

SUTHERLAND SHIRE COUNCIL

DATED 4 NOVEMBER 2011

SUBMISSION PAPER TO IPART

SUBMISSION ON “MEASURING AND ASSESSING PRODUCTIVITY PERFORMANCE IN LOCAL GOVERNMENT” – DISCUSSION PAPER – SEPTEMBER 2011

ACKNOWLEDGEMENT

Sutherland Shire Council would like to thank IPART for the opportunity to respond to their discussion paper “*Measuring and Assessing Productivity Performance in Local Government*”- September 2011.

SUMMARY

This council supports IPART in their approach to develop a Local Government Cost Index (LGCI) and the use of this index for setting the rate peg for NSW local government. This council is not entirely supportive of rate pegging, however if it is to exist then this transparent approach is far more satisfactory than past methodologies.

In addition, this council does not support the development of, or use of, a one only annual local government industry productivity factor to be deducted from the rate peg figure. For reasons outlined in the submission the resourcing for councils, and IPART, to develop such a complicated factor far exceeds the benefits derived from its existence. Also, council is not supportive of using the productivity factor to be deducted from the rate pegged figure, as this council during the year has already applied efficiency gains to its budget, and to have it again applied as a deduction to the rate peg has a doubling effect.

Council also believes that efficiency gains should be applied as decided by council within its legislative charter under the Local Government Act and does not share IPART’s view that these gains should be used to reduce rate increases rather than expanding services or help address infrastructure backlogs. It is therefore suggested that in the absence of a legislative framework that supports the IPART view, that council is satisfying its charter, and is empowered under the Local Government Act, in making these decisions in the best interests of the community.

Comment on Productivity Factor

It is acknowledged that a relevant productivity factor is applied to other industries and markets regulated by IPART however, most of these industries are delivering a single measurable service or product as opposed to hundreds of the diversified products and services delivered by local government. The measurement of outputs to inputs to derive a

productivity factor in single service or product industries must be a far simpler process than a multiple service provider like local government. A specific industry productivity factor for a single delivery industry would therefore be acceptable in the case that you state for the taxi industry but not for local government.

Local government is complicated by the number of services delivered as annual productivity gains may, for example, exist in areas like parks maintenance and libraries but other areas like street cleaning and leisure centres may not have had productivity gains that year. How then do you factor in the vastly different type of services, and their various efficiencies, as one productivity factor to represent that one council?

In addition, multiply this by the number of NSW councils then the argument becomes stronger that one industry factor would not be representative of all the councils and their diversified services. This is further complicated by rural councils compared to metropolitan councils, where we would suggest productivity factors would be quite different between the class of councils purely on types of service delivery, location, cost inputs and service priorities.

It is suggested that a great deal of resources from councils and IPART would need to be invested in developing such a specific industry measurement. It is therefore questionable whether the output result is of a significant benefit compared to the investment of the resources required. It would be a concern to ensure that any calculation is prospective whilst acknowledging past efforts and proven results. Reviews of areas previously visited by some authorities with positive outcomes would be a severe disadvantage.

For the reasons above we believe it would be a most difficult exercise to develop a NSW local government sector productivity factor that would be fair, equitable and relevant to all NSW local councils.

Comment on the use of productivity gains

This council already achieves productivity gains each year, and over many years previous, and this is well documented as outlined in question 4 below. These efficiency gains have been used to provide expanded or additional services or address infrastructure backlog over the years. This has been widely accepted by the community and the elected members with council being open in publicly declaring the volume of savings reflected from these efficiency gains.

Therefore, Council does not support the IPART view that efficiency gains should be used for reducing rate increases rather than expanding services or help address infrastructure backlogs. IPART states this decision should be made by consulting with the community which the council does do through the integrated planning process via the Delivery Plan each year. Additionally, Council has been able to achieve increases in allocations over time to address asset spending shortfalls.

