

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

An Issues Paper

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

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Local Government Performance
in New South Wales**

An Issues Paper

Comments or enquiries relating to this Issues Paper should be directed to:

Fiona Towers ((02 9290 8420)
Nicholas Hague ((02 9290 8494)
Anne McCawley ((02 9290 8499)

Submissions to the Review addressing the issues covered in this paper should reach the Independent Pricing and Regulatory Tribunal at the address below by Friday 6 June 1997.

Any information that is considered "commercial in confidence" should be clearly marked.

Independent Pricing and Regulatory Tribunal of New South Wales

Level 2, 44 Market Street Sydney NSW 2000

((02) 9290 8400 Fax (02) 9290 2061

www.ipart.nsw.gov.au

All correspondence to: PO Box Q290, QVB Post Office, NSW 1230

FOREWORD

Local government provides a wide range of services to its constituents, such as water and sewerage, planning, public libraries, aged care facilities, and sporting and recreational facilities. In some areas, service provision has extended into what might be regarded as 'non-core' services such as business development.

Through the provision of services, local government has a real effect on the standard and quality of living of people living and/or working within the local government area. Given this impact, it is important that these services are provided in an efficient manner and at an appropriate level of quality.

In June 1996, the New South Wales Government released a statement on the application of national competition policy to local government. Importantly, the statement highlighted the role that reforms could play in achieving efficient provision of public sector services. The application of benchmarking is one such reform.

Benchmarking is potentially a valuable instrument for achieving efficiency gains and measuring service quality. Importantly, meaningful benchmarking depends on the availability of quality information that can be sensibly used for comparative purposes. Its application to government services may be particularly important as many of these services are provided in non-competitive environments. Therefore, good benchmarking may promote 'yardstick' competition. The tendering out of services to the private sector may strengthen its application as a comparative instrument for local government service provision.

In reviewing the application of benchmarking to local government services, the Tribunal hopes to play a role in developing a useful framework for the application of benchmarking to local government services. Given the success of benchmarking in public and private enterprises, its application to local government services is likely to be an important factor in ensuring services are provided at least cost and at an appropriate level of quality.

The Tribunal welcomes submissions to this issues paper (submissions close on 6 June 1997) and plans to publish an interim report by the end of 1997. Finalisation of the report and recommendations is planned for early 1998.

Thomas G Parry
Chairman
April 1997

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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 was to establish a national competition policy framework for an open, integrated domestic market for goods and services. This was to be achieved by removing unnecessary barriers to trade and competition. The competition reforms are applicable to the activities of Federal, 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 included reference to 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 included workplace reform, competitive tendering and benchmarking.

Pursuant to section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Premier has requested 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 take a number of factors into account. These include the abovementioned NSW Government statement, examining current performance benchmark models developed within Australia and overseas, and demonstrating the practical application of benchmark approaches to a range of local government functions.

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 in a more specific sense and refer to the process of comparing with the best performers in an industry.

Benchmarking can be used as an important improvement technique, offering opportunities for local government to improve performance. To date, the technique has been used mainly by the private sector where it has stimulated significant improvements in business performance.

However, benchmarking can be particularly important where an enterprise does not face direct competition. This is likely to be the case where services are supplied by (local) government (eg water and sewerage services). Comparing the performance and processes of local government service provision can promote yardstick competition, thereby creating incentives for managers to provide their services more efficiently and effectively. Benchmarking can also be a valuable tool for identifying ways to improve performance.

However, benchmarking will only be a useful tool where comparisons are not distorted by poor data quality. It is important that during the benchmarking process, comparisons are made between like services. Those participating in any benchmarking project will require some education regarding the exact nature of the data required. If data used to define benchmarks differs between the participants, comparisons will not be valid.

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

² See Attachment 1.

Benchmarking can be implemented in various ways. Two methods are performance indicator benchmarking (or results benchmarking) and process benchmarking, defined in Chapter 3.

1.1 NSW Government Policy Statement³

National Competition Policy and the CPA are aimed at encouraging 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, is only one part of the NSW Government's policy aims. Application of competition policy is intended to sit alongside the Government's other economic, social and environmental policy objectives.

The NSW Government Policy Statement states National Competition Policy:

“provides an opportunity for both 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.”

The NSW government is committed to achieving these goals whilst 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. The following is a brief description of these reform principles, and the NSW Government's response to their application to local government.

Prices oversight of government business enterprises

The CPA requires state and territory governments to consider establishing independent sources of prices oversight where these do not exist. The NSW Government believes that existing arrangements empowering the Independent Pricing and Regulatory Tribunal to review where necessary the pricing practices of local government business activities are adequate.

Competitive neutrality policy and principles

The CPA states that the objective of the competitive neutrality policy is to eliminate resource allocation distortions arising out of the public ownership of entities. Government businesses should not enjoy any net competitive advantage or disadvantage simply as a result of their public ownership. The NSW Government will be working closely with local government to apply these principles. The application of competitive neutrality is being considered by the NSW Government's Working Group on the Application of Competitive

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

Neutrality to Local Government Businesses and the Working Group on State/Local Government Business Reciprocal Charges.

Structural reform

Public monopoly reform involves the separation of the non-contestable regulatory or other functions of a monopoly from those commercial activities which can be subject to competition. The NSW Government has no plans with respect to this category of reform beyond what is described elsewhere in its policy statement. In particular, the Government considers that competitive environments for local government services can be effectively created by applying the principles of competitive neutrality.

Legislation review

By the year 2000, each party to the CPA is to reform all existing legislation that restricts competition. The NSW Government policy statement notes that local councils do not legislate in NSW. They do not have an obligation to review anti-competitive legislation in the same way that the NSW Government must in order to fulfil its obligations under the CPA. Nonetheless, there are NSW State laws which govern the way local councils perform their regulatory functions, impose restrictions on competition and add to the cost of, or prevent, market entry. The major Acts in this category are the *Local Government Act 1993* and the *Environmental Planning and Assessment Act 1979*. The Government is to undertake an extensive program of review which will address the economic costs arising from this legislation.

As well as complying with the CPA, the NSW Government is working with the Local Government and Shires Associations to promote a range of initiatives associated with the application of competition policy to local government services. Aiming to provide better services to local communities, these initiatives include workplace reform, competitive tendering and benchmarking.

2 LOCAL GOVERNMENT

The first local councils in New South Wales were established in 1842, under the NSW Constitution Act. The Act delegated 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 a range of State Government legislation. Over 100 NSW Acts impact on the operations of local councils, determining their functions, responsibilities, structure and powers. Attachment 2 lists a selection of these Acts. The NSW Department of Local Government oversees the legislative framework for local government.

