

MEASURING PERFORMANCE IN AUSTRALIAN LOCAL GOVERNMENT: AN ANALYSIS OF NATIONAL AND STATE-BASED FRAMEWORKS

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INTRODUCTION

Since the mid-1980s Australians have elected a succession of reformist federal and state governments which have sought to increase economic growth rates by removing structural constraints on economic activity. Policies directed at this objective, colloquially referred to as ‘microeconomic reform’, have now become an integral part of national policy formulation. A significant aspect of microeconomic reform in Australia is focussed on enhancing the efficiency of the public sector. This includes local government, which comprises an important part of the national economy, both directly in the form of employment and resource usage, and indirectly as a major determinant of business costs through government changes and taxes.

Although local government is the smallest of the three tiers of government in Australia, it is nonetheless a substantial component of the economy. For example, in 1994 Australian local governments employed around 156,000 staff and spent some A\$10.5 billion, representing about five percent of total government expenditure in Australia (Johnstone 1996, p. 13). Moreover, local government plays a critical role in providing local public goods, especially infrastructure and in regulating economic and other activities. For instance, local government is responsible for some 18 percent of investment in new public sector assets and plays a major role in matters of regional development through control over zoning, planning and development.

Local government in Australia presently comprises 629 councils and 100 community governments and makes up the third level of government in the Australian federal

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systems after the Commonwealth (federal) and state governments. However, in common with the United States, local government has no independent constitutional status, but is accorded state constitutional recognition. Responsibility for local government thereby rests with the states, and local governments in Australia derive their functions and powers from state legislation. There are six separate state systems (New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania) overseeing local government, with a seventh system operating in the Northern Territory. In the Australian Capital Territory (ACT), services commonly provided by local government are produced by the ACT government. Most of the powers conferred upon Australian local government are encompassed in a Local Government Act in each state which is amended from time to time and expanded by ordinances made under the Act, although there are other Acts which confer specific functions and powers to local governments within its jurisdiction. The councils and community governments themselves are spread unevenly across the states and territories, with the largest number of councils found in the most populous states of New South Wales (NSW), followed by Western Australia (WA), Queensland (Qld.), Victoria (Vic.), South Australia (SA), Tasmania (Tas.) and the Northern Territory (NT) (excluding community governments).

Felmingham and Page (1996: 26) have identified three main ways in which public sector activity can be made more efficient: (i) by maximising efficiency through internal reorganisation or by introducing competition; (ii) by undertaking pricing reforms which oblige public agencies to price proportional to costs; and (iii) by regulatory reform which reduces unnecessary bureaucratic 'red tape'. In the present context we focus on 'internal reorganisation' as an instrument to increase efficiency in local government. More specifically, we are principally concerned with performance measurement in the process of reorganising and rearranging resources in Australian local government.

The paper itself is divided into three main parts. The first section deals with the measurement of performance in the local public sector by examining its organisational context and by providing a useful conceptual framework. The second section focuses

on performance measurement in Australian local government and assesses national performance indicators, state-based performance indicators, and process benchmarking. The paper ends with some brief concluding comments in the final section.

MEASURING PERFORMANCE IN THE LOCAL PUBLIC SECTOR

The problem of measuring the performance of private or public sector organisations is fundamental to any economy concerned with the accountability, transparency, efficiency and effectiveness of these institutions. In the private sector it has generally been assumed that, in the long run, the discipline imposed by the marketplace motivates corporations to strive for cost efficiency and profit maximisation, facilitated by feedback from the markets for capital, corporate control and managerial labour. These include measures derived from profits, rates of return on assets, investment and invested capital, market shares and market power.

In contrast, the public sector is generally seen to lack both an analogue for profit-seeking behaviour and an adequate feedback system to assess the quality of decisions. As a result, evaluating the performance of government businesses and budget sector agencies is viewed *prima facie* as more problematic. It is argued that there are five main aspects of government services that may make it difficult to develop accurate performance indicators. First, the outputs of a service provider may be complex and/or multiple (Mark 1986; Hatry and Fisk 1992). Furthermore, there may be difficulty in establishing cause and effect between the activities of a service and the final outcomes it seeks to influence, and these may be evident only after considerable time (SCRCSSP 1998a: 7). Second, government organisations may encounter problems in identifying the cost of producing and delivering services (Ammons 1986, 1992; Ganley and Cubbin 1992). For example, there may be difficulty apportioning costs across different services or the costs of a given program over long periods of time. Certainly, this problem has been mitigated by the introduction of systems of management accounting and accrual accounting (SCRCSSP 1998a: 7). Third, complexity in government services may exist due to the interplay of related services and programs (Epstein 1992; Carter, Klein and Day 1995). For instance, performance

