Case Studies of Local Government
Shared Services in South Australia

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1. Introduction

All councils in South Australia face ongoing challenges in terms of maintaining or improving service delivery, while trying to limit rates increases for ratepayers against a backdrop of various cost pressures (e.g. labour, utilities, waste levies). These challenges place a responsibility on councils to improve the efficiency of their operations and service delivery. One method for doing so is to engage in resource-sharing initiatives between two or more councils in respect of service delivery and other council functions.

To date there has been little analysis conducted into the extent to which “shared services” delivery cost savings and other benefits relative to more traditional approaches of service delivery. The Local Government Association of South Australia (LGA) subsequently engaged the SA Centre for Economic Studies (SACES) to develop case studies of shared services, to investigate the extent to which there is evidence of cost efficiencies derived from shared services, but also the various other benefits and challenges associated with resource-sharing initiatives. Consideration of benefits not related to efficiencies reflects that some shared services are implemented to provide value added benefits, such as economic development objectives and higher quality service provision, rather than pure cost efficiency savings.

A number of shared services are effectively provided at the LGA level. Notable services in this respect include procurement, insurance and financial services. These services are outside the scope of this report, which focuses on shared services established at the council to council or regional level. Nonetheless, some of these higher level shared services provide substantial costs savings or value, and are discussed briefly in Box 1.

One of the key lessons from the analysis is that quantifying the cost efficiencies provided by certain shared services remains a challenging task. Confidentiality restrictions, lack of publicly available data, difficulties with attributing internal council costs to specific services, and natural difficulties associated with assessing hypothetical scenarios all contribute to the challenge of quantifying cost efficiencies.

Participants for the case studies were identified from respondents to an LGA survey of its members regarding their use of different models of service provision. A total of 22 councils responded to the survey, of which half indicated a willingness to participate in the study. The pool from which case studies could be drawn was consequently limited. Other councils who were engaged in shared services were also approached separately to expand the available range of case studies. In the end four case studies were conducted, with one involving two forms of service provision (road resealing and information technology).

The remainder of the report presents the various case studies that were developed. They include (in order of appearance):

- Eastern Health Authority – a regional subsidiary which provides environmental health services to metropolitan councils in the eastern and northern inner suburbs of Adelaide;
- Procurement of road resealing by the G3 Alliance – a procurement group formed by the three Riverland councils of Renmark Paringa, Berri Barmera and Loxton Waikerie;
- Procurement of information and communications technology helpdesk, incident management and infrastructure support services by the G3 Alliance;
- Regional Tourism in Limestone Coast – employment of a tourism industry development manager by the Limestone Coast Local Government Association to pursue strategic economic development goals regarding tourism in the region; and
- Waste management – includes consideration of Southern Region Waste Resource Authority, a regional subsidiary that operates a wholly-owned landfill and recycling operation on behalf of several metropolitan councils. Here we consider general issues with the quality of data being provided by councils to the Local Government Grants Commission, which prevented a broader assessment of unit costs by model of service delivery from being carried out.
Box 1  Shared Services at the Local Government Association Level

The LGA provides a range of member services which in effect represent shared services facilitated at the state level. These services are provided directly by the LGA or through related entities. Several of the more prominent shared services include procurement, insurance and financial services, which are discussed briefly in turn.

Local Government Association Procurement

The LGA provides a range of procurement services to councils through LGA Procurement (LGAP), a dedicated commercial entity. LGAP seeks to achieve procurement efficiencies through bulk purchasing, procurement panels (e.g. Information and Communications Technology), centralised contract administration, provision of model contracts and tendering documents, and access to e-commerce services. LGAP also provides an important role in improving procurement expertise across the local government sector, which is facilitated by providing best-practice documentation, training, technical support and advocacy services.

LGAP effectively provides councils with financial benefits by avoiding local tendering costs, avoiding the need to develop contracts and tendering contracts, and enabling councils to achieve greater economies of scale, and therefore access to discounted costs/rates, in terms of their purchases of goods and services. The value of such shared procurement services was recently estimated to be $78,000 per annum for an average council, or equivalent to $5.3 million across all councils (LGA 2016).

As an avenue for facilitating efficient and resilient shared services, the LGAP has some potential advantages over localised or regional approaches. Previous research has identified various factors that contribute to the success of shared services, including, but not limited to, CEO and political commitment, having passionate advocates within each local authority, an own shared service culture, and proactive governance group (LGA 2012). Sustaining such success factors can be challenging at the regional level where shared services are of a smaller scale and grounded on less robust governance arrangements (e.g. memorandum of understanding), making them vulnerable to movement of key staff and shifts in the political direction of local authorities. As a higher level dedicated procurement entity with professional staff, LGAP is structured to maintain long-term service provision. Moreover, since it provides services on behalf of all councils in South Australia, LGAP has greater scope to leverage economies of scale benefits. LGAP consequently offers an appropriate vehicle for pursuing other shared procurement opportunities, whether they be state-wide opportunities, or in support of regional initiatives.

Local Government Risk Services

Local Government Risk Services (LGRS) manages a range of insurance schemes on behalf of the LGA and councils. Most notably, it operates the Local Government Association Workers Compensation Scheme (LGAWCS), which provides an integrated workers’ compensation claims, return to work, and injury prevention and management service (the LGA, on behalf of its members and prescribed bodies, is a self-insured employer in respect of South Australian workers compensation law). LGRS also provides other insurance schemes on behalf of councils, including a Mutual Liability Scheme (LGAMLS) in respect of civil liability risks, an Asset Mutual Fund (LGAAMF) for protection of physical assets, and various other specialist insurance services.

The mutual approach facilitated by the LGRS, and effective management of the Workers Compensation Scheme in particular, has enabled annual premium savings to be achieved relative to alternative insurance arrangements. These savings were recently estimated to be valued at approximately $147,000 per annum for an average council, or equivalent to $10 million per annum for all councils (LGA 2016).

Local Government Financing Authority

The Local Government Finance Authority (LGFA) is a body corporate established under the Local Government Finance Authority Act 1983. The LGFA exclusively provides a range of voluntary banking and lending services to South Australian councils. The structure of LGFA enables it to deliver various benefits to councils relative to commercial alternatives. These benefits include access to competitive lending rates, fee-free banking services, potential for annual bonus payments, while all deposits are guaranteed by the Treasurer of South Australia. Benefits in terms of lower commercial lending rates and fee-free services were estimated to be equal to $78,000 per annum per average council, or $9.2 million in aggregate across all councils (LGA 2016).
2. Environmental Health – Eastern Health Authority

Key Points

- The Eastern Health Authority is a regional subsidiary which provides environmental health services to councils in the eastern and northern inner suburbs of Adelaide.
- The regional subsidiary provides a critical mass of work and associated staffing resources that enables the transfer and pooling of knowledge through collaboration and mentoring, while the critical mass of staff resources enables greater scope for staff specialisation and professional development.
- Better capacity to maintain services during periods of staff absences and turnover.
- Enables a higher quality level of service provision to be provided, which is attested by a recent benchmarking study.
- An analysis for one constituent council indicates that provision of environment health services through the regional subsidiary rather than in-house delivery provides a cost saving ranging from 7 to 14 per cent.
- Total cost savings for the 5 constituent councils are estimated to range from a low of $121,000 to a high of $278,000.
- Challenges of a regional subsidiary include having a complex network of relationships to manage, while there can be a lack of identity within constituent councils.

