



Regulatory Impact Statement

Local Government (Planning and Reporting) Regulations 2014

February 2014

This Regulatory Impact Statement has been prepared in accordance with the requirements of the Subordinate Legislation Act 1994 and the *Victorian Guide to Regulation*

In accordance with the *Victorian Guide to Regulation*, the Victorian Government seeks to ensure that regulations are well targeted, effective and appropriate, and that they impose the lowest possible burden on Victorian businesses and the community.

The Regulatory Impact Statement (RIS) process involves an assessment of regulatory proposals and allows members of the community to comment on proposed regulations before they are finalised. Such public input provides valuable information and perspectives, and improves the overall quality of regulations.

This RIS has been prepared to facilitate public consultation on the proposed Local Government (Financial Planning and Reporting) Regulations 2014 (the *proposed* Regulations). The proposed Regulations remake the Local Government (Finance and Reporting) Regulations 2004 (the *current* Regulations). The proposed Regulations contain some significant changes and contain a performance reporting framework. A copy of the proposed Regulations is attached to this RIS.

Submissions are now invited on the proposed Regulations. Unless requested by the author, all submissions will be treated as public documents and may be made available to other parties.

Written comments and submissions should be forwarded by no later than **5:00pm, Wednesday 19 March 2014** to:

Michael Concas
Local Government Victoria
Department of Transport, Planning and Local Infrastructure
GPO Box 2392
Melbourne VIC 3001

or email:
michael.concas@dtpli.vic.gov.au

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ABBREVIATIONS

the Act – *Local Government Act 1989*

the current Regulations – Local Government (Finance and Reporting) Regulations 2004

the proposed Regulations – Local Government (Financial Planning and Reporting) Regulations 2014

ACELG – Australian Centre of Excellence for Local Government

CPI – Consumer Price Index

DTPLI – Department of Transport, Planning and Local Infrastructure

ESC – Essential Services Commission

LGA – local government areas

LGCI – Local Government Cost Index

LGPRF – Local Government Performance Reporting Framework

LGV – Local Government Victoria

MAV – Municipal Association of Victoria

MCA – Multi-criteria Analysis

NCC – National Competition Council

PV – Present Value

Premier's Guidelines – Subordinate Legislation Act 1994 Guidelines

RIS – Regulatory Impact Statement

VAGO – Victorian Auditor-General's Office

VCEC – Victorian Competition and Efficiency Commission

VLGI – Victorian Local Government Indicators

VGC – Victorian Grants Commission

EXECUTIVE SUMMARY

The Local Government (Finance and Reporting) Regulations 2004 will cease to have effect in April 2014. New Regulations are proposed to be made.

In Victoria the *Subordinate Legislation Act 1994* requires that new or remade regulatory proposals that impose a 'significant economic or social burden on a sector of the public' be formally assessed in a RIS to ensure that the costs of the regulatory proposal are outweighed by the benefits, and that the proposal is superior to alternative approaches. It has been assessed that the proposed Regulations requires assessment in a RIS.

A RIS formally assesses regulatory proposals against the requirements in the *Subordinate Legislation Act 1994* and the *Victorian Guide to Regulation*.¹ The assessment framework of this RIS examines the problem to be addressed, specifies the desired objectives, identifies viable options that will achieve the objectives, and assesses the costs and benefits of the options, as well as identifying the preferred option and describing its effect. The RIS also undertakes a competition assessment. Finally, it considers implementation and enforcement issues and documents the consultation undertaken.

Objectives

The Preamble in the *Local Government Act* (the Act) states that:

It is essential that there is a legislative framework that provides for councils to be accountable to their local communities in the performance of functions and the exercise of powers and the use of resources.

The Local Government Amendment (Performance Reporting and Accountability) Act was given Royal Assent on 11 February 2014 and sets out the new financial planning and reporting framework for local government, commencing in the 2014-15 financial year. The proposed Regulations will give effect to the framework established through amendments to the Act, which will come into operation on 18 April 2014.

The objectives of the proposed Regulations are therefore to:

- enhance transparency and accountability through the reporting on councils' performance;
- facilitate improvements in service delivery through improving access to robust and consistent data to better scrutinise and compare councils' performance; and
- minimise the burden on local councils and other costs.

¹ Department of Treasury and Finance 2011, *Victorian Guide to Regulation incorporating: Guidelines made under the Subordinate Legislation Act 1994*, 2.1 ed, August 2011, Melbourne.

Nature and extent of the problem being addressed

Citizens and ratepayers do not have adequate information about the performance of local councils. Numerous reviews and audits by the Essential Services Commission, the Victorian Auditor-General's Office (VAGO) and others have consistently pointed to shortcomings in the current approach to local government planning and reporting.

Better reporting on local council activities has been found to not only enhance transparency and accountability, which is an inherent necessity of a healthy democracy, but, well designed, can contribute to improving performance of local councils through the ability to scrutinise and benchmark local council decisions to incentivise continuous improvement.

Each year local councils in Victoria spend around \$7 billion² and manage over \$67 billion of community assets and infrastructure³ so the scope for incremental improvements from assessing performance has the potential to translate into significant benefits. The Victorian Competition and Efficiency Commission (VCEC) has previously noted (in relation to the water retail sector, which is highly relevant to many council core activities) that, in principle, competition by comparison can influence activities and hence controllable expenditures.⁴ The VCEC found that the scope for competition by comparison to influence overall performance was significant in dollar terms.

Better performance reporting will also assist councils to justify and explain their decisions on council rates to their communities. Understanding the efficiency and effectiveness of operations is essential for councils to make prudent resourcing decisions, for assuring the equitable distribution of rates, and for justifying these decisions to the community. Understanding rate increases are an issue of considerable concern to communities. The average percentage annual increase in rates substantially exceeded both the Local Government Cost Index (LGCI) and the Consumer Price Index (CPI) across all councils between 2000 and 2010.⁵ Each council and its community need specific diagnostic performance data to understand its rating circumstances and where opportunities for improvements may lie.

Changes from current regulations

The proposed Regulations contain a number of important changes from the current Regulations they will replace. Key changes include:

- the introduction of a suite of 71 performance indicators and measures to be reported in councils' annual reports, some of which must be audited;
- the introduction of a governance and management checklist to be included in the annual report;
- strengthened disclosure requirements for capital works and human resource planning in councils' strategic resource plan and budget;

² Victorian Auditor-General's Office, 2013, *Local Government: Results of the 2012–13 Audits*

³ Victorian Auditor-General's Office, 2014, *Asset Management and Maintenance by Councils* [online webpage]

⁴ Victorian Competition and Efficiency Commission, 2008, *Water Ways: Inquiry into Reform of the Metropolitan Retail Water Sector*, final report.

⁵ Victorian Auditor-General's Office, 2012, *Performance Reporting by Local Government*

- strengthened disclosure requirements for proposed changes to rates and charges to inform public consultation on the proposed budget; and
- a number of consequential changes following changes to the Act that will commence from April 2014. For example, the Act will no longer require the use of 'standard statements' so these are no longer included in the new Regulations. Other elements of the current Regulations are also now included in the Act or no longer required, so will be removed from the Regulations.

Summary of costs and benefits of the proposed measures

Compared to a 'base case' of having no regulations after April 2014, the proposed Regulations impose a reporting burden on local councils. The quantifiable cost burden is estimated at less than \$3,500 per council per year, although there is scope to reduce this cost in later years as councils become more familiar with the reporting requirements and adjust systems to allow more efficient collection and reporting.

The assumptions used in the estimation reflect an average cost across all councils, based on a survey of councils participating in a pilot program and interviews. The 43 councils that participated in the pilot comprised of councils from all groupings⁶ (size and location) and as such the findings incorporate the different abilities for councils to collect and report information.

Nevertheless, the findings from the survey suggest that there could be a wide variation in the impact on individual councils, with some councils incurring up to double the cost (at least in the initial year) and others incurring a smaller cost.

In total across all councils, the reporting costs are estimated to be \$276,342 in 2014-15, which is less than 0.01 per cent of total rate revenue, and even less in terms of overall annual expenditure by councils. Over ten years, the total cost of the proposed Regulations is estimated to be \$2.3 million (in present value terms).

The above cost estimate reflects only those costs that have been able to be quantified. There are other consequential costs to councils from the proposed Regulations that have not been able to be directly quantified. These are:

- audit costs as a result of prescribing 32 of the performance indicators to be audited by VAGO. Under the Act, the financial statements, standard statements and performance statement contained in council's annual report must be audited by VAGO. Currently councils pay a fee to VAGO based on the amount of audit work required – this amount varies across councils, ranging from \$24,000 to \$217,000 in 2012-13. A quantified estimate of the additional auditing costs that will be incurred as a result of the new reporting requirements is not possible given councils may employ different methods to collect and assemble information, which affects the amount of audit effort VAGO considers necessary, however the selection of indicators to be audited has been developed in consultation with VAGO with the aim of minimising audit costs. While not quantified in the RIS, the assessment of options has had regard to there being a material audit cost associated with the proposed

⁶ The 43 councils' represented in the pilot program included 13 inner metropolitan, 11 outer metropolitan, 5 rural cities and regional centers, 5 large rural shires and 9 small rural shires.

Regulations. LGV will also continue to work with VAGO as the reporting framework is finalised and implemented to identify where audit costs can be minimised; and

- other consequential costs that LGV considers are not significant, although their exact magnitude is unknown. For example, the Regulations require the performance statement to be certified, in a form set out in the regulations, by the CEO and the Principal Accounting Officer. The time required for them to do this (including to undertake additional scrutiny to satisfy themselves prior to certifying the statement) is not known but expected to be low. This is because the Act already requires the performance statement to be certified by two Councilors, so the mechanisms to allow scrutiny should already be in place.

Feedback on cost assumptions

Some of the assumptions used to estimate the costs of the proposed Regulations are based on a survey and interview of some councils. To test the robustness of these assumptions, LGV is seeking views from councils on the following questions:

- Is the time taken to complete each element as outlined in Figure 3D correct?
- Are there other steps or tasks that councils will need to undertake in order to meet the proposed regulations?
- The estimate uses a blended hourly rate of \$76.02 to calculate the total value of the time. Taking account of the different staff levels that will be used to collect and assemble data and produce reports, is this an appropriate value?
- How reasonable is the assessment about the magnitude of these costs as well as any other costs that have not been quantified?
- Are other costs that have not been quantified or considered in the RIS to be insignificant – such as information technology costs to meet the reporting requirement, or auditing costs – potentially significant?

The Government will also incur costs given LGV's role in implementation and enforcement of the Regulations. Although the incremental ongoing costs of this have not been estimated, they are expected to be low, given that LGV already plays a more general role in overseeing the planning and reporting framework in the Act.

Note that the costs quantified in this RIS are the direct incremental costs of the proposed Regulations and does not reflect any savings from the changes to the Act, or the streamlining of other reporting requirements occurring in parallel. Taking account of all changes, the Victorian Government believes that the new planning and reporting framework will not add materially to council costs, and may even reduce costs. The new framework is therefore not expected to put any upward pressure on council costs or rates.

The benefits of the proposed Regulation are their contribution to achieving the objectives stated above; namely, to give effect to the reporting framework established in the Act, enhance transparency and accountability, and enhance the incentives for making improvements to effectiveness and efficiency of local council services. These are not able to be quantified, and therefore this RIS uses a multi-criteria analysis to inform the Victorian Government's belief that the benefits are likely to exceed the costs.

Noting previous comments from VAGO that a compliance-centric approach has a risk of providing a high volume of information of limited use, the proposed Regulations have been through a rigorous development stage to test a wider range of indicators and eliminate or amend those where feedback indicated that the effort in measuring the indicator was not proportionate with the importance of having the relevant information. In contrast, the process for developing the indicators and other reporting requirements in the proposed Regulations has had a primary focus on improving the quality, not just increase the volume, of information.

Why other options are not appropriate

Alternatives to the proposed Regulations assessed in the RIS are:

- a voluntary approach where councils choose their level compliance - this is a non-regulatory approach. Under this option, the Victorian Government would publish 'best practice' reporting requirements, including the set of performance indicators in the proposed Regulations. Compliance would not be mandatory, with local councils able to choose their own reporting. Measures would not be required to be audited. Councils would therefore be able to choose which data would be most value-adding to their decision making, reducing the risk of measuring a large number of indicators of limited relevance to the council.
- a principles-based approach where councils continue to develop their own reporting indicators and measures - new regulations could be put in place to explicitly require councils to develop their own set of performance indicators and measures, with the regulations setting out the principles for reporting along with the scope and type of indicators that must be used. Councils would therefore be able to choose which data would be most value-adding to their decision making, reducing the risk of measuring a large number of indicators of limited relevance to the council.
- a more prescriptive approach – this is a more onerous and prescriptive approach to ensure that much more information about councils is provided to the community. The range of indicators and measures would be expanded, to include reporting against a further 34 indicators (21 service performance and 13 financial performance) that were initially part of the indicator set but removed between the first pilot and the proposed Regulations. These additional indicators covered services areas including libraries, sports grounds, governance (use of conduct panels), street sweeping, immunisation, as well a number of further financial performance indicators.

The proposed Regulations and these alternative options were assessed against the intended objectives using a multi-criteria approach.⁷ The assessment of alternative options indicated that, while all the alternative approaches are likely to offer a net benefit above the base case, none offer a better overall assessment than the proposed Regulations. This is because there is a trade-off between the amount and quality of information required to be reported (which is affected by data auditability, consistency across councils and amount of information reported) and the costs in collecting the data – see section 4.4 for further discussion.

⁷ The multi-criteria approach is discussed at section 3.5, including an explanation of how each criterion has been weighted in the calculation of the overall score.

Figure A
Summary of Multi-criteria analysis results

Criterion (and relative weighting)	Proposed Regulations	Voluntary Approach	Principles Approach	More Prescriptive
Improved transparency and accountability of local councils. This is achieved if reported information is comprehensive, relevant and appropriate, as well as easy to access and understand. (30%)	80	40	60	90
Increases focus on continuous improvements in council effectiveness and efficiency. This is achieved where information is consistent across councils, robust, and reflects the quantity, quality, timeliness and costs of services. (20%)	60	30	30	70
Costs of providing information. (50%)	-50	-30	-40	-75
TOTAL SCORE (weighted)	11	8	4	3.5

Public consultation

The development of the proposed Regulations has followed extensive consultation over a number of years with local councils and other key stakeholders. The assessed impact of the proposed Regulations has largely drawn on feedback from local councils, particularly in terms of the reporting burden they are likely to impose.

A primary function of the RIS process is to allow members of the public to comment on the proposed Regulations before they are finalised. Public input provides valuable information and perspectives and improves the overall quality of regulations. Accordingly, feedback on the proposed Regulations is welcomed and encouraged.

The *Subordinate Legislation Act 1994* requires that the public be given at least 28 days to provide comments or submissions regarding the proposed Regulations. The consultation period for this RIS will be 28 days, with written comments required by no later than 5.00pm, Wednesday 19 March 2014.

1 INTRODUCTION

1.1 Regulation of local government

The Victorian *Constitution Act 1975* recognises local government as a distinct and essential tier of government consisting of democratically elected councils having the functions and powers necessary to ensure the peace, order and good government of each municipal district.

