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Productivity Commission

SHIFTING THE DIAL



5 YEAR PRODUCTIVITY REVIEW

SUPPORTING PAPER NO. 16

LOCAL GOVERNMENT

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long-term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

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Key points

- Local Governments form an important third tier of government, acting on delegation or authority of the States with respect to regulatory tasks that are deemed to be most effectively and efficiently defined and/or implemented at the local level.
- Like other levels of government, the demands on Local Government are increasing. Common concerns raised by inquiry participants included the ability of councils to meet these demands, and incentives for improvements in performance.
- The amalgamation of councils has been, for some, an effective way of taking advantage of scale in the provision of services, and pooling resources and technical capacities. However, whether amalgamation produces *net* benefits is not always clear cut. There are concerns in some areas that gains from amalgamation may not be sufficient to offset other perceived losses, such as local communities' connectedness to their councils.
 - A simple and preferred step before amalgamations would be for residents and ratepayers to receive a professional assessment of the trade-offs of 'standing alone'
- The ability of Local Governments to undertake their roles is affected to a degree by restrictions on raising revenue.
 - In the short term, there seems little prospect of restrictions such as rate capping being relaxed. They exert, in the presence of relatively weak mechanisms to ensure the prudence and efficiency of expenditure, pressure on councils to make the case for rate increases and justify any proposed variations in the context of their strategic and financial planning.
- A theme of several recent reviews by the Commission was that State Governments have delegated functions to councils without clear policy frameworks or well-designed support. This theme was raised again in this review, including in relation to planning functions (the latter is discussed in chapter 4 and SP 10 of this Report).
- The performance of Local Government would be more effectively gauged and improvements in their performance promoted with clear guidance and matching autonomy on their responsibilities.
- In principle, meaningful information on how well Local Government services match the requirements of their communities and State Governments, and their efficiency over time and against peers, should reduce the need for restrictions on revenue raising (by improving the accountability of Local Government to residents and taxpayers).
- Such information would also help identification of best practice methods in Local Governments for future policy development; and provide sounder incentives for Local Governments to improve their performance.

Local Government

1 Local Government in Australia

In Australia, Local Government forms an important third tier of government, acting on delegation or authority of the States with respect to functions that are deemed to most effectively and efficiently implemented and/or defined at the local level. As the tier of government that is usually closest to the community, it affects all people and businesses and has a unique insight into local and community needs.

‘Local government is the government of communities and places. Elected councils are a fundamental element of our democracy, giving expression to people’s aspirations for their neighbourhoods, towns and regions.’ (NSW Independent Local Government Review Panel 2013)

There are more than 560 Local Governments operating in Australia, variously referred to as councils, boroughs, cities, districts, municipalities, regions, shires, towns, community governments, Aboriginal shires and boards (PC 2012).

This paper looks at the role of Local Government in Australia, how the scope of its activity is determined, the resources available to undertake this role, and available information on performance.

Diversity a feature of local government

Across Australia, there is substantial diversity in the roles and functions of Local Governments both between, and within, jurisdictions. This diversity is partly attributable to differences in the legislative and governance frameworks for Local Government, as well as councils’ particular geographical features, the size and density of their populations and financial capacities (box 1).

Typical regulatory responsibilities¹ include authorisation of planning and building developments, administration of food and liquor safety laws, the regulation of companion animals, provision of local roads and administration of certain aspects of health regulation. At the local level, services reflect the specific community’s needs and aspirations, which may change as demographic profiles or economic conditions change (for example, as observed now via ageing populations, ‘sea’ and ‘tree’ changers, and commodity-related boosts or declines in rural and regional communities).

¹ In the ACT, the roles and responsibilities are undertaken by a directorate of the Territory Government.

Box 1 The big and the small — diversity in Local Government

The Brisbane City Council is Australia's largest Local Government by population and budget. It services about 1.2 million people, has 7550 full-time equivalent employees, brings in over \$2 billion in revenue each year (slightly more than the Tasmanian Government's own source revenue in 2016-17), covers a geographical area of 1338 square kilometres and provides a range of services, from buses and ferries to swimming pools and playgrounds.

By geographical area, the Shire of East Pilbara is Australia's largest council. It covers an area of area of 372 571 square kilometres, which is larger than the state of Victoria. With only 87 staff the Shire provides services to about 20 000 people.

