



Performance Reporting by Local Government



VICTORIA

Victorian
Auditor-General

Performance Reporting by Local Government

Ordered to be printed

VICTORIAN
GOVERNMENT PRINTER
April 2012



This report has been produced to ISO14001 environmental standards. It is printed on FSC credited Novatech Satin paper. The print supplier, Blue Star PRINT has initiated an EMS promoting minimisation of environmental impact through the deployment of efficient technology, rigorous quality management procedures and a philosophy of reduce, re-use and recycle.

ISBN 978 1 922044 08 2

The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Performance Reporting by Local Government*.

Yours faithfully



D D R PEARSON
Auditor-General

18 April 2012

Contents

Audit summary	vii
Introduction	vii
Conclusions	vii
Findings	viii
Recommendations	xii
Submissions and comments received	xii
 1. Background	 1
1.1 Introduction	1
1.2 Previous audit coverage	3
1.3 Relevant statewide initiatives	5
1.4 Audit objective and scope	6
 2. Recurring performance challenges in the sector	 7
2.1 Introduction	8
2.2 Conclusion	8
2.3 Recurring performance challenges in the local government sector	8
2.4 The role of performance reporting	10
 3. Performance reporting by local government	 13
3.1 Introduction	14
3.2 Conclusion	15
3.3 Adequacy of performance reporting	15
 4. Proposed framework for local government performance reporting	 27
4.1 Introduction	28
4.2 Conclusion	28
4.3 Purpose and architecture of proposed performance reporting framework	29
4.4 Proposed model for assessing service delivery performance	32
4.5 Proposed model for assessing financial performance and sustainability	35
4.6 Actions required to implement the framework	36
4.7 Proposed implementation strategy	42

Appendix A. Recurring performance challenges 45

Appendix B. Definitions of *Report on Government Services* indicators..... 49

Appendix C. Financial sustainability indicators 51

Appendix D. Examples of common objectives and services55

Appendix E. *Audit Act 1994* section 16—submissions and comments 57

Audit summary

Introduction

Councils invest significant resources each year in the delivery of a range of services to their communities. The *Local Government Act 1989* (the Act) requires them to use these resources effectively and efficiently by implementing sound financial management, and to provide their services in line with the best value principles to meet the needs of their local community.

Effective performance reporting by councils is essential for assuring they are accountable to local residents and ratepayers. It provides the opportunity to demonstrate value-for-money, the achievement of objectives, and that equitable access is provided to appropriate, cost-effective and good quality services.

Key changes to the Act in 2003 introduced important reforms designed to improve councils' accountability through more transparent performance reporting. These included the requirement to disclose, within annual reports, progress against strategic objectives set out in four-year council plans, and the results for key strategic activities identified within annual budgets.

Our 2008 audit *Performance Reporting in Local Government* examined how well councils had implemented these reforms. It found that, for most councils, reporting had limited relevance for ratepayers because it lacked information about the quality of council services, the outcomes being achieved, and how these related to councils' strategic objectives. The audit recommended councils critically review and improve their performance information. Our 2008 guide *Local Government Performance Reporting: Turning Principles into Practice* was subsequently produced to assist councils to achieve this.

This audit assessed the effectiveness of existing local government performance reporting arrangements, and the adequacy of statewide initiatives to reform local government performance reporting.

Conclusions

Performance reporting by councils remains inadequate. It is focused on inputs and operating activities, and offers little insight into the impact of services and the achievement of objectives.

While some improvements were evident at councils since 2008, the progress to date has not been sufficient to satisfy the information needs of residents and ratepayers, to drive continuous improvement, or to deliver timely performance reporting.

These shortcomings continue to impair accountability for performance and represent major obstacles to effectively addressing recurring performance deficiencies at councils.

Ongoing performance challenges in the sector strongly indicate that significant further work towards an appropriate local government performance reporting framework is warranted.

The *Report on Government Services* (RoGS), produced by a Productivity Commission Secretariat for the Steering Committee for the Review of Government Services, is a mature model that demonstrates the feasibility of reporting common benchmarks and metrics across disparate jurisdictions. This model offers an opportunity to expedite addressing the longstanding challenge of performance reporting in the sector by building on an authoritative and established approach.

Findings

Recurring performance challenges in the sector

A review of the Victorian Auditor-General's performance audits of local government between 2000 and 2011 reveals a range of ongoing performance challenges for councils.

Specifically, a meta-analysis of 16 performance audits identified the recurring themes of:

- ineffective planning and budgeting
- inadequate implementation of initiatives and adherence to policies and procedures
- weak oversight and monitoring of council activities and outcomes
- inadequate attention to addressing persistent performance issues.

These recurring issues are, in part, a by-product of a lack of accountability for performance due to weaknesses in performance monitoring and related information. Feedback from councils indicates that they are also influenced by ongoing resource constraints, the administrative burden of complying with state and Commonwealth funding and reporting requirements, and by the difficulty of attracting and retaining skilled staff, particularly in regional and rural areas.

These issues typically manifest themselves in:

- poor asset management
- poor financial management and investment decisions
- poor planning enforcement policies and practices
- poor procurement policies and practices
- inadequate business continuity planning
- lack of service reviews.

These challenges have persisted over several years and in various council functions. Deficiencies in the quality and availability of relevant performance information to managers and councillors have impeded their capacity to take appropriate and timely corrective action.

Additionally, the average annual percentage increase in council rates exceeded both the Local Government Cost Index and the Consumer Price Index between 2000 and 2010. While it is important to note that rate increases may be necessary to renew assets, complete essential works and mitigate external budgetary pressures beyond councils' direct control, deficiencies in performance information prevent councils from identifying internal efficiencies that can moderate the need for such increases, or from adequately demonstrating to their communities why rate increases are necessary.

The long-term and recurring nature of these challenges also highlights a significant and growing opportunity cost to councils and their communities and, therefore, reinforces the need for more effective performance management and reporting across the sector.

Performance reporting by local government

Improvements to elements of performance reporting practices since 2008 were evident at all 10 councils examined. However, these were limited. No council had developed a set of indicators that adequately measured the impact of services and achievement of objectives.

Improvements to performance reporting practices included:

- aligning performance information with councils' strategic objectives—at all councils
- refining performance information to be more balanced—at Boroondara and Knox
- strengthening service planning processes to improve accountability for service outcomes in relation to strategic objectives—at Moreland and Knox
- introducing new electronic reporting systems that link day-to-day activities with strategic objectives—at Colac Otway.

These developments are encouraging, however, further action is required to establish the foundations necessary for effective performance reporting.

Key issues compromising the effectiveness of performance reporting at councils were:

- 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 quality, efficiency and outcomes
- a lack of adequate policies for performance reporting
- limited training for councillors and staff in performance measurement and management.

These issues were evident at all examined councils, demonstrating they have yet either to fully implement previous audit recommendations or to produce performance reports that adequately meet stakeholder needs.

Further issues identified at a subset of councils were:

- a lack of connection between strategic objectives and service objectives—at Baw Baw, Central Goldfields, Indigo and Wangaratta
- reports that did not include results for all indicators identified within council plans—at Horsham, Knox, Moreland and Wyndham
- an over-reliance on limited community satisfaction metrics for assessing services, which do not provide a sufficiently comprehensive and balanced view of performance—evident at Baw Baw, Indigo and Wangaratta.

Better practice was evident at Boroondara and Knox. Both councils reviewed their practices following our 2008 audit and introduced new indicators resulting in more balanced performance reporting overall, compared to the other councils examined.

However, further development of outcome and efficiency indicators is required to consolidate and build on these improvements to achieve effective performance reporting.

Councils identified a number of challenges that affected their capacity to improve performance reporting processes. These included:

- the administrative requirements of contributing to work by the Essential Services Commission (ESC) on developing a reporting framework, which diverted attention away from related internal improvement initiatives
- resource limitations, particularly at regional and rural councils
- councillors and communities assigning lower priority to addressing performance information issues.

These challenges need to be addressed so councils can acquit their statutory obligations to use their resources efficiently and effectively in line with best value principles, and to mitigate the significant opportunity cost currently borne by ratepayers.

Statewide local government performance reporting initiatives

The ESC undertook extensive work during the period 2009–11 to develop a statewide performance assessment and benchmarking framework for local government service delivery.

This was a positive initiative designed to improve performance reporting in the sector.

ESC proposed the progressive implementation of a framework for council reporting based on a set of 17 or 18 service indicators, and between 17 and 20 supporting indicators, subject to applicability each year.

The initial set of indicators was chosen following an extensive review of performance information in the sector that highlighted the low maturity of existing performance indicators, and the relative absence of outcome-based measures linked to council objectives—a situation affirmed by both this audit and our 2008 report.

ESC intended to refine and improve its initial set of indicators in consultation with councils over time to address these gaps. However, the early discontinuation of this initiative meant ESC was unable to fully implement its plan and therefore achieve its intended goal.

Although ESC's framework required further development at the time it was discontinued, ESC's work offers valuable insights on the way forward.

In summary, key lessons include:

- the need for an iterative approach to improving the maturity of council performance information
- the importance of consultation and engagement with the sector
- the need to focus on a common core set of council services as identified by ESC's classification
- the need to recognise and address the significant challenge that disparate council objectives and priorities pose to developing meaningful outcome measures common to all councils.

These are important insights for future reform initiatives.

Proposed framework for local government performance reporting

The cessation of ESC's initiative, coupled with recurring performance challenges in the sector, highlights the need to produce and embrace a statewide performance reporting framework.

The framework should provide a holistic picture of financial and non-financial performance that is outcome focused, based on established models, and capable of implementation without unnecessarily increasing the reporting burden on local government.

RoGS provides a blueprint for developing indicators that is consistent with our 2008 principles. However, the necessary indicators—including data sets and quality assurance arrangements—are not yet in place at councils, and considerable work remains to address these gaps.

This report outlines a pathway for further developing a sound local government performance reporting framework based on the RoGS model, and building on the valuable insights from ESC's work.

Recommendations

Number	Recommendation	Page
1.	All councils should: - review their strategic and service objectives to assure they are clearly expressed, measurable and aligned - critically review the performance information in their annual reports to assure it is relevant, balanced, appropriate and clearly aligned with their objectives - document and approve performance reporting policies and standards - provide training for councillors and staff on effective performance measurement, management and reporting.	25
2.	The Department of Planning and Community Development should seek the approval of the Minister for Local Government to develop regulations establishing minimum standards for the form and content of performance statements.	25
3.	Local Government Victoria, councils, and local government peak bodies should adopt the proposed local government performance reporting framework and associated implementation strategy.	44
4.	Local Government Victoria, in consultation with stakeholders, should lead and expedite establishment of the governance structure for implementation.	44

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Planning and Community Development, the Essential Services Commission, Baw Baw Shire Council, the City of Boroondara, Central Goldfields Shire Council, Colac Otway Shire, Horsham Rural City Council, Indigo Shire Council, Knox City Council, Moreland City Council, Wangaratta Rural City Council and Wyndham City Council with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments however, are included in Appendix E.

1 Background

1.1 Introduction

1.1.1 The role of local government and performance reporting

The *Constitution Act 1975* establishes local government as a distinct and essential tier of government with the functions and powers necessary to ensure the peace, order and good government of each municipal district.

Each council is therefore primarily accountable to its local community. The *Local Government Act 1989* (the Act) reinforces this by establishing the primary objective of each council as endeavouring to achieve the best outcomes for its local community and having regard to the long-term and cumulative effects of decisions.

Victoria's 79 councils invest significant resources each year in the delivery of a range of services to their communities. They collectively maintain around \$60 billion of community assets and infrastructure. They spend around \$1.6 billion each year on capital works, and a further \$6 billion annually on a variety of services including waste management, recreation, aged, family and other human services.

While the operating context of each council varies depending on geography, size, demographics, local needs and priorities, all councils have the same obligation to manage their finances responsibly and to assure their services and facilities meet community needs.

Effective performance reporting assures councils are accountable to their local residents and ratepayers for these important obligations. It 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.

1.1.2 Councils' obligations to their local community

Financial management obligations

The Act was amended in 2003 to include a requirement that councils apply principles of sound financial management to their planning and budgeting. These principles require councils to:

- prudently manage financial risks having regard to economic circumstances
- pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden
- ensure that decisions made and actions taken have regard to their financial effects on future generations
- ensure full, accurate and timely disclosure of financial information relating to the council.

Service delivery obligations

The Act also requires council facilities and services to be accessible and equitable and sets out the best value principles that should inform council decisions on services.

The application of these principles aims to improve local government services by making them more affordable and responsive to local needs, and to encourage councils to engage with their communities in shaping services and activities.

The Act identifies the following six principles to guide how a service should be monitored and reviewed on an ongoing basis:

- All services should be responsive to community needs.
- Each service should be accessible to those community members for whom the service is intended.
- A council should achieve continuous improvement in the provision of services to its community.
- A council should develop a program of regular consultation with its community in relation to the services it provides.
- All services provided to the community should meet the cost and quality standards set by the council.

Regular service reviews in accordance with the best value principles enable a council to assess the effectiveness and efficiency of its services, and to take action where necessary to assure its services continue to meet the community's needs.

Strategic and annual planning obligations

The amendments to the Act in 2003 also introduced new corporate and financial planning requirements that aimed to better align strategic planning with annual planning.

These included the requirement to develop a four-year council plan setting out the strategic objectives of the council, strategies for meeting them and performance indicators for monitoring their achievement. A strategic resource plan underpins the council plan, and identifies the financial and non-financial resources needed to meet the objectives.

Similarly, each council is required to develop an annual budget describing its activities, initiatives and financial requirements for the year. It should also set out how the activities will contribute to achieving the strategic objectives as well as performance measures and targets for a number of key strategic activities.

The terms 'key strategic activity' and 'performance measure' are not defined in the Act or supporting *Local Government (Finance and Reporting) Regulations 2004*.