The Victorian Government has an important role in overseeing an effective system of local government, with a key focus being on setting the right the legislative frameworks in which local government operates. While administered under the *Local Government Act 1989* (the Act), each council operates autonomously and is directly accountable to its constituents.

The local government sector in Victoria comprises 79 area-based, representative governments with a legislative responsibility to manage local issues and plan for their community's needs.

Under the Local Government Charter set out in the Act, the primary objective of local councils is to endeavour to achieve the best outcomes for the local community having regard to the long-term and cumulative effects of decisions. In seeking to achieve its primary objective, a council must seek to ensure transparency and accountability in Council decision making.⁸

Part 6 of the Act sets out a number of planning and accountability reports required to be prepared by councils, which include:

- a council plan;
- a strategic resource plan;
- an annual budget; and
- an annual report.

The required content of these reports is largely set out in Part 6 of the Act with further information required prescribed in the *Local Government (Finance and Reporting) Regulations 2004* (the current Regulations). The current Regulations have been in place, with some minor amendments, since 2004 and are due to sunset on 20 April 2014. New regulations are proposed.

A number of reviews in recent years have identified that the planning and accountability framework for local government has slipped from being best practice. In April 2012, the Victorian Auditor-General's Office (VAGO) recommended that regulations be developed to establish minimum standards for the form and content of performance statements of local councils.⁹

⁸ Local Government Act, section 3C(2)(g).

⁹ VAGO, 2012, *Performance Reporting by Local Government*, 2011-12:27.

Subsequently the Victorian Government has committed to implement a performance monitoring and reporting framework that will be mandatory for local government.¹⁰ The intention is to strengthen the planning and accountability requirements to ensure that Victoria has a strong, viable and accountable local government sector.

1.2 Purpose of this Regulatory Impact Statement

This Regulatory Impact Statement (RIS) formally assesses the proposed Regulations against the requirements in the *Subordinate Legislation Act 1994* and the *Victorian Guide to Regulation incorporating: Guidelines made under the Subordinate Legislation Act 1994*.

The Victorian Government's principles in relation to regulation are to:

- ensure that regulations are well targeted, effective and appropriate; and
- reduce the regulatory burden on business and not-for-profit organisations.

The proposed Regulations have been assessed in the context of these principles.

The assessment framework of this RIS:

- examines the nature and extent of the problem to be addressed;
- outlines the objectives of the proposed Regulations;
- explains the effects of the proposed Regulations on various stakeholders; and
- assesses the costs and benefits of the proposed Regulations.

Feasible alternatives to the proposed Regulations are also considered and assessed. The RIS considers if there is any net change in the regulatory burden imposed that arises from the proposed Regulations. It also examines potential impacts on competition.

A primary function of the RIS process is to allow members of the public to comment on the proposed Regulations before they are finalised. Public input provides valuable information and perspectives and improves the overall quality of regulations. Accordingly, feedback on the proposed Regulations is welcomed and encouraged.

¹⁰ Victorian Government 2012, *Securing Victoria's Economy – Planning, Building, Delivering*.

2 THE REASONS FOR REGULATING LOCAL GOVERNMENT PLANNING AND REPORTING

Key points

- Successive reviews have found re-occurring themes of ineffective planning and reporting by local government.
- Citizens and ratepayers do not have adequate information about the performance of local councils.
- Better information on performance enhances transparency and accountability.
- Comparative performance reporting allows council decisions to be scrutinised and comparisons against similar councils to be made leading to improved performance.

2.1 Background

Councils in Victoria play a large part in the wellbeing of local communities. They manage assets and deliver services that support economic, social and environmental outcomes.

Each council delivers a distinct set of services tailored to meet the needs of its municipality. However, council services can be broadly grouped into the following categories:

- **General public services** such as emergency prevention and protection, animal management and control, tourism and visitors, commerce and industry, community information and engagements and local law enforcement.
- **Health, welfare and community services** such as aged care, maternal and child health, family and children's services, youth services, disability services, cultural development, public libraries, leisure and recreation, housing, public health, employment and migrant and indigenous services.
- **Planning and building services** such as statutory planning, strategic planning, planning system reform, built form sustainability, rural land use management, forestry, native title and indigenous cultural heritage.
- **Environment services** such as management of waste, catchments, stormwater, native vegetation and weeds, salinity and water quality, sustainability, parks and reserves.
- **Infrastructure services** such as building maintenance and renewal, road construction and maintenance, traffic and parking management, community safety, public space maintenance, leisure facilities.¹¹

While the operating context of each council varies depending on location, size, demographics, local needs and priorities, all councils have the same obligation to

¹¹ Essential Services Commission 2010, *About local government and what it does*.

manage their finances responsibly and to ensure their services and infrastructure meet community needs, both now and in the future.

2.2 Nature of the problem

It is generally accepted that government may need to regulate where there is insufficient or inadequate information available to people who need it to make decisions. The *Victorian Guide to Regulation* provides an example of this type of government intervention:

Consumers may not have adequate access to the information they require to make decisions that are in their best interests. For example, consumers need access to information on the quality or content of products (including associated hazards). Sometimes, sellers may have access to better information than buyers (often referred to as 'information asymmetries'). Under such circumstances, governments may regulate to require information disclosure.¹²

Local communities are consumers of their local councils—the community pays rates in exchange for the services provided by the council. Ratepayers therefore have a legitimate right to know how their rates are being used.

Ratepayers' consumption decisions also includes their right to vote at local elections. Effective performance reporting ensures councils are accountable to their local residents and ratepayers for their legislative obligations. The Victorian Auditor-General noted in 2012:

[Performance reporting by local councils] is critical for demonstrating value-for-money, the achievement of objectives, equitable access to services, and that services are appropriate, of good quality, and cost effective.¹³

Regulation of the reporting of local councils is based on enhancing transparency and accountability of local government. This is important in its own right, as councils are elected by their communities.

Better reporting may also lead to better outcomes. Good reporting on performance allows greater scrutiny of decision making, which can in turn lead to better decisions. A consistent approach to reporting also allows meaningful comparisons and benchmarking to be undertaken, allowing identification of areas for improvement in council activities.

Of course, better reporting is linked to the planning of council activities. To be able to meaningfully assess performance, the public needs sufficient information about council objectives and intentions. Citizens need to understand councils' strategic plans and budget. Better disclosure on council planning not only facilitates better scrutiny of performance, but will usually lead to better plans.

As early as 1997, the Industry Commission found that there would be considerable net benefits to the community from improving performance measurement systems

¹² Edition 2.1 page 9.

¹³ VAGO, 2012, *Performance Reporting by Local Government*.

used by local councils—by providing insights into how to raise performance and to be a useful basis for 'yardstick competition'.¹⁴ The Commission stated (at page 6):

Improving comparative performance indicators ... has been an integral part of many of the changes in local government during the past decade. These changes have seen a greater role for competition – be it 'yardstick' competition, comparisons with other providers performing similar activities, or 'direct' competition for the right to supply a service – for example, through the increased use of competitive tendering and contracting.

The Commission considers that there is an increased role for performance indicators in improving efficiency and effectiveness of local government, and in enhancing its accountability by enabling residents and ratepayers (as well as state governments) to better assess each council's performance.

The Industry Commission concluded that good comparative information on performance can enhance the incentives to achieve continuous improvement by:

- encouraging councils to be more explicit about their objectives;
- providing information on attainable levels of performance, thereby fostering yardstick competition where competitive forces are at work; and
- providing managers with insights into which other approaches may work.

The services of local councils are rarely subject to competitive pressures, which make yardstick competition and the use of performance indicators more important. Yardstick competition is essentially the same as 'competition by comparison' used in relation to public utilities. As the VCEC notes:

The concept of competition by comparison was developed in the 1980s as a way to help limit abuse of market power in monopolised utility industries such as electricity and water. It was suggested that monopoly enterprises could be successfully regulated using 'the costs of comparable firms to infer a firm's attainable cost level.' In practice, comparative competition has been employed in several ways, ranging from simply reporting publicly on the performance of utilities, to the active use by economic regulators of 'league tables' as a means for setting prices.¹⁵

In that report, the VCEC noted that, in principle, competition by comparison can influence water retailers' activities and hence their controllable expenditures.¹⁶ The VCEC found that the scope for competition by comparison to influence the aggregate performance of the water sector, while likely to be relatively less than has previously been the case, was still significant in dollar terms.

In a similar vein, the Auditor-General noted in 2012 that 'good performance information helps ratepayers and councils to gain important assurance that these critical functions are being performed well. It also helps them identify inadequate performance, and to initiate timely corrective actions.' The Auditor-General found

¹⁴ Industry Commission, 1997, *Performance Measures for Councils – Improving local government performance indicators*, Research report.

¹⁵ Victorian Competition and Efficiency Commission 2008, *Water Ways: Inquiry into Reform of the Metropolitan Retail Water Sector*, final report, February; also citing Schleifer, A 1985, 'A theory of yardstick competition', *Rand Journal of Economics*, vol. 16, no. 3, pp. 319–327.

¹⁶ *Id*, page 52.

that deficiencies in the quality and availability of performance information contributed to its findings of:

- repeated poor financial and asset management practices, offering little assurance that councils' long-term financial management is robust;
- a lack of effective policies, planning, monitoring and evaluation, including data quality assurance, reducing assurance that councils are operating efficiently, and in compliance with relevant obligations; and
- inadequate oversight of procurement processes.

Enhanced performance reporting has also been recommended in more specific contexts. For example, the VCEC recommended improving local planning decisions and enforcement of regulations by strengthening local council performance reporting including developing a comprehensive performance reporting strategy.¹⁷

2.3 Extent of the problem

It is difficult to measure the extent of the problem, as reporting requirements of local government to state government has a long history. In 1843 a requirement was introduced for local government to have its accounts audited and then to be transmitted to the Governor.¹⁸ The current Regulations succeeded previous regulations that, while different in detail, were aimed at addressing the same fundamental problem.

It is also difficult to quantify the benefits of having a rigorous reporting framework in place. This is because the primary motivation for reporting is improved transparency and accountability, which is not readily measured. Secondary benefits of performance reporting—the mechanisms to drive greater efficiency and effectiveness—is also difficult to measure as the beneficial impact contributes to the overall framework rather than directly linked to individual decisions.

That said, repeated findings by the Essential Services Commission (ESC), VAGO, and feedback through consultation, all point to a general community expectation of continued and improved performance reporting by local councils. Evidence of improved performance is the work of the UK Audit Commission, which was designed to empower citizens as part of the Citizen's Charter initiative. The Audit Commission found that publishing comparative information on the performance of local government had influenced public opinion and created greater pressure on councils to improvement management.¹⁹

Each year local councils in Victoria spend around \$7 billion²⁰ and manage over \$67 billion of community assets and infrastructure²¹ so the scope for incremental improvements from assessing performance has the potential to translate into significant benefits.

¹⁷ Victorian Competition and Efficiency Commission 2010, *Local Government for a Better Victoria: An Inquiry into Streamlining Local Government Regulation*, final report, August.

¹⁸ Jenks, E., 1891, *The Government of Victoria*, Macmillan and Co., London, p. 90

¹⁹ Audit Commission (UK), 1997.

²⁰ Victorian Auditor-General's Office, 2013, *Local Government: Results of the 2012–13 Audits*

²¹ ²¹ Victorian Auditor-General's Office, 2014, *Asset Management and Maintenance by Councils* [online webpage]

Councils in Victoria:

- Service 129,201 kilometres of roads (approximately 85 per cent of Victoria's total road network)
- Provide 606,800 maternal and child health consultations a year
- Deliver 306,600 immunisations to preschool and secondary school children a year
- Deliver 3.8 million meals a year to home care recipients
- Provide 4 million hours of home assistance, property maintenance, personal and respite care a year
- Spend over \$50 million on public street lighting each year
- Loan 52 million items from 316 public and mobile libraries to 2.5 million registered users a year
- Provide internet access for more than 3.4 million bookings a year
- Process more than 55 800 planning applications a year
- Maintain more than 1 000 grassed sports surfaces
- Collect 1 million tonnes of kerbside garbage a year
- Collect 608 000 tonnes of recyclable materials a year
- Collect 270 000 tonnes of organic waste a year
- Interact with over 18,500 tobacco retailers, eating establishments and licensed premises a year
- Register nearly 50,000 food premises a year.

Source: MAV 2012.

For the purposes of the proposed Regulations, the 'problem' is a residual one. This means that, while the problem described above exists, there are already some measures in place to address the problem, with the proposed Regulations seeking to address any gaps. The Act already sets in place many reporting requirements.

The extent of the 'residual problem' is affected by changes made to the Act, which will commence on 18 April 2014, alongside the proposed Regulations.²² Relevant changes to the Act include:

- replacing the existing use of 'standard statements' with financial statements (requirements of which will be defined in the Act itself in relation to Australian Accounting Standards and no longer require regulations) for use in the strategic resource plan, annual budget and annual report;
- introducing new requirements for the strategic resource plan—largely to take into account services and initiatives contained in other plans adopted by council, and other form and content requirements that may be prescribed related to the non-financial resources;
- requiring annual budgets to contain information on major initiatives to be funded in their budgets, which replaces the requirement for councils to identify and report 'key strategic activities' which are inconsistently interpreted by councils;

²² The relevant changes to the Act and the proposed Regulations will have effect for the financial year commencing 1 July 2014.

- ensuring consistency between the strategic resource plan and annual budget by requiring councils to adopt their budget by 30 June each year;
- requiring councils' annual reports to include:
 - a statement of progress in relation to the major initiatives identified in the budget
 - the results of council's assessment against the governance and management checklist set out in the regulations
 - all the prescribed indicators of service performance that relate to services provided by council, and the prescribed measures for those indicators
 - the results achieved in relation to these performance indicators and measures
 - any other information required by the regulations;
- providing that the audited performance statement included in the annual report must be prepared in accordance with the regulations, and contain a standard set of 32 performance indicators measuring service performance, financial performance and sustainable capacity, as well as:
 - the measures for those indicators
 - the results achieved in relation to these performance indicators and measures
 - any other information required by the regulations; and
- improving access to council reporting by including requirements to make key reports available on council websites.

Overall, the key planning and reporting requirements are in place as a result of the amended Act are set out in Figure 2A below.

