban, rural etc). There are many reasons for these differences but they may suggest that economies of scale are important. Other evidence presented to the Tribunal also supports the importance of economies of scale.

Local government needs to explore means of better capturing economies of scale and scope.

Structural change and amalgamation

Some of the measurable benefits of structural reform may include³:

- lower administration costs
- lower costs of representation
- increased purchasing power and better use of depots, plant and equipment
- a more diverse funding base.

² The councils are grouped into very large, large, medium and small in accordance with the Australian Classification of Local Government.

³ *Reforming Australian Local Government: Forced or Voluntary Amalgamation?* Brian Dollery, Agenda Volume 4, Number 4, 1997 page 448.

Against this, amalgamation may reduce local representation⁴ and accountability.

Some councils support amalgamation. Cowra Shire Council argues that “the potential for amalgamation should be explored as a way of improving the delivery of service and quality to the community. Council is of the view that in the absence of voluntary amalgamations, action should be taken by the State Government to bring about such amalgamations”.⁵ Councillor Alex Sanchez of Liverpool Council submits that there should be a “boundary review every three terms of local government ... ensuring that the boundaries remain contemporary and relevant”.⁶ However, most councils have objected to compulsory amalgamations.

While it actively supports voluntary actions such as resource sharing, LGSA is opposed to forced amalgamations.⁷ LGSA has released a discussion paper and held a series of workshops around NSW to encourage debate between councils about resource sharing and voluntary boundary changes.

In its discussion paper on voluntary structural reform in NSW local government⁸, LGSA notes that:

A 1984 review by the Local Government Boundaries Commission of new country councils created since 1976 found unanimous agreement among the new councils that operational efficiencies had been achieved through necessary upgrade of computer equipment. The review suggested that difficulties in achieving economics of scale had been exacerbated by administrative arrangements surrounding the amalgamations. Significantly, voluntary mergers showed evidence of positive returns which implied that economies of scale did exist, and that the management process is critical in achieving them.⁹

The Tribunal has considered all the submissions made to the review. On balance, it supports the concepts of structural reforms and amalgamations with the aim of improving efficiency and service delivery to the community. Issues such as councils’ current funding sources (eg grants), quality of service delivery, community expectations and social impacts will need to be considered in deciding whether amalgamations are desirable. It appears that voluntary structural reforms and amalgamations are extremely slow to occur.

The Tribunal recommends that:

- ***LGSA should continue to encourage local government to explore the potential for resource sharing and structural reform, and in particular, opportunities for amalgamation.***
- ***The progress of local government in achieving these reforms should be assessed over the next 12 months.***

⁴ Some would argue that legislative or constitutional requirements for equal representation are not extended to local government. For example, a local government representative may be elected by 74 people in Windouran Council and by 15,600 in Blacktown.

⁵ Cowra Shire Council submission to Interim Report, p 1.

⁶ Councillor Alex Sanchez submission to Interim Report, p 4.

⁷ LGSA submission to Interim Report, p 6.

⁸ *Voluntary Structural Reform in NSW Local Government, A Discussion Paper*, Local Government and Shires Associations of NSW, 1997.

⁹ *Ibid*, p 7.

Competitive tendering and benchmarking

Councils may be able to achieve economies of scale through competitive tendering. Some submissions indicate that councils should undertake benchmarking before considering whether to proceed with competitive tendering.

Councils need to develop activity-based financial information, including an appropriate cost allocation of corporate overheads. As more councils move towards competitive tendering, the issue of the adequacy of current financial and performance monitoring systems and auditing arrangements must be further examined. The treatment of redundancy costs¹⁰ should be considered carefully by councils.

The Tribunal recommends that:

- ***Councils explore opportunities to publicly tender aspects of their operations and capital works. DoLG and LGSA should provide assistance and guidance for this work.***
- ***In particular, urban councils with significant business activities should look at the competitive tendering process being undertaken by Sydney City Council. Implementation of that process has involved extensive consultation within the organisation and with the union, and a restructuring of the internal organisation in readiness for competitive tendering.¹¹***
- ***Councils should establish a methodology for comparing overall cost including corporate overheads, of in-house service delivery with charges by other providers. In doing so, councils should follow the principles and the methodology using ‘present value of costs’ described in the Government’s Service Competition Guidelines.***

Other measures to improve performance

Benchmarking is most likely to be successful if it is undertaken in an environment which encourages good performance. During the review, a number of suggestions for improving performance were drawn to the Tribunal’s attention.

The Tribunal recommends that:

- ***Use of customer service agreement and guarantees. The implementation of Customer Service Agreements should be encouraged and supported by councils and industry organisations. Refunds should also be considered where the “agreed” performance is not met.***
- ***Performance audits. Where particular performance problems are identified within particular council, such problems could be made subject to a performance audit¹², to be carried out by an independent auditor. A review of the effectiveness of existing auditing mechanisms for local government, including the role of DoLG, should be undertaken.***

¹⁰ It is noted that in Victoria, the review panel of Compulsory Competitive Tendering (CCT) implementation has recommended that the Local Government Act 1989 be amended to require a council to exclude the consideration of redundancy costs in determining the award of any contract after 1 July 1998.

¹¹ Attachment 12 contains a case study on the contracting out process and experiences of three councils, including Sydney City Council.

¹² DoLG conducts investigations of councils in relation to specific problems identified. In addition, under a management overview program, 142 councils have been reviewed by DoLG since the program began in 1988.

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1 INTRODUCTION

At a meeting of the Council of Australian Governments in April 1995, Heads of Government signed an agreement to implement National Competition Policy reforms. The purpose of the reforms is to establish an open, integrated domestic market for goods and services. This is to be achieved by removing unnecessary barriers to trade and competition. The competition reforms are applicable to the activities of the Commonwealth, State and local government.

In June 1996, the New South Wales Government released a policy statement on the application of National Competition Policy to local government. The statement notes the implications of the Competition Principles Agreement (CPA)¹ and *Trade Practices Act 1974* for local government, and a number of associated reforms. These reforms include workplace reform, competitive tendering and benchmarking.

Under section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Premier asked the Tribunal to review the application of benchmarking to local government in New South Wales (NSW). The terms of reference² for this review require the Tribunal to consider a number of factors, including the NSW Government policy statement. The Tribunal is also required to examine current performance benchmark models developed within Australia and overseas, and to demonstrate the practical application of benchmarking approaches to a range of local government functions.

One of a range of management tools, benchmarking generally refers to the process of comparing an organisation's performance with some standard. The 'benchmark' can be the previous performance of the organisation (benchmarking over time), or other organisations (benchmarking across an industry or over industries). The term 'benchmarking' can also be used to refer to the process of comparing the organisation with the best performers in an industry.

Benchmarking can be conducted in various ways. Two methods are *performance indicator or results benchmarking*, and *process benchmarking*. These methods are discussed in chapter 3. A more technical discussion is contained in Attachment 8.

Benchmarking fulfils two vital roles in local government:

- it increases the accountability of local government by providing information on its performance to the local community
- it encourages the efficient and effective provision of services and functions by providing information to management and councillors.

1.1 Review process

The Tribunal's review process involves consultation with stakeholders and other interested groups. An issues paper released in April 1997 was sent to all councils and stakeholders. Over 50 submissions in response were received. Meetings were held with councils and

¹ At the Council of Australian Governments meeting in April 1995, three intergovernmental agreements to implement National Competition Policy reform were signed. These are: the Conduct Code Agreement, the Competition Principles Agreement, and the Agreement to Implement the National Competition Policy and Related Reforms.

² See Attachment 1.

other organisations with an interest in the review. Public hearings were held in Sydney and regional centres during July and August 1997 (see Attachment 5).

The Tribunal also conducted a survey of councils in September 1997. The purposes of the survey were to:

- consider the approaches adopted by councils to measure community preferences and the level of satisfaction with councils
- identify the extent to which benchmarking is being undertaken by councils
- identify the extent of contracting out in local government
- consider other service delivery issues such as resource sharing.

In total, 95 responses were received. The Tribunal is grateful for the contribution provided by these councils.

The Interim Report was published in December 1997. The recommendations in the Interim Report were made after considering a range of matters, including:

- requirements of the NSW Government's policy statement on the Application of National Competition Policy to Local Government
- current performance benchmark models developed within Australia and UK for application at local government level
- case studies of the application of benchmarking to a range of local council functions
- case studies of competitive tendering and contracting by Mosman Municipal Council, Sydney City Council and Sutherland Shire Council
- consumer satisfaction and community participation, and the balance between efficiency, effectiveness, quality delivery of service and equity considerations
- various mechanisms which may help councils to effectively benchmark their activities and improve their level of performance, including rate pegging and structural changes
- current developments in local government benchmarking projects and the review by the Industry Commission.

Following the release of its Interim Report, the Tribunal received a large number of submissions. A public hearing was held in Sydney in March 1998 (Attachment 5). This final report and its recommendations take into account the views presented to the Tribunal.

The Tribunal members who considered this review were:

Dr Thomas G Parry, Chairman
Mr James Cox, full-time member
Ms Liza Carver, part-time member.

1.2 NSW Government policy statement

National Competition Policy and the Competition Principles Agreement (CPA) encourage efficient public sector service provision. This is to be achieved by exposing public sector business enterprises to competition, where appropriate.

National Competition Policy reform, and competition policy in general, comprise only one part of the NSW Government's policy aims. The application of competition policy is intended to sit alongside the Government's other economic, social and environmental policy objectives.

The NSW Government Policy Statement explains that National Competition Policy:

“provides an opportunity for State and local government to work together to ensure that the principles of competition:

- are not implemented as an end in themselves
- promote increased consumer choice
- promote increased business choice and innovation
- facilitate the efficient allocation of resources in the economy
- increase the opportunities for Australian business to effectively compete for international market share.”³

The NSW Government is committed to achieving these goals while ensuring that:

- all customers continue to have access to goods and services
- goods and services are distributed equitably
- consumers are protected in the choices they make.

Within the policy statement, the NSW Government addresses each of the reform areas contained in the CPA. These are:

- independent prices oversight of government business enterprises
- competitive neutrality
- structural reform of public monopolies
- legislation review
- third party access to essential infrastructure
- extension of the *Trade Practices Act 1973* to local government.

The NSW Government Policy Statement discusses reforms that local government can pursue:

“The NSW Government and NSW Local Government and Shires Associations are working together to encourage councils to embrace the philosophy of competition in relation to their practices and policies to the extent that it will produce an improvement in services to local communities. A strategy is to be developed which will bring about a more customer oriented approach and cost effective provision of services by individual councils and local government generally.”⁴

The initiatives proposed by the NSW Government are: benchmarking, workplace reform, competitive tendering, and a review of service provision options.

³ See NSW Government, *NSW Government Policy Statement on the Application of National Competition Policy to Local Government*, June 1996.

⁴ Op cit, p 19.

In relation to benchmarking, it has been stated that once differences between councils have been taken into account, it is often possible to compare the performances of organisations, and to assess where improvements can be made. As part of the process of promoting performance measurement and benchmarking, the NSW Department of Local Government (DoLG) has reviewed its publication which compares indicators of performance for local councils in NSW.

2 LOCAL GOVERNMENT

The first local councils in NSW were established in 1842, under the NSW Constitution Act. The Act delegates various functions such as lighting, street cleaning, road construction and water provision from the Colony of New South Wales to a series of regional representative councils. Similar systems of local government were established in the other colonies.

Local councils are subject to State Government legislation. Over 100 NSW Acts impact on the operations of local councils, determining their functions, responsibilities, structure and powers. Attachment 6 lists a selection of these Acts. The NSW Department of Local Government (DoLG) oversees the application of this legislation to local government.

The size of councils in terms of population and area has changed over time. Council borders have been adjusted over the years, largely as a result of government policy. Given State Government approval, councils may amalgamate. Boundary reviews can be undertaken at the request of councils. However, boundary reforms have usually occurred only following State Government intervention.

There are now 177 local councils in NSW. This is a significant reduction from 324 in 1910, but it has occurred over a long period which has seen dramatic changes in society, the economy and technology. The last major structural change occurred during the 10 years from 1974 to 1984. The number of councils was reduced from 233 to 175. In the early part of the 1980's, 20 new councils were created.

Local councils are elected by the residents and landowners in their area. Councils provide a range of functions and services including: planning and regulation, water and sewerage, public libraries, waste collection, and road maintenance and construction. Although most funds for local council services are raised from council rates and charges, grants are increasingly important for smaller councils. Given local council accountability and the funding of service provision, it is important that the type and level of services are appropriate and they are provided in a cost-effective manner. Benchmarking and performance measurement can play an important role in ensuring this is so.

Traditionally, benchmarking has been applied to governments' service production and distribution roles. However, the Tribunal is interested in the application of benchmarking to all aspects of local council operations for its potential wider benefits.

This chapter provides background for the inquiry. Section 2.1 presents a profile of local government. Section 2.2 outlines major reforms to local government in recent years.

2.1 Profile of local government

Local councils provide a variety of services including: planning and regulatory services, public libraries, parks, swimming pools, street cleaning, child care, domestic waste management, shopping centres, arts centres, and road maintenance and construction. In non-metropolitan areas, local councils have additional business operations which provide water and sewerage services, gas supply, aerodromes and caravan parks. Services provided vary across urban, regional and remote rural localities. They also vary according to council size and community needs. Clearly, not all councils provide similar services. The scope of services provided may include:

Land management, planning and infrastructure provision

- development and environmental planning
- bush fire control and emergency services
- heritage conservation
- processing of development and building applications, and building construction and supervision
- roadworks, parking, traffic signs, footpaths, kerbing and guttering.

Community amenities

- parks, gardens and sporting grounds
- water and sewerage supplies
- library services
- public halls
- swimming pools
- street lighting, street cleaning.

Community welfare services

- child care services
- women's refuges
- Aboriginal projects and services
- immunisation
- aged and disability accommodation and services
- youth services and activities.

Public health and safety

- garbage collection and disposal
- inspection of commercial premises including restaurants and factories
- algae testing
- animal control.

Corporate functions

- strategic planning for area, resource and service management
- property management
- provision of communication links between the council and the community
- financial management
- working with the community and State and Federal Governments on economic development, employment and tourism promotion.

Local councils facilitate State and Federal Government policies in community health, infrastructure and tourism. Funds are provided for these services, and in many ways local councils act as the service provision vehicle.

In 1995/96 local councils in NSW together spent approximately \$3.5 bn and employed approximately 40,000 people.⁵ This is roughly equivalent to the annual budget of the NSW Department of School Education, the annual revenue from NSW payroll tax, or two percent of gross state product.

Of NSW's 177 local councils, 95 (ie more than half) are in rural areas. Two local government organisations together represent all 177 councils in NSW. While the Local Government Association (LGA) represents metropolitan and provincial city councils, the Shires Association represents rural councils. Some councils, such as Wagga Wagga, serve a city and the surrounding rural area and are members of both groups. The two associations combine to form the NSW Local Government and Shires Associations (LGSA), which operates with a common secretariat and common policies on most issues.

Regional organisations of councils (ROCs) serve as forums. In some cases, they also arrange services such as tourism promotion. ROCs may be seen as a way of achieving collective benefits without amalgamations. County councils also provide services on behalf of groups of councils.

Most of the available data on expenditures and revenues is taken from annual reports and information supplied by councils to the Local Government Grants Commission. The Department of Local Government (DoLG) publishes comparative performance indicators annually.⁶ The 1995/96 publication, which is the most recent publication available at the time this report was prepared, provides 24 performance indicators for 10 key activities.

Although this information is not audited, it is certified by each general manager. The councils are grouped in categories according to the Australian Classification of Local Governments. The classification system uses population, population density, population growth, and location to identify 11 categories of local government.

Attachment 7 presents data on the population, area, population density and expenditure of each local council.

Metropolitan councils tend to serve larger populations in smaller areas. Whereas Blacktown Council has approximately 236,000 constituents spread over an area of 240 square kilometres, the Central Darling Shire has approximately 2,600 constituents over more than 50,000 square kilometres.

Even within the broad metropolitan and rural groups, there is also significant variation. Many of Sydney's inner city councils, such as Drummoyne, cover areas of about 10 square kilometres and have populations between 30,000 and 40,000. These councils are likely to operate differently from the large suburban councils such as Bankstown, which covers approximately 80 square kilometres and serves over 160,000 people.

⁵ Includes employees of local government trading enterprises.

⁶ Department of Local Government, *Comparative Information on NSW Local Government Councils 1995/96*.

2.1.1 Expenditure profile

The large non-metropolitan urban councils, such as Wollongong, Gosford and Wyong, all have operating budgets of over \$100m, while some rural councils have budgets of less than \$10m.

In 1995/96, the total operating expenditure of NSW local government was \$3.9bn and capital expenditure was \$1bn. This compares with \$24bn for current outlays and \$3bn for capital outlays in the State Government budget sector in 1996/97.⁷

Table 2.1: Total expenditure for NSW Local Government 1995/96

	\$m	%
Employee costs	1,692	44
Materials & contracts	974	25
Other operating costs	<u>553</u>	14
Operating expenses	3,219	83
Depreciation	489	13
Interest	<u>150</u>	4
Total operating expenditure	3,858	100
Capital expenditure (purchase of assets)	1,086	
Total operating (excluding depreciation and interest) and capital expenditure	4,305	

Source: Department of Local Government database.

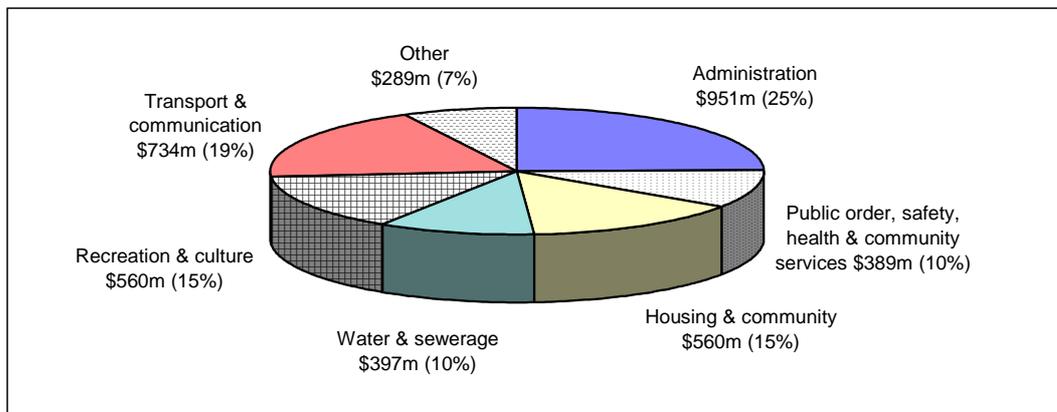
Note: 1996/97 expenditure is not available at time of writing.

As shown in Table 2.1, operating expenses represent 83 percent of the total operating costs of local government services, reflecting the labour intensive nature of the industry. Given that employee costs represent over 40 percent of total operating costs, the scope for improving performance will depend largely on operating efficiency and labour productivity.

Figure 2.1 illustrates the cost breakdown of NSW local government in terms of functional costs. These functions vary from community services to monopoly water and sewerage services.

⁷ NSW Budget 1997/98, Budget Paper No. 5, Appropriation Bills, p 4.

Figure 2.1: Total operating expenditure (including depreciation and interest) by local government activities - \$3.9bn in 1995/96



Source: 1995/96 Financial data collection by the Department of Local Government

The four core functions with the largest expenditure are:

- administration (25%)
- transport and communication (19%)
- recreation and culture (15%)
- housing and community (15%).

It should be noted that the figures in Figure 2.1 are presented only as a guide to costs. In its submission to the Interim Report⁸, Hume Shire Council raises doubts about the accuracy of the data, collected by DoLG particularly administration costs. The issue of accuracy is discussed in section 4.1 of this report.

Because of their small populations and remoteness, rural councils sometimes provide services which the private sector and the NSW and Commonwealth Governments provide elsewhere in the State. For example, small isolated communities may not have a large enough market for a private aged care facility to be profitable. Rural councils may therefore shoulder the additional responsibility of facilitating these non-core services. Whilst it is legitimate for councils to facilitate the provision of these services, they may not need to provide them directly. There may be opportunities for councils to contract out these services.

2.1.2 Local government finances

The main sources of revenue for local councils are council rates, charges from local government businesses and services such as garbage collection (ordinary services), charges from trading activities (eg water and sewerage), and grants from the Commonwealth Government. Councils also receive funds from other sources including donations, fines and interest on investments.

Local councils in NSW are included in the State's loan council allocation. Their borrowing is controlled by the State Government.

⁸ Hume Shire Council submission on the Interim Report, p 1.

Income from rates and user charges for 1995/96 was approximately \$2.9bn.⁹ Grants to NSW local councils in 1996/97 totalled approximately \$390m.¹⁰ Additional revenue sources include interest, contributions and donations.

Local councils publish forward plans of revenues for one year including proposed rate increases. Increases in council rates and annual charges¹¹ are limited to a percentage increase determined by Cabinet. Individual rates are not pegged. Only the level of total rate income is determined. This is called 'rate pegging'. The Minister for Local Government has recently announced that rating income for 1998/99 will be capped to increase by no more than 1.7 percent over the 1997/98 level.

Rate pegging was introduced by the NSW Government in 1977 to impose an external discipline on local government taxation levels. Introduced at a time when Commonwealth grants to local governments were increasing, rate pegging was justified as a method of containing price and wage inflation. However, it is often argued that rate pegging is too inflexible to recognise the needs of individual councils.

Since the introduction of rate pegging, the environment in which local governments operate has changed. The reforms associated with the NSW *Local Government Act 1993* have liberalised the management of local councils, and made councils more accountable and performance oriented. At the same time, Commonwealth funding of local councils has declined substantially in real terms.

Rural councils receive a larger proportion of their revenues in grants. The NSW Local Government Grants Commission makes recommendations on the distribution of general purpose funding by the Commonwealth Government. The funding consists of two parts: an equalisation component and a local roads component.

A group of the smallest rural councils in NSW receives around 50 percent of its total income from grants. This compares with a group of Sydney metropolitan councils which receives approximately 11 percent of revenues from grants.¹²

For 1996/97 Commonwealth grants were approximately \$282m for equalisation (an increase of 3.9 percent from 1995/96) and \$107m for roads (an increase of 4 percent).¹³ The general component is distributed using a formula which encompasses expenditure needs and revenue raising potential. The local roads component is distributed by the Local Government Grants Commission based on a formula which involves population, road length, and bridge length.

Direct funding from the NSW Government is channelled mainly through grants for roads (payments are received for State, regional and to a lesser extent, local roads) and payments for pensioner rate rebates. Local councils manage a specified portion of the road network and received a block grant from the Roads and Traffic Authority. In 1996/97, \$333m was provided under this system.¹⁴ Grants Commission road funding is untied, ie it may be used for any purpose. Roads and Traffic Authority grants are specific.

⁹ Figure supplied by the Department of Local Government.

¹⁰ NSW Local Government Grants Commission, Annual Report 1996/97, p 7.

¹¹ Excludes water and sewerage charges.

¹² Department of Local Government, *Comparative Information on NSW Local Government Councils 1993*, May 1995.

¹³ NSW Local Government Grants Commission, Annual Report 1995/96, pp 5-6.

¹⁴ Source: Roads and Traffic Authority.

2.2 Recent reforms of local government

Major reform of NSW local government is embodied in the *Local Government Act 1993*. Consistent with the general trend of microeconomic reform at other levels of government, the Act introduced a number of reforms to increase the transparency and accountability of local government, and to encourage efficiency and effectiveness in service delivery. The reforms include:

- new accounting standards
- publication of forward plans of expenditure for three years, and forward plans of revenues for one year, including proposed rate changes
- a requirement to report performance indicators for asset management, service delivery and user charges
- more flexible workplace and organisational practices
- implementation of an integrated approvals system for planning, building, subdivision and environmental approvals from 1 July 1998.

Other states have implemented structural reforms and improved information disclosure. The Victorian State Government has amalgamated a significant number of councils and introduced several reforms including compulsory competitive tendering and rate reductions. For a transition period, the elected officials were replaced by administrators appointed by the Victorian State Government. Local council elections for the new local council areas began in 1995 and was completed in 1997. Since 1991, the number of councils in Victoria has been reduced from 210 to 78.

The Victorian State Government recently launched a performance measurement program for Victorian councils. The program covers:

- developing of a set of Key Performance Indicators (KPIs), to be applied statewide. These include 29 financial indicators, four community satisfaction indicators, and a series of indicators covering specific services including: waste management, development approval and aged and disability services.¹⁵ Each council is responsible for auditing its performance indicators and publishing a statement reporting performance against these indicators in their annual report
- including individual targets for the KPIs in the Annual Business Plan
- developing screening questions for the community satisfaction measurement program
- linking performance indicators to rate capping. Rate capping will be suspended from the 1998/99 financial year. However, councils seeking to raise rates are required to comply with the key performance indicators program.

There are also legislative requirements for Victorian councils to prepare, corporate plans and performance statements which will report performance against targets. These statements will be audited and must be submitted within three months of 30 June each year.

The South Australian Government's inquiry into local government recommends reducing the number of councils. Councils have been encouraged to amalgamate. To date, the

¹⁵ *Key Performance Indicators for Local Government in Victoria*, J. Cincotta, P. Matwijiw, Department of Infrastructure, 3 February, 1998.

number of councils has been reduced from 118 to 71. As part of the structural reform process in that state, a set of performance indicators has been developed.

Similar reviews have been conducted in Tasmania and Western Australia:

- In 1993, the number of councils in Tasmania reduced from 46 to 29.
- Western Australia is proceeding to implement the recommendations of the Structural Reform Advisory Committee which in 1996 identified the scope for rationalisation of boundaries. The Local Government Advisory Board is also considering amalgamations for “doughnut” councils. Albany Shire and Albany town are to amalgamate. It is expected that another five similar cases will be referred to the Board by the Minister. On the other hand, the City of Wanneroo will be divided into two local government areas. The City of Sterling is also under review and may be divided.

The first edition of comparative indicators for WA councils was released recently. The publication includes seven financial indicators, and 23 indicators covering specific services such as libraries and roads.

Queensland’s Department of Local Government has completed a pilot program regarding the application of performance indicators in 44 councils. The results of the pilot program will be published shortly, and statewide implementation is due to commence later this year. Performance indicators will be collected and published annually, and will include customer satisfaction measures. The Department is continuing to support process benchmarking networks. There have been two recent amalgamations in Queensland. Further amalgamations are not envisaged.

The application of National Competition Policy to local government businesses should encourage further reforms of the way in which local councils operate. The intention is to have local government businesses compete on a level playing field with other private and public sector businesses. This will enhance the efficiency of resource allocation in the economy and help to increase the transparency of local government. NSW ratepayers will be better able to assess where their money is being spent.

The Commonwealth, State and Territory Governments are required to apply competitive principles to local government business activities/functions. The overall package involves:

- ensuring that public sector businesses take all their costs into account when charging for their services and, in the case of interaction between state and local government businesses, ensuring that they establish reciprocity in charging arrangements
- reviewing and reforming local government regulations which restrict competition unjustifiably
- examining the potential for structural reform of various local government monopolies (eg where councils are monopoly suppliers of local water and sewerage services).

In June 1996, in consultation with local government, the NSW Government released a policy statement on the application of National Competition Policy to local government. The policy statement includes reforms intended to encourage councils to adopt a philosophy of competition in relation to their policies and practices. These include: measuring performance and benchmarking, reviewing regulatory processes, contracting out, and undertaking a general review of service provision. DoLG has released guidelines on competitive tendering, and the pricing and costing for council businesses for competitive neutrality purposes.

3 WHY BENCHMARK?

Benchmarking can help improve the accountability and performance of local government. This is important because:

- effective local government helps to provide the environment for vibrant economic and community life
- the services provided by local government contribute to the economic and social life of the community
- local government has to be funded through rates, user charges and general taxation revenue collected by the Commonwealth and State Governments. This places a burden on the community and has adverse implications for economic activity.

Benchmarking fulfils two vital roles relevant to local government:

- it increases accountability by providing information on council performance to the local community
- it encourages the efficient and effective provision of services by providing information to management and councillors.

Benchmarking effectively has two audiences:

- the community/customers of local government
- management and councillors.

Benchmarking can be particularly important where an enterprise does not face direct competitive pressures that drive efficiency and effectiveness in the market economy. For most public services, an alternative to market signals, such as benchmarking, is needed to reach acceptable standards of performance and to guide decisions.

Benchmarking can provide communities/customers of local government services with additional information about performance. Currently, the community/constituents judge their councils on the basis of the services provided and the level of rates, user charges, fees and fines. Payments for these are typically made at different times and it may be hard for individual voters to assess all the payments they make. It may also be difficult for the electorate to assess whether the payments it makes are inflated by inefficiencies and bad decisions. Tenants do not pay rates directly. Conversely, owners of businesses may not live in the local council area. While they pay rates, they may not receive all the benefits of a resident.

As well as providing information to the community/customers, benchmarking information is useful to local government managers. Local councils must have good governance, management and incentive systems to deliver what their community requires and is willing to pay for. Benchmarking can help managers to meet these requirements.

Within the private sector, business profitability provides an indication of performance relative to other businesses in the market. Similarly, the share market can measure relative performance, and can result in changes where performance is not adequate (eg merger, takeover). The performance of State Government trading enterprises is assessed by NSW

Treasury (as shareholder on behalf of the NSW community) and credit rating agencies. However, similar checks on local government operations do not exist or are more diffuse.

3.1 Improving accountability and performance

Performance indicators can be used at several levels. They can be used to assess the performance of a particular council. They can also be used to make comparisons between councils. Performance measurement techniques are already available, which can accommodate the diversity of the local government sector to enable valid comparisons.

Process benchmarking is also a useful practice for both the public and private sectors. It can help councils understand their processes, best practice and customer needs, help them establish realistic goals, and improve competitiveness.

Several submissions state that performance indicators alone cannot increase local government accountability or performance. Bankstown City Council comments:

“Comparative performance measurement, in my view, will not in itself produce the necessary discipline to force improvement. My experience is that in local government, you can put forward all these comparative performance indicators, but there will always be too many excuses as to why we’re not performing as well [as other councils]...at the end of the day, the operations must be made contestable...Ultimately, only competitive tendering can establish the minimum costs necessary to supply a service at a given level.”¹⁶

It has also been argued that the environment in which local government operates (eg rate pegging, regulatory reporting requirements, performance measurement) does not provide incentives for efficient and effective service provision, and can decrease the capacity of local government to respond to community expectations. For example, Bankstown City Council comments that:

“It is true that rate pegging over the years is no longer a statutory maximum, it is a statutory minimum, and it is actually counterproductive. Councils take the maximum allowance for fear that, in years to come, they may miss out.”¹⁷

There is ample evidence that benchmarking is a valuable performance improvement tool. For example, Armidale Council has commented that both results and process benchmarking are vital tools in the development of efficient and effective local government services.¹⁸ However other factors, such as rate pegging, can affect the performance and accountability of local government.

3.2 How can benchmarking help?

The local government sector is diverse. Comparing performance may be difficult. Even so, benchmarking can be used to assess whether there are differences in the efficiency of service provision. It can also be used to help improve performance (see Attachment 8).

The efficiency of local council operations can be assessed through benchmarking and performance measurement. These methods can be used to help determine the influence of management practices, the size of operations, and the range of services provided, on council performance. Factors beyond a council’s control which affect costs can also be identified

¹⁶ Bankstown City Council presentation at Sydney Public Hearing, 23 July 1997.

¹⁷ Bankstown City Council presentation at Sydney Public Hearing, 23 July 1997.

¹⁸ Armidale City Council submission to Interim Report, p 1.

and considered. For example, population density, age of population and climatic conditions.

Performance measurement has traditionally focused on costs. However, as mentioned earlier, it is important that other factors such as quality and customer satisfaction are also taken into account.

Performance measures can address a number of questions:

- Is performance improving over time?
- Which councils/organisations are appropriate role models to serve as benchmarks for a program of performance enhancement?
- What are the characteristics of efficiently operating councils/organisations?
- Which councils/organisations appear to be the most efficient at providing particular services?
- How do the level and scope of services affect efficiency? Can co-operation overcome diseconomies of small size?
- How can differences in the operating environment be accounted for when evaluating performance?
- What improvements in efficiency and/or outputs are achievable?

In particular, benchmarking can provide insights into the following issues:

Management practices

Benchmarking can identify inefficient operations and provide insights from better managed units on how to improve performance.

The number of services provided

Economies of scope are efficiency gains made by providing more than one output. For instance, there may be gains to be made by combining the management and operation of water and sewerage services.

In some cases it may be beneficial to reduce the number of services provided by councils directly. Local councils are increasingly contracting with the private sector to provide services such as waste removal and recycling, to construct public buildings and parks, and to manage facilities such as swimming pools and road construction. On the other hand, councils may suffer diseconomies due to loss of critical mass if functions are taken away from them.

The size or scale of councils

The variation in the size of local councils is significant. One of the largest, the Council of the City of Brisbane serves approximately 800,000 people. As suggested by figure 2.1, approximately 25 percent¹⁹ of NSW local council expenditure may be classified as administration costs. If economies of scale exist in the provision of local council services, administration costs per unit of output may fall as the size of the council increases.

¹⁹ This is indicative only given the concern about data comparability.

Benchmarking can provide information on the magnitude of the economies of scale. Where these are significant, published performance data can add to the impetus for amalgamations.

3.3 Methods of benchmarking

Benchmarking generally refers to the process of measuring and comparing an organisation's performance with some standard, as a means of discovering ways to improve performance. The benchmark, a comparison point, may be the previous performance of the organisation (benchmarking over time), or the performance of other organisations (within an industry or across different industries). The term 'benchmarking' can also refer to the process of comparing an organisation's performance with the best performers in an industry.

It is useful to divide benchmarking into two categories:

- **results or performance indicator benchmarking** – assessing comparative performance
- **process benchmarking** – analysing, comparing and improving processes.

Results benchmarking, as the name suggests, measures the 'results' of a service/function and expresses this in terms of performance indicators. These indicators may measure various aspects of a service/function, including: cost, quality, effectiveness and customer satisfaction. Results benchmarking can be undertaken at a *macro* level for an organisation as a whole (or substantial components of it) or at a *micro* level for specific activities or functions. Sophisticated techniques for results benchmarking are available. The techniques seek to adjust for specific *non-controllable* or local factors which may affect performance, and to identify the most relevant *peers* for comparison.

Simpler macro performance indicators may be particularly important to customers of local government services and others outside council management. By communicating performance levels to these audiences, the accountability of local government may be enhanced. This is not to say that performance indicators are not valued by management and councillors as well. Benchmarking encourages relatively poor performers to improve their performance levels. By identifying peers, results benchmarking can enable further analysis and comparison to be undertaken. However, performance indicators cannot identify strategies for performance improvement.

Process benchmarking involves identifying an organisation's performance and practices in key areas, and making comparisons with other organisations, in order to learn how to achieve better results. As a means of driving improved performance, process benchmarking may be relatively more important to management and councillors than results benchmarking. In essence, process benchmarking is a means of identifying new and better ways of carrying out work processes, and thereby of identifying ways in which performance can be improved.