indicators may need to capture the positive and negative externalities of service provision (SCRCSSP 1997a: 16). Fourth, there are potentially many users of governmental performance information. Different lines of accountability and the disparate informational requirements of government, taxpayers, employers, staff, consumers and contractors create additional complications in performance measurement (SCRCSSP 1997a: 16). For example, the Australian Industry Commission's (1997: 58) report on local government performance indicators received a number of submissions suggesting that the "most relevant measure for the Commonwealth and state governments may be a financial measure, but for local government and its community stakeholders it is [the focus] on outcome measurements and the effectiveness of resource inputs". Finally, a number of restrictions placed by these stakeholders may impinge upon the theoretical ability of government entities to improve performance, and therefore bring the orientation of performance information into question. For example, Ammons (1986: 191) argued that the intergovernmental mandating of expenditures and intergovernmental grant provisions may restrict the ability of government bodies to modify behaviour, whereas Miller (1992) maintains that the budget process itself makes an important contribution to the notion of performance.

Many of these characteristics are closely aligned with Wolf's (1989) four basic attributes of nonmarket supply. Firstly, he argues that "nonmarket outputs are often hard to define in principle, ill-defined in practice, and extremely difficult to measure as to quantity or to evaluate as quality" (Wolf 1989: 51). Accordingly, inputs generally become a proxy measure for output (Dollery and Worthington 1996: 29). Secondly, nonmarket outputs are usually produced by a single public agency, often operating as a legally constituted monopoly. The resultant lack of competition makes meaningful estimates of economic efficiency difficult, and consequently obscures allocative and productive efficiencies. Thirdly, Wolf (1989: 52) argues that the "technology of producing nonmarket outputs is frequently unknown, or if known, is associated with considerable uncertainty and ambiguity". This may serve to further obscure notions of performance in the public sector. Finally, Wolf (1989) proposes that nonmarket production activity is also usually characterised by the lack of any 'bottom-line' evaluation mechanism equivalent to appraising success. Moreover, there

is often no specified procedure for terminating unsuccessful production (Dollery and Worthington 1996: 29).

Organisational context

One particular issue that has served to limit the interplay of approaches to performance measurement between the private and public sector in the past has been misinterpretation of the context in which these institutions operate. As we have seen, two conventional explanations are commonly used to explain the difference in public/private performance measurement. The first assumes that because private firms' possess a 'bottom line', "performance measurement is a straightforward, incontestable technical procedure"; the second focuses on the particular social and political pressures operating on public sector organisations (Carter, Klein and Day 1993: 27). However, it is generally argued that between these extremes exist a number of additional dimensions which account for more subtle variations in performance assessment between organisations. For example, Carter, Klein and Day (1993) identify eight additional factors relevant to performance assessment; ownership, trading status, competition, accountability, heterogeneity, complexity, uncertainty, and authority and autonomy. It is useful to classify the organisational context of Australian local government within this wider taxonomy and thereby assess the suitability of alternative performance frameworks.

Turning first to ownership, we find that an implicit assumption holds that every public sector organisation operates under common constraints that set it apart from the private sector. Thus, public sector organisations pursue multiple political and social goals rather than single simple commercial objectives. Clearly, such a distinction is limited; since it views ownership as a dichotomy rather than a continuum. For example, within the Australian public sector there are Commonwealth, state and local government departments, government trading enterprises (GTEs), and budget sector agencies. Relations between local government and interested stakeholders are clearly distinguished from those prevailing between government departments or GTEs. Second, organisations may be usefully distinguished on the basis of trading status. For example, GTEs in NSW, such as the State Rail Authority (SRA), are regularly monitored on the basis of financial performance, focusing on capital structures, rates

of return, shareholder value-added (SVA), and dividends (SCNPMGTE 1992; Carrington *et al.* 1997). Such frameworks differ substantially from those used in other government service providers, such as Technical and Further Education (TAFE) colleges and the police force. There are obvious benefits in applying these frameworks to the local public sector. On the one hand, many local government functions are pursued on a non-trading basis, like community services. On the other hand, those business trading activities that remain under the control of local government are subject to the implementation of the Australian national competition policy agreement (CPA).

Third, the extent of competitiveness may also serve to direct performance assessment. The competitiveness division, like trading status, is seen to transcend the private/public divide. For example, structural reform of public monopolies is one aspect of recent Australian microeconomic reform, whilst other sectors are being increasingly opened up to new entrants, like passenger and freight rail services in NSW. Issues such as compulsory competitive tendering (CTC) are likely to impinge upon local government performance frameworks in this manner. Fourth, a further dimension concerns the extent to which an organisation is politically accountable. In some public organisations this may take the form of statutory requirements, whereas the reforms to financial management of the NSW budget sector now focus on contractual (or performance) budgeting, and the provision of Statements of Financial Performance (SFPs) to ensure accountability (Carrington *et al.* 1997). Another aspect of accountability is the degree of 'publicness', i.e. "the extent to which a service is in the public eye and subject to media attention" (Carter, Klein and Day: 28). Certainly, the emphasis in legislative reform on accountability and transparency in local government has enhanced the publicness of any performance framework.

