

Productivity Commission Submission.

I am making this submission on the basis of my experiences and observations beginning in 1995 when I was first elected as a councillor in my local municipality. My participation as an elected member covered over twelve years as councillor and mayor.

The reason for the submission is to request/recommend that the Productivity Commission undertake a full and detailed study into the productivity, or rather the lack of it, in the Australian Local Government Industry.

My educational and business background is principally as a business consultant in the use of IT facilities, software and business practices across a wide range of industries and business sizes for over forty years. The simple objective being to improve productivity, hence profitability and competitiveness for my business clients. My professional activities were supported by degrees in science and business with an MBA completed in the late 1970s.

After a relatively short time I became increasingly uncomfortable about the way my local municipality was operating. As an elected member and then as mayor I tried to have introduced what I regarded as the most basic of good business practices into the municipality. Practices which I had experienced as the norm in my professional business activities and with clients. I had very limited success.

As a result of that lack of success I then sat down and carried out a straight forward analysis of the issues involved and quickly realized that the issues were not unique to my municipality, but were industry wide. From my long involvement in local government and through attending seminars, conventions, and ongoing reading of local government issues in the general media it also became evident the problem was evident across the whole country.

I suggest the by far most major issue is the almost complete lack of business transparency in local government. All public companies have to be very transparent as to their financial and operational performance. This is widely reported in both the financial and general media so the community at large has an understanding how they are performing both individually and in a competitive sense. Most government enterprises also get significant public scrutiny in the media as they impact on households and businesses. Particularly as competition is a central feature of both state and federal governments. Most enterprises report in relatively standard terms which are well understood and enable business to business comparisons to be made. These measure such as profitability, return on shareholder funds, return on funds employed etc. All of these tend to demonstrate relative performance and productivity. Apart from the annual list of rate increases in the mainstream media there is virtually no reporting of individual or relative performance by local government. For, I believe, one simple reason, no attempt is made to measure any type of performance, apart for individual project completion, or performance against budget.

If performance, both individual longitudinal, and comparative are not measured then how to you rate the value of your executives. All that remains is to reward based on responsibility, that is how big is the budget, how big is the workforce overseen. That this is the case was clearly demonstrated to me by a number of personal experiences. The clearest earliest was my attendance together with the head of technical services in my municipality at a function for all the like heads of similar functions in all the metropolitan local governments. On arrival with the executive he stopped at the door and pointed out each of his equivalents in the other

municipalities, named them, and then stated two figures for each. The size of their budget and the size of their workforce. Obviously that was the way the professional pecking order was expressed in that professional grouping. During my term as mayor, and as mine was a middle sized municipality, a number of very senior executives left to take up appointments at larger municipalities. I made a point of asking each 'what are you looking forward to in the new position'. The response from each was identical 'a bigger budget and a bigger staff'. We had a junior level manager leave to go to another municipality. At his departure function it was pointedly stated that he was taking a professional standing demotion because he was going to a position with a bigger budget and more staff and that was seen as more important. Also during my mayoral term the then CEO decided to implement a different corporate structure, I believe he used the term 'producer and deliverer'. This meant that the outside engineering and works staff were shifted from the structure under the director of technical services to a new delivery director. The consequence was that the technical services director functionally had a breakdown and became effectively professionally inoperative. It was reported to me by the CEO of the day that he had complained 'you have taken away all my status in local government'. Whilst it is not openly discussed with elected members and the public, it is undoubtedly the case that size of budget and size of workforce are the undisputed determinants of relative status in local governments professional standings. During my mayoral term one year the financial situation was such that there was absolutely no reason to raise the level of average rates imposed on the ratepayers of the municipality. I ensured that then was to be the case. I have staff approach me making the demand 'you have to put the rates up'. No doubt simply because they risked slipping down the relative pecking order because their budgets were not being increased.

As the only metrics that are measured and compared are size of budget and workforce reporting these have to be the primary determinants of remuneration. Hence together with maintaining relative pecking orders this ensures there is constant and unending pressure to increase both of these. So fundamentally, the more money they spend the more they are paid. So logically it follows, the more money they waste the more they are paid, the more inefficient they are the more they are paid because both inflate their expenditure.

Naturally the question has to be asked, how is this situation allowed to exist, is there not oversight to prevent such a perverse situation existing?

A visit whilst mayor to a neighboring municipality that was having a celebration brought this simple issue to the fore for me. In reviewing the group historical photographs of this municipality it could be observed that in the now distant past the people who served as local government councillors were what has been described to me as the 'village elders'. Those in the community who were typically locally successful businessmen and senior administrators who brought their talents and years of experience to the service of the community. They were putting something back into the community in their later years in return for the success they had experienced. Now the average councillor is more likely to be an average Jill or Joe from the community. And the reason for serving has typically changed to being, like me, a local parochial issue they are very concerned about. And in the main they are bereft of the practical business talents and experience to fulfill the role of 'corporate director' in the oversight of multimillion dollar turnover enterprises. Almost identical responsibilities to those of a corporate director of a public company.