The size of council in terms of population and area have changed from time to time. Council borders have been adjusted over the years, largely as a result of government policy. Councils are able to amalgamate following State Government approval, however, boundary reform has usually been due to intervention by the State Government. There are now 177 local councils in NSW, a significant reduction from 324 in 1910.

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. Most of the funds for local council services are raised from council rates and charges. Given this structure of local council accountability and funding of service provision, it is important that the type and level of services is appropriate and 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 the service production and distribution role of governments. However, the Tribunal is interested in the potential application of benchmarking to all aspects of local council operations for its possible wider benefits.

This chapter provides background for the inquiry. In particular, Section 2.1 presents a profile of local government and Section 2.2 outlines the 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 and road maintenance and construction. In non-metropolitan areas, local councils have business type operations which provide water and sewerage services, natural gas supply and abattoirs. Services provided vary across urban, regional and remote rural localities, and according to council size and community needs. Clearly, not all councils provide similar services. Some of the services provided include:

Land management, planning and infrastructure provision

- development and environmental planning
- bush fire control and emergency services
- heritage conservation

- processing 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
- algae testing
- animal control

Corporate functions

- strategic planning for area, resource and service management
- administer property management, provision of communication links between the council and the community, financial management
- work 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.

Until recently, county councils, which are separate council organisations with representatives from constituent councils, provided electricity.

In a number of other countries, such as the United Kingdom and United States, local councils provide broader community services such as education, police and fire services.

In 1994/95 local councils in NSW together spent approximately 3.5 billion dollars and employed approximately 40,000 people.⁴ 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.

⁴ Includes employees of local government trading enterprises.

Of NSW's 177 local councils, 95 are in rural areas. Two local government organisations together represent all 177 councils in NSW. The Local Government Association represents metropolitan and provincial city councils, and 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, which operate 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 waste collection and tourism promotion. ROCs may be seen as a way of achieving collective benefits without amalgamating. County councils operate in a similar way and can provide similar services.

The range and quality of data available on local government operations is significantly poorer than for other levels of government. Most of the data on expenditures and revenues is from annual reports and information supplied to the Local Government Grants Commission. The NSW Department of Local Government publishes comparative performance indicators annually.⁵ However, this information is not audited.

The Australian Bureau of Statistics releases some data on local councils based on annual reports. This data has been unreliable in the past, reducing the ability to consider trends in data over time.

Attachment 3 presents data on the population, area, population density and expenditure for each local council.

Metropolitan councils tend to serve larger populations in smaller areas. For example Blacktown Council has approximately 232,000 constituents spread over an area of 240 square kilometres, whereas the Central Darling Shire has around 3,000 constituents over more than 50,000 square kilometres.

There is also significant variation within the broad metropolitan and rural groups. Many of the Sydney's inner city councils, such as Drummoyne, cover areas around 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 160,000 people.

2.1.1 Local government operations

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

Approximately 45 percent of recurrent costs for local councils are labour. Councils vary from approximately 60 employees in Hume to more than 1000 in Blacktown.

Major expenditure categories include roads, community services and recreation, and water and sewerage in country areas. Approximately 12 percent of the expenditure of councils is classified by the Australian Bureau of Statistics as administration.

⁵ Department of Local Government, *Comparative Information on NSW Local Government Councils 1993*, May 1995.

Road expenditure appears to be the largest single component of the ordinary services expenditure of local councils. It has been estimated to be in the order of 35 percent of expenditure. However, reliable information is difficult to find. Local government accounts for about 80 percent of the NSW's road network kilometres.

Expenditure on water and sewerage provision can be up to 10 to 30 percent of a rural council's expenditure. Some councils combine, forming county councils to provide water and sewerage.

Because of their small populations and remoteness, rural areas may have a narrower range of services provided by the private sector and the NSW and Federal Governments. 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 have the additional role of facilitating these 'non-core services'. However, while it is legitimate for councils to facilitate the provision of these services, they may not need to provide them directly. Councils could 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 Federal Government. A significant component of the grants is tied to specific purposes, mainly road expenditure. Councils also receive funds from other sources including donations, fines and interest on investments. In 1990, revenue from rates and charges for ordinary services totalled \$1,367m, those from trading activities \$4,375m (including electricity services which were previously supplied by local councils), and government grants were \$523m.⁶

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

Total rates and charges for 1994/95 were approximately \$2.6b or 70 percent of total revenues. Total grants to NSW local councils in 1994/95 were approximately \$635m or 16 percent of total revenues. Additional revenue sources include interest, contributions and donations.

Local councils publish one year forward plans of revenues including proposed rate increases. Increases in council income are limited to a percentage increase determined by Cabinet. Individual rates are not pegged. Only the level of total income is determined, called "rate pegging".

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, it 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. Anecdotal evidence suggests that rate pegging has resulted in an increased dependence on user charges, fees and fines.

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

⁶ Australian Bureau of Statistics, *Local Government Finance New South Wales*, Catalogue No. 5502.1, 1992.

liberalised the management of local councils, putting them on a more accountable, performance oriented and competitive footing. At the same time, Commonwealth funding to local councils has declined substantially in real terms.

Rural councils tend to receive a larger proportion of their revenues in grants. The NSW Local Government Grants Commission makes recommendations on the distribution of general purpose funding from the Federal Government. The funding consists of two parts: an equalisation component and a local roads component. A subset consisting of the smallest rural councils in NSW received around 50 percent of its total revenues from grants. This compares with approximately 11 percent of revenues being sourced through grants for a subset of Sydney metropolitan councils.⁷

For 1995/96 federal grants were approximately \$272m for equalisation and \$100m for roads. 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 involving population, road length, and bridge length.

Direct funding from the NSW Government is mainly 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 with a block grant from the Roads and Traffic Authority. In 1994/95 \$277m was provided under this system. Grants Commission road funding is untied, that is, may be used for any purpose. Roads and Traffic Authority grants are specific.

2.2 Recent reforms to local government

A major reform to NSW local government was the NSW 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
- publishing three year forward plans of expenditures, and one year forward plans of revenues including proposed rate changes
- requirements to report performance indicators on asset management, service delivery and user charges
- more flexible workplace and organisational practices
- a more integrated approvals system for planning, building, subdivision and environmental approvals.

