



# City of Canterbury

*City of Cultural Diversity*

Our Reference: V-3-5

Enquiries: Andy Sammut  
Direct Phone: 02 9789 9508  
Direct Fax: 02 9787 3064

Mr James Cox PSM  
Acting Chairman  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office  
SYDNEY NSW 2000

Dear Mr Cox,

**Subject: Measuring and Assessing Productivity Performance in Local Government in NSW**

Thank you for the invitation to comment on the discussion paper '*Measuring and Assessing Productivity Performance in Local Government*'. We have prepared a submission that provides comments in response to each of the key questions posed by IPART.

It is our view that whilst measuring productivity is an important driver for organisational efficiency, this is not a simple matter for local councils. In the first instance, IPART should use simple methods that accommodate both differences in levels of service and include inputs and outputs. As councils' capabilities develop, these methods for measuring productivity can be improved over time.

We also consider there is an important role for IPART in providing advice and publishing data that councils can use in Long Term Financial Planning that can support this capability development. We look forward to receiving further information and assistance from IPART on the process for setting rates and determining rate variations outside the rate cap.

Please contact my office on 9789 9447 if I can provide further information.

Yours sincerely

Jim Montague PSM  
**GENERAL MANAGER**

4 November 2011

G:\ACS\Special\Managers\David Coleman\Letter 111103 to IPART RE MAPPLG.doc

Canterbury City Council, Administration Centre 137 Beamish Street • PO Box 77 Campsie NSW 2194  
When writing to Council please address your letter to the GENERAL MANAGER, MR JIM MONTAGUE  
Phone: (02) 9789 9300 Fax: (02) 9789 1542 TTY: (02) 9789 9617 DX 3813 Campsie  
email:council@canterbury.nsw.gov.au website:www.canterbury.nsw.gov.au

ABN: 55 150 306 339

# **Independent Pricing and Regulatory Tribunal Measuring and Assessing Productivity Performance in Local Government in NSW**

## **Submission by the City of Canterbury**

### **Introduction**

This submission has been prepared by the City of Canterbury in response to the invitation, extended by the Independent Pricing and Regulatory Tribunal to comment on the discussion paper *'Measuring and Assessing Productivity Performance in Local Government'*. The submission provides comments in response to each of the key questions posed by IPART and concludes that whilst measuring productivity is an important driver for improving organisational efficiency, this is not a simple matter for local councils, and that in the first instance simple methods should be used that accommodate differences in levels of service and include both inputs and outputs for those services that are significant in terms of costs. As councils' capabilities develop, these measures can be improved over time. There is a role for IPART in providing advice and publishing data that councils can use in Long Term Financial Planning that can support this capability development.

### **Response to Questions**

- 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?**

The current method of using an economy wide measure of productivity and then discounting it for application to the NSW local government sector is more appropriate for future years than any of the other measures proposed by IPART. It is noted that in its determination for the 2011-12 financial year, IPART used the ABS economy wide labour productivity estimate for the Market Sector, rather than that for Public Administration and Safety (PA&S). This was because PA&S includes all three levels of government, includes services not provided by local government, and excludes 'private sector like' services provided by local government.

It is considered, however, that the PA&S productivity estimate is the most appropriate to use for local government. The services provided by local government are most like those provided by state government in their character, and the proportion of 'private sector like' services provided by local government is not large – in the case of the City of Canterbury about 6% of total expenses. In addition to this, those services which could be called 'private sector like' are often provided by local government because of an important community service component, ie. the service cannot be provided in the local area competitively by the private sector, or because of some community service driver. Examples of this include aquatic centres, the full costs of which are often not covered by user charges, but that communities strongly support because they want them to be available should they choose to use them, and are prepared to pay taxes (in the form of property rates) for this availability. Another example is children's early learning centres, which the City of Canterbury chooses to provide, in strong competition with the private sector in the City, to set a benchmark for quality service, and to ensure such quality care is available to residents in the City who might not be able to afford it otherwise.