Performance reporting obligations

The Act requires councils to report annually on their performance. Specifically, it requires them to prepare an annual report within three months of the end of the financial year, to provide a copy of this report to the Minister for Local Government, and to make the report publicly available. The Act and regulations require the report to include:

- an acquittal of actual results against the annual financial budget in the form 'standard' statements. The format of the standard statement is specified in the Regulations and is independently audited
- a 'performance' statement, which acquits actual results against the performance target for each key strategic activity. There is no format specified for the performance statement in the regulations, although they are required to be independently audited
- a report on operations that explains progressive performance against the strategic indicators identified in the four-year council plan. These explanations are not required to be audited.

These important performance reporting obligations were introduced by the 2003 legislative reforms to achieve greater accountability by councils to their communities.

1.2 Previous audit coverage

1.2.1 *Performance Reporting in Local Government*

Our 2008 audit of *Performance Reporting in Local Government* examined how well councils had implemented these reforms. Specifically, it 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. It also found that in most cases, councillors and council staff were not equipped with the knowledge and skills required to fully understand and develop appropriate performance reports, and that policies were either very limited or non-existent.

The audit recommended that all councils critically review and improve their publicly reported performance information, that they document and approve performance reporting policies and standards, and provide councillors and staff with appropriate training. It also recommended that regulations be issued establishing the minimum standards for the form and content of performance statements, however, this has yet to occur.

1.2.2 *Local Government Performance Reporting: Turning Principles into Practice*

Our 2008 guide *Local Government Performance Reporting: Turning Principles into Practice* was produced to complement our audit report and 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 1A.

Figure 1A
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.

1.2.3 *Local Government: Results of the 2010–11 Audits*

Our 2011 report *Local Government: Results of the 2010–11 Audits* performed a high-level review of 10 council performance statements against the framework set out in our 2008 guide, to assess the adequacy of councils' actions on performance reporting.

It concluded that limited improvement was evident in the quality of the performance statements produced by councils, and that non-financial performance indicators are of limited relevance to ratepayers and residents. The report further noted that councils continue to adopt a 'compliance-centric' approach to performance information, and that they have yet to fully implement previous audit recommendations or to produce performance reports that drive council outcomes and accountability by being relevant and appropriate to stakeholder needs.

1.3 Relevant statewide initiatives

In October 2009, the Essential Services Commission (ESC) received a terms of reference from the Minister for Finance to develop and implement a statewide performance monitoring framework for local government service delivery.

ESC engaged in extensive and in-depth consultation with the sector during the initial development process. In June 2010, ESC released a report that made the following five recommendations for establishing a Victorian Local Government Services Report:

- **Features of the report**—councils were to report on a set of 17 or 18 service indicators, and between 17 and 20 supporting indicators, subject to applicability, on an annual basis.
- **Report integration**—councils were to include in their council plans their individual objectives and desired outcomes for the services reported.
- **Implementation time lines**—a staged implementation process was to be followed with full implementation to be achieved with the release of the 2013 report.
- **Enabling legislation**—the report was to have been implemented through amendments to the *Local Government Act 1989* and the *Essential Services Commission Act 2001*.
- **Other recommendations**—consideration was to have been given to:
 - undertaking a review of reporting requirements imposed on councils by state agencies
 - identifying and including financial indicators of council performance in the report
 - providing financial assistance to councils that are financially or resource constrained to assist them in implementing the reporting framework.

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

In September 2011, the Minister for Finance, on request from the Minister for Local Government, advised ESC to not proceed with the 2010–11 report indicating the state was focusing on the strategic framework in which advances to performance reporting can take place. Both ministers expressed appreciation to ESC for its work to date.

1.4 Audit objective and scope

1.4.1 Audit objective

The objective of this audit was to assess the effectiveness of existing local government performance reporting arrangements, and the adequacy of statewide initiatives to reform local government performance reporting.

It examined progress since 2008, the issues impeding effective performance reporting in councils, and the merits of alternative performance reporting models for the Victorian local government sector.

1.4.2 Audit scope

The audit was conducted in the Department of Planning and Community Development, the ESC and the following 10 councils:

- Baw Baw Shire Council
- City of Boroondara
- Central Goldfields Shire Council
- Colac Otway Shire
- Horsham Rural City Council
- Indigo Shire Council
- Knox City Council
- Moreland City Council
- Wangaratta Rural City Council
- Wyndham City Council.

1.4.3 Method

The audit was performed in accordance with the Australian Auditing and Assurance Standards.

1.4.4 Cost of the audit

The total cost of the audit was \$480 000.

2 Recurring performance challenges in the sector

At a glance

Background

A review of our performance audits of local government between 2000 and 2011 highlighted a range of ongoing performance challenges for councils.

Conclusion

Successive audits since 2000 reveal recurring instances of ineffective planning and budgeting, poor implementation of initiatives, and shortcomings in management oversight and monitoring. Weaknesses in the quality and availability of performance information have reduced councils' accountability for performance, and have impeded their capacity to address the issues.

Findings

The following recurring themes were identified:

- Poor financial and asset management practices were identified repeatedly, offering little assurance that councils' long-term financial management is robust.
- A lack of effective policies, planning, monitoring and evaluation, including data quality assurance was identified in multiple audits, reducing assurance that councils are operating efficiently, and in compliance with relevant obligations.
- Inadequate oversight of procurement processes was an ongoing issue, despite similar issues being identified 10 years earlier.

These issues are due in part to deficiencies in the quality and availability of performance information to managers and councillors. This impedes their capacity to take corrective action.

Performance weaknesses also reflect resource constraints at councils, the administrative burden of compliance with state and Commonwealth requirements, and the difficulty of attracting and retaining skilled staff, particularly in regional and rural areas.

2.1 Introduction

Councils play a critical role in managing important community assets and services. Effective and efficient management of these resources is vital for meeting the community's needs.

Unless assets are well managed, roads, buildings and sports grounds will deteriorate. Similarly, ineffective and/or inefficient services reduce value-for-money and can deprive residents and ratepayers from accessing important services and desired outcomes.

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.

Our performance audit program provides a unique opportunity to understand how councils are performing in critical areas. We reviewed past performance audits of local government completed between 2000 and 2011. Our review involved a meta-analysis of recurring performance issues at councils.

It is important to note that while councils undertake a wide range of activities that can involve elements of good practice, the meta-analysis sought to establish whether there were recurrent challenges, and unresolved issues in local government performance over the period reviewed. We also sought to identify whether poor performance information and reporting was associated with identified performance weaknesses.

It should also be noted that the meta-analysis focused on the results of previous audits, and does not relate specifically to the 10 councils included in the current audit.

2.2 Conclusion

Successive audits reveal recurring themes of ineffective planning and budgeting, poor implementation of initiatives and shortcomings in management oversight and monitoring.

These issues are due in part to deficiencies in the quality and availability of performance information to managers and councillors, which has impeded their capacity to take appropriate and timely corrective action, thereby imposing a significant opportunity cost on councils and their communities.

2.3 Recurring performance challenges in the local government sector

Major findings from previous audits that demonstrate recurring performance challenges for councils are summarised in Figure 2A, and detailed further in Appendix A.

Figure 2A
Recurring performance issues for councils

Theme	Summary	Audits
Ineffective planning and budgeting	- Inadequate links between corporate plans, asset management plans and budget processes - Inadequate funding models resulting from poor forward planning - Lack of rigour in developing business continuity plans - Inability to demonstrate that fees and charges reflect best value principles - Inadequate asset management plans, compromising effective management of \$1.6 billion in assets - Lack of long-term strategic plans underpinning financial plans	<i>Management of Roads by Local Councils (2002)</i> <i>Business Continuity Management in Local Government (2010)</i> <i>Fees and Charges: Cost Recovery by Local Government (2010)</i> <i>Business Planning for Major Capital Works and Recurrent Services in Local Government (2011)</i>
Inadequate adherence to policies and procedures	- Inadequate policies for the management of road assets - A lack of policies governing the enforcement of planning permits, leading to a lack of assurance that permits are compliant - Inadequate assurance probity standards had been applied and that conflict of interests were avoided - Limited and reactive practices for monitoring and reporting on compliance with building permits	<i>Management of Roads by Local Government (2002)</i> <i>Enforcement of Planning Permits (2008)</i> <i>Tendering and Contracting in Local Government (2010)</i> <i>Compliance With Building Permits (2011)</i>
Weaknesses in accountability, oversight and monitoring	- Inadequate reporting preventing ratepayers from understanding whether road management is efficient and effective - Inadequate internal reporting preventing clear understanding of whether all development contributions are being collected - Insufficient oversight over staff's application of probity standards, and inadequate systems for monitoring aggregate payments - Inadequate management reporting on fees and charges, compromising oversight of service efficiency, subsidy levels and cost recovery - Little assurance that councils regularly reviewed services in accordance with best value principles	<i>Management of Roads by Local Government (2002)</i> <i>Use of Development Contributions by Local Government (2009)</i> <i>Tendering and Contracting in Local Government (2010)</i> <i>Fees and Charges: Cost Recovery by Local Government (2010)</i> <i>Business Planning for Major Capital Works and Recurrent Services in Local Government (2011)</i>

Source: Victorian Auditor-General's Office.

2.4 The role of performance reporting

These performance issues relate to the core of what councils are required by statute to do, specifically:

- strategically plan for the future of the municipal district
- prudently manage finances in consideration of the needs of future generations
- be accountable for decisions and performance.

The recurring nature of the performance issues identified, as evidenced by the audits examined, shows they are an ongoing impediment to councils' ability to fulfil their statutory obligations. Overcoming these challenges is, therefore, an urgent priority for the local government sector.

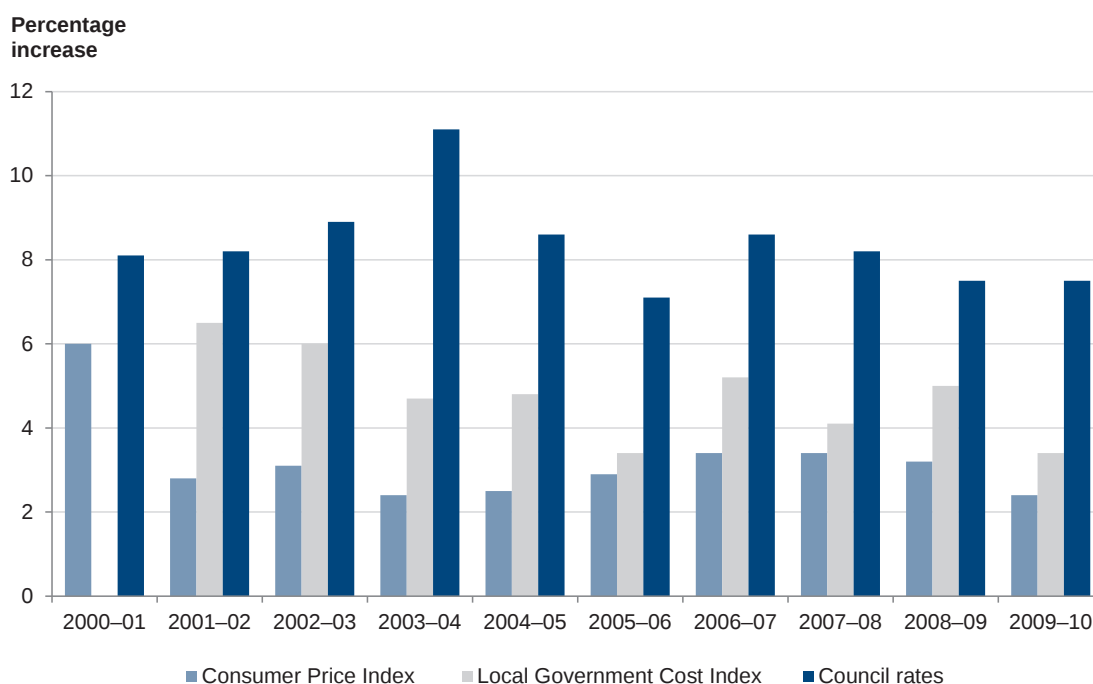
Several factors have caused the problems. Ongoing resource constraints, the burden of complying with state and Commonwealth requirements, and the difficulty of attracting and retaining skilled staff, all affect councils' capacity to address performance issues in a timely way. These factors are compounded in some regional and rural areas where declining rate bases, ageing populations and natural disasters create further challenges.

In addition to these influences, poor performance information also contributes to the sector's lack of progress in overcoming performance challenges. Councils' understanding of the efficiency and effectiveness of their activities, and the extent to which they are compliant with relevant legislation is essential if they are to address performance challenges.

Though councils produce large volumes of information for internal and external audiences, both our current and 2008 audits of performance reporting by councils have found that this reporting often lacks information about the timeliness, cost, quantity or quality of council services, and therefore does not adequately position councils to overcome these deficiencies.

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. Rate increases are an issue of considerable concern to communities. As Figure 2B illustrates, 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. Each council and its community need specific diagnostic performance data to understand its rating circumstances and where opportunities for improvements may lie.

Figure 2B
Average annual increases in the Consumer Price Index,
the Local Government Cost Index and council rates between 2000 and 2010



Source: Victorian Auditor-General's Office based on information supplied by the Municipal Association of Victoria.

Important differences between the Consumer Price Index and the Local Government Cost Index

Research by the Municipal Association of Victoria (MAV) indicates that local government expenses are different to household expenses. CPI measures price movements in a standard basket of common household goods and services. However, MAV reports that a 'basket' of common council services is primarily affected by the growth in construction, material and wage costs, not CPI.

Specifically, the expenses of staff and contractors to deliver human-based services; including staff and materials needed to construct, maintain and upgrade assets and infrastructure means that local government costs are more affected by the Average Weekly Earnings and Roads Construction and Maintenance indexes than CPI.

In this context, MAV advises that council costs are substantially different to a basket of common household goods and services. Accordingly, MAV's LGCI uses a combination of established indices that reflect average wages, construction and materials costs that best represent councils' spending profile.

As Figure 2B illustrates the LGCI typically increases, on average, by around 1 per cent above CPI each year.

