

27 February 2023

Hon Sue Smith AM
Chair
Local Government Board
Department of Premier and Cabinet

Via email: Submissions.LGBoard@dpac.tas.gov.au

Dear Sue

The Future of Local Government Review – Options Paper

Thank you for the opportunity to provide a submission on the Future of Local Government Review – Options Paper. This submission has been prepared by the Local Government Association of Tasmania (LGAT) in collaboration with our General Management Committee (GMC) who provide oversight of LGAT operations.

LGAT is incorporated under the *Local Government Act 1993*, and we are the representative body and advocate for local government in Tasmania. Part of our function under the Act is to promote an efficient and effective system of local government in Tasmania. Our response seeks to balance those functions and focuses on matters that are shared across the sector and is guided by a perspective from over 100 years of being the peak body for local government.

We know from local government reform in other states that this work is difficult, and LGAT applauds the work of the Local Government Board so far.

The LGAT General Management Committee would welcome the opportunity to discuss this submission further with the Local Government Board. I am also available to discuss any particular matters raised or to provide clarification.

Yours sincerely,



Dion Lester
Chief Executive Officer

LGAT Submission: *The Future of Local Government Review – Options Paper*

Introduction

The role of councils has changed significantly over the years, transitioning from a minimalist ‘services to property’ model to providing a broader range of ‘services to people’, while at the same time continuing with delivering services to properties. Despite, or perhaps because of this, local government in Tasmania is under continuous pressure to reform in order to provide contemporary best practice as well as to address existing and upcoming challenges.

This gradual expansion and evolution of council’s role is a reflection of community needs and expectations, a local service delivery role on behalf of other levels of government, and market failures. These market and policy failures result in local government being called upon as the provider of last resort, for example providing general practitioner service due to lack of coordinated state / federal policy.

Notwithstanding these challenges, a recent report commissioned by the Australian Local Government Association (ALGA)¹ shows local government is an efficient provider of government services, when compared to other spheres of government, and is key to building productivity in the wider economy, including via:

- Waste management – increasing the waste recovery rate by 5 per cent increases Australia’s GDP by an estimated \$1 billion². Councils support this by facilitating garbage, recycling, and organics collection services.
- Responding to climate change – councils help via emissions reduction, engagement / advocacy, collaboration, and adaptation where every dollar spent on resilience building and preparedness can save at least \$2 in recovery costs³.
- Place shaping – councils support opportunities for economic development, advocate to higher tiers of government on local issues, and facilitate community development and social capital⁴.
- Providing public infrastructure – councils manage more than \$11 billion worth of vital infrastructure across the State⁵ and are responsible for a significant amount of Tasmania’s passenger transport and freight routes.

¹ Research for Submission to Local Government Productivity Inquiry: <https://alga.com.au/app/uploads/Final-Report-SGS-Research-Aug-2022.pdf>

² Ibid 53.

³ Ibid 63.

⁴ Place Shaping and the Future Role of Local Government in Tasmania <https://www.futurelocal.tas.gov.au/wp-content/uploads/2022/06/FoLGR-UTas-Paper-3-Place-shaping-and-the-future-role-of-local-government-in-Tasmania.pdf>

⁵ The Future of Local Government Review Interim Report https://www.futurelocal.tas.gov.au/wp-content/uploads/2022/07/4144_Tasmania_Local_Government_Reforms_Interim_Report_v1.7_report_only.pdf

Furthermore, over the past decade total expenditure per capita by local government has largely stayed flat. Meanwhile, expenditure per capita by the Commonwealth Government has escalated sharply, and those of state governments have grown steadily.

By international standards investment in Australian local governments is small, forcing councils to operate with very modest resources. At the same time, councils are often best positioned to deliver, but not necessarily fund, public services with their local knowledge and understanding, with benefits accruing locally.

According to a survey by SGS Economics and Planning, local government is the most trusted tier of government. Communities rely on councils to get things done for them and to make things happen. Councils understand local economies in ways that state and commonwealth governments frequently do not and are uniquely placed to leverage local synergies with the private sector and community organisations.

The ALGA report identifies several constraints to the productivity and role of local government, most notably cost pressures impacting financial sustainability. These cost pressures include cost shifting, declining and ad-hoc grants and management of an increasing number of depreciating assets.

Also identified, were the difficulties in securing the right quantum and mix of skills to support local government service provision and a lack of coordination between State Governments and councils in strategic planning.

These findings are unsurprising given the themes emerging through the Future of Local Government Review and suggest councils are doing more with less in an already reasonably efficient and effective manner.

