Submission – Measuring and Assessing Productivity Performance in Local Government

The Hills Shire Council

Following is our response to the specific questions/issues raised 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?

   We do not agree that the Rate Peg must be reduced by a productivity factor but , If a productivity factor must be applied to the rate peg factor, then we think an economy wide measure is most appropriate as a surrogate for a NSW Productivity measure.

   Further we would advocate a public sector measure instead of a private sector measure. Private sector productivity gains we would suggest are higher given the profit motive of the private sector and this is not the basis of Local Government nor the underlying incentive for productivity improvements in Local Government. Accordingly, we think a private sector productivity measure is a distorted measure of productivity for the Public Sector.

2. If not, what alternative measures would be more appropriate for determining a productivity factor?

   We don't see why a Productivity discount has to be factored, when we have been forced to apply a Rate Peg , which automatically forces the Councils to be productive in order to increase or maintain the level of 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?

   The problem here is that many of Council's services are community "public good" services where the benefits are hard directly attributed to a service and the benefits flow not to Council but to the community. Not all Councils services can have their consumption measured.

4. Are productivity improvements able to be captured within councils' Long Term Financial Plans? If so, please illustrate.

   Regarding productivity improvements on the "Input" side (i.e. reducing costs):

   - Cost reduction productivity improvements (by way of line items with projected expenditure reductions) can be incorporated into an LTFP,

   - Productivity Discount Factors can be set to reduce the various inflation indices by applicable % amounts, Regarding productivity improvement on the "Output" side (i.e. increasing service delivery levels, new services or having services utilised by more of the community):

- An LTFP would be unable to capture & display increases in a Council's productivity relating to 'providing more services, higher levels of services or a greater number of beneficiaries".

- An LTFP focuses on the cost of services and not on the service level output, improvements or enhancements which in a lot of cases would not have any dollar impact & therefore cannot be seen in an LTFP.

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

Every Council area is different and needs to consider what challenges and and what cost, as the level of risk may increase.

6. How can productivity improvements be improved over time?

This question assumes Councils will provide the same services year after year, but in fact that is not the case, as such you need to look whole of Councils Operations each year and cannot just isolate one service over time.

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

Net Costs of services in isolation do not take into account (i) the level of customer satisfaction nor (ii) the level of service provided.

Unless such net costs per service per council is couched in terms of a per unit measure relative to (a) satisfaction of level or (b) level service provided, we cannot see the benefit of comparing the Net Service Costs per se across Councils.

Furthermore, the Net Service Costs of a Council can also year in year out be effected by the receipt of grant funding or the termination of grant funding - yet both of these events would not (and should not) be seen as comments on the productivity of the Council itself.

The loss of a grant (for external reasons) would increase the net cost of a service relative to a prior year, but should not result in a conclusion that the Council's productivity (or performance) has deteriorated of it's own accord or due to inefficiency.

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?

The following cost escalation methods are used in the LTFP model:

- Salary Increases (NSW Award/Enterprise Bargaining Agreement), may r may not be below the Cap

- Superannuation Increases based on different schemes different rules (E.g. Retirement Scheme) usually greater than the Rate Cap

- Workers Compensation Increases (based on past years trends and claims and forecast from providers)
- Insurance Premium Increases(based on past years trends and claims and forecast from Providers)
- Statutory Increases e.g. street lighting, bushfire levy etc usually greater than the rate cap and CPI
- CPI Increases
- Previous Years Trend Data e.g legal expenses
- Waste Tipping & Contractors expenses (based on tonnage of waste and growth)

In addition, we would like to make the following comments:

1. Why are Councils not asked the question - The Concept of applying a Productivity Factor ?

Of the issues that IPART has raised for comment, we are surprised that the actual concept (& application) of deducting a Productivity Factor has not been raised as an issue available for comment. It appears from the paper that a productivity factor is beyond debate in setting the Rate Peg percentage.