Factors influencing annual rate increases

It is important to note that annual rate increases can be influenced by a range of cost pressures impacting on a council's budget, some of which may be beyond a council's direct control. For example, some rate increases may be necessary to maintain an acceptable level of asset renewal to minimise the funding impact on future generations.

Similarly, rate increases may also be needed to mitigate external factors, such as the impacts of declining funding from other levels of government, growth in demand for some services, expanding council responsibilities, increased regulations, and growing state levies that are passed on through rates. It should also be noted that increases in the number of new households, particularly in growth areas, can also be an important driver of increases in the total rates levied

Importance of sound performance information

It is important to recognise that some rate increases may be necessary to renew assets or complete essential works. However, gaps in performance information mean that councils may not be able to adequately pursue internal efficiency improvements which can alleviate the need for significant rate increases.

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.

Overcoming the recurring performance issues identified through this meta-analysis depends in part on the availability of quality performance information for diagnosis and continuous improvement. As Part 3 of this report illustrates, such information is currently lacking in the sector.

3 Performance reporting by local government

At a glance

Background

Effective performance reporting by councils is a prerequisite for being accountable to local residents and ratepayers. Our 2008 audit *Performance Reporting in Local Government* found that for most councils, reporting had limited relevance to ratepayers and it recommended that they critically review and improve their performance information.

Conclusion

Local government performance reporting practices remain inadequate. While some examined councils had improved aspects of their reporting since 2008, none had developed indicators that adequately measured the impact of services and the achievement of objectives.

Findings

Key issues compromising the effectiveness of performance reporting at councils are:

- 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.

Recommendations

All councils should:

- review their strategic and service objectives to assure they are clearly expressed, measurable and aligned
- critically review the performance information in their annual reports to assure it is relevant, balanced, appropriate and clearly aligned with their objectives.

3.1 Introduction

Effective performance reporting by councils is critical for enabling residents and ratepayers to properly hold councils to account for their performance. It is also important for evaluating and improving the performance of essential municipal services and functions.

The *Local Government Act 1989* sets out the compulsory reporting requirements for all councils. These include:

- a council plan, which sets out the council's objectives, and strategies for achieving them
- an annual budget, consisting of standard financial statements and details of the key strategic activities and initiatives to be funded that financial year
- an annual report of council operations for the financial year, including audited financial and performance statements.

Our 2008 audit *Performance Reporting in Local Government* concluded that reporting had limited relevance to ratepayers for most councils, and that it lacked information about service quality and outcomes, including how these relate to councils' strategic objectives. The audit recommended councils critically review their performance reporting to make it relevant, appropriate and easily understood by communities.

Our 2008 guide *Local Government Performance Reporting: Turning Principles into Practice* was subsequently produced to assist councils to improve their performance reporting. It highlights the key principles of effective performance reporting. Reports should be:

- **comprehensive**—performance indicators should be relevant to all critical aspects of council objectives, which in turn should be clearly expressed and measureable. There should be a clear nexus between objectives, indicators and services
- **balanced**—councils should have a balanced suite of indicators that cover all important dimensions of performance such as efficiency, quality and outcomes
- **appropriate**—indicators should be reported with appropriate context such as targets, trends, and explanations to enable proper interpretation of results and meaningful conclusions about performance to be drawn.

This Part of the report examines progress since 2008, and whether the performance reporting practices of selected councils meet the above principles.

3.2 Conclusion

Performance reporting by councils remains inadequate. While limited improvements were evident at the examined councils since 2008, none had fully developed a set of indicators that adequately measured the impact of services and the achievement of objectives.

A lack of clarity around councils' objectives, combined with critical gaps in reporting on the outcomes and efficiency of their services, impede meaningful reporting by councils and reduce their accountability.

These shortcomings also mean that progress to date has not been sufficient to fully address the information needs of residents and ratepayers, to drive continuous improvement, and achieve satisfactory performance reporting.

3.3 Adequacy of performance reporting

Improvements to aspects of performance reporting practices since 2008 were evident at all 10 examined councils. However, these were limited and further action is required to establish the conditions necessary for effective performance reporting.

Notable improvements to performance reporting practices included:

- aligning performance information with councils' strategic objectives—at all councils
- refining performance information to be more balanced—at Boroondara and Knox
- strengthening service planning processes to improve accountability for service outcomes in relation to strategic objectives—at Moreland and Knox
- introducing new electronic reporting systems that link day-to-day activities with strategic objectives—at Colac Otway.

Several councils also actively participated in the Essential Services Commission's (ESC) work to develop a performance reporting and benchmarking framework for local government, further demonstrating their commitment to improving performance reporting. These are encouraging developments. However, the following key issues continue to compromise the effectiveness of performance reporting at councils:

- 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 quality, efficiency and outcomes
- a lack of adequate policies for performance reporting
- limited training for councillors and staff in performance measurement and management.

These issues were evident at all examined councils demonstrating they have yet to fully implement previous audit recommendations and to produce performance reports that adequately meet stakeholder needs.

3.3.1 Comprehensiveness of performance reporting

None of the examined councils comprehensively reported on their performance, either because their objectives were not clear enough, or because existing performance indicators did not adequately demonstrate their achievement.

Clarity of objectives

Effective performance reporting requires well-expressed objectives that clearly articulate the outcomes a council is seeking to achieve. We found that poor expression of objectives compromised the effectiveness of performance reporting at all councils. This applied to the majority of objectives at Baw Baw, Central Goldfields, Horsham, Indigo, Moreland, and Wangaratta.

Figure 3A identifies a sample of strategic objectives from each examined council, and highlights issues of expression which make it difficult to report on their achievement.

Figure 3A
Sample of council objectives that limit comprehensive reporting

Council	Objective	Issue
Baw Baw	<i>Baw Baw Shire will advocate for community members to have access to a range of local opportunities for education, learning, skills development at all levels, and learnings respond to the changing needs of local employers.</i>	Contains multiple dimensions. Comprehensive achievement of this objective could not be easily demonstrated as it would require indicators for advocacy, access to education opportunities at different levels, and alignment of education opportunities with local employers' needs.
Boroondara	<i>We will proactively manage the ongoing maintenance and development of council's assets and facilities to meet our communities current and future needs.</i>	Unclear outcome. Contains multiple dimensions. Comprehensive achievement of this objective would require measurement of several components, including 'proactive management', and the extent to which management meets current and future community needs, which is not clearly defined.
Central Goldfields	<i>Building an engaged, connected and inclusive community in which we take pride; and embracing education as the key for advancement.</i>	Contains multiple dimensions. Comprehensive achievement of this objective could not be easily demonstrated as it would require indicators for engagement, connection, inclusion and pride. The meaning of terms such as 'key for advancement' is not clear, and therefore achievement cannot be easily measured.

Figure 3A

Sample of council objectives that limit comprehensive reporting – *continued*

Council	Objective	Issue
Colac Otway	<i>Council will engage, plan and make decisions about land use and development that takes into account the regulatory role of Council, its diverse geography, social, community, economic and environmental impacts for current and future generations.</i>	This objective does not clearly convey an outcome council is seeking, but rather the manner in which council will perform a specific function. This does not allow for assessment of performance.
Horsham	<i>Governance and Business Excellence: Excel in communication, consultation, governance, leadership and responsible use of resources.</i>	Multiple dimensions. Comprehensive achievement of this objective could not be easily demonstrated, as it would require indicators that convey information about excellence in communication, consultation, governance, leadership and responsible use of resources. It is also unclear what is meant by 'excellence' in this context, and therefore it is not possible to interpret whether it has been achieved.
Indigo	<i>Enhance our communications.</i>	This objective relates to activities, and does not clearly convey an outcome council is seeking.
Knox	<i>To provide real travel choice and reduce inequalities in access to transport opportunities in Knox by advocating for and facilitating improvements in transport infrastructure and services.</i>	Multiple dimensions. Comprehensive measurement of the extent to which this objective has been achieved would require indicators of travel choice, equity of access, advocacy, and infrastructure and service improvements.
Moreland	<i>Ensure provision of appropriate aged services.</i>	This objective relates to council activities, and does not clearly convey the outcome council is seeking. The term 'appropriate' is not defined, and therefore it is not possible to determine whether it has been achieved.
Wangaratta	<i>Provide for a diverse range of arts, cultural and heritage experiences and opportunities utilising a variety of approaches and pathways.</i>	Unclear and multiple components. It is not clear what is meant by 'a diverse range of arts, cultural and heritage experiences and opportunities', or 'a variety of approaches and pathways'. It is therefore not possible to interpret whether this objective has been achieved.
Wyndham	<i>Enhance the potential for developing Wyndham's competitive strength, attracting a diversity of increased employment opportunities for local residents.</i>	Unclear and multiple components. Comprehensive measurement of this objective would require definition of terms and indicators that relate to competitive strength, diversity of employment opportunities and availability of employment opportunities.

Source: Victorian Auditor-General's Office.

Unclear objectives create a significant impediment to effective performance reporting as they obscure rather than clarify the specific outcomes a council is seeking. In effect, this situation reduces transparency and accountability for performance because ratepayers cannot easily understand the objectives, and their achievement cannot be easily measured and determined.

Some councils advised that when their objectives are read in conjunction with their related strategies, their desired outcomes become clearer, which allows for measurement. They further advised that through measuring council's progress towards achieving these strategies, it is possible to understand if outcomes have been achieved.

We acknowledge that strategies are valuable for the purposes of describing the activities council will perform in pursuit of its objectives. However, if objectives are not clearly specified at the outset their achievement cannot be transparently assessed based on the implementation of related strategies.

Setting clear and measurable objectives is a critical prerequisite for effective performance reporting. Adopting the completion of 'strategies' as de facto indicators of their achievement can have the undesirable effect of masking inadequate performance against objectives if these strategies do not comprehensively address the outcomes sought.

This cannot be detected easily if outcomes are not clearly specified, which reduces transparency and accountability for performance. There is also a risk that actual performance against objectives will be misrepresented under these circumstances by reference to strategies that do not fully address objectives.

This situation has the further undesirable effect of reversing the program logic that should be inherent in any good performance measurement and assessment framework. Specifically, it permits lower level strategies and activities to define the outcome and its achievement, rather than enabling the adequacy and success of strategies to be assessed with reference to a clearly defined outcome in the first instance.

Therefore, in order to reliably assess councils' performance, comprehensive performance indicators directly linked to clearly specified objectives are needed.

Comprehensiveness of indicators

Performance indicators at all 10 examined councils were either not sufficiently comprehensive or relevant to measure the achievement of objectives. Boroondara, Knox and Wyndham had the most comprehensive indicators of the councils examined. However, the lack of clarity of some of their objectives meant that there was insufficient assurance that indicators adequately addressed all relevant aspects of performance.

Figure 3B highlights issues affecting the comprehensiveness of performance indicators at a sample of the councils examined.

Figure 3B
Issues affecting the comprehensiveness of selected performance indicators

Council	Objective	Performance Indicators	Issues
Baw Baw	<i>Baw Baw Shire will advocate for community members to have access to a range of local opportunities for education, learning, skills development at all levels, and learnings respond to the changing needs of local employers.</i>	<i>Activity rate of active registered library borrowers within the Baw Baw located libraries.</i> <i>Percentage of three and four year olds enrolled in pre-school.</i>	Indicators do not address multiple aspects of the objective, including advocacy, availability of education options and the extent to which these meet local business needs.
Colac Otway	<i>Council will engage, plan and make decisions about land use and development that takes into account the regulatory role of Council, its diverse geography, social, community, economic and environmental impacts for current and future generations.</i>	<i>Achievement of council commitments and key actions (100).</i> <i>Building permits processed within statutory timeframes.</i> <i>Planning permits processed within statutory time frames.</i>	Indicators do not address several aspects of the objective, including engagement, or the social, community, economic and environmental impacts of land use planning and development activities.
Wangaratta	<i>Provide for a diverse range of arts, cultural and heritage experiences and opportunities utilising a variety of approaches and pathways.</i>	<i>Number of exhibits provided (22).</i> <i>Community Satisfaction Survey – Community Engagement (63%).</i>	These indicators do not demonstrate diversity in the range of arts, cultural and heritage experiences offered by the Shire, nor 'approaches or pathways'. The second indicator has no relationship to the objective.

Source: Victorian Auditor-General's Office.

Gaps in performance reporting

A further issue affecting the comprehensiveness of performance reporting at Horsham, Knox, Moreland and Wyndham was the fact that not all of their strategic performance indicators were reported in their annual reports.

The *Local Government (Finance and Reporting) Regulations 2004* require councils to provide a statement on outcomes in their annual reports in relation to their strategic indicators.

However, Horsham's 2010–11 annual report includes results for only half of its strategic indicators. Similarly, Moreland reported on 35 per cent of its strategic indicators in the same year, and Knox reported on only a quarter.

Knox and Moreland advised that gaps in their reporting were due to the staging and timing of their initiatives reflecting the fact that their strategic objectives are to be achieved over a four-year period. Consequently, they advised it is not always possible or appropriate to report outcomes against all strategic indicators annually. Similarly, Wyndham advised that all of its strategic indicators will be reported on over the four-year period.

While the staging of initiatives can obviously affect the availability of performance information, this does not negate councils' statutory obligation to provide a statement of performance against its strategic indicators. Rather than simply omitting an indicator, such a statement should include an explanation of why the results for any strategic indicator are not yet available or reported. This is essential for achieving transparency and accountability for performance.

We found that, although these councils are approaching the last year of their four-year council plans, a notable proportion of indicators have never been reported on—30 per cent at Moreland and 40 per cent at Knox. Though some of these indicators are to be achieved by 2012, reporting interim progress is important to understanding whether a council is on track to achieve the target. In the absence of this information, residents and ratepayers cannot form an accurate and complete picture of council performance.

Limited relevance of performance indicators

The comprehensiveness of councils' performance reporting was further limited in some cases by an over-reliance on general community satisfaction survey results. As these general indicators lack a clear nexus with specific council objectives they are of limited relevance.