The state and commonwealth governments compound this by gearing the funding environment to continuously push local governments into financial sustainability challenges. Councils are constantly enticed and even encouraged by grants into capital works that carry long-term financial and asset management commitments that are not backed by sustainable funding sources. In some cases, the Tasmanian or Australian Governments will collect sustainable demand or user-based charges that should be used to sustain the services they are charged on, but instead either will not distribute them equitably to local government or, even worse, will convert the ongoing revenue stream into short term grants for capital works that generate a bigger infrastructure burden, rather than to sustain the existing asset load, as is intended by a user charge. A prime example of this is the Tasmanian Government's Heavy Vehicle Motor Tax⁶, a charge to recover road construction and maintenance costs resulting from heavy vehicle road

⁶ See: https://www.transport.tas.gov.au/fees_forms/registration_fees/accordion/motor_tax_heavy_vehicles

usage⁷, which the government does not distribute to councils equitably to cover the costs of heavy vehicle impacts. Councils are forced to raise rates and subsidise heavy vehicle road access while the Tasmanian Government reserves the revenue that is meant to provide cost recovery.

In other cases, our councils don't even have the right charging system, connected to demand or usage, to properly defend their financial sustainability, even when good model systems exist elsewhere in Australia. NSW, Victoria, and especially Queensland all have advanced infrastructure charging systems that provide reliable, sustainable revenue to enable the longer-term infrastructure planning and delivery needed to sustain growth. In contrast, Tasmanian councils have a very basic and vulnerable system that forces councils to rely on general revenue, especially rates, to meet growth management needs. Relying on general revenue forces councils to use ratepayer funds to choose between the needs of existing contributing ratepayers and developer needs. Tasmania is at a disadvantage relative to mainland states. Infrastructure charges are a sustainable growth-linked demand charge that supports development and council financial sustainability – a fundamental tool that Tasmanian councils do not have.

It seems perverse indeed to blame our councils for financial sustainability challenges when they don't have all the tools, they need to achieve it. Structural reform is not a panacea to financial sustainability when we haven't properly addressed the serious holes in the current system that constantly work against financial sustainability on a day-to-day basis. If the Review is serious about financial sustainability, its advice to government will recommend the following:

1. That the Tasmanian Government develop an infrastructure charging framework for local government, consistent with LGAT's Infrastructure Contributions Discussion Paper⁸.
2. That the Tasmanian Government equitably distribute to local government user charges revenue for services that local governments provide and currently subsidise.

Should the Board seek a detailed briefing on these issues, LGAT would certainly provide it.

The limits of structural reform must be understood for it to properly meet the Review's objectives. The lack of rigorous analysis into missing financial sustainability tools and revenue mechanisms and successful implementation models demonstrate to us a serious

⁷ See: <https://www.legislation.gov.au/Details/F2022L01192/Explanatory%20Statement/Text>

⁸ Read our discussion paper here: https://www.lgat.tas.gov.au/_data/assets/pdf_file/0030/1139691/LGAT-Infrastructure-Contributions-Discussion-Paper-11-April-2022.pdf

risk of recommendations that fail to properly solve the problems that were intended to be addressed in this Review.

However, there are opportunities for improvement, and if structural reform of local government is executed well ⁹, alongside of a rigorous assessment of the missing financial sustainability tools, there will be benefits for Tasmanian communities.

Broadly, the benefits of local government structural reform can be grouped into one of three categories:

1. Economies of scale – maximising the use of resources and/or services at the least cost.
2. Economies of scope – creating a wider range of higher quality of services.
3. Strategic capacity – having the skills and resources needed to act as high-capacity organisations that manage complex and sometimes unexpected change.

In most other Australian examples of municipal structural reform, the primary goal was to ‘cut costs’. What is clear from these past experiences is that cost savings are unlikely to materialise, and that a greater focus on economies of scope and strategic capacity is therefore warranted in order to create a more robust and capable system of local government.

Structural reform cannot be achieved without incurring some significant and contingent costs which need to be identified as part of the implementation planning stage. The reform process involves some complex issues and demand meticulous and careful planning to ensure that service delivery standards are maintained during the process, employees are treated in a fair and equitable manner during any transition periods and that the community is well informed and supported through the process.

Our approach

We have always held the long view of the sector, so that it is strong and sustainable. To meet this objective the following criteria, need to be met by the Local Government Review reform options:

- Strengthening local government’s unique value proposition to Tasmanian communities.
- Resolving the sector’s vulnerabilities.

⁹ 21st Century Councils – Structural Reform Discussion Paper https://www.lgat.tas.gov.au/_data/assets/pdf_file/0029/801839/21st-Century-Councils-Literature-Review.pdf

- Better, more effective interface with, and understanding between, the Tasmanian Government and local government.

We are concerned that we have not seen a thorough compilation of what is currently working well in local government and deep analysis as to why success has been achieved in these areas. This is important so that we can learn the mechanisms of these successes, replicate them, and ensure effective reform that works as intended, and importantly, to ensure that we don't destroy existing successes through reform.