Fifth, the degree of heterogeneity of products and services may vary across organisations. For example, local government in Australia provides a range of functions implying some trade-off between objectives. Alternatively, pure budget sector agencies or departments, such as the Commonwealth Department of Social Security, may have more narrowly defined objectives. Sixth, organisations may also

vary in complexity; that is, the extent to which it has to mobilise a number of skills in order to deliver its services. All other things being equal, the greater the degree of complexity: the greater the level of interdependence in an organisation, and the more difficult it is to assign performance to sub-units. For example, the domestic waste management function in local government is likely to be interdependent with functions as diverse as planning and development, parks and recreation, general administration, and health.

Seventh, organisations may vary in the degree of uncertainty concerning the causal relationships between the input of resources and the achievement of stated objectives. Often, there are multiple objectives which are in conflict. For instance, a strong focus on growth and development in a local council may fulfil its economic planning function, but at the risk of compounding problems in transport, recreation, waste management, community relations, and so on. Finally, the authority and autonomy varies across entities, and this serves to provide additional constraints in which performance must be assessed. We have already seen that local government in Australia constitutes a seemingly separate jurisdictional tier, but still owes responsibility and accountability to state governments. Similarly, it is the state which sets the rules that govern the performance of local government and defines the nature of satisfactory performance. The City of Moreland's submission to the Industry Commission's (1997: 25) report on performance measures in councils highlighted some of these issues:

Indicators for local governments represent a new dimension of monitoring and evaluation of performance using criteria established by the state rather than by local governments. This intention has caused some concern to local governments throughout Victoria, who are developing their own performance measurement frameworks in the context of their own goals and objectives for their communities.

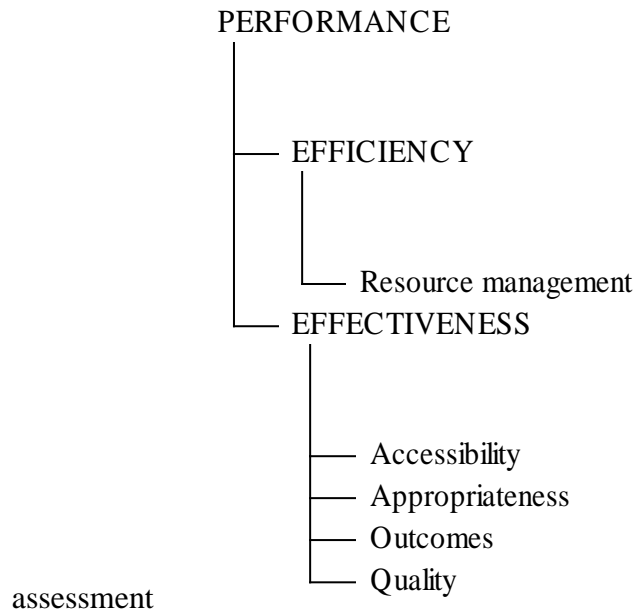
Conceptual framework

One generic assessment framework that has been widely used in public sector services is detailed in Figure 1 (IC 1997; SCRCSSP 1998a, 1998b). The approach is largely based upon the premise that in order to analyse performance a suite of outcome indicators should be considered collectively. Overall performance is divided into two

components: (i) efficiency, which describes how well an organisation uses resources in producing services; that is, the relationship between the actual and optimal combination of inputs used to produce a given bundle of outputs, and (ii) effectiveness, the degree to which a system achieves its program and policy objectives. In turn, effectiveness encompasses a number of different desired aspects of service linked to program outcome objectives. These are: (i) appropriateness (matching service to client needs); (ii) accessibility (aspects such as affordability, representation amongst priority groups and physical accessibility); and (iii) quality (the process of meeting required standards or incidence of service failures).

However, this framework, whilst comprehensive, is argued to suffer from a number of limitations. First, some authors have held that the traditional public sector performance framework is too narrowly focused. For example, Carter, Klein and Day (1993: 37) support an additional category in the form of 'economy' with an exclusive focus on "the purchase and provision of services at the lowest possible cost consistent with a specified objective". Flynn *et al.* (1988) have proposed restricting effectiveness to measuring the achievement of targets or objectives, and introducing 'efficacy' so as to measure the impact of services on the community. Still others have supported a similar argument for 'equity', so as to highlight the distinction between administrative and policy effectiveness (Pollitt 1984). However, Carter, Klein and Day (1993) argue that this may increase the focus of effectiveness on administrative effectiveness and reduce the incentive to produce 'efficacy' and 'equity' or policy-related outcomes.

