



Planning & Infrastructure

Office of the Director General

11/19224

Local Government Team
Independent Pricing and Regulatory Tribunal
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Dear Mr Rod Sims

I refer to the invitation for written comment on the Discussion Paper Measuring and Assessing Productivity Performance in Local Government.

Please accept this submission from the Department of Planning and Infrastructure. Responses have been provided against each of the questions posed within the Discussion Paper included as attachment A to this letter.

Should you have any further enquiries about this matter, I have arranged for Aoife Wynter, Office of Director General - Office of Director General, of the Department of Planning and Infrastructure to assist you. Ms Aoife Wynter can be contacted on telephone number (02) 9228 6530.

Yours sincerely

Sam Haddad
Director General

4/11/2011

NSW Department of Planning and Infrastructure submission on the Discussion Paper Measuring and Assessing Productivity Performance in Local Government

Question	Comment
<p>1. Is the current method of using economy wide measures of productivity and discounting it for application to NSW local government sector the most appropriate for future years? If so, which ABS series would be most appropriate?</p>	<p>Given the diversity of local government functions, economy wide measures of productivity are considered to have limited value when applied to local government.</p> <p>A better measure might be to look at the net present value of real benefits produced against the costs and trade-offs incurred.</p> <p>Alternatively it is suggested that specific indices be developed for the major local government functions and that these be used to determine productivity measures which are function specific.</p> <p>Function specific productivity measures may be a useful tool to drive initiatives contained within the State Plan and Metropolitan Strategy related to local government planning responsibilities. Examples include the following:</p> <ul style="list-style-type: none"> • State Plan 2021– Goal 29 - Restore Confidence and Integrity in the Planning System. Priority actions here include publishing planning decisions within 5 days on the DP&I website. Councils could be required to detail whether they have the capacity to publish local planning decisions on their web site and the time periods involved. Such requirements may drive broader IT and ePlanning reforms within Councils which in turn will generate productivity improvements. • Metropolitan Plan for Sydney 2036 and the various Sub Regional Planning Strategies that accompany the Metropolitan Plan contain lot or dwelling production targets for local government areas. The capacity of a council to meet these targets impacts on the broader economy and the construction industry in particular. In 2008-09 the value of residential building work undertaken was estimated at \$42.9 billion out of a total of \$151.3 billion which the construction industry contributed to the Australian economy¹. In terms of contribution to GDP the construction industry share of GDP was 6.8%.² A productivity measure relating to a council's capacity to meet lot and dwelling yield targets may provide broader state and national economic benefits by driving local planning reforms and productivity improvements designed to increase approval outputs. <p>IPART may be aware that the DP&I publishes annual Local Performance Development Monitoring (LPDM) reports which provide comprehensive statistics about development in NSW. These reports include information on the volume, value and type of development, council processing times, levels and value of complying development, planning staff numbers and legal appeal success rates amongst other indicators. It is suggested that there may be value in IPART examining the LPDM reports with a view to determining whether they contain sufficient information to enable IPART to determine a local government Planning Regulatory Productivity index.</p>

¹ ABS 1350.0 Australian Economic Indicators, October 2010

² ABS 1350.0 Australian Economic Indicators, October 2010

	<ul style="list-style-type: none"> • The information contained within the LPDM is provided by councils and may be able to be amended depending on the needs of IPART. • Another approach is to establish indicators of local government performance – in consultation with the community – and seek continuous improvement against these. It is about service not just productivity. See UK and Victoria Best Value schemes. This would have much more meaning for the communities councils serve and provide a clear indicator of value for money regarding the rates charged.
<p>2. If not, what alternative measure would be more appropriate for determining a productivity factor?</p>	<p>The report, Leadership, Culture and Management Practices of High Performing Workplaces in Australia: The High Performing Workplaces Index, published by the Australian School of Business in October 2011, provides a methodology for determining which workplaces are High Performing Workplaces (HPWs). Such work places were found to be more productive and profitable than Lower Performing workplaces (LPWs).</p> <p>The report found that HPWs have 12% higher Total Factor Productivity when ranked in terms of their intangible asset performance than LPWs.³ Intangible assets or resources included people, relationships with customers and stakeholders, and innovation activities such as new services, processes, business models and structures.</p> <p>In terms of innovation activities the ePlanning Roadmap 2010 -2020, which is a joint DP&I and Local Government and Shires Associations venture, provides a strategic framework for leading and coordinating the uptake of electronic tools for planning and development services in NSW. The Roadmap provided the impetus for State Government to allocate an additional \$4.33 million for the expansion of the Electronic Housing Code in 2011 through its ICT Reinvestment Fund.</p> <p>An EOI process has recently been undertaken to incorporate an additional 24 Councils within the EHC and expand its scope to encompass the Commercial and Industrial Development Code under the provisions of the SEPP (Exempt and Complying Development Codes) 2008. Importantly the DP&I will provide to the 24 selected councils experts to assist with process mapping, benchmarking of services and development of industry based KPIs relating to planning and development functions.</p> <p>It is through councils committing to take part in ePlanning projects such as the EHC that productivity improvements from otherwise intangible assets such as people, business process and IT systems and resultant structural changes will be realised.</p> <p>IPART is requested to examine the HPW Index and its applicability to NSW local government as an alternative non financial productivity measure. Additionally IPART is also requested to specifically examine the degree to which councils have embraced new technologies related to their planning functions when determining productivity factors.</p>

