BANKSTOWN
City of Progress

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General Manager

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Local Government Team
Independent Pricing and Regulatory Tribunal
PO Box Q290
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Submitted by email to: local_government@ipart.nsw.gov.au

Dear Sir/Madam

Submission on IPART's Discussion Paper:
Measuring and Assessing Productivity Performance in Local Government

Bankstown City Council appreciates the opportunity to make a submission on the IPART's Discussion Paper, *Measuring and Assessing Productivity Performance in Local Government*.

Please find attached Council's submission for consideration by the Tribunal.

It has been Council's long-maintained policy to advocate for the abolition of rate pegging in NSW.

While Council still remains opposed to the continuation of rate pegging, in the interim, it nevertheless has been supportive of IPART's development of a Local Government Cost Index (LGCI). Council expected that this would reflect the actual cost escalation experienced by councils as well as add transparency and objectivity to the rate pegging process.

However, the IPART's decision last year to include, without any sound basis, a productivity adjustment factor into its calculation of Local Government Cost index for 2011-12 have the effect of further compounding the financial sustainability crisis for many NSW councils.

As more and more demand is placed on councils to deliver expanded and new services, and not all councils seek a SRV, applying a productivity factor to reduce the income further, is like double penalising the councils who are already making productivity gains, not being able to use the savings to deliver other services expected by the community.

By way of example, Council is responsible for maintaining a portfolio of ageing physical infrastructure assets worth $2 billion and in 2009/10 experienced a cost shifting of $15.2 million or around 12.02 per cent of its total income.

In spite of this, through its significant efficiency gain in various areas, including responsible financial management, Council has been able to remain financially sustainable consistently for a number of years.

Through operational and financial reforms, Council has been able to dispense with an annual $4 million borrowing required for maintenance of infrastructure and our long-term financial plan (LTFP) supports a policy of no reliance on special rates variation and future loan borrowings.

It is therefore hard to comprehend why a productivity discount has to be factored, when rate pegging and other statutory measures restricting revenues have already been subjecting councils to enormous pressure to be productive and continue to be able to maintain and deliver increased community expectation for infrastructure and services.

Moreover, it is also questionable, whether productivity of rates-funded local government activities can be measured in any meaningful way across councils. Therefore, the ongoing application of a productivity factor to discount rate pegging, and thereby restrict Local Government revenue, does not appear to be a good policy.

Councils in NSW are involved in around 200 different services/activities and no two councils have the same activity/service mix or adopted standard levels for common activities and services.

Given the circumstances of councils, IPART's approach of developing a "one-factor-fits-all-councils" productivity factor is unrealistic and inequitable and therefore unsupportable by Council for a number of reasons explained in the attached submission.

Council expects that, while reviewing its approach to determining the Local Government Cost Index and more particularly the use of the productivity factor, the IPART will give the issues raised by Council the due consideration they merit and will ensure the outcome does not adversely affect NSW Councils in their ability to deliver infrastructure and services expected by their communities.

Should you require further information or clarification, please contact Council's Director Corporate and Financial Services, Mr Ken Manoski on 02 9707 9664 (ken.manoski@bankstown.nsw.gov.au) or myself on 02 9707 9522 (matthew.stewart@bankstown.nsw.gov.au).

Yours sincerely

Matthew Stewart
GENERAL MANAGER

Attached: Submission

Bankstown City Council's Submission on IPART's Discussion Paper: *Measuring and Assessing Productivity Performance in Local Government*

Introduction

Bankstown City Council appreciates the opportunity to make a submission on the IPART's Discussion Paper, *Measuring and Assessing Productivity Performance in Local Government.*

It has been Council's long-maintained policy to advocate for the abolition of rate pegging in NSW. Since its introduction more than three decades ago, rate pegging has seriously constrained the revenue raising capacity of NSW councils and their ability to fund infrastructure and services expected by their communities.

For NSW councils, the cumulative impacts of rate pegging have been a huge infrastructure maintenance and renewal backlog of over $6 billion and a quarter of NSW councils in financial sustainability crisis (the *Allan Inquiry*).[1]

Although it was reasonable to expect that rate pegging will be removed in conjunction with the introduction of the Integrated Planning and Reporting Framework, which requires councils to develop long term strategic service and resourcing plans in consultation with their communities. However, unfortunately that has not been the case.