Apart from my observations of other elected members, the issue of capability was highlighted for me very early in my role as an elected councillor. To be diligent I enrolled in a short

university run course in what you need to know to be an effective councillor. Quite simply I was astounded at how low a level the course was pitched. It was obviously pitched at a level where they assumed that the attendees had virtually no knowledge of the subject. As an example in discussing financial management they explained what a debit and credit transaction was, and how a basic double entry accounting system worked. As for the really substantive issues such as depreciating of assets, forms and appropriateness of the different options of financing etc, these were outside the scope of the course. For me with my academic and business background it was a waste of time apart from one section which discussed the various methods public servants utilize to manage their oversight. My only other experience of councillor specific education was when I was newly elected as mayor. As I was then responsible for the councils interaction with the executive through the CEO I thought it advisable to undertake the special course in CEO performance management run by the association of local governments in my state. I was horrified by the course. It was entirely about how to have a good discussion with the CEO. What was not covered was setting performance targets, what was appropriate to be included and in what form, how to evaluate against the targets, and how to structure the rewards against the achievements. It was a farce. However I decided it was not politic at the time to make an issue of it. The other reality about councillor education is the fact that it is just that, just education. To be really proficient in any role requires years of experience. When you use a public corporation board member as the appropriate model for the requirements of the business management part of the councillor responsibility, invariably the board member has far greater experience than the executives they are overseeing. This enables them to evaluate the performance of the executives and to pass on that experience to assist in the success of the enterprise. My personal experience is that modern individual with that capability and experience is no longer interested in serving as an elected councillor. One individual I approached expressed the view 'I would not be caught dead in local government'. And the reality is that even if people of this ilk were available, they could not bring much of their capability to use because the basic tool, performance information both absolute and comparative is generally not available. I tried to have some very basic activity costing of non engineering activities implemented but met unending resistance.

If an elected member feels the need to get an understanding of the intricacies of an issue on which they must make a decision where do they go if they do not have the knowledge or experience? Of course they can simply follow the recommendations of the administration, but that in reality is not carrying out their responsibility. But in reality the realistically only source of advice readily available to the average councillor is that administration. So the ridiculous governance absurdity is that the individuals who are tasked by the community with overseeing the administration of the municipality is generally dependent on advice as to how to carry out that oversight is given by the people that they are supposed to be overseeing.

It is informative to observe the activities when new people are elected as councillors. The administrations I have observed go into overdrive to build close personal relationships with those elected members so that they can provide ongoing guidance and hence influence. And in general those elected members do not have an understanding of the governance implications of the relationship they should have with the administration. In my municipality there was a constant push to form a 'team' with the administration. Sounds good, all warm and fuzzy, and fits in with the ethos of all getting on together. However, teams are there to aim for a common goal, and with the goal of the administration being unending more of everything, that is just another mechanism to achieve that goal. Those that join in this process lose sight of the fact that they are there to look after the interests of those who placed them

there, their community. If they don't place the interests of the community first and foremost, who will, there is nobody else.

In my view the reality is that local government operates under a totally dysfunctional business model. My belief is that local government is simply in place to serve the community and should be structured to do so in as productive, cost efficient and quality manner as reasonably possible to do so.

As to the consequences of this dysfunctional structure, I will focus on the financial. I only have access to long term figures for my municipality. However I believe them to be indicative for the industry as a whole. I do not believe from observation over a considerable period that they would be too much of an outlier. The figures for NSW would be different as they have had rate capping in place for some years but the structural issues and consequent pressures would, I believe, be very similar. My municipality is also a good benchmark to examine because it has been largely static over the last twenty years with little population, infrastructure, housing stock etc change. In reality over that period the services the municipality offers to the community has decreased.

A summary of the figures for the period 1995 to 2014 :-

Rates income :	4.9 to 20.3 million Dollars. An average of 7.75% annually.
Average weekly earnings:	Increased 99%. An average of 3.68% annually.
CPI:	Increased 65%. An average of 2.67% annually.

The AWE and CPI figures were derived from the ABS web site.

It is interesting to note that over the same period the CEO salary increased from approximately \$70k to over \$300k, an average of approximately 8.1% annually.

The implications of this for state and the federal governments are significant. Taking the not unreasonable assumption that there is an upper limit to the level of overall taxation impost the community will reasonably tolerate it can be seen that local government is squeezing out the other two levels of government as the figures above suggest that the portion of household incomes being taken by local government has approximately doubled. Something I suggest the other levels of government cannot tolerate particularly as a very significant portion of their spending has to be seen as wasted through profligacy and inefficiency. They have to spend everything each year to justify increases in the following years. One year in my municipality a new strategic plan presented to councillors was a prominent line entry 'All budgets must be spent'.