³ Australian School of Business (2011) Leadership, Culture and Management Practices of High Performing Workplaces in Australia: The High Performing Workplaces Index, p.8

	<p>To measure council productivity, it would be more transparent to measure against real indicators, using benchmarks to plot progress and comparisons across time and jurisdictions. Appropriate rates could be struck accordingly.</p> <p>One of the productivity measures is reduced planning costs - where there is significant planning work such as a greenfield release area where there will be significant rezoning and development assessment, planning costs are likely to increase. Any assessment or measure of planning costs needs to reflect the volume and nature of the work against the likely outcome (e.g. quantum of land available for new housing etc).</p>
<p>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?</p>	<p>Prices and accounts can be distorted. Externalities can be ignored. Exchange rates, carbon taxes, unfunded mandates, disasters such as floods/fires/earthquakes and emergencies can significantly change the picture. A better way would be to econometrically normalise the variables. For example, what are the costs/prices in relation to a high or low and normalised Australian Dollar Exchange Rate?</p> <p>A significant change in the AUD can change prices and cannot be controlled by the council. A significant change in prices can lead to both substitution and income effects. An unfunded mandate can cause resources to be reallocated to less productive uses or to projects which have a negative NPV.</p> <p>Again – the use of agreed indicators to measure value and service is another option. These could cover different elements of service delivery / penalty collection / infrastructure provision and maintenance / community programs / with community surveys to monitor success and satisfaction.</p>
<p>4. Are productivity improvements able to be captured within council’s Long Term Financial Plans? If so please illustrate.</p>	<p>Yes.</p> <p>Infrastructure</p> <p>1. Maximum-- The infrastructure pipeline and spend which maximises the NPV>0 and BCR>1.00 and productivity of the system is best.</p> <p>2. Better Off but Constrained-- The infrastructure pipeline and long term spend which only allows for the NPV>0 and BCR>1.00, i.e., makes society and taxpayers better off but is constrained by the budget, credit rating, borrowing, funding envelope, cost overruns on existing commitments, timing conflicts, is a second-best solution.</p> <p>3. BASELINE-- Budget Paper No 6 assumptions, matching the Long Term Fiscal Pressures model, capex, opex, expenditure, growth, and other similar assumptions provides a baseline against which 1 and 2 can be better understood.</p> <p>4. Worse Off-- An infrastructure pipeline like some have proposed that includes multiple negative NPV's (and BCR's far less than 1.00 even with WEBS included) and which leaves NSW worse off is worse than doing nothing.</p> <p>Development approvals</p> <p>LDPM data is available from 2005 -06 to 2010-11 which provides a reasonable basis for councils to review past performance relating to</p>

	<p>their development regulatory functions. This performance data together with data relating to private certification provides a meaningful basis for councils to quantify productivity improvement estimates in their LTFP relating to their development regulatory functions.</p> <p>It is seen as desirable that councils consider their various core functions in their LTFP from a productivity improvement perspective and quantify these improvements in financial terms.</p> <p>The councils associated with the EHC will also be a source of information relating to productivity improvements derivable from investment in electronic assessment systems. Such information when disseminated amongst the broader local government industry will also assist in terms of making longer term financial productivity assessments.</p>
<p>5. What indicators should IPART use when assessing the productivity of councils?</p>	<p>Infrastructure</p> <p>The first filter is to consider whether the infrastructure contributes to one of the core objectives:</p> <ul style="list-style-type: none"> • “Is this expenditure and infrastructure contributing to sustainable economic growth?” <p>Second develop a comprehensive infrastructure pipeline and spending plan using the following concepts, tools, decision criteria, insights and checks:</p> <ul style="list-style-type: none"> • Is society better off as measured by a positive net present value (NPV>0), benefit cost ratio greater than one (BCR>1.0)? Also see NSW 2021 goal 2 page 8. • Does this investment repair (same norm) or improve the system (higher norm), does it capture synergies and efficiencies, and does it consider whole of life costs and policy/rule opportunities? • What problems does this investment solve and shift, what benefits, savings and systems solutions can it generate? • Where, when, how, by whom are the benefits, costs, tradeoffs, risks, and impacts internalised or externalised? • Is this investment aligned with NSW 2021, the State Budget, Infrastructure Australia’s Templates for Stages 1-7, the Infrastructure Pipeline, TAM and Asset Management Plans, and key priorities of local, regional, state, national and other stakeholders such as bankers, investors, construction companies and users? • Does this change or investment create, repair, improve, operate and value infrastructure assets as integrated systems and take a long-term perspective, or is it discrete project and piece of infrastructure?