Figure 2A – Key reports required under the Local Government Act

<p>Council Plan (s. 125)</p>	<p>Must contain:</p> <ul style="list-style-type: none">• the strategic objectives of the council• strategies for achieving objectives for the next 4 years• strategic indicators for monitoring the achievement of the objectives• a strategic resource plan• any other matters which are prescribed.
<p>Strategic Resource Plan (s. 126)</p>	<p>Must contain:</p> <ul style="list-style-type: none">• the financial statements describing the required financial resources in the form and containing the information required by the regulations• a statement describing the required non-financial resources, including human resources, in the form and containing the information required by the regulations.
<p>Annual Budget (s. 127- s.129)</p>	<p>Must contain:</p> <ul style="list-style-type: none">• financial statements in the form and containing the information required by the regulations• a description of the services and initiatives to be funded in the budget• a statement as to how the services and initiatives will contribute to achieving the strategic objectives specified in the council plan• major initiatives, being initiatives identified by the council as priorities, to be undertaken during the financial year• for services to be funded in the budget, the prescribed indicators to monitor performance outcomes that are required to be reported against in the performance statement and the prescribed measures relating to those indicators• any other information required by the regulations. <p>A public notice must also be published advising that copies of the budget or revised budget are available for inspection for at least 28 days, and any other information required by the regulations.</p>
<p>Annual Report (s. 131 – s.133)</p>	<p>Must contain:</p> <ul style="list-style-type: none">• a report of operations for the financial year, which must contain:<ul style="list-style-type: none">○ a statement of progress in relation to the major initiatives identified in the budget○ the results, in the prescribed form, of the council's assessment against the prescribed governance and management checklist○ all prescribed indicators of service performance and the prescribed measures, and the results achieved for that financial year○ any other information required by the regulations○ any other information determined by the council as appropriate.• an audited performance statement, prepared in accordance with the regulations, which must contain:<ul style="list-style-type: none">○ the prescribed indicators, measures and results of service performance required by the regulations to be reported against○ the prescribed indicators, measures and results of financial performance○ the prescribed indicators, measures and results of sustainable capacity performance○ any other information required by the regulations.• audited financial statements and notes for the financial year, which must be prepared in accordance with Australian Accounting Standards and the regulations and include any other information required by the regulations.• a copy of the auditor's report on the performance statement and the financial statements• any other matter required by the regulations.

While the provisions in the amended Act will allow regulations to specify additional information that should be included in key planning and reporting documents, for some reports the proposed Regulations are necessary to give operational effect to the Act.

For example, regulations are necessary to require councils to report against the governance and management checklist, and to prescribe the indicators and measures that must be reported against in the performance statement. Without regulations to set these requirements, the performance statement and governance and management checklist required by the Act would become largely meaningless.

While some of the changes to the Act are largely of an administrative or machinery nature, the introduction of a new framework for reporting on performance indicators, which are set out in the proposed Regulations, marks a significant change in the overall reporting requirements.

The changes to the Act follow on from an extensive program of work involving review of the current approach and consultation with stakeholders. This is discussed further below. The consequences of the changes are that there will now be different matters that must be included in proposed Regulations to enable the reporting framework established in the Act to operate. Of most significance for this RIS, the Act requires regulations to set out the governance and management checklist and complete set of service performance indicators to be included in the report of operations, and indicators and measures to be included in the performance statement.

2.3.1 Recent trends and the case for future government action

An audit by the Auditor-General in 2008, *Performance Reporting in Local Government*, assessed whether councils' publicly reported performance information in their annual reports was useful, and underpinned by a comprehensive and cohesive reporting framework such as policies, guidelines and training.

The audit reviewed the performance statements of all 79 councils and assessed whether the information they contained was relevant, appropriate and fairly presented. It concluded that for most councils reporting had limited relevance to ratepayers, and lacked information about the quality of council services, the outcomes being achieved, and how these related to councils' strategic objectives.

The audit canvasses a number of reasons as to why councils were not reporting adequately on performance. Key factors identified were:

- resource constraints as a major challenge to developing more comprehensive, balanced and appropriate performance indicators, although there was a view in some councils that better reporting would draw resources away from more important (urgent) areas;
- some councils advised that improvements to performance reporting have not been prioritised because councillors are focused on delivering key projects, and on meeting the immediate needs of their communities. As a result, the administrative arrangements for measuring council's performance tend to be afforded lower priority. They also advised that a further related challenge is that residents usually seek information about activities that directly impact

upon them, and are less interested in wider performance information that conforms to better practice principles; and

- the absence of an agreed standard was a factor contributing to ongoing variation in the quality of performance information reported by councils.

The audit recommended that all councils critically review and improve their publicly reported performance information and that they document and approve performance reporting policies and standards. It also recommended that regulations be issued establishing the minimum standards for the form and content of performance statements.

In 2009, the then Minister for Finance and Minister for Local Government requested the ESC to provide advice regarding the development and implementation of a state-wide performance monitoring framework for local government service delivery. This advice culminated in a final report with recommendations on the indicators and processes to implement a state-wide framework.²³

The final report recommended councils report each year on a set of service indicators and supporting indicators to the ESC to allow a comparative report to be prepared. A staged implementation was recommended involving a pilot report covering a smaller number of councils which provided an opportunity to refine and improve the proposed framework.

In January 2011, consistent with the terms of reference and as part of the phased implementation process, the ESC released a prototype report. Prepared with the support of 33 councils who volunteered to participate in the pilot, the *Victorian local government pilot services report 2009-10: Report to the Minister for Finance and Minister for Local Government* presented an opportunity to refine the services report and the underlying reporting processes.

As part of the preparation of the *Local Government: Results of the 2010–11 Audits*, VAGO performed a high-level review of 10 council performance statements. It concluded that limited improvement was evident in the quality of the performance statements produced by councils, and that non-financial performance indicators were of limited relevance to ratepayers and residents. The report further noted that councils continued to adopt a 'compliance-centric' approach to performance information, and that they were not producing performance reports that drive council outcomes and accountability by being relevant and appropriate to stakeholder needs.

A follow up performance audit in 2012, *Performance Reporting by Local Government*, found that although councils produce large volumes of information for internal and external audiences, this reporting often lacked information about the timeliness, cost, quantity or quality of council services, and therefore did not adequately position councils to overcome performance challenges.

VAGO provided a summary of other audits that had identified shortcomings in local government performance (see Figure 2B). The recurring nature of the performance issues identified shows there are an ongoing impediment to councils' ability to fulfill

²³ ESC, 2010, *Establishing a Victorian Local Government Services Report*.

their statutory obligations. VAGO found that overcoming these challenges is therefore an urgent priority for the local government sector.

Figure 2B
Recurring performance issues for councils

Theme	Summary	VAGO Audits
Ineffective planning and budgeting	<ul style="list-style-type: none"> Inadequate links between corporate plans, asset management plans and budget processes Inadequate funding models resulting from poor forward planning 	<i>Management of Roads by Local Councils (2002)</i>
	<ul style="list-style-type: none"> Lack of rigour in developing business continuity plans 	<i>Business Continuity Management in Local Government (2010)</i>
	<ul style="list-style-type: none"> Inability to demonstrate that fees and charges reflect best value principles 	<i>Fees and Charges: Cost Recovery by Local Government (2010)</i>
	<ul style="list-style-type: none"> Inadequate asset management plans, compromising effective management of \$1.6 billion in assets Lack of long-term strategic plans underpinning financial plans 	<i>Business Planning for Major Capital Works and Recurrent Services in Local Government (2011)</i>
Inadequate adherence to policies and procedures	<ul style="list-style-type: none"> Inadequate policies for the management of road assets 	<i>Management of Roads by Local Government (2002)</i>
	<ul style="list-style-type: none"> A lack of policies governing the enforcement of planning permits, leading to a lack of assurance that permits are compliant 	<i>Enforcement of Planning Permits (2008)</i>
	<ul style="list-style-type: none"> Inadequate assurance probity standards had been applied and that conflict of interests were avoided 	<i>Tendering and Contracting in Local Government (2010)</i>
	<ul style="list-style-type: none"> Limited and reactive practices for monitoring and reporting on compliance with building permits 	<i>Compliance With Building Permits (2011)</i>
Weaknesses in accountability, oversight and monitoring	<ul style="list-style-type: none"> Inadequate reporting preventing ratepayers from understanding whether road management is efficient and effective 	<i>Management of Roads by Local Government (2002)</i>
	<ul style="list-style-type: none"> Inadequate internal reporting preventing clear understanding of whether all development contributions are being collected 	<i>Use of Development Contributions by Local Government (2009)</i>
	<ul style="list-style-type: none"> Insufficient oversight over staff's application of probity standards, and inadequate systems for monitoring aggregate payments 	<i>Tendering and Contracting in Local Government (2010)</i>
	<ul style="list-style-type: none"> Inadequate management reporting on fees and charges, compromising oversight of service efficiency, subsidy levels and cost recovery 	<i>Fees and Charges: Cost Recovery by Local Government (2010)</i>
	<ul style="list-style-type: none"> Little assurance that councils regularly reviewed services in accordance with best value principles 	<i>Business Planning for Major Capital Works and Recurrent Services in Local Government (2011)</i>

Source: Victorian Auditor-General's Office

Further detail on these audits is included in Attachment A.

Rate increases are an issue of considerable concern to communities as illustrated in the 2013 VAGO performance audit *Rating Practices in Local Government* which found the average percentage annual increase in rates exceeded both the Local Government Cost Index (LGCI) and the Consumer Price Index (CPI) across all councils between 2000 and 2010.

Rate increases above CPI may be necessary to renew assets or complete essential works. Each council and its community need specific diagnostic performance data to understand its rating circumstances and where opportunities for improvements lie.

VAGO found that gaps in performance information mean that councils may not be able to adequately pursue internal efficiency improvements that can alleviate the need for significant rate increases.

Better performance reporting will also assist councils to justify and explain their decisions on council rates to their communities. The Auditor-General recently found that local councils do not consistently and transparently report key rates and charges data in a manner that allows scrutiny of decisions, and comparability between councils. The performance audit found that councils primarily rely on their annual budget process to engage ratepayers about rating decisions, but do not always adequately explain how they have considered community issues in rate setting.²⁴

The audit recommended that the reporting of rates and charges data should be improved and standardised so that it is used consistently across all municipalities, and ratepayers and the general community can readily interpret the data.

Understanding the efficiency and effectiveness of operations is essential for councils to make prudent resourcing decisions, for assuring the equitable distribution of rates, and for justifying these decisions to the community.

Furthermore, performance information that is comprehensive and underpinned by rigorous short, medium and long term planning can help councils justify resourcing decisions, including rate increases, to communities.

A relevant condition to using performance information in this way is consistency between councils. The Auditor-General therefore recommended that the government develop regulations establishing minimum standards for the form and content of performance statements used by councils.

2.4 Timing of changes

The current Regulations sunset on 20 April 2014. However, as this falls on a Sunday, it is proposed that the new Regulations will take effect from 18 April 2014, the same date as the changes to the Act will commence. In any event, the new planning and reporting arrangements will be applicable from the 2014-15 financial year onwards.

²⁴ VAGO, 2013, *Rating practices in Local Government*

A further change included in the proposed Regulations is to bring forward the budget adoption date from 30 August to 30 June from 2015-16 budget year onwards. The reason for this change is to ensure greater consistency and alignment between the annual budget and the four-year strategic resource plan which is currently required to be adopted by 30 June.

3 THE PROPOSED REGULATIONS

Key points

- The proposed Regulations give operational effect to the reporting framework established in the *Local Government Act*, enhance transparency and facilitate improvements in service delivery.
- The proposed Regulations involve a reporting burden on local councils. This is estimated to be, in total across all councils, \$276,342 in 2014-15, and around \$2.3 million over ten years (in present value terms). The quantifiable cost per council per year is less than \$3,500 per year. However, there are also unquantified costs that will be significant.
- This is the direct incremental cost of the proposed Regulations compared to the 'base case' of having no regulations, and does not reflect any savings from the changes to the Act, or the streamlining of other reporting requirements occurring in parallel.
- The proposed Regulations will affect all local councils in Victoria, and indirectly affect all residents and ratepayers through improved reporting and scope for more effective and efficient council performance.
- On balance, the Victorian Government considers that the benefits of the proposed Regulations outweigh the costs.

3.1 Objective

There are no explicit 'objectives' in the *Local Government Act*, however the Preamble in the Act states that:

It is essential that there is a legislative framework that provides for councils to be accountable to their local communities in the performance of functions and the exercise of powers and the use of resources.

The objectives of the proposed Regulations are therefore to:

- enhance transparency and accountability through the reporting on councils' performance;
- facilitate improvements in service delivery through improving access to robust and consistent data to better scrutinise and compare councils' performance; and
- minimise the burden on local councils and other costs.

3.2 Base case

The base case is a "do nothing" scenario, against which options for action can be assessed. It reflects the likely outcomes over the next ten years if the current Regulations are allowed to lapse and are not replaced, and all other activities continue on a business-as-usual basis.

If the current Regulations are allowed to lapse in April 2014 without replacement, and noting that the new amendments to the Act commence in April 2014, the following outcomes will arise:

- the information required to be included in council budgets will only be high-level information and not specific to direct the disclosure of information, particularly on changes to council borrowings, rates and charges;
- the requirement for councils to include in their annual report the results of Council's assessment against the governance and management checklist will not be able to occur—new regulations are needed to set what is in the checklist; and
- the requirement for councils to report against the indicators and measures of service performance, financial performance and sustainable capacity in their performance statement or report of operations will not be able to occur.

Of course, in the absence of regulations, councils may still voluntarily provide this information. A key risk of councils determining their own performance reporting indicators and measures is lack of consistency and completeness, which impedes meaningful use of data. Both VAGO and the ESC have pointed to the importance of having a common set of indicators and a consistent approach to measurement.

3.3 Good regulatory design and minimising the reporting burden

Recommended principles and content of a local government planning and reporting framework have been the subject of numerous studies and reports over many years. Some of the key recommended features in terms of regulatory design are set out in Attachment B. The Victorian Government has had particular regard to the 2012 VAGO performance audit *Performance Reporting by Local Councils* to inform development of the new framework.

An important feature of any new performance reporting framework is that it should not add unnecessarily to the reporting burden faced by councils.

Currently, councils are required to prepare a large number of reports to state and Commonwealth agencies focusing on the acquittal of grants and service agreements. The new reporting framework should not increase this requirement and in fact will create an opportunity to add value to existing reporting as well as eliminate or replace some current mandatory reports.

A survey of 43 councils participating in the pilot program revealed that a majority of the proposed performance indicators and measures are already collected by councils for internal or external reporting purposes and as such will result in no additional reporting burden.

In addition to incorporating existing reporting requirements into the new reporting framework, the Victorian Government has led a whole of government review of current state reporting requirements on local government. The objective of the review was to identify reporting requirements that could be streamlined or removed entirely from a list of 100 reports identified by the ESC as part of earlier efforts to develop a performance reporting system for local government.

Of the reporting requirements considered, 38 have been identified by State Government Departments for streamlining or removal. These initiatives include streamlining grant reporting, adjusting the frequency and level of detail of current reports to reduce duplication and effort in collection and automating some data returns.

The Victorian Government will continue to work with the sector to identify other reporting reductions that impose the greatest burden on Councils and opportunities for streamlining. For example a further five reports have been earmarked for removal in early 2014 by Local Government Victoria.

Further, the Victorian Government has taken the opportunity of developing the overall performance reporting framework to identify scope for costs savings for local councils. For example, the new framework will:

- streamline the financial information reported by councils by replacing the requirement to report against the standard statements with the financial statements in the strategic resource plan and the annual budget. The requirement to report standard statements in the annual report has also been removed. These change will be effected through the amended Act, removing the need to include additional requirements in the proposed Regulations;
- remove the requirement for councils to report financial ratios as a note to the financial statements in the annual report; and
- streamline the public notice requirements for the proposed budget, resulting in a saving of between \$250 and \$5,000 per council per year, depending on publication fees.