Some local councils or organisations will be found to provide certain services or perform certain functions more efficiently or effectively than others. Performance measurement and process benchmarking aim to identify those councils/organisations, and establish what makes them perform better.

It is important to realise that given the diversity in councils' operations, it may be difficult to "prove" that some councils are systematically more efficient or effective than others

overall. Nonetheless, benchmarking and/or performance measurement are likely to be useful for identifying consistently good, or alternatively, poor performers.

3.3.1 Overview of results benchmarking techniques

Various techniques can be used to measure performance. The ability to apply these techniques depends on the availability of data. Previous benchmarking studies have highlighted the difficulty of attaining accurate, comparable data.

Partial indicators (ie ones that do not include all inputs and outputs), and unit costs are commonly used to measure performance because they are easy to measure and interpret. However, they can be misleading. They can vary for reasons other than inefficiency. For example, local councils may deliver services in different environments, with a different mix of clients, or they may use different input mixes. For instance, waste collection costs per service may be higher for a certain council, but this may be due to the need to use smaller trucks and more labour in narrower streets. Another differentiating factor may be whether a recycling service is offered. Furthermore, use of partial indicators may not adequately take account of differences in service quality, ie a council may provide a service at a relatively high cost because the community demands a higher quality of service provision.

To obtain a fuller picture, several partial measures and unit costs may be used. However, they may be difficult to interpret and compare.

There are techniques which aim at establishing a global measure of overall performance. Three main techniques which can provide a global measure of performance are:

- total factor productivity indices (TFP)
- data envelopment analysis (DEA) - a linear programming technique
- stochastic frontier estimation-a regression technique.

Naturally, these global methods are more complicated to apply than partial measures. Data availability may constrain their application. The main features and advantages and disadvantages of these techniques are discussed in Attachment 8.

TFP, DEA, stochastic frontiers, unit costs and partial measures may be applied to measure the performance of local councils. Different techniques may be used to measure different functions.

The issues of how performance should be measured received considerable attention in submissions to the Tribunal.

Partial -v- global measures

There is generally strong support for partial performance measures, as opposed to global measures such as DEA. There are a number of reasons for this support.

Firstly, the data requirements for DEA and similar techniques are believed to be intensive, possibly necessitating new data collection systems. Secondly, partial measures are easier to interpret. It is easier to understand the relationship between production processes and partial measures, than to interpret complex global measures. LGSA has stated that:

“Measurement techniques that aim at establishing a global measure of overall council performance are meaningless and potentially misleading in the local government industry in view of the wide variety of services provided by councils.”²⁰

Nevertheless, DEA has been widely used in other industries and other areas of government over many years. Applications include the assessment of efficiency and productivity in areas such as agricultural production, banking, health services and policing. The Tribunal has found both TFP and DEA global techniques to be useful for assessing the potential for productivity gains in electricity distribution. The Steering Committee for the Review of Commonwealth/State Service Provision recently published a paper on Data Envelopment Analysis. This paper explains DEA’s conceptual underpinning and provides case studies, a technical guide to DEA, and programs for the application of DEA.²¹

A few councils are examining the usefulness of global indicators, as they continue to find suitable partner organisations for process benchmarking projects. In its presentation to a hearing in Sydney, Newcastle City Council commented that it was “hoping to build a statistical model that will help us ... understand roughly where we fit in the scheme of things, as a tool to help us then go and process benchmark.”²²

Such initiatives by individual councils should be encouraged. However, initial problems of data availability and a lack of expertise in relation to global techniques are likely to increase the costs of global benchmarking relative to partial measures. The application of statewide global measures should be considered in the future when data consistency and availability have been improved.

Effectiveness measures

Some submissions argue strongly in favour of the development of effectiveness indicators. The lack of these been identified as one of the major deficiencies of the current DoLG performance indicator publication (see section 4.1). Indicators of effectiveness attempt to measure how well a service provider is achieving its objectives. Effectiveness indicators have been identified as being closely related to community satisfaction, which can be measured via community surveys.

3.3.2 Overview of process benchmarking

Process benchmarking techniques are fairly easy to follow, yet they have the potential to be a very powerful organisational improvement tool. It is important that benchmarking be seen as an ongoing program. Ideas gained from contact with other organisations lead to improvements being implemented, relationships with other organisations being built up, and further improvements in the organisation being sought.

The term, ‘benchmarking’, has been applied to many different activities. The manual, *Benchmarking for Local Government: A Practical Guide* gives a concise definition:

“The process of measuring performance and practices in key areas and comparing them with other organisations in order to achieve better outcomes.”²³

²⁰ Local Government and Shires Associations submission to Issues Paper, p 2.

²¹ Data Envelopment Analysis: A Technique for Measuring the Efficiency of Government Service Delivery, Steering Committee for the Review of Commonwealth/State Service Provision, November 1997.

²² Newcastle City Council presentation to Sydney Public Hearing, 23 July 1997, p 75.

²³ The manual can be purchased from Information Victoria, 318 Little Bourke Street, Melbourne, Victoria 3000. Ph (03) 9651 4100, Fax (03) 9651 4111.

Wyong Shire Council points out that, “Benchmarking is not the only management tool, it is a subset of continuous improvement and must be viewed in that context.”²⁴

In its submission, LGSA argues that process benchmarking would enable councils to:

“systematically review their existing work processes and gain an improved understanding of their internal systems and practices...The external comparisons of processes with other councils or organisations exposes councils to better practice possibilities...Improvements in efficient and effective practices can be identified immediately, even before comparisons of processes with other organisations have commenced.”²⁵

The view that the preliminary project work of documenting and analysing organisational processes can in itself provide significant opportunities for improvement is supported by councils submissions.

Many submissions argue that process benchmarking is likely to prove more useful in improving council performance than the use of results/comparative indicator benchmarking. Other submissions suggest that both results and process benchmarking should be used. Results benchmarking can help identify areas where councils could or should improve performance, and help identify high performing organisations to work with. Process benchmarking projects can then be undertaken to identify how to improve performance.

As part of this review, the Tribunal conducted a survey of NSW councils, seeking information on a number of issues including process benchmarking. Of the 92 surveys analysed, 38 percent indicated that they have undertaken process benchmarking projects. Larger councils were more likely to have undertaken such work – 59 percent of councils with a residential population of over 10,000. compared with 14 percent of councils with residential populations under 10,000. Various functions have been and are being examined as part of process benchmarking projects by councils in NSW. Areas for evaluation include: strategic planning, building and development application processes, child care, environmental controls, library services, beach management, park and garden maintenance, staff training, purchasing and stores management, swimming pool management, sewage collection, and transport and fleet management.

3.4 Concluding comments

The Tribunal believes that performance indicators and benchmarking, when applied appropriately, are useful management tools for improving local government performance. Accountability and performance can be expected to improve with the publication of performance indicator information. Furthermore, this information should help customers of local government services to assess council performance, and allow them to question their council’s performance. While indicators will help councils’ management to identify areas *where* further performance and process analysis is required, process benchmarking will allow management to identify *how* performance can be improved.

The Tribunal believes that benchmarking and performance measurement have a role to play in improving the performance of local government. Results benchmarking will assist in identifying areas of poor performance and encourage the asking of questions. It will help councils to identify areas where process benchmarking should be best applied.

²⁴ Wyong Shire Council submission to Issues Paper, p 2.

²⁵ Local Government and Shires Associations submission to Issues Paper, p 13.

4 PERFORMANCE INDICATOR INFORMATION

This chapter examines performance indicator information for local government. It studies three aspects of information: NSW local government data, a project on national indicators, and the work of the United Kingdom Audit Commission. The chapter finds that in order to make comparisons more meaningful, further improvements need to be made to the performance information available for NSW local government. As the consistency of data improves, the NSW performance indicators will become increasingly useful, helping council management to identify areas for improvement. The dissemination of performance information to the community and other stakeholders needs to be improved to enhance the accountability of local government. The work of the Audit Commission may provide a useful model.

4.1 NSW comparative indicators

DoLG has published comparative information on councils annually since 1991. The Tribunal has received a number of comments on this publication, largely concerning the comparability of data, the scope of indicators and presentation.

Many submissions point to problems with the DoLG publication. At a public hearing, Tamworth City Council stated,

"I do not believe that many councils had systems to catch the necessary information for these statistics. There is an element of gut feeling that has come into play. Furthermore, many of the formulae components were open to interpretation and were not transparent by definition, which has further eroded confidence in the statistical data."²⁶

Bellingen Shire Council has pointed out that most indicators, either ignore policy and community differences between councils, or just measure dollar inputs.²⁷

In spite of the data and comparability problems, some councils have used the DoLG figures as a guide or starting point for further benchmarking work. Dubbo City Council comments that the data can be useful in highlighting areas which require further investigation.²⁸ Mosman Council has stated that,

"If the information is not there in the first place, then you do not have anything to compare yourself with. So whilst it is flawed to some extent, at least it enables questions to be raised and answers to be given."²⁹

The performance indicators in the DoLG publication are continually being reviewed by a Working Group established by the Minister for Local Government in September 1996. The Group considers the range of indicators, the way they are presented, and how data consistency can be improved. The Ministerial Working Group released a progress report in March 1997.

DoLG's latest report, *Comparative Information on NSW Local Government Councils 1995/96* includes a number of improvements. The 1995/96 publication reports on 24 key performance indicators spanning a broad spectrum of council activities including:

²⁶ Tamworth City Council presentation at Armidale Public Hearing, 20 August 1997.

²⁷ Bellingen Shire Council submission on Interim Report, p 1.

²⁸ Dubbo City Council submission on Issues Paper, p 3.

²⁹ Mosman Municipal Council presentation at Sydney Public Hearing, 18 August 1997, p 274.

- financial and corporate activities
- library services
- domestic waste management and recycling services
- road services
- sewerage services
- water supply services
- planning and regulatory services
- environmental management and health services
- recreation and leisure services
- community services.

Examples of the indicators used are: debt service ratio, cost per service for domestic waste management, and median time taken to determine building applications. These performance indicators have been developed and refined in consultation with organisations including LGSA and the Institute of Municipal Management.³⁰

In response to the Working Group's recommendations, DoLG has made important improvements to its latest report. These include:

- revising the grouping of councils to make comparison more meaningful
- adding contextual data including population and growth rates for each council. There is also some contextual information for each performance indicator, outlining factors which can impact on indicators
- identifying factors which may influence each key comparative performance indicator
- including time series comparisons. A 2-year performance data series for 1994/95 and 1995/96 is presented
- using charts and tables similar to those in the UK Audit Commission publication, *Local Authority Performance Indicators*.

The Tribunal believes that there is scope for further improvement, including:

- *Data Comparability.* The Tribunal is concerned about the extent of variation of administration costs for councils in DoLG's database. If overhead/administration costs are not allocated on a consistent basis, the cost information on other activities will not be comparable.
- *Scope of indicators.* The local community's satisfaction with Council's performance is not recorded.
- *Presentation.* The publication needs to be more user friendly. Greater reliance on the visual presentation of information *will communicate more readily with ratepayers and the community.*
- *Timeliness of the report.* To allow DoLG to publish fresher data, Councils need to provide data promptly.

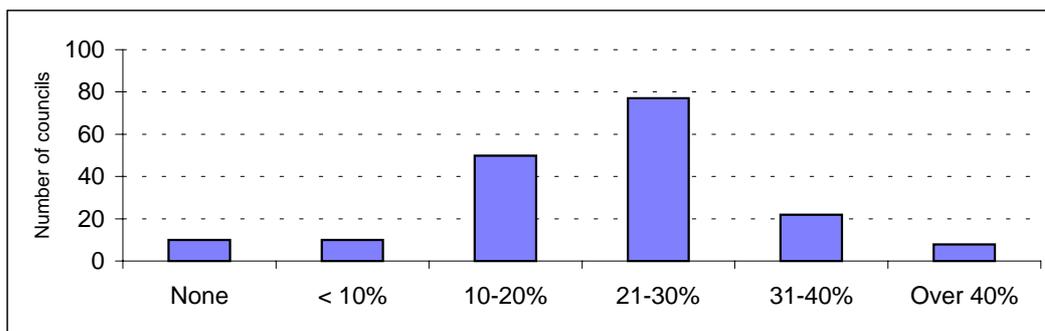
³⁰ Draft Report on Comparative Performance Review, Ministerial Working Group, March 1997.

Comparability

Defining the data to be used to calculate the performance indicators, defining the indicator itself, are open to interpretation. More detailed guidelines on how the indicators are defined and constructed, and guidelines on other issues, such as the costing of activities (particularly the distribution of indirect costs and corporate overheads), would assist in comparing like with like.

In the Interim Report, the Tribunal raises the issue of how data on performance should be audited. Although the General Manager must certify the accuracy of the data, there appear to be problems with comparability. For example, there is considerable variation in the proportion of administration costs as a percentage of total expenditure (see Figure 4.1). This may be occurring as a result of differing cost tracking system and cost allocation methodologies, accounting practices and/or insufficient checking once the database has been compiled.

Figure 4.1 : Administration costs as percentage of total expenditure reported by NSW councils



Source: DoLG data base

As part of its data collection for 1995/96, DoLG required administration costs to be further classified into corporate support, engineering & works, and other support services. It is not clear how the administration costs should be allocated to other activities.

Many councils agree that the reliability of indicators should be improved. Emphasis is placed on the need improve the definitions and guidelines for compiling indicators.³¹ Orange City Council notes that recommendations in the Interim Report regarding clear guidelines on how the indicators should be constructed are supported.³² Hunter's Hill Council argues:

"If there is agreement on standard KPIs applicable to each Council, it would be simple for the existing auditor to sign off a Return of Comparative Information."³³

The Tribunal recommends that greater attention be given to providing clear definitions for indicators, and guidelines on how they should be calculated. Greater attention should also be paid to checking and auditing the data.

³¹ See, for example, Hurstville City Council submission to Interim Report, p 2.

³² Orange City Council submission to Interim Report, p 1.

³³ Hunter's Hill Council submission to Interim Report, p 8.

Under the Local Government Act, councils independently appoint a financial auditor for a fixed term under a competitive tendering process. The Tribunal accepts that it is cost effective for the appointed auditor to audit the council's performance data and performance indicators, subject to clear specifications by DoLG. It is important, however, that the NSW Government periodically review the effectiveness of local government auditing in general.

Scope of indicators

Many submissions raise the issue of which indicators should be calculated. For example:

- The Australian Consumers' Association suggests that performance indicators for energy conservation and food hygiene regulation be included in any future national indicators of local government performance.³⁴
- The NSW Fire Brigades raises the importance of benchmarking emergency services.³⁵
- The Upper Parramatta River Catchment Management Coalition advocates publishing performance indicators relating to ecologically sustainable development.³⁶ This concept is supported by the EPA, which would like to see measures relating directly to environmental performance included in future publications.³⁷ The importance of environmental indicators is also highlighted in the submission by the Hawkesbury Nepean Catchment Management Trust.

There is considerable support for a measure of effectiveness to be included in the DoLG comparative indicators. Berrigan Council maintains that it is vital that effectiveness indicators be developed.³⁸ Dungog Council states that comprehensive performance measurement needs to include effectiveness measures, including customer service measures, to reveal whether the needs of local communities are being met.³⁹

The indicators in the DoLG publication do not assess community satisfaction with councils' performance. Victoria has recently introduced a pro forma to measure communities' satisfaction with council performance using a standard questionnaire for residents. The Victorian Office of Local Government plays an important role in this process.

LGSA is concerned about the ability of smaller councils to participate in a statewide program of community satisfaction measurement. One way forward may be to develop a standard survey which can be used consistently by all councils.

Presentation

The presentation of DoLG's 1995/96 comparative indicators represents a substantial improvement over earlier publications. Some data is presented in graphical form. This will be particularly useful for councils.

Nevertheless, improvements in presentation need to be considered. In particular, it is necessary to strike the right balance between providing a clear, graphical presentation of information and providing sufficient information to enable the information to be interpreted accurately. The UK Audit Commission's publication provides a useful model.

³⁴ ACA submission to Industry Commission Review, p 1.

³⁵ NSW Fire Brigades submission to Issues Paper, p 1.

³⁶ Upper Parramatta River Catchment Management Coalition submission to Interim Report, p 1.

³⁷ Environment Protection Authority submission to Issues Paper, p 1.

³⁸ Berrigan Shire Council submission to Issues Paper, p 7.

³⁹ Dungog Shire Council submission to Issues Paper, p 2.

If the publication is to be effective in promoting improvement, its dissemination and target audience must be considered. In the United Kingdom, local authorities are required to publish details of their performance in local newspapers. The Tribunal considers that councils' performance indicators should be published in the local newspaper. Alternatively, pamphlets could be posted to ratepayers within two weeks of release of the DoLG publication.

Timeliness

The data in DoLG publications has been more than 12 months old at time of publication. This limits its usefulness. Publication of the 1995/96 data was delayed in part because of the incorporation of a number of improvements to information and presentation. If councils fully understand DoLG's data requirements, they could develop an information system to capture and present such data. There is no reason why local government could not submit the required data to DoLG within five months of the end of a financial year.

4.2 National local government benchmarking and efficiency program

In April 1995 Australia's local government ministers agreed to a national strategy for key performance indicators and benchmarking called the Benchmarking and Efficiency Program. The strategy involves:

- developing national benchmarking and performance indicators which measure not only unit costs, but also quality and appropriateness of specific services or functions of councils
- instituting processes for continuous improvement that enable councils and their staff to identify best practice by comparing their performance and strategies with that of other councils through informal networks of councils
- undertaking projects to develop, at a national level, specific new technologies, new practices and systemic reforms that substantially increase the efficiency and/or effectiveness of local government performance.

Funds committed to this process have been reduced, reflecting the 1996 reduction in overall funding for the Commonwealth's Local Government Development Program.

The task of developing meaningful indicators has proved difficult, due to significant differences between local governments within each state and across Australia. These significant differences relate to functions, legislation and accounting practices. The development of national indicators has been suspended pending the outcome of a review by the Industry Commission.

4.3 Industry Commission review

In 1997, the Treasurer asked the Commission to review the feasibility and value of developing nationally comparable performance indicators for local government.

The Commission's brief

The Commission was required to answer specific questions relating to performance measurement at a national level, rather than to inquire generally about the operations or funding of local government.

The Commission was to consider and advise on:

- (1) whether national performance indicators could be defined to provide:
 - (i) a tool which would assist local government with benchmarking and continuous improvement programs; and/or
 - (ii) a tool to assist the Commonwealth Minister to meet his statutory reporting obligations under the *Local Government (Financial Assistance) Act 1995*
- (2) if it was shown that national indicators could be defined to meet the objectives under (i) and/or (ii) above, the value of producing and publishing such indicators, and the areas for which indicators might be developed
- (3) if it was found that there is demonstrable value in producing national indicators, how the development of such indicators could proceed to ensure meaningful results
- (4) If it was found that national indicators cannot be defined, whether an alternative mechanism for reporting nationally on local government performance could be determined.

The Commission's report

In October 1997, the Commission released its report on the development of nationally comparable performance indicators for local government.⁴⁰ The key finding was that a nationally consistent approach to performance measurement for the local government sector is not warranted at present. However, the report acknowledges that the development and use of a nationally agreed set of comparable performance indicators may be a desirable long term goal. The Commission considers that as state and territory systems evolve, and as the parties involved learn from each other, convergence on best practice use of indicators is possible. It is believed that in time this process could produce a more robust system of national performance indicators, a system which has the commitment of the key parties.

The Commission concludes that there would be considerable benefits to the community in improving the existing performance measurement systems used by councils. These systems should be improved by:

- agreeing the policy objectives of local government, describing each service in terms of measurable outcomes, and then developing indicators of efficiency and effectiveness
- providing more information on the context in which services are delivered.

These conclusions of the Commission are consistent with recommendations made by the Tribunal in this report. As discussed in sections 6.3 and 6.4, for performance measurement to be effective, organisational and service objectives must be clearly defined. The need to improve the DoLG publication is discussed in section 4.1.

There appears to be general support for a national framework of local government data collection. Increased ability to identify best practice and comparable councils is cited as a key advantage of a national approach.

⁴⁰ Industry Commission, *Performance measures for councils: improving local government performance indicators*, AGPS, Melbourne, October 1997.

The Tribunal acknowledges that such benefits exist. However, significant costs are likely to be incurred in establishing a national regime of local government performance measurement. The difficulties of comparing local government nationally exceed those of a statebased approach.

Given the outcome of the Industry Commission's review, the Tribunal supports the publication of comparative performance indicators on a statewide basis.

4.4 United Kingdom performance indicators

National comparative performance indicators have been published in the United Kingdom (covering England and Wales) since 1995. As part of the Citizen's Charter, local authorities and police forces are required to publish details of their performance in local newspapers, using a standard set of performance indicators. The United Kingdom Audit Commission has developed these indicators with assistance from local government and through surveys of the general public. As well as current performance, the publications show year-on-year changes, allowing readers to identify how a particular council is performing relative to other councils, and to assess how its performance has changed over the past year. Local authorities in England and Wales provide a wider range of services than local councils in Australia. Such services include hospitals, education and police.

The indicators have received significant media attention and are widely regarded as contributing to improving the efficiency and effectiveness of local government in the United Kingdom.

Supplementing the performance indicator publications are a range of other releases including guides to the indicators (which provide readers with definitions of the indicators), and information on how performance is measured, and how the indicators are selected.

The presentation of performance information by the Audit Commission appears to be well regarded by local government in NSW and other industry players. For each performance indicator, the Audit Commission provides some commentary on the service being provided and the performance measure. Ahead of statements of performance outcomes for each local authority, a summary of performance outcomes is given. An example of this is shown below for library services. The indicator published by the Audit Commission is "*Number of books and other items issued per 1,000 population*". Results are summarised into London boroughs, metropolitan councils, county and Welsh district councils, and overall results for England and Wales.⁴¹

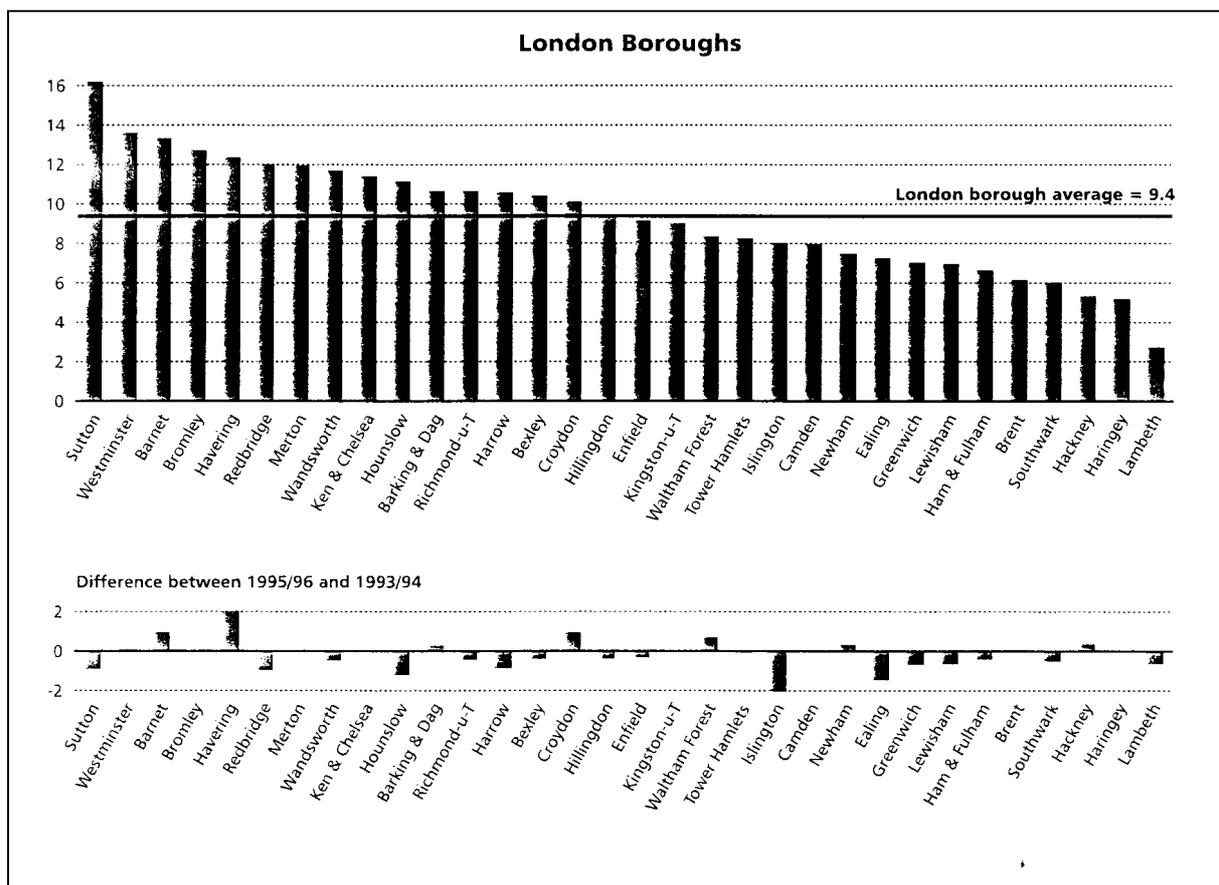
⁴¹ Audit Commission, *Local authority performance indicators 1995/96*, vol. 1, Audit Commission 1997.

Table 4.2 Number of books and other items issued per 1,000 population

Type of Council	95/96 average	94/95 average	93/94 average	Difference
London Boroughs	9.4	9.5	9.7	-0.3
Metropolitan councils	8.9	9.3	9.7	-0.8
County and Welsh district councils	9.7	9.9	10.2	-0.5
England and Wales	9.4	9.6	9.9	-0.5

The presentation of results for London boroughs is given below (Figure 4.2). Performance indicators are presented in graphical form, with a group average imposed in the graph. The change in performance over recent years is also shown. Similar presentations are also given for metropolitan councils, English counties, and Welsh library authorities. Results for each local authority are then shown.

Figure 4.2 Number of books and other items borrowed per head of population



Source: Audit Commission (England and Wales), Local Authority Performance Indicators 1995/96, Volume 1

The role of the Audit Commission goes well beyond the production and publication of performance indicators. Local Authorities in the United Kingdom have a duty to achieve best value in their operations. This links in with one of the Audit Commission’s functions, which is to promote efficiency and effectiveness among local authorities. In order to achieve this function, the Commission publishes details of performance in relation to targets. The appropriateness of the performance indicators and the robustness of the targets are audited by the Commission.

4.5 Assessment and recommendations

Performance indicators help management to identify possible shortfalls and measure them against achievable targets. However, performance indicators are also of value to the local community and other stakeholders as a means of enhancing the accountability of local government.

Collection of relevant and consistent data is critical. Further improvements should be made to the data collected by DoLG. This data has a significant impact on the comparability of cost efficiency. The Tribunal notes that much progress have been made by the Metropolitan and Country Public Libraries Associations (see Attachment 10).

DoLG has improved aspects of its report *Comparative Information on NSW Local Government Councils 1995/96* including the way 2-year performance data is presented, and the re-grouping of councils for more meaningful comparisons. However, the Tribunal believes there is scope for further improvement.

The Tribunal recommends that further changes be made to improve the DoLG comparative indicator publication. In particular, improvements are needed to the way in which data is presented, and in linking performance indicators to targets. The United Kingdom Audit Commission's approach to the publication and dissemination of local government benchmarking information provides a model for the DoLG publication.

The Tribunal recommends that DoLG provide clear definitions and guidelines for the construction of performance indicators. Guidelines for cost recording and allocation need to be developed in consultation with councils.

Council auditors should ensure that the performance indicator data compiled by councils each year complies with the definitions and guidelines produced by DoLG.

Benchmarking will be more effective if greater attention is paid to effectively disseminating the results.

The Tribunal recommends the provision of comparative information on councils to the community:

- ***In their management plans, councils publish the DoLG comparative indicators for all councils in their category.***
- ***Trend data should be published in management plans.***
- ***Councils should publish a comparison of indicators in local newspapers, or include this information in brochures or newsletters mailed to ratepayers. This should be published within two weeks of release of the DoLG publication. The requirements of the UK Audit Commission provide a model here.***

The Tribunal considers that the present set of indicators should be expanded to capture customer satisfaction. The Tribunal recommends the following measures be adopted, that:

- ***DoLG should continue to work with LGSA to determine whether a measure of community satisfaction should be included in the DoLG publication of comparative indicators.***

- *Each council should, on an annual basis, measure community satisfaction with its performance of the activities reported in DoLG's comparative data. DoLG and LGSA should develop a survey which can be used by all councils.*

5 PROCESS BENCHMARKING

The National Benchmarking project funded by the Local Government Ministers Conference in 1995 involved a series of pilot benchmarking studies and produced a benchmarking manual as a guide for councils. The manual, *Benchmarking for Local Government: A Practical Guide*, was distributed to all councils and has formed the basis for a series of benchmarking training workshops conducted by LGSA.

Many NSW councils have undertaken successful process benchmarking projects. Some of process benchmarking studies in NSW have been funded by the Local Government Development Program. Others have been undertaken at the initiative of individual councils and groups of councils. The projects have examined various areas including: building and development approval processes, park and garden management, libraries, children's services and engineering services. In general, although process benchmarking is often a very resource intensive exercise, participants report significant gains from the experience.

5.1 NSW projects

The following projects outline three different approaches to process benchmarking:

Newcastle City Council – benchmarking supply services

In 1995/96 Newcastle City Council undertook a benchmarking project on its supply services, including purchasing, stores and accounts payable.⁴²

Newcastle City Council has been undertaking process benchmarking projects since 1994, as part of an organisational improvement process. Its first benchmarking project examined the organisation's middle management structure, providing a framework for future projects. Since then, Newcastle has examined areas including: swimming pool management, engineering services, fleet management, maintenance services, and building assessment. The council now has a permanent resource of internal staff with skills and expertise gained in earlier benchmarking projects.

The Newcastle study commenced by identifying customers and their requirements. The processes to be examined were divided into groups for ease of review, and a flow chart of the macro and micro processes was created.

Based on this work, the project team developed a questionnaire which it sent out to 40 potential partner organisations. The questionnaire enabled the partner organisation to prepare for the Newcastle City Council visit, so that visit time could be used more efficiently. It also ensured that all issues of interest were covered, and kept the participants focused on the outcomes proposed for the exercise.

Twenty organisations responded positively to the questionnaire. Nine of these were selected as benchmarking partners. They included private sector businesses as well as other councils.

⁴² Copies of the *Benchmarking Report Supply Service incorporating Purchasing, Store and Accounts Payable* are available from Newcastle City Council, Phone: (02) 4929 9057.

The visits to these other organisations produced a large number of findings and ideas for improvement across all three areas: purchasing, stores and accounts payable.

Many changes could be implemented immediately. Some examples of these were: reducing the four required copies of purchase orders processed to two copies, altering office opening hours to better suit customers, and examining the establishment of preferred supplier agreements for the supply of bulk materials, in order to eliminate stockpiles at the depot.

Where identified changes could not be implemented immediately, or where they impacted on other work areas, they were referred to the Council's benchmarking working party for further study. The implementation of some recommendations was constrained by the existing computer system – those recommendations were set aside for inclusion in the new financial management information system.

The outcomes of the project included a reduction in the total value of store items held, increased store turnover, improved customer service, elimination of duplicated processes, increased use of information technology in supply processes, and a reduction in the supplier base.

The costs of the project were primarily staff time. In the first year, 24 recommendations from the project were implemented, resulting in annual savings of over \$100,000. In the second year, savings of \$400,000 were achieved, and it is estimated that when the project is fully implemented, savings will total \$500,000 per year.

Parramatta City Council - benchmarking children's services

In 1996 Parramatta City Council commenced a benchmarking project to identify efficient and effective practices in long day child care services.⁴³ This project was funded by the Local Government Development Program.

The first steps in the project were to select a facilitator, and to set up an industry steering committee. The project identified three key stakeholders in child care: children, parents and staff. It was believed that accreditation would work towards addressing the issue of quality care for children, so the project was divided into two streams. In relation to parent services, a Customer Efficiency project was initiated to examine customer satisfaction, cost, efficiency and value-added services. A Management Staff project was set up to look at team structures, staff roles and skills, management styles and performance monitoring.

For the Customer Efficiency project, a customer satisfaction survey was developed to measure the parent satisfaction levels with overall service quality, value for money and staff competence. The survey also asked what additional services would be the most helpful. The survey provided particularly useful results on parent satisfaction.

Criteria were established for choosing benchmarking partners: known excellence, size, industry, location, cultural environment. Numerous avenues were explored to find potential partner organisations: literature sources, benchmarking networks, industry associations, unions, staff, consultants, customers and suppliers.

⁴³ Copies of the report, *Benchmarking in Children's Services* can be purchased from Parramatta City Council's Community Development Division, Ph (02) 9806 5000.

A questionnaire was developed as part of the process analysis work. The questionnaire identified for the partner organisation, the types of issues to be covered at the visit. Private and council sponsored childcare centres were visited.

The findings had significant benefits for the childcare centres. One outcome was the development and refinement of performance indicators, which will allow centres to track the impact of recommendations following their implementation.

In relation to cost minimisation, one recommendation is to establish centralised kitchen services for the Parramatta City Council's five centres. The project estimated this will reduce food costs from \$4.04 to \$2.06 per child per day (including overheads). To address staff development, staff training and career plans are to be put in place for all staff. Customer service standards will be improved through recommendations which address communication about the centre with parents. In response to parent requests, additional services such as birthday cakes and holiday care will be available. Priorities have been assigned to the recommendations, and they are being implemented progressively over a 12 month period.

Wollongong, Liverpool, Fairfield, Hurstville, Hornsby and Newcastle City Councils – benchmarking community facility management

Community facilities can form a significant part of council operations. However, it has not been uncommon for the design, construction, management and operation of a facility to be undertaken by different teams within a council, with the result that the opportunities for collaborative planning for facilities is limited.

In late 1995, six NSW councils met to discuss benchmarking community development and community services. They agreed that there are opportunities for improvements in productivity which could be identified through benchmarking. Four working groups were established to look at: social planning, community development, children's services and community facility management.

The community facility management project gathered information about current practices in order to establish standards which would allow comparisons and analysis amongst councils, and encourage debate about best practice in community facility management. This involved: analysing current practices, noting differences in the ways councils managed their facilities, and identifying elements of a best practice model.

The model used all relevant demographic data. This encouraged the informed participation of council and community, and ensured that a strategy was in place to achieve councils' expectations regarding a balance between income generation and community use.

Individual councils will decide which improvements will assist their organisation, implement the appropriate changes, and monitor and assess progress. Then the process can be started again, to work towards further improvements.⁴⁴

⁴⁴ Copies of the report, *Community Facility Management Best Practice Checklist* can be obtained by sending a cheque for \$10, payable to Wollongong City Council, to Ms Lois Besnard, Community Services Division, Wollongong City Council, LMB 8821, South Coast Mail Centre NSW 2521.