While Council still remains opposed to the continuation of rate pegging, in the interim and prior to abolition of rate pegging, it nevertheless has been supportive of IPART's development of a Local Government Cost Index (LGCI).

Council expected that this would reflect the actual cost escalation experienced by councils as well as help remove the lack of transparency and arbitrary setting of the rate pegging limit previously practised, which did not reflect the movements in Local Government costs.

However, the IPART's decision last year to include, without any sound basis, a productivity adjustment factor into its calculation of Local Government Cost index for 2011-12 have the effect of further penalising Council, which through its significant efficiency gain in various areas, including responsible financial management, has been able to remain financially sustainable consistently for a number of years, without ever going for any special rates variation.

By way of example, Council is responsible for maintaining a portfolio of ageing physical infrastructure assets worth $2 billion and in 2009/10 experienced a cost shifting of $15.2 million or around 12.02 per cent of its total income.

Rate pegging is unacceptable because, unlike other regulated monopoly industries (e.g. taxi service referred to in the Discussion Paper), Local Government decision-makers are democratically elected by and accountable to their communities.

The democratic process through which councils are elected and the extensive consultation through which the community strategic service planning is carried out are adequate for ratepayers and their elected councillors to make appropriate choices about what services (and their levels) the community wants and is willing to pay for.

Under Section 8 ("The Council's Charter") of the Local Government Act 1993, a council is allowed *"to raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investment and when appropriate, by borrowings and grants."*

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[1] Are Councils Sustainable? - The Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report, 2006

Arguably, the use of a productivity factor to discount the rate peg amount, which itself is untenable, is contrary to the spirit and autonomy for councils and their communities enshrined in the Act. Restricting the revenue raising and budgetary authority of elected representatives is against the democratic principle of budgetary sovereignty of elected bodies over taxes raised from their constituents.

Council therefore opposes the inclusion of a productivity adjustment into the Local Government Cost Index, as it is unnecessary and the very concept is problematic and impractical.

It is also questionable, whether productivity of rates-funded local government activities can be measured in any meaningful way across councils.

Why Productivity Adjustment to Local Government Cost Index is not Supportable

Council opposes the inclusion of a productivity adjustment for the following reasons:

- In its 2009 final report of the Review of the Revenue Framework for Local Government, the IPART itself has acknowledged that there are no standard measures for the productivity of local government service delivery.

- Local Government services and regulatory activities are not comparable to commercial service provision and often are not priced in the same way and have multidimensional objectives. They are often driven by social, environmental and economic wellbeing of their communities, rather than monetary benefits to their communities.

- Local Government is responsible for a wide range of activities and services, which are in many cases inter-related and often the output of which is difficult to quantify and cannot be relate to a particular proportion of input.

- IPART is pursuing the problematic "one-factor-fits-all-councils" productivity factor, which is unrealistic as well as inequitable. Councils in NSW are involved in around 200 different services/activities and no two councils have the same activity/service mix or adopted standard levels for common activities and services.

- Justifying the 'role of the productivity factor' and explaining its perceived 'inducement to make productivity improvements', the Discussion Paper from IPART (p 4) has reproduced the following statement from the 2009 IPART Review Report:

  "... not adjusting the annual rate peg to reflect the potential for productivity gains would allow those councils that improve their efficiency to use the resulting cost savings to expand their services or help address infrastructure backlogs. But in our view, council decisions to use productivity gains for purposes other than reducing rate increases should be made in consultation with the community. ... However, a council that achieves productivity gains higher than the adjustment factor applied to the annual rate peg would be free to choose how it uses the cost savings from the additional gains."

  Council considers this justification for using the productivity factor to discount rate pegging limit as arbitrary and unacceptable.

  More than thirty years of rate pegging has been enough 'inducement' and compulsion for NSW Local Government to achieve productivity gains and clearly the 'law of diminishing return' now limits any further productivity gain through this coercive measure.