Council conducts its business under the charter of the Local Government Act 1993 (section 8) in managing services and facilities in an efficient and effective way. This includes engaging the community and exercising community leadership. Decisions in how to use any productivity gains is therefore really a decision of council as empowered under legislation. This council has enormous demands for expanded and additional services placed on them by the community and reduction in some services or making efficiency savings in areas, which can pass on resources or funds, is the only way these demands can be considered. Special rate variations are generally not considered for operational service delivery. In addition, if council can clear some of its infrastructure backlog by utilising efficiency savings from operations then this would be the preferred option as opposed to seeking a special rate variation.

It is therefore suggested that in the absence of a legislative framework that supports the IPART view, that council is satisfying its charter empowered under the Local Government Act in making these decisions in the best interests of the community and for it to be otherwise would be to undermine the limited financial independence entrusted to Local Government.

Responses to IPART Questions

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”*

Response:

As outlined in the comments earlier it is questionable whether any great benefits would be derived by developing a specific local government productivity factor. We believe it would be a most difficult exercise to develop a NSW local government sector productivity factor that would be fair, equitable and relevant to all NSW local councils.

Also as outlined this council has set budget targets each year since 2002/03 for savings and efficiency gains and have been very successful in reaching those targets. We therefore do not agree in a productivity factor being deducted from the rate peg as council feels it is being penalised above the gains already set as a minimum and achieved plus more.

With that said, if a productivity factor is mandatory and has to apply, then the statements made by IPART on other productivity sectors in the discussion paper have some merit. The All Industries sector would contain a large manufacturing and production market sectors and would not be a good representation of local government services. We would suggest this may also be the case for the Market sector measures. If any alignment was to be made it would make sense to consider

in detail using the “Public administration and safety sector” as this is closer to the service providing industry of local government, but is still severely limited in scope by comparison with the Local Government industry.

BUT – the base from which the sector is approaching productivity estimations may well be of considerable disadvantage to more advanced organisations.

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

Response:

There does not appear to be a readily accessible and applicable alternative.

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?”*

Response:

This is an incredibly difficult task across a council without considering the complexities across all NSW councils. Sutherland Shire Council has over 100 different services and vast infrastructure programs. No doubt some simple measurements may be available but again it would be specific to that one council only. If the objective is to have comparable productivity service measurements between councils across NSW then this is almost impossible.

For example library expenditure volumes or quantities between say Sutherland Shire, Strathfield Council and Harden Shire Council would not be comparing the same services. In 2010/11 on library services Sutherland spent \$6.5m, Strathfield \$2.083m and Harden \$128,000, expressed as a expenditure per capita this works out at Sutherland \$29.55 with 8 libraries, Strathfield \$65.09 with 2 libraries and Harden \$35.55 with 1 library. So before we start looking at productivity gains as a percentage or measurement what do we make of the per capita figures. Is Sutherland very efficient or can it use its costs better by economies of scale across a large number of libraries? Or is it that Strathfield places a lot higher priority on library services than the other two? The priority, purpose and levels of services between councils are far more complicated than allocating numbers for comparison purposes.

In respect of some service areas within Council, we have very accurately measured productivity due to close attention to cultural change and form of service delivery, ie. day labour replaced by contractors.

Therefore individual councils may be able to measure volumes, quantities and prices, however to then compare against others or try to develop a specific service productivity factor that has some relevance is a very difficult task. If it was not a difficult task many analysts before now would have developed a methodology sometime over the 100 year history of local government.

It remains that the vast differences between the various councils makes it almost impossible to have a one-fits-all approach. Services provided, and levels of those services, vary dramatically.

4. *“Are productivity improvements able to be captured within council’s Long Term Financial Plans? If so, please illustrate”*

Response:

Yes, Sutherland Shire Council has been recognising two major items in its Long Term Financial Plan for over the last five years. The line items are:

1. Organisational reform \$500,000 each year – this represents efficiency gains that are on-going, however each year a new \$500,000 must be found.
2. Future Works Reserve \$500,000 each year – this represents additional actual gains or savings in that year that is put into a Reserve to assist with future budgets; again a new \$500,000 must be found each year.