3.4 The proposed Regulations

The proposed Regulations prescribe information that must be included in a number of council reports. Noting that the reports themselves and the bulk of their required content is set out in the Act, the proposed Regulations set out additional information on the form and content required in key reports.

Figure 3A sets out the information required by the proposed Regulations, and also a description of the change from the current Regulations.

Figure 3A
Additional information required under the proposed Regulations

Document	Proposed Regulations	Change from current Regulations
Council plan (s. 125)	No additional requirements	No change.
Strategic resource plan (s. 126)	Must include financial statements and a statement of capital works. Must also include a summary of planned capital works expenditure by asset classifications, expenditure types and funding sources.	The financial statements replace the current 'standard statements'. The financial statements are aligned to Australian Accounting Standards and are consistent with the standard statements other than the statement of capital works which has been retained. The associated current regulations that deal with the basis for

		preparation of standard statements and required formats will not be remade. The summary of planned capital works expenditure is a new requirement.
	Must include a statement of human resources. Must also include a summary of planned human resources expenditure and staff numbers categorised by organisational structure.	The summary of planned human resources is a new requirement.
Annual budget (s. 127)	Must include financial statements and a statement of capital works. Must also include a detailed list of planned capital works expenditure by asset classifications, expenditure types and funding sources and a summary of planned human resources expenditure and staff numbers categorised by organisational structure	The suite of standard statements will no longer be required (see above). The detailed list of planned capital works expenditure and summary of planned human resources are new requirements.
	Must include other information including information on borrowings and rates and charges.	Substantially the same as current requirements. Small number of additional disclosures.
Public notice (s. 129)	Must include the date on which a council will meet to adopt the budget and (in the case of revised budget) a summary of reasons for a revised budget.	Substantial reduction in information to be included in public notice. Most of the requirements in the current regulations are now prescribed as a small number of additional disclosures in the budget.
Annual Report (s. 131)	Must include the completed governance and management checklist as set out in the Regulations.	New requirement.
	Must report on results against prescribed service performance indicators and explanation of material variances	New requirement.
	Must include a statement that reviews the performance of council against the council plan.	No change.
	Must include information on legislative, economic or other factors which have impacted on council's performance, major capital works expenditure, major changes to the organisational structure, the method for carrying out its strategic objectives and reasons for those changes.	Minimal change to improve clarity of existing provisions.
	Must contain relevant information about the organisational structure of council including names of councillors, CEO, senior executives, organisational structure, contact information, etc.	Minimal change to improve clarity of existing provisions.
	Financial statements must include a statement of capital works.	The suite of standard statements will no longer be required (see above).
	Must include in the notes to the financial statements details of the amounts of money held in trust, list of grants and subsidies, joint venture activities, variances from budget for income, expenditure and capital works expenditure.	Explanation of variances from budget for income, expenditure and capital works expenditure is a new requirement. Requirement to disclose financial ratios in the notes to the financial statements has been removed.

Performance Statement (s. 133)	Performance statement must report on the results achieved against a list of performance indicators included in the Regulations.	New requirement. The Act previously required reporting against a suite of 'key strategic activities' which have been removed as they were found to be undefined and problematic.
	Must include in the notes to the performance statement, a description of the municipal district, including the size, location and population, and explain any material variations in performance indicator results.	New requirement.

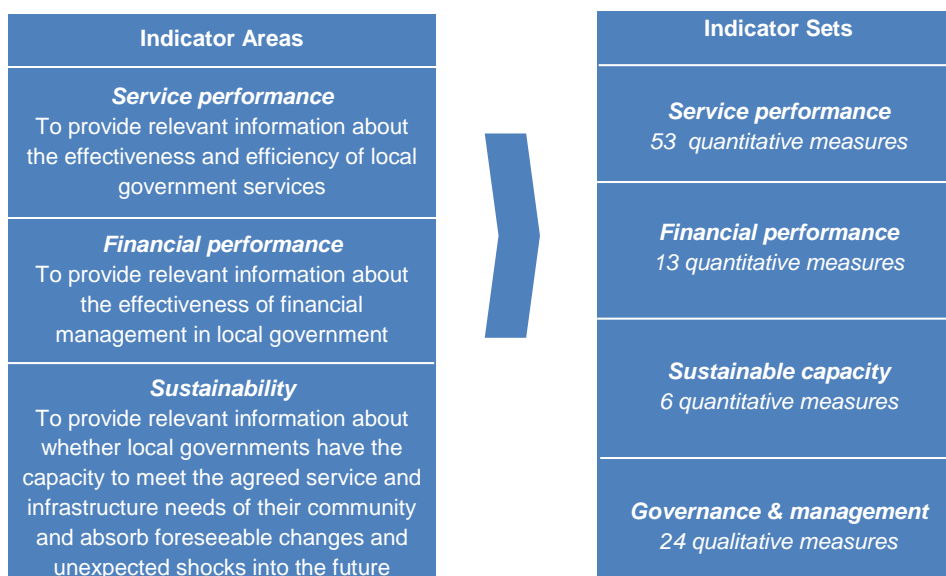
The primary objective of the local government performance reporting framework is to provide comprehensive performance information that meets the needs of stakeholders. This is an objective that seeks to balance the needs and expectations of a number of audiences. In meeting this objective:

- councils will have information to support strategic decision-making and continuous improvement
- communities will have information about council performance and productivity
- regulators will have information to monitor compliance with relevant reporting requirements
- State and Commonwealth Governments will be better informed to make decisions that ensure an effective, efficient and sustainable system of local government.

To provide a comprehensive picture of council performance, indicators have been developed across three thematic areas: service performance, financial performance and sustainability.

An objective for assessing performance against each thematic area has been established to inform the development of performance indicators. These are outlined in Figure 3B below.

Figure 3B
Indicator areas and objectives*



* The 53 quantitative service performance measures include 52 mandatory measures and 1 optional measure.

Output and outcomes indicators have been developed to take account of the generally accepted dimensions of effectiveness (appropriateness and quality) and efficiency. These are shown in Attachment C.

The performance reporting framework will be reported in two parts (as required under the amended Act) and include:

- 32 indicators and measures of service performance, financial performance and sustainable capacity to be included in a performance statement, which is to be audited; and
- 39 indicators and measures of service performance along with a checklist of 24 governance and management requirements (mostly yes/no questions) which are included in the report on operations, but which are not audited.

The indicators categories to be used are as shown in Figure 3C.

Figure 3C
Performance indicator categories

Indicator category	Audited	Non-audited
Service performance		
Governance	1	4
Statutory planning	1	3
Economic Development	1	3
Roads	1	4
Libraries	1	3
Waste collection	1	4
Pool facilities	1	4
Animal management	1	3
Food safety	1	3
Home and community care	2	5
Maternal and child health	2	3
Financial performance	13	-
Sustainable capacity	6	-
Governance and management (yes/no questions)	-	24
Total	32	63

The specific indicators are set out in Schedules 1 and 2 and 3 of the proposed Regulations accompanying this RIS.

It has been agreed with VAGO that of the indicators currently in the framework, only 32 will be subject to audit (13 of 53 service performance, 13 of 13 financial performance and all 6 of 6 sustainable capacity indicators). The rationale for having the bulk of the indicators in the unaudited report on operations reflects that, given the nature of the indicators, audit of these measures against relevance and appropriateness would be difficult and costly. In particular:

- sufficient audit evidence may not be available for all indicators as the data for these indicators will be sourced from systems that are not subject to the financial audit;
- prohibitive audit costs may result due to the extra effort in collecting sufficient audit evidence and the high number of indicators to be audited; and

- VAGO's proposed change in audit scope to include relevance and appropriateness means that only the service performance outcome, financial performance and sustainable capacity indicators would meet these tests.

The indicators subject to audit have been developed through the pilot program and in consultation with VAGO.

The proposed Regulations also establish a clear framework for reporting on councils' capital works expenditure. As well as inclusion of a statement of capital works, Councils will be required to report a summary of planned capital works expenditure as part of the 4-year strategic resource plan and a detailed list of capital works expenditure in their annual budgets. These disclosures must set out planned capital expenditure in relation to non-current assets in relation to:

- renewal expenditure;
- new expenditure;
- upgrade expenditure; and
- expansion expenditure.

Further, these disclosures must provide a summary of whether funding for capital expenditure in relation to non-current assets is from:

- grants;
- contributions;
- council cash; and
- borrowings.

There is sufficient community interest in the size of a council's capital program and individual projects to warrant a more detailed disclosure of planned capital works expenditure. A majority of councils already report planned capital works expenditure as part of their budget in line with the better practice guidance document 'Victorian City Council Model Budget' which is used by most councils. The new requirements will bring the legislative framework into line with best practice. The new requirements also act on earlier recommendations from the Victorian Auditor-General in their 2011 performance audit *Business Planning for Major Capital Works and Recurrent Services in Local Government* that:

- councils should better integrate their planning and budgeting practices to support sound decision-making;
- councils should review their asset management frameworks to assure their asset policies, strategies and plans are up-to-date, cover all major asset classes, and adequately inform future investment decisions; and
- LGV should systematically review the adequacy of council planning and budgeting and, in consultation with stakeholders, provide better targeted support and assistance to councils to address identified weaknesses.

In order to retain transparency for how council has performed against its adopted budget and support an integrated approach to planning and reporting, the proposed Regulations will require councils to disclose variations in income and expenditure between the financial statements in their budget and the financial statements in the annual report, and provide reasons for material variations. This requirement to report budget versus actual in the annual report will also apply to the statement of capital works.

Groups affected

The proposed Regulations directly affect local councils, who will be required to include the required information in their existing reporting.

Indirectly, the proposed Regulations will benefit councils and their communities by improving focus on council efficiency and effectiveness, and enhance transparency and accountability of councils to their local communities.

Authority

The proposed Regulations will be made under section 243 of the Act.

3.5 Impact assessment of the proposed Regulations

The proposed Regulations impose an administrative burden on local councils, compared to the base case of no regulations after 20 April 2014. The proposed Regulations will require councils to:

- collect, maintain and analyse data;
- publish mandated information within the existing documents; and
- have some reported data audited.

Figure 3D outlines the estimated quantifiable cost per council of the proposed Regulations. The estimate time taken to undertake each task is based on survey data collected from 43 councils as part of a pilot program and supplemented through interviews with a representative sample of councils.

Figure 3D – Additional reporting burden on local councils

Reporting requirement	Time taken	Cost per council* (in 2014-15)
Performance indicators – service performance	Survey of councils indicated that the time taken to collect data on the service performance indicators was about 23¾ hours on average.	\$1,807
Performance indicators – financial performance and sustainable capacity	Survey of councils indicated that the average time to compile this information, which draws on existing data sources, is around 2¼ hours.	\$171
Governance and management checklist	This checklist is a simple list of 24 'yes/no' questions. 75% of councils found this requirement easy or very easy to complete. Average reported completion time was 21 minutes.	\$152
Financial statements and a statement of capital works (required in strategic resources plan,	This is similar to the existing standards statements. Based on interviews with a number of councils, this is estimated to take each council about 8 hours in total.	\$608

annual budget and annual report)		
Statement of human resources	Based on interviews with a number of councils, this is estimated to take each council about 2 hours to complete.	\$152
Other annual report requirements**	Based on interviews with a number of councils, this is estimated to take each council about 8 hours to collect this information from existing sources.	\$608
TOTAL COST PER COUNCIL		\$3,498

* Council staff time has been valued as a blended hourly rate of \$76.02 (see Attachment D for further details)

** The cost of 'other annual report requirements' includes the costs of reporting all the items required under the proposed Regulations, even those identified in Figure 3A as involving no change from the requirements under the current Regulations.

The assumptions used in the above figure reflect an average cost across all councils, based on a survey of councils participating in a pilot program and other interviews. The 43 councils that participated in the pilot comprised 13 inner Melbourne, 11 outer Melbourne, 5 rural cities and regional centres, 5 large rural shires and 9 small rural shires. This indicates that councils from all groupings (size and location) were suitably represented in the pilot, and the findings incorporate the different abilities for councils to collect and report information.

Nevertheless, the findings from the survey suggest that there could be a wide variation in the impact on individual councils, with some councils incurring up to double the cost (at least in the initial year) and others incurring a smaller cost.

The estimates in Figure 3D include the average incremental cost²⁵ of surveying the community on satisfaction of relevant indicators, and the additional costs to councils of sourcing and calculating data in the required form.

The cost assumption assumes there will be no need for councils to upgrade IT systems, albeit some minor modifications may be required. It is also assumed that there are no additional costs associated with publishing this information, as the required information is all included in documents that are already required to be produced.

LGV considers these estimates to be considered very conservative. Time estimates are based on councils' experiences in the pilot program, and therefore include time to familiarise with the new indicators and identify data sources. In many cases, the time taken will fall considerably in subsequent years as the indicators become understood, data sources are known, and councils have the opportunity to largely automate data collation for reporting purposes. However, councils not part of the pilot program, or the small number who reported in the survey a larger time burden,

²⁵ The cost estimates are based on the incremental costs relative to the base case (i.e. compared with what councils would have to do if the Regulations were not in place). In relation to surveys of communities, while some councils in the pilot reported that some data related to community satisfaction was not previously recorded, it is noted that nearly all councils already undertake surveys, and as such the new requirement would only lead to additional or different questions included in existing data collection rather than new surveys per se.

may continue to have higher costs in the first year or two before realising efficiencies. Therefore, while the results of the survey has been used in the table above, LGV considers these represent a likely maximum burden on councils, with the costs to decrease over time.

Aggregated over all 79 councils in Victoria, the reporting burden of the proposed Regulations is estimated to be \$276,342 in 2014-15, and around \$2.3 million over the next ten years (present value discounted at 3.5 per cent per annum). This is the direct incremental cost of the proposed Regulations and does not reflect any savings from the changes to the Act, or the streamlining of other reporting requirements as outlined in section 3.3.

As a percentage of total revenue collected through council rates, this additional cost represents less than 0.01 per cent.²⁶ It is therefore unlikely to have any material impact on council activities or rates.

While the costs have been informed by data provided by local councils, there are still a number of councils that did not participate in earlier stages of the pilot program or the survey, for which costs could be higher, mostly in the first few years. Councils may wish to provide specific feedback on the appropriateness of these assumptions. It is noted that all 79 councils are participating in the second phase of the pilot.

The above cost estimate reflects only those costs that have been quantified. There are other consequential costs to councils from the proposed regulations that have not been able to be directly quantified. These are:

- audit costs as a result of prescribing 32 of the performance indicators to be audited by VAGO. Under the Act, the financial statements, standard statements and performance statement contained in council's annual report must be audited by VAGO. Currently councils pay a fee to VAGO based on the amount of audit work required – this amount varies across councils, ranging from \$24,000 to \$217,000 in 2012-13. A quantified estimate of the additional auditing costs that will be incurred as a result of the new reporting requirements is not possible given councils may employ different methods to collect and assemble information, which affects the amount of audit effort VAGO considers necessary, however the selection of indicators to be audited has been developed in consultation with VAGO with the aim of minimising audit costs. While not quantified in the RIS, the assessment of options has had regard to there being a material audit cost associated with the proposed Regulations.²⁷ LGV will also continue to work with VAGO as the reporting

²⁶ In 2012-13, total rates revenue collected by Victorian local councils was around \$4 billion. Total spending by Victorian councils is over \$7 billion, making the cost of the proposed Regulations even smaller in percentage terms.