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

⁷ Department of Local Government, *Comparative Information on NSW Local Government Councils 1993*, May 1995.

The South Australian Government inquiry into local government recommended reducing the number of councils. Councils have been encouraged to amalgamate. So far the number of councils has reduced from 118 to 71. As part of the structural reform process in that State, a set of performance indicators were developed. At this stage, these have not been used for performance monitoring purposes.

Similar reviews have been conducted in Tasmania and Western Australia. In 1993, council numbers in Tasmania went from 46 to 29. There have since been calls to reduce the number to less than 20, and most recently it has been proposed to reduce the number to 10. Western Australia is proceeding to implement the recommendations of the Structural Reform Advisory Committee which reported in 1996 and identified the scope for rationalisation of boundaries. There is no indication at this stage of the extent to which numbers might be reduced.

Queensland's Department of Local Government is currently working with 80 councils to pilot the application of performance indicators. An annual publication of performance indicators for all councils is planned. There are also plans to introduce formal networks of councils to facilitate benchmarking. 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 competing 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 as a whole. NSW ratepayers will be better able to assess where their money is being spent.

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

- ensuring that public sector businesses take all their costs into account in charging for their services and in the case of interaction between State and local government businesses, establishing 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 (for example 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: performance measurement and benchmarking, reviews of regulatory processes, contracting out and a general review of service provision.

The Department of Local Government has released guidelines on competitive tendering for distribution to local councils. Guidelines on pricing are expected to be published in May 1997.

3 BENCHMARKING

This chapter:

- defines benchmarking and performance measurement (Section 3.1)
- explains the importance of benchmarking and performance measurement (Section 3.2)
- provides a brief overview of the techniques for performance measurement (Section 3.3)
- outlines benchmarking and performance measurement studies (Section 3.4).

3.1 What is benchmarking?

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 in a more specific sense and refer to the process of comparing with the best performers in an industry.

Benchmarking can involve:

- comparing simple output measures such as output per employee over time
- comparing simple output measures between firms in the same industry
- comparing more global measures of productivity or efficiency over time or across an industry (the techniques to make these comparisons are outlined in Section 3.3 and Attachment 4)
- comparing rates of failure or 'incidents' such as strike rates or days lost through injury across industries
- comparing specific functions across industries, such as time to respond to an incoming phone call
- investigating the processes within an organisation, eg maintenance programs, computer systems, stock monitoring, customer satisfaction and human resource management
- making comparisons with key performers for certain functions.

It is useful to divide benchmarking into two categories:

- comparative performance information or **results benchmarking** (eg the annual publication, *Comparative Information on New South Wales Local Government Councils*)
- the analysis and improvement of processes within an organisation or **process benchmarking**.

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. Process benchmarking often involves comparing with best practice performers. The benefits of process benchmarking are gained by comparing the practices of internal operations with the operations of others, and applying the results to improve practice.

The term, 'benchmarking', is often used to refer to process benchmarking exclusively. In this context, results benchmarks are referred to as 'performance indicators'. To avoid confusion, the Tribunal will maintain this convention. The inquiry will review the application to local government activities of comparative performance indicators and 'process' benchmarking.

Successful benchmarking is more than just a measurement exercise. The aim of benchmarking and the development of performance indicators is to provide information and insights to assess and improve performance.

Some local councils 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, and establish what makes them perform the functions better.

It is important to realise that given the diversity in councils' operations, it may be difficult or impossible to conclude that some councils are systematically more efficient or effective than others overall. Nonetheless, benchmarking and/or performance measurement are likely to be of use in identifying consistently good, or alternatively, poor performers.

The availability of reliable data on the NSW local government sector is likely to limit the immediate scope for performance measurement studies. However, the potential benefits from benchmarking and performance indicator studies should encourage the collection of relevant data and the development of appropriate data collection processes.

3.2 The importance of benchmarking and performance measurement

Benchmarking is important to increase accountability in government operations and to help improve performance.

3.2.1 Benchmarking to improve accountability

Local councils provide a number of important services to the community such as roads, aged care facilities, water and sewerage. Improving the efficiency and effectiveness of these services is important because of:

- the impact these services have on the local community
- the burden on the community of funding these services through rates, user charges and general taxation revenue collected by the State and Federal Governments.

Historically, publicly provided services at all levels of government have been excluded from the competitive pressures that drive efficiency and effectiveness in the market economy. In a well functioning market, price changes provide signals about the quality of and demand for goods and services. However, the outputs of public agencies are typically traded in markets where neither prices nor quality are free to adjust in response to consumers' preferences. In many cases, prices for public services do not exist. For most public services an alternative to market signals, such as performance measurement, is needed to reach acceptable standards of performance and to guide decisions.

Performance measurement can also help overcome information barriers between local councils and their employees, and in turn local councils and their constituents. The relationship between 'owner' and 'employee' is more complex in the public sector because the common overriding objective to earn sufficient profits to stay in business does not exist. Benchmarking and performance measurement can be used to increase accountability and provide incentives for efficient and effective operations. Professional pride in working for a 'good' council is also important to achieving efficient and effective operations.

Increasingly, performance measurement is being adopted by all levels of government. Performance measurement can be used to increase accountability and encourage 'yardstick competition' or to develop a competition between units providing similar services in different geographical locations.

The accountability of local councils to the community is more complex than that of other levels of government. Local governments are elected and are accountable to their electorates for local planning, regulation, expenditure and revenue raising decisions, subject to state laws including the financing arrangements described in the preceding chapter. The level of autonomy that local government is able to operate under may influence performance/operations. A preference for more or less local government autonomy is likely to vary between areas.

The main signals of council performance provided to the electorate are the services provided and the level of rates, user charges, fees and fines. Payments for these are typically made at different times and it is hard for individual voters to assess all the payments they make. It is also difficult for the electorate to assess whether the payments it makes are inflated due to inefficiencies and bad decisions.

Furthermore, tenants do not pay rates directly. Rate changes may be reflected in rent changes, but rent changes are likely to be due to a number of factors. Owners of businesses may not live in the local council area, and while they pay rates they may not receive all the benefits of a resident.