This was the case at Indigo and Wangaratta, where community satisfaction survey results were the main indicators used to assess the achievement of objectives.

Our 2008 report *Performance Reporting in Local Government* noted that community satisfaction results are important performance metrics for councils. However, they can only provide general measures that do not correlate closely with any particular council activity, or necessarily align with any one objective. They can also be affected by factors outside of a council's direct control and influence that may not relate to the quality of services or effectiveness of the council.

Using a general measure to evaluate a specific activity or set of activities, particularly one based on public perception, is therefore problematic. The lack of specificity in performance data limits its usefulness as a tool for continuous improvement.

3.3.2 Balance of performance indicators

It is unlikely that a single indicator will adequately capture all aspects of performance. Our 2008 guide highlighted that better practice performance reporting consists of a balanced suite of indicators covering the dimensions of output efficiency, output quality and outcome effectiveness.

Some councils have improved the balance of their performance information since 2008. However, they still lack adequate indicators for measuring the efficiency and outcomes of all their key activities.

Improved balance at Boroondara and Knox

Better practice was evident at Boroondara and Knox. Both councils had developed indicators that measured the quality, efficiency, and to a limited extent, the effectiveness of some of their activities.

Each council had reviewed and improved their performance indicators since 2008, taking into account our better practice guidelines. Both also provided useful context for all indicators to support interpretation of their performance, typically through specifying targets and in some instances, reporting trends. Boroondara provides further context for some of its indicators by benchmarking against other councils.

These initiatives are encouraging, but further improvement is needed to achieve a fully balanced suite of indicators.

Boroondara's indicators are more balanced overall, but require further development to achieve a more complete picture of the effectiveness and efficiency of all council operations. Specifically, while some outcome indicators have been developed they do not yet address most strategic objectives or adequately cover all key strategic activities.

Boroondara provides useful information about the effectiveness and efficiency of services in its best value reports. Making greater use of these metrics when assessing and reporting on the achievement of objectives and key strategic activities in its annual report, would further integrate and strengthen Boroondara's performance reporting.

Similarly, Knox has developed outcome indicators for all of its strategic objectives. However, they are broad and general in nature and lack any direct nexus between council services and key strategic activities.

For example, outcome indicators against the objective 'To improve the health and wellbeing of the Knox community' are:

- population health for men and women to be equal to or greater than the state average (self-assessed)
- a trend over time showing reduction in the overall crime rate.

These indicators measure broad outcomes that the council contributes to, but does not directly control. The direct nexus between the desired outcome and the contributing council services/activity is not immediately clear. It is not possible, therefore, based on these metrics to directly ascertain the impact and adequacy of the council's related actions.

Outcome indicators, particularly program effectiveness indicators, should provide information on the extent to which council objectives have been achieved as a result of funded activities. This remains a critical gap in the performance information of all councils.

Limited balance of performance indicators

Comparatively less 'balance' was evident in the suite of indicators used by Baw Baw, Colac Otway, Horsham, Moreland and Wyndham. These councils had only a limited number of indicators of outcomes, or of the quality and efficiency of their services.

Central Goldfields, Indigo and Wangaratta had the least balanced set of indicators of all the examined councils, with their reporting focusing mainly on the implementation of activities or community satisfaction survey results.

Encouragingly, all councils were committed to further improving the balance of their performance indicators. Knox and Moreland had initiated reviews of their service planning processes designed to improve the linkages between objectives, service activities and related performance information.

3.3.3 Appropriateness

Some councils have improved the appropriateness of their performance information since 2008 by including valuable context to assist the interpretation of performance reporting. Key improvements include:

- **setting targets for all indicators associated with both key strategic activities and strategic objectives**—at Boroondara, Colac Otway, Horsham, Indigo, Knox, Moreland and Wangaratta
- **reporting trends in performance over time**—at Boroondara, Colac Otway, Indigo, Knox, Moreland, Wangaratta, Wyndham
- **benchmarking results of some indicators against other councils**—at Boroondara, Colac Otway, Indigo and Knox
- **explaining the variance of results from targets**—at Baw Baw, Boroondara, Colac Otway, Horsham, Indigo, Knox, Moreland, Wangaratta and Wyndham.

These are positive developments, however, the quality of contextual information varied. At Colac Otway, Horsham and Knox, explanations of variance did not always provide enough detail to make sense of the result.

Further, the use of trend data and benchmarking was inconsistent and limited across all councils. Specifically, none of the councils that reported trend data did so for all strategic indicators and key strategic activities where relevant. Additionally, benchmarking against other councils was also limited.

At Indigo and Knox, community satisfaction survey indicators and community strength indicators were the only benchmarked indicators, and at Boroondara and Colac Otway, only a single indicator was benchmarked against other councils. Councils highlighted that limited benchmarking by them to date reflected their expectation that ESC's reporting framework would have addressed this.

3.3.4 Other issues limiting the effectiveness of performance reporting

All examined councils had yet to establish internal policies governing the content, standards and quality assurance arrangements for performance reporting, indicating little improvement on this issue since 2008.

Encouragingly, some progress was evident at Knox which had produced guidelines for staff on developing meaningful performance indicators. Knox also provides training to staff on developing indicators, and works with councillors to develop suitable indicators at key stages during the planning cycle.

Despite this, there was a lack of focused training for councillors on performance indicators and reporting at all councils examined. While Boroondara and Knox briefed councillors at key points during the planning process, there was no dedicated training to build councillors' understanding of effective performance indicators and reports.

The absence of reporting frameworks, underpinned by approved policies, clear standards, and training for councillors and staff, presents a significant obstacle to improving the effectiveness of council performance reporting.

Linkages between service delivery and strategic objectives

A further issue limiting the adequacy of performance reporting at most examined councils was the lack of clear linkages between service delivery performance and strategic objectives.

Only Boroondara and Moreland had established satisfactory linkages. Both councils had service plans in place with explicit links to strategic objectives including relevant performance indicators.

While Colac Otway, Horsham, Indigo and Wyndham had business plans connecting services to strategic objectives, none had developed adequate indicators for assessing impact. Only Wyndham's plan included performance indicators. However, these were activity focused and thus had limited capacity to offer insights into the impact of services on strategic objectives.

Similarly Baw Baw, Central Goldfields, Knox and Wangaratta had yet to establish service plans for all their services that included performance indicators with a clear nexus to council objectives. The impact of all of their services on objectives therefore cannot be transparently assessed.

Knox intends to develop plans and indicators for all of its services as part of its current service review project.

Effectiveness of other reports

Councils typically produce a range of other reports for internal and external audiences including quarterly reports, monthly expenditure reports, capital works reports and local newsletters. Many are available to the public via council websites, and are an important way for councils to report to their communities about their activities.

However, we found that they typically use the same limited indicators as those in the annual report, which focus mainly on activities rather than outcomes. Therefore, they are not yet comprehensive enough to allow residents to understand how well council objectives are being met.

3.3.5 Challenges to improving performance reporting

Councils advised that a number of challenges impeded their ability to improve performance reporting since 2008.

Resource constraints

Smaller councils in regional and rural areas highlighted resource constraints as a major challenge to developing more comprehensive, balanced and appropriate performance indicators. They indicated that without dedicated planning and reporting resources, the administrative effort required to review and reform performance reporting would draw resources away from council service delivery.

Understandably, councils are reluctant to do this. However, the need to monitor and report on the efficiency and effectiveness of service delivery is particularly important in resource constrained councils to optimise value, minimise wastage, and enable early identification and resolution of emerging issues.

Perceived lack of support from the state

Some councils expressed the view that, with the exception of ESC's framework, there has been little support from the state to improve council performance reporting.

While our 2008 audit recommended that the Department of Planning and Community Development (DPCD) issue minimum standards on the form and content of council performance statements, this has yet to occur. The results of the current audit indicate that the absence of such standards is a factor contributing to the ongoing variation in the quality of performance information reported by councils.

DPCD indicated that it is working on initiatives for local government that will include efforts to improve performance reporting. These initiatives are currently at an early stage of development.

ESC's now discontinued performance reporting framework was the main statewide initiative to support councils to improve their performance reporting since 2008. Councils advised that participating in this initiative absorbed considerable administrative effort, which diverted resources away from internal efforts to reform performance reporting.

DPCD and councils also indicated they refrained from introducing parallel improvement initiatives during this period, preferring instead to wait until ESC's work was completed so they could assess the implications.

Lack of engagement by councillors and communities

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.

While these are recognised as substantial challenges, they nevertheless need to be addressed so councils can demonstrate their acquittal of statutory obligations to use their resources efficiently and effectively in accordance with best value principles.

A lack of comprehensive, balanced and appropriate performance information means that councillors and residents cannot be assured that priority actions and ongoing services are being delivered in a timely, efficient and effective manner, or that strategic objectives are being achieved.

The various issues identified in this Part are largely consistent with those of our 2008 audit. Therefore, our previous recommendations to councils to improve their performance reporting practices remain relevant in the current context.

Recommendations

1. All councils should:
 - review their strategic and service objectives to assure they are clearly expressed, measurable and aligned
 - critically review the performance information in their annual reports to assure it is relevant, balanced, appropriate and clearly aligned with their objectives
 - document and approve performance reporting policies and standards
 - provide training for councillors and staff on effective performance measurement, management and reporting.
 2. The Department of Planning and Community Development should seek the approval of the Minister for Local Government to develop regulations establishing minimum standards for the form and content of performance statements.
-

4 Proposed framework for local government performance reporting

At a glance

Background

Recurring performance challenges in the sector highlight a need for work on a statewide performance reporting framework to continue. This section of the report proposes a holistic performance reporting framework for councils that is capable of implementation without adding unnecessarily to their reporting burden.

Conclusion

The Essential Services Commission's early work to develop a local government performance reporting framework offers valuable insights into what is required to achieve a robust framework.

The *Report on Government Services* (RoGS), produced by a 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. Further developing council performance reporting based on this model will require considerable work in consultation with the sector.

Findings

- Holistic performance reporting by councils requires a focus on both financial and non-financial performance.
- As a minimum, data on financial performance should convey critical information to enable assessment of the financial management and sustainability of a council.
- Non-financial performance reporting should at a minimum cover the effectiveness and efficiency of service delivery taking into account such factors as equity, access, service quality and cost-effectiveness.
- The RoGS framework sets out a clear conceptual model for reporting on non-financial performance that provides a pathway for developing a sound local government performance reporting and benchmarking framework.

Recommendation

The local government sector should adopt the proposed local government performance reporting framework and associated implementation strategy.

4.1 Introduction

Performance reporting in the Victorian local government sector is mainly limited to reporting on activities and outputs. Important information about outcomes, quality, equity, access and cost-effectiveness are often missing from councils' annual reports.

To be effective, council performance reporting should provide a holistic picture of performance to stakeholders. It should provide them with critical data to enable assessment of both service delivery performance and the financial management and sustainability of councils.

Achieving meaningful comparative council performance reporting is a significant challenge. Councils are complex organisations that manage significant infrastructure and deliver a diverse range of services to their communities. These characteristics, including differences among local communities, mean that achieving meaningful, holistic performance reporting is not a straightforward task.

In October 2009, the Essential Services Commission (ESC) was directed by the Minister for Finance to develop and implement a performance assessment and benchmarking regime for councils. ESC consulted extensively with councils and released a prototype report in January 2011 before ceasing work on its framework in September 2011 at the minister's direction.

Recurring performance challenges in the sector strongly indicate that work towards an appropriate local government performance reporting framework should continue. This section of the report proposes an approach for further developing such a framework based on proven models, and which builds upon the insights from ESC's work.

4.2 Conclusion

ESC's early work yielded valuable insights into the actions needed to develop a robust performance reporting framework.

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

RoGS identifies a useful framework for assessing service outputs and outcomes against objectives. However, the necessary indicators, data sets and quality assurance arrangements are not yet in place at councils.

These gaps pose a significant barrier to effective performance reporting by councils.

4.3 Purpose and architecture of proposed performance reporting framework

This section of the report proposes a comparative performance reporting framework for local government that is outcome focused, based on established models, and capable of implementation without unnecessarily increasing the reporting burden on councils. It is important for the proposed framework to be developed in consultation with the local government sector. Its purpose and architecture are outlined below.

4.3.1 Purpose of proposed framework

The national Steering Committee for the Review of Government Service Provision highlights the importance and benefits of comparative measurement in RoGS.

Specifically, it points out that better performance information improves accountability and contributes to the wellbeing of all citizens by driving better service provision. It also notes that it permits assessment of whether policies are being effectively and efficiently implemented, and whether services are reaching those people for whom they are intended.

Focusing on outputs and outcomes also helps to shift the focus from the level of resources provided to the efficiency and effectiveness with which those resources are used. Meaningful comparative performance reporting also helps to build a repository of balanced, credible information that can assist in:

- verifying high performance and identifying agencies/services that are successful
- enabling agencies to learn from peers that are delivering higher quality and/or more cost effective services
- generating additional incentives for agencies to improve performance.

These are worthwhile goals. Achieving them can create significant benefits for service funders, managers and users.

4.3.2 Architecture of proposed framework

Building on the lessons from the Essential Services Commission's work

ESC undertook extensive work during the period 2009–11 to develop a statewide performance assessment and benchmarking framework for local government service delivery. This work offers important insights for future reform initiatives, which are outlined in Figure 4A.

Figure 4A
Insights from the Essential Services Commission's local government performance assessment and benchmarking framework

Importance of consultation

ESC undertook extensive consultation with the local government sector during the development of its framework. Feedback from councillors and council staff indicate that ESC's engagement efforts were generally well received and appreciated by councils. This process also enabled ESC to develop a good understanding of the local government context, and inherent limitations of existing council reporting frameworks and associated indicators.

Classification of local government services

ESC developed a classification of local government services in consultation with the sector comprising eight main functions, each containing common services. These were: Community Services; Environmental Sustainability; Infrastructure and Assets; Development and Planning; Recreation Services and Amenities; Regulation and Public Safety; Communication and Information Accessibility; and Economic Development.