²⁷ This material cost is relative to the base case of having no regulations after the current Regulations sunset, and hence there would be no indicators audited. Currently, councils must have their performance statement audited which includes key strategic activities. Given these are different for each council and in some cases poorly defined, the current costs of auditing these are relatively high. The move to a standard set of indicators across all councils may result in lower audit costs than at present. In addition the audit fees charged by VAGO in 2012/13 ranged from \$24,000 to \$217,000 and related to the audit of the standard statements, financial statements and performance statement. Changes made to the Act and reflected in

framework is finalised and implemented to identify where audit costs can be minimised; and

- other consequential costs that LGV considers are not significant, although their exact magnitude is unknown. For example, the Regulations require the performance statement to be certified, in a form set out in the regulations, by the CEO and the Principal Accounting Officer. The time required for them to do this (including to undertake additional scrutiny to satisfy themselves prior to certifying the statement) is not known but expected to be low. This is because the Act already requires the performance statement to be certified by two Councilors, so the mechanisms to allow scrutiny should already be in place.

Feedback on cost assumptions

Some of the assumptions used to estimate the costs of the proposed Regulations are based on a survey and interview of some councils. To test the robustness of these assumptions, LGV is seeking views from councils on the following questions:

- Is the time taken to complete each element as outlined in Figure 3D correct?
- Are there other steps or tasks that councils will need to undertake in order to meet the proposed Regulations?
- The estimate uses a blended hourly rate of \$76.02 to calculate the total value of the time. Taking account of the different staff levels that will be used to collect and assemble data and produce reports, is this an appropriate value?
- How reasonable is the assessment about the magnitude of these costs as well as any other costs that have not been quantified?
- Are other costs that have not been quantified or considered in the RIS to be insignificant – such as information technology costs to meet the reporting requirement, or auditing costs – potentially significant?

The Government will also incur costs given LGV's role in implementation and enforcement of the Regulations. Specific to the requirements in the proposed Regulations (as distinct from the more general role of government in overseeing the planning and reporting framework in the Act), implementation and enforcement activities are described in Chapter 5 of this RIS. Although the incremental ongoing costs of this have not been estimated, they are expected to be low, given that LGV already plays a more general role in overseeing the planning and reporting framework in the Act.

In terms of implementation, LGV has developed a high volume of information and guidance through the development and pilot stages which reduces the amount of work needed to create new guidance material for councils.

Enforcement is also expected to be 'light touch', with the main levers of enforcement being the audits of data by VAGO as part of the annual audit of financial and performance statements and public scrutiny of published reports. It is not expected that there will be any additional cost to VAGO to audit the new requirements as the cost of audit will continue to be recovered on a fee-for-service basis from councils. The Local Government Investigations and Compliance

the proposed Regulations means that the audit fee will only relate to the financial statements and performance statement from 2014-15 onwards.

Inspectorate will also have a role in monitoring compliance with the Act and proposed Regulations in accordance with their routine compliance audit function.

While VAGO has noted that, under the current system, there was little assurance councils regularly reviewed their services in accordance with best practice principles despite their statutory obligation to do so, the proposed Regulations will make councils' compliance more transparent, with the public being able to see directly whether or not the council has reported on the indicators and their compliance against the governance and management checklist.

The benefits of the proposed Regulations will be that they:

- give operational effect to the planning and reporting framework established in the Act;
- enhance transparency and accountability through the reporting on councils' performance; and
- facilitate improvements in service delivery through improving access to robust and consistent data to better scrutinise and compare councils' performance.

Noting previous comments from VAGO that a compliance-centric approach has a risk of providing a high volume of information of limited use, the proposed Regulations have been through a rigorous development stage to test a wider range of indicators and eliminate or amend those where feedback indicated that the effort in measuring the indicator was not proportionate with the importance of having the relevant information. In contrast, the process for developing the indicators and other reporting requirements in the proposed Regulations has had a primary focus on improving the quality, not just increase the volume, of information.

These benefits are not able to be quantified. Therefore, the overall impact of the proposed Regulations has been assessed using a multi-criteria analysis. Figure 3E below shows the criteria used to assess the proposed Regulations, the scores against each criterion, and the total weighted score.

Figure 3E
Impact of proposed Regulations – Multi-criteria analysis

Criterion	Assessment	Score
Improved transparency and accountability of local councils. This is achieved if reported information is comprehensive, relevant and appropriate, as well as easy to access and understand. (30%)	The proposed Regulations require reporting against a set of common indicators that have been recommended in a number of reports. They promote transparency by being relatively comprehensive while being succinct and easy to understand.	80
Increases focus on continuous improvements in council effectiveness and efficiency. This is achieved where information is consistent across councils, robust, and reflects the quantity,	The proposed Regulations will ensure that all councils report performance against a common set of financial and non-financial indicators that reflect community expectations. A common reporting framework will allow comparisons and benchmarking, which will place increased attention on the efficiency and effectiveness of local councils. However, as the planning and	60

quality, timeliness and costs of services. (20%)	reporting requirements include only a small set of indicators, the proposed Regulations were assessed as scoring 60 out of 100 for this criterion.	
Costs of providing information. (50%)	There is a small incremental cost to local councils. The cost, on average, is very small compared to overall costs and revenue.	-50
TOTAL SCORE (weighted)		11

Notes:

The criteria weightings reflect the relative importance of each in its contribution to the overall objective of the proposed Regulations. Costs of regulations are weighted at 50% to ensure that benefits and costs are given proportional consideration.

Scores for each criterion range from -100 to +100 compared to the base case of zero.

For the purposes of section 10(2) of the *Subordinate Legislation Act 1994*, the overall assessed impacts of the proposed Regulations can be summarised as:

- economic impacts – better use of resources in the medium term;
- social and environmental impacts – a sharper focus on council performance is expected to lead to improved social and environment services by councils in the medium term; and
- administration and compliance costs including resource allocation costs – a small additional cost on councils in the time and resources needed to collect, prepare and publish the required performance information.

On balance, the Victorian Government considers that the additional benefits of the proposed Regulations far exceed the expected costs.

4 ALTERNATIVE OPTIONS

Key points

- Alternatives to the proposed Regulations are: a voluntary approach (where councils choose their level compliance), a principles-based approach (where councils continue to develop their own reporting indicators and measures) and a more prescriptive approach.
- The above assessment of alternative options indicate that, while all the alternative approaches are likely to offer a net benefit above the base case, none offer a better overall assessment than the proposed Regulations.

4.1 Identification of alternative options

The *Subordinate Legislation Act 1994* requires that regulatory and non-regulatory options be considered as part of a RIS. Further, the *Premier's Guidelines* provide guidance on alternative methods by which the government's objectives may be achieved. Alternatives to subordinate legislation include:

- providing better information to affected groups to raise awareness of their rights and/or obligations;
- introducing voluntary, or mandatory, codes of conduct for the activity
- expanding the coverage of existing primary legislation;
- encouraging organisations and individuals to consider the impact of their activities on the community and environment; or
- developing efficient markets, where these would deal with the issue.

Approaches in other jurisdictions also need to be considered to identify whether alternative approaches could be used in Victoria.

4.2 Approaches in other jurisdictions

All jurisdictions require council plans, annual budgets and annual reports. The required content of these, beyond the standard financial reporting, varies across jurisdictions.

The New South Wales (NSW) Government also requires local governments to provide an end-of-term report for outgoing councils. The end-of-term report is required to be incorporated in the annual reporting process to provide an update of progress against the objectives set in the community strategic plan. A comparative analysis undertaken for the Australian Centre of Excellence for Local Government (ACELG)²⁸ noted that this adds a political element to the reporting process, since the end-of-term report must be presented to the final meeting of the outgoing council.

²⁸ Tan, S F and Artist, S. 2013, *Strategic Planning in Australian Local Government: A comparative analysis of state frameworks*, Australian Centre of Excellence for Local Government, University of Technology, Sydney.

All of the relevant legislation in each Australian state stipulates that councils must report progress or achievements against their strategic or corporate plans, but there are generally very few further requirements for reporting on activities. All councils must provide financial statements and an audit report in their annual reports.

In general, in each state and in the Northern Territory only one or two items in the relevant local government legislation and corresponding regulations relate to reporting on council activities and progress against strategic, municipal or community plans. Although more information and suggestion on reporting activities is provided in some of the best practice guidelines, the weight of the legislation and regulations focuses on reporting to ensure financial and administrative transparency and accountability.

All of the other state frameworks require councils to nominate performance measures in their plans and then report against them in their annual reports and other reports. However, as noted by the ACELG, councils more easily nominate quite aspirational goals such as 'a better lifestyle' or very concrete strategies such as a bridge-building program. Measures against the first tend to be too difficult to collect, and against the second tend to be highly specific and budget measures.

The Local Government Association of South Australia (LGASA) introduced the Comparative Performance Measurement (CPM) which places an increasing emphasis on organisations adopting measures to monitor, over time, their performance against strategic directions. Nineteen performance measures were developed with data sourced from the LGASA, Valuer-General, State Ombudsman, Australian Bureau of Statistics, South Australian Local Government Grants Commission, the State Electoral Commission, councils and a community survey conducted by Roy Morgan Research. The project provides a foundation for continuous improvement in South Australian Local Government and assists councils to comply with the relevant Local Government Act requirements and to measure and analyse their performance over time.

In Queensland, there is no legislative performance framework included in recent changes to the relevant Act. Instead, the government has taken a cooperative approach using four separate reports on asset management, community engagement, integrated strategic management and sustainability/financial management. Councils are asked to submit reports on these four aspects on a quarterly basis but there are no penalties for non-compliance. Reporting is not mandatory. In its early stages, compliance of around 90 per cent was achieved. The reports are used for giving feedback to councils and provide a state-wide snapshot to the Minister. The reports are not made public.

In Tasmania, the Measuring Council Performance Project provides a comprehensive framework of key performance indicators for councils. Although participation has been on a voluntary basis, all 29 councils have participated. The reporting requirements are relatively low, with 49 indicators measured.

There have been proposed plans for introducing new performance frameworks in NSW and Western Australia.²⁹ For example, the NSW Government has started on

²⁹ ACELG 2013 "Review of Current Local Government Reform Processes in Australia and New Zealand " <http://www.acelg.org.au/news-detail.php?id=322>

work to build a new performance measurement framework for councils that seeks to move away from compliance-based reporting and focus on a small set of core, consistent indicators that will help communities understand how well their council is performing. The new performance measurement framework aims to build a picture of the financial and governance health of the council and how it delivers functions and services using readily obtainable data and will have a strong focus on supporting councils to actively manage and improve their organisation's performance.³⁰

In Canada, local governments must comply with provincial legislation requiring them to implement performance measurement systems. For example, in Ontario, municipalities must report annually on 54 measures of effectiveness and efficiency in 12 key service areas. In British Columbia, municipalities must report against performance measures under the Community Charter, however these are not standardised.

In New Zealand, the Local Government Act sets out requirements for a good practice integrated framework for planning and performance reporting. These include a requirement to report progress toward achieving community outcomes. A report from the Auditor General in 2008 found that the framework was sound but that significant effort, including external pressure, was necessary to get the results intended.

In the United Kingdom, a National Indicator Set (NIS) came into effect in 2008. This is a highly prescriptive approach comprising 198 indicators and is the only set of indicators on which central government manages local government. Performance against each indicator was published annually by the UK Audit Commission. This approach was removed by subsequent government as part of red tape reduction programs.

4.3 Non-regulatory options

The following table considers whether common types of non-regulatory approaches are suitable or feasible in relation to the defined objective.

Figure 4A
Non-regulatory options

Non-regulatory option	Assessment
Self-regulation, quasi-regulation or co-regulation	Possible. This option is assessed below.
Increased enforcement of existing provisions	Not relevant to the objectives.
Extending the coverage of existing legislation	Not relevant. The proposed Regulations are to give operational effect to the Act, as amended.
Removing other legislative impediments	Not relevant.

³⁰ NSW Division of Local Government, 2013, *Strengthening councils and communities: Building a new framework for measuring performance in Local Government*

Non-regulatory option	Assessment
Rewarding good behaviour	Theoretically, incentives could be created by linking councils' reporting to funding, rather than through regulation. However, this requires a detailed consideration of the impact on other policy objectives outside the scope of this RIS. It is generally undesirable to use one objective to leverage another, as a consequence may be that neither is achieved as intended.
Negative licensing	Not applicable.
Public information and education campaigns	This could be part of a voluntary approach assessed below.
Information disclosure	This could be part of a voluntary approach assessed below.
Market-based instruments (e.g. taxes, subsidies, user charges, tradeable permits)	Not applicable.

4.4 Options assessed in this RIS

Drawing from the approaches in other jurisdictions, the alternative options identified for assessment in the RIS are:

- a voluntary system, where the same reporting requirements were used, but only as recommended reporting, not mandatory;
- a principles-based approach, where the intent and purpose of a better reporting approach is set by the state government, but individual councils continue to develop their own indicators and measures for reporting; and
- a more extensive regime with an expanded set of indicators.

4.4.1 A voluntary approach

This is a non-regulatory approach. Under this option, the Victorian Government would publish 'best practice' reporting requirements, including the set of performance indicators in the proposed Regulations. Compliance would not be mandatory, with local councils able to choose their own reporting. Measures would not be required to be audited. Councils would therefore be able to choose which data would be most value-adding to their decision making, reducing the risk of measuring a large number of indicators of limited relevance to the council.

Under this option, LGV would provide assistance and guidance to councils, however there would no enforcement as such, given the scheme would be voluntary. To achieve an outcome consistent with the proposed Regulations, significant effort would be required from LGV to work with individual councils on understanding why they were not reporting against best practice. Despite this additional effort by LGV, there would likely be a material number of councils that did not align to best practice, making this option overall less effective than the proposed Regulations in terms of comprehensiveness and consistency.

If all councils follow the best practice, the results would be similar to the proposed Regulations, however the lack of having measures audited means that assurance of the data is less. The more likely outcome is that some councils would depart from the recommended reporting framework, reducing the ability to compare data across councils. Further, there will be an incentive for councils to report different measures over time if performance declines.

It is also of note that the ESC trialled a voluntary approach as part of earlier efforts to introduce a comparative reporting framework for local government. In their final report, ESC recommended that the framework be given effect through legislation to ensure full participation by Victoria's 79 councils.³¹

Figure 4B
A voluntary approach – Multi-criteria analysis

Criterion	Assessment	Score
Improved transparency and accountability of local councils. This is achieved if reported information is comprehensive, relevant and appropriate, as well as easy to access and understand. (30%)	There would be a high level of improved transparency, although less than the proposed Regulations.	40
Increases focus on continuous improvements in council effectiveness and efficiency. This is achieved where information is consistent across councils, robust, and reflects the quantity, quality, timeliness and costs of services. (20%)	There would be a low level of improvement on the incentives and ability to pursue efficiency improvements as councils may avoid reporting on areas where performance was low. The avoided reporting will tend to be in areas where improvement is most needed. Lack of consistent approach across councils will limit the ability to benchmark across councils.	30
Costs of providing information. (50%)	There is a small incremental cost to local councils. This would be less than the proposed Regulations as councils can adapt their reporting to be more targeted to their ability to collect.	-30
TOTAL SCORE (weighted)		8

4.4.2 A principles-based approach

This is a regulatory approach. New regulations could be put in place to explicitly require councils to develop their own set of performance indicators and measures, with the regulations setting out the principles for reporting along with scope and type of indicators that must be used. Councils would therefore be able to choose which data would be most value-adding to their decision making, reducing the risk of measuring a large number of indicators of limited relevance to the council.

