

**LOCAL GOVERNMENT ASSOCIATION OF SOUTH AUSTRALIA
METROPOLITAN GROUP**

**FINANCIAL MANAGEMENT SCOPING STUDY FOR SOUTH
AUSTRALIAN LOCAL GOVERNMENT**



Submitted by
JIGSAW SERVICES PTY LTD
Level 1, 104 Frome Street
Adelaide South Australia 5000
Telephone (+ 61 8) 8227 2833
Facsimile (+61 8) 8227 2459



CONTENTS

1.	Executive Summary	3
2.	How to Read This Report.....	7
3.	Project Scope and Background	8
4.	Consultation and Research Focus.....	9
5.	Key Financial Management Issues	10
5.1	Long-Term Financial Planning.....	10
5.2	Funding Policy	12
5.3	Roles and Responsibilities	13
5.4	Service Levels	13
5.5	Reporting	14
5.6	Other.....	14
6.	Research Findings.....	16
5.1	Long-Term Financial Planning.....	16
5.2	Funding Policy	17
5.3	Roles and Responsibilities	18
5.4	Service Levels	18
5.5	Reporting	19
7.	The Way Forward	20

1. EXECUTIVE SUMMARY

Significant advances have been made in financial management by South Australian local government in recent years. The introduction of the new Local Government Act (1999) and AAS27 Financial Reporting by Local Governments established more transparent, accountable and longer-term financial management. This progress has been supported by a number of projects undertaken by representative bodies such as the Local Government Association of South Australia, the Metropolitan CEOs Association and the South Australian Local Government Financial Management Group. The work of many individual Councils has also strengthened financial management in the sector.

Notwithstanding recent advancements, South Australian local government is still behind international best practice in some areas of financial management. When considering how best to enhance performance in these areas, the overwhelming stakeholder preference was to retain the flexibility afforded under the current Local Government Act and avoid prescriptive changes. This report highlights areas of financial management improvement opportunities and proposes the establishment of a non-regulated reporting Code of Practice to further enhance current Local Government practice.

It is proposed the Code of Practice be developed as a matter of priority and deliver two key outcomes: (1) an endorsed framework and set of financial management principles (the elements of which will be guided by the projects proposed in this report), and (2) detailed project briefs for each project to be undertaken to complete the Code of Practice. Once completed, it is envisaged the Code of Practice will be adopted by all metropolitan Councils (assuming widespread CEO endorsement) and available for adoption by non-metropolitan Councils.

To ensure the success of this and future projects, it is critical that local government owns and drives each project and demonstrates united commitment to the process of financial management improvement. Decision makers at all levels must collectively take responsibility for enhancing local government financial management. It is recommended the existing steering committee structure remains in place for the delivery of the Code of Practice project and then reviews its role going forward.

The group of stakeholders consulted comprised representatives from the Local Government Association of South Australia, the Metropolitan CEOs Association, the South Australian Local Government Financial Management Group and the Office of Local Government. The key issues identified by stakeholders were as follows:

- Reporting

Current financial reporting to elected members and the general community is inconsistent in content and format across Local Government, making it difficult to compare performance both locally and across the sector – an outcome sought by many stakeholders. Stakeholders also identified the need to enhance current performance measurement reporting and integrate financial and non-financial reporting.

"Delivering Innovative Business Solutions to Government"

- Long Term Financial Planning

Three to five year plans are not considered by stakeholders to provide adequate information for the long-term financial planning and management of Council assets and services. Three to five year plans do not convey the non-discretionary nature of asset maintenance costs or enable decision makers to fully understand asset and service profiles. Further, inconsistency currently exists between Councils on the definition of assets and how best to provide for their renewal and replacement.
- Funding Policy

The current Local Government funding decision-making process lacks transparency in some areas. Stakeholders identified the need to adopt a more comprehensive and 'economic' approach to the funding of Council services to ensure better decision-making and improved financial transparency to the community. This approach should reflect the individual philosophy of each Council.
- Roles and Responsibilities

Councils have taken on additional services in recent years often without careful consideration of the most appropriate role to be undertaken by Council to most benefit the community (including consideration of alternative delivery mechanisms where available). This can have significant cost and revenue impacts with limited or no impact on service levels. The role of service provider needs review given the increasing demands of ratepayers, with the decision of what roles and responsibilities should be adopted by Local Government being determined by each Council's philosophical viewpoint.
- Service Levels

Definitions of local government service levels and quality standards can be enhanced across the range of services delivered by Councils. Greater focus on this type of definition needs to be undertaken to determine appropriate service levels and create transparency in decision-making and service options to be validated by the community.

This report proposes a number of projects to address each of the financial management issues identified. The scopes of these projects are based on matching local needs with local and international best practice. Key outcomes sought by the proposed projects are:

- Consistent financial management and reporting across the sector (via a code of practice to be endorsed by each key local government representative entity)
- Consistent and reliable long term financial planning and reporting across the sector (via the establishment of standardised long-term financial planning)

- Clear understanding and communication of local government roles and responsibilities (via the establishment of a decision-making framework)
- Transparent and robust funding decisions (via the establishment of funding policies within Councils)
- Sustainable delivery of services aligned to community wants and needs (via the establishment of a service level toolkit).