Figure 1. Framework for performance



Source: SCRCSSP (1997a)

A second problem is that the generic performance framework makes no specific allowance for identifying additional variables relating to efficiency and the still largely unmeasured concept of effectiveness (Mann 1986). These ‘contextual’ variables include environmental characteristics relating to the input/output set and the task environment, individual characteristics, such as motivation and incentive, and structural characteristics relating to the degree of centralisation, hierarchy and leadership style (Johnson and Lewin 1984: 230). For example, the Industry Commission (1997: 53) has argued that contextual information serves two main purposes:

First, it clarifies the environmental constraints on performance, aiding interpretation of the indicators. Second, it helps ensure that what is being reported as an indicator of performance is not merely an indicator of activity. For example, expenditure per capita on a particular service is not an indicator of performance unless the nature of the service is tightly defined.

Alternatively, Ammons (1992: 119) has argued that contextual information forms ‘barriers’ to performance analysis. That is, ‘environmental barriers’, such as political factors and intergovernmental relations, ‘organisational barriers’, including inadequate information systems and bureaucratic structures, and ‘personal barriers’, such as managerial risk avoidance, imply that the concept of public sector

'performance' will always be compromised by largely unmeasured sets of contextual information.

In practical terms, the lack of treatment of contextual information is likely to affect interpretation in three ways. Firstly, "organisations may pursue different objectives and this may be important when assessing services designed to local preferences" (SCRSSP 1998b: 18). Ignoring these differences could stifle local initiative and encourage uniformity, even when this is clearly inefficient. Secondly, the clients of services may differ across jurisdictions. For example, an increase in the aged proportion of the population in a local government area can affect the measured efficiency of aged community services. Finally, organisations may face different input prices (even when these can be accurately measured) or operate at different scales of operation. For instance, it is to a service provider's advantage to ensure its operations are of optimal size: that is, neither too small if there are increasing returns-to-scale, nor too large, if there are decreasing returns-to-scale. Clearly, an appropriate performance framework should take account of factors which affect a local government's measured efficiency.

The final problem is that the framework defined above effectively serves to 'disaggregate' performance. This makes the job of selecting and calculating partial performance measures more tractable. For example, it is possible to incorporate both qualitative and quantitative aspects of service quality, and incorporate partial measures of efficiency such as outputs per unit of input. Yet it is also obvious that local governments are multi-dimensional entities: a single measure is unlikely to reflect the complexity of decision-making or the scope of a council's entire activities. Furthermore, even when individual measures are combined using some weighting system, the resultant composite measure is ultimately arbitrary, and unlikely to be replicated in any systematic manner. A related issue is that the process of 'disaggregation' of performance often serves to introduce some confusion into the process of performance assessment. For instance, the division between efficiency, an essentially inward looking form of measurement of the council's own operations, and effectiveness, an outward perspective to the impact of services upon the community,

has caused some confusion (Epstein 1992: 167). However, on this point the Industry Commission (1997: 103) maintained that:

There can be debate about whether various indicators measure effectiveness or efficiency, but the classification adopted is not crucial to the value of having an overall framework which serves to ensure that all aspects of performance are assessed in an integrated way. The same types of indicators will always be relevant.

PERFORMANCE MEASUREMENT IN AUSTRALIAN LOCAL GOVERNMENT

Here we focus on three contemporary aspects of performance measurement in Australian local government. These are: (i) pressure for the development of national performance indicators; (ii) a brief survey of existing and proposed state-based performance indicators; and (iii) national movements to implement process benchmarking in Australian local government.¹

National performance indicators

In 1995 the Australian Local Government Ministers Conference agreed upon a set of strategies for increasing municipal council effectiveness and efficiency. These strategies included three main elements: (i) the development of national performance indicators for specific council services or functions; (ii) processes of continuous improvement that enable councils to identify best-practice through informal networks of councils; and (iii) projects to develop, at a national level, specific new technologies, practices and reforms that substantially increase efficiency and/or effectiveness of local government performance (NOLG 1997: 135). In 1996 a working group of the Local Government Joint Officer's Group (LOGJOG), known as the Performance Indicator Steering Committee, examined the indicators currently employed or being developed by the states and local government. It concluded that it was not feasible to develop national performance indicators (within the limited resources available) and the matter was passed for review, via the Commonwealth Minister and the Treasurer, onto to the Industry Commission in 1997. Following the review, the Industry Commission concluded that a nationally consistent approach to performance measurement was not warranted at the time and that progress in this area

by the states and territories was proceeding. However, it also advised on how national performance indicators should be developed (IC 1997).

It can be argued benefits have always existed in a national approach to local government performance monitoring. These include: (i) cases where councils may have more meaningful peers across borders, ie. state capital city councils; (ii) instances where the differing pace of reform may highlight different approaches to providing services, such as in the introduction of compulsory competitive tendering; and (iii) identifying the influence of different state and territory regulatory frameworks on operations (IC 1997; NOLG 1997). For example, the Australian Local Government Association's (ALGA) submission to the Industry Commission's inquiry (IC 1997: 19–23) argued that a centralised performance indicator database:

[D]ramatically increases the opportunities for Councils to undertake benchmarking by allowing comparisons to be made with similar Councils across state borders. This is particularly valuable for large councils and those in smaller states whose opportunities for performance comparison would otherwise be quite limited [it would also] have the advantage of allowing studies comparing the systemic effects of state government legislation on the performance of Local Government.