Councils would develop their own indicators, which would mean there is unlikely to be sufficient consistency across entities to allow comparison and benchmarking. As

³¹ ESC, 2010. *Establishing a Victorian Local Government Services Report – Final Report*.

with the voluntary approach, there may also be scope for councils to not report on areas where performance is low or needs more attention.

LGV would be able to provide guidance and support to councils in developing indicators, however enforcement would be limited given councils would have some discretion as to how they choose to implement the principles.

Figure 4C
A principles-based approach – Multi-criteria analysis

Criterion	Assessment	Score
Improved transparency and accountability of local councils. This is achieved if reported information is comprehensive, relevant and appropriate, as well as easy to access and understand. (30%)	Assuming there would be sufficient enforcement and monitoring to ensure alignment to the principles, this option would add considerably to improved transparency and accountability (above the base case), albeit less than the proposed Regulations.	60
Increases focus on continuous improvements in council effectiveness and efficiency. This is achieved where information is consistent across councils, robust, and reflects the quantity, quality, timeliness and costs of services. (20%)	There would be a low level of improvement on the incentives and ability to pursue efficiency improvements as councils may avoid reporting on areas where performance was low. The avoided reporting will tend to be in areas where improvement is most needed. Lack of consistent approach across councils will limit the ability to benchmark across councils.	30
Costs of providing information. (50%)	There would be modest costs to this option. Councils would need to spend some time and effort in developing their own indicators and regularly review these for their relevance to the mandatory principles.	-40
TOTAL SCORE (weighted)		4

4.4.3 A more comprehensive approach

This would be a more onerous and prescriptive approach to ensure that much more information about councils performance is provided to the community. The range of indicators and measures would be expanded, many more of which would be required to be audited, reducing council discretion on what it may choose to report on.

For purposes of comparison with a feasible example, this option includes reporting against a further 34 indicators (21 service performance and 13 financial performance) that were initially part of the indicator set but removed between the first phase of the pilot program and the proposed Regulations.³² These additional

³² In developing the service performance indicators in the proposed Regulations, a total of 40 common services were identified for inclusion in the framework. In consultation with the sector this was initially reduced to 18 common services and then following the first pilot this was reduced to the final 11 common services. This is consistent with the VAGO report

indicators covered services areas including libraries, sports grounds, governance (use of conduct panels), street sweeping, immunisation, as well a number of further financial performance indicators.

The benefits of this approach are clearly improved transparency and potential for better service delivery. However, it comes at a cost. As shown in the assessment below, the cost is high in terms of collecting and auditing a greater range of data, but also would be seen to be out of proportion with intervention needed.

The costs of this option would be not only higher for councils due to the increased number of indicators (with the additional indicators being more likely to require new measurement and recording burdens on councils), but would also lead to substantially higher audit costs (with the additional indicators being more difficult to audit) and higher costs for government (LGV would provide guidance on the indicators similar to the proposed Regulations, however the scale and nature of indicators would lead to a higher level of enforcement activities to check that the requirements are being complied with).

Based on feedback through the development and pilot stages of the framework, this option is likely to exhibit the risk identified previously by VAGO – that a compliance-centric approach will likely result in large volumes of information being produced that was of limited value.

Indeed, this option is likely to be poorly targeted, as the reasons for why the number of indicators was scaled back in the pilot and consultation phases was due to the individual indicators being identified as relating to activities that occur infrequently, being costly to measure given its importance, difficulties in collecting data and measurement, lack of a standard methodology for measurement, and views on relevance. These are reflected in the scores below.

Figure 4D
A more prescriptive approach – Multi-criteria analysis

Criterion	Assessment	Score
Improved transparency and accountability of local councils. This is achieved if reported information is comprehensive, relevant and appropriate, as well as easy to access and understand. (30%)	There would be a very high level of improved transparency, as the indicators could go to a much wider and more detailed view on council activities.	90
Increases focus on continuous improvements in council effectiveness and efficiency. This is achieved where information is consistent	There would be a high level of improvement on the incentives and ability to pursue efficiency improvements.	70

Performance Reporting by Local Government April 2012 (p. 37), which recommended that the framework should initially focus on a small handful of services.

across councils, robust, and reflects the quantity, quality, timeliness and costs of services. (20%)		
Costs of providing information. (50%)	There would be a high cost of collecting and reporting information. The number of indicators measured would be about 50% higher than the proposed Regulations. As the performance measures represent the largest component of the costs of the Regulations, a more prescriptive approach would lead to a substantial increase in overall cost. Further, the additional indicators to be measured under this option would be more timely (and hence more costly) to collect – as found in earlier stages of development, many of these additional measures require information not currently collected in any form by councils, so councils would need to create new data collection mechanisms. Overall, the costs related to the performance measures under this option could easily be more than double the corresponding costs of the proposed Regulations. Audit costs may also be more than proportionally higher for the additional measures.	-75
TOTAL SCORE (weighted)		3.5

4.5 Conclusion on alternative options

The above assessment of alternative options indicate that, while all the alternative approaches are likely to offer a net benefit above the base case, none offer a better overall assessment than the proposed Regulations.

Figure 4E
Summary of Multi-criteria analysis results

Criterion	Proposed Regulations	Voluntary Approach	Principles Approach	More Prescriptive
Improved transparency and accountability of local councils. This is achieved if reported information is comprehensive, relevant and appropriate, as well as easy to access and understand. (30%)	80	40	60	90
Increases focus on continuous improvements in council effectiveness and efficiency. This is achieved where information is consistent across councils, robust, and reflects the quantity, quality, timeliness and costs of services. (20%)	60	30	30	70

Costs of providing information. (50%)	-50	-30	-40	-75
TOTAL SCORE (weighted)	11	8	4	3.5

5 IMPLEMENTATION AND ENFORCEMENT

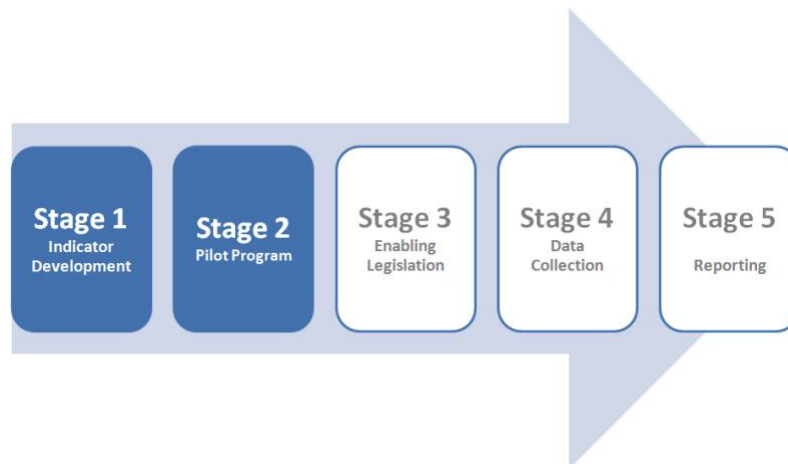
Key points

- Implementation of the proposed Regulations will continue an extensive collaborative process already underway with local councils and other stakeholders.
- LGV will provide new and updated guidance material to assist local councils with the new requirements, and closely monitor how well the requirements are met.
- As the proposed Regulations deal with what information councils report publicly, compliance will be readily observable by LGV and the public generally. The Auditor-General will also report on compliance in relation to the audited components of the performance reporting framework.

5.1 Implementation

The Local Government Performance Reporting Framework (LGPRF) will be developed and implemented by LGV in five stages over 2012-13 and 2013-14 in close collaboration with the local government sector and as shown in Figure 5A. The LGPRF will become mandatory for implementation by councils as part of the planning and reporting cycle in 2014-15.

Figure 5A
Implementation of the Local Government Performance Reporting Framework



The timelines are as follows:

- Stage 1: indicator development (October 12 - June 13)
- Stage 2: pilot program (July 13 - June 14)
- Stage 3: enabling legislation (July 13 - June 14)
- Stage 4: data collection (July 14 - June 15)
- Stage 5: reporting (July 15 - September 15)

Stage one is now complete and the pilot program is nearing completion ahead of the full implementation. The pilot program has the following milestones:

- initial meeting to outline the pilot program approach and guidance material (July 2013)
- first report due to verify data collection and validate indicators and measures (October 2013)
- second report due to verify auditability of indicators and evaluate results (February 2014)
- finalise guidance material and framework (April 2014)
- provide comparative data to participating councils (June 2014).

All of Victoria's 79 councils are participating in the second reporting milestone with the objective of preparing their organisation for mandatory reporting in 2014-15 as well as providing final feedback and validation of the proposed indicators and measures.

LGV is confident that the extensive consultation undertaken (see Chapter 7 of this RIS) as part of the development of the LGPRF will ensure that all councils are well placed to implement the new requirements.

A suite of guidance material, templates and fact sheets is currently being developed and/or updated to assist councils to implement the new planning and reporting requirements. These include the:

- **LGPRF Indicator Workbook:** to support councils in their understanding and use of the indicators and measures
- **Planning and Reporting Better Practice Guide:** to assist councils in meeting the planning and reporting obligations required by the Act and Regulations.
- **Model Strategic Resource Plan and Better Practice Guide:** to provide guidance on the development of the 4-year strategic resource plan
- **Model Financial Report:** to provide guidance on the development of financial statements for the annual report in accordance with the Australian Accounting Standards and other relevant legislation
- **Model Performance Statement and Model Report of Operations:** to provide guidance on reporting against the LGPRF in councils' annual report including better practice guidance on audit evidence.

LGV will also provide input to the 2014 version of the *Victorian City Council Model Budget* which is used by a majority of councils to develop their annual budget.

LGV will continue to work in partnership with the sector to ensure key issues highlighted in the consultations along with specific guidance on the changes to the legislative framework are incorporated into new and existing guidance material.

An evaluation strategy is being developed as part of the overall planning and reporting framework, which will allow LGV to track progress and take any further actions to ensure the effectiveness and efficiency of the framework. The proposed Regulations will sunset after ten years, at which point a further impact assessment will be undertaken to determine whether the Regulations remain appropriate.

5.2 Enforcement

From financial year 2014-15 onwards, VAGO will issue an audit opinion that addresses the fair presentation, relevance and appropriateness of the performance indicators. Where this statement is not met, a qualified audit opinion may be issued on the performance statement. LGV has continued to consult with VAGO to ensure that the performance indicators meet the test of relevance and appropriateness for audit purposes. This means that councils compliance with the audited elements of the Regulations will be detailed in each council's annual report.

The Local Government Investigations and Compliance Inspectorate will also have a role in monitoring compliance with the *Local Government Act 1989* and proposed Regulations in accordance with their compliance audit function.

For the non-audited reporting requirements, compliance will be monitored by LGV. LGV will then be able to work directly with councils to assist with compliance.

All elements of the proposed Regulations relate to public reporting, and as such, there is expected to be additional scrutiny from the public where relevant information is not reported.

6 IMPACTS ON COMPETITION

This section of the RIS discusses the impact of the proposed Regulations on competition. A measure is likely to have an impact on competition if any of the questions in Figure 6A can be answered in the affirmative.

**Figure 6A
Competition questions**

Test question	Assessment
Is the proposed measure likely to affect the market structure of the affected sector(s) – i.e. will it reduce the number of participants in the market, or increase the size of incumbent firms?	No
Will it be more difficult for new firms or individuals to enter the industry after the imposition of the proposed measure?	No
Will the costs/benefits associated with the proposed measure affect some firms or individuals substantially more than others (e.g. small firms, part-time participants in occupations etc)?	No
Will the proposed measure restrict the ability of businesses to choose the price, quality, range or location of their products?	No
Will the proposed measure lead to higher ongoing costs for new entrants that existing firms do not have to meet?	No
Is the ability or incentive to innovate or develop new products or services likely to be affected by the proposed measure?	No

As the proposed Regulations impact directly on councils, which are public authorities, they will not have any impact on market structures. Overall, the proposed Regulations are assessed as not restricting competition.

7 CONSULTATION

Key points

- There has been extensive consultation with local councils and other stakeholders in relation to the proposed Regulations and in particular the new performance reporting framework.
- There is general support among councils for the introduction of a standard set of performance indicators.
- All 79 Victorian councils are voluntarily participating in the second reporting trial for the pilot program.
- The report requirements in the proposed Regulations has been refined over the past 12 months through close interaction with councils, including through a pilot program, surveys and written submissions.

Since commencing work on the LGPRF in 2012, LGV has undertaken a wide ranging consultation process to inform the development of the new planning and reporting requirements. This work has focused on the content of the proposed Regulations, the reasons and benefits of change, testing and refining the reporting requirements, trials with a large number of councils, surveys to measure the impact of the proposed reporting requirements, and intensive interviews with a number of councils considered to be representative of the different types across Victoria.

This consultation effort builds on earlier work by the ESC in 2010 that included a number of discussion papers and extensive face to face consultation with councils.

The development of the LGPRF has been supported by input from three technical working groups, the Local Government Reform Strategy Reference Group and the Local Government Ministerial-Mayors Advisory Panel. These advisory arrangements involved over 70 local government, academic and subject matter experts representing a wide range of organisations as listed in Figure 7A.

**Figure 7A
Participation on technical working groups**

Local councils	Other stakeholders
Banyule City Council	Queensland Treasury Corporation
Yarra Ranges City Council	Municipal Association of Victoria
Monash City Council	Division of Local Government (NSW)
Melton City Council	Civic Ways
Boroondara City Council	UTS Centre for Local Government
Colac Otway Shire	JAC Comrie Pty Ltd
Mount Alexander Shire Council	Jeff Rorda and Associates
Maribyrnong City Council	Merv and Rohan Whelan
Melbourne City Council	Victorian Auditor-General's Office
Casey City Council	LaTrobe University Centre for Public Sector Governance, Accountability and Performance
Latrobe City Council	Victorian Local Governance Association

Local councils	Other stakeholders
Wyndham City Council	Australian Centre of Excellence for Local Government
Hume City Council	Essential Services Commission
Port Phillip City Council	
Strathbogie Shire Council	
Maroondah City Council	
Darebin City Council	
Ballarat Rural City Council	
Colac Otway Shire Council	
Geelong City Council	
Mansfield Shire Council	
Moreland City Council	

LGV produced the two key documents to seek public input to the development of the LGPRF including a:

- *Directions Paper* in November 2012 which outlined the objectives as well as the conceptual model proposed to be the basis of performance reporting; and
- *Working Paper* in May 2013 outlining the draft framework and indicator sets as part of a regional workshop series to seek feedback on the draft framework and indicators and promote awareness of the pilot program.