5.2 Overview of case studies

Case studies usually commence with customer research programs, which determine customer priorities and the standards of service required. Several councils have commented that they had assumed that they *knew* the services and service standards required by the community. However, formal consultation methods such as surveys have demonstrated that without these methods, most councils' perceptions of community priorities were inconsistent with what the community *actually* wanted. For example, Burwood Council, when investigating how recycling services could be improved, conducted customer satisfaction surveys to establish what levels of service the community actually wanted. Council has advised the Tribunal that, "our ... vision was somewhat different from what we finally established, because the customer satisfaction survey changed our position quite markedly."⁴⁵ Many councils are now involving the community in decision making and in determining required service standards. This is discussed further in Section 7 of Attachment 10.

The case studies outlined above used customer surveys to identify which work areas were regarded as a priority, or identified performance gaps via comparisons of performance indicators against other organisations. Liverpool City Council comments that:

"[The] basis of process selection is a critical one and this will vary between councils...Processes should be evaluated on both importance and performance from the perspective of the user."⁴⁶

Sydney City Council submits:

"There is a need to identify and focus on services or processes which are strategically important to the organisation and which absorb a significant amount of its resources."⁴⁷

It is essential to develop indicators so that improvements achieved through benchmarking projects can be measured over time. Measuring the impact on customer satisfaction through regular formal surveys has been found to be particularly useful.

Information on how to conduct process benchmarking projects is available from many sources. The methodology for undertaking process benchmarking is fairly standard, easy to follow, and easy to tailor to different organisations. Councils which have used the benchmarking manual for local government have found it to be a valuable resource. Information is also available via the Internet, texts and journals. LGSA has set up a web site to disseminate material on process benchmarking and other workplace reform initiatives.⁴⁸ This should assist networking amongst councils. LGSA and the Institute of Municipal Management promote and assist councils with workplace improvement via conferences, workshops and newsletters.

The reports produced on process benchmarking provide excellent practical assistance on how to carry out such projects. Parramatta City Council has indicated that the availability of a report outlining the steps and outcomes of its study was of great benefit to the Council when handling inquiries and assisting other organisations with process benchmarking. The production of detailed final reports benefits the Council which carried out the project, as well as the industry as a whole, and other organisations.

⁴⁵ Burwood City Council presentation to the Tribunal at the Public Hearing , 3 March 1998, Transcript p 29.

⁴⁶ Liverpool City Council submission to Issues Paper, p 3.

⁴⁷ Sydney City Council submission to Issues Paper, p 1.

⁴⁸ See www.lgsa.org.au.

Although undertaking process benchmarking projects is a resource intensive exercise, the outcomes of improved organisational performance make it a worthwhile process to pursue. Wollongong City Council comments:

“Any costs associated with benchmarking are likely to be offset but the (full) return on the investment allocated to benchmarking...will be (realised) over a longer time frame...Some of the benefits will be reflected in the quality of services and improved customer satisfaction. These types of improvements are hard to quantify in terms of dollar savings.”⁴⁹

Submissions to the review and discussions with councils and industry organisations indicate that process benchmarking projects are of value in improving organisational performance. Tweed Council comments:

“The one way to produce real tangible benefits to the organisation and community is to focus your energies on process benchmarking.”⁵⁰

WSROC comments:

“The advantages of benchmarking are: increased awareness of customer needs and expectations, the focusing of goals on outcomes rather than process, the development of productivity measures, the maintenance of competitiveness, increased organisational learning through awareness of industry best practices, and demonstrating the level of performance achieved to key stakeholders. That...is what we see to be a key outcome of the benchmarking exercise.”⁵¹

A few councils have commented on the difficulties of finding benchmarking partners amongst government organisations. One council has commented that finding partners was difficult as little work had been done in the industry, and very little in the community services sector it was working in. The partner organisations found weren't necessarily “best practice” partners, nor were they necessarily performing better than the council. Nonetheless, all visits proved very useful and generated many ideas for improvement.

Some submissions to the review comment on the use of syndicate or group approaches to benchmarking, which allow the pooling of resources (eg see the water and sewerage project, Attachment 6). The benefits, particularly in terms of cost-effectiveness, can be significant. Groups can pool resources such as expert facilitators, and work together to develop performance indicators and other project components. In its submission, Wyong Shire Council, mindful of how difficult it is for small councils to undertake benchmarking projects, suggests that where possible, larger councils should work with small councils in undertaking such projects.⁵²

Disadvantages of a group approach may include the increased difficulty of maintaining the momentum of projects when more than one organisation is involved, and difficulties with benchmarking visits where different councils may have differing agendas. There may also be problems if none or few of the councils involved have previously undertaken process benchmarking projects; there may be widely differing skill and knowledge levels amongst the participating organisations.

The experiences of councils with process benchmarking projects provide a number of useful tips or lessons for other councils. For example:

⁴⁹ Wollongong City Council submission to Issues Paper, p 3.

⁵⁰ Tweed Shire Council presentation at Armidale Public Hearing, 20 August 1997.

⁵¹ Western Sydney ROC presentation at Sydney Public Hearing, 18 August 1997.

⁵² Wyong Shire Council presentation at Sydney Public Hearing, 23 July 1997.

- There may be significant benefits where a group of councils jointly undertakes benchmarking projects, as long as the participants are aware of the potential pitfalls of this approach
- Many councils have emphasised the need to calculate the resources that will be required for the full term of the project. "Certainly, an organisation contemplating benchmarking needs to appreciate the level of commitment and resourcing that will be required."⁵³
- Some councils have experienced problems with over-ambitious projects - trying to cover a wide range of work processes at once. This can lead to an over-emphasis on collecting and comparing performance statistics, and resource problems.

A national project on process benchmarking, described in Attachment 11, also provides some critical success factors for projects.

The Tribunal suggests that the following types of services should be the subject of benchmarking studies:

- services and functions which are identified by the community as priority areas for improvement
- areas that offer the greatest potential for cost savings and/or performance improvement
- services and functions that are performed by the majority of councils.

5.3 Assessment and recommendations

Process benchmarking can help improve the efficiency, effectiveness and quality of service delivery. NSW councils have already undertaken many process benchmarking projects. Some have been on the initiative of councils, or groups of councils, as part of ongoing quality or continuous improvement programs. Others have been funded through the Local Government Development Program. Work processes examined include: building and development approval processes, libraries, children's services and engineering services.

Having considering the benchmarking projects undertaken to date, and stakeholders' comments, the Tribunal concludes that process benchmarking can produce significant benefits for councils and their communities, and that this work should continue.

Submissions to the Interim Report indicate that the dissemination of information on process benchmarking projects and outcomes could be further improved. A number of industry organisations, including DoLG, LGSA, the Regional Organisations of Councils (ROCs), Institute of Municipal Management and Institute of Municipal Engineering Australia are:

- providing advice and assistance with networking
- facilitating the exchange of skills and knowledge amongst councils.

Ready access to case study material, and to contacts in councils which have undertaken successful benchmarking projects, will provide guidance to councils which have not yet embarked on process benchmarking. The dissemination of case study material will, in itself, assist networking and knowledge exchange amongst councils. Dissemination may best be undertaken by one organisation. LGSA has set up a benchmarking and best practice

⁵³ *Local Government Development Program Benchmarking Project Engineering Services (Gosford, Liverpool, Newcastle, Sutherland and Wyong Councils) Final Report May, 1997* Productive Solutions, p 77.

information centre. All councils are encouraged to contribute to and make use of this service. It may be effective to have a single organisation serve as the clearing house for best practices and case material.

The Tribunal recommends that:

- ***Local government continue to benchmark its performance, between councils and with the private sector. To minimise the costs of benchmarking and to achieve optimum outcomes, councils, in particular, smaller non-metropolitan councils, should participate in joint projects where possible.***
- ***Benchmarking should be applied to those areas which:***
 - ***constitute a significant proportion of expenditure***
 - ***offer the greatest potential for cost savings, and***
 - ***are identified by the community as requiring improvement in service standards.***
- ***One industry organisation (such as LGSA) should act as the clearing house for best practice and case study material.***

6 IMPROVING LOCAL GOVERNMENT PERFORMANCE

In previous chapters the Tribunal has concluded that performance indicators and benchmarking can play an important role in improving the accountability and performance of local government.

It is important to note that:

- Performance indicators and benchmarking should not be seen as an end in themselves. They are means of achieving more effective and efficient provision of services.
- Performance indicators and benchmarking are only two of many policy initiatives and management improvement tools available to organisations. However, there are important interrelationships between performance indicators, benchmarking and these other initiatives and management tools.

This chapter examines a range of other policy initiatives and management tools in this context.

6.1 Government policy initiatives

6.1.1 Transparency

The performance and activities of local government are coming under increased scrutiny. Many factors have led to, and are continuing to lead in this direction, for example:

- The *Local Government Act 1993* liberalised the management of local councils, placing them on a more accountable, performance orientated, and competitive footing
- Ongoing reforms to development approvals processes
- NSW Government guidelines on competitive tendering and competitive neutrality.

Increased application of benchmarking will make local government performance more transparent.

6.1.2 National Competition Policy

Under the National Competition Policy, previously 'sheltered' sectors of the economy must now comply with competition policy (eg Trade Practices Act).

One of the major areas of reform is water and sewerage services. Local government operations will obviously be affected by these changes.

The NSW Government has released a statement on the application of National Competition Policy to local government. Guidelines for competitive tendering, and for pricing and costing council businesses for competitive tendering have been released by the NSW Government. These are likely to influence efficiency and performance levels.

6.1.3 Rate pegging

Several submissions to the Tribunal comment that rate pegging reduces incentives for efficiency and blurs accountability between state and local government. Rate pegging may permit councils to increase rates to the full limit with political impunity. Equally, to attain

higher service quality, communities may be willing to pay rates higher than those permitted by the limit. By not differentiating between councils, rate pegging can lead to undesirable consequences because it does not sufficiently take into account the varying circumstances of councils. LGSA states:

“Rate pegging is an unnecessary and inefficient intervention which is at odds with the principles of Local Government autonomy and accountability. Rate pegging has the potential to reward poor management and promote inefficiency in that it impacts on council revenue and does not take account of expenditure demands.”⁵⁴

Woollahra Municipal Council submits that:

“This principle [rate pegging] assumes that the community does not wish to pay for its present and future needs...Rate pegging does not allow for any relationship between the needs of the locality, the age of its infrastructure and the specific growth pattern or needs of a community.”⁵⁵

DoLG administers the rate pegging scheme and makes recommendations to the Minister for Local Government, who decides on rate increases above the limit. DoLG supports the scheme.⁵⁶

“Rate pegging embraces accountability by forcing councils to set priorities and explain the reasons for making decisions...the rationale for rate pegging is that it requires councils to monitor their expenditure and helps limit the overall level of government spending.”

At present, the administration of rate pegging allows councils a two year catch-up period. That is, where councils do not increase their rates by the full allowable amount, they have two years to effectively “catch up” on this delayed revenue. Councils can apply for an increase in rates above the initial allowable limit. Where such an increase is approved by DoLG, this increase is built into the rate base for future periods. In 1996/97, approximately 40 councils were granted an additional increase above the limit set initially.

The publication of management plans and annual reports requires councils to set priorities and explain the reasons for making decisions. However, it is questionable whether the aims of management plans, as outlined in the *Local Government Act 1993*, are currently being fully met by all councils in NSW. Even if more stringent requirements for management plans and their surveillance, and a more comprehensive performance monitoring system are implemented, it is not certain that the pressure for increased efficiency resulting from these measures will be sufficiently strong to permit rate pegging to be relaxed.

Victoria has linked performance indicators to the removal of rate capping for councils. Although rate capping will be suspended from 1998/99, councils seeking to raise rates are required to comply with the key performance indicators program. The Victorian Government will regularly review, monitor and benchmark the cost and quality of council services through its key performance indicators program. Compliance will be demonstrated by:

- Submission by councils of an annual business plan including individual targets for each annual plan indicator by 30 June each year, and
- Submission of the Comparative Indicators data input module⁵⁷ by 31 August each year.

⁵⁴ Local Government and Shires Associations submission to Issues Paper, p 1.

⁵⁵ Woollahra Municipal Council submission to Issues Paper, p 6.

⁵⁶ Department of Local Government submission to Issues Paper, p 4.

⁵⁷ Victorian councils are required to complete an annual return on performance indicators to the Office of Local Government.

Although the Tribunal has studied the Victorian approach with interest, it has concluded that a limit on rate increases is needed in the present circumstances in NSW.

The Tribunal considers that a mechanism for limiting rate increases should:

- Provide strong incentives to contain costs and encourage continuing efficiency improvements. Rate regulation should be forward looking rather than backward looking.
- Take into account local circumstances, customer priorities, quality of supply and any environmental issues
- Take into account the costs of similar councils and not just an individual council's own costs
- Provide a mechanism for distributing the benefits of efficiency improvements to the local community
- Be transparent and consistent
- Minimise costs of administration, compliance and verification.

Of course, it is difficult to achieve all these objectives at once. In the Interim Report, the Tribunal recommended use of rate capping according to a CPI-X formula as a reasonable compromise. A number of submissions to the Interim Report oppose the use of a CPI-X rate capping mechanism. The main concern expressed is that application of CPI-X would result in continued reductions of rate income in real terms. Orange City Council argues that CPI increases in any form could be as restricting as rate pegging.⁵⁸

There is support for a review of the rate regulation process:

- Parramatta City Council maintains that rate pegging does not allow councils to take the initiative in managing themselves as demanded by competition policy frameworks.⁵⁹
- Wyong Shire Council maintains that the rate pegging legislation is not the best alternative and that a review, with adequate input from councils and communities, would be a positive step.⁶⁰

Councillor Alex Sanchez of Liverpool Council has expressed support for the idea of "a CPI - X model", but has urged the Tribunal to "look at the X being set for particular types of councils."⁶¹

Implementation of a CPI-X form of regulation could result in X being set for individual councils or groups of councils, eg for remote councils, inner metropolitan councils, or for areas experiencing high growth levels. In some instances, the formula may be CPI+X, an overall real increase in rates.

Under a CPI +/-X rating regulation, the X factor reflects the expected reduction (or increase) in real costs. In determining the X factor, a range of issues should be considered, including: efficient costs, relative costs, the costs of councils with a similar operating environment, financial capacity, funding needs for capital expenditure, customer priorities, and quality of supply.

⁵⁸ Orange City Council submission to Interim Report, p 2.

⁵⁹ Parramatta City Council submission to Interim Report, p 2.

⁶⁰ Wyong Shire Council submission to Interim Report, p 2.

⁶¹ Councillor Alex Sanchez presentation to Sydney Public Hearing, 3 March 1998, p 44.

Rate cap regulation can be undertaken on an annual basis, once every two years or over a period of three to five years. On a medium-term basis regulation will provide councils with greater certainty about revenue levels. Any cost savings made in this period would be retained by councils, and could be used to expand services and/or increase the quality of service delivery. Similarly, any under-recovery of rate levels under CPI +/- X regulation could be carried forward to future years. These incentives are lacking under the current rate regulation mechanism.

The Tribunal recommends that:

- ***The State Government should consider alternatives to the current rate pegging mechanism. One alternative would be to regulate rate increases using a CPI +/- X formula for a period of three to five years, where X could be set for individual councils or groups of councils.***
- ***Any review of rate pegging may need to be undertaken in conjunction with a review of other local government accountability mechanisms, and may need to take into account any structural changes to local government.***

6.1.4 Other revenue restrictions

In addition to rate revenue, councils receive funds from other sources including grants, fees and charges. Some submissions suggest that these revenues impact on the efficiency of council operations. For example, it has been stated that the grants process encourages inefficiency:⁶²

“The Federal Assistance Grants Act 1995 provides a direct grant for local government on the basis of formulae determined by each state through the Grants Commission to equalise the effect of remoteness and size. These formulae actually create and encourage inefficiency by retaining small institutions...[It has been proposed] that the grant formula should not fully and automatically compensate councils to the full extent of higher overhead costs associated with remoteness and size as it reduces the incentive to form larger organisations or to become more efficient.”

The State Government sets a number of fees and charges. The issue of statutory constraints on fees and charges and the inability to apply user-pays principles has been raised during the inquiry. Woollahra Municipal Council has argued:⁶³

“We do need to address far more the user-pays issue because a lot of what we do is for a small sector of the community. We are limited by statutory fees. DA and BA applications are a prime example of the community actually subsidising developers...One of the first things I would like to see addressed is the deregulation of fees so that each council can properly charge developers for their activities within any council area.

Another matter that could be addressed is the delivery of social services. One thing I have seen more and more is that there is a devolution from both Federal and State governments into the local government arena of things to do with child care and health and yet, we are not reimbursed for it. Again, council rates are, to my mind, now being used to subsidised services that Federal and State governments in the past used to address.”

Southern Sydney ROC reiterates the issue that development control is currently being subsidised.⁶⁴

⁶² Stephen Soul, Southern Cross University submission to Issues Paper, p 3.

⁶³ Woollahra Municipal Council presentation at Sydney Public Hearing, 23 July 1997.

⁶⁴ Southern Sydney ROC submission to Issues Paper, pp 2-3.

“Councils need more flexible revenue raising capabilities. Rate pegging and the imposition of limits on statutory fees and charges dramatically hamper councils’ ability to meet their escalating fiscal responsibilities.”

The Tribunal notes that the Premier has recently referred the issue of local government fees for development control services to it for inquiry.

The Tribunal has been informed that the grants process and the imposition of statutory fees and charges are inequitable and inefficient. Such impositions may influence the performance levels that councils can achieve. Although the *Local Government Act 1993* was meant to increase the autonomy, responsibility and performance of local government, there appear to be potentially significant impediments to councils pursuing efficiency improvements and related reforms.

6.2 Economies of scope and scale

Submissions to the Tribunal raise several issues that may impact on the efficiency and performance levels that local government can achieve. A key issue is economies of scope and scale.

There are ways of benefiting from economies of scope and scale. LGSA is “actively encouraging councils to explore the opportunities that may be realised through co-operative service provision and structural reform.”⁶⁵ To this end, LGSA has released a discussion paper, *Voluntary Structural Reform in NSW Local Government*. LGSA is assisting councils to investigate the full range of aspects of structural reform, ranging from “no change, through to resource sharing, service agreements between councils, joint enterprises between councils to provide services for participating councils, boundary changes, and amalgamation, or some combination of these.”⁶⁶

6.2.1 Economies of scope

Submissions commenting on economies of scope generally acknowledge that such economies exist. LGSA states that economies of scope exist for the range of services typically provided by councils. Examples include the grouping of water and sewerage, and the grouping of planning, building, and economic development functions. Providing a range of engineering services, eg road construction, general construction, and parks and gardens maintenance, also allows for economies of scope.⁶⁷

Thus, economies of scope may be achieved by the combination of related functions, eg waste disposal and recycling.⁶⁸ There are advantages if a council can co-ordinate services associated with urban development (such as planning, waste collection, roads and drainage), as well as water and sewerage services.⁶⁹

The application of benchmarking to local government may provide some insights into economies of scope. The potential for achieving economies of scope should be assessed by each council.

⁶⁵ LGSA submission to Issues Paper, p 15.

⁶⁶ LGSA submission to Interim Report, p 6.

⁶⁷ LGSA submission to Issues Paper, p 14.

⁶⁸ Lake Macquarie City Council submission to Issues Paper, p 6.

⁶⁹ Department of Land and Water Conservation submission to Issues Paper, p 16.

6.2.2 Economies of scale

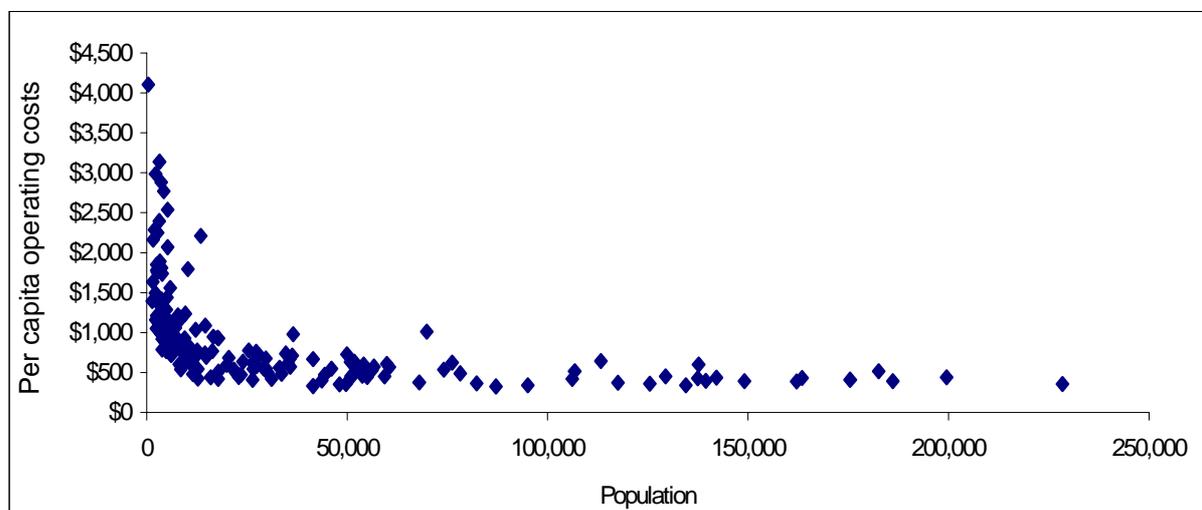
Many submissions to the review argue that economies of scale exist in the provision of local government services. Benchmarking could play a role in identifying any economies of scale, and measuring the performance improvements potentially available from such economies. The National Office of Local Government states:⁷⁰

“Councils cannot operate efficiently if they are denied specialised resources and economies of scale through inappropriate/outdated boundaries. Inefficiency from inappropriate and/or outdated boundaries is often reflected in a high dependency on grants, especially Financial Assistance Grants, and a lower than normal range and/or standard of service...Councils will also be able to attract expert professional staff, a move that would enable further efficiencies and/or better services.”

Sutherland Shire Council also states that a larger organisation has the ability to attract a wider range of expertise. Furthermore, significant economies in the use of resources can occur within larger and stronger local government units.⁷¹

Economies of scale, if achieved, may permit a reduction in operating costs. Figure 6.1 shows the level of operating cost per capita for the 177 NSW councils, along with the size of council. It illustrates that operating costs per capita reduce with the increasing size of councils. This evidence is however suggestive rather than conclusive. Many councils with a small population may have high costs because they are located in remote, thinly populated areas.

Figure 6.1: NSW Councils’ operating expenditure per capita – v- resident population



Source: The raw data on population and operating expenses is from the DoLG 1995/96 financial data collection.
Note:

1. Operating expenditure excludes water and sewerage, and energy services.

The Tribunal has also compared per capita operating expenses in 1995/96 for urban and rural councils.⁷² There is a significant cost differential between rural and urban councils, and between very large and small councils.

⁷⁰ National Office of Local Government submission to Issues Paper, p 14.

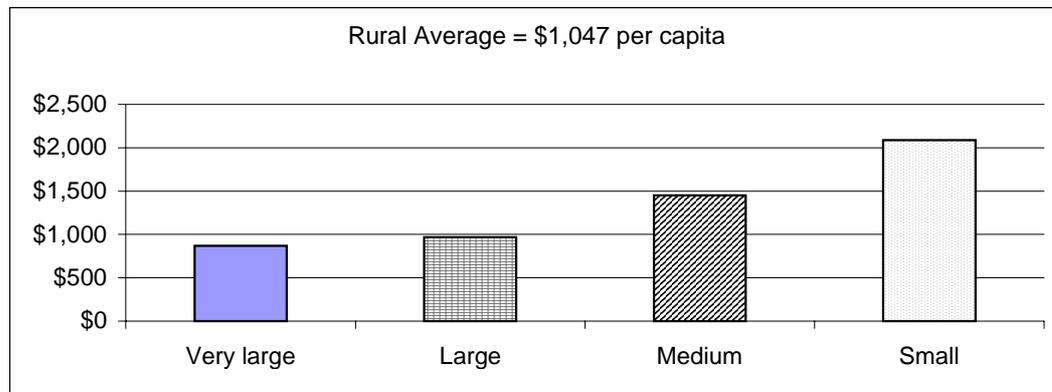
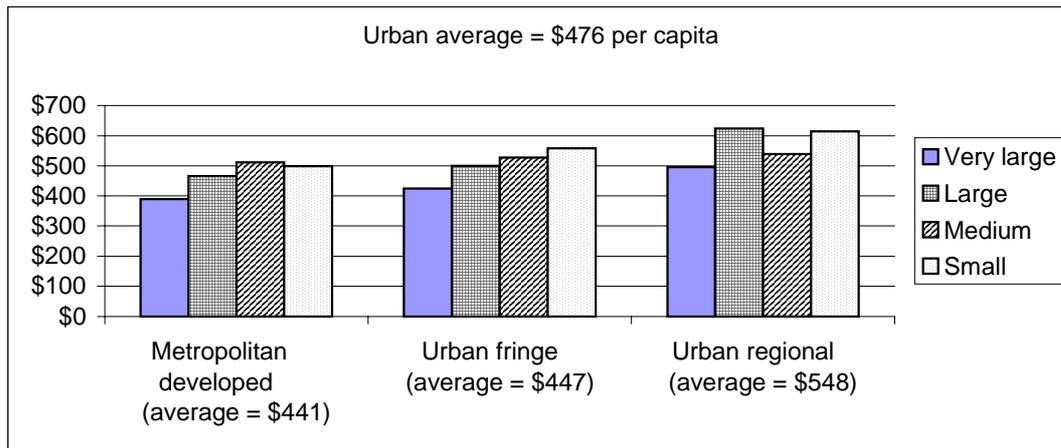
⁷¹ Sutherland Shire Council presentation at Sydney Public Hearing, 23 July 1997.

⁷² Councils are grouped as, ‘very large’, ‘large’, ‘medium’ and ‘small’ in accordance with the Australian Classification of Local Government.

The per capita cost differential between very large and small councils is 28 percent of the average cost for metropolitan developed councils and 136 percent of the average cost for rural councils. These cost differences are due to differences in: the types and quality of services provided, location, costs of governance, local circumstances, councils' efficiency, and economies of scale. As there is a lack of empirical evidence on the issue of economies of scale in local government, the Tribunal suggests that more research work be undertaken.

Figure 6.2: Operating expenses \$ per capita in 1995/96

(excluding the provision of water, sewerage and energy services)



Source: DoLG's 1995/96 data base

Note:

1. The groups are based on the Australian Classification of Local Government. The groupings are shown in Attachment 7.
2. There is only one council in the category of 'urban regional large' and 'urban fringe small' respectively.
3. Sydney City Council is not included in the comparison as it has been classified as a separate category, 'urban capital city'.

Tweed Council comments that "there is significant evidence to suggest that large metropolitan councils benefit from the scale of operations, not only because of [the] compactness of the region, but also the competitiveness of the market place in which they operate. For rural organisations, particularly councils of a relatively small size, the

opportunity of resource sharing, and co-operative arrangements have the potential to produce real cost savings to the local constituents."⁷³

The State Chamber of Commerce's view is that there are many cases where amalgamation would reap benefits by streamlining the use of resources. However, it cautions that this is not an automatic outcome of amalgamation. It "depends very much on the management of the change process." The State Chamber indicates support for "differential treatment of council areas [in regard to amalgamation,] depending on whether they are metropolitan, regional or rural, and also with reference to particular circumstances within those broad bands."⁷⁴

The Property Council of Australia is a major client of local government, both as a receiver of council services and as a participant in the development control process. This organisation is strongly in favour of benchmarking local government to promote higher service standards. It also supports the amalgamation of metropolitan councils:

"The inquiry should look at benchmarking the structural efficiencies of local government in NSW,...with the objective of rationalisation of councils particularly in the Sydney greater metropolitan region. The boundaries are nebulous in Sydney now, and we can't see the justification for 41 local governments anymore. We believe that the amalgamation issue [is one of the] greatest impediments to local government performance in NSW."⁷⁵

Research by Southern Cross University suggests that the viable size for local government units in high population density areas ranges from 50,000 – 240,000 residents. However, they can be significantly larger than this, as Brisbane City Council illustrates. Other studies conclude that the most economical size for a council is around 250,000 constituents.⁷⁶

The evidence suggests that a council's cost of operation falls with the size of the council. This is true for councils as a whole, but also for groups of councils (urban, rural etc). There are many reasons for these differences, but they seem to verify that economies of scale are important. Other evidence presented to the Tribunal also supports the importance of economies of scale.

Local government needs to explore means of better capturing economies of scale and scope.

Resource sharing

Many submissions indicate that resource sharing can provide economies of scale. Cabonne Council advises that it is "currently involved in a number of resource sharing projects ... providing economies of both scope and scale without the loss of local governance to the local community."⁷⁷

Details of current resource sharing projects are included in Section 8 of Attachment 10. The support being provided by LGSA appears to be of significant assistance to councils and their communities. The benefits of resource sharing include economies of scale, the potential for substantial cost savings, and improved planning outcomes.

Resource sharing is being implemented by informal groupings of neighbouring councils, and through Regional Organisations of Councils (ROCs.)

⁷³ Tweed Shire Council submission to Issues Paper, p 10.

⁷⁴ State Chamber of Commerce submission to Interim Report, p 1.

⁷⁵ Property Council of Australia presentation at Sydney Public Hearing, 18 August 1997.

⁷⁶ Bankstown City Council presentation at Sydney Public Hearing, 23 July 1997.

⁷⁷ Cabonne Council submission to Interim Report, p 1.

Regional organisations of councils

ROCs have been formed to share information and resources. They also arrange services such as waste collection through contracts covering several councils. ROCs can be especially effective in drawing attention to regional issues. Grants for regional projects, such as tourism development, are sometimes awarded to ROCs. Councils also combine to form county councils to provide services such as water and sewerage. Performance measurement and benchmarking may indicate whether, and if so, how ROCs improve the performance of member councils.

Southern Sydney ROC (SSROC) has listed the main benefits of ROCs to be:

- knowledge and expertise are shared
- strategic planning is improved
- membership is voluntary, and councils feel they own the regional solution that is developed
- the pooling of regional buying power means tangible dollar savings are achieved.

However, SSROC states the main limiting factor of ROCs as being the need for consensus.⁷⁸ Bankstown City Council adds that many of the potential savings in local government are in the administration areas, and co-operative arrangements like ROCs cannot achieve this.⁷⁹ Similarly, Tamworth City Council states:⁸⁰

“The main problems with the smaller councils is that it’s not the inefficiency of the doers who are out in the field and so forth, it is the inefficiency in the administration functions required to ensure that it all happens.

The smaller councils may at a future point in time outsource their administration, for example, to the larger inland regional councils. It would be a step in the right direction for them...”

ROCs are not good vehicles for direct service delivery as:

- they have no direct political accountabilities
- they have no direct bottom line accountabilities
- parochialism can dominate instead of strategic and commercial imperatives.

Amalgamations

Structural change in local government involves amalgamations of existing councils, boundary changes, voluntary co-operation and joint action between local councils.

The restructuring of local government into larger units may enable councils to take advantage of scale economies. Furthermore, larger organisations are more likely to attract expert staff. Some of the measurable benefits of structural reform include:

- lower administration costs
- lower costs of representation

⁷⁸ Southern Sydney ROC presentation at Sydney Public Hearing, 23 July 1997.

⁷⁹ Bankstown City Council presentation at Sydney Public Hearing, 23 July 1997.

⁸⁰ Tamworth City Council presentation at Armidale Public Hearing, 20 August 1997.

- increased purchasing power and better use of depots, plant and equipment
- a more diverse funding base.⁸¹

Moreover, large councils may be more able than small councils to meet the requirements for transparency and accountability demanded by the 1993 Local Government Act. For example, they may be more effective in undertaking benchmarking, carrying out customer surveys and putting management plans into place.

Against this, amalgamation is likely to reduce local representation⁸² and accountability.

The Report of the Local Government Structural Reform Advisory Committee, *Advancing Local Government in WA*, notes a strong (inverse) correlation between size and administration cost per person. It recommends that councils investigate the benefits of amalgamations if they fail to meet two or more of three viability criteria:

- administration expense is less than 10 percent of total expenditure
- debt service is less than 33 percent of rate income
- financial assistance grant is less than 50 percent of total income.

These criteria, and the information provided previously, may be used as a rough guide to illustrate the opportunity for amalgamations between local government areas in NSW. As figure 2.1 illustrates, administration costs may constitute approximately 25 percent of total operating expenditure for NSW councils.

Currently, boundary reviews can be undertaken at the request of councils. The most recent amalgamations in NSW took place in 1980, under the *Local Government Areas Amalgamation Act*. The number of councils fell from 233 to 175. Seventeen new local government areas were formed in 1980, including Hastings, (from Hastings and Port Macquarie), and Greater Taree, from (Taree, Wingham and Manning).⁸³

Some councils support amalgamation. Cowra Shire Council argues that the potential for amalgamation should be explored as a way of "improving the delivery of service and quality to the community. Council is of the view that in the absence of voluntary amalgamations, action should be taken by the State Government to bring about such amalgamations".⁸⁴ Councillor Alex Sanchez has submitted that there should be a "boundary review every three terms of local government ... ensuring that the boundaries remain contemporary and relevant".⁸⁵

Most, but not all, councils object to compulsory amalgamations. Cabonne Council expresses a strong view that resource sharing can provide "economies of both scope and scale without

⁸¹ Reforming Australian Local Government: Forced or Voluntary Amalgamation? by Brian Dollery, Agenda Volume 4, Number 4, 1997 page 448

⁸² Some would argue that legislative or constitutional requirements for equal representation are not extended to local government. For example, a local government representative may be elected by 74 people in Windouran Council and by 15,600 in Blacktown.

⁸³ Source: Department of Local Government

⁸⁴ Cowra Shire Council submission to Interim Report, p 1.

⁸⁵ Councillor Alex Sanchez submission to Interim Report, p 4.

the loss of local governance to the community."⁸⁶ Crookwell Shire Council indicates that "forced amalgamations by the State Government are not supported in any way."⁸⁷

Against this, in its submission to the Tribunal, Baulkham Hills Shire Council states:⁸⁸

"It is this Council's belief that any future arrangements should benefit the provision of services to its ratepayers and it would be receptive to any such initiatives [voluntary associations and amalgamations]."

Some submissions suggest that opportunities for amalgamations should be explored in particular circumstances - such as in metropolitan Sydney and in regional country centres. Orange City Council emphasises the need to consider whether the many 'doughnut' councils in the State should be amalgamated with the surrounding councils.⁸⁹

In its discussion paper on voluntary structure reform in NSW local government, LGSA notes⁹⁰:

- Although there is widespread concern about the threat of forced amalgamation, there is general recognition within local government that there are benefits from greater resource sharing and boundary changes in some circumstances.
- Both boundary changes and joint action involving resource sharing, should be... accepted as compatible and not mutually exclusive elements of the structural reform process. Community interest is also an important consideration.
- A 1984 review by the Local Government Boundaries Commission of new country councils created since 1976 found unanimous agreement among the new councils that operational efficiencies had been achieved through the necessary upgrade of computer equipment. The review suggested that difficulties in achieving economies of scale had been exacerbated by administrative arrangements surrounding the amalgamations. Significantly, voluntary mergers showed evidence of positive returns which implied that economies of scale did exist, and that the management process is critical in achieving them.⁹¹

LGSA advised the public hearing that workshops were organised in April and May 1997 to explore the issue of voluntary amalgamation. Since that time, 16 groups of councils (involving 94 councils) have taken up LGSA's offer to fund facilitators to explore the matter. However, only two groups of councils have progressed to the second stage of detailed research and consideration of structural reform proposals.⁹²

Competitive tendering

Another way of achieving economies of scale is through competitive tendering. Mosman Municipal Council and Warringah Council state that smaller councils, by tendering their services and therefore entering the market place, are able to achieve economies of scale that are usually the domain of larger, metropolitan councils. Smaller councils are not able to

⁸⁶ Cabonne Council submission to Interim Report, p 1.