State government leadership and partnership

From experience, we would say that the right leadership from the State Government improves state-wide local government performance and must be a critical part of the current review. We also know that inadequate state leadership erodes local government performance. Different Tasmanian government agencies, and even different sections within agencies, lead in different ways. We see three types of state leadership:

1. Absent leadership – the state avoids involvement and responsibility, remaining remote from councils.
2. Directive leadership – the state dictates to councils, mandating actions, or requirements.
3. Supportive leadership – the state provides guidance, support, and operating frameworks, typically on a voluntary basis.

Absent leadership

This leadership is the most common and the default starting point. Here, the state delineates areas of responsibility generally, then leaves councils on their own to execute this responsibility. This operating vacuum creates a high degree of uncertainty in how to deliver. In the absence of any guidance, council approaches will vary as each council finds its own way to execute. The variety of approaches will often cause confusion in industry and among the public. Councils invariably want to reduce this uncertain operating environment and will create various initiatives (usually informal) to learn from each other and improve harmonisation, but without a properly resourced, central, coordinating body, continual improvement is incremental and variable. Absent leadership takes no responsibility for results on the ground and avoids involvement in implementation. It is a 'set and forget' approach.

Directive leadership

This leadership is a reflex response to the effects of absent leadership. Usually, industry or the public will petition the State for greater consistency in local government, so the State Government responds by legislating and dictating to councils that they must do

something: comply with a requirement or operate in a very defined way. This top-down approach can improve consistency, but often comes with several side effects:

- The requirement can be too inflexible to be appropriately applied in every local circumstance, leading to very bureaucratic behaviour and public dissatisfaction.
- By eliminating local customisation, the requirement can erode local government's sense of ownership in the function or outcome, causing disengagement or rejection.
- Similarly, top-down directive approaches fail to recognise local identity and variation and often triggers adverse responses.
- If the requirement is highly technical or complex or demands significant resources, then often the directive simply creates a difficult compliance problem – both for councils and the state.

Directive leadership takes limited responsibility for outcome results, sees fault in others (in this case, councils) and sees the solution to failures as requiring more directives and regulation. It is another 'set and forget' approach, but with harder emphasis on 'setting'.

Supportive leadership

This leadership seeks to fill the operating environment with useful information, guidance or training, tools and templates, collaborative forums, responsive advice, and digital service delivery platforms, rather than statutory requirements of directive leadership. It sets higher level shared objectives and consistent operating parameters broadly but does not dictate operations strictly. Room is provided to tailor local implementation. Engagement by councils is largely voluntary and local application can be customised, so a sense of ownership is generated. Full participation is developed largely through performance: if the tools and guides are reliable and improve operations or the outcome for councils, and they see their peer's achieving success with them, then there is little need to dictate with legislation. Consistency is achieved through voluntary collaboration, reduced operational isolation and development of common tools.

Supportive leadership takes shared responsibility for public service outcomes and tends to be more active and effective in the implementation of state objectives. It seeks to understand operational needs and assist them, so it tends to adopt a continual improvement approach. The supportive leadership approach understands that the key to operational success of legislation is to focus on the implementation stage, more so than in the legislation itself. As a result, supportive leaders actively plan their implementation and dedicate resources to support actions and ensure legislation successfully executes government policy. They understand that not supporting successful implementation significantly escalates the likelihood of failures. By actively

improving the operating environment for councils, supportive leadership sets the conditions for local government success, and therefore also state policy success.

Tasmania's Heavy Vehicle Access Management System¹⁰ and PlanBuild¹¹ are examples of supportive leadership. Neither changed legislation nor required structural reform, both dedicated resources to improve public service outcomes.

In our view, from our multitude of daily interactions between various state agencies and councils, it is clear to us that state operating behaviour is the greatest single determinant of local government performance. This means that state behaviour and interactions with local government must be considered when deliberating on reform options.

In developing its recommendations to the Tasmanian Government, we urge the Local Government Board to avoid recommendations that amount to absent and directive leadership approaches, that emphasise legislative change over implementation follow through. Instead, we seek that the Board elevates the importance of supportive leadership from the State that focus on implementation actions in improving the operating environment and setting the conditions for successful reform.

Procurement of goods and services by local government

Councils across the state make numerous value purchases every day, from office supplies to trucks and infrastructure projects. In 2021/22 the total value of these purchases was over \$700 million, with significant economic and social impact.

Research work in other states and our experience in Tasmania, is that many purchasing decisions in councils are made at an operational rather than strategic level. While understandable, other states have demonstrated significant financial and economic benefits when purchases have shifted to be more strategic. At the same time, procurement skills, systems and processes can vary across councils, with skills shortages in some councils meaning capacity, systems and processes are less mature or well-developed.