The table below outlines the proposed projects to be undertaken by the sector to enhance current financial management practices. This table also identifies the priority and proposed driver (sponsor) of each project. The sequencing of each project is not prescribed, however we recommend the Local Government Financial Management and Reporting Code of Practice projects be undertaken as a matter of priority. These projects will establish the framework for all other proposed projects and position local government to move forward with confidence and direction.

Proposed Project	Priority	Driver	Issue
Projects to be Undertaken Immediately			
Develop the principles and framework for a local government reporting "Code of Practice"	H	Metro CEO Group	Reporting
Develop a reporting "Code of Practice" handbook	H	LGA	Reporting
Subsequent Projects to be Undertaken			
Develop a 'prescribed' LTFP model for Councils to utilise and report against	H	TBD	LTFP
Establish agreed asset management	H	TBD	LTFP
Develop an asset management education programme for elected members and local government managers	H	TBD	LTFP
Prepare Funding Policy research paper and guidelines for Councils	H	TBD	Funding Policy
Develop Funding Policy education programme for elected members and local government managers	H	TBD	Funding Policy
Establish Revenue Attribution approach to support implementation of a funding policy	M	TBD	Funding Policy
Develop a toolkit to assist Councils to define service levels	M	TBD	Service Levels
Develop a Roles and Responsibilities decision-making framework for Councils	M	TBD	Roles & Respons
Promote strategic thinking on finance issues among local government managers	M	TBD	LTFP

"Delivering Innovative Business Solutions to Government"



The projects identified above provide for strength of unity and a substantial improvement for the sector. Each project has been recommended on the basis of targeted and manageable scope. The proposal of several smaller projects will enable the sector to distribute and share project responsibilities and move forward with confidence that the desired outcomes will be achieved.

2. HOW TO READ THIS REPORT

This report has been prepared for the Local Government Association of South Australia Metropolitan Group and is necessarily strategic in its focus. Considerable detail has been omitted from the report to highlight the key issues and strategies. A brief description of each section of the report is provided below to give the reader an overview of its content and structure.

Project Scope and Background

This section of the report provides a brief background to the project and outlines the project scope. The purpose of this section is to clarify the objectives of the project and position the report as a strategic document.

Consultation and Research Focus

This section of the report outlines the consultation process undertaken and the focus of local and international research performed. The purpose of this section is to identify the composition of the steering committee and acknowledge the stakeholders that guided this project. This section also acknowledges the various sources of research information.

Financial Management Issues

This section of the report presents the financial management issues in order of priority, as identified by stakeholders via the consultation process. The purpose of this section of the report is to discuss each issue identified and outline preferred outcomes for the sector. Discussion is focussed primarily on the five key issues identified by stakeholders.

Research Findings

This section of the report summarises how each key issue identified by stakeholders has been addressed elsewhere in Australia and overseas. The purpose of this section is to highlight best practice in areas relating to each key issue and provide guidance to future projects.

The Way Forward

This section of the report recommends a series of additional projects to be undertaken by the sector. The purpose of this section is to present a clear strategy for South Australian local government to address each of the key financial management issues identified by stakeholders.

3. PROJECT SCOPE AND BACKGROUND

Jigsaw Services was engaged by the Local Government Association of South Australia Metropolitan Group (LGA Metropolitan Group) to conduct a Local Government finances scoping study.

The study was initiated by the Metropolitan Local Government CEO's Association to assist metropolitan Councils and other stakeholders respond to increasing financial pressures being felt by Metropolitan Councils and to ensure contemporary standards of financial management are met.

The scope of the study was to:

- Identify key finance and financial management issues in local government in South Australia
- Clarify what actions are currently taking place or proposed in relation to the issues
- Identify other actions required, the priorities and how they can be progressed.

The intended outcome of the study is to give some direction to further work required. It is not intended to resolve any of the issues identified but to document them and provide a plan outlining how they may be addressed. This report is the key deliverable of the project.

4. CONSULTATION AND RESEARCH FOCUS

Steering Committee

A project steering committee comprising representatives of the Metropolitan Local Government CEOs Association, the Local Government Association (LGA), Office of Local Government (OLG) and the South Australian Local Government Financial Management Group (SALGFMG) was formed to guide and monitor progress of the project. The steering committee comprised the following members:

- Jeff Tate, Chief Executive Officer, City of Onkaparinga (Chair)
- Andrew Stuart, Chief Executive, District Council of Mt Barker
- John Comrie, Executive Director, LGA
- Stuart Mathews, Senior Policy Officer, LGA
- Bill Ross, Group Manager Corporate, City of West Torrens
- Peter Fairlie-Jones, Director Finance, City of Salisbury
- Ione Brown, Special Projects, OLG

Workshops

Two metropolitan workshops were held during the consultation phase of the project: one with metropolitan CEOs and one with SALGFMG members. All workshop participants were given the opportunity to engage in open discussion on the issues identified and to formalise their views by completing a questionnaire. As part of the questionnaire, participants were asked to prioritise the issues identified and explain whether their Council was taking any steps to address the issues.

One-on-One Consultations

Given the large number of project stakeholders, it was not possible to obtain input from all stakeholders through the workshops and steering committee meetings alone. Additional one-on-one consultation was undertaken with representatives from the Office of Local Government and with Chief Executives and SALGFMG members who could not attend the workshops.

Research

National and international research was undertaken to support the consultation process and provide guidance on the issues identified. Research was undertaken largely with interstate and international Local Government bodies (eg Local Government Associations). Of all the contacts made, Local Government New Zealand was the most forthcoming with information. New Zealand is recognised as one of the most progressive reformers of Local Government in the world and their input to this project was both highly relevant and valued.