Local Government and Environmental Health

Local government has a number of legislative and regulatory responsibilities in respect of environmental and public health. For example, the South Australian (SA) Public Health Act 2011 establishes councils as the local public health authority for their area, conferring various functions in relation to preserving, protecting and promoting public health, as well requiring councils to provide or support provision of immunisation programs in their area. Councils also have key responsibilities for monitoring food safety in accordance with the Food Act 2001 and national food safety standards, and administering and enforcing the Supported Residential Facilities Act 1992, which includes licensing of supported residential facilities. In addition, some councils have accepted delegated responsibilities under the Environmental Protection Act 1993.

Councils typically employ Environment Health Officers (EHOs) to carry out their environmental health legislative responsibilities (with the exception of immunisation services – see discussion below), as well as to develop, enforce and evaluate other measures designed to improve public health outcomes. The relative mix of activities performed by EHOs differs across councils given differences in the economic, physical and social nature of regions. For example, animal and pest control may be more significant in rural areas given the greater propensity for agricultural activities, while food inspection services may be more prominent in urban areas. In some instances individual councils do not have sufficient workloads to employ an EHO, and consequently engage in shared staffing arrangements with other councils. For example, the District Council of Mount Remarkable provides environmental health services to the District Council of Peterborough, while Tea Tree Gully provides environmental health services to the District Council of Kimba. Such shared service arrangements may be conducted on a commercial basis or be provided in exchange for reciprocated services (e.g. in exchange for providing a building inspector's time to the other council).

EHOs do not directly provide immunisation services. These services tend to be provided by registered nurses employed directly by council or by external immunisation providers. In some cases external providers may be other councils. For example, the City of Onkaparinga provides immunisation services to Victor Harbor and Alexandrina councils, while Mount Barker District Council provides immunisation services to the Rural City of Murray Bridge. Such arrangements are typically undertaken on a fee-for-service basis, and in some cases are established through a competitive tendering process, involving competition against private sector and other council providers, meaning they are not strictly shared services.

Eastern Health Authority

One of the more prominent and unique forms of shared service delivery in respect of environment health services is the Eastern Health Authority (EHA), which provides various environmental health services to councils in the eastern and northern inner suburbs of Adelaide. Constituent councils include the City of Burnside, Campbelltown City Council, City of Norwood, Payneham & St Peters, City of Prospect, and Town of Walkerville. Immunisation services are also provided to the City of Unley on a fee-for-service basis.

The EHA is the culmination of a long history of collaboration on environmental health in the region which dates back to 1899, when the East Torrens Country Board of Health was established to provide assistance to each constituent council’s local board of health (EHA 2014). The Country Board operated for 86 years, gaining several additional constituent partners over time. In 1985 it was restructured into a ‘controlling authority’ under
the Local Government Act 1934, and renamed the Eastern Metropolitan Regional Health Authority (EMRHA). A further change in governance arrangements occurred when the Local Government Act 1999 changed the nature of local government collaborative arrangements from a controlling entity to regional subsidiary. A new Charter was consequently developed with the organisation being renamed the Eastern Health Authority in 2001 (EHA 2016). The EHA is the only known local government regional subsidiary in Australia dedicated to providing environmental health services.

The EHA undertakes a wide range of environmental health functions on behalf of its constituent councils, including:

- provision of immunisation services, including operation of public immunisation clinics in each member council area, school based immunisation programs and worksite immunisation;
- hygiene and sanitation control across various sectors including, but not limited to, monitoring and testing of public swimming pools and spas, cooling towers and warm water systems, personal care and body art premises (e.g. hairdressers, beauty salons, acupuncture clinics and tattoo parlours), and waste control systems, as well as investigation of insanitary conditions and disease outbreaks;
- promotion and monitoring of food safety, including surveillance of food premises, investigation of food complaints, implementing and ensuring enforcement actions, and provision of professional audit services; and
- licensing and monitoring of supported residential facilities, including approval of managers and investigating complaints.

Employee costs account for approximately two thirds of EHA’s total expenses, with there being minimal capital expenditure. In terms of staffing resources, the EHA employed a total of 30 people at 30 June 2016, or 17.6 employees on a full-time equivalent (FTE) basis. By functional area, there were 9.0 FTE employees employed in respect of environmental health, 3.8 FTEs for immunisation, and 4.8 FTEs in relation to administration.

Constituent councils fund the EHA’s operations according to a transparent formula that takes into the account the proportion of environmental health activities undertaken in each council areas, and the proportion of overall EHA costs accounted for by each activity. These activities include the number of food premises, environmental health complaints received in the previous financial year, supported residential facilities, high risk manufactured water systems, personal care and body art premises, public access swimming pools, school enrolments in year levels vaccinated, and vaccines administered at public clinics.

Advantages and Disadvantages of the Shared Services Arrangements

The provision of environmental health services through a regional subsidiary approach is considered to provide a range of advantages compared to an individual council approach. Most significantly, by providing a critical mass of work and associated staffing resources, the regional subsidiary enables the transfer and pooling of knowledge through collaboration and mentoring, while the critical mass of staff resources enables greater scope for staff specialisation. These factors are considered important advantages in an environment where environmental health issues are becoming increasing complex and diverse. For example, food business are looking to value add by adopting different, more complex food preparation techniques (e.g. cook-chill), while new forms of body modifications are being introduced (e.g. transdermal implants). The EHA consequently has greater organisational capacity to monitor and address environmental health issues compared to a small council that will face greater challenges in terms of maintaining experienced staff with the required expertise across all areas. Greater staff resources also mean the EHA has better capacity to maintain services during periods of staff absences or staff turnover.

From the perspective of the EHA, the greater scope for professional development within its organisational structure is an advantage in an environment where there is an apparent lack of training effort in environmental health at the tertiary level. Graduates do not seem to be as job ready as they used to be, which may in part reflect increasing complexity within the field. The scope for collaboration and specialisation within the organisation may also provide benefits in terms of improving workforce retention and stability.

A key benefit of the EHA’s heighten organisational capacity is that it enables it to provide a high quality level of environmental health service provision. While there is a lack of comparative data on service provision, the EHA recently conducted a benchmarking study involving nine other metropolitan councils and one non-metropolitan council, in order to assess its performance. This exercise compared 31 separate elements of environmental health service provision, with councils being assessed using a weighted scoring system, whereby scores were assigned for each element based on the council’s ranking.
The EHA was ranked the highest of any participant based on consideration of all service elements. The high ranking reflects, in part, that the EHA engages in a relatively high level of monitoring effort and particularly high level of enforcement activity. This is illustrated by considering aspects of the EHA’s work on food safety. Figure 2.1 shows that the EHA conducted a relatively high number of foods safety related inspections despite having the largest number of food businesses of all participants and being affected by a period of staff absence during the analysis period. The EHA conducted an average of 1.4 inspections per food business requiring inspection compared to an average of 1.2. The EHA performance in terms of enforcement is even more stark. As Figure 2.2 shows, the EHA ranked highest in terms of the number of improvement notices issued as a proportion of the number of inspections conducted, and second highest in terms of the number of expiation notices issued. While the high level of enforcement activity might be a consequence of the EHA region having a higher prevalence of poorly performing food businesses, it is considered to be largely due to the EHA having a relatively strong enforcement policy and regime, reflecting its assessment of food safety as posing a significant public health risk.

