

Local Government  
Association of NSW



Shires Association of NSW

**SUBMISSION TO IPART DISCUSSION PAPER *MEASURING AND ASSESSING PRODUCTIVITY PERFORMANCE IN LOCAL GOVERNMENT***

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## 1. Introduction

The Local Government and Shires Associations of NSW (the Associations) are the peak bodies for NSW Local Government.

Together, the Associations represent all 152 NSW general-purpose councils, special-purpose county councils and the regions of the NSW Aboriginal Land Council. The mission of the Associations is to be credible, professional organisations representing Local Government and facilitating the development of an effective community-based system of Local Government in NSW. In pursuit of this mission, the Associations represent the views of councils to NSW and Australian Governments; provide industrial relations and specialist services to councils and promote Local Government to the community.

The Associations thank the Independent Pricing and Regulatory Tribunal of NSW (IPART) for the opportunity to make a submission to its discussion paper entitled *Measuring and Assessing Productivity Performance in Local Government*.

In the following section, the Associations provide a number of comments on what is suggested in the discussion paper.

However, firstly and importantly, it needs to be noted that the Associations firmly oppose rate pegging and call on the NSW Government to end this practice. The Associations only supported the delegation of the function of determining the rate pegging limit to IPART and the application of a Local Government Cost Index as an interim step towards the abolition of rate pegging. It was supported on the basis that it was expected to improve (and has improved) the transparency and predictability of the rate pegging process.

Rate pegging is inappropriate and unnecessary because the democratic process together with processes of community strategic service planning are clearly sufficient for taxpayers (ratepayers) and their elected representatives (councillors) to make informed choices about what the community wants and is willing to pay for. As distinct from regulated (monopoly) industries, Local Government decision makers are democratically elected by and are accountable to their communities. Restricting the budgetary authority of elected representatives interferes with this accountability and constitutes a violation of the democratic principle of budgetary sovereignty of elected bodies over taxes paid by their constituents.

Rate pegging also has the potential to diminish the effectiveness of uncovering community preferences. This is because it provides a political fallback position - a way of least resistance where taxes are assumed to be "okay" and would not need justification. This could provide an inherent disincentive to fully uncover community preferences and willingness to pay both in terms of less services and lower taxes and more services and higher taxes.

## 2. Comments on the discussion paper

### *Opposition to productivity adjustment in rate pegging limit*

The Associations firmly oppose the application of a productivity adjustment in the determination of the rate pegging limit. The Associations have made representations to that effect in their letter to IPART of 3 November 2010 and in numerous meetings with IPART and relevant government representatives. The inclusion of a productivity adjustment to the rate pegging limit is opposed because:

- Taxpayer (i.e. ratepayer) funded general government activities and services cannot be suitably captured by the concept of productivity. Productivity is a measure of output from a production process, per unit of input, with the unit measure of output related to the resources spent in its production. Productivity adjustments are normally applied to regulated prices of providers of specific commercial services. Local Government's general government and regulatory activities are not comparable to commercial service provision. They lack marketed output, often are not priced and commonly have multidimensional objectives. They are driven by outcomes that provide social, environmental and economic rather than monetary benefits to the community. Also, Local Government provides a wide range of diverse government activities and services which are inter-related and output of which is difficult to identify and to relate to a particular proportion of input. It is therefore more than questionable whether, for the purpose of determining a productivity adjustment, productivity of tax funded general government activities can be

measured in any meaningful way. The suitable incentive for elected politicians to provide “value for money” to taxpayers (i.e. ratepayers) is their political accountability.

- The Associations do not follow or accept IPART’s argument that a productivity adjustment was necessary because productivity gains (up to the determined factor) should be subject to additional community consultation; e.g. by way of special rate variations (page 4 of the discussion paper). The political mandate given to councillors certainly includes the discretion to control spending of productivity gains within the framework of the community strategic service plan. Also, IPART’s argument appears contradictory insofar as it allows discretionary spending without additional community consultation of productivity gains over and above the determined factor.
- Where Local Government provides services in a commercial manner that could be subject to productivity adjustments, these services are generally not funded through rates but user charges (e.g. water supply and sewerage, domestic waste management). A productivity adjustment in the rate setting process would therefore not capture these services.
- In light of the above it appears doubtful whether a robust methodology for determining the productivity adjustment can be established. However, without having a robust methodology and process, the determination of the productivity adjustment, as previously the determination of the rate pegging limit itself, could become vulnerable to political manipulation. The Tribunal itself has acknowledged in its final report of its Review of the Revenue Framework for Local Government that there were no standard measures for the productivity of Local Government service delivery (finding 26).
- A productivity adjustment is not needed as Local Government is already very efficient:
  - In terms of managerial and administrative efficiency, Local Government in NSW is well placed within the world best practice model applied by the Independent Inquiry into the Financial Sustainability of NSW Government in a benchmarking exercise with nine NSW councils. Service performance and maturity of management practices were found to be above those of both the Local Government sector and service organisations generally in other parts of the world (Independent Inquiry into the Financial Sustainability of NSW Government, Final Report, Section 10.4, pp 245-249); and
  - According to the results of a corporate overheads study undertaken by the Independent Inquiry into the Financial Sustainability of NSW Government with 58 NSW councils, which assessed the efficiency of corporate support services by looking at the back office cost in relation to total expenditure, NSW councils significantly outperform NSW Government benchmarks and the results of most state government agencies (Independent Inquiry into the Financial Sustainability of NSW Government, Final Report, Section 10.4, pp 250-252).

#### *Adequacy of productivity index*

If an index were to apply, the Associations would have a preference for the application of a more suitable sectoral measure of productivity such as the productivity index for the public administration and safety sector to determine the productivity adjustment. In IPART’s determination of the rate pegging limit for the financial year 2011/12, the productivity adjustment was based on estimates made by the Australian Bureau of Statistics of economy-wide labour productivity.

The activities included in a more suitable sectoral measure of productivity, such as the productivity index for the public administration and safety sector, would ideally closely align to activities undertaken by Local Government.

The Associations would disagree with IPART’s arguments for why the productivity index for the public administration and safety sector would not be suitable to Local Government (see page 6 of the discussion paper):

- IPART argues that this sectoral index would not be an ideal match because it included law enforcement, public safety and emergency services agencies that are not activities provided by Local Government. However, Local Government has a number of law enforcement functions (e.g. general public orders, traffic, environmental protection, health, building and companion animals) and often supplements crime prevention and community safety services. Further, councils play a key role in local emergency

management and are actively engaged in emergency services (e.g. Rural Fire Service and State Emergency Service).

- IPART argues that this sectoral index would not be an ideal match because it excluded activities of Local Government that produce ‘private sector like’ services. However, Local Government’s commercial activities are also excluded from the rate pegging process. These services are mainly funded through charges and constitute a separate fund not subject to rate pegging (e.g. water supply and sewerage services, domestic and trade waste services).

The Associations would also oppose the application of the NSW Government efficiency dividend. This appears to be an arbitrary figure subject to political interference. It also has limited relationship to functions performed and services provided by Local Government.

#### ***Assessing productivity for special variations***

In terms of other productivity indicators suggested in the discussion paper (page 11), it is important to note that such indicator should only relate to functions and services that are funded by general income that is subject to rate pegging. Regulatory activity is often “self-funded” by way of regulatory charges and fees (e.g. public health regulation, noxious weed control, companion animal control, food safety) and “commercial” activities are funded by separate charges.

### **3. Closing Remarks**

The Associations hope that their comments are of assistance and look forward to participating in the next steps of the review.