This is a reasonable classification of council functions that can be usefully applied to any future performance reporting framework in the sector.

Need for an iterative approach to developing suitable indicators

ESC's extensive review of existing performance information in the sector highlighted the low maturity of existing performance indicators, and relative absence of outcome-based measures linked to objectives—a situation affirmed both by this audit and our 2008 audit.

These circumstances significantly limited ESC's options for selecting indicators from those available. ESC recognised that identifying output/outcome based indicators is central to an effective performance reporting system. While its initial set of indicators were limited by a lack of direct nexus with council objectives they reflected the quality of available indicators, and represented the most useful of those in existence at the time.

ESC did not propose these initial indicators as the 'final set'. Instead, it intended to further improve them over time in consultation with the sector, and regarded them as just the first step towards meaningful information about council service delivery. This was a suitable approach given the low maturity of council performance information, and the scale of the task facing ESC.

Need to address the diversity of council priorities and objectives

A key challenge recognised by ESC was the complexity of local government and, in particular, the difficulty of identifying a suitable common set of indicators that adequately addressed the diversity of local council priorities and objectives.

ESC intended to work with the sector over time in an effort to resolve these issues and further refine its indicators by:

- encouraging councils to identify within their council plans objectives linked to ESC's service indicators
- further developing and refining its initial set of indicators to progressively develop outcome-based indicators
- working towards merging the performance information in its services report with council performance statements to achieve more meaningful council performance reporting.

ESC was tasked with a significant challenge. The early discontinuation of its initiative meant ESC was unable to fully implement its plan and therefore achieve its intended goal.

Source: Victorian Auditor-General's Office.

ESC's framework was a worthwhile initiative designed to improve performance reporting in the sector. Although it still needed to overcome substantial challenges at the time it was discontinued, ESC's work offers valuable insights on the way forward.

In summary, key lessons include:

- the need for an iterative approach to improving the maturity of council performance information
- the importance of consultation and engagement with the sector
- the need to focus on a common core set of council services as identified by ESC's classification
- the need to recognise and address the significant challenge which disparate council objectives and priorities pose to developing meaningful outcome measures common to all councils.

In the following sections we propose a pathway for further developing such a framework building upon the valuable lessons from ESC's work.

Overview of proposed holistic reporting framework

Importance of linking performance to objectives

Holistic performance reporting by councils requires a focus on both financial and non-financial performance.

Service delivery reporting should at a minimum cover the effectiveness and efficiency of service delivery relative to objectives taking into account such factors as equity, access, service quality and cost-effectiveness.

Financial performance reporting should convey critical information to enable assessment of the financial management and sustainability of a council. This data is typically available through the audited financial statements required to be included in each council's annual report under *the Local Government Act 1989* (the Act), and is summarised by the financial sustainability data we publish annually.

Figure 4B outlines the main characteristics of the comparative performance reporting framework proposed for Victorian councils.

Figure 4B
Key features of proposed local government reporting framework at a glance

Feature	Description
Primary purpose	• Improve accountability to councillors, ratepayers and residents • Benchmarking of council performance • Support continuous improvement
Scope	• Financial performance • Service delivery performance
Financial performance dimensions	• Financial sustainability • Rating • Sustainable capacity
Service performance dimensions	• Effectiveness • Efficiency • Quality
Form and content of reporting	• '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.

The following sections further describe the framework.

4.4 Proposed model for assessing service delivery performance

4.4.1 Performance indicator framework

Councils have a statutory obligation to deliver services to their communities that are effective, efficient, accessible and equitable in accordance with the best value principles.

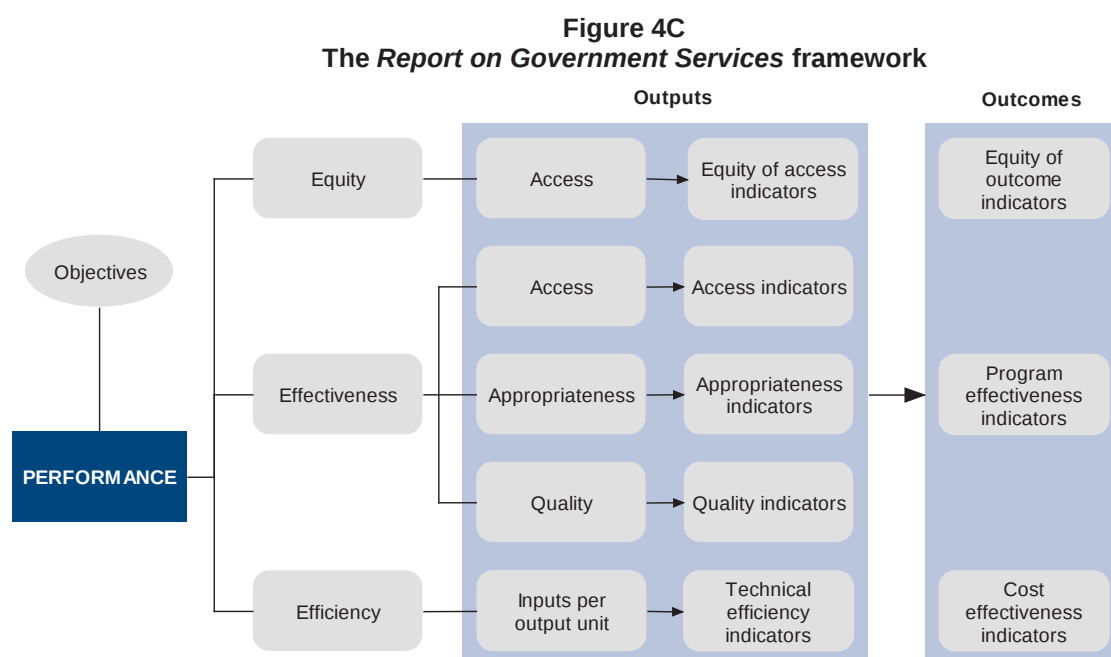
The annual RoGS report managed by the Steering Committee for the Review of Government Services and produced by a secretariat of the Productivity Commission, provides a well-established framework that can assist councillors and ratepayers to gain assurance these obligations are being effectively acquitted.

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.

There are strong reasons for developing local government reporting using such well-developed concepts rather than inventing a new framework. As RoGS has been extensively tested, its categories of reporting are well understood.

The RoGS framework permits the reporting of performance against the three categories of equity, effectiveness and efficiency. Within this model, outputs are described as services that result when service providers transform inputs in pursuit of objectives. Outcomes describe impacts of these services on individuals, communities or groups, and may be intermediate (short term), or final (longer term).

Figure 4C, reproduced from the 2011 RoGS, sets out the main conceptual elements.



Source: Report on Government Services 2011.

Minimum indicators needed for council performance reporting

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.

Definitions for all RoGS indicator types are set out in Appendix B.

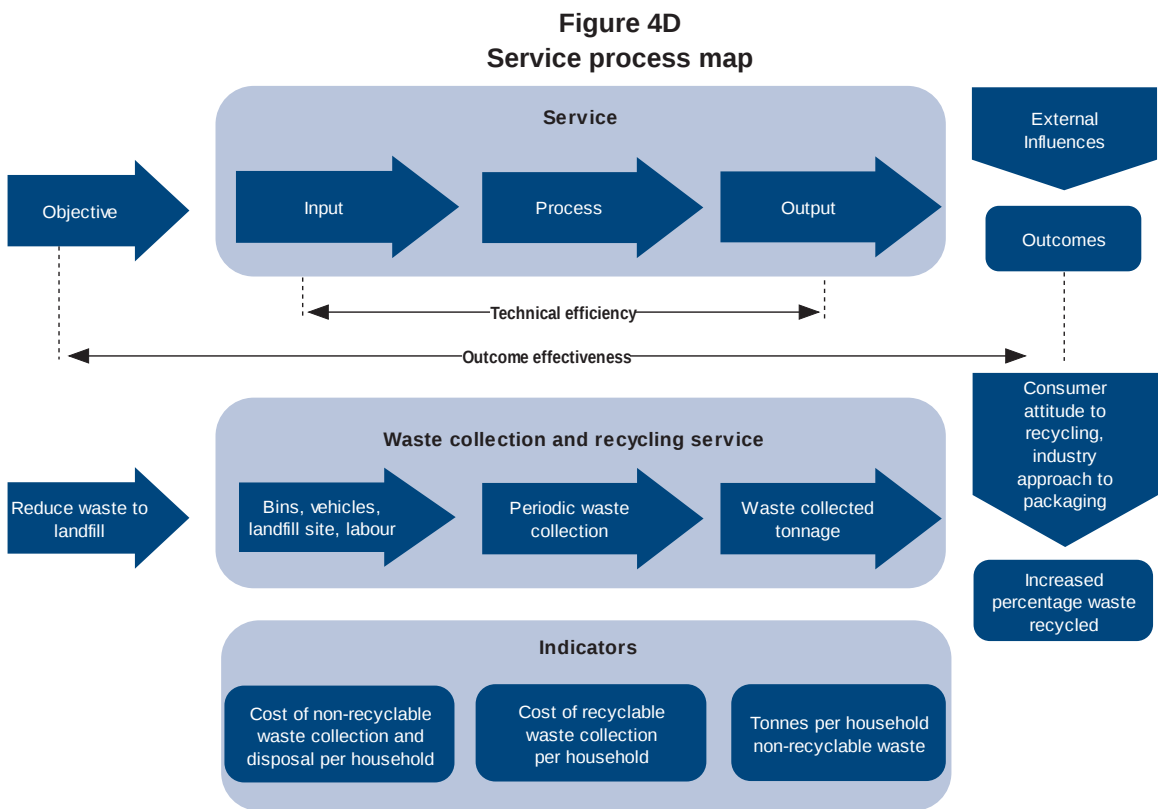
Implementing a performance reporting framework based on RoGS should be progressive, building where possible from data sets currently available to those that should be introduced.

The need for metrics covering the wider dimensions of access, equity, quality and cost-effectiveness should be carefully considered but not slavishly pursued in an attempt to simply provide indicators for every RoGS dimension. Where appropriate, these measures should be added over time to supplement the critical set of indicators in a considered way noting that not all of the eight RoGS types may be necessary for all services.

Local Government Performance Reporting: Turning Principles into Practice

Our 2008 guide *Local Government Performance Reporting: Turning Principles into Practice* outlines a framework consistent with the RoGS model, and provides guidance on how it should be applied in a local government context.

Figure 4D reproduces the service process map from our 2008 guide. It shows the program logic that underpins it, including example indicators for council waste collection and recycling services.



Source: Victorian Auditor-General's Office.

4.5 Proposed model for assessing financial performance and sustainability

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.

Our annual 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 financial sustainability indicators

Our annual financial sustainability tables provide data for all councils on six key metrics together with analysis and commentary highlighting, where appropriate, key areas of concern. These metrics, detailed in Appendix C, have been reported by VAGO since 2008 and could form part of the proposed suite of 'headline indicators' and 'supporting indicators'.

Rating indicators

A holistic council performance report needs to include measures of rating levels and the relationship of rate income to total council expenditure. Information on comparative rating levels is particularly important to ratepayers, and a typical focus of discussion in the community. At the same time, this is an area where accompanying explanation is critical, since high rating levels may represent a council's efforts to prudently renew expensive assets—rather than waste and extravagance. Comparative reporting of rate information could be misleading without a format that permits explanations to be read alongside comparative rate data.

The following four rating indicators derived from the *New South Wales Local Government Comparative Information* report are proposed:

- **Average rate revenue per assessment**—highlights the relative level of a council's residential, farmland and commercial/industrial rates revenue received.
- **Outstanding rates, charges and fees**—assesses the effectiveness of a council's revenue collection. The percentage of rates, charges and fees that are unpaid at the end of a financial year is a measure of how well a council is managing debt recovery.
- **Percentage movement in rates and annual charges revenue from previous year**—shows the increase or decrease in revenue from rates and annual charges.
- **Percentage movement in user charges and fees revenue from previous year**—shows the increase or decrease in revenue from user charges and fees.

Indicators of sustainable capacity

Sustainable capacity refers to a council's relative ability to raise the revenue required, based on net disposable community income (NDCI), to meet the net operating costs of servicing its community defined as recurrent operating costs less recurrent grant assistance.

The factors impacting on sustainable capacity include population size, density, dispersion, age structure, remoteness, government grant assistance, traffic volumes and NDCI. The last of these is a significant factor in determining feasible rating levels. The following two metrics derived from the May 2010 Whelan report into *Local Government Financial Sustainability* are relevant to assessing a council's sustainable capacity and are initially proposed:

- net recurrent operating costs as a proportion of NDCI
- own source revenue as a proportion of NDCI.

These indicators can act as a useful complement to VAGO's financial sustainability metrics as they examine the financial capacity of the community that supports the council. In this context they can assist users in diagnosing the actions needed to address emerging financial sustainability risks.

Ongoing refinement and development

These financial indicators are proposed for initial inclusion in the framework. Where appropriate, additional metrics could be added over time, in consultation with the sector, to supplement the initial set.

4.6 Actions required to implement the framework

Part 3 of this report and insights from ESC's work demonstrate that significant weaknesses remain in the quality of performance information reported by councils.

Overcoming these issues will be critical to successfully implementing a comparative performance reporting framework.

The key challenges to be addressed include:

- identifying common services and objectives as the basis for comparative reporting
- developing suitable indicators that permit meaningful benchmarking and meet the principles of effective performance reporting
- implementing appropriate data collection and quality assurance arrangements for common indicators across all councils
- establishing a suitable reporting format that assures meaningful comparisons between 'like' councils, but which also recognises differing local priorities and achievements.

The scale of the task, including capacity-building required in some councils to address these issues, is significant and should not be underestimated.

Given the general under-development of existing council performance information and the challenge of coordinating sector-wide improvements, an inclusive, purposeful and iterative approach is needed to build a robust statewide benchmarking framework in consultation with councils.

The following sections propose strategies and actions to address these challenges in consultation with the sector.