5. KEY FINANCIAL MANAGEMENT ISSUES

This section of the report presents the financial management issues identified by stakeholders during the consultation process. All issues identified were discussed with stakeholders and then prioritised to ensure those considered the most important in terms of impact and priority were researched and addressed by proposed future projects.

Stakeholders identified the following financial management issues:

- Long Term Financial Planning
- Funding Policy
- Roles and Responsibilities
- Service Levels
- Financial Reporting
- Rating Policy
- Statutory Charges
- Grants (including FAGs)
- Performance Measurement
- Alternative Sources of Revenue
- Cost Shifting.

The following five issues were considered key, in terms of impact and priority, and are ranked in order of stakeholder priority:

Issue	CEO Ranking	SALGFMG Ranking	'Other' Ranking	Overall Ranking
Long-Term Financial Planning	1	1	1	1
Funding Policy	2	3	2	2
Roles and Responsibilities	3	4	3	3
Service Levels	4	2	4	4
Reporting	5	5	5	5

Each of these issues is discussed in more detail below.

Other issues identified during the consultation process are discussed briefly at the end of this section of the report, however these have not been considered as the focus of future projects. These issues are considered relatively less significant and/or have already attracted considerable attention through current or previous projects in the sector.

5.1 Long-Term Financial Planning

South Australian Metropolitan Councils are currently experiencing increasing financial pressure. Contributing factors include rising costs, compliance costs (environmental, governance and land management), expanding services and range of services (for various reasons as expressed later in the report) and short term financial planning.

Long term financial planning places more emphasis on the analysis of the statement of financial position and ensures Councils are achieving decisions that have long term sustainability. The impact of this allows discussions around service cost and revenue over a sustainable period.

The introduction of the new Local Government Act (1999) emphasised the need for strategic management plans to ensure a longer-term view is taken when planning and assessing the impact of Council decisions and operations. The current requirement under the Act is to develop and adopt strategic management plans (SMPs) that span three to five years, as determined by Council. Among other things, plans must identify the principal activities to be undertaken by Council to achieve its objectives and clearly present all associated revenues and expenses. The Annual Statement is also required to link SMPs to the annual budget.

Historically, Local Government has not adequately addressed and managed the long-term, intergenerational financial issues associated with infrastructure assets. Long-term financial decisions have often been made on the basis of investment cost, without giving appropriate attention to such issues as the cost of diminishing service delivery capacity and the need to provide for the renewal or ultimate replacement of the asset.

The introduction of AAS27 has increased the focus on the need to address this issue. While recognising that Local Government has some unique asset accounting issues (eg land under roads), AAS27 requires compliance with the majority of accounting standards, including AAS4 Depreciation of Non-Current Assets and AAS10 Accounting for the Revaluation of Non-Current Assets. AAS27 is clear that notwithstanding the long-term nature of many Council assets and rigour of associated maintenance programmes, with rare exception, the future economic benefits embodied in long-lived assets do deteriorate over time.

AAS27 also requires the presentation of all capital expenditure commitments in the annual financial statements. Commitments must be shown in periodic bands, with a 'catch-all' category for commitments spanning greater than five years. This highlights the importance placed on long-term financial planning by the Australian Accounting Standards Board and reinforces the need for Councils to establish a robust long-term financial planning process.

The length of the LTFP varies between Councils, but is commonly only three to five years, as required by the Local Government Act 1999. The length of the asset management plan used to support the LTFP (if prepared at all) also varies between Councils (ranging from 10-20 years) and there is no requirement to report the plan to the community. These findings highlight the current inconsistency between Councils and the ongoing, relatively short-term nature of financial planning within Local Government.

It is unrealistic to reflect a long-term financial plan over three to five years. While the current Local Government Act does not prevent longer term financial planning, it is silent in this area.

The methods used to calculate depreciation were found to be inconsistent between Councils, with many stakeholders questioning the reliability of the underlying data and assumptions used. Many stakeholders expressed a lack of faith in the value of the depreciation number used by their Council and concern as to its relevance to asset lifecycles and therefore at the significant dollar-value impact a change in depreciation assumptions has on the overall reported financial performance of the Council.

Given the uncertainty surrounding the reliability of calculated depreciation, stakeholders are concerned about any move to fund depreciation. It was identified that Councils could potentially over or under fund depreciation without any knowledge of this fact. Further, it was identified that Councils do not consistently account for the impact of maintenance programmes on extending the useful life of an asset.

All stakeholders recognised the need for providing for the long-term service capability of assets and it is this value that should be funded.

Three to five year plans are not considered by stakeholders to provide adequate information for the long-term financial planning and management of Council assets and services. Three to five year plans do not convey the non-discretionary nature of asset maintenance costs or enable decision makers to fully understand asset and service profiles. Further, inconsistency exists between Councils on the definition of assets and how best to provide for their renewal and replacement.

5.2 Funding Policy

A funding policy is a mechanism by which Councils aim to resolve the following questions:

- What services do we deliver?
- What is the cost of those services?
- Who is the ultimate beneficiary of those services and therefore who should pay?
- When should it be paid for?

It was identified that the current Local Government funding decision-making process lacks transparency in some areas. Stakeholders identified the need to adopt a more comprehensive and 'economic' approach to the funding of Council services to ensure better decision-making and improved financial transparency to the community. This approach should reflect the individual philosophy of each Council.