While some purchasing decisions may be considered simple, in many cases the process of procuring goods and services can be complex and pose significant risk for councils.

The Local Government Review Options Paper (Options Paper) identified the opportunity for strategic coordination and consolidation of councils' procurement and delivery. Councils interviewed as part of the review also identified that there is likely to be significant benefit from increased consolidation and coordination of procurement

¹⁰ See: <https://hvams.stategrowth.tas.gov.au/>

¹¹ See: <https://www.planbuild.tas.gov.au/>

activities. This is particularly the case for systems like Information Technology (IT) and for expensive and complex infrastructure projects.

The Options Paper also highlighted the need for councils to:

- Consistently adopt best practice procurement and contracting practices to deliver value for money and ensure councils are financially sustainable and fiscally responsible.
- Improve procurement systems and processes, including staff skills in procurement.

Addressing these needs through the delivery of more streamlined, best-practice approach to procurement across local government in Tasmania would help councils to save money, manage risk, provide better quality goods and services, and reduce administrative overheads. It would be valuable for further consideration, within the options provided, to consider how improvements in procurement-related structures, systems, processes, and skills could be achieved. Importantly, this should consider the elements of procurement functions that may be coordinated at a larger scale and what needs to remain local.

LGAT Procurement

LGAT Procurement, a service within LGAT, has been providing a suite of products and services to support councils in procurement for over seven years. This service has expanded with significant growth in council spend through the LGAT Procurement contract arrangements from \$2 million in 2014 to over \$10 million in 2021. Yet, this still represents a small proportion of total council spend, at around two per cent in 2022/23. This offers an opportunity for much greater savings given that through these arrangement councils saved over \$1.3 million in 2020/21.

The use of the arrangements by councils

- Saves money through lower prices for goods and services, as a result of collective purchasing power.
- Provides significant administrative savings in time and money, as LGAT Procurement has undertaken the tender process, removing the requirement for councils to individually tender.
- Reduces risk with tenders and contractual documents, which are developed by skilled procurement experts.

The services provided by LGAT Procurement include:

- Developing and maintaining a suite of goods and service contracts that provide councils and local government entities access to robust, streamlined, bulk purchasing procurement and contracting arrangements, including national arrangements.
- Development and maintenance of procurement systems.
- Delivering procurement training and supporting procurement improvement.
- Providing councils access to a set of good-practice procurement and contracting tools and resources.
- Providing procurement support services to councils purchasing through the panel arrangements.
- Liaising with councils about procurement needs and issues via the Local Government Procurement Reference Group.
- Providing and managing individual aggregated purchasing arrangements for councils where there is a strong need for collective purchasing, for example electricity and street lighting renewal.

The uptake of LGAT Procurement services has varied from council to council, with a progressive increase year on year and as additional resources have been provided to support councils. The adoption of new systems and processes from ‘outside’ understandably takes time, even though benefits are clear.

Our assessment of the barriers to a faster, more widespread uptake of services includes a perception that individual councils lose control of direct purchase process and supplier relationship, or a councils requirements are unique and this won’t be met under LGAT Procurement arrangements.

Procurement next steps

We have recognised the opportunity to provide more strategic coordination and best practice procurement for the sector through LGAT’s 2021/24 Strategic Plan, and the development of a five-year business plan. The objective of the plan is to further develop the procurement service to the sector. The delivery of the five-year business plan will, over time, provide increased savings, more consistency in approach across councils and assist in building a culture of strategic procurement and skill improvement.

The plan builds on the existing services provided by LGAT Procurement and will deliver:

- A collaborative approach that informs and guides LGAT Procurement activity.

- A training solution to support procurement capability within councils, including a procurement knowledge centre for local government.
- A strategy to increase local suppliers within contracts.
- A set of Tasmanian specific construction panel contracts.
- Aggregated tenders for specific contracts.
- A sustainable procurement program linked to council strategy.

LGAT Procurement is well placed to provide the centralised support required by councils to achieve the Local Government Board’s future vision for best practice procurement and contracting practices to deliver value for money. This will support councils to manage risks and to work towards increased financial sustainability.

Growth in a centralised service will reducing duplication where it makes good sense to do so, while supporting local functions and responsibilities. It will also provide the capacity to work with councils to better align the planning and delivery of major capital works across councils and with State Government. Producing positive pipeline benefits.

LGAT Procurement can and will provide significant additional benefits across the range of future structural arrangements of the local government.

Conclusion

The final and perhaps most important conclusion in relation to local government reform is that one size does not fit all. Tasmanian councils and the communities they serve are in increasingly diverse social, economic, and environmental contexts. The challenges they face are many and varied, as are their individual circumstances. To be successful reform will need to appreciate this and differ between municipal regions.