⁸⁷ Crookwell Shire Council submission to Interim Report, p 3.

⁸⁸ Baulkham Hills Shire Council submission to Issues Paper, p 11.

⁸⁹ Orange City Council submission to Interim Report, p 2.

⁹⁰ *Voluntary Structural Reform in NSW Local Government*, A Discussion Paper, Local Government and Shires Associations of NSW, 1997.

⁹¹ *Ibid*, p 7.

⁹² Presentation by LGSA at Sydney Public Hearing, 3 March 1998, Transcript p 21.

attain that level of efficiency if they provide all their services in-house, instead of seeking tenders.⁹³ Issues relating to competitive tendering are discussed in detail in Section 6.5.

6.2.3 Assessment and recommendations

Little structural change has occurred in local government in NSW since the early 1980s. Submissions to this review argue that further improvements can be made in efficiency and service delivery through structural reforms to local government.

Having considered the evidence presented to the inquiry, the Tribunal believes that local government should continue to review opportunities for structural change. However, anecdotal evidence suggests that voluntary structural reforms and amalgamations are extremely slow to occur.

The Tribunal recommends that:

- *LGSA should continue to encourage local government to explore the potential for resource sharing and structural reform, and in particular, opportunities for amalgamations.*
- *The progress of local government in achieving these reforms should be assessed over the next 12 months.*

6.3 Clarification of objectives

To develop meaningful performance indicators, organisations must have a clear understanding of what their objectives are. Some councils have many key performance indicators for each of their principal activities. This may point to the lack of a clear focus for their activities.

Reforms at all levels of government have achieved:

- clarification of organisational structures and objectives
- clear delineation of commercial and social or community objectives where possible
- creation of explicit community service obligation (CSO) contracts where commercial business units deliver community objectives.

The review of management plans (section 6.4) suggests that some local government areas lack a clear understanding of what their objectives are. Also, it is not clear that commercial and social objectives have been differentiated. This demarcation will be required (including the explicit identification of subsidies) to meet the State Government's guidelines for competitive neutrality.⁹⁴

6.4 Management plans and annual reports

The *Local Government Act 1993* has reformed local government significantly. The management plan process aims at involving the local community in its council's decision making processes. The community may be particularly interested in:

- whether its council listens to community views, and thus, whether the community influences council decisions

⁹³ Presentation at Sydney Public Hearing, 18 August 1997.

- how much the community pays to council, and what the community receives from council.

DoLG comments that management plans are very important for accountability, transparency, community satisfaction, and participation:⁹⁵

“The *Local Government Act 1993* heralded a new era in local government reform as the simplified legislation and operational framework gave councils greater responsibility and autonomy in their operations. Underpinning this freedom was a range of initiatives to make councils more accountable, consistent with community expectations for greater participation and scrutiny of the sphere of government closest to them.”

Local government itself also accepts that the *Local Government Act 1993* has made councils more accountable for their actions. The role of management plans and annual reports has been emphasised in numerous submissions.

The management planning process has improved the performance of councils. However, there are substantial differences between councils in the processes used to develop management plans, and the extent to which these plans meet the requirements of the Act. There may therefore be a need to review the success of council management plans, quarterly reports and annual reports. Good practices need to be identified and encouraged.

Apart from management plans, councils’ performance is also subject to external review. DoLG is responsible for investigating any complaints about a council’s operations. In addition, the Ombudsman’s Office has legislative power to investigate complaints about councils.⁹⁶

6.4.1 Community consultation and involvement⁹⁷

By making submissions on their council's draft management plan, community members are able to participate in the development of the plan. However, councils have considerable discretion in the mechanisms they use and the extent to which they consult with the community (eg through meetings and other forums). DoLG states:

“The *Local Government Act 1993* contains provisions to improve community consultation and participation, but there is no standard package. This reflects the differences between councils and the varying areas in which they operate.”⁹⁸

Councils implement a range of initiatives to involve the community in the management plan process and thus in council decisions. These include:

- surveys
- advertising (eg local papers, radio)

⁹⁴ Department of Local Government, *Pricing and costing for council businesses: a guide to competitive neutrality*, NSW Government, July 1997.

⁹⁵ NSW Department of Local Government submission to Issues Paper, p 2.

⁹⁶ In the Interim Report p47, the Tribunal states that, “The need to have council operations reviewed by an independent body is highlighted by the Ombudsman’s recent report questioning the professional conduct and diligence of Hornsby City Council’s General Manager”. The source of this statement was not stated. The Tribunal has written to the General Manager to clarify the source, which was a newspaper article in the 27 November 1997 edition of The Sydney Morning Herald.

⁹⁷ Attachment 10 contains a case study of how 3 different councils have consulted with their communities. This case study complements information provided in this section.

⁹⁸ NSW Department of Local Government submission to Issues Paper, p 3.

- precinct committees
- consultation with community groups.

Surveys conducted by councils include major community surveys which collect information on community satisfaction with present services and future priorities. Some councils have chosen to conduct these surveys every four years, coinciding with the election of councillors. More frequent surveys, often conducted on an annual basis, collect information on community satisfaction. Exit surveys of users are also conducted for particular services.

Advertising of the management plan, generally through local papers and radio stations, is used to increase community awareness and encourage participation. This seems to be particularly so with regional and rural centres. For example, Dubbo City Council advertises its management plan extensively during the 28 day period it is on public exhibition. Information about the plan is published in local newspapers, and the General Manager speaks on local radio. For each of the 28 days, a media release is circulated, highlighting a particular aspect of the management plan.

An important question is how effective these efforts are in stimulating community feedback. Councils generally receive few comments from community members regarding their management plan. Where submissions are received, they usually relate to very specific issues. For example, Dubbo City Council received only five submissions concerning its 1997/98 management plan. There were 105 responses in relation to the 1996/97 plan, the majority of which were on the single issue of whether a charge should be introduced at the art gallery.

When considering community consultation and involvement, the user-friendliness of the management plan is an issue. Examples provided to the Tribunal suggest management plans are designed for council and management purposes. They are not particularly user-friendly for community members. Some councils produce a separate, much more concise report for community members, finding these summary documents to be a useful part of their communication strategy. Perhaps these reports to the community could be made even more useful by specifically requesting community input and detailing how submissions can be made to council. The methods of consultation used by councils should be detailed in the management plan.

Several submissions on the Interim Report address issues relating to community consultation in the preparation of management plans. Armidale Council suggests that the development of model consultation guidelines based on best practice would be a useful initiative.⁹⁹ Crookwell Council suggests that surveys on specific issues may be more useful to councils than general surveys.¹⁰⁰ Lake Macquarie Council carries out a general community survey every four years, however it also supports the use of specific service surveys.¹⁰¹

The Tribunal considers that councils should make use of surveys to understand the priorities of their communities and the level of satisfaction with the services offered by councils. This survey would be additional to the general customer satisfaction survey recommended in section 4.1. The frequency of community surveys should be decided

⁹⁹ Armidale City Council submission to Interim Report, p 1.

¹⁰⁰ Crookwell Shire Council submission to Interim Report, p 4.

¹⁰¹ Lake Macquarie City Council presentation to Sydney Public Hearing, 3 March, 1998, p 59.

taking account of council's business planning cycle, local conditions and the resourcing requirement.

The Tribunal therefore recommends that to enhance community input:

- ***Councils should consider obtaining information on the preferences and priorities of their communities in conjunction with their survey of customer satisfaction.***
- ***The frequency of the survey should depend on the type of council. For large councils (urban and rural) and medium size urban councils, surveys should be undertaken at least once every two years. For smaller councils and medium rural councils, surveys should be undertaken at least once every four years.***
- ***Details of the community consultation initiatives used by councils should be included in their management plans. For each major activity, the management plans should include discussion of what the community expects from the service and issues that influence the council's ability to provide this level of service.***

6.4.2 Objectives and performance indicators

The *Local Government Act 1993* requires councils to publish statements about their principal activities in their management plans. Included are statements of:

- objectives and performance targets for each principal activity
- the means by which the council proposes to achieve these targets
- the manner in which the council proposes to assess its performance in respect of each of its principal activities.

A review of management plans suggests that many have poor and sometimes ineffective performance indicators. There may be some confusion as to what is required under the Act. It is not clear what information needs to be included in each of the statements of activities. Plans are characterised by a range of presentation formats, variations in the extent to which councils meet the requirements of the Act, and significant variations in the quality and application of performance indicators by councils.

The following problems are identified:

- where many objectives were defined for each principal activity, it is difficult to discern the overall objective for the activity
- performance indicators are not numerically defined
- some 'performance' indicators used by councils do not measure performance, instead they measure activity
- some of the performance indicators are better described as statements of means, or strategies to meet objectives.

Dubbo City Council provides an excellent example of how performance indicators and related information can be presented for principal activities. For each principal activity, an objective and key performance indicators are stated, as are strategies, performance targets, and a statement of means. These aspects of Dubbo City Council's presentation of its management plan increases the user friendliness of the document, and make it easy to understand. The information provided by Dubbo City Council is more than sufficient to meet the requirements of the Act in regard to statements of objectives, performance targets,

means and performance assessment for each principal activity. The management plan also lists indicators for functions within each principal activity.

Two problems to be addressed by councils are the failure of many council management plans to meet the requirements of the Act, and the general lack of quality performance indicators. Currently, the driving force for improved performance comes from council management, not the legislative environment implied by the *Local Government Act 1993*.

The Tribunal recommends that local government explore the issues of organisational structure and objectives, with the aim of improving performance outcomes and assisting in the development of effective performance indicator and benchmarking initiatives. DoLG and LGSA may be able to assist in this process.

Business activities

The *Local Government Act 1993* requires councils to list any activities of a business or commercial nature in their statement of principal activities. Business activities undertaken by councils include: saleyards, caravan parks, airports, showgrounds, and land development.

Some business and commercial activities undertaken by councils may entail significantly greater risk than 'core' activities such as planning, road maintenance and waste disposal. In the Tribunal's view, councils should specify clear objectives and performance indicators for each activity. Commercial activities should be accounted for separately from other council activities ("ringfencing"). Local government auditors should be asked to report on the extent to which councils have complied with ringfencing requirements. These changes would improve the accountability of local government and the transparency of its operations.

Under the NSW Government's Policy Statement on the Application of National Competition Policy to Local Government, local government is required to report separately on any significant business (an annual turnover of over \$2m). Regulatory and planning reforms to be implemented from 1 July 1998 will deregulate some of councils' development control functions, making them open to competition. Councils may wish to set up a business unit to provide these contestable development control services. Some councils may wish to compete with other councils and the private sector, to provide such services outside their local government areas. To ensure competitive neutrality between councils and private sector service providers, it is critical that a comprehensive reporting and monitoring system be put in place, including a dispute resolution or complaint management system.

The Tribunal notes that from the financial year 1998/99, councils will be required to complete separate accounts for significant businesses. These requirements may need to be extended to include business activities that are contestable.

The Tribunal recommends that in respect of:

- ***Business reporting***
 - ***Councils should be obliged to disclose their business and commercial undertakings in their management plans and annual reports.***
 - ***Strong ringfencing (ie. accounting separation) of business activities be put in place.***
 - ***DoLG report on the monitoring of significant business for both accounting and performance purposes.***

- **Business risk**
 - ***Councils should bear responsibility for assessing business risk.***
 - ***Industry organisations need to provide more support and assistance for councils, particularly small councils, in undertaking risk and business analyses.***
 - ***LGSA should act as a clearing house for information about these activities.***

6.4.3 Quarterly reporting

The *Local Government Act 1993* requires General Managers to report to their councils within six weeks following the end of each quarter regarding the extent to which the performance targets set by their council's current management plan have been achieved during that quarter.

The following points arise from a review of quarterly reports by the Tribunal's Secretariat:

- Where performance is not measured numerically, only general comments can be provided in the quarterly report, and performance cannot be compared over time.
- Sometimes the reported indicator is in the nature of a strategy, and the means of achieving the strategy are reported. Strategies must be supplemented by performance measures and targets.
- Occasionally, key performance indicators stated in management plans are not reported on in subsequent quarterly reports. In some cases, new performance indicators are added and others are deleted. Although there may be good reasons for such changes, they make it difficult to review performance against objectives. An independent review of management plans and quarterly reports may improve the situation.
- The performance statement in the quarterly report is sometimes simply a copy of the performance assessment statement in the management plan, and this provides no new information.
- Some councils do not meet the requirement to provide a report within the six week period after the end of each quarter.
- Often the financial information is compared only to a revised figure from the previous quarterly report, and not to the original budget figure.

Dubbo City Council provides very useful quarterly reporting information. For each strategy, comments are provided on the attainment of performance targets and actions undertaken to advance the strategy. Year-to-date key performance indicators are presented for the main activities. Figures are compared with the previous year's results. From the sample of management plans reviewed by the Tribunal Secretariat, it appears that very few councils compare the current year's performance with the previous year in this way.

The management plan plays a very important role in improving the performance, accountability and transparency of local government operations, and in increasing community participation in the decisions of council. Effective compliance depends on the commitment of the general manager and/or the council to the management plan process (equally, poor performance may also reflect the attitude of the council management). An independent review of management plans should be conducted to ensure that realistic targets and performance indicators have been chosen and that each council's performance is on target.

Management plans can play an important part in improving and accounting for council performance. However, there are weaknesses in the present management planning process.

6.4.4 Annual report

Within five months of the end of each year, councils must report on their achievements, measured against the objectives and performance targets set out in their management plan.

Councils' annual reports do not go through the same public process as the management plans. However, they are arguably of equal importance, because they compare projected performance (as outlined in the management plan) with actual performance, and give reasons why any performance targets have not been attained. DoLG reviews annual reports in terms of compliance with the Act, but the findings of its review are not published. Given the lack of public participation in the management plan process, and the importance of local government, a review of processes for, and the content of annual reports may be worth considering (eg the extent to which performance targets have been attained).

6.4.5 Environmental reporting

The Local Government Act requires councils to prepare a Statement of the Environment (SOE) Report. The report must include council activities to "protect environmentally sensitive areas", and to "promote the ecological sustainability of the area."¹⁰² In its submission, the Hawkesbury-Nepean Catchment Management Trust suggests that the incorporation of SOE information with management plan objectives and performance measures would ensure better environmental reporting and performance indicators.¹⁰³

The Tribunal accepts that environmental reporting and performance indicators are important aspects of environmental accounting. The planning and reporting framework for management plans, environmental reporting and annual reporting should be examined to ensure cohesiveness and to identify best practice standards.

6.4.6 Review and auditing issues

In the Interim Report, the Tribunal's recommended that external auditors be appointed by DoLG to review and report publicly on a sample of management plans, quarterly reports and annual reports of councils. Most submissions oppose this recommendation.

At the public hearing, DoLG indicated that it had previously focused on reviewing councils' annual reports. DoLG now plans to review councils' management plans and reporting, with the aim of providing guidance on best practice.¹⁰⁴

The Tribunal accepts that it will be most effective for each council's appointed auditor to review council's performance data and performance indicators as part of the management planning and reporting process. This review should assess compliance with the requirement of the Local Government Act. It may be conducted on a cyclical basis that coincides with the council's planning horizon. DoLG should publish the outcomes of these reviews, and in doing so, compare performance for a particular service across a sample of

¹⁰² *Local Government Act, 1993*

¹⁰³ Hawkesbury Nepean Catchment Management Trust submission to Interim Report, p 2.

¹⁰⁴ Transcript of the Public Hearing, 3 March 1998, p 10.

councils. The aim of these reports would be to help councils improve their efficiency and service delivery.

The Tribunal recommends that council auditors periodically review council performance as part of the management plan and annual report process. DoLG should produce public reports on the outcomes of these performance reviews.

6.5 Competitive tendering, market testing and benchmarking

To deliver quality services and provide value for money to the community, local government must draw on the valuable human and capital resources which exist in the public and private sectors. The best provider must be chosen for each task.

Under the National Competition Policy and the Competition Principles Agreement, state governments undertake to ensure the application of National Competition Policy to local government. The overall aim is to use competition to lower the cost, and raise the quality of local government services.

In-house provision is the traditional way of providing services internally, using an organisation's staff. *Outsourcing* or *contracting out*, refers to an arrangement whereby a government body enters into a contract with a supplier from outside that agency for the provision of goods and/or services which may previously have been provided internally.¹⁰⁵ This may involve *market testing* ie the practice of comparing the internal costs of service delivery (or the in-house bid price) with the costs of externally sourced service delivery.

Outsourcing is generally associated with *competitive tendering*,¹⁰⁶ the process of calling for bids to supply certain goods and/or services. The winning tenderer is selected on the basis of specified selection criteria, such as cost and service quality.

Where *competitive tendering* involves *in-house bids*, it is critical that *competitive neutrality* principles apply, and suppliers be considered by assessing their inherent strengths and weaknesses, irrespective of ownership.

The advantages and disadvantages of competitive tendering and contracting out are summarised in Table 6.1. Councils should assess the suitability of contracting out on a case-by-case basis. It is not a process that can be readily, or acceptably, applied to all services provided by council.

¹⁰⁵ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies*, Report No. 48, 24 January 1996, p xix.

¹⁰⁶ The DoLG's Competitive Tendering Guidelines, note that it is important that a distinction be made between competitive tendering and contracting out. "Competitive tendering" is the calling of tenders by councils where council's in-house service unit submits a bid as well as contractors. Council then makes its decision based on the tender bids about who will provide the service. "Contracting out" is a council's contracting of service by an external body. This may or may not be the result of competitive tendering.

Table 6.1: Analysis of competitive tendering and contracting

Advantages	Disadvantages
<ul style="list-style-type: none"> • <i>Productivity and cost impacts:</i> Drivers for cost savings, greater efficiency and best practice. • <i>Accountability:</i> Increased flexibility in service delivery, greater focus on outcomes/outputs rather than inputs. • <i>Planning:</i> Release of managers from day-to-day operations to enable them to concentrate on strategic issues. • <i>Client satisfaction:</i> Competition more flexible and more responsive to client needs. • <i>Flexibility and innovation:</i> Access to external skills, equipment, technology and economy of scale; advantages of specialisation. • <i>Use of resources:</i> More efficient use of resources leading to long term economic benefits. • <i>Successful in-house teams:</i> Potential and capacity to expand operations into new markets. • <i>Performance standards:</i> Means of achieving targets. May be used to assess performance. • <i>Industry development:</i> Opportunities for firms to expand the scale and scope of their activities. 	<ul style="list-style-type: none"> • <i>Cost impacts:</i> Can be costly to undertake. Cost savings can be difficult to measure. • <i>Accountability and control:</i> Loss of control may occur when strategic functions are involved. • <i>Consumer protection:</i> Consumers of contracted services may not have the same legal avenues. • <i>Client satisfaction:</i> Splitting purchase and provider roles makes local government too far removed from users to be aware of services required. • <i>Employment:</i> Job losses in regional and remote areas and adverse impacts on public sector employees'/staff morale. • <i>Skills:</i> Loss of technical expertise, However, may need to maintain expertise to be able to manage contracts. • <i>Quality:</i> Difficult to specify quality standards for some types of service. • <i>Risk:</i> Reliance on market supply, industrial action, poor contractor performance, financial failure and privacy breaches by contractors; adverse distributional/social impacts; problems of access and equity for clients.

Source: Submissions, survey findings and literature research.

As part of this review of benchmarking in local government, the Tribunal has considered current arrangements for competitive tendering and contracting This section:

- examines current trends in the contracting out of local government services
- discusses the role of benchmarking in the competitive tendering and contracting process
- explores the scope for competitive tendering and contracting as a mechanism to improve local government performance.

6.5.1 Trends in contracting out

Local governments may wish to contract out their services because:

- the costs of internal service provision are rising

- poor productivity is a problem
- staff expertise is limited
- workloads fluctuate.

Recently, contracting out has expanded from services such as refuse collection and cleansing, to areas sometimes seen as “core” government activities, such as prison management, emergency services and employment assistance.

Industry Commission Inquiry

The Industry Commission undertook a comprehensive inquiry of competitive tendering and contracting (CTC) by public sector agencies. In its Final Report released in January 1996, the Industry Commission reports that:¹⁰⁷

- The vast majority of Australian councils use CTC in some form. In 1989, 87 percent of councils contracted at least one service, with 52 percent contracting more than four services. (Evatt Research Centre, 1990).
- Studies suggest that around 10-20 percent of total council expenditure was contracted out by the early 1990s.
- A 1990 national survey focusing on services delivered to the public found the most commonly contracted services to be recycling, domestic refuse collection, cleaning community facilities, and road maintenance. Contracting has since extended to other services, including information technology services.
- Local government appears to contract the greatest proportion of its recurrent expenditure. Its use of outsourcing is followed by Commonwealth and then state governments.

More than half the studies surveyed by the Commission report savings of between 10-30 percent, while nearly a quarter report savings of more than 30 percent. Less than a tenth report cost increases of any magnitude. The available evidence suggests that most of the savings from CTC represent efficiency gains as a result of better management and work practices, access to a wider knowledge base, skills or technology and better use of equipment.

Compulsory Competition, or the threat of competition, is the major driver of savings. If implemented well, CTC can enhance accountability by providing clearer specifications of objectives and the allocation of responsibility, and by improving information on standards on outcomes.

Compulsory tendering (CCT) in Victorian Local Government¹⁰⁸

Under amendments to the Local Government Act 1989 passed by the Victorian Parliament in May 1994, councils were required to competitively tender 20 percent of their total expenditure in 1994/95, increasing to 30 percent in 1995/96 and 50 percent from 1996/97. The three year phased in period was designed to give councils time to develop a strategic view of CCT. Victorian Councils must submit a CCT statement with the CCT targets/achievements calculated on the basis of audited total expenses in financial

¹⁰⁷ Ibid.

¹⁰⁸ Additional information on the Victorian experience is provided in Attachment 12.

statements. If a council does not meet its CCT target, it must provide a written explanation for this failure to the Minister.

In October 1996 a review of the implementation of CCT recommended:¹⁰⁹

- a requirement for each council to have an internal audit committee which certifies all in-house tenders and reports on the financial performance of the council's business units
- the development of best practice guidelines to assist councils to ensure effective separation of client and provider functions and to operate/corporatise/sell business units.
- an amendment of the Act to enable councils to use alternative competitive processes (for contracts valued at less than \$50,000), a modified competitive process (for non-metropolitan councils) and additional competitive arrangements.

To date, most Victorian councils have exceeded their competitive tendering target of 50 percent. Although 22 councils did not reach the 50 percent target in 1996/97, most have CCT programs in place that will allow them to meet the 50 percent target in 1997/98. At the end of the 1996/97 financial year, \$1.45 bn worth of local government work had been market tested. This represents about 56 percent of the aggregate operating expenditure of Victorian councils.

The Victorian experience suggests that CCT is delivering economy of scale, more flexible work practices and competition among suppliers to improve efficiency and reduce costs. Administration, financial and professional services, recreation facilities and services, and health and welfare services are now significant in terms of CCT expenditure.¹¹⁰

Competitive tendering in NSW local government

In NSW there is no compulsory competitive tendering. In its statement on the application of National Competition Policy to local government, the State Government discusses competitive tendering. In consultation with local government, the NSW Government has developed competitive tendering guidelines "to assist councils in their decisions to use competitive tendering, including when, where and how tendering can be applied."¹¹¹ The announcement of the NSW Service Competition Policy in June 1995 strengthened government support for the benefits of competition in the provision of services. The Premier stated:

"In brief, Service Competition Policy harnesses competitive forces to drive performance improvement and is one of a range of tools available to public sector managers. It involves identifying and market testing suitable activities currently performed in-house and, where there are clear benefits in doing so, contracting with other parties to provide the services."

The NSW *Service Competition Guidelines*¹¹² was released in 1997.

¹⁰⁹ Report of the Review Panel to the Minister for Planning & Local Government, *Review of Competitive Tendering Implementation*, December 1996.

¹¹⁰ Minister's Report on the Third Year of CCT, *Competitive Tendering: Embracing CCT*, Victorian Office of Local Government, December 1997.

¹¹¹ NSW Government, *NSW Government Policy Statement on the Application of National Competition Policy to Local Government*, June 1996, p 21.

¹¹² The development of this document was oversights by the Service Competition Project Advisory Committee of the Council on the Cost of Government. These guidelines replace the Competitive Tendering and Contracting out Guidelines, the Competitive Tendering and Contracting Out Costing

The NSW Government's policy requires councils to classify their business activities as category 1 (more than \$2m annual sales turnover) or category 2 (less than \$2m annual sales turnover). The Government states that competitive neutrality principles should be fully applied to category 1 business activities. Councils must:

- adopt a corporatisation model
- apply full cost attribution including tax equivalent payments (to the council as the owner of the business), debt guarantee fees, and return on capital invested
- make explicit any subsidies paid to the business
- operate within the same regulatory framework as private businesses.

DoLG has issued the following documents:

- *Competitive Tendering Guidelines* (January 1997). These guidelines are intended to help local government determine whether competitive tendering will be of benefit, and to implement competitive tendering when appropriate.
- *Pricing and Costing for Council Business: A Guide to Competitive Neutrality* (July 1997). This guide discusses the principles of structuring businesses and costing in order to achieve competitive neutrality and good costing and pricing practice. These guidelines are applicable to the business and non-business activities of councils.

6.5.2 Nexus between competitive tendering and benchmarking

The Tribunal has received submissions that discuss:

- the relationship between competitive tendering/contracting out and benchmarking
- the impact contracting out has on performance measurement.

A system of competitive tendering requires that in-house teams compete against external bidders. Benchmarking may provide councils' business units with performance thresholds that will need to be achieved if in-house teams are to win contracts.

The Tribunal notes some councils are reorganising their operations in preparation for tendering some services. Some have found it useful to benchmark their services against those of external providers. The process is still in a developmental phase and will continue to evolve as councils respond to the National Competition Policy.

There are alternative views about the extent to which councils should use competitive tendering and contracting out. Some councils, such as Newcastle City Council, prefer to benchmark their services and set performance standards. They aim to be a competitive provider of local government services using internal resources. Many rural councils have expressed concerns about the impact of competitive tendering on employment.

The Municipal Employees Union (MEU) has submitted that the market testing or tendering of services should be considered only when a council has:

- met its award obligations

Guidelines, and the Contracting and Market Testing Policy produced by the Premier's Department in 1991, 1992 and 1993 respectively.

- entered into a process of benchmarking and community consultation to gain an understanding of the competitiveness, appropriateness and adequacy of the current service provision
- initiated workplace reform measures designed to address any identified performance gap.¹¹³

The Tribunal is aware of smaller rural councils' concerns about the potential impacts of competitive tendering on local communities. Gundagai Shire Council submits that although the competitive tendering process may lead to cheaper services in the short term, the possibility exists that services may be more expensive in the longer term given that for rural councils the number of service providers may be limited.¹¹⁴ As detailed in this section of the report, there are factors which councils must consider prior to making decisions on competitive tendering.

Cabonne Shire Council believes that competitive tendering is the most direct and cost effective benchmark of service provision.¹¹⁵ However, some councils do not agree that benchmarking will provide sufficient guidance on whether to outsource.¹¹⁶ Until they are tested against what the market will offer, in-house teams cannot claim to be better than other providers. The National Office of Local Government suggests that local government managers may not be regularly reviewing the benefits of contracting out as opposed to producing services in-house.

The Tribunal is reluctant to make firm recommendations about how councils should proceed with competitive tendering and contracting out. The circumstances of councils differ greatly. The National Competition Policy is still in its infancy. There is value in trying alternative approaches. It is expected that councils will find it useful to benchmark their activities before proceeding with competitive tendering and contracting out.

The following commentary and recommendations draw on the case study described in Attachment 12 as well as the discussion in this chapter.

Benchmarking can play a role within a competitive regime. Prior to competitive tendering, benchmarking can be used to improve competitive pressure upon internal service providers. The process tends to force councils to analyse their own operations, to be more client focused, and to better understand their own cost structures and cost drivers. Competitive tendering may also help the benchmarking process. For example, the experience and knowledge gained from competitive tendering may help councils to identify and quantify possible efficiency gains in other areas. However, outside contractors will soon lose interest if they consider that the contest is not genuine.

To decide whether contracting out is preferred to in-house delivery, councils must:

- identify how much it will cost to deliver the services themselves in the future
- compare the costs and quality of their operations with the competition, through benchmarking and/or market testing.

¹¹³ IPART, Transcripts of Public Hearings, p 200.

¹¹⁴ Gundagai Shire Council, submission to Interim Report, p 2.

¹¹⁵ Cabonne Shire Council submission to Issues Paper, p 8.

¹¹⁶ Includes Bankstown City Council and Mosman Municipal Council.

Councils need to develop activity-based financial information, including an appropriate cost allocation of corporate overheads. The Tribunal acknowledges councils' efforts to develop business/monitoring systems and cost allocation methodology. Some councils have already implemented procedures to ensure transparency and probity in the tendering process. As more councils move towards competitive tendering, the issue of the adequacy of current financial and performance monitoring systems and auditing arrangements must be examined. The treatment of redundancy costs¹¹⁷ should be considered carefully and applied consistently by councils.

The Tribunal recommends that:

- ***Councils explore opportunities to publicly tender aspects of their operations and capital works. DoLG and LGSA should provide assistance and guidance for this work.***
- ***In particular, urban councils with significant business activities should look at the competitive tendering process being undertaken by Sydney City Council. Implementation of that process has involved extensive consultation within the organisation and with the union, and a restructuring of the internal organisation in readiness for competitive tendering.***¹¹⁸
- ***Councils should establish a methodology for comparing overall cost including corporate overheads, of in-house service delivery with charges by other providers. In doing so, councils should follow the principles and the methodology using 'present value of costs' described in the Government's Service Competition Guidelines.***

6.6 Other measures to improve performance

Some councils are proceeding with "guaranteed service agreements" with customers, notably in development control activities. For example, if a service performance target is not met, Council will refund part of the initial application fee. Rockdale City Council has implemented service guarantees "to ensure Council meets standards of service which are reasonable and relevant. By publishing and promoting these guarantees, Council has proved to its customers it is genuine about providing good service."¹¹⁹ Customer service guarantees and refund mechanisms have also been adopted in the provision of water and sewerage services in the metropolitan area.¹²⁰ Recently, it has been reported that financial penalties will also be put in place for certain telecommunication services.

The Tribunal recommends that:

- ***Use of customer service agreement and guarantees. The implementation of Customer Service Agreements should be encouraged and supported by councils and industry organisations. Refunds should also be considered where the "agreed" performance is not met.***

¹¹⁷ It is noted that in Victoria, the review panel of CCT implementation recommended that the Local Government Act 1989 be amended to require a council to exclude the consideration of redundancy costs in determining the award of any contract after 1 July 1998.

¹¹⁸ Attachment 12 contains a case study on the contracting out process and experiences of three councils, including Sydney City Council.

¹¹⁹ Rockdale City Council submission to Interim Report, p 3.

¹²⁰ Under the customer contract between Sydney Water and Hunter Water, customers will be granted a rebate if the specified service level is not met.

- ***Performance audits. Where particular performance problems are identified within particular council, such problems could be made subject to a performance audit¹²¹, to be carried out by an independent auditor. A review of the effectiveness of existing auditing mechanisms for local government, including the role of DoLG, should be undertaken.***

¹²¹ DoLG conducts investigations of councils in relation to specific problems identified. In addition, under a management overview program, 142 councils have been reviewed by DoLG since the program began in 1988.

ATTACHMENT 1 TERMS OF REFERENCE

BENCHMARKING LOCAL GOVERNMENT PERFORMANCE IN NSW

I, Bob Carr, Premier of New South Wales, under Section 12A of the Independent Pricing and Regulatory Tribunal Act 1992, refer the matter of the application of performance benchmarking within local government to the Independent Pricing and Regulatory Tribunal of New South Wales. The review of this matter is to:

1. Have regard to, and, as appropriate, assist in the implementation of the benchmarking activities outlined in the NSW Government Policy Statement on the Application of National Competition Policy to Local Government, June 1996.
2. Review the role and scope of benchmarking local government activities having regard to the need to reflect local conditions and circumstances.
3. In undertaking (2), examine current performance benchmark models developed within Australia and overseas for application at the local government level.
4. Have regard to consumer satisfaction and community participation, and the balance of efficiency, effectiveness, quality delivery of service and equity considerations in identifying and assessing approaches to benchmarking and performance evaluation.
5. Demonstrate through case studies, the practical application of benchmark approaches to a range of local council functions.
6. Examine mechanisms which may assist and support local governments in effectively benchmarking their activities and improving their levels of performance.
7. Have regard to developments in local government benchmarking projects and activities under the national local government Benchmarking and Efficiency Program.

ATTACHMENT 2 SUMMARY OF SUBMISSIONS TO INTERIM REPORT

The Tribunal received over 50 submissions on the Interim Report for this review.

The main points raised are listed below. Given the number of submissions, it is not possible to include all the issues raised in every submission. However, all submissions have been considered by the Tribunal.

A full list of submissions to the review is given in Attachment 4.

Results benchmarking/performance indicators

In general, submissions support a review of DoLG's indicators. There is a general view that DoLG should concentrate on a small range of effective indicators, and there is strong support for the inclusion of a measure of customer satisfaction.

Councils have opposed DoLG's appointing auditors to audit the data used in compiling indicators. A few councils propose that resources would be better directed at improving the definitions for data input, and collection and construction of the data, rather than used for auditing.

Other matters addressed in submissions include:

- the development of appropriate comparative indicators will allow competitive pressures to be applied to council services
- trend analysis is a key issue in benchmarking
- the needs of the community as a target audience need to be considered when comparative indicators are published
- while there is some support for the reporting of global measures using techniques such as data envelopment analysis (DEA), some submissions question how meaningful such comparisons can be, particularly in view of current problems with data consistency.

Process benchmarking

Many submissions support the use of process benchmarking as a valuable tool in improving local government performance. The resource difficulties for small and isolated councils undertaking benchmarking projects were raised. Related to this issue were suggestions that small councils work with larger councils, or that groups of small councils work together as syndicates.

Some stakeholders believe that the community should have an input into whether or not councils should invest resources in process benchmarking. However, other submissions state that benchmarking should be integral to the effective management of the council, and the short term costs of benchmarking will be recouped in the longer term as a result of efficiency gains.

A few submissions comment on the improved support being provided by LGSA and DoLG in this area. One submission requests that DoLG and LGSA provide councils with information on potential benchmarking partners.

There is general support for the view that benchmarking projects should be directed where the biggest gains and cost savings are to be made. Others believe that projects should be directed at community service priorities, or that projects should be determined by the needs of an individual council, possibly through the management planning process.