4.6.1 Identifying common services

Establishing a comparative performance reporting framework first requires identifying a minimum set of key local government services that all councils deliver and can report on using common indicators.

ESC's classification of common local government functions should guide the selection of these services.

The need to develop the framework iteratively means the focus should initially be on a small handful of services, with the insights gained progressively applied to additional services over time. Appendix D highlights a range of common local government services within each of ESC's functional categories. These are services for which councils could have similar objectives, and which could be reported on in a comparative framework.

Therefore, a key initial task in further developing a statewide framework will be to select, in consultation with the sector, a small group of these services across all functions—approximately three to five—as the initial focus.

4.6.2 Establishing common service objectives

Assessing the achievement of objectives is fundamental to effective performance reporting and benchmarking.

It requires strategic and service objectives to be clearly expressed, measurable and aligned. Part 3 of this report indicates that substantial work is needed to improve the clarity of objectives at most councils.

This situation, coupled with the absence of common objectives for key services across councils, presents an obvious and significant obstacle to meaningful comparative reporting.

Critical tasks to be addressed cooperatively within the sector include:

- establishing consensus on common objectives for the initial set of services selected for comparative reporting
- councils reviewing their strategic and service objectives to assure that they are clearly specified, measureable and aligned.

This work will be a critical prerequisite to establishing sound performance indicators.

The establishment of common service objectives should not interfere with a council's prerogative to determine its own service standards, performance targets and priorities relative to these objectives in consultation with its community.

In this context, the purpose of common objectives is only to enable development of common indicators for comparative purposes.

It is important to recognise that different councils may appropriately perform differently against common objectives reflecting different community expectations about acceptable service levels and targets, including differences in the community's willingness and capacity to pay.

These are important contextual factors that should be carefully considered when interpreting relative performance between councils on common performance metrics.

4.6.3 Developing comprehensive and balanced indicators

Achieving a comprehensive and balanced set of indicators requires the sector to move from the current focus of reporting on activities to the type of reporting envisaged by RoGS.

Recognising that a local government performance reporting framework will need to develop over time, a first step should be to reach consensus on the proposed financial indicators, and to identify an initial subset of indicators for the selected services that can be implemented relatively quickly and further developed in consultation with councils.

These indicators should be selected judiciously, using the RoGS framework as a guide, to provide information that is meaningful to councillors and ratepayers, and supported by data readily available to most councils.

At the service level, the proposed indicators should initially focus on the three dimensions of performance most critical to minimally satisfy the principles of effective performance reporting for councils namely, *program effectiveness*, *technical efficiency*, and *quality*. Additional indicators covering other RoGS dimensions, where necessary, could be added over time.

The present lack of suitable indicators at councils, as highlighted by this audit and ESC's work, indicates that this is likely to be a considerable challenge and that new data sets may be required over time.

4.6.4 Improving data quality

A significant challenge to achieving meaningful and accurate reporting relates to data quality. Performance audits since 2000 have repeatedly raised concerns about the quality of data used by councils in strategic, business and operational planning, and have highlighted the need for data quality assurance to be introduced.

This remains a challenge with respect to council performance reporting.

The validity and reliability of any new local government performance reporting framework will be undermined unless appropriate data integrity standards, and quality assurance arrangements are developed and consistently applied by all councils.

These standards should be established progressively with the sector to correspond with developed indicators. Their application by councils can be assessed by VAGO as part of the annual financial audit cycle.

4.6.5 Developing a suitable reporting format

Achieving meaningful reporting

Performance reporting is not an end in itself. It should provide meaningful and purposeful information that assures councils are accountable to ratepayers for their performance. It should also assist councils and their managers to learn from better performing peers and to diagnose performance deficiencies and attend to them.

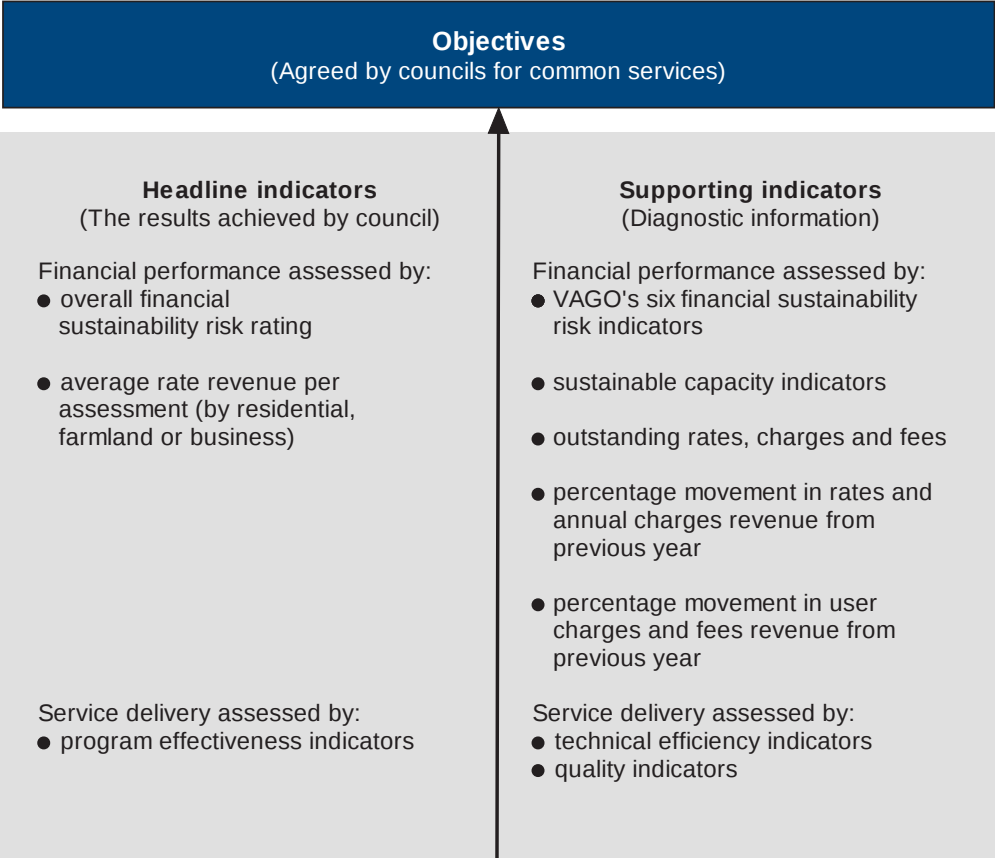
In this context, a comparative council performance report should enable an understanding of:

- the outcomes achieved by a council, expressed in terms of the effectiveness of services, and the soundness of financial management
- how to improve outcomes via reference to additional supporting diagnostic information relating to the performance of service outputs.

In this context, the outcomes achieved by a council could be presented in the form of a minimum set of 'headline indicators', and the output information as part of a broader set of equally important 'supporting indicators'. Key financial sustainability and rating metrics could also be presented as part of the suite of 'headline indicators' and 'supporting indicators'.

The proposed local government performance reporting framework is summarised in Figure 4E.

Figure 4E
Summary of proposed local government performance reporting framework



Source: Victorian Auditor-General's Office.

Providing context and explanatory information

A comparative performance report needs to provide sufficient contextual information to aid interpretation of council results, including differences between 'like' councils on common indicators.

This will require reporting against targets and, where applicable, trends over time, including defining suitable groupings of 'like' councils for the purpose of benchmarking. These groupings may differ depending on the service being examined, and should be devised in consultation with councils following consideration of a range of factors beyond simply geographical location.

Possible clusters include growth areas, or municipalities facing high tourism impacts, natural disasters or declining populations. These differences between councils will influence their priorities and performance targets for common services, and need to be considered when selecting councils for benchmarking purposes.

A comparative reporting framework should not interfere with a council's prerogative to determine its own targets in consultation with its local community, as this would be inconsistent with councils' primary accountability obligation to ratepayers.

The ESC *Pilot Services Report* provided a format in which some explanatory information specific to councils could be included and this needs to be part of any new performance reporting regime.

4.6.6 Minimising the reporting burden

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, ideally, should create an opportunity to eliminate or replace some current mandatory reports. Achieving this will require the cooperation of relevant agencies.

In this way the new framework could serve to reduce councils' reporting burden, or improve the quality of reported information.

In addition to these requirements, the Act requires councils to produce auditable performance statements, and to report their performance against strategic objectives. The best value provisions of the Act also require councils to report to ratepayers on the outcome of service level reviews.

The reporting framework proposed here presents an opportunity to streamline these diverse and uncoordinated reporting requirements. It could be used to acquit existing statutory performance reporting obligations, including accountability requirements to other agencies with equivalent or better metrics. Local Government Victoria (LGV) supports these goals and is committed to helping achieve them, where possible, in consultation with all departments.

4.6.7 Training and support

Overcoming the barriers to effective performance reporting will be a significant task for local government. It is important that the sector is appropriately supported and able to comprehensively implement the framework so that its full benefits can be realised at each council.

Training for councillors and council staff will be an important component of this. As the framework is developed, associated training programs covering the components of the framework should also be prepared, and can build upon training provided to councillors and council staff around the broader importance of effective performance reporting recommended in Part 3 of this report.

4.7 Proposed implementation strategy

4.7.1 Sector engagement and task force

Our proposed framework has been developed with valuable input from key stakeholders including Local Government Finance Professionals, Local Government Professionals, the Municipal Association of Victoria, the Productivity Commission, and the Victorian Local Governance Association and related experts.

It is important to continue to engage the local government sector in the further development and refinement of the proposed framework.

The sector has also devoted considerable effort to developing ESC's *Pilot Services Report* in recent years and is supportive of a reasonable performance reporting framework while apprehensive of the compliance costs associated with an inappropriate framework.

An implementation task force drawn from the sector could best inform future developments. The task force could play a lead role in implementing solutions to the preceding challenges in consultation with councils.

This would include identifying the initial set of common services, objectives and related indicators, including provision of information and training to councils about the framework.

4.7.2 Proposed governance structure

The task force could be established and overseen by a project steering committee with overall responsibility for the initiative comprising the following members:

- Local Government Finance Professionals
- Local Government Professionals
- Local Government Victoria
- The Municipal Association of Victoria
- Victorian Local Governance Association.

The committee could collectively review and approve the work of the task force. It could also oversee the progressive establishment of the framework, and play a facilitating role to the task force, as needed, to resolve key blockages.

LGV's role is to work co-operatively with councils and to ensure a strong and accountable local government sector. This means it has a natural leadership role to establish the proposed steering committee, facilitate consultation with other members, and reach agreement on future implementation priorities, including roles and responsibilities.

LGV advised that it was concerned that significant support and resources beyond VAGO's proposed role may be required to address the implementation challenges and to assist councils overcome barriers to participation.

As previously outlined, we agree that addressing the implementation challenges will require an inclusive, iterative and coordinated response from the broader local government sector, beyond simply VAGO's and LGV's role.

Accordingly, it will be important for the proposed steering committee and LGV to further analyse and demonstrate the nature and extent of additional support and resources required. This analysis should be undertaken at the outset to further inform planning and strategies for future implementation.

4.7.3 Role of VAGO

Framework development and comparative reporting

Consistent with our vision to be a catalyst for continuous improvement in the accountability and performance of the public sector, we intend to leverage our audit efforts to contribute to the improvement of performance reporting by councils.

Specifically, we can contribute to the work of the task force by:

- participating on the steering committee in a consultative, non-decision-making capacity
- assessing the consistency of proposed indicators with better practice performance reporting principles
- assessing the implementation of actions against the framework
- producing a sector-wide comparative performance report in three years once the framework is implemented across all councils.

The first public comparative report can build upon and form part of our existing report on the results of local government financial audits. Its format can be developed in consultation with stakeholders, and based on the insights from a pilot report produced in consultation with the steering committee within the first two years.

Timing and focus of future audits

In our report *Local Government: Results of the 2010–11 Audits* tabled in Parliament in November 2011 we advised that, from 30 June 2013, we intended to move to express an opinion on the relevance and appropriateness of the indicators reported upon in council performance statements.

However, recognising the low maturity of existing performance information across the sector, and the scale of improvement actions required to achieve relevant and appropriate performance indicators, we now propose to revise this plan.

Specifically, we now intend to implement this approach over a three-year period. In the years ending 30 June 2013 and 2014, we propose conveying our opinion on the relevance and appropriateness of performance indicators to councils via management letters to encourage their further development, while continuing to express a public opinion on their fair representation.

We will also provide an update each year on the sectors' progress in implementing the framework in our annual report on the results of local government financial audits.

In the third year councils will be expected to have fully implemented the reporting framework, providing a suite of measures that are relevant and appropriate for assessing the council's performance and that fairly represent that performance. From that year the public audit opinion will address the relevance and appropriateness of the indicators and whether they fairly present performance. Where this standard is not met, a qualified audit opinion may be issued on the performance statement.

This transitional approach will require the support of LGV and the goodwill of councils to achieve the desired outcome—more transparent and meaningful reporting on council performance to the community.

Recommendations

3. Local Government Victoria, councils, and local government peak bodies should adopt the proposed local government performance reporting framework and associated implementation strategy.
 4. Local Government Victoria, in consultation with stakeholders, should lead and expedite establishment of the governance structure for implementation.
-

Appendix A.

Recurring performance challenges

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 2A of this report (page 9). 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, our 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. Our 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, our 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.

Our 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 our 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.

Our 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, our 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.

Appendix B.

Definitions of *Report on Government Services* indicators

The *Report on Government Services* (RoGS) framework provides five types of output indicators and three types of outcome indicators. Of these, the most critical indicator types for minimally satisfying the requirements for effective performance reporting in local government are indicators of program effectiveness, technical efficiency and quality. Figure B1 sets out the types of RoGS indicators and their definitions.