For example, a number of Councils in New Zealand have moved to a process of identifying by user the amount of general refuse created versus recycled refuse and built a funding policy around this. This has the benefit of improving not only environmental and public benefit but exercising the right to charge those users who add cost to the Council over the long term. The appropriate

treatment of this service will change dependent on each Council and their approach to costs of this nature. What is fundamental is individual Council philosophy and choice.

The current funding approach in South Australia relies heavily on the use of General Rates to fund the difference between estimated operating expenses and non-rate revenues each year. Limited consideration is given to the linkage of service beneficiaries to the funding source for each service provided by Council.

The outcome of a funding policy is not necessarily an increase in user charges. The establishment of a funding policy promotes a transparent and informed decision-making process, which can always be overridden by qualitative factors such as social impact and greater community good.

5.3 Roles and Responsibilities

The roles and responsibilities of Councils need to be explored as a matter of priority. Increasing cost pressures and the changing role of State Government in service delivery is having a significant impact on Local Government roles.

Community demands on Local Government have increased in recent years through the identified need for new services and the withdrawal from existing service provision by other tiers of government. Historically, Local Government has bridged the service gap by taking on the role of service provider and raising additional revenue (primarily via rates) to fully fund the service. This has created significant rating pressures on Councils and, in relation to services assumed from other tiers of government, has effectively resulted in significant cost shifting (the focus of the current National Inquiry into Local Government and Cost Shifting).

Councils have taken on additional services in recent years often without careful consideration of the most appropriate role to be undertaken by Council to most benefit the community. This includes consideration of alternative delivery mechanisms and service providers, which have not always been available but are now more prevalent. This can often have significant cost and revenue impacts. The role of service provider needs review given the increasing demands of ratepayers, with the decision of what roles and responsibilities should be adopted by Local Government being determined by each Council's philosophical viewpoint.

5.4 Service Levels

Service level definition is becoming increasingly important. Ratepayers continue to demand more and the transparency of choice needs to be recorded. It was identified that many Councils do not sufficiently define service levels and quality standards for the range of services they deliver.

This raises the issue of potentially over or under-funding services, which will directly impact the quality of service provided and potentially impact other

services inappropriately delivered to the community. Further, the degree and success of a service is difficult to measure in the absence of defined service levels.

Local government service level definition needs enhancement. Greater focus on this type of definition needs to be undertaken to determine appropriate service levels and create transparency in decision options so they can be easily validated by the community.

5.5 Reporting

Financial reporting to elected members and the community has made significant progress over recent years but still falls behind international best practice. Current reporting does not optimise efficient and effective decision-making or facilitate easy assessment of Council's performance.

Existing performance reporting should be enhanced to integrate financial and non-financial reporting (eg balanced scorecard and triple bottom line reporting). Further, current financial reporting is inconsistent in content and format across Local Government, making it difficult to compare performance across the sector – an outcome sought by many stakeholders.

5.6 Other

A number of secondary issues were identified during the consultation process, which have not been considered further at this stage. The secondary issues identified are as follows:

- Rating Policy – Considerable attention has been given to the development, implementation and administration of equitable and transparent rating policies in recent years. The current rating project (*Rate Setting: Improvement Opportunities for 2003/04*) is one example of this, with further work programmed in this area. It is the view of Jigsaw Services that this area has received sufficient attention. There are many more strategic issues that will have a greater impact on the local government sector.
- Statutory Charges – Local Government is currently constrained in its efforts to raise revenue for statutory services, with specific statutory charges being fixed by legislation. It may be appropriate for Councils to utilise existing costing tools (such as full cost attribution) to identify the true cost of service delivery then build a sector-wide business case to present to State Government.
- Grants (including FAGs) – Local government in South Australia has expressed considerable concern over the equity of the current grant distribution process. It is recognised that there are potential opportunities for improvement in the process. This issue has been (and continues to be) addressed by the Local Government Association through a series of papers and campaigns.

- Performance Measurement – The issue of improving performance measurement was identified by a number of stakeholders during the consultation process. While the value of enhanced performance measurement is recognised, it is not considered a key issue at this point for two reasons: (1) stakeholders expressed the need to improve underlying data integrity prior to improving reporting; and (2) the preferred focus of any future performance measurement project is both financial and non-financial.
- Alternative Sources of Revenue – The local government sector has identified the need to investigate alternative sources of revenue to ensure the ongoing sustainability of Councils and cover the increasing costs of delivering community services. The adoption of the proposed projects in this report (in particular those relating to the establishment of funding policies) will enhance the ability of Local Government to understand and target appropriate revenue sources.
- Cost Shifting – This issue is related to several of the issues already discussed above, including statutory charges and roles and responsibilities. While of great importance, this issue is not considered key in this report for two reasons: (1) the proposed decision making framework project relating to local government roles and responsibilities should support improvements in this area; and (2) a significant Commonwealth Parliamentary investigation is currently being undertaken into this issue (*Inquiry into Local Government and Cost Shifting*).

6. RESEARCH FINDINGS

5.1 Long-Term Financial Planning

In April 2001, an investigation by the Metropolitan CEOs Association into Council infrastructure (*A Wealth of Opportunities*) estimated that South Australian Councils were under-funding infrastructure renewal by \$95 million per annum, and this trend was likely to continue. This report (among others) highlighted the need for robust long-term planning, which has not yet been fully embraced by the sector.