A simple analysis of a municipality such as mine would demonstrate the point. Like many enterprises labour costs are probably the major cost element in the annual budget. But labour cost increases as represented by AWE are running at half the rates income increases. If they were efficiently using labour and achieving labour productivity increases in line with the national average, then they would be significantly lower again. So if labour costs are not the pressure for rates increases, what is? There have been not reported massive cost increases in any of the other consumerables local government consume such as road building materials etc. Unfortunately we do not have any business analysis to delve any deeper, which is the major point.

A fairly simple analysis may be useful in gauging the overall impact of this dysfunctional business model. Over the period I have taken a close interest in local government finances a simple claim has been repetitively made. That is the local government does not buy the types of products and services that are covered by the CPI as measured by ABS. The reality is that virtually no business does but most still do measure themselves against this metric in terms of the cost of the goods and services they produce. However if we were generous and allowed local government a CPI which is a third higher than the ABS figure, in the case of my municipality it would allow for a rates increase of the period of the figures above of about 3.5% average across the period. That is still less than 50% of the actual increase. It would not be unreasonable to say the figure between that 3.5% and the actual of 7.75% is the proportion of the rates which I believe are inherently wasted through profligacy and inefficiency, i.e. approximately 50%. So of the \$20m in rates levied \$10m is waste. If this is extrapolated to the state and country where my municipality is about 0.1% of the overall population it would suggest that up to \$10 billion could be the figure. It must be noted that the rates capping in NSW would have to be factored into any estimate. But even if this figure is overstated by 70% the amount involved is very significant both at a federal government and a state level.

I am sure a response from local government would be 'what about our infrastructure responsibilities'. I have observed many situations which show the manner in which this is approached, a couple. Recently I had a conversation with my long standing barber who lives in a neighbouring municipality and knowing my local government involvement constantly complains about his ever increasing rates. His latest was a conversation he said he had had with workers refurbishing a road near his home which he believed did not require refurbishment. The response he quoted was 'we have to spend the money so we can get it again next year'. When I observed some roadworks being carried out in a to me crazily inefficient manner I queried the CEO as mayor. The response I received was 'those responsible said you do not give them enough money to be efficient'. So as always just give us more and more money.

Naturally to provide a balance against the pressure for efficiency in a good business model would be an effective mechanism to measure 'customer satisfaction'. I would suggest a properly run longitudinally consistent customer satisfaction survey. The current model where the community expresses their satisfaction through the ballot box in electing representatives has a fundamental disconnect. In my observation too often once elected the new local government representative falls under the influence of the administration/executive so that there is very little connection between the community and the operation of the local government, particularly in business management/financial matters. I have many times been subject to expression of frustration from members of the community, particularly from those who are known to be capable in business management themselves. In my view it is probably a major reason why the turnout for local government elections is generally so small. 'If there is no result from my action, why bother'. A total disconnect.

When designing business systems such as a business operating model I believe there are two fundamental issues which have to be determined. Firstly the outcome being sought. I would suggest that the community would expect that the structure for local government would have the objective of cost efficient delivery of quality services and facilities. The second issue to be addressed is to determine the resources which are available. The employee resources are available and properly managed should be able to meet the communities needs and expectations. The issue is the 'board' or elected members. A structure has to be put in place recognizing the limitations of the average capabilities of this resource. As local government is

an instrument of state government a suitable structure should not be too difficult to put in place. A fundamental element of the structure is that the rewards and incentives, particularly to the CEO, should be aligned with the objectives, that is quality, cost efficiency and meeting community expectations. I suggest salary increments should be tied to improvements in productivity, particularly labour productivity and customer satisfaction. And it should be competitive, the CEO's who achieve the highest productivity and satisfaction improvements should receive the higher increments, with the average overall in line with the increase in AWE so that the overall cost to the community is reasonably contained. There should be winners and loser as in any competition, otherwise the competition is meaningless. I would suggest a competence test for any increase which would be the demonstration that the CEO has delivered an increase in line with the national average to demonstrate average managerial competence. Less than average competence should not be rewarded, those should be weeded out.

A benefit from moving to a performance based environment should be that amalgamations would be much easier. With transparency the economy of scale benefits would be much easier to predict and hence easier to sell to the community. Also a performance based reward structure would ensure they are delivered.

I believe that which is needed is a shift in the operation of local government so that it becomes a cost efficient provider of quality services and facilities to the community, which I suggest would be the natural community expectation, rather than an ongoing and unending increasing financial burden on the community.