Figure B1
***Report on Government Services* indicators**

Indicator type	Definition
Output indicators	
<i>Equity of access</i>	Measures the extent to which all residents have adequate access to services
<i>Access</i>	Measures how easily the community can gain access to a given output (service)
<i>Appropriateness</i>	Measures how well services meet client needs
<i>Quality</i>	Measures the extent to which a service is suited to its purpose and conforms to specifications
<i>Technical efficiency</i>	Measures how well resources (inputs) are used to produce outputs and outcomes, expressed as a ratio of outputs to inputs
Outcome indicators	
<i>Equity of outcome</i>	Measures the gap between service delivery outcomes for special needs groups and the general population
<i>Program effectiveness</i>	Measures how well the outcomes of a service achieve the stated objectives of that service
<i>Cost-effectiveness</i>	Measures how well inputs are converted into outcomes, expressed as a ratio of inputs to outcomes

Source: Victorian Auditor-General's Office based on *Report on Government Services* data.

Appendix C.

Financial sustainability indicators

VAGO's financial sustainability indicators provide data for all councils on six key metrics together with analysis and commentary highlighting, where appropriate, key areas of concern.

The indicators used 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**.

Figure C1
Financial sustainability indicators

Indicator	Formula	Description
Underlying result (per cent)	Adjusted net surplus/ total underlying revenue	A positive result indicates a surplus. The larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account non-cash developer contributions and other one-off (non-recurring) adjustments.
Liquidity	Current assets/ current liabilities	Measures the ability to pay existing liabilities in the next 12 months. A ratio higher than 1:1 means there is more cash and liquid assets than short-term liabilities.
Indebtedness (per cent)	Non-current liabilities/ own-sourced revenue	Comparison of non-current liabilities (mainly comprised of borrowings) to own-sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues the entity generates itself. Own-sourced revenue is used (rather than total revenue) because it does not include capital grants, which are usually tied to specific projects.
Self-financing (per cent)	Net operating cash flows/ underlying revenue	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage, the more effectively this can be done.
Capital replacement	Capital expenditure/ depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.
Renewal gap	Renewal and upgrade expenditure/depreciation	Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate. Similar to the investment gap, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.

Source: Victorian Auditor-General's Office.

Figure C2
Risk assessment criteria for financial sustainability indicators

Risk	Underlying result	Liquidity	Indebtedness	Self-financing	Capital replacement	Renewal gap
High	Negative 10% or less	Equal to or less than 1.0	More than 60%	Less than 10%	Equal to or less than 1.0	Equal to or less than 0.5
	Insufficient revenue is being generated to fund operations and asset renewal.	Insufficient current assets to cover liabilities.	Potentially long-term concern over ability to repay debt levels from own-source revenue.	Insufficient cash from operations to fund new assets and asset renewal.	Spending on capital works has not kept pace with consumption of assets.	Spending on existing assets has not kept pace with consumption of these assets.
Medium	Negative 10% to zero	1.0–1.5	40–60%	10–20%	1.0–1.5	0.5–1.0
	A risk of long-term run down to cash reserves and inability to fund asset renewals.	Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	Some concern over the ability to repay debt from own-source revenue.	May not be generating sufficient cash from operations to fund new assets.	May indicate spending on asset renewal is insufficient.	May indicate insufficient spending on renewal of existing assets.
Low	More than zero	More than 1.5	40% or less	20% or more	More than 1.5	More than 1.0
	Generating surpluses consistently.	No immediate issues with repaying short-term liabilities as they fall due.	No concern over the ability to repay debt from own-source revenue.	Generating enough cash from operations to fund assets.	Low risk of insufficient spending on asset renewal.	Low risk of insufficient spending on asset base.

Source: Victorian Auditor-General's Office.

The overall financial sustainability risk assessment is calculated using the ratings determined for each indicator as shown in Figure C3.

Figure C3

Overall financial sustainability risk assessment

●	High risk of short-term and immediate sustainability concerns indicated by either: ● red underlying result indicator or ● red liquidity indicator.
●	Medium risk of longer-term sustainability concerns indicated by either: ● red self-financing indicator or ● red indebtedness indicator or ● red capital replacement indicator or ● red renewal gap indicator.
●	Low risk of financial sustainability concerns—there are no high-risk indicators.

Source: Victorian Auditor-General's Office.

Appendix D.

Examples of common objectives and services

Figure D1
Examples of local government common objectives and key services

Function	Example common objectives	Example common services
Governance and management	Timely, informed and impartial local decision-making	Governance
	Budgetary outcomes that deliver an improved financial base for council over time	Financial management
Infrastructure and assets	Local roads that are safe and are constructed and maintained at costs per lane kilometre that don't exceed industry averages	Road maintenance and construction
Community services	Mothers and children in the municipality receive timely and effective access to infant welfare centres	Maternal and child health services
Development and planning	Planning decisions are timely and in accordance with adopted land use strategy	Statutory land use planning
Economic development	Council policies assist in attracting employment and investment to the municipality	Business development
Recreation and cultural services	Council parks, sportsgrounds and aquatic facilities and programs are well used by residents	Sporting grounds, aquatic, fitness and leisure programs
		Parks and gardens
Environmental sustainability	Council environmental management activities demonstrate improving environmental outcomes over time	Household waste removal

Source: Victorian Auditor-General's Office.

Appendix E.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Planning and Community Development, the Essential Services Commission, Baw Baw Shire Council, the City of Boroondara, Central Goldfields Shire Council, Colac Otway Shire, Horsham Rural City Council, Indigo Shire Council, Knox City Council, Moreland City Council, Wangaratta Rural City Council and Wyndham City Council with a request for submissions or comments.

Responses were received as follows:

The Department of Planning and Community Development.....	58
The Essential Services Commission.....	61
Baw Baw Shire Council.....	62
The City of Boroondara.....	63
Colac Otway Shire.....	66
Indigo Shire Council.....	68
Moreland City Council.....	70

The submission and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

RESPONSE provided by the Secretary, Department of Planning and Community Development



**Department of Planning
and Community Development**

Ref CSEC003217
File 11/010798

Mr D D R Pearson
Auditor-General
Level 24
35 Collins St
MELBOURNE VIC 3000



1 Spring Street
Melbourne
Victoria 3001
GPO Box 2392
Telephone: (03) 9208 3333
Facsimile: (03) 9208 3680

Dear Mr Pearson

AUDIT ACT 1994, s16(3) – PROPOSED AUDIT REPORT: PERFORMANCE REPORTING BY LOCAL GOVERNMENT

Thank you for your letter of 23 March 2012 regarding the proposed report on Performance Reporting by Local Government and the opportunity to provide comments for inclusion in the report in accordance with section 16(3) of the *Audit Act 1994*.

Effective performance reporting by local government has been an enduring challenge over the years, and I am encouraged by the report's findings that acknowledge the extensive body of previous work. This highlights the importance of careful and considered research that ensures we analyse carefully the necessary preconditions to delivering effective reform.

As you highlight in the report, the State Government made a decision in 2011 to not continue the development of the ESC Services Report in Local Government. In making that decision, the Government was cognisant of your criticism of the approach being taken. We are satisfied your proposal aligns with the needs of the State Government, particularly in the inclusion of technical efficiency and effectiveness measures in addition to the quality measures proposed for inclusion by the ESC.

The Department of Planning and Community Development and Local Government Victoria remains an advocate for improved performance reporting by local government. As recently as November 2011, in response to your report on *Local Government Results of the 2010-11 Audits*, I advised you that the "...broader matter of performance measurement will be the subject of discussion with the Government as part of future business and planning processes within the local government portfolio." This work is ongoing in the portfolio in discussion with portfolios across Government. I further noted in that same correspondence that there is a fine line between a regulated approach and one which relies upon voluntary compliance with guidance material and that "...the extent to which strengthened legislative requirements would mitigate the (resultant) inconsistency is also dependent on issues of capacity." This remains a challenge in pursuing this reform.

My Department welcomes the challenge offered by the report, however notes that the adoption and implementation of the proposed performance report will require a whole of Victorian Government response in true partnership with the local government sector.



RESPONSE provided by the Secretary, Department of Planning and Community Development – continued

For my Department, we see the following dimensions as critical in designing and implementing an effective performance reporting system that properly responds to recommendations 1–4 inclusive articulated in your report.

Council accountability to the community and the role of the State Government

The desired audience for the proposed performance report will directly inform its structure and orientation. We have previously discussed with the Victorian Auditor-General's Office (VAGO) our view that there are differing and equally valid audiences for such a framework. Certainly, accountability of councils to their communities must remain the priority of any future reforms. In addition, the State Government has a valid and legitimate interest in understanding the performance of the local government sector given the sector's centrality in delivering on state-wide objectives.

I also note that at a recent meeting of local government Ministers in Canberra the Commonwealth Government indicated its intention to pursue a joined-up approach in performance measurement and our approach also needs to be cognisant of these developments at the national level.

Fostering organisational performance and compliance-centricity

As noted by VAGO in the *Local Government: Results of the 2010-11 Audits*, there remains a 'compliance-centric' approach within many councils with regards to performance reporting, especially of non-financial indicators. Mandatory performance reporting requirements must therefore be balanced against this background, and acknowledge the differing levels of organisational maturity and capacity across the sector. An approach that fosters greater organisational performance and sector ownership of this reform must also acknowledge these differences.

Council performance comparability

Comparability of councils across a range of services is desirable, and will permit meaningful benchmarking. As noted above, comparable indicators must also accommodate variation, as well as explicitly acknowledge conscious and well informed decisions by councils on service levels and provision. It would be desirable that this framework would enable residents to better understand the performance of their local council in outcome areas such as liveability, service provision, business red tape and rates.

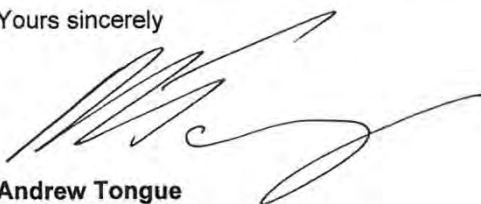
Equally, the State has a valid interest in this information as the State directs considerable funding to the sector for specific service provision, economic development and a whole range of state and Commonwealth objectives across a broad range of portfolio areas.

Despite these considerable challenges, I note that the foundations for effective and meaningful performance reporting are largely already present in the current legislative framework. The requirements of sound financial management and compliance with the Best Value Principles in the *Local Government Act 1989* are the cornerstone of the State Government's current expectations for local government. A possibility may be to consider ways to better bring these existing requirements under the umbrella of audit so as to provide third party scrutiny to drive improvement, but retain flexibility for councils to develop performance reporting to best suit their community's needs and deliver better outcomes. Such an approach may also serve to limit the imposition of further reporting burdens upon the sector.

***RESPONSE provided by the Secretary, Department of Planning and Community
Development – continued***

Subject to budget and Government's consideration of this proposal in more detail, this and other options will be scrutinised in the coming months and I look forward to continuing to work with your office in the exploration of implementation options.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AT', with a long, sweeping horizontal stroke extending to the right.

**Andrew Tongue
SECRETARY**

RESPONSE provided by the Chairperson, Essential Services Commission



30 March 2012
Our ref: C/12/12090

Mr D D R Pearson
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
Melbourne Victoria 3000



Dear Mr Pearson

PROPOSED AUDIT REPORT – PERFORMANCE REPORTING BY LOCAL GOVERNMENT

Thank you for your letter of 23 March 2012 enclosing the confidential proposed audit report on *Performance Reporting by Local Government*. We note that there have not been changes in those sections which refer to the Essential Services Commission as contained in the confidential preliminary draft report we received on 9 March 2012. Consequently we have no further comment.

I would again like to express my thanks to your staff for engaging with Commission staff throughout the audit process. I look forward to continued cooperation between our respective organisations.

Yours sincerely

Dr Ron Ben-David
Chairperson

RESPONSE provided by the Chief Executive Officer, Baw Baw Shire Council



10 April 2012

Mr DDR Pearson
Auditor-General
Level 24
35 Collins Street
MELBOURNE VIC 3000



Dear Mr Pearson

**RE: AUDIT ACT 1994, s16(3) – Proposed Audit Report
Performance Reporting by Local Government**

Thank you for the opportunity to respond to the draft report – *Performance Reporting by Local Government*.

Baw Baw Shire Council was pleased to participate in the audit and we believe that Council has been fairly and accurately represented in the draft report.

It is our view that the recommendations are balanced and we are supportive of a State-wide local government sector approach to improve performance reporting.

From the perspective of a small rural local government, which is under tremendous resource and growth pressures, we would reiterate our request that VAGO be cognisant of the resource implications in administering a performance reporting system for rural and regional Victorian local governments.

We acknowledge that there is great opportunity for improvement in sector wide performance reporting and recognise that with the discontinuance of the Essential Services Commission local government measures, there is a gap that requires filling.

Baw Baw Shire Council would be pleased to participate in the development of appropriate performance measures for local government.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Helen Anstis'.

Helen Anstis
Chief Executive Officer

Challenge the boundaries be the difference

RESPONSE provided by the Chief Executive Officer, City of Boroondara



10 April 2012

Mr D D R Pearson
Auditor General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000



Dear Mr Pearson

Re: Proposed Audit Report - Performance Reporting by Local Government

Thank you for the opportunity to comment on the Proposed Audit Report - Performance Reporting by Local Government ('the audit report').

Boroondara considers performance reporting to be important both for internal monitoring / improvement purposes, and for reporting in a clear and transparent way to the community.

Formal reporting at Boroondara takes place progressively throughout the year through monthly and quarterly performance reports, and annually through our annual report and best value report. These reports include a wide range of information and measures beyond what is required under the *Local Government Act 1989* ('the Act'). We place particular importance on our annual report, which has been awarded a Gold award from the Australasian Reporting Awards ('ARA') for the last four years, with the 2009-10 report awarded Report of the Year by the ARA. Boroondara participates in this and other independent review processes in order to continually improve the manner of our reporting to our stakeholders. We note the audit report includes a number of examples of Boroondara displaying better practice and areas in which we have responded to the outcomes of the previous 2008 audit.

