campbelltown
city council

4 November 2011

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

Dear Ms Milne

Measuring and Assessing Productivity Performance in Local Government Submission

Thank you for the opportunity to reply to the discussion paper on Measuring and Assessing Productivity Performance in Local Government.

Council acknowledges that the discussion paper to some extent addresses the issues facing Local Government as an industry and the difficultly the Independent Pricing and Regulatory Tribunal (IPART) faces in determining a productivity measure, particularly due to the fact that the functions of Local Government are vast, multi-disciplinary and difficult to quantify in terms of output.

However, it does appear that the discussion paper fails to discuss one of the main issues; the actual methodology of deducting an annual productivity factor from the annual change in the Local Government Cost Index (LGCI).

The imposition of a productivity factor discount only seeks to enforce productivity by decreasing the supply of revenue available to purchase inputs. This application does not take into account that Councils can increase the outputs of the services delivered whilst retaining the existing levels of inputs.

In effect, discounting the annual rates increase by a productivity factor forces Council to operate with less money rather than allow the provision of more services with the existing revenue stream inflated for full cost increases. This means productivity savings are channelled into lower rates and not increased or improved services.

It should be highlighted that the service levels of Local Government are falling each year as infrastructure renewals are not keeping pace with degradation making it impossible to achieve productivity savings without reducing service levels.

As IPART is aware, Council's main sources of revenue through rates and grants are extremely restrictive. This places further pressure on the reliance on increases in user charges and fees, which equates to approximately one quarter of operating expenditure for NSW Councils. Councils play a vital role in the provision of services where there is a service gap within the community and that is affordable to the

Civic Centre Queen Street Campbelltown PO Box 57 Campbelltown NSW 2560 DX5114
Telephone 02 4645 4000 Facsimile 02 4645 4111 TTY 02 4645 4615
Email council@campbelltown.nsw.gov.au Web www.campbelltown.nsw.gov.au
ABN 31 459 914 087

community. This most often requires rates income to subsidise the shortfall in the fees and charges of a particular service.

The discussion paper adopts the approach that increases in rates (the rate peg) accurately reflect increases in expenditure. Councils are finding it increasingly difficult to maintain existing service levels when rate increases do not meet increases in wages which is the major expenditure item for service based organisations such as Councils.

Councils have limited additional scope to add to the revenue base in their role in ensuring the treatment of public monies is risk adverse.

The 'Independent Inquiry into the Financial Sustainability of NSW Local Government' (The Allan Report) reported a number of pressing problems needing urgent attention in Local Government. The Allan Report stated the biggest of these problems is the huge backlog in infrastructure renewals (over $6 billion), which is expected to grow to almost $21 billion within 15 years if the annual renewals gap stays at around $500 million per annum.

Campbelltown City Council's infrastructure backlog stands at $31.8 million which Council is finding it difficult to fund with existing income streams whilst maintaining current service levels. Given the infrastructure backlog is an industry wide issue, it is questionable whether the productivity discount factor is appropriate.

Enclosed for IPART's consideration is Council's response to each of the issues that comment is sought.

If you require any further information regarding details of this submission please contact the Manager Financial Services, Corinne Mears on 0246454507.

Yours sincerely

Paul Tosi
General Manager

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Campbelltown City Council comments on the Discussion Paper

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 is a multi-service industry with varying resourcing requirements prioritised according to community expectation and demand. Other Government departments and public service entities usually provide one specific service where a productivity indicator can easily be identified as a 'unit of measurement'. It is inappropriate to use a 'market sector' measure for Local Government, as the sector provides a wide range of services to the community that are extremely diverse, not usually provided by private sector organisations and particular to a communities needs. These services are often provided on a cost recovery method of pricing, which is dependant on the socio-economic profile of the community.

The discussion paper makes reference to the Local Government cost index approach being consistent with the cost index approach used for other industries that IPART regulate including the taxi industry. The '2011 Review of Taxi Fares in NSW' indicates that IPART's aim is to ensure that the annual change in fares IPART recommends reflects changes in the costs of providing taxi services that have occurred since IPART's last review. The major flaw in this approach is that Council is a not for profit entity therefore when measuring the 'fixed basket of inputs' acquired by Councils in a given period with the price of the basket of inputs in the base period, the basket is not the same. For Councils to provide a balanced budget each year and maintain the rate peg, inevitably this requires service levels to change. In simple terms the main cost of service provision is salaries and wages which on average increases by around 1% more per year than the rate peg. It should also be noted that industries such as taxi services do not have responsibilities to fund or maintain an extensive diverse portfolio of assets, including infrastructure backlogs.

Campbelltown City Council currently provides over 200 services to our community. The services include but are not limited to; business and industry development, aboriginal services, community development, child care, youth services, conservation and environmental services, bush care, companion animal management, noxious weeds, open space maintenance, recreation, community events, sports and leisure, library services, cultural services, public halls and facilities, emergency and disaster services, social planning, land management and land use planning, development controls, graffiti services, compliance and regulatory control, road and footpath construction, traffic management, street lighting and accessories, flood mitigation, drainage and waste management. A majority of these services do not make a profit nor do they break even. In fact a majority of services are solely reliant on rating income.

IPART's approach of applying a factor based on an economy wide labour productivity estimate, seems suggestive that in order to realise productivity savings Councils would need to reduce staffing levels. Ultimately this will lead to reduced service levels. A forced productivity factor could in fact be promoting the maintenance of inefficient practices or a lack of incentive to drive productivity when Councils have to find the savings anyway by receiving less than costs are increasing each year.