The Attachment A demonstrates at the executive summary level for the 10 Year Financial Plan how these two items are shown. The 10 year Financial plan is adopted each year by council in conjunction with the annual budget.

So each year council is committed to find \$1million in savings and efficiencies, with \$500,000 estimated to be the efficiencies. These items are initially shown as an organisational provision and once areas start to produce efficiencies the organisational provision is reduced and the provisions show in the individual areas where they have been achieved.

All efficiencies are also reported to the Senior Executive (Directors) meeting and once endorsed by senior management they are reported in a Budget Review which goes to council for adoption. Attachment B shows how the efficiencies are reported during the year in a budget review. Attachment C is an example of a template used

for reporting efficiencies to the senior management group to endorse before it is provided to council through a Budget Review.

To have a further productivity loss disadvantages this council and other councils that have made efficiency / productivity gains.

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

Response:

As previously stated we believe this is extremely difficult and complicated due to councils having different cost structures, levels of service and service delivery priorities. To develop consistent indicators that could be used uniformly across NSW councils is near impossible. It must also be recognised that political decisions and priorities between councils will also affect performances, hence also affect any indicators and flow onto affecting productivity measures.

Previous use of indicators published by the Division of Local Government were meaningful but related to inputs only and not outputs.

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

Response:

It would be assumed experience over time would either support or otherwise decisions made. To not learn from experience would be a real waste of energy and would defeat the purpose of what is being sought.

Councils should be required to produce their own indicators and these could be subject to audit.

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

Response:

No – again different cost structures, different service levels and priorities on services. Reference is made to the council comparatives stated in Question 3 above which shows the vast differences between library services. The figures provided in those examples come from the net costs of services Schedule 1 for the 2010/11 financial reports.

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?”*

Response:

Sutherland Shire Council does use current trend inflationary figures for future years in the Long Term Financial Plan for non labour components of services. For example, if the current CPI is around 3% ,and there are no future figures available from major economists or major banks to suggest a major variance to this assumption, then the 3% will be projected throughout the future years. If there are publicised predictions for future years then council may consider their relevance and apply these.

For labour components council is usually in a position to know the adopted increase in the enterprise agreement (EA) over several years and will apply this percentage to the relevant future years. Similarly, Award variations are now known in advance and where different to our basic 3% assumptions, are built in. Beyond that the figure applied will be similar to those in the current EA.

Council also is conservative with statutory payments or contributions and usually allows an above inflationary figure for the forward years as traditionally these government items do marginally exceed the regular CPI figure each year.

Also, known factors will be applied at the increases or values assessed for example, loan repayments, regulated indexes like the Valuer General services or street lighting charges.

The council Long Term Financial Plan is derived at the budget level (across thousands of items) and forward parameters are projected on different criteria to consolidate up to a summary level. The Plan is therefore a summary of a very detailed series of parameters and assumptions applied at the lowest level and allowed to flow up to a executive summary for decisions at this level.

CONCLUSION

This council supports IPART in their approach to develop a Local Government Cost Index (LGCI) and the use of this index for setting the rate peg for NSW local government, although it is of concern that the index does not include known future costs, eg. impact of carbon tax for 2012/13 budget. This council is not entirely supportive of rate pegging, however if it is to exist then this transparent approach is far more satisfactory than past methodologies.

In addition, this council does not support the development of or use of a one only annual local government industry productivity factor to be deducted from the rate peg figure. For reasons outlined in the submission the resourcing for councils and IPART to develop such a complicated factor far exceeds the benefits derived from its existence. Also council is not supportive of using the productivity factor to be deducted from the rate pegged figure, as this council during the year has already applied efficiency gains to their budget and to have it applied to the rate peg suggests a doubling effect.