The greater scale and professional expertise enabled by the EHA’s regional subsidiary structure provides other benefits in relation to policy development, advocacy, and operational matters. These benefits include “being seen and considered as an expert in the field, the potential to investigate cross-council issues and implement broader health policies, having a greater voice when dealing with larger government bodies”, and deriving economies of scale from the sharing of facilities, equipment, and other resources (LGMA 2008). Another potential advantage of having a semi-independent regional subsidiary providing environmental health services is that it reduces exposure to political pressures (e.g. pressure not to investigate), enhancing the credibility of the monitoring and enforcement regime.

Provision of environmental health services through the regional subsidiary does present some challenges, which can generally be managed by employing appropriate reporting and communications structures. There is a complex network of relationships to manage, with various shareholders that need to be managed including council elected members, EHA board members, council Chief Executive Officers and other allied professionals. There can also be a lack of identity within constituent councils, which may result in a lack of integration into strategic planning processes.

Figure 2.1   Number of Food Safety Related Inspections per Business Requiring Inspection
Eastern Health Authority and Other Select Metropolitan Councils

Note:   * EHA = Eastern Health Authority. Other councils have been de-identified.
Source:   EHA (2016a).
**Quantifiable Savings**

The economies of scale associated with pooling staff resources and the sharing of facilities, equipment and other resources through the EHA would, all other things being equal, provide constituent councils with cost savings relative to the scenario whereby individual councils delivered environmental work in-house. Other savings may be derived from income earned from fee-for-services which may not necessarily be able to be delivered at the same scale at the individual council level.

Historically there has been little to no effort to estimate the cost savings that constituent councils derived from participating in the EHA. However, as part of recent efforts to benchmark its services against other environmental health providers, the EHA did estimate the total costs that the City of Burnside would face if it delivered environmental services in-house rather than through the EHA. The hypothetical cost estimate was derived by estimating the labour resources and other associated organisational costs that would be required to deliver environmental health services. The City of Burnside’s staffing requirements were estimated by the EHA to be 2.5 to 3.0 FTE environmental health officers, 1.0 FTE nursing staff and 1.0 FTE administrative staff. On the basis of existing total employee costs per FTE employee for the EHA, it was estimated that total in-house labour costs (i.e., salaries and wages plus on-costs) would range from $400,000 to $440,000 (EHA, 2016).

The City of Burnside would also face a range of non-employee organisation costs including costs related to training, vehicle leasing, accreditation fees, health related information technology systems, accreditation fees, immunisation consumables, various office expenses and other operational expenses. These costs were estimated to be in the order of $50,000 based on actual EHA organisational costs. This estimate appears to be conservative to the extent it is lower than the City of Burnside’s share of relevant EHA operational costs for 2016/17 based on the funding formula. On the other hand, the City of Burnside may derive greater economies of scale in relation to certain operational costs if they were delivered in-house given the inherently larger size of the council’s operations. Estimating other organisation costs is ultimately a difficult task given an absence of data from non-constituent councils on their overheads related to environmental health, including difficulties regarding how organisational costs should be apportioned across activities.

On the basis of the above, total annual costs of in-house delivery of environmental health services for the City of Burnside are estimated to be $450,000 to $490,000. This hypothetical cost compares with a budgeted funding contribution to EHA operations in 2016/17 of $419,000. Costs savings for the City of Burnside are therefore estimated to range from $31,000 to $71,000, which is equivalent to a cost saving of 7 to 14 per cent.

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1 Importantly, organisational costs related to fee-for-service income, which are not directly attributable to the councils funding contribution, were excluded when calculating organisational costs.
An earlier cost benchmarking exercise conducted for the City of Unley, undertaken when it was considering membership of the EHA, provides a useful cross check of the estimated cost savings derived for the City of Burnside. An independent internal analysis at the time estimated that the total direct and indirect costs incurred by the City of Unley in delivering environmental health services in-house were $355,000 in 2009/10. The City of Burnside is considered a similar comparator given similarities between the two councils in terms of size and environmental health activities undertaken. Key differences between the two include that Unley has more food premises to manage, whereas Burnside has greater needs in terms of immunisation services and pool monitoring (EHA 2016a). The City of Burnside’s EHA funding contribution in 2009/10 was $286,923. If the City of Unley’s funding contribution was of an equivalent magnitude, then cost savings associated with EHA membership would be $68,000 or 19 per cent. This estimated saving is higher in relative terms compared to the savings estimated for the City of Burnside, although in aggregate terms it matches quite well with the upper cost saving estimate for Burnside ($71,000). On this basis the estimated savings for Burnside are considered to be a reasonably conservative estimate of the actual savings derived.

The proportional cost savings achieved by the City of Burnside (7 to 14 per cent) can be applied to other constituent councils funding contributions to estimate the savings achieved for all members. Table 2.1 summarises the lower and upper cost savings estimates for each constituent council. Total cost savings for the 5 constituent councils are estimated to range from a low of $121,000 to a high of $278,000. The estimated savings for individual smaller councils (e.g. Prospect and Walkerville) may be conservative to the extent they derive relatively greater economies of scale benefits from partnering with larger councils through the subsidiary. In fact, small councils with limited internal staff resources may have difficulty carrying out certain operations currently performed by the EHA such as delivery of school based immunisation programs. In such instances they may simply choose to engage an external provider to deliver these services.

As the EHA represents a unique form of shared service delivery for environmental health services, being the only example of a regional subsidiary used to deliver such services, the estimated cost savings cannot be applied to other councils who participate in council-to-council sharing of environment health staff. Moreover, we do not have sufficient information on the usage of the latter across all councils as a whole, with the response to the recent LGA survey being insufficient to derive reliable estimates for the population as a whole.

### Table 2.1 Cost of environmental health services for Eastern Health Authority constituent councils under existing arrangements and alternative of in-house delivery ($)

<table>
<thead>
<tr>
<th></th>
<th>Burnside</th>
<th>Campbelltown</th>
<th>Norwood, Payneham and St Peters</th>
<th>Prospect</th>
<th>Walkerville</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted funding contribution for 2016/17</td>
<td>419,128</td>
<td>379,026</td>
<td>515,322</td>
<td>220,952</td>
<td>106,627</td>
<td>1,641,055</td>
</tr>
<tr>
<td>Implied in-house delivery costs&lt;sup&gt;(a)&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low saving scenario</td>
<td>450,137</td>
<td>407,068</td>
<td>553,448</td>
<td>237,299</td>
<td>114,516</td>
<td>1,762,470</td>
</tr>
<tr>
<td>High saving scenario</td>
<td>490,150</td>
<td>443,252</td>
<td>602,644</td>
<td>258,393</td>
<td>124,695</td>
<td>1,919,134</td>
</tr>
<tr>
<td>Cost savings achieved under EHA&lt;sup&gt;(a)&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low saving scenario</td>
<td>31,009</td>
<td>28,042</td>
<td>38,126</td>
<td>16,347</td>
<td>7,889</td>
<td>121,415</td>
</tr>
<tr>
<td>High saving scenario</td>
<td>71,022</td>
<td>64,226</td>
<td>87,322</td>
<td>37,441</td>
<td>18,068</td>
<td>278,079</td>
</tr>
</tbody>
</table>

Note: <sup>(a)</sup> Low saving scenario based on 7 per cent saving, high saving scenario based on 14 per cent saving.

Source: Calculations by SACES based on information provided by the EHA.

A number of other factors pose significant challenges to scaling up savings estimates based on individual case studies. Most foremost, environmental health services are not homogenous across councils, with regions varying in terms of their environmental health characteristics, e.g. relative number of food premises, personal care premises, public pools, type of waste control systems used (septic versus sewer mains), frequency of public events etc. The public health risks and required level of monitoring and enforcement work vary across these activities, meaning variations in environmental health characteristics across councils need to be taken into account in order to derive reliable estimates of savings for a broader population of councils. A further complicating factor here is that data on the environmental health characteristics and activities of councils are not readily available.