Research into Australian Local Governments outside of South Australia indicates that considerable work is still to be done in this area across the country. Broadly, the long-term financial planning requirements in other states and territories are similar or less stringent than those of South Australia.

Debate over the issue of long term financial planning in New Zealand local government took place in the mid-1990s. The debate was driven by the need for Councils to better plan and understand their long-term financial requirements, which included consideration of long-term service provision and the renewal of infrastructure assets. A new Local Government Act was subsequently introduced, which required Councils to produce and adopt a long-term financial strategy (LTFS) that related to a period of 10 or more consecutive years. This long-term financial planning requirement is preserved under the New Zealand Local Government Act 2002 by way of a 10-year Long Term Council Community Plan (LTCCP).

Broadly speaking, the New Zealand Act has been successful in the establishment of meaningful long term financial planning and reporting in local government. Some issues were encountered (such as the need to fully fund depreciation that may be attached to an asset the Council had no intention of replacing), however the Act has now been changed to enable Councils to individually determine the appropriate level of provision to be made for asset renewal and replacement.

One outstanding issue still to be addressed was highlighted in a report of the Controller and Auditor-General titled *Local Government – Looking Back and Looking Forward* (issued May 2002). This report suggested that local authorities still did not have a good understanding of the assets employed to deliver essential services or a full appreciation of asset lifecycle costs. The report highlighted the need for local authorities to maintain better information on their assets to enable them to make reliable forecasts of the future investment needed to maintain the services the community needs and wants. Better asset management plans were considered critical to the effectiveness of long-term financial strategies and better service delivery.

Until local government asset management plans are established throughout New Zealand, it is difficult to gauge the success of the Act in relation to effective long-term financial planning in that country. However, it is apparent from the research undertaken that local government in New Zealand is better equipped to understand and plan for its long-term financial requirements since the introduction of mandatory ten-year plans. It is believed that this outcome has been largely driven by the fact these plans are reported to the community as part of the annual report.

5.2 Funding Policy

The New Zealand Local Government Act 2002 requires all local authorities to prepare and adopt a funding policy. The funding policy must state the local authority's policies in respect of (1) the funding of operating expenses from each funding source and (2) the funding of capital expenditure from each funding source. The funding source used to meet the needs of each activity of the local authority is determined with reference to:

- The community outcomes to which the activity primarily contributes;
- The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals;
- The period in or over which those benefits are expected to occur; and
- The extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity.

The approach adopted in New Zealand is to consider the relative public and private benefit gained from the delivery of Council services when determining the most appropriate funding source for each service (ie general rates or user charge). The adoption of a funding policy approach in New Zealand has enhanced the transparency of the funding decision making process. However, the experience in New Zealand has shown the importance of not being too detailed in the assessment of public/private benefit and maintaining flexible policies to enable the adjustment of "user charge" outcomes where there is a greater public good to be realised through general rates funding.

A recent report by the South Australian Centre for Economic Studies (*Future Revenue Arrangements for Local Government*) supported the suitability of the rate base as a mechanism for adopting a "benefit principle" approach to raising the necessary revenue. This approach would significantly improve transparency of the rating process and enable Councils to clearly demonstrate to the community the basis and composition of their annual rates. (It should be noted that some Councils are already exercising their ability to rate specific service beneficiaries via separate rates for services such as STEDS).

Locally, the City of Marion has commenced work on the establishment of a funding policy. Our research did not reveal any sector-wide legislation, policy or guidance in this area by local government jurisdictions elsewhere in Australia. Further, we did not identify any legislation or broad policy that addresses the issue of public/private benefit and its application to the determination of funding sources.

5.3 Roles and Responsibilities

In its submission to the Commonwealth Inquiry into Local Government and Cost Shifting (August 2002), the Local Government Association of South Australia highlighted that “Councils have taken on additional responsibilities over the past two decades while at the same time there has been a corresponding decline in funding support from other spheres of government”.

The issue of what roles and responsibilities should (and must) be undertaken by local government entities has not been comprehensively addressed anywhere. Both the United Kingdom and Victoria have adopted a “best value” approach that allows local authorities to determine their own service levels and quality standards based on an assessment of community wants and needs and the community’s “preparedness to pay”. The success of this approach is still unclear. It is believed that significant and consistent guidance is required to embed this approach and ensure its long-term success. Further, best value does not naturally support the decision to accept or reject responsibility for delivery of a new or existing service.

The City of Onkaparinga is relatively advanced in its understanding of its roles and responsibilities, having established a decision-making framework for the assessment of new and existing services. The framework adopted considers the Council’s potential roles on a service delivery continuum (ie advocate, agent, service provider, etc). Relevant factors considered when determining the appropriate role of Council include an investigation of alternate delivery mechanisms, an understanding of the long-term cost of providing the service, expectations of the community and Council’s strategic plans and objectives.

5.4 Service Levels

A “Best Value” approach to the definition of service levels and quality standards was adopted by the United Kingdom Local Government Act 1999 (effective April 2000). The aim of best value is to ensure that public services are responsive, efficient, of high quality and integrated to services provided by other regions and spheres of government. It effectively demands that Local Authorities consider service delivery from ‘first principles’. The success of the best value model in the United Kingdom is unclear. Anecdotal evidence suggests that significant inconsistency exists in the understanding of, and approach to, best value.