In contrast, the Shire of Peppermint Grove is Australia's smallest council by geographical area. It covers an area of just 1.36 square kilometres across a single Perth suburb on the shores of the Swan River. The Shire employs 24 staff to provide services to its 1524 residents.

In Tasmania, Flinders Council covering the island of the north-east of Tasmania has a resident population of just over 800, in contrast to Launceston Council with a population of over 67 000.

Sources: DIRD (2017); Brisbane City Council (2016); Shire of East Pilbara (nd); Shire of East Pilbara (2016); WALGA (2017); Shire of Peppermint Grove (2016); Flinders Council (2017); Launceston City Council (2016).

Over the past thirty years, the responsibilities of most Local Governments have moved from being simply providers of property-related services — captured in a simple expression of their functions as focused on 'roads, rates and rubbish' — to increased involvement in the provision of social services, such as health awareness and management, recreational facilities and sporting venues and active promotion of local economic development including tourism. The wide range of activities undertaken by Local Governments is highlighted in table 1.

Local Governments are not recognised in the Australian Constitution and are creations of State and Territory Government legislation. As such, the number, population or area coverage and overarching governance (including performance management) arrangements of Local Governments are the responsibility of the States.

Accounts for a small share of total government expenditure, revenue and employment

Compared to the other two tiers of government, Local Government accounts for only a small component of revenue raising, operating expenditure and public sector employment. Local Governments' only tax base, property rates, accounts for approximately 3.5 per cent of Australia's total taxation revenue. Other sources of revenue include user charges and grants from the Australian and State or Territory governments (ABS 2016). At an aggregate level, Local Government is nearly 90 per cent self-funded. However, many rural and regional councils, which do not have the means to collect the same revenues as urban and larger regional councils, are more reliant on external funding sources (ALGA 2017).

The Local Government sector accounted for approximately 5 per cent (\$34 billion) of total public sector spending in 2014-15. This expenditure is dominated by housing and community amenities, followed by transport and communication and then general public services. Local Government employment accounted for about 10 per cent of total public sector employment — just under 187 000 people are employed by Local Government nationally.

Table 1 Local Government activities by functional area^a

<i>Functional area</i>	<i>Roles</i>
Engineering and infrastructure	Public works design; construction and maintenance of roads; bridges, footpaths; drainage; cleaning; waste collection and management.
Property-related	Domestic waste management including solid waste and recycling services, water and sewerage. ^b
Planning and development	Land use and town planning (including heritage); development approvals; building inspection; licensing, certification and enforcement; administration of aerodromes ^c ; quarries; cemeteries, parking stations, and street parking.
Environment and health	Catchment management; parks and gardens; tree removal; pest and weed control; water sampling; food sampling; immunisation; toilets; noise control; meat inspection and animal control.
Community and social	Aged care and child care services; health clinics; youth centres; community housing refuges and facilities; counselling and welfare services.
Recreation, culture and education	Swimming pools; recreation centres; community halls; sports facilities; lifeguards; camping grounds; community festivals; libraries; art galleries; theatres and museums.
Other	Bus services; abattoirs; sale-yards; markets and group purchasing schemes.

^a A majority of these services are not provided by Northern Territory. In the Northern Territory, Local Government responsibilities are limited to traditional property-related services. ^b Water and sewerage are provided by some Local Governments in New South Wales, Queensland and Tasmania only. These services are not provided by Northern Territory Local Governments except in the town of Jabiru in West Arnhem Shire Council. Some Local Governments in South Australia are involved in the operation of effluent drainage schemes. ^c In Victoria, administration of aerodromes (etc.) falls under the functional area 'engineering and infrastructure'.

Source: PC (2012).

How well defined is the role of Local Government?

The specific role of Local Governments is determined by both the requirements of the relevant State and Northern Territory legislation and the expectations of their communities. In principle, the services provided should match those most valued by the community (a critical part of the productivity equation). As for other levels of government, elections provide the opportunity for the local community to express their preferences on options offered by candidates.

Local Government is often described as a government of the ‘gaps’ given that Local Government will often step in to provide services in direct response to community concerns.

