Boorowa
Council

Reference: 14.1.7
Contact: Kate Monaghan

10 November 11

Local Government Team
Independent Pricing and Regulatory Tribunal
PO Box Q290
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Sent via email: **local_government@ipart.nsw.gov.au**

Dear Sir / Madam

DISCUSSION PAPER – PRODUCTIVITY PERFORMANCE IN LOCAL GOVERNMENT

Thank you for the opportunity to make a submission. I appreciate that IPART staff have been making themselves very accessible by attending various local government workshops and events, and now publishing this paper for comment. It has been very interesting to see how IPART has approached the task of preparing the rates peg percentage.

Background

I have worked in the industry for 8 years, directly involved in preparing council budgets, and have seen how each year the budget has become harder to balance, because each year the projected income increases less than projected expenditure. This is due to community demand for increased and new services, cost shifting by the State Government and cost increases in excess of the rates peg.

"Expenditures have been rising by an average of cpi plus 2-4% per annum. This cost growth is mainly due to a combination of factors including a rising skill level required for most senior roles, stronger cost escalation in the maintenance and construction sectors as well as service diversification. The divergence between cost and revenue growth can lead to operating deficits which in turn are often partly funded by deferring some infrastructure renewals expenditure." (Price Waterhouse Coopers, National Financial Sustainability Study of Local Government, 2006.)

Community perception of council's productivity is often very poor. But their perception is tainted because they see that Council does less work on essential services, such as less roads renewals and maintenance, than they once did. This is due to revenue streams not keeping up with the cost of maintaining services, and increasing service demands.

It is interesting that this situation is not reflected in the objective analysis you have undertaken to determine the July 2011 rates peg, and I acknowledge that my experience is based on only the councils I have worked for, although my anecdotal experience is that other industry professionals have been experiencing similar situations.

I have provided the above back-ground information as a way of explaining that it is difficult to respond to your report in the way you intend, because my perspective based on industry experience is extremely different to the analytical approach you have used.

Submission

Should a Productivity Factor be applied to reduce NSW Local Government Rating Income?

The premise that Council's should have their income reduced by a Productivity Factor so that they are denied the right to make decisions about the allocation of efficiency savings on behalf of their communities is flawed. It fails to acknowledge that:

- Council's are elected to make exactly these kinds of decisions by their ratepayers.
- Council's have a charter set out under Section 8 of the Local Government Act to make exactly these kinds of decisions.
- Council's have planning and community consultation processes in place to make decisions (such as whether to reduce rates or address infrastructure backlogs). That is, councils have appropriate planning processes in place that take in to account the needs of the community, without the additional costs, delays and uncertainties of having to apply for special variations.

Councils should be allowed to make decisions about allocating community gains achieved through increased Council efficiencies. The alternative is to reduce Council flexibility to make decisions, creating additional costs and barriers (red-tape) for the community to access the resources it needs.

Councils are already reducing the service levels they are providing to ratepayers, as evidenced by the acknowledged infrastructure backlog. In accordance with the NSW Local Government Inquiry (LGI) Final Report issued in May 2006, the Infrastructure Backlog totalled $5.3 billion (for general Infrastructure, excluding Water & Sewer).

Subtracting "Productivity Gains" from available income of NSW Councils will be extremely disadvantageous to the NSW community over the medium to long term. A continued prolonged erosion of the ability of Local Government to maintain essential infrastructure will result in a much worse off future community.

Council's have the option to increase their general revenue by applying for a special variation, however, the reality for small rural Council's is that an application to increase rates by 3-5% per annum would be cost prohibitive. The notional income of Boorowa Council is just over $2million. If granted, a 5% variation would provide an additional $100,000. The cost of putting together an application is likely to be significant compared to the additional income, and in itself, is likely to not be an efficient or productive investment of ratepayer's resources.

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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?***

   Local Government organisations have the ability to achieve productivity gains, for example through Council investment in staff training, technological improvements, improved reporting mechanisms and staffing restructures. All of these initiatives would potentially achieve productivity gains, but would require financial investment. That is, productivity gains in themselves come at a financial cost to Council.

   Whilst productivity gains result from a financial investment by council, the productivity gains themselves are often not a cost saving. If councils are able to use their available resources better to produce increased number or quality of services, in most cases those benefits would flow directly to the recipients of the services, but would not represent any cost savings to the organisation itself.

   Refer your example of an initiative that enables a wider range or more convenient options for making payments to Councils while inputs, such as staff numbers, remain constant.