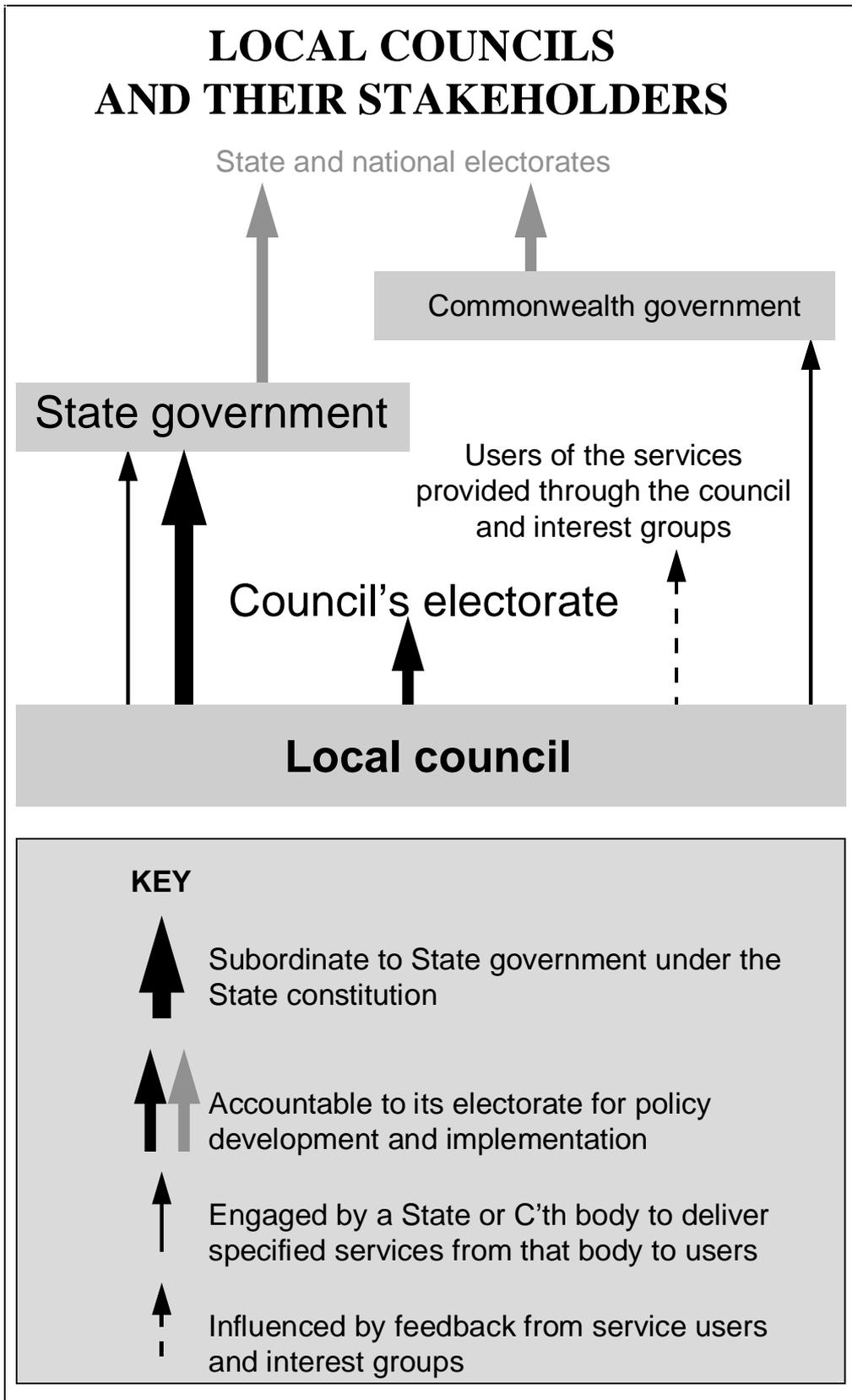
The main signals residents provide of their satisfaction or otherwise with their council are voting and choosing whether to live or conduct their business within the council's jurisdiction. However, these decisions are infrequent and based on a number of considerations. Constituents provide further information on the services they require by lobbying the council and by choosing the amount of services to consume. These influences are fairly ad hoc and may not affect day to day operations directly.

As mentioned above, there is significantly less data available on local government than other levels of government. However, there appears to be greater (local) media and general public scrutiny than at other levels of government, and in rural areas, people appear to take a keener interest in local affairs. The operations of local government may also be more transparent than other levels of government. For example, the *NSW Local Government Act 1993* requires management to place on display policies, planning decisions and budgets.

The accountability of local councils is blurred by the complex relationship between local government and other levels of government in Australia. State governments are constitutionally responsible for local government. From this perspective, the operations of local councils are influenced by the objectives of the wider State electorate. Funds, often for specific purposes, are provided to local councils by the State and Federal Governments. In many cases the State and Federal Governments use the local council as a service delivery mechanism (Box 1 illustrates the range of influences impacting on local councils).

Restrictions on council operations such as rate pegging further confuses accountability. Local councils can blame the State Government for many of their actions, including increases in rates or failure to provide services. Performance evaluation and benchmarking may provide a more rational basis for determining a reasonable level of expenditure than rate pegging.

Box 1 The influences on local councils



The Tribunal invites comments on:

- *whether benchmarking of local councils would increase their accountability to the community*
- *how councils gauge community satisfaction.*

Does the current system provide incentives for efficient and effective service provision? Is there significant blurring of accountability due to local councils' reliance on grants programs and State Government involvement in planning decisions and in the capping of rates?

Can benchmarking and performance measurement and reporting adequately address these issues of accountability and incentives? Do benchmarking and comparative performance measurement and reporting support or conflict with local council accountability?

The Tribunal invites comments on whether performance evaluation and benchmarking could assist in determining efficient levels of expenditure in local government?

3.2.2 Benchmarking and performance measurement to improve performance

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

Performance measurement can also be used as an internal management tool. They provide managers with information on efficiency and reasons for poor performance. They can also identify leading performers.

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 establish realistic goals, and improve competitiveness.

Chapter 4 considers the application of benchmarking and performance measurement to issues such as the size and scope of operations.

With any reform, there will be costs and benefits. The costs of collecting data and measuring performance may be significant, especially for smaller councils. There may be a case for State or Federal Government assistance in undertaking performance measurement and benchmarking, eg through the national local government Benchmarking and Efficiency Program.

The Tribunal invites comments on whether the gains associated with improved accountability and performance are likely to offset the costs of undertaking benchmarking and performance measurement? When are the gains likely to offset the costs? The Tribunal is also interested in determining appropriate comparisons, ie comparing like with like.

3.3 Overview of performance measurement techniques

Various techniques can be used to measure performance. The ability to apply these techniques is determined by the availability of data. Previous benchmarking studies have highlighted the problem of attaining accurate, comparable data.