A number of submissions identified the practical difficulties associated with constructing national local government performance indicators. Obvious problems exist because of differences in state legislation, financial reporting requirements and state economies, although some of these have been mitigated by recent efforts aimed at financial reform, such as the introduction of common set of accounting standards. However, the vast quantum of state-based differences in the functions and financing of local government still make the development of national indicators problematic. For instance, the NSW Department of Local Government's submission to the inquiry (IC 1997: 31) [subsequently endorsed by all Australian local government departments and the local government associations in NSW and South Australia] concluded that:

[T]here is serious doubt as to whether feasible, meaningful and useful performance information could be obtained at a national level and whether such information could be useful in assisting in improving performance in the local government sector.

In summing up the submissions, the Industry Commission (1997: 34) concluded that the “additional benefits of developing national, compared with developing or refining

state/territory-wide, indicators are relatively small at this time”. However, the Commission went on to observe that:

[P]erformance indicators for some council activities, based on comparable, consistent and accurate data, *may* be a desirable long term goal. This may generate even more effective ‘yardstick competition’, thereby encouraging better performance, and provide a broader base for benchmarking [original emphasis].

State-based performance indicators

More closely associated with the overall program of microeconomic reform in Australian local government has been the development of state-based comparative performance and benchmarking indicators. Typically, efforts to develop state-based performance indicators have been made in conjunction with state-based programs of structural reform. However, more recent programs include the use of performance indicators to assess the effects of other aspects of microeconomic reform, such as the introduction of compulsory competitive tendering, and ongoing efforts to evaluate the efficiency and effectiveness of local government.²

The continuity of use of performance indicators in local government is longest in NSW [see, for example, NSWDLG (1991–1996) *Comparative Information on NSW Local Government Councils*]. The types of performance indicators currently employed in NSW are threefold. To start with, some of the performance indicators used in NSW have been driven by changes in local government legislation which require councils to adopt more strategic planning processes, including the development of corporate plans. For example, the *Local Government Act 1993* requires councils to prepare management plans which include objectives and performance targets/indicators against which actual performance is measured and reported. However, the indicators employed are not required to be uniform, with “the essential autonomy of each council [suggesting] that the combination of indicators selected by each council in New South Wales would be unique” (IC 1997: 4). Still other performance indicators are related to sector-wide efforts to produce performance information. These include the NSW Department of Local Government’s comparative information on council costs, revenues and other financial information which has been published since 1991. Finally, benchmarking projects concerning specific council

functions are currently being pursued by a number of individual councils and Regional Organisations of Councils (ROCs).

In terms of sector-wide comparative performance information, the NSW Department of Local Government (NSWDLG) requires all councils to report against 26 performance indicators grouped in 10 primary functions. These are listed in Table 4.20. Indicators are published for financial and corporate operations and a range of core service areas. Core service areas covered include domestic waste management and recycling, library services, roads services, sewerage and water services, and planning and regulatory services. In the compiled report, individual councils are grouped according to the Australian Classification of Local Government (ACLG). As discussed in Section 4.2.1, this classification system uses population, population density, population growth and location to identify twenty-two categories of local government. However, no allowances are made in the indicators for differences in local circumstances which can influence the manner in which a council provides its services (NSWDLG 1996). The report divides some of the circumstances that influence council services into external and internal factors. The first group includes population density, daily or seasonal changes in population, age of the population and geographical differences, whilst the second includes council objectives and policies, levels of service and the range of functions (NSWDLG 1996: 7).

Apart from failing to take account of all circumstances which impact upon a council's performance, the indicators also suffer from a number of additional limitations. One major limitation is that the measures presently used provide information generally on a financial or accounting basis, and thereby ignore aspects of qualitative assessment, such as those relating to the social policies pursued by councils. However, the NSW Department of Local Government argues that the comparative information provided is useful in a number of respects. These include: (i) as a decision-making tool in the analysis of council objectives, responsibilities and levels of expenditure; (ii) a 'yardstick' in the improvement of local government performance; (iii) as a means of defining benefits for stakeholders; (iv) and facilitating greater transparency and accountability in local government services (NOLG 1997: 142).

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Table 1. *Key performance indicators, New South Wales*

Function	Measures
Financial and corporate	Average rate per residential assessment. Sources of total revenue. Current ratio. Debt service ratio.
Library services	Expenditure per capita. Issues per capita.
Waste management	Average charge for domestic waste management services. Collection costs per service. KCA recyclable – kilograms per capita per annum. KCA domestic waste – kilograms per capita per annum.
Road services	Road maintenance costs per laned kilometres of urban sealed roads. Road maintenance costs per laned kilometre of rural sealed roads. Road maintenance costs per laned kilometre of unsealed roads.
Sewerage services	Average account per connection. Operating costs per connection.
Water supply services	Average account per connection. Operating costs per connection.
Environmental services	Environmental management and health services costs per capita.
Planning and regulation	Mean turnaround time for development applications. Mean turnaround time for building applications. Median time for development applications. Median time for building applications. Legal expenses as a percentage of total planning/regulatory costs.
Recreation services	Net recreation and leisure expenses per capita.
Community services	Community services expenses per capita.