Another important complicating factor is that monitoring and enforcement effort varies across councils – see Figures 2.1 and 2.2. Such variation in part reflects subjective factors such as differences between councils in the perceived risk posed by certain environmental health factors. A council may achieve a lower cost of environmental health service provision by simply accepting a lower quality of service provision. In some circumstances there may even be a risk of councils failing to meet their environmental health legislative responsibilities (e.g. small councils that have difficulty securing and maintaining in-house expertise, and rely on external providers far removed from the region).
3. Procurement – G3 Alliance (Road Resealing)

Key Points

- The three Riverland councils entered into a combined programme of bituminous re-sealing for a three year period.
- Significant savings were derived from the greater economies of scale enabled by the combined road resealing programme, while additional efficiencies were derived from implementing a more structured approach to the delivery of road works across the region.
- Total cost savings derived by the three councils are estimated to be $171,000 per annum, or a total of $513,000 over the three years of the contract life. The annual average savings achieved are equivalent to approximately $9 per rateable property.
- The shared approach led to a 21 per cent reduction in the cost of Renmark Paringa’s road resealing program.
- Non-financial benefits include a higher level of probity being achieved through provision of more detailed and clearer contracting arrangements, including implementation of a more robust and transparent evaluation framework, and an improved relationship with the supplier.
- Various other procurement and collaborative activities have been implemented, including development of a consistent level of service in relation to the development assessment process across the region, a single contract for financial auditing, and securing funding to prepare a Riverland Extreme Storm Emergency Response Plan.

Like all organisations, local government relies on external providers for the provision of various goods and services. Most organisations naturally do not have the resources and expertise to produce all required goods and services internally. External providers have greater scope to specialise, and consequently can potentially provide goods and services more efficiently, and/or at a better level of quality.

Given the large scale at which local government operates – South Australian local government expenditure on materials, contracts and other expenses was $823 million in 2014/15 – having an effective and efficient procurement capability is a key competency of modern local government.\(^2\)

It has long been recognised that local government can achieve improved cost efficiencies through economies of scale effects and other value added benefits by taking a shared approach to procurement. This is currently recognised at the highest level in South Australia through LGA Procurement – a commercial entity owned by the LGA which conducts bulk purchasing and contract administration on behalf of its member councils in South Australia. It also seeks to improve procurement capability within local councils by providing good-practice documentation, training and professional advice.

However, LGA Procurement cannot satisfy all procurement needs of councils. Significant procurement activity continues at a local level as this ensures that services and product needs are tailored to local requirements. Nonetheless, there has been increasing recognition that taking a more regional approach to procurement can realise various benefits for participating councils, with a number of regional shared approaches emerging over recent years. Prominent examples include:

- Council Solutions – established as a Regional Authority in December 2012 by the Cities of Adelaide, Charles Sturt, Marion, Onkaparinga, Salisbury and Tea Tree Gully to undertake collaborative strategic procurement, contract negotiation and management;
- Riverland G3 Alliance – a regional procurement ‘alliance’ formed in July 2013 by the three Riverland councils of Renmark Paringa Council, Berri Barmera Council and District Council of Loxton Waikerie; and
- Barossa Regional Procurement Group – also a regional ‘alliance’ established in September 2014 by the Mid Murray Council, District Council of Mallala, Light Regional Council, The Barossa Council and Town of Gawler.

A notable difference between these approaches is that the Council Solutions initiative involves creation of a legal entity (Regional Authority), whereas the other examples involve alliances formed through a Memorandum of Understanding, whereby contracts and agreements are arranged with individual councils.

The various regional procurement initiatives have been operating for several years now, enabling and assessment of the various savings and other benefits derived to date. Here we consider the operation and achievements of the G3 Alliance.

**Procurement – G3 Alliance (Riverland)**

On 1 July 2013, the three Riverland Councils of Renmark Paringa, Berri Barmera and Loxton Waikerie agreed a Memorandum of Understanding to establish an alliance known as the Riverland G3 Alliance in order to:

"...benefit from economies of scale, increase the range and quality of services and improve lifestyle to their residents and where possible reduce the cost of services to ratepayers through a consultative and collaborative approach".1

In addition to achieving cost savings and efficiencies with operational and capital expenditures, a key aim of the alliance is to enhance the internal procurement capability and probity of each council by sharing knowledge, improving working procedures, and providing increased opportunities for professional development of staff. Another objective is to improve economic and employment outcomes in the towns and districts of the participating councils. These objectives may be achieved through various means, including achieving cost efficiencies for rate payers, reinvesting savings into the local community, incorporating economic objectives into procurement activities (e.g. employment of local staff), and increasing opportunities for local suppliers.

The Alliance established a formal structure for joint participation in service delivery and cooperative arrangements in respect of various procurement activities. It is overseen by the Riverland Local Government Forum (RLGF), which is comprised by the Mayor, Chief Executive Officer (CEO) and one councillor from each participating council. The RLGF is responsible for monitoring progress of individual projects against their aims, objectives and performance indicators, as well as the overall performance of the Alliance. In terms of operations, the three CEOs are responsible for monitoring, implementing and managing projects. In order to minimise administrative costs and provide clear responsibility, the Chair and administration of the Alliance is assigned to one council on an annual, rotating basis.

Since its inception, the G3 Alliance has investigated various potential opportunities for participation in joint service delivery and cooperative arrangements, focusing initially on those opportunities with the greatest potential for impact. Two major procurement contracts have been entered into to date – regional road spray sealing contract and ICT service support contract – which provide clear evidence of the cost savings that can be achieved through shared procurement approaches. The road resealing contract is discussed in turn, while the ICT contract is examined separately in Section 4.

**Regional Road Spray Sealing Contract**

One of the first major procurement activities of the Alliance was to enter into a combined programme of bituminous re-sealing for a three year period commencing 1 November 2013. The three councils had previously only approached the market individually, and typically only contracted on an annual basis.

The economies of scale associated with contracting for a larger volume of road sealing (i.e. greater road length) through the shared approach enabled the councils to access a more competitive rate than they could individually. Savings were also derived by aligning the three councils’ road work programs, and implementing a more structured approach to the delivery of road works across the region. For instance, start-up costs were reduced since a single rather than three separate start up instances was enabled, while travel distances were minimised through appropriate scheduling of works. The councils sought to maximise such efficiencies by being proactive in directing the scheduling of road works across the region.

The annual and whole of contract life savings for each council are summarised in Table 3.1. In order to control for changes in the volume of work done, the savings were estimated by applying the difference between the previous contract rate (i.e. $ per m²) and the current contract rate, to the volume of work done.

Total cost savings derived by the three councils through the shared road sealing procurement contract are estimated to be $171,000 per annum, or a total of $513,000 over the three years of the contract life. The annual average savings achieved are equivalent to approximately $9 per rateable property (based on the number of properties as at 1 January 2015).

