

Submission – Measuring and Assessing Productivity Performance in Local Government

Coffs Harbour City Council

From an overall perspective, it is our view that there should not be a productivity factor included in rate increase determinations, given issues related to local government, particularly financial position, infrastructure maintenance/improvement, service provision and impact of rate restrictions that have been in place for 35 years.

Set out below are comments in relation to each of the matters raised for comment in relation to Section 1.3 of 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?

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

In respect of 1 and 2, the method selected by IPART is as good as any method. It is difficult to come up with a realistic productivity factor given the range of councils and their activities.

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?

Many productivity gains in local government, given the huge diversity in functions, relate to better ways of doing things, and usually they cannot be measured in volumes or quantities. These are related to better and more efficient processes, improved computer systems, better plant and equipment, building improvements, etc, which may have minimal to significant effect on the 1,000s of different services, products and infrastructure projects that councils are responsible for and undertake.

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

It is not possible to capture productivity improvements within the LTFP. Most councils set their budgets at a level that would not readily assist in measuring productivity, let alone LTFPs which are usually set at a higher level again.

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

6. How can productivity indicators be improved over time?

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

Not normally, as the net cost of services can vary from year to year for a considerable number of reasons, such as, change in climatic conditions, change in number of services, large changes in costs which affect some services, cyclical cost changes, vandalism, change in other levels of government statutory and direction requirements and levies, level of work related to fluctuating levels of grants, contributions, loans, population changes, etc.

In an overall local government sense, comparing different council's services is a minefield. It is even difficult comparing services between two councils as there are often differences in service provision when you look at the detail.

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.

Reasonably well, if not scientifically put together. For example, for salary jobs (apart from wages which are charged direct to jobs) where changes in dollar values can be compared from one year to the next, with a lot of analysis work it is possible to pick up award increases, grade increases, vacancy impacts and changes in staff numbers, at a micro level. Generally councils do their best to hold numbers and salary levels and what is reflected in LTFP assumptions is overall expectations based on past results and expected variations. In relation to material and contract type expenses, it is difficult to be precise but many such costs have increased significantly in excess of general inflation, particularly related to construction works.

Final Comment

As is covered in 7 and 8, councils are subject a significant range of cost increases which are often significantly in excess of inflation. Also, given the huge backlog in infrastructure works and difficulty in achieving appropriate levels of service, any productivity savings are reflected in greater levels of works and services - not lesser costs to run the council operations.

Given that rate restrictions have been in place for 35 years and councils have had to do more with less for a long time, continued productivity/efficiency gains are increasingly difficult to achieve.

Given the financial position that most NSW councils are in, the huge backlogs in infrastructure that most have and the lack of funds to not only meet future infrastructure costs and provide appropriate levels of service, it is considered that the inclusion of a productivity factor should be dispensed with.

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