

Local Government Team
Independent Pricing and Regulatory Tribunal
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NSROC Submission to the Discussion Paper “Measuring and Assessing Productivity Performance in Local Government”

The Northern Sydney Regional Organisation of Councils (NSROC) is a voluntary advocacy association of seven councils (Hornsby, Hunter’s Hill, Ku-ring-gai, Lane Cove, North Sydney, Ryde and Willoughby). The NSROC Board is comprised of seven Mayors and other elected representatives from these member councils.

Based on various concerns, NSROC and its member councils have compiled this brief submission on key issues relating to IPART’s Discussion Paper.

Various NSROC member councils have examined productivity issues as part of their rates variation submissions to IPART in previous years. Some key issues and observations that have been drawn from this activity include:

- Productivity improvement “concepts” do not recognise or measure qualitative outcomes which are a frequent motivator for changes and increased expenditure in council operations.
- Productivity improvements in local government are not captured in the current methodologies which often fail to recognise transition and transaction costs and do not recognise outcomes improvements that may be achieved. For example a key area where productivity improvements may be achieved is through workforce skill enhancement. However training is not costless and must be mitigated against the flow of productivity gains.
- Productivity improvement “rates” cannot be assumed to be constant. An annual productivity improvement percentage for products and services is not realistic. Consideration must be given to cumulative and incremental impact of previous productivity initiatives. It must also be recognised that councils’ productivity improvement capacity is frustrated by statutory and monopoly pricing which impacts on many council activities.
- NSROC councils argue that where productivity improvements and efficiency dividends are achieved by councils, these savings should be leveraged into key budget priorities such as infrastructure backlogs, rather than be a compensatory factor that diminishes a rates variation claim.

Comments on questions raised in 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 most appropriate?*
2. *If not, what alternative measure would be more appropriate for determining a productivity factor?*

As NSROC Councils noted in their submission to the 2009 Review of the Revenue Framework for Local Government, IPART's Local Government Cost Index partly addressed the concerns of the current rate pegging system. By moving to a cost index and open calculation of a cap level, the costs specific to local government operations can be recognised. However there remains a fundamental concern about the possible exclusion of state charges and imposts from the index.

In discussions on cost shifting in the 2009 Review, IPART limited the definition of 'cost shifted' items to those that: a) relate to asset transfers, or, b) are legislative mandates.

A more appropriate index should encompass state levies for waste, fire and parking and other legislative requirements, most significantly, street lighting provision, pensioner rebates, election costs and rating property valuation costs. These inclusions to the index are particularly necessary where State agencies have moved to cost recovery pricing such as the Electoral Commission of NSW and the NSW Valuer General's Office as this can substantially change projected costs and budget planning.

NSROC argues that the capture of state charges and imposts are essential to generate a meaningful Local Government Cost Index. This in turn would inform a more accurate assessment of the limitations of productivity measures for local government.

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?*

Measuring councils outcomes and outputs within a productivity framework is extremely limiting given the activities that councils undertake. For example a council library which sees an increase in book borrowings of 50 per cent in a year is a valuable outcome for the community. It is indicative of a successful well used facility. However this outcome is very hard to translate into a productivity measure or an efficiency gain as no revenue or savings are generated from this increased activity.

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

Long term financial planning by councils anticipates price variations and service demand increases. The correlation between these two factors can highlight potential opportunities for productivity improvements but generally councils are no better than any other business in predicting future outcomes and price movements. As noted previously, councils are price takers in many monopoly or regulated services they purchase. Changes in these prices are even less predictable than prices that are provided through competitive markets.

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

As has been argued earlier, performance and qualitative factors are key indicators of functioning councils. IPART should move away from standard productivity measures as tool for assessing councils and draw from other data readily available such as council's annual financial reports and performance measures and indicators set out by other providers such as the Local Government Grants Commission Returns.

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

Productivity indicators are a limiting tool for assessing council performance. IPART should alternately examine councils' budget and planning documents such as Long Term Financial Plans, Operational Plans and Workforce Plans.

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

Councils have a wide variety of services and demographics which influence their net costs and therefore it is not comparable to use net costs of individual services to measure council performance. For example, some councils may have geography and distance which makes individual costs of services such as council inspections high per service unit. Moreover there is no recognition of customer satisfaction or quality of service that can be captured by a net cost measure.

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?*

As noted earlier, councils are no better placed to predict price increases than any other business sector and utilise the same techniques available to any business. However councils have less flexibility in pushing costs down due to the many regulated and monopoly priced inputs and services that they are obligated to provide to their communities.

Should you require any further information please contact NSROC's Executive Director, Carolynne James on ph 9911 3595 or cjames@lanecove.nsw.gov.au

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