

# Lake Macquarie City Council Submission

## Measuring and Assessing Productivity Performance in Local Government

### Background

The Independent Pricing and Regulatory Tribunal (IPART) issued a discussion paper in September 2011 on 'measuring and assessing productivity performance in local government'. The discussion paper outlined how the productivity factor that was used in setting the rate peg for 2011/12 was determined and sought comments on what approach could be used in the future.

The following are responses from Lake Macquarie City Council in relation to the questions outlined in 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 the most appropriate.***

Measuring productivity change is very hard to estimate within local government because of a number of factors such as:

- Various councils provide different mixes of services depending upon the needs of the community, and the location / isolation to other services. Some councils in NSW, for instance, provide water and sewage services that can be identified as a single service. In this case, these types of services can be measured as a single output where a measure can be placed around the units of service. However, most councils produce heterogeneous services, and it is often difficult to even identify the basic services provided.
- The factor prices differ across NSW and can vary greatly dependent upon the area a council is located. In the case of Lake Macquarie, the factor prices are more expensive due to a range of factors such as location, the proximity of the lake, employment levels, and competing industry for a similar range of skills.
- The Division for Local Government (DLG) is constantly raising the standards of service provision, and as a result, this 'lifting of the bar' can make it difficult to compare service efficiency.
- Various councils have different 'non-discretionary variables' over which they have no control and which affect productivity. For example, Lake Macquarie City Council has a lake that forms the centre of the LGA. This requires a duplication of services and provides other challenges that come with managing a large local government area.

Efficiency or productivity measurement in local government is in reality a difficult and complex issue that you cannot apply one measure to fit all councils. There have been a number of empirical studies into this area with the following Australian examples being most relevant:

Worthington, A. C. and Dollery, B. E. "An Empirical Analysis of Productivity Change in Australian Local Government", *Public Administration Quarterly*, 26(2), 234-269, 2002

Worthington, A. C. and Dollery, B. E. "Measuring Efficiency in Local Government Planning and Regulatory Functions", *Public Productivity and Management Review*, 23(4), 469-485, 2000.

There is also an assumption that, with rate pegging, councils are currently matching expenditure with revenue, which is not the case. The majority of councils are facing significant financial challenges for financial sustainability as they battle large infrastructure backlogs and costs that increase at a rate in excess of the rate peg amount. To impose a productivity measure that reduces a rate increase places more of a financial burden on a council that in reality may or may not drive efficiencies. The focus, perhaps, should be more on the derivation of the local government cost index and looking at factors that have a significant impact on a council such as cost shifting and ageing asset bases.

In summary, we fully support and endorse the notion of productivity improvements and have been incorporating these principles into our budgets and financial plans for many years. Seeking and achieving productivity improvements is part of our culture at Lake Macquarie City Council however the notion of introducing generalised productivity improvement discounts across a range of very different and diverse local government authorities may prove problematic.

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

This is a difficult question as within local government you cannot measure what is produced through labour hours or material/labour costs. Councils produce a range of services that have a number of inputs and outputs. Community facilities for example will vary greatly in terms of factors between a metropolitan, regional and rural council. In addition, a significant amount of output from a council is in the area of policy development and advice.

Any proposed productivity factor would need to take into account base inputs such as labour, roading and civil engineering, building maintenance and construction, and communications. The difficulty will be on how you benchmark or measure cost inputs into governance, libraries and community facilities in general.

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 be expressed?***

Most productivity gains may be readily measured and others are more difficult. For example, many outputs can be readily measured and monitored by the establishment of meaningful KPI's, however not all outputs lend themselves to effective KPI reporting, e.g. the measurement of KPI's relating to a liveable city and a vibrant lake may be more difficult to measure than the number of times a park is mown in a month.

4. ***Are productivity improvements able to be captured within council's Long Term Financial Plans?***

Yes. For many years, Lake Macquarie City Council has incorporated productivity gains into its forward budgets and long term financial plans.

In many cases, this has been achieved by maintaining the level of funding for a particular service at the same level as the previous year. This effectively means that the same level of service needs to be delivered with the level of funding provided previously, without allocating additional funds to take into account CPI or planned wage increases relative to that particular service delivery.

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

This would vary greatly from council to council. It may be better for IPART to request councils to specifically identify what productivity improvements the council has been able to achieve in the past and how the council proposes to achieve, and report on, any future productivity improvements.

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

Under an environment of continuous improvement, all works and services should be continually reassessed to ensure they are provided in the most cost effective and efficient means possible.

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

Net Costs of services are useful and necessary to ensure the 'true' cost is taken into consideration when assessing the delivery of works and services; however, it is important to note that cost is not the only important factor. Customer satisfaction as well as the life cost of assets and services is also important to ensure overall efficiency in the delivery of works and services to our communities.

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. Cost escalation assumptions are sourced from various reputable sources and publications and clearly identified in our long-term financial plans.

Thank you again for the opportunity to provide input and comment in relation to the above. Please do not hesitate to contact Council's Manager Finance and Administration, Mr Ross Gilshenan on 0249 2102287 or by email on [rgilshenan@lakemac.nsw.gov.au](mailto:rgilshenan@lakemac.nsw.gov.au) .

Yours faithfully

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