IPART Submission

Measuring and Assessing Productivity Performance in Local Government

1. **Is the current method of using 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?**

   Given the length of time since rate pegging was introduced in 1977 and that it has remained in place for 34 years and government comments at the recent “Destination 36” workshop that it will continue into the future, Councils are being placed under continual pressure to fund required infrastructure works and to meet the service level expectations of the community.

   As a large growth council, the recent changes to the levying of Section 94 developer contributions, the IPART productivity discount and cost shifting from other tiers of government have had a detrimental impact on council’s capacity to deliver new infrastructure, maintenance and services to an expanding community.

   If the process of the application of a discount is to continue, it is Council’s opinion that as Local Government is not driven by a “profit motive” like the private sector, that a public sector measure would be the most appropriate measure. Given the pressures mentioned above Council’s preference is that no productivity discount be applied.

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

   Council does not propose an alternative measure and would argue that with the impending implementation of the Carbon Tax, essential inputs to service delivery are expected to increase significantly and that any reduction in revenue capacity will lead to a reduction in service delivery to the community. Council undergoes a thorough review of service delivery on an annual basis with a view to achieving efficiency gains in order to balance its proposed budget; this is not sustainable and is compounded by the application of a productivity discount that erodes further Council’s capacity to raise essential revenue.

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?**

   Given that many of the services provided by Council are based on community need or benefit it is difficult to accurately measure their consumption. Councils are not like manufacturing or sale based industries where direct and accurate analysis of quantities and prices could be readily completed.

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

   It would be difficult to determine productivity improvements from the long term financial plan (LTFP) as it mainly focuses on the measurement of revenue and expenditure involved in providing services. The LTFP is not developed to measure productivity improvements and as noted in item 3 above, a number of services provided by Council do not have measurable outputs and are provided for community benefit. If a productivity improvement resulted in an expenditure saving it would not be identifiable in the LTFP as any savings in one area are generally applied to other services where funds are required due to cost increases, expansion of services or loss of funding from other sources.

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

   There are many variables within and between councils, no two are the same. Some operate in highly disadvantaged communities, some are growth councils and are therefore under pressure to meet the demands associated with an expanding community, some outsource parts of their operations, some are small some are large. It would be difficult to establish one size fits all productivity indicators on an industry wide basis.

   Any productivity indicators that may be introduced need to include measures that reflect the key professional skill shortages in core service areas, engineering, planning and other professional disciplines that may impact on overall productivity and performance.

   In assessing the productivity of Councils with regard to Special Rate Variation applications, we would recommend that each application be treated on a case by case basis, as productivity improvements will be different for each council depending on their circumstance. It is the responsibility of each applicant to demonstrate appropriate productivity improvements for their particular council.

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

   As noted above it will be difficult to establish a one size fits all set of indicators, however, in order to improve over time will require constant communication and consultation with the industry to ensure the measures are appropriate to and accepted by the industry. Indicators that are intended to apply across the industry should not be developed in isolation. `

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

   Not necessarily, as noted above the variations in services and their level of delivery between councils means that the net cost of services can be skewed, you may not be comparing the same thing. A focus on net cost of service also fails to take into consideration the level of customer satisfaction, level of service provided and what is the base level required by the community, it also fails to examine the methods of delivery; in house, in partnership with other agencies within the community or outsourced.

The net cost of services can fluctuate as a result of factors beyond council's control, such as an increase or decrease in the demand for the service, cessation of grant funding, the impact of the Global Financial Crisis on available funds to name a few.

8. Can councils demonstrate how the cost assumptions in their Long Term Financial Plans are derived and why they are reasonable in the light of current inflationary trends?

Council is able to demonstrate the cost assumptions in the long term financial plan with reference to the source and reasoning of the assumptions. In general, council applies different escalation factors across different revenue and expenditure categories based on available information at the time of preparation. For example, we know that the Superannuation Guarantee Charge will go up by 0.5% per annum from 2014 capping at 12% in 2019, we know what the Award increases for wages will be for the next two to three years.

It should be noted that compared to other local government sectors in Australia very minimal assistance / guidance is provided by the NSW Division of Local Government (DLG) and it is hard to find the same escalation factors across a number of councils. We would recommend that on an annual basis the (DLG) research and publish a common set of escalation factors that all councils can apply when preparing their budgets. This would provide efficiency gains for Council's who individually spend many hours seeking such information. It would also provide consistency across the industry when comparing movements in council budgets.