Before describing performance measurement techniques, it is useful to define some basic concepts of performance.

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 outputs and inputs, 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.

Partial indicators and unit costs are commonly used because they are easy to measure and easy to understand. However they can be misleading. They can vary for reasons other than inefficiency. For example, local councils may deliver services in different environments, have a different mix of clients or use different input mixes. Similarly, 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, or a recycling service may also be offered. Furthermore, use of partial indicators may not adequately take account of differences in service quality. That is, a council may provide a service at a relatively high cost because the community demands a higher quality of service provision.

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 a relevant factor.

To obtain a fuller picture, several partial measures and unit costs may be used. However, they may move in different directions and be difficult to interpret. It is impossible to gain an overall understanding of which councils perform better overall from the 25 indicators in the *Comparative Information on NSW Local Government Councils*.

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 one dimension alone. The composite measure method allows managers and others involved in service provision to identify specific areas where their performance is relatively poor, and therefore could be improved. It may be impossible for a local council to achieve best practice on all indicators of a particular service. There may be a trade-off between some of the individual performance indicators for a particular service. In developing a composite measure for a particular service, it would be necessary to determine a method for weighting the individual performance measures that make up the composite measure.

The composite measure approach is a method to arrive at a global measure of performance for a particular service. Similarly, there are techniques which aim at establishing a global measure of overall performance (eg a best practice local council), as opposed to a global indicator for a particular service.

Three main techniques which can provide a global measure of performance are:

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

Naturally, these methods are more complicated to measure than partial measures. Data availability may also be a constraint to their application. The main features and advantages and disadvantages of these techniques are discussed in Attachment 4.

TFP, DEA, stochastic frontiers, unit costs and partial measures provide a number of ways in which to measure the performance of local councils. Different techniques may suit the measurement of different functions.

The Tribunal invites comments on how the performance of local council operations should be measured. Is it possible to apply global techniques to local government operations? Are they more useful than the current partial measures? Do particular techniques suit particular local council operations?

Effectiveness refers to how well the outputs of local councils achieve the objectives expected by the local council and the community, eg is the standard of roads appropriate? Measurements of effectiveness can therefore be obtained from service quality indicators. For example, through customer satisfaction surveys. ***Efficiency***, on the other hand, refers to how well an organisation uses its resources to provide outputs relative to best practice at a point of time.

It is worth emphasising that the measurement of efficiency does not preclude consideration of effectiveness. Effectiveness measures 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.

The Tribunal invites comments on whether effectiveness indicators need to be developed for councils, and how such indicators could be developed? Can performance measurement capture the other non-service provision dimensions of local council functions, such as responsiveness to the electorate's wishes or community leadership?

3.4 The availability of local government performance indicator information

3.4.1 Comparative information on local councils

The NSW Department of Local Government has published comparative information on councils annually since 1991. Its 1994/95 publication reports 25 performance indicators which span a broad spectrum of council activities including:

- finance 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: planning and regulatory costs per capita, cost per service for domestic waste management, and the median time to determine building applications.

The data used for this publication is not audited and errors may be significant. For example, councils may vary in the way they classify expenditure on services which are contracted out. If such differences exist, using this data to make comparisons of labour productivity will be misleading.

The performance indicators used in this publication are currently being reviewed by a working group established by the Minister for Local Government in September 1996. The working group is considering the range of indicators and the way they are presented. It is addressing whether greater efforts should be made to obtain consistent data and how may this be done.

National comparative performance indicators have been published in the United Kingdom since 1995. The United Kingdom Audit Commission developed a set of performance indicators with assistance from local government and through surveys of the general public. 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.

In Australia, national indicators have yet to be developed. In April 1995 the Local Government Ministers agreed to a national strategy for key performance indicators and benchmarking called the Benchmarking and Efficiency Program. The strategy includes:

- development of National Benchmarking and performance indicators for specific services of functions of councils which measure not only unit costs but also quality and appropriateness of services
- processes of continuous improvement that enable councils and their staff to identify best practice through comparing their performance and strategies with other councils through informal networks of councils
- projects to develop, at a national level, specific new technologies, new practices and systemic reforms that substantially increase 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 the significant differences between local governments within each state and across Australia. There are significant differences in functions, legislation and accounting practices across Australia.

In implementing benchmarking or performance measurement, a major task would appear to be the collection of relevant and comparable information. The data required will likely impose new needs on information systems. It is probable that special data collection

processes will need to be established in the absence of existing systems. Those involved in any such project will need to be educated on the type of data required. Performance measures will be misleading if incorrect information is used to derive their values.

Where benchmarking and/or performance measurement projects have taken place, the Tribunal invites comments on the quality of data available, eg relevance, timeliness, comparability. The Tribunal is also interested in the information that is currently available from the Department of Local Government.

The Tribunal invites comments on whether there is a need for better information on local government performance to make councils properly accountable to their electorates and to the State Government, and as an incentive to meet performance goals. What sort of information could be collected?

3.4.2 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 the Local Government and Shires Association of NSW.⁸

A number of process benchmarking studies funded by the Local Government Development program are underway in New South Wales. The projects are considering building and development approval processes, libraries, children's services and engineering services. For example, Parramatta City Council is benchmarking children's services. The project aims to identify effective, efficient and high quality practice in long day care. Key indicators for customer satisfaction, quality and efficiency have been developed and a number of improvements to service delivery and cost effectiveness have been implemented.

Benchmarking of water supply and sewerage services has been undertaken. The Department of Land and Water Conservation has compiled performance comparisons, and a local government working party is undertaking process benchmarking of water and sewerage activities.

Attachment 5 provides some details of benchmarking studies.

The Tribunal invites comments on whether there is an incentive to undertake benchmarking at the local council level? Is it sufficient to provide local governments with information on how to undertake benchmarking?

Is there a need for a more co-ordinated approach to performance measurement? If so, should this approach be national? Could national performance measurement conflict with state autonomy in making arrangements for local government? Do councils need financial assistance from the State or Federal Governments to undertake benchmarking?

⁸ The manual can be purchased from Information Victoria, 318 Little Bourke Street Melbourne, Victoria 3000. Telephone 03 9651 4100, Fax 03 9651 4111.

4 THE APPLICATION OF BENCHMARKING AND PERFORMANCE MEASUREMENT TO LOCAL COUNCILS

4.1 The framework for benchmarking local councils

The aim of this inquiry is to assess whether benchmarking and performance measurement can assist in improving the efficiency and effectiveness of local government operations, and to examine the practical application of benchmarking and performance measurement. In its recommendations, the Tribunal will consider establishing a framework for performance measurement. Issues to be addressed include:

- how any benchmarking or performance measurement projects should be co-ordinated, eg on a national or state level?
- what services should any such project cover?
- how should performance be measured?