If a productivity factor must be applied then a public sector measure instead of a private sector measure is more appropriate. The discussion paper states the 'Public administration and safety' sector is not an ideal match because it:

- Includes all 3 tiers of Government – yet Local Government is specifically one of these tiers
- Includes law enforcement, public safety and emergency services agencies – yet Local Government services include that of compliance and regulatory control, road safety programs, crime prevention activities, community safety schemes, fire and emergency service contributions and operating costs.
- Excludes activities of Local Government that produce 'private sector like' services – yet the majority of these services are provided at significantly subsidised fees and charges and do not operate to make a profit or to compete with the private sector services.

Private sector productivity gains would be substantially higher given the profit motive of the private sector and this is not the basis of Local Government or the underlying incentive for productivity improvements in Local Government.

2. What alternative measure would be more appropriate for determining a productivity factor?

The IPART productivity factor discount is applied to all Councils and does not take into account whether individual Councils have already factored in productivity gains into coming budgets and long term financial plans.

If Councils could apply for exemptions from the productivity factor where they are able to demonstrate a minimum productivity savings or gain for the next year, then Councils would be encouraged to seek productivity gains at earlier stages rather than holding back future amounts knowing there is an inbuilt productivity factor that must be achieved.

3. Can Councils measure some (or all) of their productivity gains in terms of changes in physical units of inputs and changes in prices paid for inputs? If so, in what ways would these changes be expressed?

Campbelltown City Council can to a degree evaluate current productivity gains and to some extent forecast future trends in this area through reporting tools that are relied upon when developing our long term financial plans. Using long term financial plans on an industry wide basis in comparing productivity improvement data would be inconsistent as Councils would determine unit pricing based on their individual circumstances. This would be most notable when comparing metropolitan Councils to rural Councils.

The same could be said for the reporting mechanism itself, as some council's are in a position to have up to date financial reporting software and skilled staff to prepare and analyse financial data, while smaller regional Councils may still rely on more manual reporting methods and staff that may not have the same skill levels.

The majority of projected productivity gains are however masked by larger than CPI increases in expenditure ie; electricity charges increasing by 8%, emergency services contributions increasing by 10%.

The main issue is that many of Councils services are community (public good) services where the benefits are hard to directly attribute to a service and the benefits flow not to Council but to the community. Not all Council services can have their consumption measured. Council's prices are not dependant on demand.

4. Are productivity improvements able to be captured within Council's Long Term Financial Plans?

Whilst administrative activities can somewhat provide a measurement in productivity gains, resources required on a reactive basis such as repairs and maintenance, seasonal activities such as ground maintenance and mowing operations are variable in nature and are not reliably measured and cannot be predicted over the long term.

Productivity savings usually do not produce savings in actual expenditure, and instead provide savings in time. These savings in time quite often mean a permanent employee can focus on other areas of improvement or provide enhanced service levels. A council cannot simply reduce a permanent employee's hours. This may lead to staff not finding productivity savings for fear of losing employment or reduced hours.

It should also be noted that any productivity savings are generally absorbed through increases in operational costs coupled with additional cost shifting. Over 12% ($6.4m) of Campbelltown City Councils total general rates income is absorbed by cost shifting by other levels of Government and associated Government agencies. This figure continues to grow on a yearly basis without any corresponding funding. The majority of projected productivity gains are also masked by larger than CPI increases in expenditure ie; electricity charges increasing by 8%, emergency services contributions increasing by 10%.

Campbelltown City Council does however report savings to an Innovation and Performance Sub Committee. To date Campbelltown City Council has reported over $9 million in savings since 2005 and includes over 50 initiatives some of which are not financially able to be measured this does not mean though that we have $9 million extra in our budget, it means that we have been able to absorb increases in costs or undertake activities more efficiently.

The Long Term Financial Plan would be unable to capture and display increases in a Council's productivity relating to providing more services, higher levels of services or a greater number of beneficiaries.

The Long Term Financial Plan focuses on the cost of services and not the services level output, improvements or enhancements which in a lot of cases would not have any dollar impact and therefore cannot be seen in a Long Term Financial Plan.

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

Productivity savings come from strategic long term planning and operational efficiency through improvements in practice and policy.

Instead of isolating industry wide data to assess productivity, IPART could instead ask individual Councils applying for a special variation to rates income what measures are in place or will be put in place to measure the efficiency of their service delivery and to target and assess ongoing productivity improvements. These may include key performance indicators and community consultation results.

Productivity indicators should be focused on quality of service rather than the financial cost of the service.

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 somewhat 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 cost of services in isolation does not take into account the level of customer satisfaction, the level of services provided or the level of service required by the community.

The net cost of services can also fluctuate dramatically in any given year due to eg; non receipt of grant funding, effects of weather on patronage or the rate at which grass grows and requires mowing. All of which should not result in a conclusion that the Council's productivity or performance has deteriorated of its own accord or due to inefficiency.

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?

Whilst councils are required to develop a long term financial plan for a 10 year period, the initial year is based on prior year actuals. It is difficult to predict inflationary trends and cost escalation assumptions are often based on historical trends.

As part of the long term financial plan development, Council publishes a cost index matrix that identifies the indexation that is used to inflate the figures across various types of expenditure items and the publications used to source/determine these indices.