Source: NSW Department of Local Government (1996) *Comparative Information on New South Wales Local Government 1994/95*.

In common with NSW, Victorian councils are required under their *Local Government (Amendment) Act 1996* to include performance indicators (so-called Annual Plan Indicators) in their corporate plans. Councils are required to establish targets for these indicators and publish their performance against the target in an annual report. The annual plan indicators include financial indicators as well as a selection of service performance indicators. Examples of the financial indicators include rates collected as percentage of total revenue and total improved capital value, operating surpluses/deficits as a percentage of total revenue and outlays, and ratios of recurrent operating expenditure to total expenditure, capital outlays as a proportion of expenditure, and debt servicing costs to rate revenue. The service performance indicators cover what are referred to as ‘community satisfaction’ indices. Examples include the average time to process planning applications, the percentage of household waste recycled, and the percentage of enquires and complaints resolved on the ‘first call’.

A second broader set of 'Comparative Indicators' are also included. These are service-based performance indicators aimed at assessing comparative performance across councils. The main emphasis here is on: (i) the identification of community needs and expectations for services; (ii) the articulation of clear policies and service specifications for these needs and expectations; and (iii) the organisation of supply to meet these expectations (NOLG 1997: 143). However, the second set of performance indicators are still at a developmental stage. The final form of the indicators are still being considered, but currently entail 16 most financial performance indicators, 29 measures covering service, economic, corporate and financial performance, and 25 indicators relating to the tender seeking and management process. Examples include sets of 'primary' indicators covering human services, environmental health/regulatory services, waste management, and municipal cleaning and parks management, and 'secondary' indicators covering response and enquiry times, satisfaction rates, and community usage.

However, despite the relatively immature development of the current broad set of indicators, performance indicators have been widely used in the past in Victoria, usually in conjunction with the broader program of structural reform and the introduction of compulsory competitive tendering (CCT) [see, for example, Victorian Office of Local Government (VOLG) (1992), (1993), (1996a) and (1996b)]. In the case of structural reform, the VOLG discussed three mechanisms for analysing existing and proposed new councils. These include trend analysis (using per capita council rates), benchmarking council performance in several areas and comparing existing and proposed entities with these benchmarks, and comparing the cost structures of proposed restructured councils (NOLG 1997: 144). With the introduction of CCT, Victorian councils were obliged to meet staged standards (competitive arrangements as set percentages of total expenses) in the period 1994 to 1997 and in subsequent years. Part of the development process associated with the introduction of CCT was the adoption of the expenditure base to calculate CCT targets.³ In the first few years, the CCT target was a set percentage of total expenses, whilst in the latter years this was adjusted to allow for depreciation expenses.

Table 2. *Selected draft comparative indicators, Victoria*

Function	Primary indicators	Secondary indicators
Human services	Percentage of elderly persons aged over 75 receiving help from municipality to live in own home. Average price charged for meals on wheels. Number and average cost per hour for home care services provided for the aged and disabled. Percentage of eligible infant immunisations completed in the municipality.	Number and average total cost of childcare places offered in the municipality. Average council subsidy per childcare place. Percentage of home care, childcare and health service users who rate the service as 'Very Good'.
Town planning	Average time taken to process applications to final decision. Average cost per planning decision. Percentage of successful appeals.	Number and percentage of planning permits decided during the year. Legal costs as a percentage of total expenditure.
Waste management	Average cost per rateable property of garbage collection. Percentage of total recycling cost recovered. Percentage of garbage and recyclable bins collected on first time.	Average cost per rateable property of recyclable waste collection. Percentage of household waste sent to landfill. Percentage of household waste recycled.
Public libraries	Number and average cost per loan issued by municipal libraries Lending stock turnover rate. Number and average cost per hour of operation by municipal libraries.	Total amount spent per head of population on books and other materials. Average time to fill reservations Percentage of population registered as members. Number of visits and average loans per visit by members of the public to municipal libraries.

Source: Industry Commission (1997) *Performance Measures for Councils: Improving Local Government Performance Indicators*.

An earlier report by the Municipal Association of Victoria (1993) also helped to define the conceptual framework in which the current set of indicators are fixed. Performance indicators were divided into three broad groups. These related to: (i) overall council performance, or corporate indicators; (ii) performance of individual council functions, or functional indicators; and (iii) characteristics of the local community, or community indicators (MAV 1993). First, corporate indicators are usually based on concepts of overall financial performance and other key aspects of council management. Indicators used here include the current and debt service ratios, and measures of working capital, staff turnover, and so forth.