   A reduction in the income of the organisation based on those non-financial productivity gains could only lead to service cut-backs in other areas.

   It is very difficult, and potentially not very useful to try to calculate one productivity measure for the myriad of services offered by the local government industry across NSW.

   However, if a productivity factor must be applied, then a public sector measure would be more appropriate than a private sector measure.

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

   I have not seen any measure that would fairly represent NSW local government productivity, and don't know how one could be calculated or estimated.

   Given the evidence that NSW Local Government is underfunded and not able to adequately maintain its assets, it seems extremely inappropriate to apply a productivity discount to the rate peg, when it is inherently problematic to quantify.

3. ***Can council's 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?***

   Council's are required to report to various government departments regularly on various "key performance indicators" which could be used as performance measures. Some of the compulsory information that council's supply and that could be accessed by IPART includes:

   - Audited Financial Reports

- Financial Data Return
- Roads and Bridges Data Return
- Survey of seizures of cats and dogs
- National Local Road Data System Return
- Rating Return
- GIPAA Annual reporting
- Annual Report

Measuring and reporting this information is itself a significant cost to councils, and it would therefore be preferable to use the information already available rather than requiring council's to gather more information.

However, using this information to compare council productivity between councils, and even for the same council over time is still problematic because of the nature of council services, being not-for-profit. How do you measure the productivity gains of a small rural cemetery where fees are never going to cover costs? You can measure increased users of a library or visitors centre, but those figures tell you more about community priorities than they do about a council's efficiency. Increased turnaround times of development applications might be a good measure of productivity, but there could be external factors affecting the outcome, and if the turnaround time is improved, that doesn't represent a decrease in costs for the Council.

The main issue is that most of a council's services are community (public good) services where the benefits flow not to Council but to the community. Rating income is not a fee for service, but a property tax to provide a broad range of government services at a local level, and Council's costs are not dependent on demand.

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

Council's Long Term Financial Plans will capture changes in projected dollar costs of services. Identifying potential cost savings will be part of the Council's Long Term Financial planning process, however, measuring the associated changes to service levels is not as straight-forward.

It has been my experience that Councils will undertake efficiency reviews and utilise productivity savings at the time of trying to balance their budgets each year. Identifying cost savings is a necessary part of Council planning so that non-discretionary costs can be met. There are adverse changes to service levels as a consequence of these kinds of cost saving measures.

Non-financial productivity gains cannot be captured within Council's Long Term Financial Plans. The productivity gains that can be made by councils often result in employee's having extra time to provide a better quality of service provision, or extra time to increase service levels in other areas. These are not the kind of productivity gains that are going to be measurable in dollar terms as part of the Long Term Financial Plan.

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

Instead of isolating Industry wide data to assess productivity, IPART could instead ask individual Councils applying for SRVs what measures are in place or will be put in place to measure the efficiency of their service delivery & to target/assess ongoing productivity improvements.

However, the cost/benefit of investing council resources in making these assessments is questionable because there are still unavoidable limitations. For example: How do you measure the productivity improvements of a Councils Beach Lifeguard Service !?

- No. of Lifeguards to Rescues
- No. of Lifeguards to Beach Users
- Cost per Beach User
- Surveillance hours per day

especially when some of these ratio's may improve but at the cost of higher risks to the bathing public. How do external variables such as weather get factored into the productivity measures?

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

Improving productivity is becoming an increasingly relied upon reporting criteria, both for organisations providing funding to council's as well as the community in respect of accountability. This happens naturally due to increasing demand for services, technology improvements and population growth.

The Division of Local Government's Integrated Planning and Reporting reforms provide a platform for councils to be more proactive in the identification of addressing the needs of the community and a more structured approach to its budgeting and planning. Therefore, this allows for the identification of productivity gains over a ten year period which is informed by extensive community consultation. Productivity gains will be seen through increased community satisfaction with council services and not through the measurement and reporting of traditional financial indicators.

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

Net costs are not a useful measure for the comparison of council's performance as each Council has its own community expectations, funding levels, service levels, local economic conditions, demographic needs, transportation costs, geographic constraints, and other external influences.

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

Council's should be able to provide **(i)** a cost index matrix from their LTFP that identifies the indexation across various types of expense items & **(ii)** the sources/publications used that tie in with the LTFP cost index matrix.

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Thank you for the chance to make a submission. Please contact me if you require any further information.

Yours faithfully

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