  It is only fair that Councils and their communities should be able to decide whether to use the savings from productivity gain to achieve a reduction in rates or be used to deliver increased or improved services or to fund infrastructure maintenance backlog.

- The Discussion Paper further states:

  "The [2009] Review also considered that it was important to ensure that productivity adjustments to the annual rate peg did not result in reductions in the standards of service that councils provided:

  In our view, the annual rate peg (including any productivity adjustment) should be set in the expectation that current service levels will be maintained and that cost reductions and efficiency savings will not be obtained at the expense of service standards, unless approved by the community."

  This clearly appears to be impractical and far from reality of NSW Local Government's operating circumstances, where council revenues continue to be restricted through:

  - Ongoing rate pegging;
  - Cost shifting;
  - Devolution of functions from State and Commonwealth;
  - State and Commonwealth exempting land from rating;
  - Concessions mandated by State Government for certain ratepayers, such as pensioners, which are not fully reimbursed;
  - Statutory fees that remain capped and are rarely revised to reflect cost
  - Decline in Commonwealth and State grants in real terms; and

- By way of example, Council is responsible for maintaining a portfolio of ageing physical infrastructure assets worth $2 billion and in 2009/10 experienced a cost shifting of $15.2 million or around 12.02 per cent of its total income.

  In spite of this, through its significant efficiency gain in various areas, including responsible financial management, Council has been able to remain financially sustainable consistently for a number of years, without ever going for any special rates variation.

- It is therefore hard to comprehend why a productivity discount has to be factored, when rate pegging in conjunction with all factors mentioned above have been subjecting councils to enormous pressure to be productive, in order to continue to be able to maintain and deliver increased community expectation for services.

- As more and more demand is placed on councils to deliver expanded and new services, and not all councils seek a SRV, applying a productivity factor to reduce the income further, is like double penalising the councils who are already making productivity gains, not being able to use the savings to deliver other services expected by the community.

Council's Comments on the Specific Issues included in the Discussion Paper

The issues for comment in the Discussion Paper exclude the most significant issue whether a productivity factor for use across councils is at all feasible and whether there is any sound rationale for using it to discount the rate peg percentage.

The IPART's Discussion Paper could do better by making available for comment by councils the justification of the concept of a productivity factor to discount the annual rate peg percentage. The exclusion of this from the issues available for comment gives the feeling that the use of the productivity factor is beyond debate and an irrevocable *fait accompli*, although the IPART's productivity calculation for 2011-12 reveals the uncertainty involved, which makes it untenable.

1. ***Is the current method of using an economy-wide measure of productivity and then discounting it for application to the NSW local government sector the most appropriate for future years?***

   Council does not support the use of a productivity factor to discount the rate peg amount. The very concept is problematic and flawed, as any independent scrutiny will find.

Primarily, because no two councils have the same activity mix or common adopted service levels or standards, any attempt at determining a single, "one-factor-fits-all-councils", productivity factor for NSW councils will cause inequities and therefore not supportable.

Councils are not homogenous or comparable entities. Australian Classification of Local Governments has 26 categories. The NSW Division of Local Government has amalgamated and collapsed these into 6 broad categories for their annual *Comparative Information* of Councils publication, although for convenience but admittedly at the expense of comparability between councils even within the same category.

NSW councils are involved in delivering around 200 different activities and services, both regulatory and non-regulatory as well as rates funded and non-rate funded. Except a few, most council services are 'public good', do not recover full cost or break even - let alone making profit.

Councils experience different service delivery disabilities due to their location, demographics, economy of scale, input cost, community preference, service level and mix. This is a well acknowledged fact and has been reflected in the NSW Grants Commission's allocation methodology as well.

In justifying its approach, the IPART's Discussion Paper makes reference of its use of the same approach used by it to regulate other industries such as the taxi industry.

Suffice to point out that being in the public sector councils are not-for-profit and, by way of raising a question, industries such as taxi services do not have diverse responsibilities as Local Government has- e.g. to fund or maintain a diverse portfolio of public infrastructure assets, including maintenance backlogs, mainly caused by decades of cumulative under-spending caused by rate pegging.

If so, which ABS series would be most appropriate?