There are both costs and benefits of benchmarking or performance measurement being undertaken on either a national or state level. At a national level such a project may be more likely to identify best practice. A national approach broadens the scope for councils to make sensible comparisons. This is particularly important for councils such as those in Tasmania and South Australia, where the absolute number of councils is relatively small. The opportunities for councils in those states to identify another that closely resembles it and against which it can make meaningful comparisons will be much higher if there is a national, as opposed to a state, set of performance information. However, there may be greater costs involved in collecting comparable data between states.

Local councils provide a range of services to their constituents. The diversity of the services provided raises questions regarding the core functions of local councils. Core functions may include planning regulations, water and sewerage, roads, parks and gardens, waste collection and fire protection in rural areas.

The Tribunal invites comments on:

- *an appropriate co-ordination framework for benchmarking and performance measurement*
- *the scope to benchmark services provided by local council*
- *what services should be considered for benchmarking and/or performance measurement*
- *the core functions of local councils, how these differ between different areas (eg metropolitan and rural), and how they are being affected by national competition reform.*

4.2 Issues which benchmarking and performance measurement can address

The local government sector is diverse. Comparing performance may be difficult. The techniques outlined in Attachment 4 can account for differences in the environment and size of operations. Benchmarking can be used to assess whether there are differences in the efficiency of service provision and can be used to help improve performance.

Benchmarking and performance measurement can provide information on the factors which determine the efficiency of local council operations such as management practices, the size of operations and the range of services provided. The benchmarking and/or

performance measurement process could also identify, and possibly take account of, factors beyond councils' control which affect costs. Such factors may include population density, age of population and climatic conditions.

Performance measurement has traditionally focussed on costs. However, as mentioned earlier, it is important that other factors such as quality and customer satisfaction are also taken into account. A local council may provide a particular service at a relatively high cost because its residents demand a relatively higher level of service quality. Comparisons between councils should acknowledge these issues.

Performance measures can address a number of questions:

- is performance improving over time?
- which councils are appropriate role models to serve as benchmarks for a program of performance enhancement?
- if all councils were to perform at best practice, how many additional services can be produced or to what extent will fewer resources be needed?
- what are the characteristics of efficiently operating councils?
- which councils appear to be the most efficient at providing particular services?
- how do the level and scope of services provided affect efficiency. Can co-operation overcome diseconomies of small size?
- how can we account for differences in the operating environment when evaluating performance?

It is likely that the answers to some of these questions will vary between councils in different regions of NSW.

Measuring efficiency raises questions about whether there are factors in a council's operating environment which constrain the achievement of efficiency. The Tribunal invites comments on whether financing arrangements affect the efficiency and effectiveness of local councils, eg do the grants process, rate pegging or borrowing controls have an adverse effect on local council operations?

Does the existence of rate pegging encourage councils to increase user charges to cover increases in expenditure, and if so, does this affect councils' performance?

4.2.1 Management practices

Benchmarking and performance measurement can help by identifying inefficient operations and providing insights from better managed units on how to improve performance. DEA matches inefficient units with units of similar input-output mixes which perform better. These peers may differ from those based on historic or geographical similarities.

4.2.2 The number of services provided

Economies of scope are efficiency gains made from providing more than one output, eg there are gains to be made from providing water and sewerage together.

In some cases it may be beneficial to reduce the number of services provided by councils directly. Local councils are increasingly contracting 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. Some gains may be made

by reducing the scope of services provided directly and introducing competition through contracting out. Alternatively, councils may suffer diseconomies due to loss of critical mass if functions are taken away from them.

The Tribunal invites comments on:

- ***whether there are economies of scope in providing the services typically provided by councils***
- ***the impact of contracting out on relative performance and performance measurement.***

4.2.3 The size or scale of councils

The variation in the size of local councils is significant. If we consider Australia as a whole, there is even greater variation. For example, the Council of the City of Brisbane serves approximately 800,000 people. As Australian Bureau of Statistics figures illustrate, around 12 percent of local council expenditure is 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. The Tribunal is interested in whether size affects the efficiency and effectiveness with which councils provide services.

Councils could combine to provide services. Resource sharing between councils could cover a number of areas, including billing and customer inquiries. Regional organisations of councils (ROCs) have been formed between councils to share information and resources. ROCs also arrange services such as waste collection through contracts covering multiple councils. Grants to address regional issues such as tourism development are sometimes awarded to ROCs. Councils also combine to form county councils to provide services such as water and sewerage.

The Tribunal invites comments on:

- ***whether large metropolitan councils benefit from the scale of their operations***
- ***examples of co-operative arrangements and the benefits/costs that have been realised***
- ***the gains to be made from increasing the scale of operations through voluntary associations or amalgamations***
- ***factors which encourage or limit the success of ROCs, county councils and shared ownership of assets.***

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 NSW LEGISLATION FOR LOCAL COUNCILS

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. Some of 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 3 PROFILE OF LOCAL COUNCILS