35 information sessions were held attended by over a thousand mayors, councillors, senior staff and members of the community as part of the development of the LGPRF. Written feedback was received by over 30 councils and community groups and has been considered in the finalisation of the draft indicators and measures.

Further community input has been sought on the format of reporting through independent focus groups.

The performance indicators and measures included in the proposed Regulations have been developed through a voluntary pilot program over the past eight months. with the objective of refining the draft indicators, trial data collection and reporting systems, identify data element sources, inform the development of guidance material and test auditability. The pilot program also enabled councils to become familiar with the new reporting requirements and prepare their organisation for the introduction of mandatory performance reporting. 43 councils volunteered to participate in the first reporting trial, in October 2013 with all 79 councils participating in the second reporting trial in February 2014.

Following the initial pilot, an online survey was conducted to ask councils about the time required to report on each indicator used in the pilot study. This data informed the impacts of the proposed Regulations on councils outlined in Chapter 3 of this RIS.

Input on specific indicators has been sought from numerous special interest groups including FinPro, LGPro Special Interest Groups, Public Libraries Victoria Network, Aquatics and Recreation Victoria and Economic Development Australia. Extensive consultation has also been undertaken with relevant state departments and agencies that oversee existing reporting requirements in the proposed LGPRF.

LGV has consulted closely with the Victorian Auditor-General's Office on the scope of

the audited indicators and costs of undertaking audits. From financial year 2014-15 onwards, VAGO will issue an audit opinion that addresses the fair presentation, relevant and appropriateness of the performance indicators. Where this statement is not met, a qualified audit opinion may be issued on the performance statement. LGV has continued to consult with VAGO to seek assurance that the performance indicators meet the test of relevance and appropriateness for audit purposes.

These consultations have informed the development of the performance reporting framework, which is reflected in changes to the Act and the proposed Regulations.

Specific feedback was sought in relation to the application of the Regulations in their current form via a circular requesting feedback from the sector issued on 15 July 2013. Submissions were received from eight councils (Hume, Strathbogie, Macedon Ranges, Darebin, Manningham, Latrobe and Knox), FinPro as well as an informal submission from VAGO. LGV considered all submissions and proposed that the Regulations be modified to reflect the following:

- streamline the public notice requirements for the budget, which will result in a cost saving to councils
- include a new requirement for the budget to be published on the council website in line with contemporary practice
- clarify the caretaker provisions in regard to the meeting to consider an annual report in an election year
- other minor technical amendments.

In addition, in the development of this RIS, LGV undertook targeted interviews with five local council to understand the costs involved in complying with the proposed Regulations. This information was used to estimate the impact of the proposed Regulations in Chapter 3. These councils were Cardinia Shire Council, Bayside City Council, Knox, Gannawarra Shire Council and Greater Shepparton City Council. These interviews were used to validate the findings from the earlier online survey.

The preparation of this RIS has taken account of these consultations. Key areas of feedback is shown in Figure 7B, which includes how the feedback has been incorporated into the proposed Regulations.

Figure 7B
Key issues raised in consultation

Item	Regulation	Sector feedback	Amendment
Part 3 Budget			
1	8(c) Other matters to be included - budget	Require disclosure of rating information to include reporting by class of rateable land to support transparency where a council uses a uniform rate	Amend 8(c)(ii) 8(c)(v) and 8(c)(viii) to require councils to provide information about the estimated amount to be raised by each type of rate for each type or class of rateable land
2		Transparency could be improved by the requirement for councils to disclose the percentage change in municipal charges and service rate or charges	Include two new provisions in section 8(c): <ul style="list-style-type: none"> • the proposed percentage change in municipal charges compared to that of the previous financial year; and • the proposed percentage change for service rates and charges

			compared to that of the previous financial year
3	8(d) Other matter to be included – revised budget	Clarify that councils should compare the revised budget to the previously adopted budget	Amend 8(d) to: <ul style="list-style-type: none"> in the case of a revised budget, those matters referred to in paragraph (c) as applicable to any rates and charges to be levied <u>as compared to the previously adopted budget.</u>
4	9 Public notice	Public notice for budget and revised budget could be streamlined	Amend 8(c) to include sections 9(b)-(i) which will significantly reduce the disclosures required in the public notice. Include a new requirement at 9(2) for the council to make the budget and revised budget available on its website and at its premises
5		New term 'proposed budget' introduced in the Regulations, with no definition provided	Remove all reference to 'proposed' budget in Regulation 8 and 9
Part 4 Annual Report			
6	11 General information	Senior <u>officers</u> misspelt in 11(e)(ii)	Amend 11(e)(ii) with correct spelling
7		Include website address in 11(f)	Amend 11(f) to include Internet website address
8	14 Notes to the financial statements	Expand 14(b) to show operating and capital disclosure as well	Include new provision after 14(b) that requires councils to further disclose grants and subsidies <u>between operating and capital nature</u>
9		Include provision to require reporting of capital works expenditure by class. Also require reporting of type of asset expenditure type	For the annual report only, as a note to the financial statement, require councils to disclose capital works expenditure by class of asset. Within those classes, to report expenditure by: <ul style="list-style-type: none"> Asset renewal Asset upgrade Asset expansion New assets
10		Retain provision to report budget versus actual for revenue and expense and explain material variances	For the annual report only, as a note to the financial statements, disclose revenue and expenses as set out in the comprehensive income statement prepared under 127(2)(a) that shows variations from the budget and if the variation is material, explain the reasons for the variation
11		As a result of item 10) above, remove requirement to explain material variances between budget and actual in relation to the financial performance indicators in the performance statement	Remove requirement to explain material variances between budget and actual in a statement of variation to the financial performance indicators.
12	17 Meeting to consider Annual Report	Amend to account for clash with caretaker period in election year	Include a new provision in Regulations that requires councils to hold a meeting before the election. Update election caretaker arrangements practice notes to include guidance on the meeting to consider the annual report.

ATTACHMENTS

Attachment A – Recurring performance challenges

[The following is extracted from the 2012 performance audit *Performance Reporting by Local Government*]

The meta-analysis of 16 local government performance audits undertaken between 2000 and 2011 highlighted recurring performance challenges in the local government sector—briefly summarised in Figure 2B of this report (page 12). These issues relate to themes of ineffective planning and budgeting, inadequate adherence to policies and procedures and weaknesses in councils' oversight and monitoring, and are outlined in further detail below.

Ineffective planning and budgeting

Instances of ineffective planning and budgeting have been identified in successive audits between 2002 and 2011.

In 2002, *Management of Roads by Local Government* found that planning was compromised by inadequate links between corporate plans, asset management plans and budget processes, and that councils had inadequate policies for the management of road assets. This audit also found that due to a lack of adequate forward planning, councils' funding models did not support the efficient and effective management of road assets. A benchmarking study of 66 councils by the Municipal Association of Victoria in 2001 produced similar results, highlighting that none of the participating councils were meeting best practice in infrastructure and asset management.

Almost a decade later, the 2011 audit of *Business Planning for Major Capital Works and Recurrent Services in Local Government* again found that asset management plans at three of the four councils examined were not adequate for supporting the effective management of \$1.6 billion in assets. This audit also highlighted that long-term financial plans were not based on long-term strategic plans, meaning there was little assurance that forward financial planning could position councils to meet future community needs.

Again, this audit found that at the majority of councils audited, links between corporate plans and business plans were inadequate, demonstrating minimal progress since the 2002 audit. Victoria's peak body for local government professionals, LGPro, also identified this as a significant challenge in its 2008 document *Embedding Community Priorities in to Council Planning*, which reported many councils struggling to link plans into a clear strategic approach.

Financial audits of all 79 councils in 2010–11 highlighted that these issues are widespread. These audits found that 42 per cent of councils had not linked asset management strategies to policies or strategic resource plans, and 67 per cent had not linked future service delivery needs with the capacity of assets to meet them on a short-, medium- or long-term basis.

Other performance audits have highlighted deficiencies in more specific areas of councils' planning and budgeting processes.

The 2010 audit *Business Continuity Management in Local Government* found that councils' plans for maintaining service delivery in the event of significant disruption,

where not developed through a sufficiently rigorous process, providing no assurance that these councils' response to an emergency would be timely and effective.

The 2010 audit of *Fees and Charges: Cost recovery by local government* concluded that councils were not effectively managing the full costs of services they provide, that councils had not accurately determined subsidy principles and levels, and could not show that fees and charges reflected best value principles. This audit further highlighted that councils did not have reports that would allow senior management and councils to assess the efficiency of their services, the extent to which they are subsidised, and the extent of cost recovery.

Inadequate adherence to policies and procedures

Audits in 2008, 2010 and 2011 have highlighted instances where councils have not adequately made or adhered to policies and procedures, compromising the performance of various functions. The 2008 audit *Enforcement of Planning Permits* identified that councils lacked policies for enforcing planning permits, and therefore lacked assurance that permits were being complied with. The audit also identified that around 20 per cent of permit conditions were non-compliant at the councils audited. In 2011, our audit *Compliance with Building Permits* similarly found that councils had limited and reactive practices for monitoring and enforcing compliance with building permits, offering little assurance that all building permits and associated works meet statutory requirements.

Similarly, the 2010 audit *Tendering and Contracting in Local Government* identified that while councils had adequate policies in place governing procurement activities, weaknesses in management controls and oversight meant there was a lack of adequate assurance that probity standards had been consistently applied, and that conflicts of interest had been avoided. This audit also found that there was insufficient assurance that councils had optimised value-for-money through competition, in circumstances where cumulative payments to suppliers exceed public tender thresholds.

Again, the 2011 audit *Business Planning for Major Capital Works and Recurrent Services in Local Government* found that there was little assurance councils regularly reviewed their services in accordance with best value principles, despite their statutory obligation to do so, the practical need to assess how efficiently they are operating, and the need to diagnose performance issues and achieve continuous improvement.

Weaknesses in accountability, oversight and monitoring

Several audits over the period reviewed have highlighted deficiencies in councils' external accountability mechanisms, and internal oversight and monitoring of activities.

The 2002 audit *Management of Roads by Local Government* found that none of the councils audited provided ratepayers with adequate information for them to understand whether roads are being managed efficiently and effectively. Six years later the main finding of the 2008 audit *Performance Reporting in Local Government* was that for most councils, performance reporting had little relevance to ratepayers and residents. In addition to deficiencies in councils' external accountability mechanisms, performance audits have also identified weaknesses in councils' internal monitoring and oversight processes.

The 2010 audit *Fees and Charges: Cost recovery by local government* concluded that at most councils, oversight of service cost-efficiency was inadequate, and deficiencies in reporting meant that senior management could not adequately assess the efficiency of their services and the extent to which they were subsidised. This assessment is essential to enable councillors to make decisions that will facilitate both the efficient use of resources and effective management of service costs.

Similarly, the 2010 audit *Tendering and Contracting in Local Government* found that most councils could not demonstrate they had sufficient oversight of staff's application of probity standards, and also lacked systems for monitoring and reporting on aggregate supplier payments—a key issue for probity and value-for-money. The 2010 audit *Business Continuity Management in Local Government* also found that councils' arrangements for monitoring the performance of their business continuity activities were inadequate, and the 2009 audit *Use of Development Contributions by Local Government* concluded that internal reports contained insufficient information to assure councils that all contributions due were being collected and effectively managed.

Attachment B – Better Practice Performance Reporting

The focus of the reporting framework on a standard set of performance indicators is not intended to interfere with the decision making of councillors and councils in setting policies, priorities and service levels.

It is paramount that any comparisons of performance in local council service delivery take account of the contextual information, structural differences between councils, population differences and councils' individual policy emphasis.

Robust performance indicator frameworks involve clear and precise specifications, logical and well-chosen indicators that are informed by evidence and based on the policies and objectives of government services. Robust frameworks also contain a balanced set of measures, addressing key aspects of performance, with accurate and reliable systems, methods and data for performance comparisons.³³

In 2008, the Victorian Auditor-General's Office published a better practice guide *Local Government Performance Reporting: Turning Principles into Practice*. This guide was produced to assist councils to achieve effective performance reporting. The guide highlights the key principles of effective performance reporting and provides guidance on their application in the local government context. These principles are summarised in Figure B1.

Figure B1
Principles of effective local government performance reporting

Comprehensive

To be comprehensive, indicators should be relevant to council objectives. Objectives should be clearly expressed, measurable, and there should be a clear nexus between objectives and performance indicators. Performance indicators should also cover all critical aspects of objectives and align with services.

Balanced

Performance indicators should cover the time, cost, quantity and quality of service provision, as well as the outcomes of council activity. A single indicator is typically not able to measure each of these aspects, therefore a suite of indicators is usually required to provide balanced performance information.

Appropriate

Performance indicators should be reported with appropriate context to allow community members to interpret results. Targets, trend data and an explanation of the result should be provided to allow members of the community without technical knowledge to draw meaningful conclusions about the performance of council.

Source: Victorian Auditor-General's Office, Local Government Performance Reporting: Turning Principles into Practice, 2008.

Previous reviews by VAGO and others have identified the following key issues compromising the effectiveness of performance reporting at councils:

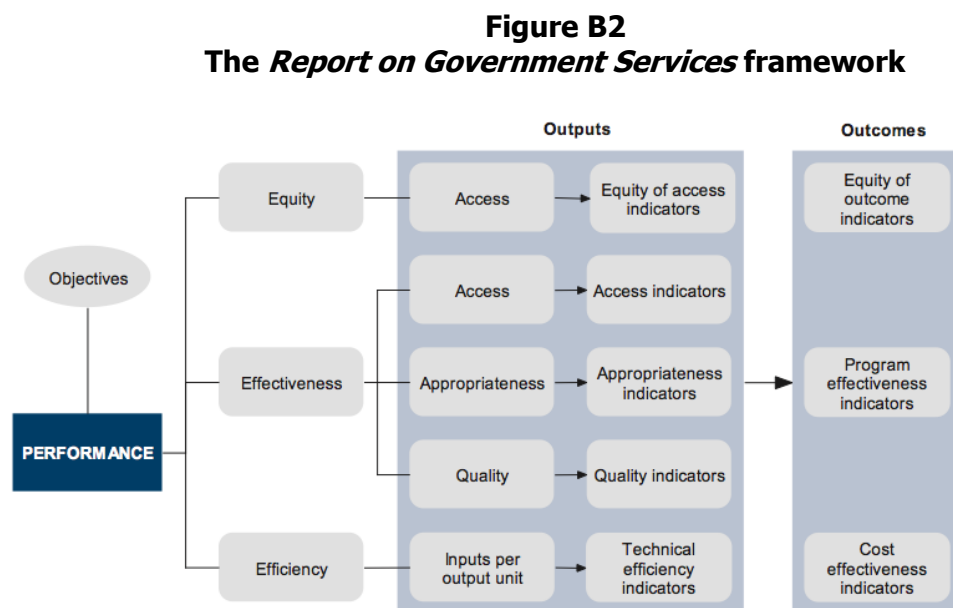
³³ Australian National Audit Office 2004, *Better Practice in Annual Performance Reporting*, Canberra.