There is no set ‘list’ as to the type, mix or level of services that all Australians can expect from Local Government. Previous reviews, for example, *Performance Benchmarking of Australian Business Regulation: The Role of Local Government as a Regulator* (PC 2012), have suggested that Local Governments are often caught in a tug-of-war between local preferences and a growing list of responsibilities and requirements delegated to them by their respective State Government.

Participants in this review raised concerns that while the role of Local Governments has expanded, they do not always have the financial capacity or required level of skills to efficiently undertake these roles. They suggested there has not been a significant change in circumstances observed in recent Commission inquiries, where State Governments have increased the responsibilities of Local Governments without increases in resources or sufficient guidance on how roles should be undertaken so as to ensure consistency with, and the efficient meeting of, State goals (PC 2012) (PC 2014). This appears true, at least in the case of planning and land use regulations, in several States. Planning and land use is considered in SP 10.

2 Does Local Government have the capacity to perform its role?

The question of amalgamations

Much of the effort to improve the efficiency and capacities of Local Governments has involved the merging of Local Governments to take advantage of scale in the provision of services, to enhance financial viability and improve administration. More recently, the rationale for consolidation has centred on the potential for larger entities to improve the capacity and viability of smaller governments, rather than on savings (LG NSW 2015).

State Government-initiated council amalgamations have typically occurred in ‘waves’, with many of Victoria’s and South Australia’s occurring in the 1990s, Queensland’s in the 2007 and 2008 and New South Wales over the past few years, where there has been a focus on councils in the Sydney metropolitan area. In Western Australia, a proposal to reduce the number of councils in Perth by nearly half in 2013 was not pursued by the State Government in 2015 following, reportedly, widespread opposition by local councils and the general community (Barnett and Simpson 2015).²

² Local Government amalgamations have been an ongoing process. Between 1910 and 2014 the number of local councils in Australia (excluding the Northern Territory) declined by nearly half. In Victoria and

In many cases, State Government-driven amalgamations have proved to be contentious. Opposition to amalgamations in most cases — particularly in New South Wales and Queensland — has involved concerns that the larger Local Government entity will be less responsive to community needs, there will be a loss of the ‘grass roots’ democracy associated with smaller Local Governments and, particularly in rural and regional areas, a loss of jobs due to the rationalisation of activities.

Some Local Governments have voluntarily merged, such as Geraldton and the Greenough Shire in Western Australia in 2007. However, some have suggested that such voluntary mergers are often undertaken against the backdrop of possible State Government intervention.

As an alternative to amalgamations, Local Governments have turned to collaboration/cooperation to share resources and provide shared services. This has occurred more in non-urban areas. The success or otherwise of such arrangements has often depended on the size, the number and financial strength of the participating Local Governments, as well as the level of commitment and leadership involved (LG NSW 2015).

There are a number of challenges facing non-urban Local Governments supplying water, including low customer density leading to higher costs and difficulty in attracting skilled labour; problems compounded by declining populations and, in some cases, a legacy of under-investment. One of the responses of State Governments has been to pursue amalgamations or greater collaboration between councils. Issues relating to provision and regulation of water services are being examined by the Commission’s current inquiry into national water reform.

There is no single answer as to what is the optimal size for a Local Government. This would vary by the area in which the Local Government is located, such as regional or urban, and by its regulatory functions and the mix of services it is providing.

The evidence on whether amalgamations have led to more efficient and effective service delivery is mixed (box 2). Economies of scale do clearly exist; the question is whether they offset other perceived losses, such as local connectedness to councils.

A simple and preferable step before amalgamations would be for residents and ratepayers to receive a professional assessment of the trade-offs of ‘standing alone’. Residents and ratepayers should be aware that if a council wants to stay small, there are likely to be inefficiencies and they may need to pay a premium or accept lower quality or level of services. For some taxpayers, ‘better’ might be about more localised or customised services provided by the smaller area council, rather than less localised but cheaper services provided by larger area councils. Provided the residents and ratepayers are aware

South Australia, the number of local councils declined by just over 60 per cent and in New South Wales and Queensland by just over 50 per cent in the same period (LG NSW 2015).

of the actual costs from ‘standing alone’ and are willing to meet those costs, decisions on merging or amalgamating should remain with the community.

Box 2 The outcomes of amalgamation

The evidence on the outcomes from Local Government amalgamation is mixed (LG NSW 2015).