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

Council	Area sq km	Estimated resident population 30/6/95	Population density (pop/area)	Total expenditure in 1994/95 (\$m)
Albury City	103.07	41,840	405.94	35.5
Armidale City	33.65	23,270	691.53	14.4
Ashfield	8.28	41,350	4993.96	13.3
Auburn	32.05	49,900	1556.94	17.1
Ballina Shire	486.94	34,790	71.45	20.4
Balranald Shire	21,418.53	2,950	0.14	4.3
Bankstown City	77.78	163,250	2098.87	60.0
Barraba Shire	3,074.62	2,440	0.79	3.5
Bathurst City	239.64	30,320	126.52	22.3
Baulkham Hills	380.98	127,700	335.19	38.7
Bega Valley Shire	6,049.80	28,450	4.70	26.4
Bellingen Shire	1,604.58	12,670	7.90	10.8
Berrigan Shire	2,048.68	8,370	4.09	7.5
Bingara	2,859.28	2,140	0.75	2.4
Blacktown City	241.03	232,900	966.27	75.9
Bland Shire	8,456.84	6,680	0.79	7.9
Blayney Shire	1,618.94	6,520	4.03	5.4
Blue Mountains City	1,404.81	74,900	53.32	38.6
Bogan Shire	14,610.33	3,240	0.22	4.9
Bombala	3,944.68	3,060	0.78	6.6
Boorowa	2,599.91	2,630	1.01	4.3
Botany	26.75	35,000	1308.41	20.6
Bourke	43,116.55	4,280	0.10	9.2
Brewarrina	18,874.56	2,180	0.12	6.1
Broken Hill City	69.66	23,860	342.52	14.8
Burwood	7.26	29,250	4028.93	11.0
Byron Shire	561.26	26,370	46.98	20.6
Cabonne	6,017.54	12,370	2.06	12.6
Camden	206.10	28,300	137.31	13.1
Campbelltown City	311.78	150,200	481.75	55.6
Canterbury City	33.39	134,850	4038.63	42.5
Carrathool	18,975.73	3,120	0.16	7.3
Casino	91.13	11,620	127.51	7.1
Central Darling	51,395.12	2,630	0.05	7.3
Cessnock City	1,950.62	46,520	23.85	23.8
Cobar	44,250.39	5,240	0.12	11.4
Coffs Harbour City	946.36	56,270	59.46	31.9
Conargo Shire	3,737.36	1,490	0.40	1.9
Concord	10.95	23,750	2168.95	9.2
Coolah Shire	4,790.09	4,040	0.84	5.4
Coolamon Shire	2,424.23	4,060	1.67	3.7
Cooma-Monaro Shire	4,881.19	9,820	2.01	8.1
Coonabarabran	7,674.19	7,270	0.95	6.5
Coonamble Shire	9,954.84	5,210	0.52	7.3
Cootamundra Shire	1,525.00	8,300	5.44	7.7
Copmanhurst	3,143.63	4,130	1.31	4.6
Corowa Shire	2,193.71	8,530	3.89	6.5
Cowra Shire	2,724.44	12,650	4.64	10.5
Crookwell	3,439.51	4,680	1.36	2.7
Culcairn Shire	1,580.87	4,510	2.85	3.7

Review of the application of benchmarking to local government in NSW

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

Council	Area sq km	Estimated resident population 30/6/95	Population density (pop/area)	Total expenditure in 1994/95 (\$m)
Deniliquin	129.50	8,550	66.02	6.2
Drummoyne	8.09	31,200	3856.61	11.4
Dubbo City	3,321.32	36,430	10.97	26.0
Dumaresq Shire	4,168.33	3,860	0.93	5.7
Dungog Shire	2,247.67	8,220	3.66	5.1
Eurobodalla Shire	3,402.23	30,390	8.93	32.7
Evans	4,278.00	4,950	1.16	5.2
Fairfield City	102.50	187,150	1825.85	65.6
Forbes	4,713.21	10,560	2.24	12.8
Gilgandra Shire	4,817.76	5,000	1.04	6.9
Glen Innes	68.92	6,540	94.89	6.6
Gloucester Shire	2,918.43	4,890	1.68	5.6
Gosford City	1,028.19	146,750	142.73	96.8
Goulburn City	53.84	22,180	411.96	15.8
Grafton City	80.13	18,090	225.76	11.1
Great Lakes	3,339.05	28,240	8.46	26.1
Greater Lithgow City	3,468.94	20,520	5.92	14.1
Greater Taree City	3,752.71	44,260	11.79	21.5
Griffith City	1,605.50	21,860	13.62	14.9
Gundagai	2,447.54	3,860	1.58	3.3
Gunnedah Shire	5,092.39	13,480	2.65	36.3
Gunning Shire	2,199.80	2,310	1.05	2.7
Guyra Shire	4,370.69	4,890	1.12	3.8
Harden Shire	1,862.65	4,210	2.26	6.5
Hastings	3,692.81	54,940	14.88	33.1
Hawkesbury City	2,792.62	56,900	20.38	27.7
Hay Shire	11,438.49	3,870	0.34	4.1
Holbrook Shire	2,589.99	2,620	1.01	4.0
Holroyd City	39.25	82,100	2091.72	27.9
Hornsby	504.14	141,600	280.87	22.9
Hume	1,925.08	7,020	3.65	7.0
Hunters Hill	5.73	12,800	2233.86	5.1
Hurstville City	24.77	68,200	2753.33	23.3
Inverell Shire	8,623.43	16,400	1.90	15.4
Jerilderie Shire	3,397.27	1,900	0.56	3.7
Junee Shire	2,045.13	6,160	3.01	4.9
Kempsey Shire	3,355.00	26,860	8.01	19.5
Kiama Municipal	256.03	18,370	71.75	17.1
Kogarah	19.51	48,200	2470.53	14.9
Ku-Ring-Gai Municipal	81.90	106,350	1298.53	41.8
Kyogle	3,589.00	10,400	2.90	12.1
Lachlan Shire	15,359.04	7,720	0.50	12.4
Lake Macquarie City	748.77	177,580	237.16	69.0
Lane Cove Municipal	10.38	30,250	2914.26	14.2
Leeton Shire	1,131.65	11,190	9.89	8.3
Leichhardt Municipal	12.25	59,700	4873.47	32.1
Lismore City	1,267.05	45,260	35.72	29.7
Liverpool City	313.28	109,900	350.80	45.5
Lockhart	2,930.09	3,750	1.28	3.9
Maclean	1,041.95	15,260	14.65	10.2
Maitland City	396.27	51,910	131.00	24.0
Manilla	2,244.69	3,500	1.56	3.5
Manly	15.50	35,800	2309.68	23.0
Marrickville	16.48	77,800	4720.87	36.0