Rate pegging

There is widespread support for a review of rate pegging, with comments that rate pegging does not take growth into account, nor does it encourage efficiency or innovation. One submission suggests that if rate pegging is continued, a five year price path should be set to enable longer term financial planning. One council submission complains that not only are the decisions on rate pegging made at a point far removed from the local community, but also decisions are made on the basis of state political issues rather than local community issues.

Expressing concern about a CPI based system, some submissions question the relevance of CPI factors to local government expenditure, and ask whether the use of a CPI-X rate regulation formula would result in continued reductions in rate income.

Two councils suggest that the community/electors should decide whether rate increases are appropriate.

Amalgamations and resource sharing

Many submissions support the view that amalgamations can provide some economies of scale.

However, LGSA and some councils strongly oppose forced amalgamations. An economist has lodged a submission expressing reservations about the alleged scale economies of larger councils. A council on the Victorian border, while active in resource sharing, is fearful that the Victorian model of compulsory amalgamations will be introduced in NSW. It seems little or no research has been undertaken into the impacts of the round of compulsory amalgamations which took place in NSW in the early 1980s.

Some business organisations which work with local government, and a few councils, express strong support for compulsory amalgamations to reduce costs to ratepayers and business. Council submissions point to particular areas where compulsory amalgamations should be examined, including 'doughnuts' (ie a small council surrounded by a larger council) and metropolitan Sydney.

Some council submissions extol the benefits of resource sharing and the role of regional organisation of councils (ROCs) in achieving economies of scale and scope. They claim that resource sharing can provide economies without loss of governance.

Management plans

The need for improved public consultation in the management planning process, and for the inclusion of consultation initiatives in management plans, was supported by a number of councils.

One council has stated that the duplication of information such as performance statements and targets in each quarterly report may be of limited value, and may make reports more

difficult for community members to read. It holds that councils should be allowed to determine how best to communicate priorities and plans to the community.

Many submissions oppose the appointment of auditors to review a sample of plans and reports, on the grounds that the resources would be more effectively directed to improving performance via the development of 'best practice' models of documents.

Some councils, while not opposing the conducting of community surveys, hold that to undertake a survey every four years may not be the most appropriate consultative mechanism for their community. A few councils mention that surveys on specific issues are particularly useful and achieve good return rates. Comment is made on the need to report return rates along with survey results.

Business activities

The interim recommendations on businesses activities were that councils should implement ringfencing of business and commercial undertakings, external auditors should review ringfencing and disclosure arrangements, and risk analyses for commercial undertakings should be reported publicly.

Council views to these recommendations have been mixed. A couple of councils strongly oppose the recommendation, taking the view that councils are fully responsible for such actions and already have adequate risk analysis and reporting guidelines in place. DoLG has advised that from 1998/99, financial reporting will require auditors to comment on separate accounts for business activities.

Several submissions support the interim recommendation. They comment that improved guidelines and assistance in developing accounting separation and risk assessment would be a constructive approach.

Competitive tendering

It has been pointed out that there is a need to differentiate competitive tendering and contracting out. Contracting out may or may not be the result of a competitive tendering process undertaken by a council.

In general, councils do not oppose competitive tendering, with the proviso that it is up to each council to determine the applicability of competitive tendering, and the recognition that, like benchmarking, competitive tendering is only one initiative available to improve service delivery. It has been submitted for that some councils the cost imposition of tendering processes could be prohibitive and unnecessary. One council is strongly opposed to the concept of contracting out, questioning whether services will be cheaper in the long term with the limited number of service providers in non-metropolitan areas, and suggesting that service standards may deteriorate. Another council points to deteriorating service standards in Victoria.

A rural council has submitted that contracting out and resource sharing would be far more effective in improving council performance and service delivery than benchmarking or structural reform.

A number of submissions discuss the importance of benchmarking in determining whether services should be subject to competitive tendering and contracting out .

One council comments that councils should be able to add a percentage for the supervision of contracts and, where necessary, for redundancy costs.

There is some support for the Sydney City Council model, as outlined in the Interim Report, along with comments that it is not necessarily appropriate for every council, and that more details of the process are needed.

LGSA, DoLG, IMM and IME are working on a council training program on competitive tendering and related issues.

ATTACHMENT 3 AMENDMENTS TO INTERIM RECOMMENDATIONS

Interim Report Findings and Initial Recommendations	Final Report Recommendations
<i>Improving accountability and performance</i>	
<p>1. <i>The Tribunal believes that benchmarking and performance measurement have a role to play in improving the performance of local government. Results benchmarking will assist in identifying areas of poor performance and encourage the asking of questions. It is at this stage that process benchmarking may be most effectively applied, to provide the answers and achieve desired outcomes.</i></p> <p><i>The State Government can support local government's efforts to undertake performance indicator and benchmarking initiatives. Support could include the development of networks, information sharing and technical assistance. Industry bodies can also contribute to the process.</i></p> <p><i>The Tribunal invites comments on whether the community should invest the significant resources required to apply performance measurement and benchmarking in a meaningful way.</i></p>	<p><i>The Tribunal believes that benchmarking and performance measurement have a role to play in improving the performance of local government. Results benchmarking will assist in identifying areas of poor performance and encourage the asking of questions. It will assist councils to identify areas where process benchmarking might best be applied. (Chapter 3)</i></p>
<i>Performance indicator information</i>	
<p>2.1 <i>The Tribunal recommends that a number of changes be made to improve the DoLG's comparative indicator publication.</i></p> <p>2.2 <i>The State Government should provide clear guidelines to how the performance indicators are to be constructed. The State Government and/or councils should fund the auditing of the data/performance indicators. The Tribunal supports the changes suggested in the draft report of the Minister's working group, as listed above.</i></p> <p>2.3 <i>The scope of the indicators should be expanded. In particular, indicators measuring effectiveness, ie. the achievement of objectives, should be developed. For example, an indicator</i></p>	<p><u><i>DoLG publication on comparative data</i></u> <i>The Tribunal recommends that further changes be made to improve the DoLG's comparative indicator publication. In particular, improvements are needed in the way in which data is presented, and in linking performance indicators to targets. The United Kingdom Audit Commission's approach to the publication and dissemination of local government benchmarking information provides a model for the DoLG publication.</i></p> <p><u><i>Auditing and performance measurement</i></u> <i>The Tribunal recommends that DoLG provide clear definitions and guidelines for the construction of performance indicators.</i></p>

Interim Report Findings and Initial Recommendations	Final Report Recommendations
<p><i>measuring community satisfaction should be developed.</i></p> <p><i>2.4 The DoLG should improve the timeliness and presentation of its publication and consider how it can best reach its target audiences. Better use of the local media may be necessary, as in England and Wales.</i></p> <p><i>2.5 The application of global measures of performance such as DEA should be explored.</i></p> <p><i>2.6 The Tribunal also recommends that the DoLG appoint auditors to local government, rather than the councils themselves.</i></p> <p><i>2.7 Given the outcome of the Industry Commission's review, the Tribunal supports the publication of comparative performance indicators on a state-wide basis.</i></p>	<p><i>Guidelines for cost recording and allocation need to be developed in consultation with councils.</i></p> <p><i>Council auditors should ensure that the performance indicator data compiled by councils each year complies with DoLG's definitions and guidelines.</i></p> <p><u><i>Dissemination of performance information</i></u> <i>The Tribunal recommends the provision of comparative information on councils to the community:</i></p> <ul style="list-style-type: none"> <i>• In their management plans, councils should publish the DoLG comparative indicators for all councils in their category.</i> <i>• Trend data should be published in management plans.</i> <i>• Councils should publish a comparison of indicators in local newspapers, or include this information in brochures or newsletters mailed to ratepayers. This should be published within two weeks of release of a DoLG publication. The requirement of the UK Audit Commission provide a model here.</i>
Process Benchmarking	
<p><i>3.1 The Tribunal believes that benchmarking should be applied to those areas that constitute a significant share of expenditure, and areas that offer the greatest potential for cost savings and/or service improvement. Once improvements have been made to the DoLG's comparative indicator publication, it should help councils identify these areas.</i></p> <p><i>The Tribunal believes that benchmarking and performance measurement within local government can produce gains for councils and their communities. The Tribunal recommends that this continue. It is also recommended that local government continue to actively explore the option of benchmarking and comparing performance with the private sector. Such comparisons may produce gains in addition to those available through local government comparisons alone.</i></p>	<p><i>The Tribunal recommends that:</i></p> <ul style="list-style-type: none"> <i>• Local government continue to benchmark its performance between councils and with the private sector. To minimise the costs of benchmarking and to achieve optimum outcomes, councils, in particular smaller non-metropolitan councils, should participate in joint projects where possible.</i> <i>• Benchmarking should be applied to those areas which:</i> <ul style="list-style-type: none"> <i>– constitute a significant proportion of expenditure</i> <i>– offer the greatest potential for cost savings; and</i> <i>– are identified by the community as requiring improvement in service standards.</i>

Interim Report Findings and Initial Recommendations	Final Report Recommendations
<p>3.2 <i>The DoLG and LGSA have been encouraging the implementation of process benchmarking. They should facilitate the availability and dissemination of reference material, information and products to promote benchmarking projects. This might include case studies which highlight the positives and negatives and lessons learnt from such projects - particularly studies outlining the approaches used by different size councils.</i></p> <p><i>The Department and LGSA could help councils find appropriate benchmarking partners, and together with the Institute of Municipal Management, Institute of Municipal Engineers and ROC's, assist with networking, and the exchange of skills and knowledge amongst councils.</i></p> <p>3.3 <i>The extent to which assistance is required will depend on a number of factors, including data requirements and the processes being reviewed. The Tribunal recommends that any benchmarking and performance measurement initiatives imposed by a higher level of government attempt to utilise existing data sets. This will limit the cost of the process. However, benchmarking and performance measurement should be considered as tools for improved management. Then the argument for additional (government) funding is reduced. Technical assistance from the State Government and/or LGSA may be required by some councils.</i></p>	<ul style="list-style-type: none"> • <i>One industry organisation (such as LGSA) should act as a clearing house for best practice and case study material.</i>
Improving Local Government Performance	
<p>4.1 <i>The Tribunal recommends that the State Government review the application of rate pegging to local government, and explore alternatives to the current rate cap mechanism. One alternative would be to regulate rate increases using a CPI - X formula. Any review of rate pegging may need to be undertaken in conjunction with a review of other local government accountability mechanisms</i></p>	<p><u>Rate pegging</u> <i>The Tribunal recommends that:</i></p> <ul style="list-style-type: none"> • <i>The State Government should consider alternatives to the current rate pegging mechanism. One alternative would be to regulate rate increases using a CPI +/- X formula for a period of three to five years, where X could be set for individual councils or groups of councils.</i> • <i>Any review of rate pegging may need to be undertaken in conjunction with a review of other local government accountability mechanisms, and may need to take into</i>

Interim Report Findings and Initial Recommendations	Final Report Recommendations
<p>4.2 The LGSA should continue to encourage local government to explore the potential for structural reform, particularly opportunities for amalgamations. Local government should explore the potential for amalgamations as a way of improving quality and service delivery to the community. In the absence of voluntary amalgamations, action by the State Government may eventually become necessary.</p> <p>4.3 The Tribunal recommends that local government explore the issues of organisational structure and objectives, with the aim of improving performance outcomes and assisting in the development of effective performance indicator and benchmarking initiatives. The DoLG and LGSA may be able to assist in this process.</p> <p>4.4 The Tribunal recommends that councils include in their management plan details of community consultation initiatives. Statements of community expectations and current issues should be presented for each principal activity. Each council should conduct a major survey, involving collecting information on satisfaction with current services and future priorities at least every 4 years, unless it can be shown that such a survey is not necessary.</p> <p>The DoLG and other industry bodies may help councils to improve their community consultation methods. Good practice needs to be identified and encouraged, perhaps through performance benchmarking</p>	<p>account any structural changes to local government.</p> <p><u>Structural change and amalgamation</u> Local government needs to explore means of better capturing economies of scale and scope. The Tribunal recommends that:</p> <ul style="list-style-type: none"> • LGSA should continue to encourage local government to explore the potential for resource sharing and structural reform, and in particular, opportunities for amalgamation. • The progress of local government in achieving these reforms should be assessed over the next 12 months. <p><u>Management plans</u> The Tribunal recommends that:</p> <ul style="list-style-type: none"> • local government explore the issues of organisational structure and objectives, with the aim of improving performance outcomes and assisting in the development of effective performance indicator and benchmarking initiatives. DoLG and LGSA may be able to assist with this process. <p><u>Community consultation</u> To enhance community input:</p> <ul style="list-style-type: none"> • Council should consider obtaining information on the preferences and priorities of their communities in conjunction with their survey of customer satisfaction. • The frequency of this survey should depend on the type of council. For large councils (urban and rural) and medium size urban councils, surveys should be conducted at least once every two years. For smaller councils and medium rural councils surveys should be conducted at least once every four years. • Details of the community consultation initiatives used by councils should be included in their management plans. For each major activity, the management plans should include discussion of what the community expects from the service and issues that influence councils' ability to provide this level of service.

Interim Report Findings and Initial Recommendations	Final Report Recommendations
<p data-bbox="193 333 810 611">4.5 <i>The Tribunal recommends that independent auditors be appointed by the DoLG to review and publicly report on a sample of management plans, quarterly reports and annual reports of councils. The quality of the performance indicators and the appropriateness of targets need to be considered in this review.</i></p> <p data-bbox="237 651 810 857"><i>The management plan should show performance for the previous year and state expected performance for the current year. The quarterly reports and annual report should show performance comparisons with the previous year.</i></p> <p data-bbox="193 898 810 1312">4.6 <i>Councils are obliged to disclose their business and commercial undertakings. The Tribunal recommends strong ringfencing (ie. accounting separation) of such activities. An external auditor should review the appropriateness of the ringfencing, the extent to which it has been implemented, and ensure an appropriate level of reporting/disclosure. In particular, objectives, performance indicators and a risk analysis for business and commercial undertakings need to be reported publicly.</i></p>	<p data-bbox="834 333 1410 577"><u><i>Auditing of management plans and reports</i></u> <i>The Tribunal recommends that council auditors review council performance periodically as part of the management plan and annual report process. DoLG should produce public reports on the outcomes of these performance reviews.</i></p> <p data-bbox="834 898 1410 965"><u><i>Business undertaking</i></u> <i>The Tribunal recommends that in respect of:</i></p> <ul style="list-style-type: none"> <li data-bbox="834 969 1410 1402">• <i>Business reporting</i> <ul style="list-style-type: none"> <li data-bbox="879 1014 1410 1149">– <i>Councils should be obliged to disclose their business and commercial undertakings in the management plans and annual reports.</i> <li data-bbox="879 1171 1410 1272">– <i>strong ringfencing (ie. accounting separation) of business activities to be put in place..</i> <li data-bbox="879 1294 1410 1402">– <i>DoLG report on the monitoring of significant business for both accounting and performance purposes.</i> <li data-bbox="834 1424 1410 1821">• <i>Business risk</i> <ul style="list-style-type: none"> <li data-bbox="879 1469 1410 1541">– <i>Councils should bear responsibility for assessing business risk.</i> <li data-bbox="879 1563 1410 1731">– <i>Industry organisations need to provide more support and assistance for councils, particularly small councils, in undertaking risk and business analyses.</i> <li data-bbox="879 1753 1410 1821">– <i>LGSA should act as a clearing house for information about these activities.</i>

Interim Report Findings and Initial Recommendations	Final Report Recommendations
<p>4.7 <i>The Tribunal recommends that councils explore opportunities to publicly tender aspects of their operations and capital works. The DoLG and LGSA should provide assistance and guidance in the process. The Tribunal also recommends that larger urban councils with significant business activities consider adopting of a competitive tendering process similar to the process being adopted by Sydney City Council. That process involved extensive consultation within the organisation and with the union, and a restructuring of the internal organisation in readiness for competitive tendering.</i></p> <p><i>The Tribunal recommends that councils establish a methodology to allow the overall cost of in-house service delivery to be compared with other providers, including corporate overheads. The principles and the methodology using 'present value of costs' described in the Government's Service Competition Guidelines should be followed.</i></p>	<p><u>Competitive tendering and benchmarking</u> <i>The Tribunal recommends that:</i></p> <ul style="list-style-type: none"> • <i>Councils explore opportunities to publicly tender aspects of their operations and capital works. DoLG and LGSA should provide assistance and guidance for this work.</i> • <i>In particular, urban councils with significant business activities should look at the competitive tendering process being undertaken by Sydney City Council. Implementation of that process has involved extensive consultation within the organisation and with the union, and a restructuring of the internal organisation in readiness for competitive tendering.¹</i> • <i>Councils should establish a methodology for comparing overall cost including corporate overheads, of in-house service delivery with charges by other providers. In doing so, councils should follow the principles and the methodology using 'present value of costs' described in the Government's Service Competition Guidelines.</i> <p><u>Other measures to improve performance</u> <i>The Tribunal recommends that:</i></p> <ul style="list-style-type: none"> • <i>Use of customer service agreement and guarantees. The implementation of Customer Service Agreements should be encouraged and supported by councils and industry organisations. Refunds should also be considered where the "agreed" performance is not met..</i> • <i>Performance audits. Where particular performance problems are identified within particular council, such problems could be made subject to a performance audit, to be carried out by an independent auditor. A review of the effectiveness of existing auditing mechanisms for local government, including the role of DoLG, should be undertaken.</i>

¹ Attachment 12 contains a case study on the contracting out process and experience of 3 councils, including Sydney City Council.

ATTACHMENT 4 LIST OF SUBMISSIONS

Submissions to Draft Terms of Reference

Organisations and individuals:

Name:

	N. Campbell
	P. Hughes
	D. McSullea
	F. Miller
	Y. Yau
Artarmon Bicycle Association	P. Howard
Cabonne Shire Council	G. Fleming
Council of Social Service of NSW	G. Moore
Faulconbridge Residents' Association	N. Selway
Holroyd City Council	C. Champion
Holroyd City Council	J. Thompson
Housing Industry Association	P. Gilchrist
Institute of Municipal Management	C. Gregg
Macquarie University	G. Hawker
National Office of Local Government	J. McLucas
NSW Fire Brigades	I. MacDougall
Orange City Council	A. Dwyer
Penrith City Council	B. Long
Property Council of Australia	M. Quinlan
Sennitt Management Services	J. Macpherson
State and Regional Development NSW	W. Watkins
Sutherland Shire Council	J. Rayner
Western Sydney Regional Organisation of Councils	A. Gooding
Wollongong City Council	R. Oxley

Submissions to Issues Paper

Organisations and individuals:

Name:

	V. Farquharson
	B. Fogliati
	P. Hughes
	S. Matthews
	P. McKenzie
	D. Mitchell
	N. Whiffen
Armidale City Council	B. Perry
Australian Consumers' Association	S. Nathan
Baulkham Hills Shire Council	M. Watt
Berrigan Shire Council	G. Cator
Blue Mountains City Council	K. Rooke
Cabonne Shire Council	G. Fleming
Cessnock City Council	C. Cowan

Coffs Harbour City Council	J. Wright
Cooma-Monaro Shire Council	N. Watt
Cowra Shire Council	N. Armstrong
Department for Women	C. Bloch
Department of Local Government	G. Payne
Department of Land and Water Conservation	R. Smith
Department of Urban Affairs and Planning	G. Kibble
Dubbo City Council	A. Kelly
Dumaresq Shire Council	D. Tydd
Dungog Shire Council	P. Landy
Environment Protection Authority	N. Shepherd
Faulconbridge Residents' Association	N. Selway
Gosford City Council	D. Dutton
Hornsby Shire Council	R. Ball
Hume Shire Council	D. Pollard
Institute of Municipal Engineering	D. Sheffield
Institute of Municipal Management	C. Gregg
Kempsey Shire Council	G. Snape
Lake Macquarie City Council	R. Gray
Leichardt Municipal Council	G. Foster
Liverpool City Council	R. Newsome
Local Government and Shires Association	M. Kidnie
Manly Council	J. Scarsbrick
Mosman Municipal Council	V. May
Metropolitan Public Libraries Association, and Country Public Libraries Association	M. Ellis
Narrandera Shire Council	J. Colvin
Narrandera Shire Council	K. Murphy
National Office of Local Government	J. McLucas
Newcastle City Council	R. Gibbons
NSW Fire Brigades	I. MacDougall
NSW State and Regional Development	W. Watkins
NSW Treasury	R. Sendt
Penrith City Council	P. Huxley
Property Council of Australia	M. Quinlan
Ryde City Council	G. Brus
Southern Cross University	S. Soul
Southern Sydney Regional Organisation of Councils	M. Gibbs
Sydney City Council	G. Maddock
Tweed Shire Council	I. Carpenter
Warringah Council	S. Dudley
Western Sydney Regional Organisation of Councils	M. Andrews
Wollongong City Council	R. Oxley
Woollahra Municipal Council	P. Carl
Wyong Shire Council	E. Burgess

Submissions to Interim Report

Organisations and individuals:

Name:

	E. Ballard
	T. Barry
	L. Browne
	B. Fogliati
	D. Owen
	A. Sanchez
	Y. Yau
Applied Economics	P. Abelson
Armidale City Council	B. Perry
Audit Office of NSW	T. Harris
Baulkham Hills Shire Council	M. Watt
Bellingen Shire Council	P. Doyle
Berrigan Shire Council	R. Perkins
Burwood Council	P. Peppin
Cabonne Shire Council	S. Harding
Cowra Shire Council	N. Armstrong
Crookwell Shire Council	S. Johnston
Department of Land and Water Conservation	G. Hamer
Department of Local Government	G. Payne
Drummoyne Council	R. Lloyd
Econsult	M. Ronai
Gosford City Council	T. Thirlwell
Gundagai Shire Council	G. Tickner
Hawkesbury-Nepean Catchment Management Trust	P. Davey
Hornsby Shire Council	R. Ball
Hume Shire Council	D. Pollard
Hunter's Hill Council	B. Smith
Hurstville City Council	H. Wallace
Institute of Municipal Engineering	D. Sheffield
Institute of Municipal Management	C. Gregg
Kogarah Municipal Council	G. Clarke
Lake Macquarie City Council	R. Gray
Landcom	M. Burt
Leichardt Municipal Council	G. Foster
Local Government and Shires Associations	M. Kidnie
Marrickville Council	P. Black
Mosman Municipal Council	V. May
Metropolitan Public Libraries Association and Country Public Libraries Association	M. Ellis
Nambucca Shire Council	T. Port
National Office of Local Government	J. McLucas
NSW Treasury	J. Pierce
Orange City Council	A. Dwyer
Parramatta City Council	J. Diffen
Property Council of Australia	M. Quinlan
Rockdale City Council	D. Clark
Southern Cross University	S. Soul

Independent Pricing and Regulatory Tribunal

State Chamber of Commerce
Sydney City Council
The Inner Metropolitan Regional Organisation
Of Councils
Tallaganda Shire Council
Tumut Shire Council

K. Lahey
G. Maddock

Marie Sheehan
A. Stewart
D. Commins

Upper Parramatta River Catchment
Management Coalition
Warringah Council
Wentworth Shire Council
Western Sydney Regional Organisation of Councils
Wollongong City Council
Wyong Shire Council

P. Kravchenko
S. Dudley
D. McMillan
A. Gooding
A. Roach
E. Burgess

ATTACHMENT 5 PUBLIC HEARINGS AND CONSULTATION

As part of the consultation process for this review, a number of meetings were held with organisations involved in local government, and with metropolitan and rural councils. A number of representatives of these organisations also provided presentations at the review's public hearings. The input provided at meetings and public hearings was of significant value to the review, and the Tribunal is grateful for the high level of co-operation and participation from all those involved.

Organisations who participated in meetings during the review

Bankstown City Council
Blacktown City Council
Blayney Shire Council
Department of Local Government
Dubbo City Council
Greater Lithgow City Council
Hastings Council
Holroyd City Council
Institute of Municipal Management
Liverpool City Council
Local Government and Shires Associations
Mosman Municipal Council
Municipal Employees' Union
NSW Treasury
Narrabri Shire Council
National Office of Local Government
Newcastle City Council
Office of Local Government, Victoria
Ryde City Council
Sutherland Shire Council
Sydney City Council
Warringah Council
Western Sydney Regional Organisation of Councils
Wollongong City Council, and other representatives from the Illawarra Regional Organisation of Councils
Wyong Shire Council

Presenters at public hearings

Sydney, 23 July 1997

Department of Local Government	Mr Gary Payne, Director General Mr Tim Rogers, Deputy Director General Mr John Scott, Director of Policy and Reform
Wollongong City Council	Mr Rod Oxley, General Manager
Institute of Municipal Management	Mr Rod Oxley, Vice-President
Bankstown City Council	Mr Mark Fitzgibbon, General Manager

Southern Sydney ROC	Ms Melissa Gibbs, Executive Director
Woollahra Council	Ms Penny Carl, General Manager
Sutherland Shire Council	Mr John Rayner, General Manager
Newcastle City Council	Mr John Waghorn, Organisational Development Manager
Parramatta City Council	Mr Andrew Kent, Customer Service Manager
Wyong Shire Council	Mr Ken Bulkeley
Local Government and Shires Associations	Mr Murray Kidnie, Secretary Ms Lorraine Slade, Project Officer
<i>Queanbeyan, 13 August, 1997</i>	
National Office of Local Government	Mr Geoff Watts, Director of Economic Policy Mr Russell Crawford
Cooma-Monaro Shire Council	Mr Neil Watt, General Manager
Eurobodalla Shire Council	Mr Jim Levy, General Manager
Tallaganda Shire Council	Mr Alan Stewart, General Manager
<i>Sydney, 18 August, 1997</i>	
Department of Land and Water Conservation	Mr Alex Petlevanny, Manager - Local Government Planning
Municipal Employees' Union	Mr Gordon Brock, Industrial Officer
Western Sydney Regional Organisation of Councils	Mr Mark Andrews, Assistant Director
Baulkham Hills Shire Council	Mr Michael Watt, Director - Planning Services
Liverpool City Council	Mr Roy Newsome, Corporate Manager - Organisational Services
Property Council of Australia	Mr Mark Quinlan, Executive Director
Institute of Municipal Engineers	Mr Steve Carmichael Mr Michael Lathlean
Metropolitan Public Libraries Association	Mr Martin Ellis, Secretary

Country Public Libraries Association	Mr Robert Knight
Warringah Council	Ms Sheri Dudley, Director - Strategy Group Mr Alan Piggott
Mosman Municipal Council	Ms Liz Davis Mr Viv May, General Manager Ms Kay Clark
NSW Council of Social Service <i>Armidale, 20 August, 1997</i>	Mr Gary Moore, Director
Armidale City Council	Mr Stephen Gow, Director - Planning and Environmental Services
Tamworth City Council	Mr John Howard, Business Support Manager
Armidale and Districts Chamber of Commerce	Mr Brian Chetwynd, President
Dumaresq Shire Council	Mr Don Tydd, General Manager
Tweed Shire Council <i>Sydney, 3 March, 1998</i>	Mr Ian Carpenter, Director - Corporate Services
Department of Local Government	Mr Tim Rogers, Deputy Director General Mr John Scott, Director - Policy and Reform
Local Government and Shires Associations	Mr Murray Kidnie, Secretary Ms Lorraine Slade, Project Officer
Burwood Council	Councillor Bruce Elliot, Mayor Mr Peter Peppin, General Manager
Kogarah Municipal Council	Mr Geoff Clarke, Director - Corporate Services Ms Glenda Gleeson, Policy Officer
Liverpool City Council	Councillor Alex Sanchez
Lake Macquarie City Council Services	Mr Trevor Saunders, Director - Corporate

ATTACHMENT 6 NSW LEGISLATION IMPACTING ON LOCAL GOVERNMENT

Councils undertake a wide range of service, regulatory and ancillary functions under the Local Government Act 1993. Councils also have functions conferred or imposed under a number of other Acts. These Acts include:

Building Services Corporation Act 1989
Bush Fires Act 1949
Clean Air Act 1961
Coastal Protection Act 1979
Community Land Development Act 1989
Construction Safety Act 1912
Conveyancing Act 1919
Crown Lands Act 1989
Dog Act 1966
Environmental Offences and Penalties Act 1989
Environmental Planning and Assessment Act 1979
Fire Brigades Act 1989
Food Act 1989
Freedom of Information Act 1989
Heritage Act 1977
Impounding Act 1993
Library Act 1939
Liquor Act 1982
Native Title (New South Wales) Act 1994
Noise Control Act 1975
Noxious Weeds Act 1993
Public Health Act 1991
Public Works Act 1912
Recreation Vehicles Act 1983
Roads Act 1993
State Emergency Service Act 1989
Strata Titles Act 1973
Swimming Pools Act 1992
Threatened Species Conservation Act 1995
Traffic (Parking Regulation) Amendment Act 1993
Unhealthy Building Land Act 1990
Waste Minimisation and Management Act 1995
Water Supply Authorities Act 1987

ATTACHMENT 7 PROFILE OF LOCAL COUNCILS

The population, area and expenditure of local councils in New South Wales

Council	Aust. Classification*	Area sq km	Estimated resident population 30/6/96	Population density (pop/area) 30/6/96	Total operating expenses 1995/96 (\$m)
<i>Group 1 - Capital City</i>					
Sydney City	UCC	6.18	7,950	1,286.41	99.78
<i>Group 2 - Metropolitan Developed, Small to Medium</i>					
Ashfield	UDM	8.28	41,950	5,066.43	13.82
Auburn	UDM	32.05	50,100	1,563.18	17.67
Botany	UDM	26.75	36,000	1,345.79	21.81
Burwood	UDS	7.26	29,350	4,042.70	16.17
Concord	UDS	10.95	24,500	2,237.44	11.18
Drummoyne	UDM	8.09	31,400	3,881.33	13.06
Hunters Hill	UDS	5.73	13,050	2,277.49	5.43
Hurstville City	UDM	24.77	68,400	2,761.40	25.73
Kogarah	UDM	19.51	48,450	2,483.34	16.87
Lane Cove Municipal	UDM	10.38	30,450	2,933.53	15.00
Leichhardt Municipal	UDM	12.25	59,950	4,893.88	36.45
Manly	UDM	15.50	36,750	2,370.97	24.01
Mosman Municipal	UDS	8.71	27,400	3,145.81	16.39
North Sydney	UDM	10.46	53,400	5,105.16	33.04
Pittwater	UDM	125.02	52,500	419.93	29.39
Strathfield Municipal	UDS	13.89	27,050	1,947.44	10.84
Waverley	UDM	8.99	60,200	6,696.33	34.59
Willoughby City	UDM	12.18	56,800	2,560.87	32.53
Woollahra Municipal	UDM	12.19	50,550	4,146.84	32.22
<i>Group 3 - Metropolitan Developed, Large to Very Large</i>					
Bankstown City	UDV	77.78	163,650	2,104.01	63.02
Blacktown City	UDV	241.03	236,050	979.34	81.08
Canterbury City	UDV	33.39	135,050	4,044.62	45.54
Fairfield City	UDV	102.50	188,200	1,836.10	73.59
Holroyd City	UDL	39.25	82,100	2,091.72	30.19
Ku-Ring-Gai Municipal	UDL	81.90	107,450	1,311.97	44.56
Marrickville	UDL	16.48	77,900	4,726.94	38.26
Parramatta City	UDV	60.06	138,850	2,311.85	58.65
Randwick City	UDL	36.51	119,700	3,278.55	43.98
Rockdale	UDL	29.33	87,800	2,993.52	28.55
Ryde City	UDL	40.15	96,500	2,403.49	32.41
South Sydney City	UDL	17.79	73,800	4,148.40	70.74
Sutherland Shire	UDV	370.91	203,400	548.38	87.77
Warringah	UDV	138.36	129,600	936.69	58.46

Independent Pricing and Regulatory Tribunal

Council	Aust. Classification*	Area sq km	Estimated resident population 30/6/96	Population density (pop/area) 30/6/96	Total operating expenses 1995/96 (\$m)
<i>Group 4 - Regional Cities, Small to Medium</i>					
Albury City	URM	103.07	42,080	408.27	35.34
Armidale City	URS	33.65	23,450	696.88	16.94
Ballina Shire	URM	486.94	35,780	73.48	24.65
Bathurst City	URS	239.64	30,840	128.69	24.96
Bega Valley Shire	URS	6,049.80	28,850	4.77	29.53
Broken Hill City	URS	69.66	23,720	340.51	15.33
Byron Shire	URS	561.26	27,170	48.41	25.46
Casino	URS	91.13	11,700	128.39	8.45
Cessnock City	URM	1,950.62	46,790	23.99	25.32
Coffs Harbour City	URM	946.36	57,460	60.72	37.42
Deniliquin	URS	129.50	8,570	66.18	6.82
Dubbo City	URM	3,339.44	36,940	11.06	30.37
Eurobodalla Shire	URS	3,402.23	31,090	9.14	31.54
Glen Innes	URS	68.92	6,570	95.33	7.07
Goulburn City	URS	53.84	22,220	412.70	15.92
Grafton City	URS	80.13	18,190	227.01	13.04
Great Lakes	URS	3,339.05	29,040	8.70	28.88
Greater Taree City	URM	3,752.76	44,660	11.90	22.98
Griffith City	URS	1,605.50	22,040	13.73	17.10
Hastings	URM	3,692.76	56,440	15.28	34.65
Kempsey Shire	URS	3,355.00	27,150	8.09	20.30
Kiama Municipal	URS	256.03	18,770	73.31	17.83
Lismore City	URM	1,267.05	45,860	36.19	28.90
Greater Lithgow City	URS	3,468.94	20,550	5.92	18.11
Maitland City	URM	396.27	52,700	132.99	23.24
Orange City	URM	286.89	35,260	122.90	31.85
Port Stephens	URM	978.65	53,260	54.42	36.40
Queanbeyan City	URS	52.45	28,680	546.81	22.63
Shellharbour	URM	154.20	52,560	340.86	21.74
Singleton Shire	URS	4,810.21	20,670	4.30	15.57
Tamworth City	URM	183.09	36,890	201.49	44.38
Tweed Shire	URM	1,303.38	64,020	49.12	41.18
Wagga Wagga City	URM	4,886.43	57,750	11.82	56.54
Wingecarribee	URM	2,700.46	37,920	14.04	35.89
<i>Group 5 - Regional Cities, Large to Very Large</i>					
Lake Macquarie City	URV	748.77	179,450	239.66	72.08
Newcastle City	URV	213.52	138,820	650.15	82.58
Shoalhaven City	URL	4,660.25	80,840	17.35	79.84
Wollongong City	URV	713.93	184,410	258.30	94.17
<i>Group 6 - Urban Fringe, Small to Medium</i>					
Camden	UFS	206.10	29,500	143.13	16.47
Hawkesbury City	UFM	2,792.62	57,450	20.57	32.57
Wollondilly	UFM	2,557.99	34,600	13.53	19.67

