Fairfield City
Celebrating diversity

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Local Government Team
Independent Pricing and Regulatory Tribunal
PO BOX Q290
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Dear Sir/Madam

SUBMISSION - MEASURING AND ASSESSING PRODUCTIVITY PERFORMANCE IN LOCAL GOVERNMENT

Thank you for the opportunity to make a submission to this important issue concerning Local Government.

As detailed in your Discussion Paper the 8 issues are addressed below.

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 application of an economy-wide measure of productivity for rate pegging is not supported because:

   - It dilutes revenue in a time when Councils are requiring more revenue to meet infrastructure backlogs and renewing assets;

   - It has little relevance to the increasing financial burden being placed on Councils to deliver an increasing level of services to the Community. Residents in Fairfield on average currently pay approximately $700 per household. For this they receive roads, access to libraries, leisure centres, child care, community facilities, parks and open space, museums, strategic planning, environmental health and much more. Are we productive and can we be more efficient? Local Government currently delivers a diverse range of services with limited resources; sustaining what we currently deliver with limited capacity to increase our revenue through rates is a major challenge.

   - It treats the needs of all LGA's as the same and does not take into account the local area's socio-economic, demographic and cultural profile. With the introduction of the Integrated Planning and Reporting Framework LG would, at a minimum, be responsible for social planning and advocating for community needs. However with increasing rates requiring the community's endorsement there is a risk that areas that can afford to pay for services and infrastructure will move ahead, while areas like Fairfield, which has high levels of disadvantage, will have limited financial resources (less rates) to provide services and infrastructure – even though these are the areas most in need.

- The use of a "fixed basket" in the discussion paper introduces a significant dilution effect, as not all Councils will have the same composition of income as evidenced in the Comparative Information for NSW Local Government Councils 2009/10. In terms of expenses not all Councils will have the same breadth of service delivery and not all Councils will have the same Labour to Capital ratios in delivering that service. This method is fundamentally flawed when used for organisations that have a diverse range of services to deliver versus the Taxi industry which is very narrow in service offered (and therefore income streams) and consistent in the factors of production.

- The growth in average weekly earnings is expected to outstrip the CPI increases over the coming years and the productivity factor will only increase the gap and funding shortfall.

- Does not factor in cost shifting implications on Councils. The Independent Inquiry into the Financial Sustainability of Local Government in NSW found that traditional functions of LG were typecast as 'the three R's – road, rates and rubbish. It highlighted that State and Federal Governments were offloading responsibility onto LG without adequate compensation. The LG Legislation in 1993 freed up councils to embrace a 'maximalist' (people servicing) role, yet by restricting taxes to property rates and retaining rate pegging and regulated fees and charges, in reality, Local Government's capacity has largely been constrained to a minimalist (property servicing) role.; and

- The diversity of services offered to the Community is vast, with very different cost drivers and financial outcomes for each service and differences between Councils for like services. Costs also differ across Councils for the same input given factors such as geography, supply issues faced by some but not others, or transport costs being higher than others.

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

Whilst a productivity factor is not supported based on the above discussion any productivity factor introduced should be influenced by local conditions and the increased financial burden associated with different socio-economic, demographic and cultural profile. For example, the ABS Socio-economic Indexes for Areas (SEIFA) provide comparisons for social and economic conditions across Australia. Accordingly, applying the State Government's efficiency dividend is also not supported for the same reasons.

It is considered that those Councils with low SEIFA index, diversity of cultural backgrounds and high immigration levels have an increased financial burden to offer community services due to the diversity of the services and the inability of Council to recover its costs.

'Experience in other states suggests that due to demands and need for increased accountability, especially in areas of asset and financial management, is likely to lead to rate increases of at least 5-10% per annum and quite possibly more. For example, a provincial Western Australia Council has identified a starting point for rate increases of around 7.5%, comprising 3.5% to cover basic cost increases, 2% to gradually catch up with asset management backlogs, and 2% for essential infrastructure and service improvements'[1].

[1] Sarah Artist and Graham Sansom 2010 Research Report to NSW Independent Pricing and Regulatory Tribunal

New Zealand operates a flexible rating system. The only constraint that councils face is that they comply with due process as set out under legislation. Central government plays no role in regulating local government rating decisions.

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?***

   As special variations beyond the rate pegged amount are considered on a case by case basis, the local environment dynamics would form a significant part of the submission. If Council's can quantify its productivity gains and its submission is assessed on its individual merits, without an industry/state wide factor imposed, then there would be no objection. Also, it is prudent for Council and the community to increase its efficiency before applying for special rate variations. What is unknown is how this impacts on IPART decisions to grant, reduce or not grant special variations.

   Fairfield City Council (FCC) can measure its productivity gains in physical input units for special variation applications for most of its services, as per the examples included in the discussion paper. We would suggest that productivity improvements can also be expressed in terms of opportunity costs. For example Council recycles its road materials significantly reducing the raw material costs for new and renewal works. The productivity could be measured based on the opportunity dollar cost of not recycling its road materials.

   Generally however Council tries to limit its growth in employee costs (representing 45.7% of total expenses or 41.5% of total revenue from continuing operations) through a rigid review and approval process when vacant positions arise. The later percentage is sometimes termed "cost to income ratio" or "efficiency ratio". Using this efficiency ratio could be an appropriate measure of productivity.

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

   Yes productivity improvements can be captured in the LTFP but only from a predictive modelling perspective. Any gains in productivity will be spent/utilised in maintaining existing community services and infrastructure.

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

   Assessing productivity assumes that the assessment has been collected and prepared consistently. The current comparative information published by the DLG is not consistent due to the internal differences amongst Councils in the treatment of transactions and collection of information, not to mention the different cost, revenue and service structures. Some suggestions have been given in question 2 and 3 above but the indicators should be a combination of financial and non-financial indicators.

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

   Indicators can be improved over time with set benchmarks but would require some leadership form the State Govt/DLG to ensure the comparisons are real and can be used in decision processes. Also, a review of the current Council groupings to establish whether they are still relevant would be beneficial.

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

   Current net cost of services is not a useful tool in comparing Councils due to the differences (accounting treatment/cost allocations/level of service) in providing localised services. More work is needed for consistency as explained in previous comments. Any comparisons would require a detailed analysis down to the finite details (e.g. a childcare centre that did not provide nappies or food compared to those that do) before any assumptions could be made.

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?***

   Yes it can justify cost escalation assumptions in its LTFP as the economic forecast data is based on an independent provider (Deloitte Access Economics) and FCC's program of works over the planning years.

Should you require any further information regarding this matter, please contact me on the above number.

Yours faithfully,

Tony Smith
Chief Financial Officer