Victoria has also adopted a best value approach to understanding and setting service levels and quality standards. This approach has been legislated through the Local Government Act. Essentially, the Victorian approach considers affordability and community expectations and requires a best value statement to be reported every year as part of the annual report. Anecdotal evidence suggests that while inconsistent service standards exist across local government in Victoria, there is consistent application of the best value principles at each Council. What remains unclear however is the ability (or

otherwise) of Councils' external auditors to assess compliance with best value, given the legislative backing of the Victorian model.

The New Zealand report of the Controller and Auditor-General titled "Local Government – Looking Back and Looking Forward" (issued May 2002) suggested that local authorities had a poor understanding of the assets employed to deliver essential services. "Even more fundamental was the lack of agreement on service levels, and quality and quantity standards." This report has clearly placed the issue of service levels and quality standards on the agenda of local government in New Zealand, but it is unclear at this point how successfully the issue has been dealt with.

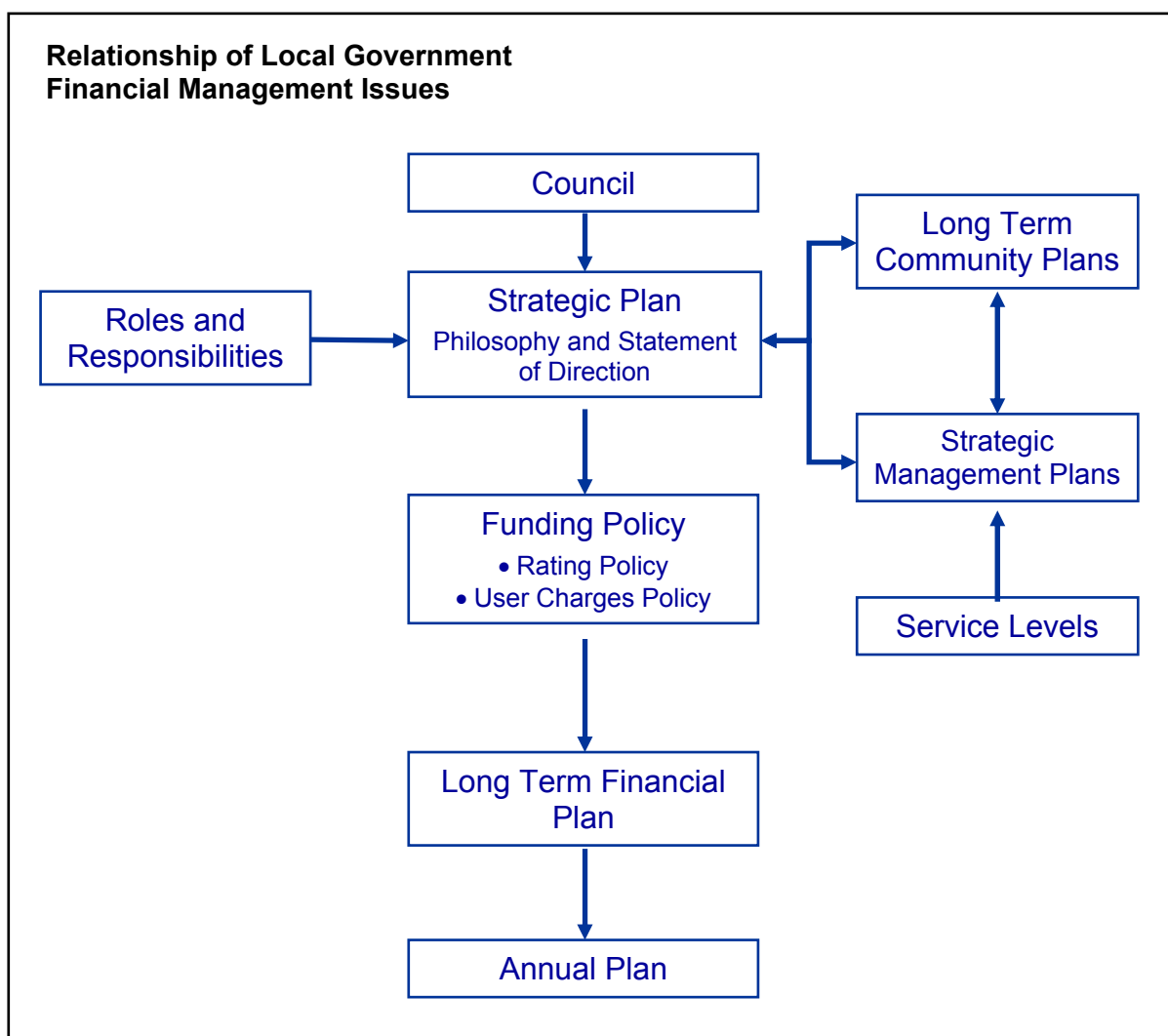
5.5 Reporting

Our research did not identify the adoption of a consistent or comprehensive approach to enhanced financial reporting to the community by local government elsewhere. Focus to date has been on specific accounting treatment issues (eg land under roads and condition based depreciation), presentation of financial information (eg AAS27) and the development of financial performance indicators (both here and in the United States).

The push for balanced scorecard and triple bottom line reporting has not been made sector-wide in any of the jurisdictions researched, with most reporting in line with required standards and legislation. Accordingly, expertise (and examples of success) in this area is limited and restricted to those Councils that have made this area a priority and dedicated the necessary implementation resources.

7. THE WAY FORWARD

The following diagram shows the relationship between the key financial management issues identified by this project.