- poorly expressed objectives that cannot be effectively measured
- indicators that do not comprehensively cover all aspects of councils' objectives and key strategic activities
- indicators that do not provide balanced information about the quality, efficiency and outcomes of council services
- a lack of adequate policies for performance reporting
- poor alignment between strategic and service level objectives
- limited training for councillors and staff in performance measurement and management.

The *Report on Government Services* (RoGS), produced by the Productivity Commission Secretariat for the Steering Committee for the Review of Government Services, sets out a well-established performance reporting framework that is highly suited to local government.

RoGS acknowledges the importance of assessing service delivery relative to objectives and has been refined over 15 years in consultation with Commonwealth and state agencies. It is therefore a well-developed, rigorous and conceptually sound framework for assessing service delivery performance. Additionally, its use as a comparative performance reporting tool across different jurisdictions makes it highly suited to the local government context.

Figure B2, reproduced from the 2011 RoGS, sets out the main conceptual elements.



Source: *Report on Government Services 2011*.

The RoGS framework provides for five types of output indicators and three types of outcome indicators. Among these, the most critical indicator types for minimally satisfying the requirements for effective performance reporting in local government are indicators of:

- program effectiveness—measures how well the outcomes of a service achieve the stated objectives of that service

- technical efficiency—measures how well resources (inputs) are used to produce outputs and outcomes, expressed as a ratio of outputs to inputs
- quality—measures the extent to which a service is suited to its purpose and conforms to specifications.

The 2012 audit *Performance Reporting by Local Government* recommended that implementing a performance reporting framework based on RoGS should be progressive, building where possible from data sets currently available to those that should be introduced.

The audit outlined the main characteristics of the comparative performance reporting framework proposed for Victorian councils.

Figure B3 – Key features of proposed local government reporting framework at a glance

Feature	Description
Primary purpose	<ul style="list-style-type: none"> • Improve accountability to councillors, ratepayers and residents • Benchmarking of council performance • Support continuous improvement
Scope	<ul style="list-style-type: none"> • Financial performance • Service delivery performance
Financial performance dimensions	<ul style="list-style-type: none"> • Financial sustainability • Rating • Sustainable capacity
Service performance dimensions	<ul style="list-style-type: none"> • Effectiveness • Efficiency • Quality
Form and content of reporting	<ul style="list-style-type: none"> • 'Headline indicators' focusing on critical results achieved (e.g. outcomes) • 'Supporting indicators' focusing on critical diagnostic information (e.g. outputs)

Source: Victorian Auditor-General's Office.

Financial performance reporting by councils is important for acquitting their obligation to demonstrate sound financial management. This is a critical objective of all councils. Related indicators should provide insights into the financial sustainability of councils and the actions needed to achieve it. VAGO's recommended financial sustainability indicators for councils can assist in addressing this requirement. This data could also be complemented with relevant measures of council rating practices including metrics on the sustainable capacity of councils to gain further insight into council sustainability risks and appropriate remedial actions.

VAGO's recommended financial sustainability indicators reflect short- and long-term sustainability, and are measured by whether councils:

- generate enough revenue to cover operating costs (including the cost of replacing assets reflected in depreciation expense)—underlying result
- have sufficient working capital to meet short-term commitments—liquidity
- are not overly reliant on debt to fund capital programs—indebtedness

- generate sufficient operating cash flows to invest in asset renewal and repay any debt it may have incurred in the past—self-financing
- have been replacing assets at a rate consistent with their consumption—capital replacement
- have been maintaining existing assets at a consistent rate—renewal gap.

A report for the Australian Centre of Excellence for Local Government³⁴ noted that a realistic and pragmatic approach to expectations regarding performance measurement is needed, and the sensible but somewhat elusive approach to performance measurement for local government would be to identify indicators which are both practical for council to measure as well as meaningful for the community and the government in overseeing the council's performance.

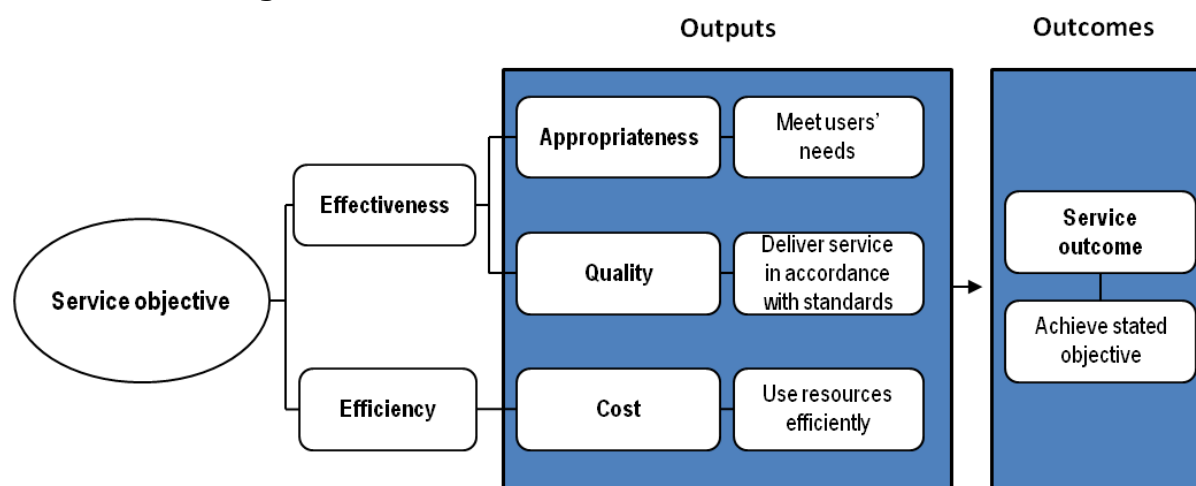
³⁴ Tan, S F and Artist, S. 2013, *Strategic Planning in Australian Local Government: A comparative analysis of state frameworks*, Australian Centre of Excellence for Local Government, University of Technology, Sydney.

Attachment C – Proposed Performance Reporting Framework

Service Performance

Figure C1 outlines the proposed Service Performance Framework and reflects the service process through which local governments transform inputs into outputs and outcomes in order to achieve desired service objectives.

Figure C1 – Service Performance Framework



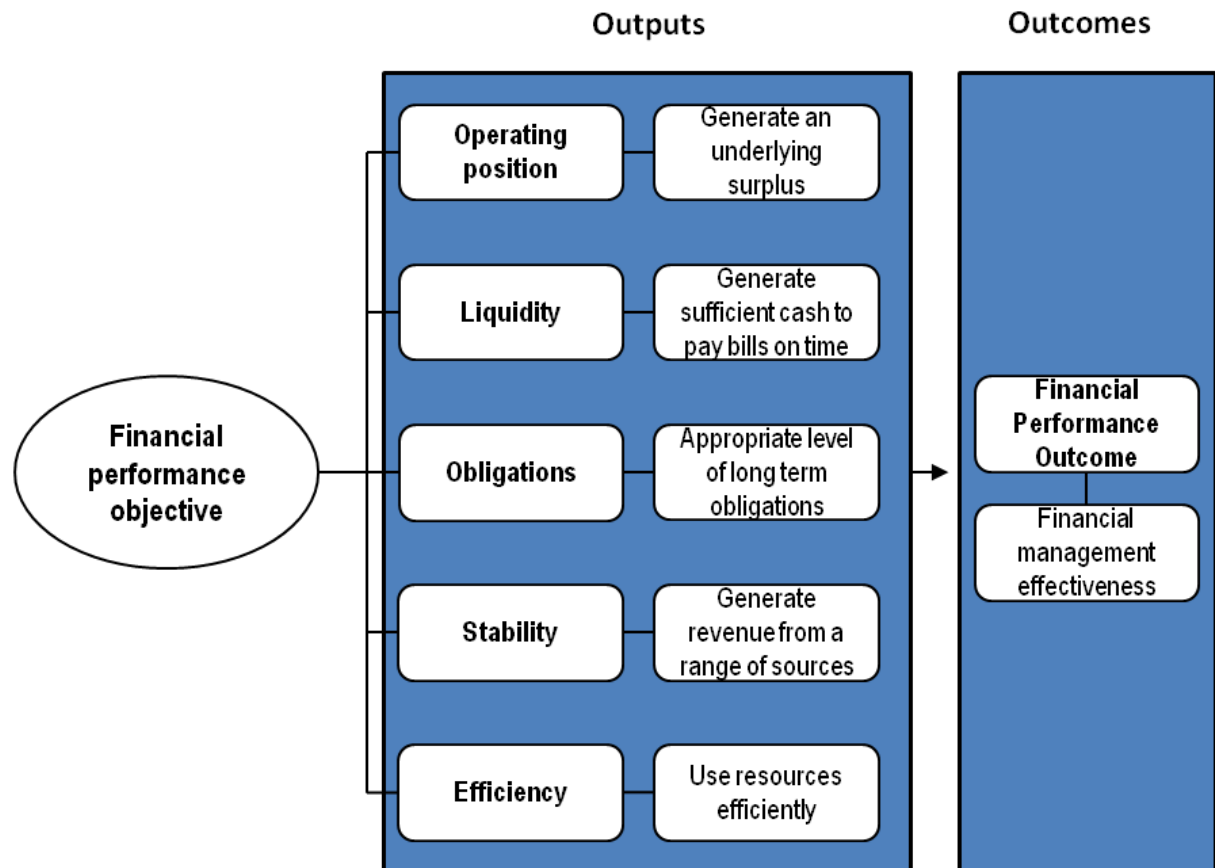
Dimensions of the Service Performance Indicator Framework

Dimension	Definition	Indicators/Measures
Appropriateness Output indicators that measure how well services meet users' needs	Access: how easily clients can obtain the service in terms of both timeliness and accessibility	Participation rate Response time
	Equity: how well the service meets the requirements of all groups	Equity of access Equity of outcome
Quality	Output indicators that measure the extent to which a service is delivered in accordance with defined standards	Resource standard Service standard
Cost	Output indicators that measure how efficiently services use their resources (inputs) to produce outputs	Average cost per unit (unit cost)
Service Outcome	Outcome indicators that measure how well the outcomes of the service have achieved the stated objective	Community satisfaction Health and safety

Financial Performance

Figure C2 outlines the proposed Financial Performance Framework for measuring financial management effectiveness in local government. It establishes the objective of the indicator set and measures performance through a range of output and outcome indicators.

Figure C2 – Financial Performance Framework



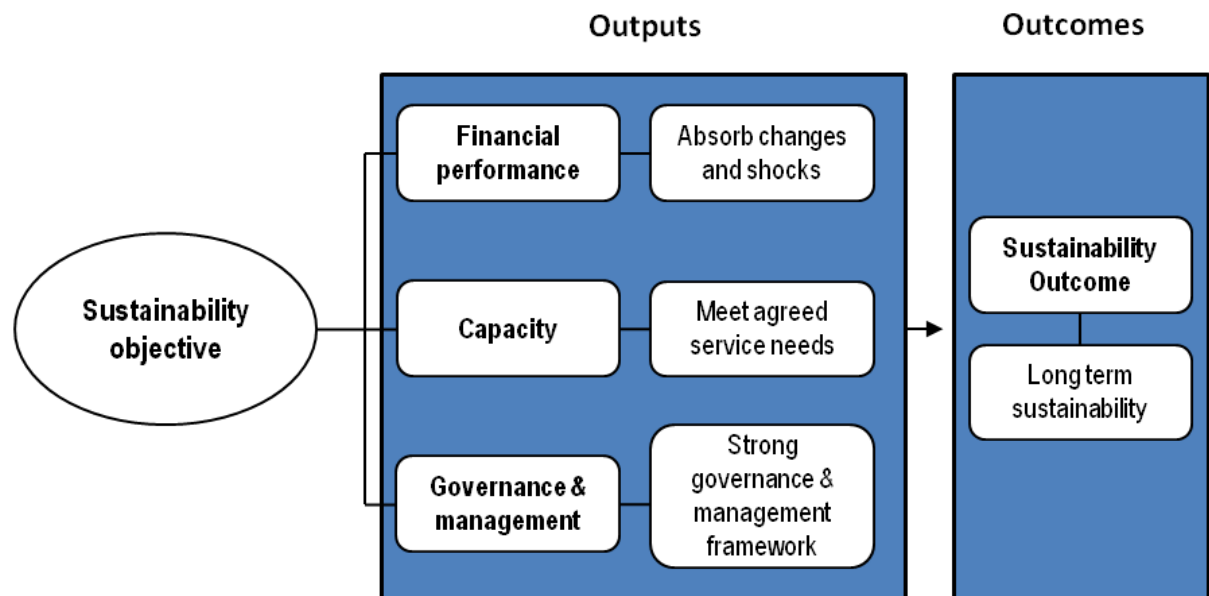
Dimensions of the Financial Performance Framework

Dimension	Definition
Operating position	Measures whether a council is able to generate an underlying surplus
Liquidity	Measures whether a council is able to generate sufficient cash to pay bills on time
Obligations	Measures whether the level of debt and other long term commitments is appropriate
Stability	Measures whether a council is able to generate revenue from a range of sources
Efficiency	Measures whether a council is using resources efficiently

Sustainability

Figure C3 outlines the proposed Sustainability Framework for measuring long term sustainability in local government. The Sustainability Indicator Framework establishes the objective of the indicator set and measures it through a range of output and outcome indicators.

Figure C3 – Sustainability Indicator Framework



Dimensions of the Sustainability Framework

Dimension	Definition
Financial performance	Measures whether a council is able to absorb foreseeable changes and unexpected shocks without having to make disruptive revenue or expenditure adjustments
Capacity	Measures whether a council is able to meet the agreed service needs of the community
Governance and management	Measures whether a council has strong governance and management frameworks in place covering community engagement, planning, monitoring, reporting and decision-making

Attachment D – Methodologies and Assumptions

Discount rate

The real discount rate used in this RIS is 3.5 per cent. This adopts the rate published in the *Victorian Guide to Regulation* (Appendix C, p. 19). The discount rate of 3.5 per cent was used over a 10-year period (i.e., the life of regulations in Victoria). Cash flows are discounted to a 'Year 0', being the commencement of the proposed Regulations in April 2014.

Valuing council staff time

As a proxy for valuing the time of local council staff, HR_x, the following formula is given in the *Victorian Guide to Regulation*:

$$\mathbf{HR_x = (AE_x \times OO_x) / (AW_x \times AH_x)}$$

where:

AE_x = average full time salary for local council administrative and professional officers

AW_x = number of weeks worked per annum (44 weeks)

AH_x = average weekly hours for full time workers (41 hours)

OO_x = multiplier for on-costs and overhead costs (1.75)

See *Victorian Guide to Regulation* (Appendix C, pp. 12-15). Every Victorian council sets its own salary scales and conditions. Further, different staff levels are likely to be included in collecting the information required to be reported. For the purposes of valuing staff time for this RIS, a blended annual average salary of \$78,366 has been used. Each council sets its own salaries – this figure was an average of indicative salaries published by MAV in 2012 (reflecting both metropolitan and rural councils), and increasing the average by 3.5 per cent to reflect average wages growth since that time. Using the above formula, this gives an hourly rate of \$76.02.