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Local Government Team
Independent Pricing & Regulatory Tribunal
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Dear Local Government Team

Measuring and Assessing Productivity Performance in Local Government

Port Stephens Council appreciates the opportunity to make a submission in relation to the Discussion Paper on Measuring and Assessing Productivity Performance in Local Government.

We note the issues that IPART are particularly seeking comment on and intend to address a number of those issues as well as make some more general comments.

Firstly, Council would like to comment on the rationale for incorporating a productivity factor into the rate peg calculation. On page 4 of the discussion paper the following statements from the 2009 Review are reproduced:

"... not adjusting the annual rate peg to reflect the potential for productivity gains would allow those councils that improve their efficiency to use the resulting cost savings to expand their services or help address infrastructure backlogs. But in our view, council decisions to use productivity gains for purposes other than reducing rate increases should be made in consultation with the community. ... However, a council that achieves productivity gains higher than the adjustment factor applied to the annual rate peg would be free to choose how it uses the cost savings from the additional gains."

In Council's view this justification for the productivity factor is flawed. By not being able to address the infrastructure backlog through redirecting funds that have become available from efficiency gains across the Council, the backlog gets bigger resulting in more reactive maintenance and therefore a larger burden on the ratepayer in the longer term. Additionally, it appears contradictory that IPART's view is that, to a point (i.e. the productivity factor percentage) council decisions to use productivity gains for purposes other than reducing rate increases should be made in consultation with the community, however past that point, Councils are free to do whatever they like with their productivity gains. Councils are democratically elected. If the community doesn't agree with how cost savings are being utilised they can vote accordingly at the next local government election. Finally the community are consulted through the IP&R process used in NSW.

Secondly, Council would like to comment on the productivity measure utilised for the 2011/12 rate peg and the appropriateness of this measure against other available measures.

Council notes that IPART chose not to use the 'Public administration and safety' measure for the following reasons:

- *Includes all 3 tiers of government in Australia*
- *Includes law enforcement, public safety and emergency services agencies, including prisons and border control, that are not activities provided by local government.*
- *Excludes activities of local government that produce 'private sector like' services. These commercial and business services are classified into the same industry as private sector units that engage in similar activities*

Council finds it hard to understand the justification for this decision based on the reasons outlined above. The public administration and safety measure includes all 3 tiers of government. As local government is one of those 3 tiers, Council views this as an argument to support this measure's use rather than an argument against it. The public administration and safety measure includes law enforcement, public safety and emergency services agencies. While local government is not responsible for prisons or border control a material component of local government services can be described as law enforcement, public safety and emergency services. While the public administration and safety measure may exclude activities of local government that produce 'private sector like' services, these services are often funded from user fees and charges, not rate revenue.

If a productivity factor is to continue to be utilised in determining the rate peg, an important justification for discounting any of the proposed productivity measures is that the private sector, federal government and state government all have much greater access to capital for funding productivity improvements, particularly IT investments, than local government. Additionally, the private sector has skills based boards who, on average, have a better appreciation for the longer-term benefits of these investments on non 'front-line' services.

Thirdly, Council would like to comment on the question of whether net costs of individual services is useful in measuring and comparing Council performance. Council would like to highlight that the Local Government Grants Commission has long recognised that 'disability factors' present to a greater or lesser degree across all Councils, can have a significant impact on the cost of providing particular services. Council is therefore of the view that IPART should not see Councils as homogenous entities that can all be compared on a 'cost per unit of production' or other similar basis.

Finally, Council notes anecdotally that the cost indexes of other states appear to provide justification for larger rate increases than the NSW LGCI. Whilst it is acknowledged that the NSW LGCI is a new methodology, Council believes this should be a consideration for IPART in ensuring the NSW LGCI does not disadvantage NSW Councils in their ability to deliver services for their communities.

Yours faithfully

Peter Gesling
GENERAL MANAGER

3 November 2011