Savings were greatest for Renmark Paringa ($279,000 over three years) and Berri Barmera ($162,000), while savings for Loxton Waikerie were more modest ($72,000). The relatively larger savings for Renmark Paringa and Berri Barmera reflect that these councils have smaller road networks compared to Loxton Waikerie, and consequently enjoyed access to reduced rate options through the greater economies of scale achieved. Nonetheless, Loxton Waikerie also enjoyed modest savings. Although typically a large spray seal customer, Loxton Waikerie was scheduled to undertake lower than usual sealing and new sealing in two of the three years of the contract based on its 20 year road programme. By combining work requirements across the three

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1 Renmark Paringa Council, Berri Barmera Council and District Council of Loxton Waikerie (2014), Memorandum of Understanding, Riverland G3 Alliance.
councils and spreading these works evenly over a three year period, the shared approach enabled Loxton Waikerie to take advantage of the most competitive rate pricing schedule each year.

In proportional terms, the shared approach led to a 21 per cent reduction in the cost of Renmark Paringa’s road resealing program.\(^4\)

**Table 3.1  Regional Road Spray Sealing Savings by Council**

<table>
<thead>
<tr>
<th>Council</th>
<th>$ per annum</th>
<th>$ over contract life(^{(a)})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berri Barmera</td>
<td>54,000</td>
<td>162,000</td>
</tr>
<tr>
<td>Renmark Paringa</td>
<td>93,000</td>
<td>279,000</td>
</tr>
<tr>
<td>Loxton Waikerie</td>
<td>24,000</td>
<td>72,000</td>
</tr>
<tr>
<td>Total</td>
<td>171,000</td>
<td>513,000</td>
</tr>
</tbody>
</table>

Note:  
\(^{(a)}\) 1 November 2013 to 1 November 2016.
Source: G3 Alliance, unpublished data.

The joint procurement approach also provided a number of non-financial benefits. A higher level of probity was achieved through provision of more detailed and clearer contracting arrangements. For example, as each council has slightly different objectives and requirements, a much more detailed service level agreement was adopted than would have been pursued by individual councils. And with clearer specification of required services, desired performance levels, monitoring processes, reporting arrangements, etc., a more robust and transparent evaluation framework was established. Together these factors contributed to an improved relationship with the service provider, while work programmes were also more accurate and completed early.

**Other Procurement and Collaborative Activities**

The alliance has facilitated other shared contracts, as well as development and exploration of other collaborative initiatives outside the sphere of procurement activity. One of the more notable is the Regional Continuous Improvement Project, which seeks to develop and promote a consistent level of service in relation to the development assessment process across the region. A notable goal here is to reduce assessment times for development applications. The project builds on existing efforts to harmonise the development application and assessment process across the region. It is hoped that these initiatives will together decrease uncertainty and reduce administrative and planning costs for builders and developers in the region.

Other shared contracts and initiatives that have been conducted or are currently under investigation by the G3 Alliance include, but are not limited to:

- a single 5-year contract for financial auditing of the three councils to fulfil their statutory requirements. The single contract should enable modest financial and logistical benefits to be achieved, for example by reducing the need for the auditor to undertake multiple trips to the region;
- securing funding to develop a Riverland Extreme Storm Emergency Response Plan;
- development of a Plant Register to facilitate potential sharing opportunities in respect of plant and machinery that may go underutilised when restricted to use by a single council;
- exploration of shared contract painting and maintenance in respect of building maintenance; and
- shared training across councils.

4. Procurement – G3 Alliance (Information and Communications Technology)

Key Points

- The three Riverland councils entered into a single three year contract with an ICT services provider to supply centralised helpdesk support, ICT incident management, and desktop and datacentre infrastructure support.
- A significant improvement in support quality was attained from the standardised contract.
- Improved monitoring of service quality levels enabled through development of service level agreements and key performance indicators.
- Employment of a local IT trainee derived as a value added benefit of the contract.
- Cost saving of $97,200 over the life of contract, equivalent to $32,400 per annum or $1.70 per rateable property.
- Fairly apportioning costs between member councils is important in sustaining shared services.

Information and communications technology (ICT) is an essential pillar of modern council operations. ICT affects a council’s ability to communicate with ratepayers, suppliers and other stakeholders. It enables council employees to perform their tasks in an efficient manner. ICT infrastructure and systems such as customer payments systems, records management, activity monitoring, communications etc., are important components in facilitating delivery of services. Moreover, given local government maintains sensitive or personally identifiable data for households, businesses and customers in order to perform its functions, maintaining the security and veracity of such information is a key requirement of ICT.

Individual councils are ultimately responsible for procuring and managing their ICT needs. Nonetheless, there is significant ongoing shared ICT activity being conducted at a high level. For instance, Local Government Information Technology South Australia (LGITSA) provides a forum for information technology professionals to exchange information, collaborate on best practices and operational issues, and benefit from professional development opportunities. In addition, LGITSA has recently partnered with LGA Procurement to establish an ICT panel. The panel enables councils and other local government entities to obtain a range of ICT goods and services including hardware, software, related services as well as specialist consultancy services.

Councils have also engaged in shared ICT services at the council to council and regional levels. For example, Adelaide City Council provides hosting of finance and payroll systems to the City of Unley, while the two councils also share their computer rooms through a fibre optic link for ICT disaster recovery purposes. Prior to implementation, Unley Council estimated that its implementation costs in terms of hardware and software for payroll and human resources services would be 20 per cent lower under the shared service approach, with additional savings being derived from lower on-going support costs (City of Unley 2010).

Another example of a shared ICT arrangement is the implementation of a single contract for provision of ICT support services by the three Riverland councils of Renmark Paringa, Berri Barmera and Loxton Waikerie. This shared service was established through the councils’ regional procurement alliance known as the G3 Alliance, which was discussed in more detail in section 3. In the remainder of this section we consider the various benefits derived from the shared ICT service, including quantified cost savings.

**ICT Service Support**

The three Riverland councils of the G3 Alliance had previously procured ICT support services on an individual basis. Sharing of ICT services was a natural fit given the three councils have similar characteristics, are geographically combined, and face similar problems. The latter includes limited resources, generally poor quality back up services, and ongoing challenges in terms of combating malware and ransomware. The councils cover relatively large areas, especially in the case of Loxton Waikerie, which has implications for ICT service delivery.

A single three-year contract with an ICT services provider was established to provide centralised helpdesk support, ICT incident management, and desktop and datacentre infrastructure support. The provision of centralised helpdesk and ICT incident management is considered a significant improvement in support quality as a consequence of the standardised contract. Other qualitative benefits include standardisation of contract and specification documentation, and development of service level agreements. More specifically, by implementing agreed key performance indicators (e.g. service uptime, incident response times) and communication measures (e.g. incident reporting), the councils were better able to monitor service quality levels relative to previous arrangements.
Another non-cash benefit realised from the ICT support agreement was the employment of a local IT trainee between the three councils. This position was a value-added component of the contract, providing the region with additional benefits in terms of local employment and skills development, and increasing councils’ internal IT support capability. The collaboration and success enabled by the shared ICT services contract also provided impetus for developing a Riverland ICT Strategic Plan, which seeks to identify further ICT alignment opportunities between the three councils based on their integrated business needs and corporate strategic direction (G3 Alliance 2015).

The economies of scale enabled by the shared ICT contract has generated significant cost savings for the councils. Quantified cost savings are estimated to be $32,400 per annum, or $97,200 over the three-year life of the contract – see Table 4.1. The annual average savings achieved are equivalent to approximately $1.70 per rateable property. Clearly these savings are of a smaller magnitude compared to those realised for the road sealing contract considered in section 3, which of course reflects that aggregate costs for ICT services are much smaller compared to road resealing works, naturally reducing the scope for realising significant savings in aggregate terms.

