

**Marrickville Council**

**Submission**

**Measuring and Assessing Productivity Performance in Local  
Government**

**IPART Discussion Paper September 2011**

Council would like to thank IPART for the opportunity make a submission on its Discussion Paper. Council is appreciative of being able to see the thinking behind IPART's deliberations and would like to make comment on these aspects so that they can be taken in context with our response to your list of eight issues.

As IPART is no doubt aware, Council is empowered to undertake its operations in accordance with the Local Government Act (the Act) and Regulations. Council's Charter is clearly set out under section 8 of the Act viz:

#### **8 The council's charter**

(1) A council has the following charter:

- to provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively
- to exercise community leadership
- to exercise its functions in a manner that is consistent with and actively promotes the principles of multiculturalism
- to promote and to provide and plan for the needs of children
- to properly manage, develop, protect, restore, enhance and conserve the environment of the area for which it is responsible, in a manner that is consistent with and promotes the principles of ecologically sustainable development
- to have regard to the long term and cumulative effects of its decisions
- to bear in mind that it is the custodian and trustee of public assets and to effectively plan for, account for and manage the assets for which it is responsible
- to engage in long-term strategic planning on behalf of the local community
- to exercise its functions in a manner that is consistent with and promotes social justice principles of equity, access, participation and rights
- to facilitate the involvement of councillors, members of the public, users of facilities and services and council staff in the development, improvement and co-ordination of local government
- to raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investments and, when appropriate, by borrowings and grants
- to keep the local community and the State government (and through it, the wider community) informed about its activities
- to ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of the council is affected
- to be a responsible employer.

Interestingly, the Act does not support IPART's view that Council should focus on reducing rates. Further, the Act does not support the view that Council can only continue to provide the same services it has undertaken in the previous year. Councils are democratically elected bodies that are responsible to their electorates. Where the community feels that a

Council or Councillors have not delivered what the community expects then this will be dealt with by the community at the next election.

Whilst the Act empowers IPART (via Ministerial Direction) to determine the annual rate peg and consider special variation applications, Council is still responsible for determining which works are actually undertaken. Council considers that it has a primary duty of fiduciary care and responsibility for maintaining its assets to an acceptable community standard of safety and usefulness. Council does not accept IPART's view that productivity savings should not be directed towards infrastructure backlogs.

As part of Council's budgetary process, compiling the budget invariably places the funding shortfalls at the forefront. In achieving a balanced budget each Council will have all ready undertaken an efficiency review and utilised any productivity savings. Since the inception of rate pegging in the 1970's, all Council's have had to struggle in order to balance their budgets. Political considerations, community demand for new services, cost shifting by the State Government and cost increases in excess rate peg increases have forced Councils to defer infrastructure renewals.

In excess of 30 years of rate pegging has delivered all Council's into the parlous situation of having excessive infrastructure backlogs. The evidence is undeniable and plainly transparent. IPART need only examine each Council's Special Schedule 7 of their Annual Financial Reports to confirm the situation. Local Government is not alone in this regard with both State and Federal Governments deferring or being reluctant to initiate capital programs. Consider greater Sydney's public transport systems as an example.

Each Council undertakes community consultation as required by the Act to make available their Integrated Plans for the consideration and comment of any interested party. Council actively and openly seeks comment as required under the Act. As part of the process Marrickville Council continually looks at maximising the delivery of quality services to meet the community's needs and expectations. Marrickville Council is proud of its attempts to improve community engagement in the process.

The Division of Local Government expects Council's to have a balanced budget. After 30 years of squeezing the budget due to rate pegging limiting rate increases to the CPI or less, together with statutory fees that are rarely revised, the only way to achieve such a result is to utilise productivity gains and efficiency measures. As mentioned above, achieving a balanced budget each year requires Council's to look for efficiencies and productivity gains. The majority of Councils commence their budget build process well in advance of the announcement of rate peg limits. This was certainly the case prior to IPART taking on the role. To add a further Productivity requirement is a double dip.

Prior to the exhibition process, Council has already taken the necessary steps to achieve efficiencies and apply funds towards new initiatives or to meet cost increases in excess of rate peg limits as part of the process of building the budget.