None of the ABS series is appropriate, as Local Government is a unique and diverse industry. However, if IPART has to use one, a public sector measure, rather than a private sector measure used for 2011-12, is preferable. The private sector's characteristic profit motif is not the underlying incentive for Local Government's productivity improvement and hence a private sector productivity measure will be an inappropriate measure for public sector i.e. Local Government.

2. ***If not, what alternative measures would be more appropriate for determining a productivity factor?***

Council is unable to suggest any equitable alternative way of determining a productivity factor for use across NSW councils.

IPART may use an analysis to further substantiate its own observation that there is no standard measure for Local Government productivity and from there arrive at the obvious conclusion against using it.

It appears more appropriate for a council to identify and, where feasible, quantify its productivity gains and use that in the budget proposal, seeking public comment on how to utilise the savings, including the provision of additional or improved services.

3. ***Can councils measure some (or all) of their productivity gains in terms of changes in physical units (that is, in volumes or quantities) of inputs and changes in prices paid for inputs? if so, in what ways would these changes be expressed?***

Some productivity gains may be measured in physical units any many others are really difficult or impossible. With the use of appropriate KPIs or tools, some outputs can be readily measured and monitored, however that is not the case with many other outputs or outcomes.

For example, the number of times in a month a park is mowed or hectares mowed per unit cost are measurable but measurement of a city's liveability or the vibrancy of its public space or services which are community 'public good' may be difficult to measure.

Some outputs are even more difficult to measure when it cannot be related to any particular portion of input, as many inputs have multidimensional objectives.

4. ***Are productivity improvements able to be captured within councils' Long Term Financial Plans? If so, please illustrate.***

Council is able to factor any quantifiable productivity gain i.e. direct financial savings into its Long Term Financial Plan (LTFP). However, on the input side, this may or may not be reflected specific to a particular activity or expense type, by way of projected expenditure reduction in that item.

For some years now, this has been achieved by maintaining funding level for certain services at the previous year's level or without allocating the full extent of additional funds, which would be otherwise required to take into account cost increases, yet maintaining the same or improved level of service.

5. ***What indicators should IPART use in assessing the productivity of Councils?***

As already explained in detail, there is no consistency of services or data across councils. Because of the complexity arising out of the diverse range of services and activities undertaken by NSW councils under their unique or specific circumstances, there is probably no appropriate set of universal indicators that can be designed and used across councils, particularly for the IPART's intended purpose.

Instead of pursuing the impossibility of assessing productivity across Local Government, IPART could instead ask individual councils applying for special variation to rates to demonstrate what measures are already in place or will be put in place to measure and improve productivity of the specific service delivery on an ongoing basis.

6. ***How can productivity indicators be improved over time?***

Generally, the efficacy of performance indicators, i.e. whether they correctly measure what they are intended to measure, can be tested and improved through use over time. However, under the circumstances of Local Government, this is only effective within a council. The reason being such indicators are of little or no value when applied across councils for the purpose of comparison, as there are too many variables.

7. ***Are net costs of individual services useful in measuring and comparing council performance?***

Again, as already explained, each council delivers a wide variety of service mix and their circumstances (e.g. size, location, demographics, economy of scale and service level) vary widely, which considerably affects their net unit cost of individual services.

Moreover, net cost of individual service in isolation does not include any consideration of customer satisfaction or quality/level of service, which makes it ineffective as a comparative tool across councils. Only if net cost of a service per unit could be inclusive of similar satisfaction level and service level provided, it could be used across councils.

8. ***Can councils demonstrate how the cost escalation assumptions in their Long Term Financial Plans are derived and why they are reasonable in the light of current inflationary trends?***

Council's cost escalation assumptions for key cost drivers, including wages, utilities, insurance, CPI, and statutory increases (e.g. fire and SES levy) are sourced from determinations by regulatory authorities, economic forecasting organisations (e.g. inflationary trends), ABS, market trends and its own assumptions and projections.

However, it should also not be forgotten that councils are no better placed to predict cost increases than any other business sector and utilises similar techniques, with varying degree of forecasting accuracy.

For the 10 year LTFP, most councils use a cost index matrix that identifies the indexation that is used to inflate the figures across various expenditure items over the plan period.