Attachment 7 Profile of Local Councils

Council	Aust. Classification*	Area sq km	Estimated resident population 30/6/96	Population density (pop/area) 30/6/96	Total operating expenses 1995/96 (\$m)
<i>Group 7 - Urban Fringe - Large to Very Large</i>					
Baulkham Hills	UFV	380.98	130,550	342.67	45.37
Blue Mountains City	UFL	1,404.81	75,550	53.78	39.91
Campbelltown City	UFV	311.78	151,100	484.64	58.84
Gosford City	UFV	1,028.19	149,500	145.40	101.09
Hornsby	UFV	504.14	144,750	287.12	55.73
Liverpool City	UFL	313.28	114,350	365.01	55.02
Penrith City	UFV	406.62	168,450	414.27	70.48
Wyong Shire	UFL	825.92	119,350	144.51	106.10
<i>Group 8 - Agricultural Small</i>					
Conargo Shire	RAS	3,737.36	1,500	0.40	2.47
Jerilderie Shire	RAS	3,397.27	1,890	0.56	4.73
Nundle	RAS	1,592.73	1,400	0.88	2.13
Urana	RAS	3,361.49	1,520	0.45	3.49
Windouran	RAS	5,091.92	440	0.09	1.82
<i>Group 9 - Agricultural Medium</i>					
Balranald Shire	RAM	21,418.53	2,950	0.14	3.83
Barraba Shire	RAM	3,074.62	2,360	0.77	3.40
Bingara	RAM	2,859.28	2,110	0.74	3.57
Bogan Shire	RAM	14,610.33	3,210	0.22	7.33
Bombala	RAM	3,944.68	3,010	0.76	8.04
Boorowa	RAM	2,599.91	2,640	1.02	5.12
Bourke	RAM	43,116.55	4,310	0.10	13.52
Brewarrina	RAM	18,874.56	2,200	0.12	7.10
Carrathool	RAM	18,975.73	3,100	0.16	10.50
Central Darling	RTM	51,395.12	2,580	0.05	6.72
Coolah Shire	RAM	4,791.66	4,020	0.84	5.57
Coolamon Shire	RAM	2,424.23	4,060	1.67	4.64
Copmanhurst	RAM	3,143.63	4,150	1.32	4.87
Crookwell	RAM	3,439.51	4,710	1.37	6.53
Culcairn Shire	RAM	1,580.87	4,500	2.85	4.48
Dumaresq Shire	RAM	4,168.36	3,880	0.93	6.69
Evans	RAM	4,278.00	4,970	1.16	5.74
Gilgandra Shire	RAM	4,817.76	4,980	1.03	8.10
Gloucester Shire	RAM	2,918.43	4,900	1.68	7.24
Gundagai	RAM	2,447.54	3,850	1.57	3.53
Gunning Shire	RAM	2,199.80	2,340	1.06	2.77
Guyra Shire	RAM	4,370.69	4,880	1.12	4.57
Harden Shire	RAM	1,862.65	4,200	2.25	6.42
Hay Shire	RAM	11,438.49	3,880	0.34	4.39
Holbrook Shire	RAM	2,589.99	2,600	1.00	3.89
Lockhart	RAM	2,930.09	3,740	1.28	4.57
Manilla	RAM	2,244.69	3,490	1.55	3.91
Merriwa	RAM	3,507.98	2,480	0.71	5.09
Murrumbidgee	RAM	3,407.86	2,470	0.72	2.75
Murrurundi Shire	RAM	2,470.77	2,440	0.99	4.63
Nymboida Shire	RSG	5,082.45	4,700	0.92	4.79
Oberon	RAM	2,923.99	4,520	1.55	5.35
Rylstone	RAM	3,832.25	4,040	1.05	5.79
Severn Shire	RAM	5,826.08	3,090	0.53	3.94

Independent Pricing and Regulatory Tribunal

Council	Aust. Classification*	Area sq km	Estimated resident population 30/6/96	Population density (pop/area) 30/6/96	Total operating expenses 1995/96 (\$m)
Tallaganda	RAM	3,351.29	2,670	0.80	5.12
Tumbarumba Shire	RAM	4,379.67	3,680	0.84	7.42
Walcha	RAM	6,409.91	3,630	0.57	4.87
Warren	RAM	10,860.15	3,700	0.34	5.72
Weddin	RAM	3,426.84	4,270	1.25	5.67
Yallaro	RAM	5,348.27	3,510	0.66	10.73
<i>Group 10 - Agricultural Large</i>					
Berrigan Shire	RAL	2,048.68	8,410	4.11	11.73
Bland Shire	RAL	8,456.84	6,600	0.78	8.10
Blayney Shire	RAL	1,618.94	6,530	4.03	6.05
Cobar	RTL	44,250.39	5,340	0.12	12.39
Cooma-Monaro Shire	RAL	4,881.19	9,850	2.02	8.95
Coonabarabran	RAL	7,674.19	7,250	0.94	7.79
Coonamble Shire	RAL	9,954.84	5,160	0.52	14.28
Cootamundra Shire	RAL	1,525.00	8,270	5.42	8.12
Corowa Shire	RAL	2,193.72	8,570	3.91	8.79
Dungog Shire	RAL	2,247.67	8,350	3.71	5.86
Hume	RAL	1,924.08	7,130	3.71	6.17
Junee Shire	RAL	2,045.13	6,200	3.03	4.82
Lachlan Shire	RAL	15,359.04	7,640	0.50	11.12
Mulwaree Shire	RAL	5,207.49	5,870	1.13	5.06
Murray Shire	RAL	4,328.49	5,400	1.25	6.02
Narrandera	RAL	4,139.73	7,270	1.76	7.49
Narromine	RAL	5,224.16	7,320	1.40	8.58
Quirindi Shire	RAL	3,046.53	5,380	1.77	6.44
Snowy River	RAL	6,034.68	6,090	1.95	11.09
Temora Shire	RAL	2,812.52	6,500	2.31	6.24
Tenterfield	RAL	7,123.52	7,010	0.98	7.61
Ulmarra	RAL	1,790.32	6,400	3.57	4.78
Uralla Shire	RAL	3,214.51	6,420	2.00	6.32
Wakool	RAL	7,548.61	5,300	0.70	5.26
Walgett Shire	RAL	22,007.39	8,200	0.37	10.40
Wellington	RAL	4,075.67	9,490	2.33	13.61
Wentworth	RAL	26,170.23	7,290	0.28	8.31
Yarrowlumla	RSG	2,969.80	9,400	3.17	6.13
Yass Shire	RAL	3,416.31	9,840	2.88	10.72
<i>Group 11 - Agricultural, Very Large</i>					
Bellingen Shire	RAV	1,604.58	12,870	8.02	10.78
Cabonne	RAV	6,017.54	12,500	2.08	13.59
Cowra Shire	RAV	2,724.44	12,680	4.65	11.51
Forbes	RAV	4,713.21	10,570	2.24	10.72
Gunnedah Shire	RAV	5,092.39	13,440	2.64	32.23
Inverell Shire	RAV	8,623.40	16,420	1.90	15.71
Kyogle	RAV	3,589.00	10,500	2.93	19.61
Leeton Shire	RAV	1,131.65	11,250	9.94	8.88
Maclean	RAV	1,041.95	15,560	14.93	11.53
Moree Plains	RAV	17,873.97	16,390	0.92	18.81
Mudgee Shire	RAV	5,480.50	18,090	3.30	19.21
Muswellbrook Shire	RAV	3,401.55	16,110	4.74	9.51
Nambucca Shire	RAV	1,442.62	18,220	12.63	10.78

Attachment 7 Profile of Local Councils

Council	Aust. Classification*	Area sq km	Estimated resident population 30/6/96	Population density (pop/area) 30/6/96	Total operating expenses 1995/96 (\$m)
Narrabri	RAV	13,065.33	14,480	1.11	17.70
Parkes Shire	RAV	5,915.10	14,760	2.50	19.17
Parry	RAV	4,386.14	12,930	2.95	8.19
Richmond River Shire	RAV	2,458.66	10,060	4.09	11.98
Scone Shire	RAV	4,027.54	10,390	2.58	9.26
Tumut Shire	RAV	3,752.07	11,570	3.08	11.14
Young	RAV	2,669.89	11,400	4.27	10.33
Total		703,607.77	6,188,800	582.16	3,821.45

Source: Department of Local Government

*Australian Classification of Local Governments	
UCC - Urban Capital City	UDS - Urban Developed Small
UDM - Urban Developed Medium	UDL - Urban Developed Large
UDV - Urban Developed Very Large	URS - Urban Regional Small
URM - Urban Regional Medium	URL - Urban Regional Large
URV - Urban Regional Very Large	UFS - Urban Fringe Small
UFM - Urban Fringe Medium	UFL - Urban Fringe Large
UFV - Urban Fringe Very Large	RSG - Rural with Significant Growth
RAS - Rural Agricultural Small	RAM - Rural Agricultural Medium
RAL - Rural Agricultural Large	RAV - Rural Agricultural Very Large
RTX - Rural Remote Extra Small	RTS - Rural Remote Small
RTM - Rural Remote Medium	RTL - Rural Remote Large

ATTACHMENT 8 PERFORMANCE MEASUREMENT CONCEPTS AND TECHNIQUES

A8.1 Basic performance measurement techniques

Productivity is the ratio of all outputs to all inputs. This may be difficult to measure when there are multiple outputs and inputs in a production process. Most local council operations use multiple inputs such as employees, materials and machines to provide more than one output, eg waste collection, public library services, road maintenance and construction, and water and sewerage services.

A **partial productivity measure** is an index which does not include all inputs and outputs, eg kilometres of road maintained per employee. This measure excludes materials expenditure and capital.

Unit cost is the cost to produce a unit of output.

Effectiveness refers to how well the outputs of a local council achieve the objectives set by the local council and expected by the community, eg whether the standard of roads is appropriate. Measures of effectiveness can be obtained from service quality indicators, e.g. through customer satisfaction surveys.

Efficiency refers to how well an organisation uses its resources to provide outputs relative to best practice at a point of time.

A specific category of efficiency is **technical efficiency** which refers to how well an organisation converts physical inputs such as employees and machines into outputs relative to best practice at any point in time. Technical efficiency is affected by managerial practices, the scale or size of operations, and environmental factors such as rainfall or topography in the case of roads.

Allocative efficiency refers to whether, given input prices, inputs are chosen which minimise the cost of production. **Dynamic efficiency** refers to the timeliness of changes in technology and products in response to changes in consumer tastes and productive opportunities.

Economic or cost efficiency refers to whether an organisation is technically, allocatively and dynamically efficient.

Measurement of efficiency does not preclude consideration of effectiveness. Measures of effectiveness are also needed. Efficiency may be increased at the expense of effectiveness. For example, a council with relatively few staff may seem efficient, but it may not be able to provide the quality of service demanded by the community. Viewed together, effectiveness and efficiency indicators provide a more comprehensive understanding of performance.

Focusing on partial measures, such as output per employee, can be misleading because it tells only part of the story - how labour is moving with production. It says nothing about capital or materials. The contracting out of services may also be relevant to efficiency.

One possible solution to this problem is to combine partial performance measures to form a composite measure for each particular service. The individual indicators for each service should cover a range of service aspects, eg customer satisfaction, cost, timeliness and quality. The advantage of such an approach is that a comparison is not made on the basis of a single aspect. The composite measure method allows managers and others involved in service provision to identify specific areas where performance is relatively poor, and therefore could be improved. It may be impossible for a local council to achieve best practice for all indicators of a particular service. There may be a trade-off between some of the individual performance indicators for that service. In developing a composite measure for a particular service, it is necessary to determine a method for weighting the individual performance measures that make up the composite measure.

A8.2 The more global techniques: TFP, DEA and stochastic frontiers

Total Factor Productivity (TFP) indices provide a measure of productivity in the ratio of outputs (weighted by revenue shares) to inputs (weighted by cost shares). To calculate TFP, index information on the quantities and prices of inputs and outputs is required. TFP indexes provide information on an organisation's performance over time and can be used to make comparisons over a sector.

This technique cannot aggregate outputs when there are no market-type prices for the goods and services provided. Therefore, it cannot be used for council functions which involve multiple outputs which are not traded, or are not traded in typical markets, eg the provision of parklands.

Data Envelopment Analysis (DEA) is a linear programming technique which identifies best practice within a sample and measures technical efficiency relative to the best practice units. It handles multiple inputs and outputs and does not need price information. This means it can be applied to a local council's business and service delivery operations.

This technique requires a number of subjects, and is better suited to comparisons across councils. The larger the data set, the more likely the technique is to identify actual best practice.

DEA can allow for differences in the size of operations and differences in operating environments. This is important when considering the local government sector in NSW. DEA identifies best practice performers that may prove to be useful peers for less efficient units and can be used to set targets for improvement. This makes DEA a particularly powerful internal management tool.

Stochastic frontiers is a regression technique which estimates best practice and measures efficiency relative to the best practice frontier. Stochastic frontiers differ from standard regression techniques in that they estimate best, rather than average practice. Hence the term, 'frontier'.

Like DEA, the stochastic frontier technique requires a number of units in order to make comparisons. This technique often needs price information for units which produce multiple outputs. Multiple outputs need to be aggregated into a single index to estimate a production function. Alternatively, the total cost of inputs can be aggregated to estimate a cost function.

For more information on these techniques see *Measuring the total factor productivity of government trading enterprises* by the Steering Committee on National Performance Monitoring of Government Trading Enterprises (July 1992) and an information paper on using DEA to measure the efficiency of government service delivery by the Steering Committee on the Review of Commonwealth / State Service Provision.²

A8.3 Process benchmarking

Several issues should be considered before an organisation embarks on a process benchmarking project. These include detailed forward planning for the organisation and an understanding of the factors which are critical to the successful running of the organisation, a knowledge of the priorities and service standards required by customers, the ability to analyse organisational processes, and the commitment of management. Benchmarking can provide significant benefits, but requires the commitment of time and people, particularly during the phase of the project when improvements are being implemented. Plans need to be put in place for the entire project, particularly writing up recommendations, communication strategies, and an implementation strategy.³

There are a number of ways of deciding which of an organisation's processes should be a priority for benchmarking. There may be areas which customers have identified as priorities for improvement, processes which are particularly costly, or processes which account for a large proportion of the organisation's total resources.

Before commencing work with other organisations, the people involved in the benchmarking project need to have a detailed and sound understanding of how the work is carried out in their own organisation. Many organisations put together flow charts or maps of their work processes. It is vital that all staff affected are fully involved from the beginning of the project, rather than being asked to implement recommendations they have not been involved in developing. Performance indicators need to be developed for the work processes being benchmarked, so that future improvements can be monitored. Staff training will be required to explain how the benchmarking project will operate and how to develop performance indicators. Skills training such as listening, presentation and report writing skills may also be required.

The examination and documenting of processes can in itself be very valuable in uncovering improvement opportunities. If the project is taken further, developing a questionnaire based around the steps in the work process can ensure that all important issues are raised and discussed with benchmarking partner organisations.

There are several ways of finding benchmarking partners. Partner organisations can be found through area and industry networks, staff, industry associations, unions, and business improvement or quality forums.

Benchmarking can generate a huge number of ideas for improvement. There needs to be agreement on which ideas should be implemented, and what priority they should be given. Consultation with and the involvement of all staff who are affected by the recommendations will help to ensure that the implementation phase of the project works effectively.

² For a more technical explanation see Fried, HO, Lovell, CAK and Schmidt, SS (eds), *The measurement of productive efficiency*, Oxford, New York, 1993.

³ *Benchmarking Self Help Manual*, AusIndustry, Best Practice Program, AGPS, Canberra.

Successful projects involve significant investments of time and resources, but will bring important improvements in the operations of an organisation. For smaller organisations, such projects are not as intensive, as there are fewer people to communicate with at each stage of the project and communication strategies may be less formal. For very small organisations, however, it may be difficult to allocate resources to such projects.

Every project will be conducted differently. There will be differences due to the size of the organisation, how much work has been done in the area being benchmarked, whether it is the first of such projects to be undertaken by the organisation, and many other factors. The case studies of process benchmarking projects outlined in Section 5.2 show how councils and groups of councils have tailored process benchmarking techniques to their own circumstances.

ATTACHMENT 9 NATIONAL BENCHMARKING STUDY

A9.1 Local Government Ministers' Conference

In 1994 the Local Government Ministers' Conference, a body comprising all State and Commonwealth Ministers for Local Government, allocated funding for a benchmarking project. The project goals were to:

- develop and test benchmark standards for service activities applicable to councils throughout Australia
- develop a manual and other aids on how to implement benchmarking.⁴

Six 'lead' councils were selected to define the benchmarking subjects. These councils were selected from a large number of councils which had volunteered in response to publicity about the project. Seven subject definitions were developed by the councils (one council developed two subject definitions), covering building approvals, fleet maintenance, unsealed rural roads maintenance, home care, library services, payroll production, and rates notification and collection.

For each of the services covered, the relevant council also had to develop key performance indicators. Performance indicators for each service generally measured customer satisfaction, quality, timeliness (service availability, response time) and cost. These indicators were combined into a composite measure, using a value index approach for aggregation. Senior managers from local councils stated that a combined figure would be useful.

Twenty-four pilot councils (including the six lead councils) were selected to have their services benchmarked. The following criteria were used to select the councils:

- all states were to be represented, with state representation to roughly follow population
- a range of municipality types was to be represented
- projects had to have the support of senior management
- prior involvement or current interest in benchmarking, total quality management, continuous improvement, or key performance indicator development.

A9.2 Lessons learnt from the project

Resources required

The staff resources required to collect data for benchmarking were found to be significant. An average of 30 hours of staff time was needed for data collection for each subject. This was usually divided among three staff members. The support of the Chief Executive Officer or General Manager was crucial.

With further development of benchmarking activities, time required to collect data may decrease as special data collection processes are implemented.

⁴ Local Government Ministers' Conference, *Benchmarking Project Report*, January 1995.

Subject definitions and performance indicators

Industry wide agreement on subject definition and key performance indicators is required. Practical issues for key performance indicators were exposed in every subject. For any study covering the whole of the country, a wide representative group of subject specialists needs to obtain agreement on working definitions and key performance indicators.

Another issue is that benchmarking and performance measurement make fresh demands on information systems, and many councils have not yet addressed those requirements. The quality of data submitted for the study varied due to differing interpretations of the performance indicator definitions. State to state variations in legislation may also limit the ability to make comparisons.

Costings should be thorough, but not necessarily exhaustive

The objective of costing in benchmarking is to ensure that sufficient cost data is collected to reflect adequately the real cost of delivering a service.

Key costing issues that arose included:

- most councils did not have well developed service costing systems
- many councils treated internal costs differently
- some council financial staff had a preference for working to highly prescriptive guidelines rather than the project's approach
- how to cost individual services was a contentious issue, eg how to allocate corporate overheads.

Extension of benchmarking to more councils

It should not be assumed that the process used in the pilot project can simply be extended to hundreds of councils. Similarly, it should not be assumed that an extension from seven subjects to the more than 100 subjects typically supplied by a council can be achieved simply.

A workable process will need to:

- maintain smaller, rather than larger council groups, eg state or regional groupings
- establish prerequisites for councils before accepting their participation
- create a database of subject definitions
- avoid the need for a data co-ordinator to have to verify data and resolve missing data
- resolve how the 'best' council can deal effectively with inquiries from other councils.

Customer surveys

Council information systems have usually focused on financial measures. Few councils were initially able to report on customer satisfaction measurements. Benchmarking requires measurement of customer satisfaction, which may be achieved through customer surveys.

Concerns were raised over the extent of resources required to perform customer surveys. Although this is acknowledged, true customer focus cannot be achieved without some means of measuring customer satisfaction.

Critical success factors for benchmarking in local government

Six factors were identified as essential for successful benchmarking:

- The commitment and support of senior management is critical.
- As benchmarking is carried out by teams of council staff, training must be provided so that they understand the objectives and methods of benchmarking.
- Staff must be given the opportunity to allocate sufficient time to the work and senior management must support the priority of the work.
- Clear definition of the benchmarking subject is essential, along with the right level of detail.
- The subject definition must contain a balanced set of performance indicators which incorporate quality, cost, time and customer satisfaction measures.
- Strong co-ordination and communication is essential throughout the benchmarking project.

ATTACHMENT 10 CASE STUDIES

Under the terms of reference for this review, the Tribunal is required to demonstrate, through case studies, the practical application of benchmarking to a range of local government functions. This has largely involved a review of the benchmarking and performance measurement initiatives that have been completed or are currently underway. The Tribunal's Secretariat also carried out its own study which applied data envelopment analysis to waste services.

The local government areas which case studies covered are:

- water and sewerage
- roads
- community services
- libraries
- waste services
- approval systems – BAs and DAs
- community consultation
- resource sharing.

For particular services such as waste services and libraries, it has been concluded that techniques such as DEA can provide useful insights into the relative efficiency of service providers. It is also clear that the journey involved in process benchmarking can produce important benefits. Participants gain an increased understanding of their organisation, what processes are involved in providing a particular service, and how these processes can be improved upon.

A10.1 Water and sewerage

A syndicate process benchmarking pilot project for water and sewerage supply services was conducted by a number of city and shire councils in September 1995. The project was carried out over a six month period with the assistance of the Department of Land and Water Conservation (DLWC), a benchmarking consultant from PA Consulting Group, and the Local Government and Shires Associations (LGSA). Syndicate councils were:

- Albury City Council
- Dubbo City Council
- Gosford City Council
- Lismore City Council
- Shoalhaven City Council
- Tweed Shire Council
- Wyong Shire Council.

The syndicate councils were selected on the basis of their operating larger sewage collection and transport systems. There were 24 respondents to an expression of interest distributed to

all local government providers of water supply, sewerage and stormwater services in country NSW. A report of this project was published by the DLWC in June 1997.

Two key processes were selected by the Steering Committee for benchmarking: the operation and maintenance of sewage collection, and the operation and maintenance of sewage transport. These activities were selected because of their high labour content and impact on costs, customer service and environmental performance.

Syndicate members carried out an independent analysis of their key processes. This enabled them all to understand how their own resources are expended within these processes, and the link between customer needs and the processes. It also enabled them to identify priority areas within the key processes which have the greatest impact on financial performance and customer service.

Several techniques were adopted by syndicate members to help them determine which activities would most benefit from benchmarking:

- activity based costing (ABC)
- customer prioritisation matrix
- process decomposition.

On the basis of the analyses, the syndicate members selected two sub-processes for detailed analysis. Several activities were further identified from these sub-processes to provide the disaggregated basis for costs to be allocated. Some activities were broken down further into tasks. For example, for preventive maintenance, some of the specific tasks identified include cleaning down walls, checking machinery, and servicing the switchboard.

A questionnaire was used to rank customer needs in relation to the importance of the activities undertaken for each sub-process. The activities with the highest scores would deliver the greatest return from any improvement. Costs for the various activities were analysed and activity-based costing for the areas of common concern and areas for improvement were determined.

The next step in the project involved the selection of focus areas to be benchmarked. These were determined by considering factors such as importance to customers, financial impact, and opportunity for improvement and regulatory issues. The focus areas determined by the syndicate were:

- operation and maintenance of sewers
- sewage pumping station (SPS) trades activities
- sewage pumping station (SPS) non-trades activities.

Performance indicators were derived from the process analysis undertaken for each activity. They were developed for the key processes and selected sub-processes and activities. Indicators identified for the collection and transport of sewage included:

- number of dry weather overflows per year
- frequency and duration of service discontinuity
- number of non-compliances with statutory requirements and regulations
- number of customer complaints

- repair cost per kilometre of pipe per year.

Performance comparisons based on the performance indicators were carried out to identify performance gaps among syndicate members. To understand the reasons for the performance gaps, a range of *performance drivers* (ie key factors influencing performance) were identified for selected activities and tasks. The suggested generic drivers were: system design, safety requirements, legislative requirements, geographic location, aesthetic requirements (eg landscaping, painting), vegetation, and climatic conditions.

For the task of cleaning down walls in pumping stations, the following performance drivers were identified:

- planning and scheduling - how often the work was done
- technology - type of equipment used
- organisation - work done in-house or contracted out
- people - experience and skill of work team
- other - physical structure, design and location of pumping stations.

These performance drivers were reviewed against the current work practices of individual syndicate members and 'best practices' amongst the members were identified.

Comparison with external best practice organisations

Guidelines and a questionnaire were developed by the syndicate and forwarded to 31 councils in Australia and New Zealand, chosen on the basis of:

- reputation in the industry
- serving a similar size of population to the syndicate members
- operating sewage collection and transport systems of a similar type to those operated by the syndicate members
- having similar interests to the syndicate members.

Eight councils were selected as external benchmarking partners on the basis of the quality of their responses to the questionnaire and follow-up inquiries, relevance of their activities and high level of performance. These councils were Greater Taree City Council (NSW), Logan City, Redland City and Gold Coast City Councils (QLD), and Porirua, Wanganui, New Plymouth and Manukau Councils (NZ).

Following visits to the external benchmarking partners, the best practices which offered the greatest potential for improvements to the syndicate members were selected. The costs and benefits of adapting the observed best practices to their organisations were estimated individually by syndicate members.

Monitoring and reviewing improvements

Following the implementation of the best practices identified by the project, plans were to be developed by the syndicate members to monitor and review the improvements. DLWC will continue to formally monitor and review the improvements made by the councils.⁵

⁵ Personal communication, Sam Samra DLWC, 17 September 1997.

Results

The best practice initiatives were identified through internal and external performance comparisons. Cost savings to the individual organisations achieved by applying these best practices were estimated separately by individual members. Best practice initiatives in sewage collection and transport include:

- increased use of telemetry as a control system for pumping stations and monitoring performance
- use of contractors for non-core business activities
- greater reliance on reactive maintenance of sewerage pumping stations
- greater reliance on pro-active maintenance for the reticulation system
- use of closed circuit television inspection for reactive and pro-active maintenance of the reticulation system
- lining of wet wells
- training and multi-skilling for operation and maintenance staff
- greater use of computerised management systems.

Total estimated annual cost savings net of implementation costs for the syndicate through the introduction of observed best practices was approximately \$1.4m. This represents about 18 percent of the total estimated annual operation and maintenance costs of sewage collection and transport for the seven syndicate councils. Cost savings achieved by individual councils varied from \$70,000 to \$320,000.

Comments

The project was a valuable exercise which produced useful results. Syndicate benchmarking provides the opportunity for members to conduct comparisons within the syndicate, and share resources and workload. Syndicate councils benefited from their participation in the project, as they all discovered where to achieve cost savings by implementing best practices in particular areas.

One of the most important benefits of the benchmarking project was the actual journey of process benchmarking. The experience and knowledge gained from participating was a major benefit for syndicate councils. The beginning of the project involved determining major processes and areas where cost savings could be achieved. The journey resulted in an improved understanding of business processes and cost drivers. The implementation of activity based costing was also important in this respect.

A10.2 Roads

The Roads and Traffic Authority (RTA) and LGSA are undertaking a joint benchmarking study on road maintenance. Councils are responsible for maintaining around 160,000 kilometres of regional and local roads, and also maintain around 9,000 kilometres of state roads on behalf of the RTA. Road maintenance and development constitute around one-third of all council expenditure. The RTA provides over \$330m worth of funding to councils, and local councils spend approximately another \$300m of their own resources on

the road network. Given the magnitude of this expenditure, any improvement in efficiency has the potential to provide significant cost savings.

The primary objective of the road maintenance benchmarking study is to improve the efficiency and effectiveness of service delivery. This will be achieved by identifying areas of significant performance improvement, allowing councils and the RTA to define best practice methods and promote their adoption.

A workshop was held in May 1997 to determine the scope of the project. The participants included members of the RTA, LGSA, Institute of Municipal Engineers Australia, Institute of Municipal Management, individual councils and NSW Treasury. The main findings of the workshop were that the project should:

- provide for comparisons across councils and RTA Works centres
- focus on 'big ticket' items and identify indicators to build upon later
- proceed on two levels concentrating on:
 - system stewardship benchmarking (a series of measures relating to resourcing, road network and outcomes) across as many councils and RTA regions as possible. The benchmarking process should adjust for uncontrollable factors and allow for the current state of network infrastructure assets, possibly using data envelopment analysis.
 - benchmarking, and developing performance indicators for selected processes with potential for significant cost savings, to be undertaken with selected RTA and council partners.

Booz-Allen has been engaged as consultant for the project. Analysis of the returns from participating councils is being undertaken by the consultants, and the project's draft report is due by June 1998.

A10.3 Community services

Craig Johnston was commissioned by the DoLG to report on performance indicators for local government welfare services.⁶ The terms of reference for the project were to:

- establish a process for designing performance indicators for 'community services' purchased by councils
- develop a set of example qualitative and quantitative performance indicators for 'community services' purchased by councils
- establish options for performance indicator data to be collected from councils by the DoLG
- establish options for presentation of inter-council performance indicator data collected from councils in a meaningful and useful way by the Department.

Local government in NSW is heavily involved in providing or supporting welfare services. This involvement is spread over a range of welfare programs. The four main programs are: community halls and community centres, aged services/senior citizen centres, children's services, and youth centres. Councils are not involved in all welfare programs. This complicates the development of performance indicators for inter-council comparisons.

⁶ Johnston, C. *Performance indicators for welfare services purchased by local governments*, A report to the NSW Department of Local Government, 1997. Much of this section is taken from the report.

The DoLG asks councils to provide information on four performance indicators in human services:

- library services – operating expenses per capita
- library services – issues per capita
- recreation and leisure services – net recreation and leisure expenses per capita
- community services – community services expenses per capita.

Concerns with the reliability of the DoLG's performance indicator publication have already been discussed. Johnston also made a number of comments in relation to the human services indicators above. Firstly, the DoLG's classification of 'recreation and culture' services is separated, with the library function within the classification being reported separately. By then using a title, 'recreation and leisure' different from the category 'recreation and culture' contained in the *Local government code of accounting practice and financial reporting*, there is the risk that cultural services may not be included by some councils. Similarly, the DoLG's classification of 'community and education services' is expressed as 'community services' in the performance indicator. This may suggest that education activities included in the *Local government code of accounting practice and financial reporting* may not be included in the 'community services' indicator.

Secondly, the expenses indicators are not really indicators of efficiency, since there is no standard of how much money per capita should be spent. Rather, these cost ratios indicate resource capacity.

Johnston suggests two broad ways of changing the inter-council comparative indicator of 'community services':

- *ensuring that the inputs reported are done so usefully* eg every council using the same classification of 'community services', every council using program budgeting, overhead costs are allocated, and examining whether only specific types of welfare programs should be compared
- *developing appropriate indicators for efficiency and effectiveness* eg whether it would be better to develop efficiency and effectiveness indicators for council's welfare services as a whole, or for specific types of welfare programs.

Johnston sees value in disaggregating services into major programs to ensure comparison of like with like in reporting. He recommends that:

"the Department consider asking councils to report on expenditures for specific types of welfare programs, eg children's services, aged/disability services, but only if those welfare programs are chosen for reporting of appropriate performance indicators."

The suggested expenditure indicators for children's services and aged services within council boundaries are: children's services costs per population aged under six years, and aged services costs per over 60 year old.

Comments received by the Tribunal regarding the DoLG's publication raise the concern that the indicators presented are of limited scope, generally focussing on costs. Johnston adds that the human services indicators published by the DoLG generally measure resource capacity rather than efficiency or effectiveness. However, he states that the simple cost indicators should continue to be collected as failure to do so may be taken as an indication that welfare services are not important or are not a priority.

Johnston suggests that efficiency and effectiveness indicators could be developed, either on a whole-council welfare services basis, or for individual services. Suggested whole-council welfare service efficiency indicators are: administrative costs of welfare services per total costs of welfare services, and employees in welfare services per total cost of welfare services.

Efficiency indicators for individual programs have also been proposed. For children's services, performance indicators could be developed for:

- gross cost to council per EFT child per week in service
- number of EFT children in care per total EFT staff.

For aged/disability services indicators could be developed for:

- gross cost per hour of service provided
- number of EFT customers in care per total EFT staff.

In terms of efficiency indicators, Johnston recommends that:

“the Department consider requesting data from councils to measure the efficiency of welfare services on a whole-council basis, or for children's service and age services, and that the precise indicators used be determined in consultation with the Local Government Community Services Association, Local Government and Shires Association and the Ministerial working group on comparative information.”

A whole-council welfare service effectiveness indicator could be developed via a customer survey (eg % of customers satisfied with service). Johnston comments that, due to conceptual and practical problems in assessing whole-council effectiveness in welfare services, it may be more practical to measure effectiveness for particular programs. He recommends that:

“the Department consider requesting data from councils to measure effectiveness of welfare services on a whole-council basis, or for community centres, children's services or age services, and that the precise indicators used be determined in consultation with the Local Government Community Services Association, Local Government and Shires Associations and the Ministerial working group on comparative information.”

The above recommendations by Johnston are aimed firstly at ensuring that when reporting on expenditure figures, we are comparing like with like. So if reporting on welfare services overall, it needs to be ensured that all component programs are included by councils. Alternatively, comparisons could be done between major programs.

The recommendations are also aimed at developing efficiency and effectiveness indicators. (The DoLG will be consulting stakeholders including the LGSA and Local Government Community Services Association on further development and refinement of community services indicators.⁷) However, as discussed in section 4.1, comparing like with like will not be ensured unless the processes involved in collating the performance indicators are improved upon. Clear definitions of performance indicators and guidelines on their construction are required. Ideally the indicators should be audited to ensure that there has been no misinterpretation of the performance indicator's definition, and that the correct data has been used. In addition, simply publishing any new indicators in the DoLG's publication is unlikely to promote improved performance. The manner in which this information is made public needs to be considered.

⁷ *Comparative Information on NSW Local Government Councils, 1995/96* Department of Local Government

A10.4 Libraries

Queensland University of Technology Study

The majority of councils in NSW provide library services. The DoLG's comparative indicator publication contains two performance indicators for library services, expenditure per capita, and issues per capita. One of the major problems with traditional performance indicators like this is that at most, only two dimensions of activity (represented by numerator and denominator) can be examined in any one indicator. Approaches such as DEA, which can take account of multiple inputs and outputs, may offer useful insights into performance and may be a viable alternative to performance indicators.

The application of DEA to library services in NSW has been studied.⁸ A sample of 168 NSW local government libraries was used to analyse the efficiency measures derived from DEA and performance measures. The data used for the analysis corresponds to the calendar year 1993. It was obtained from the DoLG, the NSW Local Government Grants Commission and the Australian Bureau of Statistics.

In addition to the performance indicators above, the variables used in the analysis are:

Non-discretionary inputs

- population
- area
- non-English speaking background
- aged population
- student population
- non-residential borrowers
- socio-economic index

Discretionary inputs

- Gross library expenditure

Outputs

- library issues

Geographic categories

- inner metropolitan (Sydney Statistical Division)
- middle metropolitan (Sydney Statistical Division)
- outer metropolitan (Sydney Statistical Division)
- councils which are part of urban centres with populations > 100,000
- provincial cities with urban centres > 15,000 population
- country municipalities containing centres < 15,000 and without rural areas
- coastal councils with one or more centres with a population of > 15,000
- coastal councils without centres > 15,000 population
- rural councils where the largest urban centre is between 5,000 – 15,000
- rural councils where the largest urban centre is between 2,000 – 5,000
- rural councils where the largest urban centre is between 1,000 – 2,000
- rural councils where the largest urban centre is < 1,000
- councils in the Western Division of NSW

The final set of variables relates to the Local Government Grants Commission's geographic categories. By including these variables in the analysis, it is posited that geographic factors

⁸ Worthington, Andrew., *Performance indicators and efficiency measurement in public libraries*, Paper presented to the 26th Annual Conference of Economists, University of Tasmania, 29 September – 1 October 1997, School of Economics and Finance, Queensland University of Technology.

may still have an influence on efficiency levels, even after the non-discretionary inputs are taken account of. If these variables are found to have an insignificant influence on efficient outcomes, councils will be compared on the basis of other inputs and outputs.