We agree there is opportunity to improve performance reporting across the local government sector and welcome steps that can help with this improvement. We are concerned however with the way in which some elements of the audit report are presented. Conclusions are given without the report being clear that many of the Councils reviewed as part of the audit including Boroondara do comply with the reporting requirements set out in the Act and noted in section 3.1 of the audit report. However, much of the reporting terminology within the Act is not defined and is therefore open to some interpretation around the extent, breadth and quality of reporting. We believe this context is important to note, without which the report may give rise to increased community concern.



Camberwell Office 8 Inglesby Road Camberwell Victoria T 9278 4444 F 9278 4466
Postal Address Private Bag 1 Camberwell Victoria 3124
Email boroondara@boroondara.vic.gov.au

**RESPONSE provided by the Chief Executive Officer, City of Boroondara –
continued**



The audit report presents data on the average increase in Council rates and from this draws conclusions around performance reporting. While there is some acknowledgment of factors influencing rate levels such as asset renewal and cost shifting implications which have had a significant impact on local government costs over the last decade, this explanation takes a lesser place compared with the display of the rates chart from which incomplete conclusions can be drawn. Similarly, the meta analysis of prior audit reports highlights a number of themes, many of which are being addressed by local governments in a strategic and systematic manner. While recognising that continuing challenges remain, asset management is one example where Councils have made substantial improvements over the last decade.

Boroondara was an active participant in the work undertaken by the Essential Services Commission ('ESC') and we appreciated the way in which the ESC sought to engage with the sector to develop a common suite of indicators, mindful of minimising the administrative burden required to collect and report on performance measures. While we do not have a deep understanding of the proposed RoGS framework, we do agree that any performance reporting framework does need shaping through engagement with key local government stakeholders. This engagement can help shape the financial and non-financial measures that may be developed. This will help ensure the performance reporting needs are met to the extent possible, within an efficient framework and with minimal resource implications. As an example, whilst we agree that measures of outcomes on all specific objectives should ideally be reported, we believe that developing methods of collecting such data (for example through specific surveys of service users) will inevitably require additional cost. The ultimate framework to be developed and implemented will require a balanced approach taking into account these different considerations.

We believe further information and explanation of the planning and reporting requirements currently set out in the Act would be of benefit to Councils. For example, the report notes that 'effective performance reporting requires well expressed objectives that clearly articulate the outcomes a Council is seeking to achieve'. It then provides a sample of Council strategic objectives in Figure 3A as examples of those that limit comprehensive reporting. The Department of Planning and Community Development ('DPCD') issued guidance to local government in April 2009 in the publication 'Measuring Up: linking planning and performance'. This publication referred to strategic objectives as 'the broad (emphasis added) direction Council has decided on for the four-year Council Plan period'. In reading the audit report, it appears that Councils have generally adopted the approach of expressing broad direction in their strategic objectives, which would appear to be consistent with the DPCD guidance. Further clarification is required around the requirements of the Act on terms such as strategic objectives, strategies, strategic indicators and key strategic activities. This will help achieve consistency in reporting and give greater clarity on the ways in which the different levels of objectives should be expressed.



Camberwell Office 8 Inglesby Road Camberwell Victoria T 9278 4444 F 9278 4466
Postal Address Private Bag 1 Camberwell Victoria 3124
Email boroondara@boroondara.vic.gov.au

**RESPONSE provided by the Chief Executive Officer, City of Boroondara –
continued**



We thank you again for the opportunity to comment on the audit report and, as a stakeholder, would welcome the opportunity to be involved in future discussions regarding the proposed reporting framework.

Yours sincerely

A handwritten signature in black ink, appearing to read "Phillip Storer".

Phillip Storer
Chief Executive Officer



Camberwell Office 8 Inglesby Road Camberwell Victoria T 9278 4444 F 9278 4466
Postal Address Private Bag 1 Camberwell Victoria 3124
Email boroondara@boroondara.vic.gov.au

RESPONSE provided by the Chief Executive Officer, Colac Otway Shire

Auditor-General
Audit & Legislative Advice
Chief Executive Officer
Shire CEO

Colac Otway
SHIRE

5 April 2012

Mr D Pearson
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

RECEIVED
05 APR 2012
VICTORIAN
AUDITOR-GENERAL'S
OFFICE

Dear Mr Pearson

Preliminary Draft Report: Performance Audit - Performance Reporting by Local Government

I refer to the proposed report on Performance Reporting by Local Government that was received on 26 March 2012.

Thank you for the opportunity to comment on the report. The report has been reviewed and the following comments are made.

In general terms there is agreement with the report and the analysis contained in the paper as it applies to the Colac Otway Shire.

As indicated in the paper, many of the municipalities have implemented improvements with respect to aspects of performance reporting practices.

Council officers believe that the Colac Otway Shire has progressed significantly since the 2008 Audit.

(a) Council has implemented a number of performance reports which has added to the information that was available.

(b) The Shire has also introduced a number of improvement processes including Business Excellence that will assist in identifying gaps in reporting.

(c) As part of the 2011/12 Budget, the Shire implemented significant changes to its budget document. The document provides additional information about each of Council's service areas.

The document will be reviewed on an annual basis to ensure that the information about each of the service areas is relevant and up to date.

Colac Otway Shire
PO Box 283
Colac Victoria 3250
www.colacotway.vic.gov.au
info@colacotway.vic.gov.au

Colac Service Centre
2-6 Rae Street
Colac Victoria 3250
Ph: (03) 5232 9400
Fax: (03) 5232 1046

Apollo Bay Service Centre
69-71 Nelson Street
Apollo Bay Victoria 3233
Ph: (03) 5237 6504
Fax: (03) 5237 6734

**RESPONSE provided by the Chief Executive Officer, Colac Otway Shire –
continued**

Organisation: Victorian Auditor-General's Office



Page 2

It is clear thought that the current Council Plan and Performance Statement have some limitations in terms of effective performance reporting and it is recognised that improvements are required.

You have noted in the report that there is a great deal of work required to bring performance reporting up to the standard that your office desires and a deficit of knowledge across the sector in general in this regard. Considering the significant undertaking of *'identifying the initial set of common services, objectives and related indicators, including provision of information and training to Councils about the framework'* (section 4.7.1, page 42), I would recommend that your office take a key role on the proposed Steering Committee, rather than being a mere catalyst to achieve your stated aims.

The timing of the Performance Audit Report will assist in the preparation of the 2013-2017 Council Plan which will be developed after this year's Local Government elections. The report will provide a valuable resource to assist in the process.

If you require any clarification on any of the comments, please do not hesitate to contact Colin Hayman, General Manager Corporate and Community Services.

Yours sincerely

A handwritten signature in black ink, appearing to read "Rob Small".

Rob Small
Chief Executive Officer

RESPONSE provided by the Mayor, Indigo Shire Council



File No.
Reference No: Larry Goldsworthy

OFFICE OF THE MAYOR

Thursday 5 April 2012



SHIRE OFFICE:
101 Ford Street, (PO Box 28)
Beechworth, Vic., 3747
Telephone: 03 5728 8000
Facsimile: 03 5728 1676
Local Call: 1300 365 003
E: indigoshire@indigoshire.vic.gov.au
W: www.indigoshire.vic.gov.au
ABN 76 887 704 310

The Auditor General
Victorian Auditor General's Office
Level 24
35 Collins Street
MELBOURNE VIC 3000

Dear Auditor General

RE: PERFORMANCE REPORTING BY LOCAL GOVERNMENT

Indigo Shire Council appreciates the opportunity to provide feedback on the report *Performance Reporting by Local Government*.

Indigo Shire has a strong history that demonstrates a clear desire to engage with local communities to ensure that feedback on Council's performance is heard, understood, and assimilated into Council's operations and planning.

Despite this history of community engagement, the VAGO report clearly shows that there are a number of areas in which we need to make significant improvements, specifically in the way that performance measures are developed and reported. The audit process has been invaluable in highlighting specific areas that require improvement and Council thanks VAGO for assisting in the identification of these issues.

We welcome the inclusion of section 4 "Proposed framework for local government performance reporting". This section will require further work to move this from recommendation to action, and Indigo Shire stands ready to join with State Government and other local Councils in the formulation and implementation of an appropriate and relevant state-wide framework. Whilst not without its challenges, this type of coordinated view of the local government sector is a relevant consideration in any performance reporting recommendation, and we are pleased that this was included in VAGO's report.

"HISTORIC TOWNS"
SHIRE



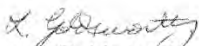
Indigo Shire – Australia's most significant collection of historic towns

RESPONSE provided by the Mayor, Indigo Shire Council – continued

Recognising that any state-wide solution will involve significant time to implement, Indigo Shire will continue to make improvements to its performance reporting practices. This VAGO report will assist in guiding and informing Council on this journey.

Again, thank you for the opportunity to provide a response to this report.

Yours sincerely


Larry Goldsworthy
MAYOR



Indigo Shire – Australia's most significant collection of historic towns

RESPONSE provided by the Chief Executive Officer, Moreland City Council



Moreland City Council

Mr D D R Pearson
Victorian Auditor-General
Level 24 – 35 Collins Street
MELBOURNE VIC 3000



Municipal Offices
90 Bell Street
Coburg
Victoria 3058

Postal address
Locked Bag 10
Moreland
Victoria 3058

Telephone: 03 9240 1111
Facsimile: 03 9240 1212

XREF: 12/69618
Doc No: D12/78522
Enq: P. Brown
Tel: 92401190

Dear Mr Pearson

I refer to your letter of 23 March 2012 and the provision of the final draft Audit Report *Performance Reporting by Local Government*. I take this opportunity to provide a submission for inclusion in the report, pursuant to section 16(3) of the Audit Act 1994.

While your report is critical of local government performance reporting (and the local government sector generally) it does acknowledge that Moreland City Council has made recent “improvements to performance reporting practices included aligning performance information with Council’s strategic objectives”. Council has set out on a deliberate journey to improve performance reporting to its stakeholders and your report does include reference to the positive initiatives that have been put in place locally. Moreland Council acknowledges that it has a way to travel to become best practice in this area and will use the framework proposed in your Report as part of our continuous improvement process.

While Moreland Council acknowledges that performance reporting across the local government sector generally could be improved, it is interesting to note that at the 2011 Annual Report Awards one of the Council’s surveyed for this performance audit won the award for the best Annual Report of any institution in Australia. The award citation reads in part that the Council concerned was considered by the Awards Committee to have provided in its Annual Report “clear descriptions of performance (to) enable readers to assess Council’s progress in achieving its objective”. Moreland Council won a silver award at the same ceremony.

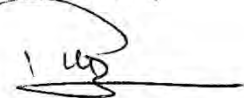
This paper is 100% recycled

**RESPONSE provided by the Chief Executive Officer, Moreland City Council –
continued**

I would also ask you to note that in order to improve our performance reporting, Moreland City Council worked actively as a trial Council with the Essential Services Commission (ESC) on the standardised local government indicators and was disappointed that this project was dropped. The ESC and trial Councils had recognised that for indicators to be effective they needed to cover key Council services and to include trend, quantum, and bench marking measures that not only indicated internal effectiveness but also external efficiency and identification of best practice performance levels to instil continuous improvement with the sector.

Thank you for the opportunity to comment on the report.

Yours sincerely



Peter Brown
Chief Executive Officer

4 /04/2012

Auditor-General's reports

Reports tabled during 2011–12

Report title	Date tabled
Biotechnology in Victoria: the Public Sector's Investment (2011–12:1)	August 2011
Developing Cycling as a Safe and Appealing Mode of Transport (2011–12:2)	August 2011
Road Safety Camera Program (2011–12:3)	August 2011
Business Planning for Major Capital Works and Recurrent Services in Local Government (2011–12:4)	September 2011
Individualised Funding for Disability Services (2011–12:5)	September 2011
Supporting Changes in Farming Practices: Sustainable Irrigation (2011–12:6)	October 2011
Maternity Services: Capacity (2011–12:7)	October 2011
Procurement Practices in the Health Sector (2011–12:8)	October 2011
TAFE Governance (2011–12:9)	October 2011
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010–11 (2011–12:10)	November 2011
Public Hospitals: Results of the 2010–11 Audits (2011–12:11)	November 2011
Water Entities: Results of the 2010–11 Audits (2011–12:12)	November 2011
Portfolio Departments and Associated Entities: Results of the 2010–11 Audits (2011–12:13)	November 2011
Local Government: Results of the 2010–11 Audits (2011–12:14)	November 2011
Victorian Institute of Teaching (2011–12:15)	December 2011
Managing Contaminated Sites (2011–12:16)	December 2011
Compliance with Building Permits (2011–12:17)	December 2011
Management of Road Bridges (2011–12:18)	December 2011
State Trustees Limited: Management of represented persons (2011–12:19)	February 2012
Public Transport Performance (2011–12:20)	February 2012
Government Advertising and Communications (2011–12:21)	February 2012
Agricultural Food Safety (2011–12:22)	March 2012
Melbourne Market Redevelopment (2011–12:23)	March 2012
Access to Public Housing (2011–12:24)	March 2012

Report title	Date tabled
Freedom of Information (2011–12:25)	April 2012
Casual Relief Teacher Arrangements (2011–12:26)	April 2012

VAGO's website at www.audit.vic.gov.au contains a comprehensive list of all reports issued by VAGO. The full text of the reports issued is available at the website.



Victorian Auditor-General's Office
Auditing in the Public Interest

Availability of reports

Copies of all reports issued by the Victorian Auditor-General's Office are available from:

- Victorian Government Bookshop
Level 20, 80 Collins Street
Melbourne Vic. 3000
AUSTRALIA

Phone: 1300 366 356 (local call cost)
Fax: +61 3 9603 9920
Email: bookshop@dbi.vic.gov.au
Website: www.bookshop.vic.gov.au
- Victorian Auditor-General's Office
Level 24, 35 Collins Street
Melbourne Vic. 3000
AUSTRALIA

Phone: +61 3 8601 7000
Fax: +61 3 8601 7010
Email: comments@audit.vic.gov.au
Website: www.audit.vic.gov.au