Rate Pegging was borne of the notion that rates are too high. This is another issue that is not supported by fact. Information provided by the Division of Local Government's Comparative Information for 2009/10 discloses the following

Average Residential Rates			
Grouping	Annual rate	Weekly Equivalent	5% increase weekly cost to Household
NSW High	\$1,234	\$23.63	\$1.15
NSW Mean	\$786	\$15.05	75 cents
NSW Low	\$95	\$1.81	9 cents

From the above it is evident that the majority of residential ratepayers in New South Wales contribute less than \$23.63 per week to the operations of their local Council. A 5% rate increase at the highest level would not have any significant impact on the household budget (\$1.15 per week). One could ask why is there a rate peg on the lower rating Council's at all? The rate peg needlessly prevents those lower rating Councils from improving the living standards of their towns and villages - why? The stance of economic rationalism is plainly questionable in these circumstances. Why do we need to make the smaller country Councils' problems harder to solve? Why do Council's with an average annual residential rate of less than \$500 require rate pegging?

In many studies undertaken by the NSW Local Government Grants Commission, the Grants Commission has recognised that all Council's face varying expenditure differentials. It takes these into account when considering the allocation and distribution of the Federal Government's Financial Assistance Grants (FAG) to the various local authorities within New South Wales. As the Grants Commission has a thorough understanding of the issues facing Local Government in New South Wales, it would seem entirely appropriate for IPART to avail itself of this knowledge to see if from the Grants Commission's data there is a 'best fit' approach to the industry as a whole.

The Grants Commission looks a many issues faced by each individual Council including:

- Age demographics
- Family demographics and children's services requirements
- Employment opportunities
- Location issues eg soil sub structures for road building, transportation costs etc
- Service Differentials eg airports, bridges, flood plains etc
- Service level variations eg street sweeping frequencies
- Sporting facility needs etc

If an understanding of the issues evolves as expected, it would be quite clear to IPART that a common productivity adjustment would be inappropriate. It is hard to imagine that two eminent Government bodies could have divergent views if they have an equal understanding of the industry.

Accordingly, if there is no common base for comparatives, it is considered that it would be inequitable to apply a common productivity factor across all Councils.

### **Issues for Comment**

- 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?**

No industry series would be appropriate as no other industry provides for the multiplicity of services delivered by local government in NSW. A generalised approach would not be equitable.

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

It would be more appropriate for each Council to identify in its Operational Plan the productivity gains achieved in compiling the Budget and submitting for public comment the proposals to utilise those savings as either a return to ratepayers or the provision of additional services.

- 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?**

IPART should review the information contained in the annual Grants Commission returns. The returns will provide a basis for benchmarking data.

**4. Are Productivity improvements able to be captured within Council's long Term Financial Plans? If so please illustrate.**

In adopting the operational budget the base line has been adjusted for all productivity returns. From this point future projections are based on this position. If Council could foresee future opportunities then surely this would be recognised in the initial base line budget. It is not possible for Council's have a better basis of predicting future outcomes than anyone else. Regardless of this, Council would prefer to quarantine future savings in a Capital Improvements Reserve (Restricted Asset) to apply against infrastructure shortfalls.

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

IPART should consider the information that is already available. Councils produce Annual Financial Reports with Note 13 providing Performance Measurement Indicators. Additionally there are special schedules:

Special Schedule 1 – Net Cost of Services

Special Schedule 7 – Condition of Public Works (Assets)

The Local Government Grants Commission Returns provide a myriad of data with measurable data including road lengths etc

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

IPART needs to accept that there is no consistency of information or services provided by Councils. It would help if definitions could be established to ensure a consistency of applying data was attained.

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

No. They do not recognise the individual differences faced by each Council, such as:

Local economic conditions

Local issues such as transportation costs

Different service provisions – Aerodromes, cattle yards, sporting field types, beach lifeguards etc

Road construction issues - lack of gravel availability vs rock base

Demographic needs – aged community, youth needs

Service level provisions - street sweeping frequencies, verge mowing etc

**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?**

Marrickville Council can provide its escalation factors over different cost drivers including wages, utilities, insurance, fuel and general CPI. However, IPART should nominate the body it accepts as being reasonable in predicting inflationary trends. Council is not aware of any Economic Body who has been accurate over the last decade.