

November 2011

Measuring and Assessing
Productivity Performance
in Local Government

Hornsby Shire Council appreciates this opportunity to comment and respond to the Independent Pricing and Regulatory Tribunal (IPART) discussion paper titled 'Measuring and Assessing Productivity Performance in Local Government'.

Council is of the opinion that well managed local governments have been incorporating productivity improvements into annual budgets for the past twenty years. This has been necessary to address rate pegging which often has not kept pace with inflation.

It has also been necessary to enable councils to deliver an ever increasing suite of services in the face of cost shifting by other levels of government. Cost shifting has been conservatively estimated to cost Hornsby Shire Council and its community millions of dollars each year.

For these reasons Council does not support productivity indicators, nor does it support the discounting of the annual rate peg amount, and offers the following responses to the IPART questions.

	IPART Questions	Hornsby Shire Council's responses
1	<p>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?</p> <p>If so, which ABS series would be most appropriate?</p>	<p>IPART, in their research for the 2011/12 rate peg, concluded that no established measure of NSW local government productivity exists.</p> <p>On that basis it would seem the current method of discounting an economy-wide measure is inappropriate.</p>
2	<p>If not, what alternative measure would be more appropriate for determining a productivity factor?</p>	<p>NSW councils have been subject to the system of rate pegging for many years. Rate pegging by its nature has forced productivity improvement in NSW because the rate peg amount has often been less than the CPI, thereby requiring councils to improve productivity in order to maintain service levels.</p> <p>IPART will determine the rate peg based on a local government index.</p> <p>Council questions why IPART requires a productivity discount be applied to a rate peg based on a local government index.</p>

3	Can councils measure some or all of their productivity in physical units of inputs or prices paid for inputs?	Some productivity can easily be measured, for example people visiting libraries or accessing information via council's web page. Other productivity improvements such as improved asset maintenance which in turn extends the useful life of the asset but does not directly correlate to expanded use of the asset can not be measured.
4	Are productivity improvements able to be captured in the Long Term Financial Plan?	<p>Yes. Hornsby Shire Council has included productivity in its LTFP, for example Council does not apply an allowable increase to some non-labour related costs.</p> <p>Staff are expected to maintain service levels and therefore must become more productive.</p>
5	What indicators should IPART use in assessing the productivity of councils?	Hornsby Shire Council does not wish to put forward a comment on indicators because each council faces different challenges and therefore universal indicators are of little value.
6	How can indicators be improved over time?	Time based indicators provide a relevant basis for judging performance within a council. Time based indicators are of no value when comparing amongst councils because there are too many variables.
7	Are net costs of individual services useful in measuring and comparing council performance?	<p>Net costs may be useful providing inclusions and exclusions are specific. For example the DLG comparative data for community services \$ per capita does not specify whether services such as museums are included or not, similarly how should governance costs be included in any per capita measurement and which costs?</p> <p>While there may be benefit in being able to compare competitiveness amongst Councils, it is the different manner in which costs are aggregated that influences the result and often does not reflect the true costs of service delivery. For example the allocation of indirect costs is not consistent</p>

		across Councils.
8	Can councils demonstrate how the cost escalation assumptions in the LTFP are derived and why they are reasonable?	Cost escalation assumptions are sourced from publications produced by economic forecasting organisations such as BIS Shrapnel and the Australian Bureau of Statistics. These assumptions are readily available for review.

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