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

The current method of using an economy wide measure of productivity and then discounting it for application to the NSW local government sector is more appropriate for future years than any of the other measures proposed by IPART.

**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?**

The Discussion Paper defines productivity as a measure of the output per unit of input achieved by an organisation. IPART suggests in the Discussion paper that councils could therefore measure their productivity gains in terms of changes to inputs, in doing so assuming that the outputs are constant. In practice, however, the outputs from council services are not constant, and the use of inputs is a poor approximation for productivity. When measuring productivity, councils must take into account both the types, quantities and prices of inputs used, and the types and quantities of outputs delivered. This is more difficult than for the market sector where output can be approximated by the total value of goods and/or services produced by an organisation, but it is not impossible. Outputs from services can be measured, and related back to the cost of inputs in many cases. Councils may be able to establish an aggregate measure of productivity by considering the changes in outputs relative to the value of inputs of each service, in the first instance for those services which consume the most inputs, but ultimately for all services.

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

Productivity improvements, where they are planned, could be captured within councils' Long Term Financial Plans, but with significant uncertainty. A long term plan to invest in new technology, for instance, requiring the allocation of funds during the period covered by the Long Term Financial Plan, accompanied by a detailed plan for reductions in staff that would result in lower employee expenditure, could be included in the Long Term Financial Plan. In practice, however, the benefits of most initiatives to reduce expenditure, or increase output, are not fully known until after they have been implemented. Productivity is more of a lag measure than a lead measure. Whilst targets for productivity gains could be included in Long Term Financial Plans the actual means by which these targets are achieved would be difficult to define in advance. In the political environment in which local government operates, councils may not want to publicise plans for downsizing, outsourcing or other broad strategies for achieving productivity gains without adequate research, feasibility assessment, and then detailed explanation of specific proposals.

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

None of the indicators listed in the Discussion paper are adequate for measuring productivity. They do not reflect the mix of services, or the level of service delivered by councils, which are different in every case, and reflect the unique demands of the local community which each council serves. It is for this reason that the per capita expenditures for different categories such as environmental management and health, recreation and leisure, and community services have little meaning for productivity. Whilst productivity is embodied in these indicators, it is impossible to distinguish in a comparison of councils on the basis of these indicators the difference in levels of services, and differences in productivity. When developing appropriate indicators to assess the productivity of councils, IPART must take into account the level of service in each case, and then both the types and quantities of inputs used by, and the types and quantities of outputs delivered by councils. Appropriate productivity indicators will include both a measure of outputs and inputs, and be able to take account of the level of service provided.

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

As productivity indicators must take into account inputs and outputs, councils can improve productivity indicators by developing financial and corporate performance monitoring and reporting systems that capture adequate information about the costs and quantities of inputs, and link those costs directly with the physical outputs from services. This is no easy task. For example at the City of Canterbury, nearly 300 different services have been identified across 45 different functional areas, in addition to over 250 separate infrastructure maintenance and improvement projects, and a further 200 operational projects or initiatives. It can start with those services that are relatively easy to measure, in order to develop and test the methodology and systems, and then be applied more broadly. In addition, working collaboratively with other councils to benchmark various services can assist to develop councils' measurement capability. For example, a project undertaken by the Southern Sydney Regional Organisation of Councils in 2008 and to be undertaken again in 2011 benchmarked corporate services across nine councils, including productivity measures. This exercise, although demonstrating to those involved the difficulties in comparing services delivered in different ways to address local circumstances, was useful in identifying areas that might need improvement, and through information sharing, possible strategies to achieve such improvement. The exercise also, through collaboration, began to develop measurement capability in the participating councils.