The reasons for not supporting a one NSW local government productivity factor across all councils are:

- Size and structures between councils are so different;
- The range of service level provisions are so diversified based on community priorities and expectations;
- Service level priorities are very different between councils dictated by demographic and local issues;
- Each council has different local economic conditions, especially rural and city councils;
- Local politics involving decisions are very different;
- Location and isolation factors must be considered; and
- Performance over time in already achieved productivity improvements varies greatly between councils as does the reporting and verification of those gains.

For the reasons above we do not believe that a single productivity factor can be representative of such a multiple service provider like local government.

Submitted on behalf of Sutherland Shire Council

Graham Thomas

Manager - Finance

TEN YEAR FINANCIAL PLAN MODEL - REVISED

	TOTAL		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Discretionary Funds Available																								
Available Working Funds Brought Forward	1,943		1,710		205		23						5											
Recurrent Operations	129,514		6,510		9,453		11,771		12,971		15,083		15,054		14,920		14,785		14,599		14,599		14,368	
Future Works Reserve	13,035		4,451		2,100		901		2,583		500		500		500		500		500		500		500	
Organisational Reform	4,000		-		-		500		500		500		500		500		500		500		500		500	
Engadine Community Facilities Stage II	2,390		-		12		23		2,133		222		-		-		-		-		-		-	
Additional Borrowing (Net of Debt Servicing Costs)	-		-		-		-		-		-		-		-		-		-		-		-	
Other	-	150,882	-	12,671	-	11,770	-	13,218	-	18,187	-	16,305	-	16,059	-	15,920	-	15,785	-	15,599	-	15,368	-	15,368
Proposed General Revenue Capital Program		162,045		12,671		11,747		13,218		18,187		16,300		17,774		18,042		17,987		17,992		18,127		18,127
Annual Surplus/Shortfall		(11,163)		-		23		-		-		5		(1,715)		(2,122)		(2,202)		(2,393)		(2,759)		(2,759)
Cumulative Surplus/Shortfall						23		23		23		28		(1,687)		(3,809)		(6,011)		(8,404)		(11,163)		(11,163)

PROPOSED INFRASTRUCTURE/CAPITAL PROGRAM - REVISED

	TOTAL		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
TOTAL PROGRAM																								
Proposed Gross Infrastructure Program																								
General Revenue Funding	132,756		9,979		8,956		10,567		15,487		13,495		14,794		14,987		14,857		14,787		14,787		14,847	
Infrastructure Levy	11,527		3,729		3,841		3,957		-		-		-		-		-		-		-		-	
Other Funds	101,095	245,378	15,989	29,677	27,173	39,970	12,848	27,372	9,257	24,744	8,463	21,958	5,708	20,502	5,163	20,150	5,168	20,025	5,323	20,110	6,023	20,870	6,023	20,870
Proposed Gross Other Capital Works																								
General Revenue Funding	29,289		2,692		2,791		2,651		2,700		2,805		2,980		3,055		3,130		3,205		3,205		3,280	
Other Funds	10,000	39,269	1,000	3,692	1,000	3,791	1,000	3,651	1,000	3,700	1,000	3,805	1,000	3,980	1,000	4,055	1,000	4,130	1,000	4,205	1,000	4,280	1,000	4,280
TOTAL PROPOSED GROSS CAPITAL WORKS		284,667		33,369		43,761		31,023		28,444		25,763		24,482		24,205		24,155		24,315		25,150		25,150
GENERAL REVENUE COMPONENT OF PROGRAM																								
Proposed Gross Infrastructure Program	132,756		9,979		8,956		10,567		15,487		13,495		14,794		14,987		14,857		14,787		14,787		14,847	
Proposed Gross Other Capital Works	29,289		2,692		2,791		2,651		2,700		2,805		2,980		3,055		3,130		3,205		3,205		3,280	
TOTAL PROPOSED GROSS CAPITAL WORKS	162,045		12,671		11,747		13,218		18,187		16,300		17,774		18,042		17,987		17,992		18,127		18,127	

NOTE 6: GENERAL MANAGER'S 2010/11 & 2011/12 EFFICIENCY ALLOCATION

In the Council's 10 Year Financial Plan, a further allocation of \$500,000 has been incorporated for the General Manager's Efficiency Allocation for 2011/12.

