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COUNCIL REFERENCE: 8596E (D11/261755)  
CONTACT PERSON: Rob Donaldson  
YOUR REF:

4 November 2011

Local Government Team  
Independent Pricing & Regulatory Tribunal - NSW  
PO Box Q290  
QVB POST OFFICE NSW 1230

Dear Sir/Madam

**Measuring and Assessing Productivity Performance  
in Local Government - Discussion Paper**

With reference to the September 2011 Discussion Paper regarding measuring and assessing productivity and performance in local government, Council considered the report on 27 October 2011 and resolved to provide the following submission.

Comments are provided generally in answer to the eight issues presented 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 most appropriate?
  - *The Public Administration and Safety sector productivity measure appears to be a more valid comparison for local government productivity, however, the resolution of an appropriate rate of 'uncertainty discount' to that measure will need further consideration.*
  - *The IPART cost indexation and productivity assessments need to take into account the impact of the Federal Government carbon price scheme on local government core operations into the future.*
2. If not, what alternative measure would be more appropriate for determining a productivity factor?
  - *Refer to (1) above.*
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?

- *Not only is service improvement more difficult to measure than other forms of production, but productivity increases in local government do not always result in direct financial savings to the operating budget. Often they convert to increased delivery of existing services or service level increases – while these fit within the conceptual model of 'improved output per unit of input', they do not create the capacity to operate with revenue that is discounted relative to benchmarked cost escalation.*
  - *Medium-term consequences of consistent productivity factor reduction within the rate peg determination could include Councils embarking on more comprehensive service evaluations/reviews that may reduce service outputs (whether or not linked to processes of community engagement) rather than limiting adjustments to the reduction of input costs.*
  - *Council generally tries to measure efficiency gains in 'dollars', however, these cannot always be translated to expenditure budget savings or reductions. We are not always able to measure 'service levels or outputs' well enough to record and track anticipated improvements where efficiencies are expected but not linked to direct financial savings.*
4. Are productivity improvements able to be captured within council's Long Term Financial Plans? If so, please illustrate.
- *As context, for Shoalhaven City Council, the 2011/12 productivity factor of 0.2% equates to the loss of one to two FTE staff positions with on-costs on an on-going basis.*
  - *The discounting of the local government cost indexation determination will create significant pressure for continuous improvement over time, given that industrial Awards lock in the escalation of labour costs at rates higher than the core indexation rate, without any other change to an organisation;*
  - *The example in section 3.2 of 'rationalisation of assets' should be applied carefully, given that the simple sale of assets does not improve productivity in itself. However, the rationalisation of assets for improved service outcomes would improve productivity.*
  - *We only reflect productivity improvements in the LTFP where direct financial savings are confirmed. It may be feasible to reflect a broadly applicable productivity improvement (ie, savings) target in budgets and forward forecasts through the indexation setting on recurrent program activities.*

5. What indicators should IPART use in assessing the productivity of councils?
- *The public sector efficiency dividend analogy is a reasonable one.*
  - *Shoalhaven City Council has an on-going program of productivity improvements and efficiencies, against a target of 10% improvement over 5 years, reported each year in Council's Annual Report.*
6. How can productivity indicators be improved over time?
- *No specific suggestions.*
7. Are net costs of individual services useful in measuring and comparing council performance?
- *This would have limited value, although it may drive progressive change and improvement over time. This approach may be best based on gross cost, because net increases will be affected by variable treatment of revenues, revenue attribution, fee settings and the like.*
  - *It should also be noted that variations to service specifications will affect the validity of comparative information.*
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?
- *While assumptions and risk assessments are set out in Council's Long Term Financial Plan, there is limited rationale included and they are not subject to sophisticated testing or analysis.*
  - *Council assumes for LTFP purposes that recurrent activities will continue on a 'business as usual' basis with no service level change, and that most costs will only increase at a forecast "CPI" rate (with the potential for a productivity factor to be included, but not currently used) and industrial Award rates.*

I trust that this response will assist the Tribunal's work. If you need further information about this matter, please contact me on (02) 4429 3270. Please quote Council's reference 8596E.

Yours faithfully



**Rob Donaldson**  
Assistant General Manager