Results

A number of conclusions are reached through the analysis. It appears that local government libraries operated at a relatively high level of technical and scale efficiency during the period. It was found that 9.5 percent of libraries were technically efficient overall, 47 percent were purely technically efficient, and 10 percent were scale efficient. In addition, pure technical efficiency – or that resulting from the inability to maximise outputs and minimise inputs – accounted for 28 percent of observed inefficiency, while inefficiencies which result from selecting an incorrect scale of operations accounted for 57 percent. Even after taking account of imposed expenditure disabilities, there were substantial differences in efficiency.

It was found that DEA measures and the performance indicators provided consistent performance rankings. However, although this suggests that partial indicators can be useful measures of performance, it may be valuable to supplement them with multiple-input, multiple output techniques. The results of the study indicate the importance of taking account of imposed conditions that can impact on a given local government's ability to operate efficiently. Such exogenous factors and scale effects can compromise the results obtained from partial performance indicators.

Comments

The study by Worthington illustrates the application of a global measure of performance on a local government service. Although partial measures were shown to rank performance consistently with DEA, the study also concluded that DEA can be a useful supplement to performance indicators in measuring performance. This is particularly so where the efficiency of operations is influenced by non-discretionary inputs and other exogenous factors.

Future DEA analysis of library services could expand the set of outputs. In the above analysis, a single output, library issues was used. However, libraries can be viewed as producing multiple outputs. In addition to library issues, output may be measured by visitor numbers. This can take into account the fact that people may use libraries to access newspapers and magazines, which usually cannot be taken off the premises. Some libraries also provide computing services and internet access. Again, these services are utilised on the premises, and measuring output by library issues would not take account of this aspect of a library's output.

Metropolitan and Country Public Libraries Associations Database

NSW public libraries have been collecting comparative data for many years. To complement the data published by the DoLG, the Metropolitan and Country Public Libraries Associations (MPLA and CPLA) have been collating information on efficiency and effectiveness measures.

In 1996, a Public Libraries Benchmarking Database was established with funding from the Local Government Development Program. The 22 database indicators include percentage of library resources less than 5.5 years old, library visits per capita, residential population

served per qualified librarian, and opening hours per week.⁹ The main problem that the MPLA and CPLA had to overcome in constructing the database was the treatment of overheads. The Associations have been able to draw up clear guidelines on how direct and corporate overheads should be treated for the purpose of reporting data for comparative indicators.¹⁰

The MPLA and CPLA have also been developing and piloting a study to measure customer satisfaction levels. It is intended to add a measure of customer satisfaction as the 23rd indicator for the database.¹¹

The work undertaken by the MPLA and CPLA represents an excellent project on performance indicators for an important council service. The guidelines to ensure consistency in reporting data, the range of indicators, contextual information for each library, and inclusion of a measure of customer satisfaction, will provide a sound basis for process benchmarking and ongoing service improvement.

A10.5 Waste services

Acknowledged as a core service of local government, waste services involve significant resources. For this reason, it is important that the service and the associated service level are provided efficiently. The DoLG publication includes performance indicators for domestic waste and recycling services. However, it is widely acknowledged that these partial indicators do not adequately measure performance.

Waste is generally recognised as being composed of domestic waste, council operational waste, commercial and industrial waste, and construction and demolition waste.¹² Local councils have an important role in managing all four waste streams. However, they have a primary responsibility in managing the domestic and council operational waste streams.

The main components of domestic waste are: food waste, green waste, other waste, and recyclables (eg paper, glass, metals, plastics). In addition to the waste collected from residents and commercial premises, councils generate soil, rubble and concrete material from engineering works, and green waste from parks and gardens.

All waste activities in NSW are now subject to the Waste Minimisation and Management Act 1995 (WMM Act). The underlying principles of the WMM Act are:

- a 60% reduction in waste disposal by the end of 2000 (per capita reduction on 1990 disposal rates)
- the establishment of a waste management hierarchy of the following order: avoidance : re-use : recycling and reprocessing : disposal.¹³

The Act provides that Regional Waste Boards should: co-ordinate the waste services provided in, and for, the waste management region, ensure that the constituent councils adopt *efficient* waste management practices and policies, and operate in accordance with the principles of ecologically sustainable development.¹⁴

⁹ MPLA and CPLA submission to Issues Paper, p 1.

¹⁰ MPLA and CPLA presentation to Sydney Public Hearing, 18 August 1997, p 251.

¹¹ MPLA and CPLA submission to Interim Report, p 1.

¹² See, for example, Draft Regional Waste Plan, Inner Sydney Waste Board, July 1997, page 5.4.

¹³ Waste Minimisation and Management Act 1995, section 3.

¹⁴ Waste Minimisation and Management Act 1995, section 17.

Factors impacting on the efficiency of waste collection

Any study of the efficiency of waste collection involves evaluating a complex mix of: the service provided, the community's service requirements, limitations on the service posed by the environment, and council's utilisation of various productive factors. Issues that affect the efficiency of waste management are thus important for benchmarking. They include local conditions and service delivery options. It should be noted that service differences may reflect customer preferences. Issues are:

- *Frequency and provider of service* The frequency of services may impact on the efficiency of services. Whether the services are provided by council day labour or contractors may also influence efficiency and costs.
- *Recycling* There may be a degree of conflict between strictly efficient performance and compliance with the WMM Act if the cheapest method of waste management is disposal to landfill, yet the WMM Act seeks to minimise disposal to landfill.
- A further issue associated with recycling involves the ownership of the material. Where a council maintains ownership, any proceeds from the sale of recycled material will offset costs to some degree. Where ownership is transferred to a collection contractor, the proceeds should be considered in deriving the cost of the recycling service.
- *Automation* The council environment can impact on efficiency. Narrow streets may reduce the ability to use large, specialised equipment. Similarly, the extent of on-street parking may reduce the ability to use some automated collection equipment and/or increase labour requirements.
- *Geographic and demographic factors* Differences in the waste stream may arise due to geographic and demographic factors. Relevant to this are: garden area, family size, household income, and restaurant usage (which transfers waste to other areas).
- *Commercial waste* The amount and extent of commercial waste collected by council can impact on efficiency. Whether commercial premises are grouped in particular areas or interspersed among residences can influence costs, as can the extent of commercial subsidisation of domestic waste management or other council operations.
- *Other factors* The extent of green space (and therefore greenwaste), street sweeping and litter bin services, street care and road works can influence the costs of waste management services.

Sample and data

The analysis studied the activities of councils within Sydney Metropolitan Waste Boards. Regional waste plans were the main source of data. These have been compiled recently from council responses to the Regional Waste Boards. In many cases, the validity of councils' responses has been cross-checked against independent reports by the Environment Protection Authority and the Waste Management Authority. Where appropriate, waste boards have further examined data by various average parameter comparisons. Data quality was also checked by reference to the DoLG database.

Data for Sydney City Council has been excluded. Sydney City Council has few residences, a very large commercial sector, and very high levels of construction activity. These factors provide an extremely atypical waste profile. Semi rural areas have also been excluded.

Study technique and results

The aim of this study was to measure the relative efficiency of each of the sample councils given possible differences in service standards, community expectations and operating environment. DEA is the ideal technique for this analysis as it can provide a comprehensive picture of technical efficiency by constructing either a production (or cost function) and adjusting for the influence of environmental factors, such as population density. The technique can handle multiple inputs and outputs and does not require price information. DEA is a linear programming technique that identifies the best performers in the sample at a given point in time. This is based on their ability to produce the greatest level of output with a given set of inputs or to produce given outputs with the least inputs. Other service providers receive an efficiency score that is determined relative to the sample's best performers.

The technique can determine whether the main source of technical inefficiency is the managerial capabilities of the service provider or the scale of operations (i.e. whether a provider is too large or small). However, as with any other technique, a DEA study is only as good as its data. If reliable data is not available, the results will not be worthwhile. The following table presents a summary of the available waste data.

While it appears that there is an abundance of cost data, closer examination of this data indicates that total waste cost (operating and capital) for each of the sample councils could not be accurately obtained. Costs are very difficult to identify without a thorough audit. This applies to some aspects of overheads and capital costs for councils utilising day labour for waste services.

A greater problem was obtaining reliable data on outputs. The principal difficulty was that the data was not sufficiently disaggregated for the purposes of the analysis. Not all councils collect data to the same degree of disaggregation. In other cases, the activities may not have been measured, e.g. the extent to which council's parks waste is recycled.

There is considerable diversity among the waste management practices of Sydney councils. Variables include: collection quantities, frequency of service, and place of pick-up (street-front or within the residence). These may reflect community expectations. Reliable data on these influences does not appear to be available.

Analysis of Council Waste Activities

Waste Board	Council	Waste Charge (\$/yr)	No of Residence	Disposal Total Domestic (tonnes)	Other Council (tonnes)	Comm'l Waste (tonnes)	Total (tonnes)	Recycled			Total (tonnes)	TOTAL WASTE STREAM (tonnes)
								Domestic (tonnes)	Domestic Garden (tonnes)	Engineer'g Park (tonnes)		
Inner Sydney	Ashfield	137	13,000	12,098	2,792	844	15,734	2,310		600	2,910	18,644
	Auburn	139	15,396	15,189	16,710	1,121	33,020	1,345		10,500	11,845	44,865
	Burwood	138	9,400	8,764	13,500	550	22,814	2,860		675	3,535	26,349
	Concord	172	8,190	8,015	1,959	n/a	9,974	1,666	130	25	1,821	11,795
	Drummoyne	148	14,000	7,824	3,796	360	11,980	2,635	268	160	3,063	15,043
	Leichhardt	202	25,000	14,600	3,800	1,400	19,800	5,600	156	4,950	10,706	30,506
	Strathfield	160	9,200	8,410	81	n/a	8,491	1,682		1,200	2,882	11,373
South Sydney	Botany Bay	125	12,416	9,809	3,360	n/a	13,169	1,774	572	600	2,946	16,115
	Canterbury	133	47,135	47,163	3,872	n/a	51,035	7,469	1,300	10,500	19,269	70,304
	Hurstville	101	28,215	22,575	126	n/a	22,701	4,888	280	675	5,843	28,544
	Kogarah	150	15,198	16,932	2,488	n/a	19,420	4,275	n/a	25	4,300	23,720
	Marrickville	172	20,620	22,635	9,475	n/a	32,110	4,391	282	160	4,833	36,943
	Randwick	179	34,812	40,078	3,907	n/a	43,985	7,751	1,500	4,950	14,201	58,186
	Rockdale	140	27,431	25,602	2,890	n/a	28,492	5,137	800	1,200	7,137	35,629
	South Sydney	133	27,647	20,095	4,392	n/a	24,487	5,690	-	1,200	6,890	31,377
	Sutherland	142	55,906	65,716	37,396	n/a	103,112	14,182	350	1,200	15,732	118,844
	Waverley	190	18,581	25,740	2,664	n/a	28,404	5,896	791	1,200	7,887	36,291
	Woollahra	196	16,472	24,634	202	n/a	24,836	6,351	1,040	1,200	8,591	33,427
	Northern Sydney	Hornsby	170	42,099	45,800	1,780	7,820	55,400	8,582	n/a	n/a	8,582
Hunters Hill		115	4,374	2,600	440	n/a	3,040	1,734	n/a	n/a	1,734	4,774
Ku-ring-gai		177	33,600	41,600	2,330	6,828	50,758	12,337	n/a	n/a	12,337	63,095
Lane Cove		169	12,663	5,100	650	n/a	5,750	3,558	806	n/a	4,364	10,114
Manly		138	16,000	10,700	3,590	n/a	14,290	4,629	n/a	n/a	4,629	18,919
Mosman		158	11,558	6,700	1,520	1,302	9,522	3,149	738	n/a	3,887	13,409
North Sydney		95	30,280	10,000	1,430	772	12,202	5,563	n/a	n/a	5,563	17,765
Pittwater		136	18,850	10,000	3,060	449	13,509	4,725	3,000	n/a	7,725	21,234
Ryde		156	35,000	27,100	240	n/a	27,340	7,152	n/a	n/a	7,152	34,492
Warringah		129	44,184	21,200	6,170	n/a	27,370	13,522	n/a	n/a	13,522	40,892
Willoughby		182	20,833	14,200	1,410	n/a	15,610	5,020	5,061	n/a	10,081	25,691
Western Sydney	Bankstown	130	53,500	53,627	5,867	n/a	59,494	6,240	572	600	7,412	66,906
	Baulkham Hills	177	34,700	34,950	4	n/a	34,954	5,394	1,300	10,500	17,194	52,148
	Blacktown	147	75,000	72,185	19,920	n/a	92,105	8,841	280	675	9,796	101,901
	Fairfield	156	57,000	59,952	4,429	n/a	64,381	5,637	n/a	25	5,662	70,043
	Hawkesbury	186	20,947	2,233	8,427	n/a	10,660	2,886	282	160	3,328	13,988
	Holroyd	108	27,500	27,266	2,657	n/a	29,923	3,327	1,500	4,950	9,777	39,700
	Liverpool	133	42,159	37,089	871	n/a	37,960	3,775	800	1,200	5,775	43,735
	Parramatta	168	50,536	43,663	6,497	n/a	50,160	6,229	-	1,200	7,429	57,589
	Penrith	158	54,000	50,287	3,192	n/a	53,479	6,964	350	1,200	8,514	61,993

Given the data problems, DEA could not be performed. However, DEA is an appropriate measurement technique for activities such as waste. The results can shed light on managerial efficiency and the appropriate scale of operations.

Requirements for future analysis

Compliance with the new Act and participation in the activities of regional waste boards will require more precise data. Better data will also enable councils' waste activities to be managed better. It will also enable better performance benchmarking of council waste activities through techniques such as DEA.

Data requirements for a DEA analysis are:

- Inputs – Total costs (operating and capital), or where waste services are not contracted out, labour, capital (equipment utilised), overheads, and other costs.
- Outputs – Collections
 - garbage
 - recycling
 - green
 - clean up
 - commercial
- Tonnages to landfill
 - domestic waste
 - domestic green
 - commercial
 - council engineering
 - council green
- Tonnage of recyclables
 - domestic waste
 - domestic green
 - commercial
 - council engineering
 - council green
- Recycling efficiency – ratio of quantity collected to quantity sold to recyclers.
- Details on ownership of material collected for recycling and financial arrangements associated with the sale of recycled materials.

A10.6 Approval systems – BAs and DAs

Local approvals processes have been under review for some years, with the aim of improving consistency in decision-making, efficiency, and planning outcomes.

A number of councils are actively addressing some of the difficulties experienced by the parties involved in local approvals processes. The survey undertaken for this review indicates that BA/DA processes have been the most common subject of process benchmarking studies undertaken in NSW. Two group benchmarking studies have developed frameworks for benchmarking BA/DA processes. One was undertaken by the Shore Regional Organisation of Councils (SHOROC), and the other by the Western Sydney

Regional Organisations of Councils (WSROC). Both these projects were funded under the Federal Government's Local Government Development Program.

The report from SHOROC identifies a number of key problems to be addressed. A few examples of these are:

- the sense of frustration amongst all stakeholders caused by the poor design of the system and inconsistencies in the system
- a poor understanding by all stakeholders of what the approvals process is trying to achieve
- with over 100 different policies, plans and codes impacting on the approvals process, it can be difficult to have or provide access to all relevant information at the beginning of the approvals process.

Process benchmarking studies

A Framework for Building and Development Application Processes – Western Sydney Regional Organisation of Councils (WSROC)

The WSROC project was carried out between July 1996 and May 1997.¹⁵ Participating councils were Baulkham Hills, Blacktown, Fairfield and Liverpool. The aims of the project were to use benchmarking to facilitate improved customer service for local approvals processes, and to develop a regional methodology for councils to use when comparing their services.

The project commenced with customer research to establish views on current and preferred practices from the perspective of all participants. The aim was to gain information on what designated customer groups regarded as high priority issues for council approval systems. Examples of comments were applicants' concerns that possible conditions for approval be advised at the draft stage, and, from residents, that clear reasons are provided if submissions are overruled. Concerns raised by council staff included the need for clear procedural policy, and for training and professional development.

The next step in the project was an audit of existing approval processes. The key steps of the process were mapped, along with the key factors to be considered at each stage. The aim of this exercise was to uncover good practices at each of the four participating councils, and to find useful performance measures.

Following on from this, research was undertaken on the approvals processes used by councils outside this project, and on relevant processes used by other than local government organisations.

The next step was to develop and finalise appropriate measures, and to draft a framework for performance measures. The framework covers qualitative data such as processes, policy and customer focus, to be assessed through surveys and workshops; quantitative data – application processing times and cost data; and four summary measures which address quality as well as cost factors.

¹⁵ Copies of the *WSROC Approvals Process Benchmarking & Best Practice Study Final Report* can be purchased from WSROC, Ph: 9671 4333.

The framework covers an annual cycle of activities on benchmarking, including staff and customer surveys, ongoing data collection, setting priorities for action programs and including programs in Management Plans. The framework also includes detailed information on consistency of costing information and instructions on how to calculate performance measures. The process of developing the framework has resulted in a number of recommendations for process improvements, some examples being gaining accurate knowledge of customer needs and expectations, the development of systems to refine policy, the need for council staff to be adequately skilled and informed, and the development of streaming systems to allow fast tracking of appropriate straightforward applications. The framework, linked to the Management Plan process, will be undertaken on an ongoing basis, with a major review to be undertaken in three to five years.

Benchmarking and best practice in local approvals - SHOROC

The local approvals project undertaken by SHOROC also developed a benchmarking framework.¹⁶

The SHOROC project, which involves Mosman, Manly, Pittwater and Warringah Councils, is aimed at improving the performance of the councils in the building and development approvals process, particularly in relation to customer service, urban planning, and better environmental and social outcomes.

The project commenced with customer research to examine how people who use the approvals process judge its effectiveness. A large number of issues emerged from this research, including the best and worst aspects of the process along with many suggestions for improvement. Six case studies were undertaken, which looked at the approvals process in action at the four SHOROC councils. The key issues arising from the case studies complemented the results of the customer research. Examples of the issues identified are the need for effective pre-lodgement consultation processes, and the importance of an up-to-date, accessible and easily understood policy and planning framework.

A comparison of approvals processes with those at other councils in NSW and Australia-wide identified a number of improvement initiatives that are being undertaken. Some examples of these are:

- Wollongong Council set up a team of council and State Government agency representatives to address the problem of conflicting advice on requirements for approvals
- Redlands Council (Qld) published a strategic plan which incorporates the input from over 100 public meetings, and sets out the planning framework, incorporating environmental, heritage and agricultural studies, for the next five to ten years
- Ryde Council worked on defining more clearly the distinction between the policy and judicial roles and responsibilities of Councillors, by involving Councillors in a review of the processing system.

The immediate priorities for reform within the SHOROC councils include:

- improved front end planning
- delegations

¹⁶ Copies of the report *Benchmarking and Best Practice in Local Approvals Final Project Report* can be purchased from SHOROC Ph: 9982 0353.

- integrated assessment
- improved administrative processes
- better tracking and reporting on individual applications
- improved customer service and communication.

The outcome of this project is a framework designed to improve council performance in the building and development approvals process. The framework guideline includes a list of priority areas for improvement, performance standards for each area, performance indicators and how these should be calculated. The framework also involves a number of review processes, e.g. regular reviews of the outcomes of applications assessed, three-yearly reviews of policy and planning frameworks, and independent reviews of urban design outcomes.

This project is currently being trialed in the four SHOROC councils, with a view to implementing it in those councils and producing a model that can be used to assist local government Australia-wide.¹⁷

Comments

Despite some differences in the priorities of these two ROC projects, there are a number of similar themes in the project outcomes.

The first is the need for customer surveys - the need for information on what the applicants, the community and council personnel seek from the approvals process, how the process can be made more efficient, and what the priorities of each customer group are in terms of service provision.

Another issue which emerges from both projects is that of the skills and knowledge requirements of council staff. Councils see a need to develop and/or refine staff development programs, policy guidelines and procedural guidelines.

There is a need to involve the community in future planning for the built environment, and to monitor the outcomes of approvals processes to ensure that approvals outcomes are consistent with area plans.

The Final Reports from these projects are excellent resources, containing a number of ideas for improving approval processes.

Substantial changes to the legislation governing building and development approvals processes are to be introduced from 1 July, 1998. The legislative amendments will include the provision of an integrated system for all building, development and subdivision aspects of a project under the Environmental Planning and Assessment Act.¹⁸ To track the effects of the legislative reforms, it is suggested that the DoLG, Department of Urban Affairs and Planning, ROC's and the LGSA investigate the feasibility of implementing state-wide indicators for this service provision area.

¹⁷ Warringah Council submission to the Issues Paper.

¹⁸ *Integrated Development Assessment*, Regulatory Reform Unit, Department of Urban Affairs and Planning, October 1997.

The indicators could consider cost, customer satisfaction, timeliness, and a measure related to area planning/building outcomes. In developing indicators, the following issues should be addressed:

- *Processing times* Mean and median turn-around times for applications are already included in the DoLG's annual comparative indicators publication.
- *Costs* Stakeholder input is required to help categorise applications, and determine what costs should be allocated to the processing of applications. (Note: this issue is being addressed as part of the Tribunal's review of development control fees.)
- *Customer satisfaction* Samples of all stakeholders should be surveyed, ie council personnel, applicants and members of the community.
- *Adequate planning outcomes* Assessing whether area plans meet the needs of the community, and whether approvals outcomes are consistent with area plans. Community surveys could be used to measure satisfaction with the level of community involvement in planning, and with the outcome of development approvals.

A10.7 Community consultation

Residents can signal their satisfaction or otherwise with their council by voting and choosing whether to live or conduct their business within the council's jurisdiction. However, these decisions are infrequent and based on a number of considerations. Constituents provide further information on the services they require by lobbying the council and by choosing which services to consume. These influences however may not directly affect the council's day to day operations.

Many councils now gather information on community preferences and satisfaction. Both formal and informal processes have been utilised. As stated by the LGSA:

"Councils are increasingly adopting a customer focus throughout their organisations, and are regularly measuring customer satisfaction."¹⁹

The mechanisms to gain such information include:

- conducting community surveys across all services, measuring priorities for services and levels of satisfaction with existing services
- implementing complaints/request monitoring systems
- holding meetings with community organisations.

Aspects of the *Local Government Act 1993* are aimed at encouraging the involvement of the community in council planning processes. Requirements such as management plans, quarterly reports and annual reports assist in this endeavour.

Comments received by the Tribunal suggest that in terms of receiving feedback, conducting community surveys may be more important than placing management plans on public display. Armidale City Council states:

"Those sorts of initiatives [customer surveys] are the sorts of ones that tend to bear the most fruit rather than the simple management plans on exhibition."²⁰

¹⁹ Local Government and Shires Associations submission to Issues Paper, p 2.

²⁰ Armidale City Council presentation at Armidale Public Hearing, 20 August 1997.

Many of the submissions from councils indicate support for regular formal surveys of their community. A few of the smaller non-urban councils did not support formal community surveys, submitting that it was more effective for them to survey constituents in an informal way. However, the survey of councils conducted for this review indicates that virtually all councils use some type of formal consultative mechanism. The most commonly reported method of consultation is via meetings with community groups (92 percent of respondents), followed by the use of complaint handling procedures (88 percent), public meetings (78 percent), working committees (63 percent) and community surveys (54 percent). Larger councils, (those with more than 10,000 residents) report a higher level of use of formal consultative mechanisms than smaller councils. Ninety-six percent of these larger councils undertake consultation with community groups, compared with 88 percent of smaller councils. Sixty-seven percent of larger councils and 42 percent of smaller councils use community surveys.

The Secretariat has reviewed the community consultation methods of three councils.

Dumaresq Shire Council

Dumaresq Shire covers an area of over 4,000 square kilometres, and serves a rural population of approximately 3,900 in the region surrounding Armidale in the northern tablelands.

Dumaresq advertise their management plan through the local press and radio. Council representatives visit and hold meetings in all areas of the shire every year. However, there is not often a large number of residents attending meetings.

Council has commented that the lack of feedback on management plans appears to be common amongst rural councils - this has been confirmed in the submissions from a number of other councils.²¹

Dumaresq uses other methods of assessing community views. In addition to contacting the council by phone or letter, or having direct contact with Councillors, there are resident group meetings arranged by council to encourage discussion and seek views on any contentious issues such as development proposals. These meetings are held either in council chambers, or on site if that is more convenient for residents.

Liverpool City Council

Liverpool has approximately 110,000 residents, and is mostly urban with a large semi-rural area. The population is continuing to grow, and about one-third of residents were born overseas.

Sixteen precinct committees have been established in the council area. These committees have been operating for over ten years. They provide a forum for community involvement in local issues, and development applications are discussed with community representatives prior to processing. Precinct committees are consulted during the planning stage of the Management Plan and budget, and the quarterly reports are provided to an executive of the precinct committee for their information.

²¹ Dumaresq Shire Council presentation at Armidale Public Hearing, 20 August 1997.

Liverpool Council has implemented a number of activities and services to address specific issues relating to the participation of community members in council decision making processes. Council works with TAFE to make facilities available for English classes. Liverpool, Wollongong and other councils with large non-English speaking communities have a variety of strategies to improve the access of such groups to council resources and services. A couple of examples of these are the provision of information on waste and other services in a number of languages, and consultation on library requirements.

Liverpool conducts an annual community survey. The data from the survey then feeds into council's planning processes and is used to set priorities for capital works and for services.

Council publishes a regular newsletter providing advice on upcoming events and community consultative mechanisms, and seeks community input on specific issues. Council also has a regular breakfast radio program covering council and community news.

There are key forums which also aim to increase participation in council planning, including a developers' forum and a quality network of local businesses.²²

Eurobodalla

Eurobodalla Shire Council has approximately 40,000 residents, and a population of 80-90,000 in peak visitor periods. For several years, Eurobodalla has been working on ongoing improvement to their community consultation program. Eurobodalla examined work undertaken by some New Zealand councils to encourage community participation, and has been able to apply some of the lessons learnt from that study in developing their program.

In 1995 Council carried out an extensive formal survey of residents and visitors, to get their views on all council activities and services. The views of visitors were sought, because of the importance of tourism to the region. The information gained from this survey was included in the following draft Management Plan. This draft was advertised, and a four page summary of the Plan was prepared specifically for community representatives. Public meetings were held, and council received about 200 submissions on the Plan.

One of the suggestions made in the submissions was that community input be sought prior to the development of the draft Plan. That is now what is done. For the most recent Plan, council wrote to 200 community and industry groups in the shire, inviting them to discuss the draft Plan with council representatives. This allowed many issues to be sorted out prior to the drafting of the Management Plan. The Plan was drafted, advertised, and discussed at public meetings as in previous years. Council still received 200 submissions, all of which are acknowledged with along with information about progress with their proposal, whether it related to a major development or a bus shelter shed.

Alongside the Management Plan process are other ongoing consultation programs, seeking input on council activities such as libraries, road construction and maintenance, and building and development approvals processes. Newsletters are sent to 17 local areas within the shire, to keep the community informed about activities in their own area.

For example, with road construction and maintenance, residents directly affected and those nearby are asked for their ideas before the design work is commenced. As well as having

²² See Liverpool City Council presentation at Sydney Public Hearing, 18 August 1997, and Liverpool City Council submission to Issues Paper, pp 1 and 4.

views on issues such as road width and guttering requirements, local residents will be aware of any local problems such as visibility difficulties or speeding. A draft design is drawn up, and then all local residents are invited to a meeting on site to go through the design before it is finalised.

Council has found that the extensive consultative work they undertake is definitely cost-effective. The General Manager has commented that:

“if you have served your customer well then you will benefit in the long run from price reductions, because you will be able to do the job without people stopping you every 5 minutes, or using political representations to slow you down. So what you put in to start with probably is returned at the back end.”²³

Comments

The above case studies show how community participation strategies must be tailored to meet the needs of individual councils and their communities. Appropriate strategies will vary from council to council, depending on factors such as population size and density.

Many councils have had to try different approaches to find some that suit their community and result in good response rates. For example, Armidale City Council found that newspaper advertisements seeking comments on council issues resulted in little feedback. Council then started working with focus groups. “These focus group meetings, to which stakeholders are invited to discuss particular issues, have been very successful.”²⁴

A number of the responses to the survey for this review emphasised the importance of using a variety of consultative mechanisms to improve community involvement in council decision making processes. (The Department of Land and Water Conservation's publication *Succeeding with Plans of Management* provides a list of community involvement techniques.²⁵)

A community survey can furnish a general list of priority areas for which more detailed information is required for policy directions and budget allocations. More detailed information can be obtained through mechanisms such as focus groups, on-site meetings or community forums.²⁶

The comments made by Eurobodalla Council relating to the cost-effectiveness of extensive community consultation are supported by other councils. Cooma-Monaro Council's view is that “constant contact with community organisations has...resulted in more effective use of resources.”²⁷

There is considerable support in submissions for the use of formal community surveys to determine priorities for services and levels of satisfaction with council performance.

Cooma-Monaro Council has outlined some of the information they derived from a formal community survey.

²³ Eurobodalla Shire Council presentation at Queanbeyan Public Hearing, 13 August 1997.

²⁴ Armidale City Council presentation at Armidale Public Hearing, 20 August 1997.

²⁵ Department of Land and Water Conservation, *Succeeding with Plans of Management*, March 1996. See Appendix B.

²⁶ Hunter Valley Research Foundation, *Community Perceptions of Council Performance*, P. O'Connell & R. Gordon, March, 1996.

²⁷ Cooma-Monaro Shire Council presentation at Queanbeyan Public Hearing, 13 August, 1997.

"We found that the wishes of the community probably were not quite in line with what we thought they wanted in certain areas. For instance, in Cooma the community were in favour of sealing all the unlaid lanes...through town, rather than upgrading the stormwater drainage or kerb/gutter. We would have thought they would have liked drainage before kerb/gutter and sealing...This contact with the community has developed a relationship which involves a certain amount of self-help, or a realisation that all services cannot be provided at a high level."²⁸

Baulkham Hills City Council conducts an annual community survey which allows Council to "interpret the community's priorities and the community's perception of Council's performance."²⁹ Hornsby utilises survey results to develop initiatives for the management plan. Lake Macquarie comments that a "properly conducted and analysed community survey is the appropriate way to gauge community satisfaction."³⁰

It appears that there would be value in conducting consistent state-wide community surveys for a limited number of services. Liverpool City Council states that if an annual survey "is carried out consistently, and there are standard surveys that are used by a number of organisations that do work for a number of councils, then the indications are that you could actually achieve a customer satisfaction index."³¹ A number of councils contend that customer satisfaction measures are the only performance indicators that are truly comparable on a state-wide basis.

Complaint handling

Councils and ratepayers have expressed concerns about the current number of avenues available for complaints against councils. Eurobodalla Shire Council mentions the potential for a single issue to be examined by ICAC, the Ombudsman, the Department of Local Government and the Department of Land and Water Conservation.³²

Ratepayers have experienced difficulties when complaints were being investigated concurrently by different organisations.

A10.8 Resource sharing

The DoLG has defined resource sharing as:

"any arrangement where a local government body co-operates with another body or bodies to share financial, human or physical resources to achieve common objectives."³³

In the survey undertaken by the Tribunal Secretariat for this review, 82 percent of respondent councils indicated that they are participating in resource sharing. The most common area of resource sharing is library services (63 percent of respondents), followed by staff (33 percent), plant and equipment (30 percent), information technology (13 percent), purchasing (8 percent), and control of noxious plants (5 percent).

Resource sharing is undertaken through neighbouring councils or groups of councils, or through ROCs. The DoLG notes some of the benefits of resource sharing in their submission. The benefits include: economies of scale when sharing facilities and other

²⁸ Cooma-Monaro Shire Council presentation at Queanbeyan Public Hearing, 13 August, 1997.

²⁹ Baulkham Hills City Council submission to Issues Paper.

³⁰ Lake Macquarie City Council submission to Issues Paper.

³¹ Liverpool City Council presentation at Sydney Public Hearing, 18 August 1997.

³² Eurobodalla Shire Council presentation at Queanbeyan Public Hearing, 13 August 1997.

³³ Department of Local Government, *Practice Note 12 - Resource Sharing for Local Government*, 1995, p 3.

resources, the ability to pool expertise, provision of a mechanism for exchanging ideas, and the ability of councils to work together to promote the region.³⁴

Cabonne Council and other members of CENTROC³⁵ put together a Resource Sharing and Regional Co-operation Proposal. The proposal aims to improve efficiency and effectiveness, by comparing the costs of goods and services provided by individual councils against a group buying mechanism. The proposal is supported by the DoLG and LGSA.

CENTROC councils have been working co-operatively on areas including electricity purchase, sharing plant, the preparation of specifications for works, purchase of a Geographic Information System, co-operative libraries, and shared staff, such as Personnel Officers. It is estimated that savings of over \$10m will accrue over the next few years.³⁶

Southern Sydney Regional Organisation of Councils (SSROC) comments that:

“by pooling the region's buying power, we are able to achieve tangible dollar savings through co-operative purchasing and shared legal advice.”

SSROC has also been involved in the provision of joint training and development programs for areas of common need across member councils, and the development of model policy documents for use across councils in areas such as records management and waste management.³⁷

Tweed Shire Council submits that:³⁸

“there is significant evidence that suggests that large metropolitan councils benefit from the scale of operations, not only because of their compactness of the region but also the competitiveness of the market place in which they operate. For rural organisations, particularly councils of a relatively small size, the opportunity of resource sharing and co-operative arrangements have the potential to produce real cost savings to the local constituents.”

There can also be difficulties associated with setting up resource sharing programs - these include issues such as local self interest and parochial characteristics.

Cooma-Monaro Shire Council has been involved with two other councils in a regional library for a number of years. They have also been working with the neighbouring Snowy River Shire, calling joint tenders for a recycling service and assisting other neighbouring councils by hiring out small items of plant and providing specialised advice on matters such as town planning.³⁹

Comments

There are clearly substantial benefits to be gained from resource sharing, whether it is done through informal groupings of councils, ROCs, or facilitated by industry organisations such as the LGSA.

³⁴ Department of Local Government submission to Issues Paper, p 21.

³⁵ CENTROC membership comprises Bathurst, Blayney, Cabonne, Cowra, Evans, Forbes, Lithgow, Mudgee, Orange, Parkes, Rylstone and Wellington Councils.

³⁶ Cabonne Council submission on draft Terms of Reference, p 2, and Cabonne Council submission on Issues Paper, p 8.

³⁷ Southern Sydney ROC presentation at Sydney Public Hearing, 23 July 1997.

³⁸ Tweed Shire Council submission to Issues Paper, pp 10-11.

³⁹ Cooma-Monaro Shire Council presentation at Queanbeyan Public Hearing, 13 August 1997.