The September and November 2010/11 Budget Reviews identified the following efficiencies to be offset against the 2011/12 allocation as listed below:

MM 10/09-10	General Manager's Efficiency Allocation	\$ 500,000
Less :	Identified in FIN049-11	
	Finance	-\$ 48,000
	Information Technology	-\$ 60,000
	Applications Assessment	-\$ 2,147
	Environmental Directorate	-\$ 16,000
	Building Works	-\$ 42,000
	Parks Operations	-\$ 10,000
	<u>Certification Unit (Additional Revenue)</u>	<u>-\$ 50,000</u>
		\$ 271,853
Less :	Identified in FIN089-11	
	Information Technology	-\$ 50,000
	<u>Operations Support</u>	<u>-\$221,853</u>
		<u>NIL</u>


There remains no further amount to be identified in the 2011/12 Efficiency Allocation, however, every effort will be made in the current year to continue to identify efficiency gains across the organisation.

ITEMS FOR CONSIDERATION / OTHER INFORMATION

It is important to note that at the date of this report being completed Council has not yet given formal consideration to what, if any, donations might be made to the various appeals for the support of flood victims in several States.

**SUTHERLAND SHIRE COUNCIL
EFFICIENCY / COST SAVINGS TEMPLATE**

**DEPT / UNIT Corporate Services – Environment Protection & Regulation
DATE: 12/08/10**

Action Taken – brief description of the saving / change / service alteration											
Environmental Services After Hours Call Out Transfer to Corporate Services – Environment Protection & Regulation Unit. The transfer aims to increase customer service delivery and reduce expenditure by utilising the current and existing resources of the environment protection & regulation unit.											
Quantified Savings Achieved - Initially and / or Long Term (\$ Savings)											
It is estimated that approximately \$5000 will be required to bridge the gap of transferring the cost over to EP&R Coordinators call out allowance, <u>thus providing for an immediate saving of \$15,000.</u>											
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;">Call Out Analysis 2010</td> </tr> <tr> <td>Total on call allowance payable in 2010 financial year</td> <td style="text-align: right;">14,394</td> </tr> <tr> <td>Average leaseback charges payable in 2010 financial year</td> <td style="text-align: right;">4,316</td> </tr> <tr> <td>Total overtime paid in 2009 financial year</td> <td style="text-align: right;">1,494</td> </tr> <tr> <td>Total Cost per annum for Call outs</td> <td style="text-align: right;">20,204</td> </tr> </table>		Call Out Analysis 2010		Total on call allowance payable in 2010 financial year	14,394	Average leaseback charges payable in 2010 financial year	4,316	Total overtime paid in 2009 financial year	1,494	Total Cost per annum for Call outs	20,204
Call Out Analysis 2010											
Total on call allowance payable in 2010 financial year	14,394										
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Total overtime paid in 2009 financial year	1,494										
Total Cost per annum for Call outs	20,204										
Productivity / Service Improvements – If Not Quantifiable in \$ Terms											
The transfer of the service provides the following benefits.											
<ul style="list-style-type: none"> • Improved liaison between EP&R and EBC providing greater cohesion between cross divisional units of Council. • Increased monitoring and prosecution of offenders by utilising current databases and investigative skills. 											
Impact on the Community – If Applicable											
The service is important and valued by the community in the strategic plan.											
Examples of complaints that the system responds to are:											
<ul style="list-style-type: none"> ○ noise complaints, ○ pollution emanating from building sites, ○ unauthorised works, ○ unauthorised tree removal and, ○ non compliance with conditions of consents. 											
SIGNED 	Brett Richardson MANAGER	DIRECTOR – R. J. HONEYMAN 