	<ul style="list-style-type: none"> • Is this investment a game-changer, does it help create wealth, jobs, houses, or property rights now, or does it open up a new niche, corridor, help future generations build the Premier State? <p>Broader comments Refer comments made in relation to Question 2. Use as a starting reference point the Victorian and UK models for Best Value Indicators</p>
<p>6. How can productivity indicators be improved over time?</p>	<ul style="list-style-type: none"> • Include the net present value benefits, look at the efficiency of the system which transforms inputs into outputs, understand problem shifts and externalities. • A transparent review process should be available which incorporates stakeholder feedback mechanisms. The relevance of indicators is subject to change based on factors such as legislative change and therefore a robust review mechanism is seen as desirable to maintain the relevance of indicators. • Through monitoring their effectiveness and public engagement.
<p>7. Are net costs of individual services useful in measuring and comparing a councils performance?</p>	<p>Yes if done well. Also need to know that the benefits exceed the costs and that society is better off by producing this service, outcome, or infrastructure investment.</p>
<p>8. Can councils demonstrate how the cost escalation assumptions in their Long Term Financial Plans (LTFP) are derived and why they are reasonable in the light of current inflationary trends?</p>	<ul style="list-style-type: none"> • Yes. It is more important that they normalise BOTH expenditure and revenue growth, and minimise the gaming of costs, benefits, budgets, contingencies and cost control when public funds are used. • It is possible to change cost growth dramatically by changing the distribution of indirect costs, overheads and the number of projects. It is also possible to game the accounting system unless there is a uniform budget and accounting act. • The present system requires councils to prepare their own individual cost escalation assumptions for factors such as labour, materials, energy, government charges and contributions. All of these are beyond councils' control and in general are based on historical cost increase factors. Often it is the case that assumptions made are inaccurate due to significant annual price increases well above historical averages. Examples include energy, and insurance costs. The assumptions made by individual councils also differ. • It would seem desirable that IPART provide to councils guidance in terms of the cost escalation assumptions that IPART seeks to rely on when reviewing a council's LTFP. This would provide a measure of uniformity between councils. Councils should then be required to provide justification in their LTFP where IPART local government specific cost increase indices have not been used. • The DP&I is concerned that appropriate cost indices be utilised to guide the development of Section 94 and 94A Development Contribution Plans under the provisions of the Environmental

	<p>Planning and Assessment Act, 1979.</p> <ul style="list-style-type: none"> • The former Department of Infrastructure, Planning and Natural Resources Development Contribution Practice Notes – July 2005, suggest that contribution rates should be indexed and the nature of the index to be used and the frequency of indexation detailed in the contributions plan. It was suggested that typical indexes that could be utilised included the Consumer Price Index, the Building Materials Index and a Land Value Index. • Councils utilise a variety of cost indices to adjust their contribution plans with some also relying on the Implicit Price Deflator. Specific guidance has not been provided by DP&I as to the most appropriate cost increase index to be utilised and the frequency of indexation. Nor has any DP&I guidance been provided to councils as to the long term financial planning assumptions that should be utilised when considering infrastructure cost price movements. • It is recommended that IPART provide guidance to councils on the nature of cost price indices to be utilised for the purpose of indexing section 94 Developer Contribution Plans. Additionally guidance should be provided to councils on the cost price assumptions to be applied when determining long term infrastructure cost movements for inclusion in their LTFPs.
<ul style="list-style-type: none"> • Improvements in assessment of new development applications • Reductions in planning expenditure, legal expenses and library services costs 	<p>Improvements to assessment of new development applications are likely to be measured quantitatively. Numeric measures might include number of development applications received, average number of days taken to assess development applications, number of planning staff and value of development proposals. Within Council factors that are not accounted for, may include the experience of planning staff, the type of development proposal and the complexity of that proposal. External factors, such as the property cycle are not taken into account.</p>