Both rural and metropolitan councils submit that resource sharing brings benefits in terms of economies of scale. The resource sharing projects outlined above indicate the potential for substantial cost savings.

Joint provision of services such as library services is a widespread practice. Sharing of specialised staff also appears to be of significant value across a range of situations. Other areas of resource sharing, such as plant and equipment, have been successfully utilised by some councils, but are not useful in other situations. Problems raised in submissions include issues such as local self interest and the loss of ownership of services. In general, however, the submissions to the review and the results of the review survey indicate wide support for and acknowledgment of the benefits of resource sharing.⁴⁰

“Regional policy development and resource sharing can achieve scale of economies and it can achieve better planning outcomes...all councils benefit regardless of their size.”

Submissions to the review indicate that the support for resource sharing being provided by ROCs, the DoLG and LGSA is of significant assistance to councils and their communities, and should be continued.

⁴⁰ Southern Sydney ROC presentation at Sydney Public Hearing, 23 July 1997.

ATTACHMENT 11 LEGISLATIVE REQUIREMENTS FOR MANAGEMENT PLANS AND ANNUAL REPORTS

The information presented below complements section 6.4 of the interim report on management plans and annual reports.

A11.1 Requirements under the Act

Chapter 13 of the *Local Government Act 1993* deals with councils' accountability for their actions, including requirements to produce management plans, financial management and annual reports. The focus here is on management plans and annual reports.

Management plans

Chapter 13, Part 2 of the Act outlines requirements in regard to councils' management plans. It covers the type of information to be presented, public notification of the draft management plan, adoption of the management plan, and reporting requirements in relation to the adopted management plan. The following summarises the Act's requirements in regard to management plans.⁴¹

During each year, all councils must prepare a draft management plan with respect to:

- council activities for at least the next 3 years
- council revenue policy for the following year.

Council's principal activities

Statements relating to council's principal activities, and the objectives and performance targets of these activities, are essential to the draft management plan. These include statements of the:

- principal activities the council proposes to conduct
- objectives and performance targets for each of the principal activities
- means by which the council proposes to achieve its objectives and
- manner in which the council proposes to assess its performance in respect of each of its principal activities.

Council's revenue policy

The draft management plan also includes information requirements in regard to council's revenue policy for the next year. These requirements include statements:

- containing a detailed estimate of the council's income and expenditure
- each ordinary and special rate, and each charge, proposed to be levied
- types of fees proposed to be charged by the council and the amount of each such fee
- council's pricing policy with respect to the goods and services provided by it.

⁴¹ See New South Wales Local Government Act 1993 No 30.

Public notice

The *Local Government Act 1993* includes criteria that councils must adhere to in releasing their draft management plans. Councils must give public notice of its draft management plan after it is prepared. The period of public exhibition must be no less than 28 days. The public notice must specify that public submissions may be made to the council at any time during the period of public exhibition.

Adoption of, and reporting on, the management plan

Before the end of each year, all councils must adopt a management plan for the following year after it has been prepared and exhibited in accordance with the Act. Any submissions made to the council on the draft management plan must be taken into consideration in deciding on the final plan to be adopted.

Section 407 of the Act requires councils to report periodically on the implementation of the management plan. The general manager must report to the council within six weeks following the end of each quarter on the extent to which the performance targets set by the council's current management plan have been achieved during that quarter.

Annual reports

Chapter 13, Part 4 of the *Local Government Act 1993* outlines requirements for council annual reports. It outlines the information to be presented, and the recipients of the report. The following summarises the Act's requirements in regard to annual reports.⁴²

Within five months following the end of each year, councils must prepare reports on their achievements with respect to the objectives and performance targets set out in their management plans for that year.

Information that must be presented in the annual report includes:

- a statement of expenses incurred and revenue raised by the council during that year
- a statement of the assets acquired by the council during that year, and the assets held by the council at the end of that year
- a comparison of the council's actual performance of its principal activities during that year (measured in accordance with the criteria set out in the relevant management plan) with the council's projected performance of those activities (as contained in the relevant management plan), together with a statement of the reasons for any difference between them
- a report on the state of the environment in the area
- a report on the condition of the public works under the control of the council as at the end of the year.

Copies of the council's annual report must be furnished to the Minister and to such other persons and bodies as are required by the regulations to be furnished with the report. Everyone is able to inspect the annual report free of charge.

⁴² See New South Wales Local Government Act 1993 No 30.

A11.2 Objectives and performance indicators

Following are some comments on the quality of information on principal activity objectives and performance indicators/assessment presented in management plans:

- The *Local Government Act 1993* requires a statement of objectives for each principal activity. The most clear, concise and understandable presentation of principal activity objectives viewed by the Tribunal Secretariat was that of Dubbo City Council. For each of its principal activities, a single, one sentence objective was stated. Some other councils have multiple objectives for each principal activity, or multiple goals for each principal activity, which then have multiple objectives. In other cases several objectives are given for each function within a principal activity. This does not allow the reader to gain an easy understanding of what a council wants to achieve from each principal activity.
- It is important that performance indicators be able to be defined numerically. This reduces subjectivity in measuring performance, and allows performance to be measured over time. The setting of performance targets provides the organisation with a clear goal, encouraging improved performance. Where performance indicators have been defined numerically and targets set, the accountability of council and the transparency of their performance, should improve.
- From the management plans reviewed, most performance indicators have not been numerically defined, and targets have not been set. Another concern emerges where council has defined multiple goals, which have multiple objectives, which in turn have multiple performance indicators. The result is a large number of key performance indicators, which may reduce their value.
- Some of the indicators used by councils, although defined numerically, do not measure performance. Instead, they measure activity. Performance measures generally relate to efficiency, cost, effectiveness, or some other measure of service quality. Activity indicators measure the amount, or potential amount, of work performed, rather than how well it has been performed. Activity indicators cannot be relied upon to improve performance, and it is believed they do not meet the requirements of the Act.
- Performance indicators need to measure quality and effectiveness of service delivery as well as more traditional measures of performance such as cost.

ATTACHMENT 12 COMPETITIVE TENDERING AND CONTRACTING OUT

Local government has a long history of contracting out services. This has often been in areas where council lacked the resources and/or expertise to provide a service directly. More recently, some councils have restructured their internal organisations so as to create greater competition in service provision. Some councils have implemented a purchaser/provider split within the organisation as a prelude to competitively tendering an increasing range of services.

This attachment explores the extent and experience of competitive tendering and contracting out by NSW local government. Section 1 contains results from a recent survey undertaken by the Tribunal and details of competitive tendering in Victoria. Section 2 contains a case study of how three different councils have approached competitive tendering and contracting out, and their experiences.

A12.1 Survey of contracting for local government activities

The range of local government activities exposed to competition has traditionally been narrow. The commitment of councils to the contracting out practice has varied substantially. In September 1997, a questionnaire was sent to 177 councils in NSW. Among other questions, this survey:

- explored the extent of contracting out in capital works and recurrent services (excluding consultancies and employment contracts)
- covered contract expenditure in 1995/96, 1996/97 and 1997/98
- sought council views on this particular issue.

In total, 95 responses (36 urban and 59 rural councils) were received. The Tribunal is grateful for the support and input provided by these councils. The key findings and the views of respondents are summarised below.

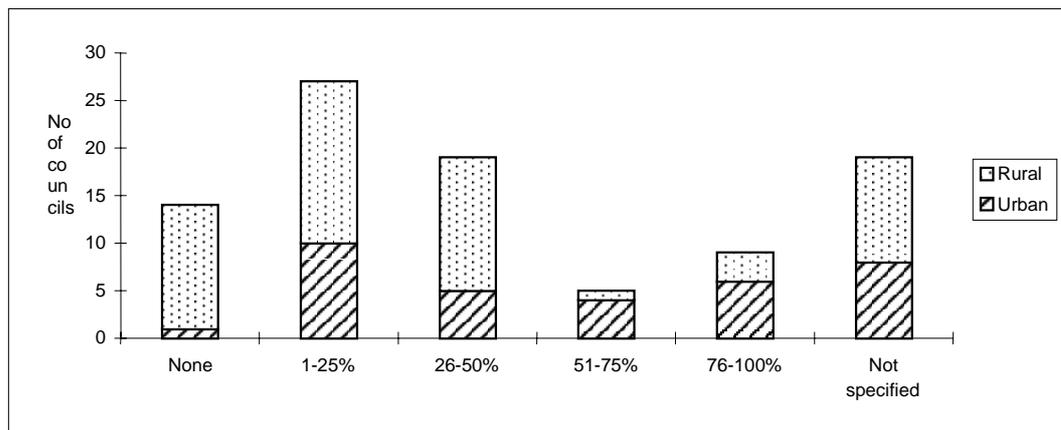
The survey results are considered in the context of each council's level of spending on various activities. As shown in Table 2.1 and Figure 2.1 in chapter 2, enormous resources are required to deliver local government services, including \$3.9b operating expenditure and \$1.1b capital works in 1995/96. The Tribunal notes that the four functions and activities with the largest expenditure are:

- administration (25%)
- water and sewerage (10%)
- roads and bridges maintenance (10%)
- waste services (8%).

Contracting out of capital works

Of the 95 respondents, 85 percent reported contracting out of capital works. However, the survey results show a relatively low level of contracting out (Figure A8.1).

Figure A8.1: Extent of contracting out of capital works



Source: Tribunal's survey, September/October 1997

It is noted that:

- 15% of councils do not contract out any capital works
- 48% of councils contracted out less than 50% of their capital works
- only 15% of the respondents contracted out more than 50% of capital works
- 20% reported contracting out of capital works but did not specify the level
- three councils, all urban, contract out 100% of their capital works.

Contracting out of operating activities

The survey shows that 86 percent of NSW councils outsource some recurrent services. Eight councils (8 percent of the respondents) do not contract out any functions or services.

- The reported expenditure (including contracts awarded to in-house teams, but excluding capital works, consultancies and purchase/supply contracts) on contracting by the 95 respondents in 1996/97 was \$123m - an increase of 18 percent compared with the reported level in 1995/96 (\$103m).
- Estimated contract expenditure in 1997/98 is \$149m, representing a 21 percent increase from the 1996/97 contract value.
- Despite the increasing expenditure in contracting out, the reported expenditure of the 95 respondent councils accounts for only 6.3 percent of their operating expenses (excluding depreciation and interest) in 1996/97.

Types of works contracted out

- The majority of contracts are for traditionally contracted public works and services. In terms of contract expenditure, the five contracted services with the largest expenditure were waste (53 percent), road/foot path maintenance (32 percent), cleaning (4 percent), building maintenance (3 percent), and stormwater/drainage (1 percent). Together, they accounted for more than 90 percent of the total contracting expenditure in 1996/97.
- For waste services, over 70 percent of the respondents engage outside contractors. There are differences between large (over 10,000 residents) and smaller councils. Ninety-four

percent of larger councils contract out waste services compared with 60 percent of smaller councils.

- New areas for contracting out include: information technology, lifeguard service and operation of community and leisure centres.

Other findings

- The reported cost of managing contracts varies widely among councils who provide such information, ranging from 1-20 percent. However, the majority of these councils reported the cost of managing contracts in the order of 2-5 percent.
- Of the 95 councils who responded to the survey, 29 councils (31%) report that contracting out involved in-house bids. Twenty-five of these councils (96%) reported that in-house bids were successful.
- One urban regional council now provides waste services internally rather than external contracts (worth \$1.2m in 1996/97). Up until June 1996, domestic waste and effluent collection were provided by external contractors whereas recycling services were provided in-house. Following council's decision to integrate waste services and a tendering process, the in-house team successfully won the contract.
- Twenty-seven councils estimated cost savings from contracting out. However, most of the councils have not quantified the extent of savings.
- Contract performance is usually monitored in terms of costs, agreed level of services, quality of service and complaints by ratepayers. Contracting also results in an increase in supervision.
- Some councils' experience has been that service quality can be maintained or even improved through contracting out. However, it requires a carefully prepared specification and effective contract supervision.

Other comments

- Contracting out of recurrent services has generally been to undertake tasks when internal resources have not been available, or adequate to deal with peak loads. Resulting cost data can be used to compare in-house costs and performance with those of contracting out.
- Councillors have varying personal views on contracting out. This affects the extent of contracting out.
- Some small rural councils comment that being a small provider situated a considerable distance from a major centre means many of the advantages of contract service provision cannot be realised. Areas of concern are impact on local community, lack of contractors, which may lead to a monopoly and higher costs to council in the future.

Summary of findings

The survey findings suggest that there is a gradual increase in contracting out local government activities. Where market testing has occurred, in-house bids have been successful in the majority of cases. The degree of contracting out, particularly for capital works, appears to be low. Contracting expenditure is greater in metropolitan councils than rural councils. Compared with the Victorian experience and experience in the NSW budget

sector⁴³, it is considered that significant scope exists for competitive tendering in NSW local government.

A12.1.1 Competitive tendering in Victoria

Under amendments to the Local Government Act 1989, passed by the Victorian Parliament in May 1994, councils were required to competitively tender 20 percent of their total expenditure in 1994/95, increasing to 30 percent in 1995/96 and 50 percent from 1996/97. The three year phased in period was designed to give councils time to develop a strategic view of CCT. Councils must submit a CCT statement with the CCT target/achievement calculated based on the “audited” total expenses in financial statements. If a council does not meet its CCT target, it must provide a written explanation for this failure to the Minister.

Of the 78 Victorian councils, all but five reached the 1994/95 target. Many exceeded it. Councils outside Melbourne achieved slightly higher levels of contracting than metropolitan councils. A statewide survey conducted by the Municipal Association of Victoria in August 1995 found that 64 percent of respondents believe councils should tender services to promote efficiency. Those who agreed that tendering would produce savings and service improvements outnumbered those who did not agree by nearly two to one.⁴⁴

In October 1996 a review of the implementation of CCT recommended:⁴⁵

- a requirement for a council to have an internal audit committee to certify all in-house tenders and report on the financial performance of the council's business units
- the development of best practice guidelines to assist councils to ensure effective separation of client and provider functions and to operate/corporatise/sell business units
- an amendment of the Act to enable councils to use alternative competitive processes (for contracts valued at less than \$50,000), a modified competitive process (for non-metropolitan councils) and additional competitive arrangements.

A12.2 Case studies - contracting out process

The Tribunal's Secretariat has visited and held discussions with a number of councils on various aspects of the competitive tendering process. The following presents the detailed examination of and insight into the contracting out process by Mosman Municipal Council, Sydney City Council and Sutherland Shire Council. The Tribunal is grateful for the assistance and input provided by these Councils. Their valuable experience sheds light on the scope of cost savings under competitive tendering and various aspects of the contracting out journey.

Case 1: Mosman Municipal Council - the rise and fall of the in-house team

Mosman Municipal Council (MMC) is a small urban council with a population of around 25,000 residents over an area of 9km². Total council recurrent expenditure (excluding

⁴³ As found in the report by the NSW Treasury, Contracting for services in the NSW public sector – 1996 survey findings, February 1997, the reported expenditure on contracting increased substantially from \$966m in 1994/95 to 1,762m in 1995/96. This was also reflected in the number of contracts in operation, which increased from 13,852 in 1994/95 to 28,479 in 1995/96.

⁴⁴ Minister's Report on the First Year of CCT, Victorian Office of Local Government, November 1995.

⁴⁵ Report of the Review Panel to the Minister for Planning & Local Government, *Review of CCT Implementation*, December 1996.

depreciation and interest) was \$16m in 1996/97. Contracting out accounts for 100 percent of capital works and 53 percent of total recurrent expenditure.

Contracting out policy

MMC is the first Council in NSW to have adopted an active approach to competitive tendering voluntarily since 1991. Its contracting out policy is to test all public works services at market place. Council activities that are subject to market testing include:

- waste management
- waste disposal
- cleansing (street, car park, public areas etc)
- cleaning (toilet, beach, reserve, administration office, library)
- maintenance of parks, gardens and reserves
- property maintenance
- asphalt maintenance
- concrete maintenance.

Council has developed and maintained contract management skills and a stringent monitoring process. The service specification and quality assurance process is well established.

The process

In 1991, a new contract administration department was created to manage the process. At the same time, a business unit called Municipal Contracting was created to compete with external tenderers for the provision of public works services. Tender bids were prepared with assistance from Council's professional staff.

To ensure competitive neutrality, the following arrangements were made:

- Municipal Contracting was required to lease and hire depot space, plant, tools and equipment, and pay for all maintenance and operational costs services provided by Council including a share of overheads, support costs and interest on capital .
- Municipal Contracting was required to prepare its own profit and loss statement, which was audited separately.
- Council and staff of Municipal Contracting entered into an enterprise agreement. The agreement provided for the introduction of a bonus and incentive bonus scheme for staff in Municipal Contracting. Any cost savings (reflected in the operating profit of Municipal Contracting) are shared by Council and Municipal Contracting.
- Municipal Contracting has autonomy to operate its business, including the appointment of a business manager in 1995/96.

The first tender (street cleansing) was advertised in July 1991. All other public works services were advertised in April 1993. Municipal Contracting successfully bid for some of these services. All "in-house" contracts are, however, subject to regular reporting every six months on the financial viability of the contract. The following conditions apply:

- if the annual review of a contract reveals an over-expenditure, such over-expenditure will be deducted from the amount provided in the Analyses of Tender for the incentive bonus
- if the annual review of a contract reveal an over-expenditure exceeding the amount provided for the incentive bonus, the contract will be terminated. Tenders will be called for the work and Municipal Contracting will not be permitted to tender for the work.

Initial years of implementation - savings through market testing

As a result of competitive tendering, substantial cost savings were achieved in the early years, 1991-1993. It was estimated that the level of contract expenditure was about 25 percent lower in 1993 than the day labour expenditure in 1991. The savings were returned to the community in the form of improved services and enhanced facilities.

Table A8.1: Examples of Savings through Market Testing 1990-1993

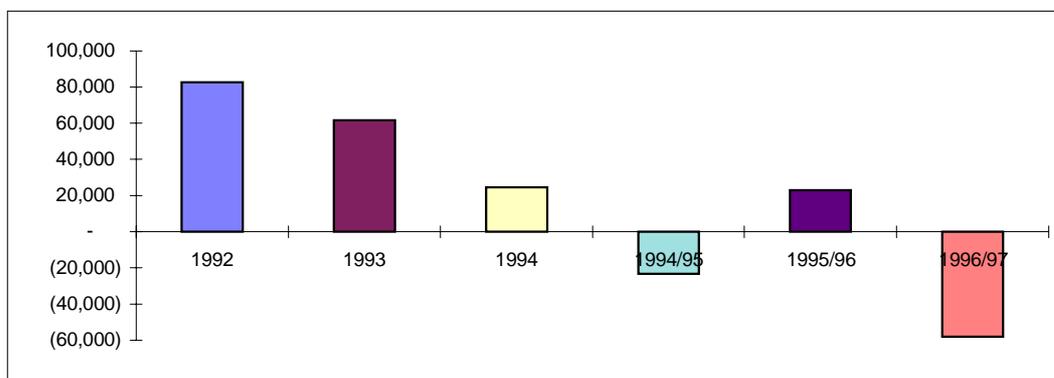
Activity	Estimated savings
Toilet cleaning	31%
Tree trimming	50% (based on schedule of rates)
Grass cutting	27%
Weed spraying	6%
Street sweeping	32%
Maintenance of parks, gardens and reserves	35%
Asphalt maintenance	38%
Concrete maintenance	49%
Beach and reserve cleaning	4%

Source: Mosman Municipal Council

Recent developments

Despite the earlier success, the costs of various business units within Municipal Contracting (ie the tender price) began to increase in 1994/95 beyond the budget contract expenditure. Despite the appointment of a business manager in early 1996, with the intention of managing and expanding the business, the situation became worse in 1996/97. Unfortunately, the business unit did not succeed in winning additional Local Government contracts, and legally, could not provide services to the private sector. The business unit eventually became unsustainable as the management and overhead costs became so high. The turn-around in the financial viability of the contract is illustrated in the operating profit and loss statement of the street-sweeping unit within Municipal Contracting.

Figure A8.2: Municipal Contracting - street sweeping unit operating results (\$ of year)



Source: Mosman Municipal Council

Note: 1994 showed 6 months from 1.1.94 to 30.6.94.

In 1994/95, the business unit managed to offset the loss incurred by the share of operating profit (the bonus account) achieved in the six months to 30.6.1994. The loss incurred in 1996/97 was so large, it exceeded the remaining balance in the bonus account. Given the unfavourable contract expenditure outcomes, Council decided to terminate the contracts. Municipal Contracting was subsequently dissolved in 1997 with the staff affected by the loss of the contracts retrenched or redeployed. The services have subsequently been put to public tender and awarded to external contractors. Costs of service delivery are contained to market rate.

Lessons for in-house team

The in-house business unit must be aware of overheads in terms of long term survival in the market. Success is measured not only in winning contracts, but also in operating within budget or tender price and in accordance with contract conditions. Projected growth and/or successful bids must be examined in the light of required overheads.

Commentary

Council has taken bold steps to ensure services are provided at the lowest possible and most efficient cost. It has demonstrated its endeavours to establish "true" market tested benchmarks and measures of service delivery. It has also demonstrated the fairness of the tendering process to tenderers and potential tenderers. It is however noted that unlike many rural councils, MMC does not have an obligation to "local employment".

The Mosman study illustrates the reality of survival in a competitive market. The in-house business unit, is treated no differently from any external contractors. It illustrates what can go wrong even though service contracts are successfully awarded to the in-house team, if contract performance is not met and if business structure is not tightly maintained. Regardless of whether contracts are won by in-house teams, these are issues that will arise with external providers as well.

Case 2: Sydney City Council - "fast track" implementation of competitive tendering

Sydney City Council (SCC) has a resident population of around 12,700 over an area of 6 km² covering the central business district. Total council recurrent expenditure (including depreciation and interest) was \$100m in 1996/97.

In 1996/97, SCC contracted out 100 percent of its capital works. Contracting value of recurrent activities accounted for only 2 percent of recurrent expenditure (excluding depreciation and interest). Following the implementation of the competitive tendering program, contract expenditure (including successful in-house teams) is expected to increase to 25 percent in 1997/98.

Highlights of the competitive tendering process

In May 1996, SCC voluntarily adopted competitive tendering, as part of its efficiency drive in the lead-up to the Olympics. Funds generated from cost savings will be channelled into SCC's \$200m city improvement capital works project for the four years to 2000.

Under the competitive tendering process, SCC's internal operations teams compete with external providers. The process involves:

- **Organisational restructuring:** This differentiates those operations providing services within SCC (service providers) and those acting on behalf of SCC's ratepayers and stakeholders as a "service purchaser".

- Union and staff commitment. The Joint Development Agreement between Council and the unions has been crucial to this process. The partnership agreement incorporates performance-linked pay rises, work practices that support competitive tendering, improved customer service, local workplace agreements, retraining and counselling programs. So far, the competitive tendering policy has been implemented with no forced redundancies and no major industrial action.
- Development of an overhead cost allocation model to be applied to in-house bids. A cost allocation methodology was developed with the assistance of an external consultant.
- As a pre-cursor to competitive tendering, corporate services are reviewed to ensure corporate overhead/support do not become a cost burden to the internal business units. A consultant was engaged to benchmark the costs of human resources management, information technology services, corporate finances and administration support. As a result, the size of corporate services division has been reduced by one third.
- Detailed service reviews and benchmarking analysis: These determine the quantum of the performance gap between the current operation and potential competitors.
- Implementation of a system of performance monitoring: This uses internally developed and, where applicable, externally established measures.
- Tender assessment: In all tenders, an independent external member is appointed to the tender evaluation committee. The process is also subject to the review of the internal auditor.
- Adoption of a policy to amortise the costs of redundancy over 5 years. This policy will be subject to future review.

In house bidding - sequence overview

- Formation of bid teams: This includes the election of a bid team leader to represent employees and work through the tender process.
- Examination of service specification: Bid teams identify service levels sought in specifications and compare with the existing service levels.
- Benchmarking: Consultants are used to determine competitors' manning levels, organisation structures and industry performance benchmarks. Bid teams, management and business support then determine the competitive staffing levels that the in-house team will tender. The benchmarking results are communicated and explained to all employees.
- Expression of interest (EOI): EOIs prepared by business support with input from bid teams and management.
- Re-engineering: Re-engineering plans are developed by bid teams, management and business support to ensure that competitive staffing levels and re-engineered operations are substantially in place by time of tender submission. New work practices and organisation structures are sometimes piloted and results evaluated before full implementation. Where reduced staffing levels are required to be more competitive, voluntary redundancies are offered. Where voluntary redundancies do not achieve competitive staffing levels required, a selection process based on merit is conducted to identify surplus employees that will be redeployed.

- Development of local work place agreement: This is to document new work practices and to provide additional benefits/flexibility to employees who remain in the service units.
- Tender submission: Business support co-ordinates the development of all tendering documents, including pricing.

Example of market testing of community and recreation services

Unlike traditionally contracted services, community and recreational services are often seen as “unsuitable” for competitive tendering, given their “social” nature and impact. It is therefore valuable to examine the application of competitive tendering to SCC’s community and recreation services.

In SCC, the objectives are to provide a customer-focused and value for money community and recreation service to the City community. Existing community and recreation services involve:

- operation of facilities including community and recreation centres
- provision of community services including “meals on wheels”, community transport and aged care.

In the process of preparing the draft specification, the Client Services Division (the service purchaser) has reviewed the activities and programs of the service, including making comparisons with those services provided by Brisbane and Melbourne City Councils.

SCC decided to tender the service “as is”, ie current service levels in terms of centre opening hours, the number of hours of programmed activities, the level of social worker resources. However, SCC requires the successful tenderer to undertake strategic planning and service review over the three-year period of the contract. This approach ensures customers experience minimal changes in service delivery as a result of competitive tendering, helping to alleviate community anxieties about change.

Four potential providers (including the in-house team) responded to SCC’s request for an expression of interest. Three tenders (including the in-house team) were received and evaluated based on experience, performance history, quality, customer focus, management and staffing, and financial capacity. In June 1997, the contract was awarded to the internal business unit. Based on the tendering outcomes, it is estimated to deliver a 15-20 percent reduction in net costs.

Results and lessons learnt

As a result of the market testing and reform process, staffing level decreased further from 945 in 1995 to 720 in 1997. As at June 1997, 43 percent of council’s services have been competitively tendered. Tenders to deliver nine council services have been awarded. Of these contracts, 63 percent of the contracts (in terms of number of contracts) have been awarded to in-house teams. Savings from these contracts amount to \$7m, or 9 percent of 1996/97 expenditure.

Table A8.3: Sydney City Council - Results of Competitive Tendering Program

Service	Date of contract awarded	Successful bid	Estimated Savings \$m ⁽¹⁾
Fleet (heavy)	April 1997	In-house	1.8
Fleet (light)	April 1997	External	0.2
St Peter Tip	April 1997	In-house	0.75
Property cleaning (building)	April 1997	In-house (70%) External (30%)	0.1
Street cleaning	May 1997	In-house	1.30
Goulburn Street car park	May 1997	External	0.1 ⁽²⁾
Trade waste	June 1997	In-house	0.9
Property management & maintenance	June 1997	External	0.8
Community & recreation centres	June 1997	In-house	0.8
Total savings			6.7

Source: Sydney City Council

Note:

1. Savings are estimated based on a comparison of 1995/96 actual expenditure and projected contract expenditure.
2. This represents net revenue gain from the Goulburn Street car park.

It is anticipated that other council activities/services will be progressively subject to competitive tendering in 1997/98. These include open space maintenance, libraries, town hall venue, domestic waste, roads/footpaths, aquatic centre and city care.

The following are considered critical success factors:

- the issues of credibility, probity and competitiveness of in-house bids must be addressed in the process
- adequate service planning
- ongoing contract management and performance monitoring by applying efficiency and effectiveness performance indicators
- co-ordination of unions and management and employee commitment.

Commentary

Sydney City Council's experience is by no means atypical. It proves that it is possible to do more with less. However it requires the political will of the Council, the vision of management and the commitment of staff and unions. As with many other processes, success depends on the level of commitment and effort. Council is prepared to lower overhead costs, and lift the standard of tender specifications and their contract management skills. This effort has been rewarded with cost reduction as suppliers strive for a competitive edge.

Testing council services against the market results in immediate and dramatic efficiency gains, significant savings, increased effectiveness and greater accountability. It is essential that larger councils and their constituents reap these benefits to the fullest extent possible.

Case 3: Sutherland Shire Council – progressive and strategic implementation of competition in service delivery

Sutherland Shire Council (SSC) is a large urban council in Sydney's southern suburbs with a population of more than 200,000 resident population over an area of 371km². Total council expenditure (both operating and capital but excluding depreciation) was \$129m in 1996/97. Contract expenditure accounts for about 6 per cent of council expenditure.

Incremental reform process

SSC has maintained incremental change for some time but embarked on a major reform process in June 1995 in response to continued financial pressure and the national competition policy. A competition policy was developed in February 1997 with the prime objective of ensuring that quality services meet the community's needs and expectations at the best value of money.⁴⁶ The reform process, including organisational reform, also ensures that the organisation becomes more efficient and more competitive. The reform process involves:

- integrated strategic planning
- establishment of service units
- review of cost structures and systems
- development of business support systems including activity based costing
- development and adoption of service agreement
- benchmarking of business units against the market place
- negotiation of new organisational structure and workplace agreements
- broadening and improving community consultation.

SSC's policy is to remain a service provider. It is committed to supporting service units through training, systems and business support.

Establishment and market testing of service units

Service units are being established across all areas of Council's operation under three categories:

- *Service planning and commissioning units* responsible for specifying, commissioning and managing service contracts
- *Business service units* responsible for providing services that are readily available in the market place and are generally provided to external customers and the community
- *Support service units* primarily responsible for supporting the operations of other Council service units.

Some of Council's business service units are proposed to be classified as significant businesses, including:

- operation of child care centres with operating revenue of over \$5m
- operation of leisure centres with an operating revenue of \$5m.

Both business and support service units provide services that are contestable, and will be subject to competitive pressure. Market testing will be applied to service units in a number of ways:

- for those units operating in a non-contestable environment or as community service cost centres market testing should take the form of benchmarking
- for those units operating in a contestable environment, market testing will take the form of competitive tendering for services.

⁴⁶ Sutherland Shire Council – Competition Policy, February 1997, p 6.

The following five principles will be used to determine the nature and extent of the application of competition policy to service units:

- degree of strategic importance – the greater the strategic importance, the less exposure to competition
- degree of contestability – the greater the potential market, the greater the exposure to competition
- ease of specification – the easier it is to specify outcomes, the greater the exposure to competition
- means of provision – the less important it is to understand how something is done, the greater the exposure to competition
- ease of performance measurement – the easier performance is able to be specified and measured, the greater the exposure to competition.

Market testing will occur only after a case-by-case assessment, including likely benefits and risk to council.

Implementation timetable for service units

To ensure initial service units exposed to competition are not disadvantaged by uncompetitive costs flowing to them from other parts of the organisation, a timetable is designed to introduce competition progressively throughout the organisation in three “waves”:

- First wave: 7 service units including: long day child care, survey and design, fleet, mechanical workshops, information systems, leisure centre and park operations.
- Second wave: finance, personnel, administration, stores/supply, land information, applications assessment, environment regulation, risk management, property management, property projects and malls management.
- Third wave: customer services, civil works, legal, waste and cleansing, building trades, science unit, planning services, library, arts and entertainment, beaches operations, communications, strategic planning, and emergency services.

Table A8.4: Sutherland Shire Council: Indicative Timetable for Service Units

	1st Wave	2nd Wave	3rd Wave
Business planning and competitive analysis <ul style="list-style-type: none"> • Total activity cost model in place • Customer, business & service relationships identified • Pricing for goods & services in place • Business and cash flow plan complete 	March 1997	June 1997	September 1997
Specification and market testing preparation <ul style="list-style-type: none"> • Service level agreements negotiated • Quarterly performance reporting in place • Initial review of progress, including social impact • Service specifications complete • Market testing analysis complete 	September 1997	February 1998	May 1998
Market testing	January 1998	April 1998	August 1998

Source: Sutherland Shire Council

Results and progress to date

In general, the implementation timetable has been extended by six months. As at September 1997, the progress of implementation was:

- First wave units have successfully completed their costing models, business plans, and initial performance reports/analysis. The following decisions have been made:
 - Council has decided that the management of 11 long day childcare centres is benchmarked for a three-year period 1997 to 1999/2000, rather than competitive tendering. However, half-yearly reports will be required, measuring management performance against specified objectives.
 - A benchmarking interim report for the information systems service unit will be submitted for council consideration in December 1997.
 - All other services will be subject to market testing with expression of interests to be advertised progressively.
 - Expression of interest for the management of three leisure centres has been recently advertised and closed in September 1997. It is expected that the short-listed proponents will be invited to tender in end of 1997.
 - Council has decided to call for expressions of interest for the provision of its parks operations services. However, as detailed in the Competition Policy, Council will retain 50% of its capacity in-house.
 - Council has decided that its Survey and Design service will be exposed to competitive tendering from July 1998.
 - Council has decided to expose its fleet operations to competition by calling for expressions of interest for the supply and maintenance of heavy and light fleet and equipment.
- Second wave units have completed costing model assessment. Several areas have drafted business plan and initial work to commence specification development has occurred.
- Third wave units: some minor work has commenced with third wave units.

Although it is still early to estimate the impacts of council's reform and competition policy, council believes that there are a number of organisational improvements have been achieved during the lead up to market testing process and EOI. It believes that efficiency gains come more rapidly and are better quantified by a service unit that is focused on being competitive in the marketplace. The business planning process and competitive analysis has achieved its purpose of making the service units to be more customer focused and to be financially competitive in delivering quality services.

Overall findings and observations

The three case studies illustrate:

- Benchmarking is one technique that can be used in preparing for competitive tendering. Competitive tendering brings quick gains and ensures the organisation is focused. Comparisons under competitive tendering are also more transparent. Market testing local government services will usher in a new era of accountability and will boost efficiency.

- In any competitive process there are winners and losers. It is fundamental that the process be fair and proper. The adequacy of evaluation criteria in tender specifications is very critical.
- Where outsourcing is used, council is accountable for the way in which it designs a contract, the level of performance specified, the selection of an appropriate contractor, and monitoring compliance with the contract terms. It is only the delivery of the service that an agency has delegated through contracting. Outsourcing therefore does not affect the accountability that a council has for providing quality service to the clients. The onus is with councils to develop ways in which to maintain its accountability. Even if a contract is awarded in-house, the focus on accountability remains crucial.
- Competitive tendering and contracting also involve redefining responsibilities and relationships with key stakeholders, and introduces a new player - the contracted service provider - into the chain. To be successful, contracting out requires careful strategic planning, transparency and proper management of the tendering process and sound contract management.
- Competitive tendering requires a council to look closely at the level of service desired, the specifications, and the level of quality. These aspects can assist in driving improvements to in-house providers. Councils can then test the effectiveness of their providers with others to make an informed decision about the best way to provide a service. Efficiency gains can be realised through competition, regardless of whether or not a contract is awarded externally. Evidence shows that competitive tendering can achieve the greatest benefit only when it is part of a wider program of service delivery reforms.