Details of each issue identified (and the related proposed future projects) are discussed further below. The following table summarises each issue, identifies the priority given by the CEO and finance manager stakeholder groups, outlines local and international work done in each area and outlines proposed projects to be undertaken (including suggested priority and responsibility).

Issue	Priority		What has been done?		What should we do?	Project Code	Priority	Driver
	CEO	FM	Interstate/OS	SA				
Reporting								
Current reporting does not present information in a format that readily enables elected members and the community to assess Council's financial performance	5	5	<ul style="list-style-type: none"> QLD-Simplified financial reporting framework. USA-Developing financial indicators for local government. 	<ul style="list-style-type: none"> LGA Performance Measurement Project. Adelaide Hills/Salisbury - Currently developing LG financial performance indicators and alternative reporting formats. 	Develop the principles and framework for a local government reporting "Code of Practice"	FR1	H	Metro CEO Group
					Develop a reporting "Code of Practice" handbook	FR2	H	LGA
Long Term Financial Planning								
<ul style="list-style-type: none"> Poor understanding of asset service profiles. Inconsistent provisioning for the renewal of assets over time. Inconsistent format and length of long term financial plans. 	1	1	<ul style="list-style-type: none"> NZ LG Act 2002 requires 10 year (min.) financial plans. Considerable work done on recognising the impact of long-term financial plans on other Council plans. LGA/OLG National Financial Management Forum has initiated a project to develop a consistent approach to depreciation across local government in Australia 	<ul style="list-style-type: none"> CCS-Doing a lot of work understanding asset profiles, lifecycle cost of investment and fully funding depreciation. Looking to establish 10 year financial plans. Playford, Adelaide, Gawler & Salisbury have 10 year plans. Others are developing 10 year plans "A Wealth of Opportunities". 	Develop a 'prescribed' LTFP model for Councils to utilise and report against	LTFP1	H	TBD
					Establish agreed asset management	LTFP2	H	TBD
					Develop an asset management education programme for elected members and executive management	LTFP3	H	TBD
					Promote strategic thinking on finance issues among local government managers	LTFP4	M	TBD



Issue	Priority		What has been done?		What should we do?	Project Code	Priority	Driver
	CEO	FM	Interstate/OS	SA				
Funding Policy								
<ul style="list-style-type: none"> No assessment of who should pay how much for what service. Transparency of funding is unclear. 	2	3	<ul style="list-style-type: none"> NZ LG Act 2002 requires consideration of beneficiaries of services and assessment of who should pay. UK and Victoria have adopted a “best value” approach that considers community expectations and affordability 	<ul style="list-style-type: none"> Marion-Has commenced funding policy thinking. CCS-Currently investigating hidden/cross subsidies. Salisbury - Working on the identification of public/private benefit and advanced in the use of FCA. 	Prepare research paper and guidelines for Councils	FP1	H	TBD
					Extend full cost attribution concept to include revenue	FP2	M	TBD
					Develop a funding policy education programme for elected members and executive management	FP3	H	TBD
Roles and Responsibilities								
<ul style="list-style-type: none"> Additional services assumed by Councils without consideration of the role that would be of most benefit to the community (ie minimal consideration of alternative service delivery models). Additional services transferred to local government from other spheres of government. 	3	4	<ul style="list-style-type: none"> Commonwealth Cost Shifting Inquiry (current). UK and Victoria have adopted a “best value” approach that considers service delivery models (eg PPP). 	<ul style="list-style-type: none"> Onkaparinga-Have developed a framework to aid in Council role decision-making. Burnside-Currently clarifying the role of Council in service delivery. LGA-Future Directions report. 	Develop a decision-making framework for Councils	RR1	M	TBD



Issue	Priority		What has been done?		What should we do?	Project Code	Priority	Driver
	CEO	FM	Interstate/OS	SA				
Service Levels								
Minimum service levels (driven by legislation and community wants and needs) and associated costs are not understood by Councils.	4	2	Productivity Commission-Benchmarking Service Delivery.	<ul style="list-style-type: none"> Onkaparinga-Defined service levels for core services and currently validating externally CCS-Currently reviewing service levels. 	Develop a toolkit to assist Councils to define service levels	SL1	M	TBD

Proposed Projects

Item:	Reporting		
Issues:	Current financial reporting to elected members and the community can be enhanced to present information in a format that readily enables the assessment and comparison of Council performance		
Projects:	Code	Priority	Driver
1. Local Government Reporting Code of Practice: Principles and Framework	FR1	H	Metro CEO Group
2. Local Government Reporting Code of Practice Handbook	FR2	H	LGA

Project Outlines

1. The scope of the Local Government Reporting Code of Practice: Principles and Framework project should be to:
 - Develop a Code of Practice reporting framework that addresses the key financial reporting needs of local government stakeholders (as identified by this and any other relevant projects)
 - Document the scope of work to be undertaken for each element of the Code of Practice
 - Research financial reporting trends interstate and overseas (eg balanced scorecard, triple bottom line, concise reporting, subsidy reporting, etc) and assess the relevance of these trends for inclusion in the Code of Practice
 - Provide recommendations on who should review compliance with the code and how compliance should be reported
 - Secure endorsement of the Code of Practice by key local government stakeholders (eg LGA, LGMA, OLG, Councils, FAAC, etc) to ensure the consistency and quality of information reported.