Table 4.1  ICT Services Savings by Council

<table>
<thead>
<tr>
<th>Council</th>
<th>$ per annum</th>
<th>$ over contract life(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berri Barmera</td>
<td>17,600</td>
<td>52,800</td>
</tr>
<tr>
<td>Renmark Paringa</td>
<td>14,200</td>
<td>42,600</td>
</tr>
<tr>
<td>Loxton Waikerie</td>
<td>600</td>
<td>1,800</td>
</tr>
<tr>
<td>Total</td>
<td>32,400</td>
<td>97,200</td>
</tr>
</tbody>
</table>

Note:   (a) 13 January 2014 to 12 January 2017.
Source:  G3 Alliance, unpublished data.

One of the challenges and lessons associated with implementation of the shared ICT services contract is how to fairly apportion costs between participating councils. Various factors influence the cost of ICT service provision, including the type of software required, number of employees supported, level of data usage, volume of IT support enquiries handled etc. As these factors vary between councils and over time, such complexity can create challenges in how to measure and properly allocate costs between councils. For example, in the case of the G3 Alliance, it was found that two of the councils required a much greater level of IT call out support. The existing funding arrangement was subsequently renegotiated to ensure that each council’s financial contribution better matched the level of call out support they received. Such circumstances emphasise the importance of relationship management in achieving sustainable and effective shared service outcomes.
5. Tourism – Limestone Coast

Key Points

- The member councils of the Limestone Coast Local Government Association (LCLGA) employ a Tourism Industry Development Manager as part of a regional strategic economic objective to support the development of the region’s tourism industry.
- The purpose of the shared regional tourism initiative is to provide value added services to the region in terms of undertaking high level tourism promotion, and enhancing industry development to improve the local tourism product, rather than achieve cost efficiencies or savings. Small councils generally do not have the resources to provide such a service independently.
- The shared tourism initiative enables a more regionally focused and strategic approach to tourism development to be pursued. It provides a forum for councils to share knowledge, explore opportunities, coordinate activities, and pool resources.
- A higher level regional approach enables greater access to existing industry distribution systems, including engagement with tourism wholesalers and participation in trade events. Regional approaches are also better aligned with tourist behaviour whereby trip decisions are framed in terms of visiting regions rather than specific council areas.

The South Australian Tourism Commission (SATC) is responsible for fostering the growth of tourism in South Australia. It does this through several means. On the demand side it undertakes marketing activities to promote the state as a tourism destination, and secures, manages and sponsors major events in order to attract visitors. On the supply side it engages in various industry development activities designed to improve tourism infrastructure and visitor experiences.

South Australia is not a homogenous tourism product. It is comprised of various regions that differ in terms of their natural attributes, tourism infrastructure, and types of experiences they offer visitors. They consequently have differing requirements in terms of marketing, promotion and industry development, which implies that effective regional tourism policy should incorporate a significant degree of local input. In recognition of this, the development of regional tourism strategies and planning is largely the responsibility of regional tourism organisations (RTOs) that operate independently of SATC. These organisations work with SATC to develop Destination Action Plans which comprise specific projects and activities designed to maximise tourism outcomes within the region.

There are currently 11 RTOs outside the Adelaide metropolitan area. These organisations differ in terms of their organisational structures and staffing arrangements. Membership based organisations operate in a select number of regions, principally those which have vibrant tourism sectors (i.e. Tourism Kangaroo Island, Tourism Barossa). In most regions, local government is the main or key funding source for the RTO (e.g. Adelaide Hills, Riverland, Yorke Peninsula, Eyre Peninsula). The board for these organisations typically comprise representatives from local councils and tourism operators. Regional Development Australia also provides an important coordinating or support role in a number of regions (e.g. Clare Valley, Flinders Ranges and Outback, Eyre Peninsula).

One rationale for the establishment of RTOs is to address potential market failure in terms of the positive externalities associated with promotional activities. Such positive externalities reflect the idea that promotional activities undertaken by a firm may provide economic benefits to other local firms to the extent they increase visitation and therefore spending in the region. As there will be an incentive for firms to free ride on the promotional activities of other firms, the net effect will be for regional promotional activities to be undersupplied by the market compared to the social optimum level. To address such market failures local government has often stepped in on behalf of their communities, typically through regional approaches. One example is the tourism industry development activities facilitated through the Limestone Coast Local Government Association (LCLGA), which is the focus of the remainder of this section.

Regional Tourism – Limestone Coast

Tourism planning and development arrangements in the Limestone Coast have undergone some significant changes over the last 5 years. Prior to 2013, tourism planning, industry development and marketing for the region was the responsibility of Limestone Coast Tourism Inc., an incorporated body comprising a four way partnership between the South Australia Tourism Commission (SATC), South East Local Government Association member councils (formerly SELGA, now LCLGA), Regional Development Australia Limestone Coast (RDALC), and industry members. The organisation employed three staff and was co-located with the

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5 There is no regional tourism organisation for the Adelaide metropolitan area. Instead, certain local councils have their own tourism staff.
Regional Development Australia Limestone Coast (RDALC). In 2011, SATC withdrew major funding for the organisation. This reduction significantly curtailed the ability of the organisation to undertake marketing activities, which decreased the value of membership for industry operators, leading to a reduction in industry membership. Limestone Coast Tourism Inc. subsequently folded in November 2012.

However, LCLGA member councils considered tourism to be an important strategic component of regional economic development, having identified strategic objectives in terms of establishing a thriving and well supported tourism industry, and growing the region’s status as a visitor destination. They were consequently keen to maintain an industry marketing and development capability, and agreed to maintain funding for a Tourism Industry Development Manager. The industry development manager was initially housed with RDALC, but was recently relocated to the LCLGA in light of its more prominent role in funding the position and leading tourism strategy.

The withdrawal of major funding and leadership provided by SATC effectively enabled a more regionally focused approach to be implemented. Under previous arrangements, the local tourism development officer was often engaged in responding to SATC higher level needs, which were not always relevant to the local tourism product. LGA member councils consequently saw the pull-back in SATC involvement as an opportunity to implement a more regionally focused approach to tourism development.

The shift away from a membership driven organisation has also provided some benefit. Tourism strategy was previously highly reactive to individual member needs, while considerable resources were dedicated to maintaining the membership base. The reduced role of industry members has enabled a more regional and strategic approach to regional tourism development to be pursued. Nonetheless, tourism growth is only likely to be maximised where there is effective coordination of promotional and development activities with industry, and industry has a sense of ownership in these proceedings. The industry development officer consequently maintains an effective relationship with the Limestone Coast Collaborative, which is an industry led body whose mission was to develop regional branding focused around the food, wine, agriculture and tourism sectors. As part of this relationship, the industry development manager seeks to advocate for, and support, tourism industry leadership within the region.

The role of the tourism industry development manager is to improve the quality of the local tourism product by facilitating activities to develop business capacity and undertake high level promotional activities. Key activities associated with this role includes managing relationships with stakeholders both in-region and across borders; providing a source of local expertise for all levels of government; providing industry support and facilitating business capacity building; and representing the region at trade events.

The tourism industry development manager is also currently responsible for facilitating the development of a regional tourism industry development program. In this role, they are assisted by a LCLGA Tourism Management Group, which comprises senior staff from each of the councils. This recently formed group provides strategic guidance on tourism development policy, including identification of key priority areas.