Second, functional or service indicators are aimed at indicating how well a specific function is delivered. These indicators, which may be both quantitative and qualitative

are further decomposed into indicators of workload, efficiency and effectiveness (MAV 1993). Workload indicators provide the actual or potential demand for a service or the amount of service delivered. In general, workload indicators proxy the size of an activity or the scale of operations. Examples include the length of roads maintained, people using the library or swimming pool, or the number of building applications received. However, efficiency indicators provide an indication of how well a council provides a function. Usually these are measured by input/output ratios, using workload and effectiveness data as an output and cost (dollars or labour) as the input, or utilisation rates and productivity indices. Finally, effectiveness indicators refer to the degree to which services provided by a council are responsive to community needs and wants. These may include indicators of service accomplishment and client satisfaction and perception (using surveys, complaints and observation studies), or measures of unintended adverse impacts (MAV 1993). Williams (1991: 19) lists examples of these potential externalities which include traffic problems though traffic diversion, and noise pollution from new garbage collection equipment.

Finally, indicators of community condition provide evidence of community needs. These may give an indication of undesirable conditions that the community wishes to reduce, or desirable conditions that the community wants to maintain or enhance. For example, undesirable conditions may include traffic congestion, whereas desirable conditions would include clean environments, relating to water, air and noise. Williams (1994: 19) has observed that “individual councils may have no control over some of these indicators, since they may be professionally determined or set by government regulation”

Western Australia, Queensland, South Australia and Tasmania are all currently in the process of developing draft performance indicators (NOLG 1997). In Queensland, a set of performance indicators have been created around five broad functions; namely, water services, sewerage services, road maintenance services, waste management services, and library services. Within each function, indicators are then defined in terms of ‘efficiency’, ‘effectiveness’ and ‘service quality’. These efficiency measures are normally based upon function costs per property or person served, the

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effectiveness measures on the level of complaints and the service quality on compliance with standards and user satisfaction surveys. For example, the waste management services function gauges efficiency by garbage collection costs per serviced property; effectiveness by the amount of garbage collected, in total and in terms of recyclables, and the number of complaints per 100 properties serviced; and service quality by surveys of user satisfaction.

Table 3. *Selected draft performance indicators, Queensland*

Efficiency	Effectiveness	Service quality
<i>Water services</i>		
Water operating costs per connection.	Pipeline breakages per 100 kilometre of main.	
Cost of maintaining water pipes per 100 kilometre of main.	Number of complaints received per 1000 connections for quality and services.	
Treatment cost per megalitre.	Water quality compliance	
<i>Sewerage services</i>		
Sewerage operating costs per connection.	Service complaints per 1000 connections.	Compliance with sewerage effluent standards.
Cost of maintaining sewerage pipes per 100 kilometre of main.		
Treatment costs per megalitre.		
<i>Waste management services</i>		
Garbage collection costs per property serviced.	Total garbage and recyclables collected per property serviced. Number of complaints per 1000 properties serviced (to both council and contractor). Apparent recycling rate percentage	User satisfaction with services provided.
<i>Library services</i>		
Expenditure per capita.	Issues per member.	Level of customer satisfaction.
Average cost per registered active borrower.	Average number of issues per volume.	Library membership as a percentage of population.
Source: Industry Commission (1997) <i>Performance Measures for Councils: Improving Local Government Performance Indicators</i> .		

South Australia likewise employs efficiency and effectiveness indicators in its draft performance indicators, although across a wider range of functions (NOLG 1997). Functions covered included governance, administration, fire and protection services, domestic animal and pest control, health, welfare (categorised as aged and disabled, family and children's services, and other special needs services), town planning, sanitation and garbage, environmental protection, library services, and sport and recreation. In all, 24 local government functions are specified, containing more than 120 separate performance measures. Finally, in Tasmania and Western Australia less comprehensive sets of draft performance indicators are under review. In Tasmania,

eleven (mostly financial) indicators cover the current ratio, the rate coverage ratio, the ratio of capital expenditure to capital expenditure, the proportion of contracting out and day labour to total labour, and the depreciation expense to total expense ratio. On the other hand, in Western Australia thirty indicators are divided into eight areas of functional performance and a single set relating to financial performance.

Process benchmarking

The same 1991 Australian Local Government Ministers' Conference that set in train the drive for national comparative performance indicators also established a national program aimed at the adoption of 'process benchmarking' in local government.⁴ However, whilst the development of national performance indicators has proved to be largely unfeasible (IC 1997), the movement towards national process benchmarking is anticipated to yield substantial returns. Key strategies identified for encouraging councils to implement benchmarking were: (i) undertaking awareness-raising and training in process benchmarking; (ii) preparation of a benchmarking manual; and (iii) the provision of funds to councils, local government associations, and the states, to support councils undertaking process benchmarking activities.