A study of the amalgamation of four Clarence Valley Councils in New South Wales in 2004 by Tiley (2013) found that, overall, the benefits outweighed the costs. However, there was disruption, a tendency to increased bureaucracy and the expected financial savings did not materialise, at least in the first few years following amalgamation. The main sources of benefits were increased service delivery capacity, greater purchasing power, the ability to employ more specialised staff, more efficient use of plant and equipment and a more strategic approach to risk management.

A review by the Queensland Treasury Corporation (2009) of the Local Government amalgamations that occurred in Queensland in 2007-08 found overall benefits, with cost savings applied to improvement of services. It also remarked on substantial short-term costs arising from change.

Work by McKinley Douglas (2006) found that Local Government amalgamations in South Australia in the mid-1990s saved only \$19 million, as compared to projected savings of \$150 million per year.

In New South Wales, IPART (2015b) assessed proposals from Local Governments to either stand alone or merge under the *Fit for the Future* Assessments of Local Government in New South Wales in 2015. These proposals were assessed based on their ability to deliver scale and strategic capacity to meet the needs of the community, financial sustainability, the ability to manage infrastructure and services and efficiency in the delivery of services (based on a declining per capita operating expenditure). Of the 139 proposals assessed, 52 were found to be ‘fit’, under the assessment criteria. Of the 87 that were assessed as ‘unfit’, 60 did not have sufficient scale and strategic capacity, 18 did not meet the financial sustainability criteria and 9 did not meet either of these criteria (IPART 2015a).

A study by Sinnewe, Kort and Dollery (2016) compared the Brisbane City Council to the Sydney City Council, an average of six other south east Queensland councils and 10 metropolitan New South Wales councils across four financial indicators. These included own-source revenue capacity, management of capital, debt servicing capacity and asset management.

The study found that between 2008 and 2011, the comparison groups outperformed the Brisbane City Council in respect of financial flexibility, liquidity and debt servicing ability. In contrast, Brisbane City Council compared well in regard to investing in new infrastructure, and its rates and fees per household were below the NSW Local Government comparison groups and about average for the other large south east Queensland councils.

The extent of the cost savings resulting from Victorian Local Government amalgamations in the 1990s have been subject to debate. Some suggested that savings were in the order of 8 to 9 per cent whereas others have suggested that there had been little economic gain as Local Government operating costs in Victoria had increased between 1991-92 and 1996-97 (Tiley and Dollery 2010).

Research undertaken by the Centre for Local Government at the University of New England by Dollery has long been sceptical of the benefits of amalgamation, drawing on both international and Australian evidence. There is a trend in a number of OECD countries towards a smaller number of larger local authorities. The evidence has been mixed as to the significance of savings, economies of scale or performance improvements through mergers and amalgamations (Boyle 2016).

Local Government financial capacity

Local Governments have greater overall control over their spending than over their revenue, although, of course, much spending is necessitated by State Governments.

State Governments impose restrictions on the type, and in some cases the amount, of revenue Local Governments can earn and raise through borrowings. Local Governments have three main sources of revenue: property rates, their only source of tax revenue; fees and charges on the goods and services they provide; and grants received from other levels of government or the private sector.

In 2014-15, Local Government, in aggregate, raised almost 90 per cent of their own revenue, with grants and subsidies making up the remaining 10 per cent (DIRD 2017). However, there is considerable variation, in per person terms, in both own-source revenue raised and grants received by Local Governments in Australia, with Local Governments in urban areas predominantly funded from their own sources of revenue, particularly rates, fees and charges. For most rural and remote councils, grants are a substantial source of revenue (PC 2012).

The Commission's study into transitioning regional economies noted that where populations have declined in Local Government areas, related declines in revenue are hampering efforts to maintain infrastructure designed to service (and be funded) by larger populations (PC 2017).

Restrictions on revenue raising

State Government restrictions on Local Government revenue raising are largely imposed through requirements to offer concessions to particular groups or the capping of Local Government rates.

Rate capping is currently used in New South Wales and Victoria and has been used in other jurisdictions, to control increases in Local Government rates (box 3). In South Australia and Tasmania, the relevant Local Government Act sets out principles for Local Governments to take into account when devising their rates policies.