Key priority areas of the emerging tourism strategy include:

- growing the region’s international visitor expenditure through trade travel activities and international market specific programs;
- increasing the regions share of visitors visiting friends and relatives (VFR) through establishing local ambassadors, adopting messages tailored to the target audience, and building links with student bodies;
- increasing events tourism, in part by establishing new events and implementing better sequencing of events across the region; and
- targeting business and corporate activities.\(^6\)

A key part of the current strategy involves improving engagement with the supply side of the market. This approach involves marketing to tourism wholesalers to try to increase representation of local operators in existing distribution systems. Tourism wholesalers develop tour packages comprising flights, accommodation, transport, tickets, tours, etc., which are then sold through travel agents, or sometimes through their own retail travel agency outlets. Examples include Qantas Holidays, Virgin Blue Holidays and Great Aussie Holidays. Wholesalers are an important and increasingly complex component of the tourism distribution system; increasing representation of local operators in the distribution system should enhance their business prospects, or at least help them keep pace with other regions.

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\(^6\) Source: LCLGA, General Meeting 14 October 2016, Agenda Attachments.
The tourism industry development manager’s high level promotional activities generally involve participation in travel trade and consumer shows. Some of these efforts appear to have had some success. For example, targeted travel trade activities have been undertaken in China, leveraging the region’s historical relationship with China, whereby Chinese immigrants in the mid-1800s travelled to the Victorian gold fields via South Australian ports, particularly Robe. Another example is the tourism manager facilitating the introduction of an international travel wholesaler and local tourism operator, which has resulted in regular small groups of international travellers being directed to the local tourism operator.

In terms of improving business capacity, the development manager operates workshops and training, including online training. A key focus of current efforts is to increase local operators’ engagement of international markets. For example, to support the growth of Chinese tourism and properly exploit marketing efforts directed at this market, cultural awareness training has been provided to local operators to ensure they can best service the needs of these visitors. In addition, more intensive one on one engagement is being conducted with select operators to determine whether their product is relevant to the Chinese market. Another key focus at present is improving the online presence of local tourism operators given the increasing importance of self-directed tourism and low digital presence of local operators. Of approximately 875 tourism businesses in the region, only about one third have an online presence, while less than 3 per cent are online bookable with Tourism Exchange Australia – a national booking exchange supported by all Australian Government and state and territory government tourism bodies.

**Funding and Benefits**

Base funding for the tourism industry development manager is comprised of $110,000 provided by the 7 LCLGA member councils, with individual council contributions determined by an agreed formula – refer Table 5.1. SATC also makes a moderate funding contribution of $45,000 through its regional tourism officer program, while RDALC contributes a further $10,000.

For the member councils, the purpose of the shared regional tourism initiative is not to achieve cost efficiencies or savings. Rather, the shared service is about providing value added services to the region in terms of undertaking high level tourism promotion, and enhancing industry development to improve the local tourism product. Smaller councils such as Robe would not have the resources to employ their own tourism development officer, or undertake significant promotional activity. Banding together consequently enables many of the councils to provide a local economic development service they could not otherwise deliver.

**Table 5.1 Base Funding Contributions for Limestone Coast Tourism Industry Development Manager and Regional Tourism Plan**

<table>
<thead>
<tr>
<th>Limestone Coast LGA Member Councils(a)</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Mount Gambier</td>
<td>29,194</td>
</tr>
<tr>
<td>District Council of Grant</td>
<td>14,212</td>
</tr>
<tr>
<td>Wattle Range Council</td>
<td>23,397</td>
</tr>
<tr>
<td>Naracoorte Lucindale Council</td>
<td>15,983</td>
</tr>
<tr>
<td>District Council of Robe</td>
<td>6,303</td>
</tr>
<tr>
<td>Tatiara District Council</td>
<td>13,783</td>
</tr>
<tr>
<td>Kingston District Council</td>
<td>7,128</td>
</tr>
<tr>
<td>Total member councils</td>
<td>110,000</td>
</tr>
<tr>
<td>SATC - regional officer</td>
<td>45,000</td>
</tr>
<tr>
<td>RDA Limestone Coast</td>
<td>10,000</td>
</tr>
<tr>
<td>Total</td>
<td>160,000</td>
</tr>
</tbody>
</table>

Note: \(a\) Based on contributions for 2014/15.

Taking a shared, regional approach to tourism development has a number of other potential advantages. If left to individual councils, tourism promotion and development activities would likely be fractured, having no overall strategic approach. The shared service delivered through the LGALC enables a higher level regional approach to be undertaken, providing a forum for councils to share knowledge, explore opportunities, coordinate activities, and pool resources. A regional approach is also more likely to be effective when advocating to higher level government.

A local government specific approach to tourism policy is unlikely to be effective to the extent it does not align with how people make their trip decisions. Tourists typically frame their trip decisions in terms of visiting regions, cities, or countries rather than local government areas. Local government specific marketing activities are therefore unlikely to be appealing to consumers, while existing industry distribution systems are also not well suited to individual council approaches. For example, tourism wholesalers may prefer to engage regional
tourism representatives rather than individual councils due to the greater economies of scale and efficiencies involved. Similarly, participation in Tourism Australia, and to a lesser degree, SATC trade events can be highly restricted, such that regional organisations would be more likely to be engaged than individual councils given the greater representation they deliver. For example, participation in the Australian Tourism Exchange – the nation’s largest tourism business to business event – is subject to an application process and assessment against selection criteria. The latter includes demonstrated experience in handling international tourists, that sellers offer a mixture of products and services, while geographic limits may be applied to maintain a balanced representation of Australian tourism markets.
6. Waste Management

Key Points

- A variety of models are used to deliver waste management and collection services, including own council provision, contracting to the private sector and via regional subsidiaries. Many councils utilise a combination of these models to deliver their various waste collection services.
- Regional subsidiaries differ in terms of the waste management services they provide, with the range of services comprising kerbside collection services, landfill operation, landfill rehabilitation, waste transfer operation, and recycling centre operation.
- Consideration of the South Regional Waste Resource Authority (SRWRA), which provides a landfill and recycling operation for member councils, identifies benefits in terms of guaranteeing a baseload of work that enables long term planning and associated capital investments to be made.
- A regional subsidiary provides access to a diverse range of executive skills, as well as a forum for dialogue between councils, enabling the different perspectives of each council to be considered in decision making. Together these factors should lead to improved debate and therefore better informed long term planning.
- A regional subsidiary such as the SRWRA can provide an important market function in terms of increasing industry competition.
- The SRWRA is considered to provide gate fees savings to its constituent councils, derived through economies of scale effects and avoiding the need to strive to generate the type of profit margins that would be expected of a private sector operator. Confidentiality restrictions and other complexities ultimately prevented a quantitative assessment of potential cost savings.
- In terms of waste services more broadly, an analysis of existing data provided by councils to the Local Government Grants Commission on their waste collection activities identified significant concerns regarding the accuracy of data being supplied, particularly at the disaggregated level by type of collection service.

One of the primary functions of councils is to provide waste collection services for households and businesses. The variety or quality of waste collections services has increased over time in response to environmental concerns that have prompted efforts to minimise disposal of waste to landfill. Most councils now provide separate collection services for recycling and green organics in addition to the traditional general waste collection service. A majority of councils also provide hard waste and e-waste collections services, while approximately one quarter provide a hazardous waste service.

Provision of waste management services is one of the single largest cost items faced by local government. South Australian local government operating expenses for waste management services were reported to be $174 million in 2014/15, equivalent to 9 per cent of total operating expenses. Only transport, recreation and other environmental services were larger expense categories in 2014/15.

A variety of delivery models are used to provide waste management services, including own council provision, contracting to private sector operators, and through regional subsidiaries established pursuant to Section 43 of the Local Government Act 1999. Given the various waste collection services offered, some individual councils employ multiple models of delivery, such as a regional subsidiary for certain waste streams and private contractors for other collection services. The use of internal delivery and private contractors is also a relatively common arrangement.

