



File EF
CFD
4 November 2011

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

Dear Sir/Madam

Measuring and Assessing productivity Performance in Local Government

Council appreciates the opportunity to make a submission in relation to the discussion paper and trusts that there will be further engagement with the industry in relation to this matter into the future.

Undeniably the development of the local government cost index by IPART was seen as a welcome change however the imposition of a productivity factor which results in the discounting thereof to the LGCI/ final rate peg percentage is a retrospective move.

As a small rural Council whatever productivity/efficiency gains that have been made within the organisation over the years as a consequence of rate-pegging imposts where they have resulted in financial savings to the organisation they have been invested back in to the community by endeavouring to maintain existing service levels as opposed to reducing them.

Accordingly they (productivity/efficiency gains) have already been factored into our budgets, our organisation is under-resourced in many areas and the legacies of decisions made in the past by previous Councils are gradually starting to surface. Particularly in the areas of service provision for other State agencies where continued service provision to our community is counter-productive to the organisations overall operational efficiency.

It is not my intention to comment in too much detail or respond to all questions as I believe that many of the larger Councils within the State have far greater capacity and resources to expend on the more specific detail than myself.

The following comments are made accordingly:

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

Council supports the ongoing utilisation of the Local Government Cost Index as it at the very least gathers information specific to the industry as opposed to the utilisation of any other broad economic index like the CPI or Construction cost index.

With the broad range of services provided across the industry, the spectrum of cost inputs into many of the services provided is so diverse aside from the factors associated with the topographical features, population diversity etc. you simply will not achieve a more reliable measure. You can then take some of these factors and argue as to some of the reasons why a productivity factor cannot be transparently provided in the industry. Every Councils community service obligations differ in terms of service delivery. Accordingly a productivity factor should not be utilised at all by IPART to discount the LGCI, the LGCI is a true reflection of costs that the industry experiences.

- 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 price paid for inputs? If so in what ways would these changes be expressed?*

As a small rural Council covering only 2,248km² unit costs vary quite significantly in relation to many of the projects that we undertake, with the topographical features of our Shire unit rates can vary so significantly particularly in relation to roadworks within the more mountainous terrain as opposed to the flatter country. Also undertaking a standard building inspection may take the same amount of time for a staff member once on site but the return travel time can vary from 5 minutes to 2 ½ hours depending upon the location within the Shire.

We have reduced the number of timber bridges within the Shire in past 6 years from 60 to 47 yet our timber bridge maintenance budget continues to rise every year due to the costs associated with sourcing large timbers. \$30Mil is required to replace the residual bridges Councils annual general rates income (unrestricted) is approx \$4.17Mil ¹our annual timber bridge maintenance budget is \$225,000 or 5.4% of the general rates. We are still spending the same percentage of our general rates budget on timber bridges despite a 20% reduction in the number of them!

At the end of the day yes Councils can measure some of their productivity gains, but the time such may consume to measure due to the inflexibility of information systems it may be counter productive. In other areas it would be impossible to measure.

¹ Council has received two special rate variations since 2005 totalling \$406,561 these funds are restricted to specific projects in relation road infrastructure, risk management and environmental management. These funds are excluded from the calculation.

4.) *Are productivity improvements able to be captured within Councils long term financial plans? If so please illustrate.*

Council is a group 3 Council we have been working with a five year budget forecast for a number of years and as previously stated wherever those financial gains that have been achieved from productivity improvements in the past they are already integrated in terms of the levels of service that the Council provides.

Council this year has commenced the financial year with a projected cash deficit budget of \$117,000 if we can reduce that exposure by the end of the financial year through some cost reductions we will be fortunate, you will note cost reductions and not productivity improvements.

However our costs could well escalate due to the unknown level of charges that may be applied by various State Government departments e.g . NSW Rural Fire Service.

I don't believe that this is relevant in terms of reporting to the community. At the end of the day the majority of my community understands our financial position and the levels of service that we provide. We will embrace work improvements and technology enhancements as we can afford them. But I don't see the point in attempting to capture such in the long term financial plan. For starters you need to be able to recruit financial professionals and have the appropriate software for modelling. Many small rural Councils have difficulty recruiting such people we have not had a qualified Finance Manager since 2007.

5.) No comment

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

Personally IPART needs to be involved with Councils "hands on" to understand the diversity that exists within the industry. You need to be resourced in such a manner so that when Councils come to the table to discuss special rate variations and the like that officers of IPART have a reasonable understanding of the issues that such a Council experiences.

Whilst a review panel could be established with representatives from the metropolitan, coastal, regional, rural and rural remote areas to assist in the assessment of productivity indicators it would be pointless unless officers of IPART have an exposure to the industry. If you have no real exposure to the industry then you cannot understand some of the challenges/issues that Councils face. As was said at the destination 2036 forum in Dubbo "one size does not fit all" and I think that it is appropriate that such is acknowledged in any work that is done on productivity indicators into the future.

7.) No comment

8.) No real comment at this point in time as Council is still working on the long term financial plan. However officers will as much be reliant upon historical trends and projections from key information providers to support the underlying indexation figures that Council will utilise.

In summary this industry is under significant financial pressure and the infrastructure renewal backlog is growing, also we are experiencing significant skill shortages across many fields in rural areas. The mining industry remuneration levels well exceed what my Council can pay staff and accordingly staff turn-over rates continue to impact upon productivity

We have legislative impediments imposed upon us which at times lessens our competitiveness with private enterprise and then we have to defend our price structures when we receive competitive neutrality complaints.

Once again thank you for the opportunity to put forward comments and should you wish to discuss these matters with me further please do not hesitate in contacting me.

Yours faithfully



Craig Deasey PSM
General Manager
Dungog Shire Council