For a State Government, rate capping can protect ratepayers from excessive rate rises by Local Government. Given Local Governments are a creation of the States, they have an interest in containing overall tax burdens and ensuring that Local Governments determine rates responsibly. However, for Local Governments rate capping means they must either find another revenue source (for example increasing local fees and charges or higher grants from other levels of government) or reduce their expenditure, which could mean more efficient delivery, but could also inhibit a Local Government's ability to respond to its community.

To get around the inflexibility of the rate cap, New South Wales allows councils to vary categories of rates as long as their general income remains within that allowed by the maximum increase. The Government also allows councils to apply for higher general

revenue via a special rate variation, whereupon the Independent Pricing and Regulatory Tribunal vets the reasonableness of proposed expenditure. These provisions, while relatively administratively burdensome, are aimed at providing continuing assurance of state oversight of Local Government revenue raising, while allowing genuine local needs to be met.

Box 3 Rate capping

New South Wales

Rate pegging, as it is referred to in New South Wales, has been applied since the 1970s. Since 2011-12, the Independent Pricing and Regulatory Tribunal (IPART) has set the maximum annual increase in each council's general income. It determines the rate increase with reference to changes in the average costs faced by councils and desired improvements in productivity.

For 2017-18, the rate peg is 1.5 per cent (1.8 per cent the previous year). Provided a council's general income remains within the set maximum increase, it may increase categories of rates by higher or lower than the rate peg. Councils requiring additional general revenue may apply to IPART for a special variation. Charges for waste management, water, sewerage and stormwater are not subject to rate pegging.

Victoria

Victoria introduced rate capping in the 2016-17 financial year following an election commitment by the Government to maintain rate increases below the CPI — the 'Fair Go Rates System'. The Minister for Local Government sets the maximum increase in councils' rates and charges based on recommendations from the Essential Services Commission (ESC). The ESC bases its recommendations on the forecast change in the consumer price index over the financial year to which the rate cap relates, plus or minus any adjustment for factors such as wage pressures or efficiency dividends. The Minister can choose to apply the cap to all councils (as has been done to date), a group of councils or a single council. Councils can apply to the ESC for a higher cap.

In 2017-18, the rate cap is 2 per cent (2.5 per cent the previous year) and applies only to general rates and municipal charges. It does not apply to certain charges, such as for garbage collection. However, the Minister has powers to extend the application of the rate cap to other rates or charges in the future.

Other states and territories

Rate capping has also applied temporarily in some States, for example in South Australia in 1997-98 and 1998-99, and in the Northern Territory between 2007 and 2010.

Sources: IPART (2017); ESC (2016); VDELPW (2017); South Australian Economic and Finance Committee (2016); NSW Local Government Independent Review Committee (2013); Battersby (2015).

Despite the flexibility afforded by such mechanisms, there continues to be criticism of rate capping. An independent review of local governments in New South Wales found that it was unlikely that Local Governments would subject their ratepayers to large increases in rates if rate pegging was relaxed. It found:

... no evidence from experience in other states, or from the pattern and content of submissions for Special Rate Variations, to suggest that councils would subject their ratepayers to grossly

excessive or unreasonable imposts if rate-pegging were relaxed. (NSW Independent Local Government Review Panel, 2013)

The use of rate capping also limits the accountability of Local Government to their ratepayers, a point noted by the Henry Tax Review.

If local governments are to be accountable to ratepayers for their expenditures, it follows that they should have full (or at least greater) autonomy over the setting of the tax rate applied to properties in their jurisdictions. (Henry et al. 2009)

However, the use of independent regulators in New South Wales and Victoria to determine or recommend rate increases has ‘de-politicised’ the process, and required Local Governments to both be more efficient and justify proposed expenditure in the context of their financial and strategic plans.

There is no clear evidence about the impact of rate capping on the performance of Local Governments. Victoria will be reviewing its rate capping system by the end of 2021. This would provide an opportunity to also look at the companion issue of the effectiveness of its new performance reporting regime in promoting the quality and efficiency of council services (further discussed below). In principle, strengthened accountability through this mechanism should lessen or obviate the need for stringent rate controls.