Regional subsidiaries, typically designated waste management authorities, may also differ in terms of the types of waste services they provide. Some regional subsidiaries are established to provide kerbside collection services (e.g. East Waste, Fleurieu Regional Waste Authority), to operate landfill sites (e.g. Southern Region Waste Resource Authority, Adelaide Hills Region Waste Management Authority), or even to manage the rehabilitation of landfill sites (e.g. Highbury Landfill Authority, Western Region Waste Management Authority). Some of these subsidiaries may also operate waste transfer stations and recycling centres. To develop a deeper understanding of the impact of regional waste subsidiaries, we briefly consider the Southern Region Waste Resource Authority.

**Southern Region Waste Resource Authority**

The South Regional Waste Resource Authority (SRWRA) is a regional subsidiary established by the metropolitan Cities of Onkaparinga, Marion and Holdfast Bay. The principle role of SRWRA is to operate its wholly-owned landfill and recycling operation located in McLaren Vale. The landfill is one of the four largest landfills servicing the Adelaide metropolitan area, processing approximately 125,000 tonnes of waste annually (SRWRA 2015). The other three major landfills are managed by private sector operators.

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SRWRA does not provide waste, recycling or green organics collection services to member councils. Instead, the City of Onkaparinga operates its own general waste and hard waste collection services, and contracts the private sector to deliver recycling and green organics collection, while Holdfast Bay and Marion generally engage private sector providers.

One of the primary advantages of the shared landfill and recycling operation is that it provides a guaranteed baseload of work that delivers some economies of scale. More significantly however, it enables long term planning and associated capital investments to be made to increase the life of the landfill. Examples include the adoption of increased recycling to reduce disposal to landfill and purchase of new equipment, while operational enhancements such as improved layering have also been implemented to improve efficiency. As a consequence of these efficiency improvements, the expected life of the landfill has increased significantly, from 12 years about 5 years ago to 30 years now. Given the significant economic, political and environmental challenges associated with establishing new landfill sites, the extension of the landfill site provides benefits in terms of avoiding or delaying the costs associated with implementing new landfill capacity.

It would be expected that privately owned landfills have also undertaken significant investment activities to extend the life of landfill sites. Part of the imperative for such actions would be the solid waste levy, which is paid in respect of waste received at a waste depot. The solid waste levy has been raised well in excess of general price inflation over recent years, with the aim to make alternatives to land fill, such as recycling, more attractive (SACES 2016). In respect of the SRWRA, the rises in the solid waste levy have effectively largely offset savings derived from investments and operational changes to improve landfill efficiency.8

Another perceived advantage of operating the landfill through a regional subsidiary, whereby the subsidiary is governed by a Board comprised of representatives from each council, is that it provides access to a diverse range of executive skills. It also provides a forum for two way communication with each council, enabling the different perspectives of each council to be considered in decision making. Together these factors should lead to improved debate and therefore better informed long term planning.

The SRWRA owned landfill also arguably provides an important market function. Given the limited number of major landfills servicing the metropolitan area, landfill providers are effectively operating in a market that lies somewhere between oligopoly and monopolistic competition in character. The SRWRA landfill consequently provides greater market competition, particularly in the southern region where the only other large landfill is ResourceCo’s McLaren Vale site.

The regional subsidiary is considered to provide member councils with gate fee savings compared to the alternative of approaching the open market separately, for a couple of reasons. Firstly, as a common gate rate is applied across the councils, the smaller councils effectively leverage Onkaparinga's larger scale. Secondly, the regional subsidiary effectively avoids the payment of profit margins that would be expected of private sector landfill providers. In fact, the subsidiary has forgone maximising short-term profits, instead choosing to invest to improve the longevity of the landfill resource to enhance waste security. And where operating surpluses are sustained, dividends are paid back to the member councils. For example, a distribution of $200,000 was made to constituent councils in 2014/15 (SRWRA 2015).

Quantifying the potential savings provided by a regional subsidiary owned landfill is unfortunately complicated by commercial sensitivities. In a market environment characterised by limited major landfill operators and competition among private sector providers, most waste management contracts are subject to commercial confidentiality restrictions. Other complicating factors make like-for-like comparisons quite challenging. For instance, landfill gate fees differ depending on the volumes and types of waste being considered. Where councils enter into contracts with landfill operators, tendered prices will differ depending on additional factors such as the existing life of the landfill cell, cost of new cells and term of the contract. Ideally one would account for some of these factors when trying to estimate any cost savings associated with a shared service approach. In light of these complexities and the resources available to conduct the analysis, it has not been possible to quantify the explicit cost savings derived by the SRWRA. Nonetheless, other existing administrative data sources were considered to determine whether any indicative cost saving estimates could be derived for the SRWRA, or shared waste management services for a broader cross section of councils.

Waste Management Data

Local government provides various information on their waste management activities to the Local Government Grants Commission (LGGC). In addition to data on volumes of waste collected and disposed, and associated waste management costs by type of waste collection, information is provided on the number of properties from which waste is collected, the frequency of waste collection services, and whether the waste service is a council

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8 SRWRA, pers. comm.
operated or contracted service. In principle, this information can be used to estimate average unit costs (e.g. costs per tonne or per household) by type of waste collection service, providing insight into potential differences in collection costs by type of collection service. Such comparisons are imperfect to the extent that the data does not enable one to separate collection costs for different types of users (e.g. residential versus commercial/industry), while one ideally would have data on fine level indicators such as bin lift cost rates and bin lifts per hour to properly benchmark waste collection services by mode of delivery (i.e. council, private operator or regional subsidiary). Nonetheless, the data may be sufficient to provide estimates of indicative differences.

Data was sought from the LGGC on waste collection volumes and collection costs by type of waste collection service for all councils in South Australia. This data was cross classified by mode of waste delivery for each collection type based on information provided by each council in its General Information Return to the LGGC.

In order to keep the analysis manageable and relatively standardised, the analysis was restricted to metropolitan councils. Inspection of the data immediately raised serious concerns regarding the quality of waste data being provided by some councils to the LGGC. A number of councils reported data on collection volumes but no, or abnormally low, corresponding operational cost data for specific waste collection services. In some instances, it appears councils allocated most of their overall waste management costs to ordinary solid waste collection and disposal. These problems were relatively widespread: of the 19 metropolitan councils, 8 (42 per cent) reported results that raised immediate concerns about the accuracy of their data.

At least one example was also identified whereby a council appears to have misreported the mode of delivery for some of their waste collection services (i.e. by council entity rather than regional subsidiary). This outcome may reflect that there is room for interpretation in responding to the requested data, which in part reflects that the data collection format is not designed specifically for our use case. Moreover, the apparent inability to allocate waste management costs by type of collection service may reflect that some councils do not have in place financial systems to properly identify these separate costs.

It is important to note that concerns regarding the quality of information provided by local government to other government authorities is not a uniquely South Australian problem. Fogarty and Mugera (2013) identified many significant differences between audited financial statements and information submitted to the state government for councils in Western Australia, while historical financial data for Victorian councils is considered to be of variable quality due to less well developed data definitions being used in the past (SACES 2016a).

Given the data quality concerns raised above, and the fact that auditing councils waste data submissions to the LGGC is beyond the scope and resources of the current study, we have ultimately been unable to further analyse existing waste collection data to identify potential differences in unit costs by mode of waste collection.
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