As more and more demand is placed on Councils to deliver expanded and new services, and not all Councils will agree to seek a SRV, applying a productivity factor to reduce the income it can generate, is like penalising the Councils who are actually making productivity gains, not being able to use the savings to deliver other services.

2. How do you Measure Productivity?

As per IPART's definition of Productivity being:

<u>OUTPUT (volume, quantity & quality)</u>

INPUT

As such there are three (3) ways to improve productivity:

(i) Increase the outputs (for the same level of inputs),

(ii) Decrease the inputs (for the same level of outputs), or

(iii) a combination of both (i) & (ii).

We would put forward that the use by IPART of a productivity factor discount on the rate peg percentage is a "blunt instrument" that only seeks to achieve productivity by decreasing inputs (being a decrease in the cash available to purchase inputs).

The application of a productivity factor discount to the rate peg does not take into account that Council could increase the outputs of services whilst retaining the existing level of Inputs.

In effect, discounting the rate peg annual increase by a productivity factor forces Council to live with less money rather than let them provide more services with their existing (continuing) revenue stream.

ie. It looks at (& enforces) productivity from only 1 viewpoint…reducing Inputs - being the general revenue received by Council. Implications of this is that Council cannot maintain existing service levels with a revenue stream that does not match annual cost increases will by default have to reduce services.

3. Infrastructure Backlogs

Given the acknowledged "Infrastructure Backlog" of existing Infrastructure Assets that need replacing but for which Council do not have the available financial assets or revenue streams to fund, we question whether the productivity discount factor is appropriate or "good policy" - in that it denies Council's future revenue streams which could be used to start funding the infrastructure backlog.

Is the Productivity Factor really material in terms of fighting the backlog!?

We note on IPART's document that a productivity factor discount "is consistent with the cost index approach that we (*IPART*) use for other industries that we regulate (such as the taxi industry)" - but taxi services could not be said to have a unfunded infrastructure backlog.

IPART make mention within the Discussion Paper that *"in our view the annual rate peg (including any productivity adjustment) should be set in the expectation that current service levels will be maintained and that cost reductions and efficiency savings will not be obtained at the expense of service standards, unless approved by the community"*. Given the Infrastructure backlog, it could be argued that current service standards year in year out are falling as infrastructure renewals are not kept pace with degradation - a position that seems to go against the basic tenet of IPART's that the rate peg (& productivity discount factor) should be set in the expectation that service levels are maintained.
We would contend that while Council has (an ever increasing) Infrastructure backlog, a Productivity Adjustment Factor that reduces Council's available general revenue in future years (below that of annual cost increases) cannot achieve IPART's tenet that such revenue discounts will not reduce service levels.

4. Productivity Factor acts as a disincentive to Councils who are actually achieving productivity Gains

A Productivity Factor Discount (affecting the rate Peg) must mean that those Councils driving productivity in house are being penalised by having to find additional productivity savings that are brought down by IPART.
The IPART productivity Factor discount is applied to ALL Councils and does not take into account whether individual Councils have already factored in productivity gains into their coming years budget.

If Councils were able to be granted an exemption from having to apply the productivity factor (to their rate peg) where they can already show a minimum productivity saving (or gain) for the next year, then Councils might be more prepared to seek productivity gains at earlier stages.

Without this, a forced productivity factor could in fact be promoting the maintenance of inefficient practices or a lack of incentive to drive productivity when Councils have to find the savings anyway by receiving less rate peg than costs are increasing by.

If you have any further queries please contact me.

Regards

THE HILLS Sydney's Garden Shire

Chandi Saba | Manager – Corporate Strategist
THE HILLS SHIRE COUNCIL
Administration Centre, 129 Showground Road Castle Hill NSW 2154
PO Box 75 CASTLE HILL NSW 1765 **|** DX 8455 CASTLE HILL
Tel: 02 9843 0117 **| Fax:** 02 9843 0409 **| Mobile:** 0412 546 905
www.thehills.nsw.gov.au | |