In addition to capping rates, States can impose statutory limits on some fees and charges for Local Government services. In New South Wales, the Local Government Act requires councils to provide concessions on rates to pensioners and sets the amount by which the rates are required to be reduced. In its submission to the Commission’s study (PC 2017) into transitioning regional economics, the Western Australian Local Government Association submitted that restrictions on charges for services can have a significant impact:

These restrictions limit the efficiency of the [local government] sector and the ability to appropriately raise own-sourced revenue or manage assets in the best interests of their communities. These constraints also restrict the sectors’ ability to invest in productivity enhancing infrastructure, and provide important services for the community — which will be critical to ensuring the successful transition in the local economy. (WALGA, sub. 22, p. 18)

Previous reviews have found that these limits can be at levels below the full costs of providing the services (NSW Independent Local Government Review Panel 2013; PC 2008), although this is contrary to governments’ competitive neutrality obligations. Where concessions are required as community service obligations, these requirements should be clearly identified, costed and paid for by State Governments (Harper et al. 2015).

The Financial Assistance Grants program and minimum grants

The Financial Assistance Grant program provides funding from the Australian Government to Local Governments across Australia via State Governments on the advice of the State’s grants commission. Every Local Government receives a minimum grant equivalent to a per

capita distribution of 30 per cent of the general purpose funding pool in accordance with the National Principle requirements of the *Local Government (Financial Assistance) Act 1995* (Cth). In addition, funds are provided on a horizontal fiscal equalisation basis so that all Local Governments in a State have the ability to provide a similar range and quality of services.

Local Governments only receiving the minimum grant entitlement are typically located in capital cities or urban areas. In 2014-15, just over 44 per cent of the population was in 'minimum grant' councils (DIRD 2017). Across jurisdictions, the proportion of the population covered by Local Governments on the minimum grant varies widely, ranging from 28 per cent in New South Wales to just over 75 per cent in Western Australia in 2014 (DIRD 2017).

There have been a number of calls for removal of the minimum grant principle to support a higher level of horizontal equalisation and enable greater levels of redistribution to the relatively less well-off councils.

The NSW Independent Review of Local Government noted that the current arrangements resulted in large amounts of assistance being provided to relatively well-off Local Governments and said:

The Panel believes that in a climate of fiscal restraint, consideration needs to be given to the option of redistributing more funds to the most needy councils and communities. (NSW Independent Local Government Review Panel 2013)

Similarly, the Henry Tax Review commented:

There seems little reason that local governments with large fiscal capacities should receive a guaranteed minimum grant (which allows them to tax their residents less than they otherwise would) at the expense of local governments with relatively small fiscal capacities (which result in them taxing their residents more than they otherwise would). The current requirement that each council receives 30 per cent of its per capita share of untied financial assistance grants may prevent State grants commissions from redistributing to councils that require greater assistance. (Henry et al. 2009)

The Commission's 2008 study into the fiscal capacity of Local Governments also found that, given the differences in the scope to raise additional revenue across different classes of councils, there was a case to review the provision of Australian Government general purpose grants to Local Governments (PC 2008).

More recently, the Australian Government asked the Commonwealth Grants Commission (CGC) in 2012 to identify measures for improving the impact of the Local Government Financial Assistance Grants (FAGs) on the effectiveness of Local Governments and their ability to provide services to their residents within the current funding envelope. The CGC reported by December 2013, but at this stage the report has not been publicly released. The Commission is of the view that there should be a holistic recognition of different councils' capacities to raise revenue.

Skills and leadership

Available evidence suggests there is considerable variation in the workforce capacities of Local Governments.

Generally, rural and remote Local Governments have the smallest workforces, but have more workers per resident than urban Local Governments. However, smaller rural and regional governments often face difficulties in being able to provide and maintain the range of technical and professional skills — for example, engineering, IT and health related roles — required to undertake their role. Also, recruitment and retention of staff can be a challenge for Local Governments in remote and some regional and rural locations.

Local Governments, where possible, have responded by sharing professional and technical staff between councils. For example, the Local Governments in north-western Tasmania and in the Riverina region of New South Wales have arrangements in place to share staff. Nevertheless, State Governments also need to be cognisant of the resources available to Local Governments, both in terms of finances and workforce capacity, before devolving additional responsibilities to them.

Also, secondments and staff movements between levels of government and the private sector provide an opportunity to broaden the skills and experience of staff, and develop capability, both at an individual level, and across the workforce more broadly (PC 2012).

