

11 November 2011

Local Government Team
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Sir/Madam,

Measuring and Assessing Productivity Performance in Local Government

Blacktown City Council welcomes the opportunity to provide this submission in relation to measuring and assessing productivity performance in local government.

Please find below Council's comments in respect of each of the 8 issues identified by IPART in its Discussion Paper dated September 2011.

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? If so, which ABS series would be most appropriate?

Council does not support the current method of applying a productivity factor to determine the annual rate peg for NSW Local Government. Whilst it is acknowledged that there may be certain instances where the application of a productivity factor may be suitable, it is considered not appropriate for local government due to the diversity of services provided, and the difficulty in determining a reliable measure of local government productivity.

Council notes the productivity factor used to calculate the 2011/12 rate peg was not based on an "established measure of NSW local government productivity", as there is not currently an established adopted measure.

Given the diverse nature of the various councils in NSW, a productivity factor for local government would be quite arbitrary due to the level of uncertainties involved in determining a measure appropriate for local government.

One reason for this is the difficulty in measuring productivity in service-based industries compared to the manufacturing sector, due to the challenges of measuring the output of services, as acknowledged by IPART in its Discussion Paper. However, many of the important functions performed by local government are of a service-based nature, for example councils may directly or indirectly provide a range of community service programs, facilities and services

intended to assist people in achieving their full potential and enhance community spirit. A critical role of Local Government is therefore working with its local community to help it achieve its aspirations and address its various needs. This can be done through many different ways, such as improved recreation facilities, improving access to education, better transport services and meeting raised environmental expectations.

A second reason is the breadth of services delivered by councils and disparity in the type and characteristics of services provided by different councils across the state. The range of services provided by Local Government is extensive and is considerably broader than that provided by most other similarly sized organisations. The range of services provided by NSW Local Government includes many core services which are provided by all councils. In addition, there are many other services provided which vary with regard to the unique characteristics of each council. These characteristics include a council's size, its location, population demographics and geography.

Therefore, it is unlikely that a single productivity factor could be used as a benchmark that would be applicable and equitable to all urban and rural councils.

By adopting a single productivity factor to calculate the rate peg, councils would be required to reduce costs by a fixed amount each year irrespective of circumstances. By requiring councils to achieve a minimum cost reduction each year without regard for actual efficiency improvements, which may take some time to implement, it is unlikely that councils could achieve the required cost reduction without some level of compromising on service standards.

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

In lieu of applying a productivity factor in the setting of the rate peg, it may be more appropriate to monitor and promote efficiency in local government through determining key performance indicators that are relevant for local government in NSW. These key indicators could be used to compare councils' performance in delivering a wide range of community services and provide a benchmark appropriate for local government.

The indicators should measure specific services provided by councils, rather than being broadly applied across an entire council. For example, labour productivity could be measured for specific services provided by councils (or a group of similar services), rather than attempting to measure labour productivity for council as a whole. This would enable councils to monitor and analyse their performance against comparable services at other councils, or if applicable, the private sector.

Furthermore high performing councils could be identified and those efficiency initiatives, which have been successfully implemented, could be shared across the industry.

The indicators should be developed in consultation with local government to ensure they are a suitable and reasonable measure of performance for NSW councils. In addition the indicators should not place an unnecessary administrative burden on councils. The indicators should not be too onerous for local government to calculate on a regular basis.

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?

When assessing productivity, changes in the volume or prices paid for inputs should not be considered in isolation.

When measuring productivity gains, any change in physical units or prices paid for inputs should be assessed against its corresponding impact on the quantity and quality of outputs.

For example, reducing the resources allocated to customer service without regard for demand may diminish the quality of service provided by increasing delays or processing times.

Another example is where tools and equipment that have fewer features or a lower useful life are selected because of their lower cost. This can have a negative impact on efficiency, by increasing the length of time to perform maintenance work, and reduce the quality of the service. Similarly, engaging a lower cost contractor for cleaning or security services may result in a lower standard of service.

It should also be noted that productivity gains may be achieved without resulting in an overall reduction in volume or price of inputs. For example, improvements in technology may reduce the number of hours required to complete a certain task or function. However staff may be redeployed to other tasks which improve the level of service provision to the community. Therefore productivity gains would not always lead to a reduction in physical units or inputs.

Additionally, productivity gains are not always reflected in decreasing costs. It is important to consider factors that are outside the Council's control, which may also have an impact on the prices paid for inputs. For example, councils may incur higher costs due to cost shifting from other levels of government, increasing energy costs, increasing fuel costs and increasing unit costs of labour and materials.

In practice, cost savings achieved from implementing energy saving devices are generally offset by rising energy costs, or an expansion in council services, such as opening new facilities. Therefore assessing productivity gains will require an analysis of total costs as well as changes in unit costs.

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

The financial implications of productivity improvements are difficult to estimate over a ten year period. Councils already consider a range of factors in preparing their Long Term Financial Plans, including estimates of population growth, estimates of demand for services and estimates of cost patterns. Councils could attempt to anticipate and quantify productivity improvements but these would only add to the range of assumptions already underlying the financial projections.

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

Refer to point 2 above.

6. How can productivity indicators be improved over time?

Productivity indicators should be regularly reviewed in consultation with councils to ensure they continue to be relevant.

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

Measuring the net cost of individual services may provide a helpful guide and starting point to analysing council performance. However, the usefulness of such an assessment would be affected by the disparity in services provided from council to council. For example, councils provide leisure centres of varying size and capacity, and the net cost of these centres will vary depending on the type of facilities provided.

One difficulty in comparing council performance is ensuring that the standard of services across different councils is consistent. Councils in different areas of NSW will be subject to varying levels of community expectations. As there is no standard service level for all councils, it is unrealistic to assume that net costs for all councils will be comparable.

Furthermore, net cost itself does not always provide a good indication of council performance as councils must allow for social and environmental considerations which impact on the delivery and cost of services. This means that a council may incur higher net costs but deliver greater social or environmental outcomes. For example, councils in lower socio-economic areas often need to provide additional or specialised community service programs. In these cases, council performance should be measured in terms of the quality and effectiveness of these programs, and not the financial costs in isolation.

Another example is council owned childcare centres, which have special facilities and resources to cater for children with special needs. Councils provide these specialised services, which are generally not cost effective, and often not provided by the private sector. These can contribute to higher net costs but are a valuable service for the community.

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?

Cost escalation assumptions are often based on past experience, available economic forecasts and consultation with relevant council officers. Councils would greatly benefit from a coordinated approach to determining general cost indices, such as the anticipated cost of utilities over a ten year period. While a distinction between urban and rural councils would generally be required, it would provide a useful basis for council projections. Similarly, in terms of revenue, councils rely on funding from other levels of government and would benefit from long term forecasts, particularly for grants and rate pegging. This would allow some consistency between long term financial plans across councils.

Should you require any further information regarding this matter, please contact Council's Director Finance and Corporate Strategy, Mr Wayne Rogers, on 9839 6516.

Yours faithfully,

Ron Moore
General Manager