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

The net costs of individual services are not a useful measure in measuring and comparing council performance. Councils are significantly diverse and varied, and the nature of the services provided are likewise significant and varied. There are a range of better measures that take into account both the types and quantities of inputs, and the types and quantities of outputs delivered by an individual service, and the relationship between the two. When comparing the performance of councils, however, considerable care must be taken to ensure that the basis for the comparison is similar - 'comparing apples with apples'. The measurement specification must be clear, and must also take into consideration the variability in the inputs and outputs. As an example, a comparison of the net cost of the City of Canterbury's Communications function with other councils may be erroneous, because this function also includes the provision of community events and festivals, whereas the other councils' Communications services may not. Again the use of this type of measure relies on the assumption that outputs from individual services are the same between councils. As each council determines the level of service for each individual service area in response to the unique needs of its local community, the outputs delivered by an individual service can be significantly different from council to council, making this assumption false.

**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?**

Councils are not generally equipped with the skills or resources to undertake detailed analysis of inflationary trends in the general economy. They are, however, able to observe trends in the various types of their own expenditures, and make reasonable projections of future trends based on basic considerations of both the internal and external environment. For example, in undertaking Long Term Financial Planning for the City of Canterbury in 2008, it was observed that employee expenses had increased at a rate of 8% per year from 2003 to 2008. In preparing the Long Term Financial Plan, however, an assumption was made that employee expenses over the period of the Long Term Financial Plan would only increase by 4%. The assumption was made taking into consideration forecasted increases under the Local Government Award and increases under the council's salary system, but also a strong awareness at the senior level of the need to constrain employee costs through reviews of service levels and efficiency.

There is a role for IPART here in providing expert advice and in publishing a range of cost escalation indicators that it considers councils could use in the preparation of their Long Term Financial Plans. This would have the advantage of establishing a uniform set of benchmarked indices that councils could use to compare their own internal inflationary trends, and to identify areas for possible further investigation.

## Conclusion

This submission has been prepared by the City of Canterbury in response to the NSW Independent Pricing and Regulatory Tribunal's Discussion Paper '*Measuring and Assessing Productivity Performance in Local Government*'. The Discussion Paper outlines several issues and seeks comments on the role of and methods for determining productivity factors that are included in the process of setting the maximum permitted rate increase.

The importance of the principle of including productivity as a driver for improved organisational efficiency in this process is acknowledged. It is considered that when establishing a basis for determining a productivity factor to be included in the setting of the maximum permitted rate increase, IPART should use the economy wide labour productivity estimate for Public Administration and Safety (PA&S) published by the ABS. The PA&S best reflects the activities of local government, and the use of this series is simple and easy to understand.

When measuring productivity gains, local councils and IPART must take into account the level of service, and then both the types and quantities of inputs used by, and the types and quantities of outputs delivered. Consideration of the quantities, prices and costs of inputs to services are not satisfactory measures of productivity because each council determines the level of service for each individual service area in response to the unique needs of its local community, and therefore the outputs delivered by an individual service are not the same, but can be significantly different from council to council. Per capita expenditures for different categories are also not satisfactory for a comparison between councils because they include both level of service and productivity. Appropriate productivity indicators will include both a measure of outputs and inputs, and be able to take account of the level of service provided.

Productivity improvements could be included in Long Term Financial Plans as a target, but with significant uncertainty. The actual means by which the productivity improvements would be achieved would be difficult to specify in the Long Term Financial Plan because of the political environment in which councils operate.

Councils should be able to demonstrate how the cost escalation assumptions in their Long Term Financial Plans are derived, but as they not generally equipped with the skills or resources to undertake detailed analysis of inflationary trends in the general economy, demonstrating that these assumptions are reasonable in light of current inflationary trends could be difficult. There is a role for IPART here in providing expert advice and in publishing a range of cost escalation indicators that it considers councils could use in the preparation of their Long Term Financial Plans. A uniform set of indices against which council could benchmark their own internal inflationary trends, and to identify areas for possible further investigation, would be extremely helpful.

We would like to thank IPART for the opportunity to comment on the Discussion Paper and look forward to further information and assistance on the process for setting rates and determining rate variations outside the rate cap.