Recent work by the Commission on transitioning regional economies (PC 2017) noted that regional development initiatives had the strongest chance of success when communities themselves took leadership in identifying strategies for facilitating development. The more successful regions have seen Local Governments preparing strategic plans to identify and analyse regional strengths, opportunities, potential risks and priorities for action.

3 How well is Local Government performing?

There are a number of mechanisms through which the performance of Local Government can be assessed and be held accountable for its performance. The local community assesses the performance of Local Government through elections, there is the public scrutiny of Local Government processes and finances, State Government audit processes and, in some jurisdictions, regular reporting on agreed performance indicators.

The Commission notes that voting in Local Government elections is not compulsory in South Australia, Western Australia and Tasmania. This potentially creates a risk that Local Governments with relatively small populations will be represented by sectional (engaged) interests, so providing services or making other decisions that may not be those most valued by the community as a whole.

Assessing and reporting on the performance of Local Governments and providing this information in a transparent manner that is accessible to both governments and the wider

community is an important mechanism for incentivising improvements. However, at present these mechanisms are not used as widely or as effectively as they could.

The importance of transparency

Information about processes, decisions and rules can highlight gaps in governance. Information on what is being delivered, the standards to which they are being delivered and how performance compares are particularly important to inform areas for improvement, prompt change and hold Local Governments to account.

There is a role for both absolute and relative performance indicators. Absolute indicators, such as in regard to finances, provide information as to whether or not Local Governments are performing to a generic standard and how they are performing over time. Comparative indicators can provide additional useful information, particularly in identifying causes of differences between similar councils and identifying best-practice methods in councils for future policy development.

Reliable information on performance can also help answer questions about the impact of State Government interventions, such as rate capping systems and amalgamations on Local Government capability and service quality.

A lack of effective Local Government performance measures is a longstanding issue that has been identified by multiple reviews (IC 1997; NSW Independent Local Government Review Panel 2013; VAG 2008).

A former Western Australian councillor and mayor noted some of the consequences of poor, or inadequate, reporting on performance:

I suggest the by far most major issue is the almost complete lack of business transparency in local government. ... Apart from the annual list of rate increases in the mainstream media there is virtually no reporting of individual or relative performance by local government. For, I believe, one simple reason, no attempt is made to measure any type of performance, apart for individual project completion, or performance against budget. (sub. 23, p. 1)

It was also suggested that as the status of Local Governments and remuneration of Local Government executives was determined by budget size and workforce, there was an incentive for executives to increase both, to the detriment of council efficiency:

As the only metrics that are measured and compared are size of budget and workforce reporting these have to be the primary determinants of remuneration. Hence together with maintaining relative pecking orders this ensures there is constant and unending pressure to increase both of these. So fundamentally, the more money they spend the more they are paid. So logically if follows, the more money they waste the more they are paid, the more inefficient they are the more they are paid because both inflate their expenditure. (sub. 23, p. 1)

Local Governments should provide *meaningful, accessible* performance indicators

At present, there are multiple aspects of Local Government performance that Local Governments around the country are required to report on, including financial performance, service delivery and governance (box 4).

Box 4 **Examples of existing reporting frameworks**

Reporting of Local Government performance indicators varies across jurisdictions. Examples of performance reporting in New South Wales, Western Australia, Queensland and Tasmania are summarised below.

Your Council (New South Wales)

The *Your Council* report summarises local council performance under several themes, including financial performance, service delivery and community asset management. The performance data are also available in spreadsheet form to the public, but is not provided in a format that allows easy comparisons across councils. The NSW Independent Local Government review suggested a worthwhile objective might be to establish a website giving the public easy access to a range of comparative data. (NSW Independent Local Government Review Panel 2013).

My Council (Western Australia).

The Western Australian 'My Council' website provides financial health indicators and some council profile information (for example, area, population, rates and compliance audit information). Users can compare financial health indicators across similar councils on the website or download the whole dataset. At this stage, the comparative information does not extend beyond financial indicators.

Local Government Comparative Reports (Queensland)

The Queensland Department of Infrastructure, Local Government and Planning provides comparative reports on its website, including spreadsheets with information on different areas of Local Government, in particular financial, personnel, roads, water and sewerage services, waste management, libraries and parks and gardens. These reports are designed for use by councils rather than the general public.