An important aspect of implementing these strategies was a two-phased survey of local councils across Australia. The first phase identified councils already undertaking process benchmarking, areas of council services most commonly benchmarked, and factors impinging upon council efforts to benchmark. The second phase targeted only those councils already involved in benchmarking, and identified the criteria used to measure success in benchmarking, the extent to which Commonwealth involvement may assist councils with benchmarking, and factors which encouraged (or discouraged) institutionalisation of process benchmarking within a given council (NOLG 1997).

The results of the first phase indicated that some 40 percent of respondent councils are employing benchmarking, and the services most commonly targeted are roadworks, finance and administration, residential building approvals, waste management, libraries, and recreation facilities. However, overall response rates ranged from under

twenty percent to less than 0.1 percent. This part of the survey also identified that geography, demography and financial position were the major impediments to the adoption of process benchmarking, that benchmarking was more widely employed in large urban ACLG categories as against rural councils, and more prevalent in NSW, Queensland, Western Australia and Tasmania (NOLG 1997: 164).

The second phase of the survey more closely analysed those councils already participating in process benchmarking. The main impetus for adopting benchmarking programs largely revolved around the requirements provided by reviews of council services, as inputs into enterprise bargaining agreements and amalgamation inquiries, and for use in evaluating CCT and contracting-out. The programs themselves were most often aimed at improving the efficient provision of services, and success was largely judged with reference to inter-council comparisons, by increases in productivity, and by a reduction in service costs (NOLG 1997: 165).

CONCLUDING REMARKS

Interest in developing performance indicators for local government has been evident at the Australian Commonwealth, state and local government levels since the early 1980s. Factors associated with the recent growth of interest are threefold. First, the national drive for microeconomic reform and associated attempts to improve the efficiency and effectiveness in the public sector has provided the basis for the Australian Local Government Ministers' Conference to develop national performance indicators. Whilst the value and feasibility of developing national performance indicators for local government has been questioned, work continues apace in a national approach to process benchmarking and other technologies aimed at improving the efficiency and effectiveness of local government.

Second, successful efforts at developing comparative performance information in local government have derived from structural and legislative reform at the state level, and through the action of state departments of local government, local government associations and councils. Some states are more advanced in the provision of comparative information than others (especially New South Wales), although all

Australian states and territories have draft performance indicators under consideration. Nearly all of these draft performance indicators encompass issues relating to efficiency, effectiveness and service quality in local government functions.

Finally, the use of performance indicators in local government has benefited from the concurrent program of financial reform in Australian local government, especially the introduction of an Australian accounting standard relating to local government. This standard holds that financial performance indicators should satisfy the concepts of relevance and reliability, and should be presented in a manner that facilitates comparability and ease of comprehension. However, a number of conceptual problems still remain in the development of performance indicators, even at the state level. Commonplace concerns include the lack of contextual information concerning external factors that affect the performance of councils, difficulty in defining output and outcomes, and reducing the costs of compliance associated with performance frameworks.

ENDNOTES

- ¹ Benchmarking generally refers “to the process of measuring and comparing an organisation’s performance with some standard as a means of discovering ways to improve performance” (IPART 1998: 8). The benchmark can be the previous performance of the organisation (benchmarking over time), or the performance of other organisations (benchmarking inter- or intra-industry). A common division is to divide benchmarking into two categories: (i) results benchmarking, or comparative performance assessment; and (ii) process benchmarking, analysing, comparing and improving processes within an organisation (IPART 1998: 8).
- ² In the United Kingdom, comparative performance measurement has been widely since the early 1980s. Over 200 indicators are calculated by the Audit Commission covering the efficiency and effectiveness of a wide range of functions. Supplemental contextual information is also provided detailing population density, social deprivation, geographic differences, language and cultural differences, regional pay and cost differences, and daily or seasonal changes in population. In New Zealand, local authorities are also required to report annually against performance targets which address the quality, quantity, timeliness, location and cost of local authority services. This unaudited, nonstandardised approach is currently under review.
- ³ The adoption of a specific accounting standard (AAS27) for local government and the shift to accrual accounting from a cash basis has facilitated the development of performance indicators in light of CTC. For example, councils engaging in a substantial amount of contracting (and paying for implied capital costs via the

current contract fee) can be compared with those that still perform activities in-house (where the capital cost incurred in previous periods would not be captured in a cash-based system).

- 4 Comparative performance measurement (or results benchmarking) involves comparing actual performances of different organisations using performance indicators to determine efficiency and effectiveness. The focus of measurement is on results and outcomes. Process benchmarking on the other hand, compares processes or develops process indicators to establish reasons for different levels of performance, and aims to incorporate best-practice into these processes. The Industry Commission (1997: 20) reported that the degree of similarity necessary for comparative performance measurement is generally greater than that required by process benchmarking, especially since “benchmarking partners are able to develop a good understanding of the effect of contextual factors on performance, but such insights will not be readily apparent to an outsider”.

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