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

Council	Area sq km	Estimated resident population 30/6/95	Population density (pop/area)	Total expenditure in 1994/95 (\$m)
Merriwa	3,507.98	2,490	0.71	5.9
Moree Plains	17,873.97	16,470	0.92	19.7
Mosman Municipal	8.71	26,300	3019.52	13.6
Mudgee Shire	5,482.07	17,870	3.26	15.6
Mulwaree Shire	5,207.49	5,790	1.11	5.2
Murray Shire	4,328.49	5,290	1.22	5.6
Murrumbidgee	3,407.86	2,450	0.72	2.3
Murrurundi Shire	2,470.77	2,450	0.99	3.0
Muswellbrook Shire	3,401.55	16,060	4.72	10.2
Nambucca Shire	1,442.62	18,020	12.49	9.3
Narrabri	13,065.33	14,540	1.11	16.3
Narrandera	4,139.73	7,260	1.75	6.6
Narromine	5,242.28	7,290	1.39	7.9
Newcastle City	213.52	138,350	647.95	79.4
North Sydney	10.46	52,200	4990.44	29.4
Nundle	1,592.73	1,400	0.88	1.6
Nymboida Shire	5,082.45	4,580	0.90	4.2
Oberon	2,923.99	4,440	1.52	6.4
Orange City	286.89	34,980	121.93	28.9
Parkes Shire	5,915.10	14,640	2.48	17.9
Parramatta City	60.06	138,250	2301.86	53.7
Parry	4,386.14	12,870	2.93	6.4
Penrith City	406.62	166,200	408.74	69.4
Pittwater	125.02	52,250	417.93	28.4
Port Stephens	978.65	51,620	52.75	35.4
Queanbeyan City	54.45	28,070	515.52	19.7
Quirindi Shire	3,046.53	5,430	1.78	5.6
Randwick City	36.51	117,800	3226.51	43.5
Richmond River Shire	2,458.66	9,880	4.02	14.4
Rockdale	29.33	87,450	2981.59	25.6
Ryde City	40.15	95,600	2381.07	27.4
Rylstone	3,832.25	4,050	1.06	5.4
Scone Shire	4,027.54	10,260	2.55	8.8
Severn Shire	5,826.08	3,100	0.53	3.7
Shellharbour	154.20	51,690	335.21	20.4
Shoalhaven City	4,660.25	78,550	16.86	69.5
Singleton Shire	4,810.21	20,370	4.23	15.2
Snowy River	6,034.68	5,970	0.99	10.5
South Sydney City	17.79	70,250	3948.85	64.2
Strathfield Municipal	13.89	26,550	1911.45	10.1
Sutherland Shire	370.91	201,600	543.53	83.2
Sydney City	6.18	7,400	1197.41	96.4
Tallaganda	3,351.29	2,680	0.80	4.6
Tamworth City	183.09	36,680	200.34	38.9
Temora Shire	2,812.52	6,560	2.33	6.4
Tenterfield	7,123.52	7,020	0.99	6.3
Tumbarumba Shire	4,379.67	3,700	0.84	7.7
Tumut	3,752.07	11,520	3.07	9.1
Tweed Shire	1,303.38	61,780	47.40	37.5
Ulmarra	1,790.32	6,280	3.51	4.0
Uralla Shire	3,214.51	6,390	1.99	7.1
Urana	3,361.49	1,550	0.46	2.7
Wagga Wagga City	4,886.43	57,310	11.73	53.8
Wakool	7,548.61	5,280	0.70	5.3

Review of the application of benchmarking to local government in NSW

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

Council	Area sq km	Estimated resident population 30/6/95	Population density (pop/area)	Total expenditure in 1994/95 (\$m)
Walcha	6,409.90	3,650	0.57	4.8
Walgett Shire	22,007.39	8,160	0.37	10.9
Warren	10,860.15	3,710	0.34	5.7
Warringham	138.36	129,600	936.69	53.8
Waverley	8.99	60,300	6707.45	31.7
Weddin	3,426.84	4,280	1.25	5.3
Wellington	4,075.67	9,520	2.34	12.7
Wentworth	26,170.23	7,300	0.28	8.5
Willoughby City	22.18	54,550	2459.42	28.6
Windouran	5,091.92	440	0.09	1.4
Wingecarribee	2,700.46	37,120	13.75	30.3
Wollondilly	2,557.99	33,750	13.19	14.8
Wollongong City	713.93	183,530	257.07	90.7
Woollahra Municipal	12.19	50,400	4134.54	29.7
Wyong Shire	825.92	116,300	140.81	78.9
Yallaroi	5,348.27	3,550	0.66	5.1
Yarrowlumla	2,969.82	9,220	3.10	5.5
Yass Shire	3,416.31	9,740	2.85	10.6
Young	2,669.89	11,380	4.26	8.7
Total	705,666.97	6,113,900	8.66	3458.6

Source: Department of Local Government

ATTACHMENT 4 PERFORMANCE MEASUREMENT CONCEPTS AND TECHNIQUES

1 Basic performance measurement techniques

Effectiveness refers to how well the outputs of local councils achieve the objectives expected by the local council and the community, eg whether the standard of roads is appropriate.

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

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 to 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.

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.

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 this 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, 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 identifies best practice. Requiring a number of subjects, it 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 the operating environment. This is important when considering the local government sector in NSW. DEA identifies best practice performers that may 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 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, due to be released in April 1997.⁹

⁹ For a more technical explanation see Fried, HO, Lovell, CAK and Schmidt, SS (eds), *The measurement of productive efficiency*, Oxford, New York, 1993.

ATTACHMENT 5 BENCHMARKING STUDIES

1 Local Government Ministers' Conference

In 1994 the Local Government Ministers' Conference¹⁰, 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.

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. The set of indicators had to cover the point of view of the customer and also the service provider. 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
- interest in the project expressed by senior management
- prior involvement or current interest in benchmarking, total quality management, continuous improvement, or key performance indicator development.

1.1 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.

¹⁰ 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 will need 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 do not have well developed service costing systems
- many councils treat internal costs differently
- some council financial staff have 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.

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. To support the participating councils, a comprehensive set of guidelines for customer surveys was developed.

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. They are:

- Chief Executive Officer commitment and support 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, and at 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 throughout the benchmarking is essential.

Extension of benchmarking to more councils

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

A workable process will need to:

- maintain smaller, rather than larger council groups, eg state or regional groupings
- establish qualifying 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.

2 Audit Commission, United Kingdom¹¹

As part of the Citizen's Charter, councils and police forces have to publish details of their performance in local newspapers, using a standard set of performance indicators. The Audit Commission has compiled this information and published it in a number of volumes (with information covering local authorities in England and Wales). Surveys were carried out to determine which indicators should be included in the volumes.

Supplementing the performance indicator publications are a range of other releases including guides to the indicators, which provide readers with definitions of the indicators, information on how performance is measured, and how the indicators are selected. Local authorities in England and Wales provide a wider range of services than local councils in Australia. Such services include hospitals, education and police services.

A range of 'partial' performance indicators is presented for each service. These indicators are not combined into an overall composite measure. As well as current performance, the performance indicator publications show year-on-year changes, allowing readers not only to identify how a particular council is performing relative to other councils, but also how its performance has changed since the previous year. The publications also advise readers on which factors should be taken into account when comparing one council to another.

¹¹ Audit Commission, *Local Authority Performance Indicators 1994/95*, vol. 1 and 2, 1996.