A secondary system is the 'Better Councils, Better Communities' initiative. This is a council-driven project aimed at supporting Queensland councils to achieve better productivity and financial performance. The 'Better Councils' website canvasses examples of council innovations and success stories for other councils to learn from.

Local Government Sustainability Objectives and Indicators Project (Tasmania)

Tasmania published a Local Government Performance Report each year summarising the performance of Tasmania's councils against 10 sustainability objectives and indicators until 2013-14. The indicators used a range of data sources to measure performance across financial management, asset management, planning and development. Other data sources are being considered for performance information. The Auditor General currently reports on the financial sustainability of Local Government and on some efficiency indicators.

Sources: Western Australian, Department of Local Government, Sport and Cultural Institutions (2017) NSWOLG (2015); LGAQ (2017); QDILGP (2017).

While much work has already gone into collecting this information, the focus should be on improving the *usefulness* of information for council administrators and the community. That is, to inform judgements on the scope, efficiency and quality of services, and provide guidance on areas and incentives for improvement. Requiring local governments to collect information and report on activities that have little relevance to their performance will only create an additional red tape burden on local government.

To be effective, relevant information on the performance of Local Government would ideally be available in a central location and in a format to ensure it is accessible to a variety of users, including other levels of government to whom Local Government is accountable, as well their own taxpayers and local community.

In some jurisdictions, information is provided in a format that makes it difficult to compare the performance of similar councils, in others the information has been limited to financial performance or provided in a format for use by other councils rather than the wider public (box 4).

Victoria recently introduced a Local Government Performance Reporting Framework (LGPRF) following recommendations by the Victorian Auditor General to improve the transparency of performance reporting by Local Government. This reporting framework is viewed by several jurisdictions as being a relative exemplar, and being drawn on by Western Australia. It requires Local Governments to report on a broad range of indicators, releases data publicly and allows easy comparison of similar Local Governments across Victoria (box 5).

There would be merit in other States drawing on Victoria's system to improve their own.

Box 5 **Performance reporting of Local Government in Victoria**

Following reports by the Victorian Auditor General's Office (VAGO) in 2010 and 2012, which recommended more transparent performance reporting, the Victorian Government introduced the Local Government Performance Reporting Framework (LGPRF) in 2015. Under the LGPRF, Victorian councils report indicators across four categories: service performance, financial performance, sustainable capacity, and governance and management.

The indicators are provided on the 'Know Your Council' website, which allows the public to see detailed profiles of individual councils, including geographic and population information for the council, finances, performance results for the four categories and an opportunity for the council to explain or comment on their results.

The public can also compare the performance of similar councils. Victorian councils are divided into five categories: metropolitan, interface, regional city, large shire and small shire. Given the large disparity between councils between these categories the website only allows comparison of like councils within these groups.

Development

The LGPRF was established to ensure Victorian councils are measuring and reporting on their performance in a consistent way. Two years were spent developing the LGPRF, which included a one year pilot program before the 'Know Your Council' website was launched to the public. It has now been operating for two years and all Victorian councils participate.

Challenges

Some of the key challenges for the LGPRF included ensuring the reporting framework did not create a large burden on councils, meeting the needs of different stakeholders (councils, public, state government) and finding a balance between simple and meaningful data, including like-for-like and not overly simplistic comparisons.

These challenges are being addressed in part through extensive consultation with stakeholders. For example, to reduce the burden on councils, the Department of Environment, Land, Water and Planning has sought to ensure that the Essential Services Commission (which is responsible for setting rate caps) uses data from the same reporting framework for its rate setting functions.

Outcomes

A recent review of the LGPRF highlighted positive outcomes, including a high level of satisfaction with the framework among councils. Responses suggested that councils are gaining increasing value themselves from using the Know Your Council website.

Source: Local Government Victoria (2017).

CONCLUSION 16.1

The more effective use of comparative indicators to measure the performance of Local Governments would:

- improve the accountability of Local Governments to residents and taxpayers
- identify best practice methods in Local Governments for future policy development
- provide an incentive for Local Governments to improve their performance by highlighting differences in performance between similar Local Governments.

The performance of Local Governments would be more effectively gauged and improvements in their performance promoted with clearer guidance and matching autonomy on delegated roles and responsibilities.

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