2. The scope of the Local Government Reporting Code of Practice Handbook project should be to:
 - Provide detailed guidance on how to prepare and present financial information in accordance with the Code of Practice
 - Provide sample reports and policies to be adopted by Councils
 - Provide explanatory notes to support the importance of the Code of Practice and its place in the financial management framework of local government (including the expectation of metropolitan Council compliance, given their request for and guidance of the development of the code, and the optional adoption by non-metropolitan Councils).

Item:	Long Term Financial Planning		
Issues:	<p>Management of long-term, intergenerational financial issues associated with infrastructure assets can be enhanced.</p> <p>Current provisioning for and funding the renewal of assets over time is inconsistent between Councils.</p> <p>The format and length of long term financial plans are inconsistent between Councils</p>		
Projects:	Code	Priority	Driver
1. Local Government Long Term Financial Planning	LTFP1	H	TBD
2. Local Government Asset Management	LTFP2	H	TBD
3. Asset Management Education Programme	LTFP3	H	TBD
4. Strategic Thinking in Local Government Finance	LTFP4	M	TBD

Project Outlines

2. The scope of the Local Government Long Term Financial Planning project should be to:
 - Develop a long term financial planning methodology to assist Councils in the preparation of 10 year (minimum) financial plans that are integrated with their strategic and other management plans
 - Develop a model that prescribes the format of the long term financial plan to be adopted and reported by Councils as part of their annual report
 - Develop a model and template for planners to support the integration of strategic management plans with the long term financial plan
 - Ensure widespread buy-in to the model and methodology from all key stakeholders.

3. The scope of the Local Government Asset Management project should be to:
 - Identify appropriate asset management and cash flow/funding methods to be adopted with regard to asset renewal and replacement (incorporating consistent treatments of depreciation)
 - Establish agreed approach to be adopted by all Councils (ie to ensure consistent approach)
 - Investigate the need for independent review of asset management assumptions and practices (eg by external engineer)
 - Identify the appropriate process and timeframe to transition to the preferred approach
 - Support better balance sheet management by highlighting the long-term impact on the operating statement over time.

4. The scope of the Asset Management Education Programme project should be to:
 - Educate elected members and executive management on the importance of better asset management and its impact on the long term financial plan
 - Explain the concept of lifecycle cost versus investment cost
 - Identify asset management best practice
 - Provide common tools and techniques for evaluating investment decisions
 - Ensure widespread buy-in to the model and methodology from all key stakeholders.

5. The scope of the Strategic Thinking in Local Government Finance project should be to:
 - Research current strategic financial thinking and long term financial planning best practice
 - Identify the current and future role of the finance function in local government
 - Provide a road map for the development of Local Government finance managers into strategic business partners to executive management.

Item:	Funding Policy		
Issues:	Further work can be done to identify and understand Council service beneficiaries to address the current lack of transparency in relation to Council funding arrangements in some areas.		
Projects:	Code	Priority	Driver
1. Local Government Funding Policy Guidelines	FP1	H	TBD
2. Revenue Attribution	FP2	M	TBD
3. Funding Policy Education Programme	FP3	H	TBD

Project Outlines

1. The scope of the Local Government Funding Policy Guidelines project should be to:
 - Research successful funding policy models to identify success factors and potential barriers to implementation in Local Government
 - Identify the objectives of a funding policy
 - Outline the interrelationships of the funding policy with other financial management policies
 - Establish appropriate guidelines to be used by Councils to successfully implement and monitor a funding policy.

2. The scope of the Revenue Attribution project should be to:
 - Develop a revenue allocation methodology to enable Councils to determine service revenue and profitability (in conjunction with existing full cost attribution techniques)
 - Establish guidelines on the preferred treatment of specific key revenue items
 - Promote the use of service profitability analysis to support the funding decision making process.

3. The scope of the Funding Policy Education Programme project should be to:
 - Educate elected members and executive management on the importance of establishing a funding policy (eg enhanced decision-making)
 - Highlight the opportunities for enhanced funding transparency and equity
 - Ensure widespread buy-in to the establishment of funding policies across the sector.

Item:	Roles and Responsibilities		
Issues:	<p>Councils have assumed additional services, often without careful consideration of the role that should be adopted to provide the best community outcome (eg alternative service delivery models).</p> <p>Councils have had additional services transferred to them from other spheres of government and filled service gaps created by the withdrawal of services from other spheres of government.</p>		
Projects:	Code	Priority	Driver
1. Local Government Roles and Responsibilities	RR1	M	TBD

Project Outlines

1. The scope of the Local Government Roles and Responsibilities project should be to:
 - Identify the core mandatory roles and functions of local government
 - Identify opportunities to integrate local and state government planning
 - Develop a decision-making framework for Councils to apply to proposed and existing services
 - Provide guidance on asset ownership issues and the alternatives available to local government
 - Research alternative service delivery mechanisms and provide an outline of the advantages and disadvantages of each (including transition issues where withdrawal from service provision is proposed).

Item:	Service Levels		
Issues:	Many Councils can enhance their definition of service levels and quality standards for the range of services they deliver (driven by legislation and community wants and needs).		
Projects:	Code	Priority	Driver
1. Local Government Service Level Toolkit	SL1	M	TBD

Project Outlines

1. The scope of the Local Government Service Level Toolkit project should be to:
 - Research current best practice in the definition and monitoring of local government service levels
 - Develop a toolkit to assist Councils to define service levels and link service levels to their asset management and long term financial plans.