Port Stephens Council Financial Efficiency Report

DISCLAIMER

This Report was prepared by Joseph Drew and Brian Dollery on behalf of New England Education and Research Proprietary Limited for the Port Stephens Council.This Report was produced for the Port Stephens Council as a strictly independent Report. The opinions expressed in the Report are thus exclusively the views of its authors and do not necessarily coincide with the views of the Port Stephens Councilor any other body. The information provided in this Report may be reproduced in whole or in part for media review, quotation in literature, or non-commercial purposes, subject to the inclusion of acknowledgement of the source and provided no commercial use or sale of the material occurs.

EXECUTIVE SUMMARY

This Port Stephens Council Efficiency Report examines various measures of efficiency by which Port Stephens Council is compared with its respective peer group of NSW local councils. Using the standard total expenditure per capita ratio frequently employed by NSW regulatory authorities, we show that Port Stephens compares well with a narrow fourteen-member peer group. However, we argue that this result is misleading due to several problems associated with using the total expenditure per capita ratio as a measure of relative efficiency.

We then employ the operational expenditure per property assessment ratio, which is used in Victorian local government, to assess the relative efficiency of Port Stephens. Port Stephens performs quite well compared to the fourteen-member peer group. However, this ratio is also problematic because it employs a single inputand a single output.

To overcome this problem, we use data envelopment analysis (DEA) since it accommodates multiple inputs and outputs, which can be weighted. Given IPART's concern with 'value for money', in our first DEA we employed tax take as a single input and proxied local government output using five variables. Port Stephens performed close to the median outcome of an expanded sixty-six member peer group.

Given the view by NSW regulatory authorities that efficiency is related to financial sustainability in local government, we conducted an additional DEA using staff and operational expenditure as inputs with the same five outputs over a much longer time period. Compared to its peer group, Port Stephens did not perform well, although its efficiency has improved through time.

We then examine the impact of the various determinants of relative technical efficiency. Population density, the proportion of aged pensioners and increases in unincorporated business income – none of which can be controlled by Council - areall negatively associated with technical efficiency.

The Report concludes by offering five recommendations for improving the relative technical efficiency of Port Stephens Council.

1. INTRODUCTION

The Independent Pricing and Regulatory Tribunal (IPART) requires New South Wales (NSW) local governments to carefully evaluate their efficiency as part of a Special Rate Variation (SRV) application. Moreover, 'efficiency' played a major role in the recent *Fit for the Future* reforms and formed a major justification for its forced amalgamation program. It is thus clear that NSW local government regulators desire local governments to focus on improving this aspect of municipal performance.

In economics, efficiency deals with the relation between inputs (like labour, capital and land) and either intermediate outputs (such as municipal equipment maintenance) or final outcomes (like local roads resurfaced). Economists have defined three main types of efficiency. Firstly, allocative or economic efficiency occurs when resources are allocated between alternative uses so that community wellbeing is maximised. For example, if a given local council produces the quality and mix of local public goods and services desired by its local community, then it achieves allocative efficiency (Ferguson, 1972). In the local government realm, allocative efficiency is determined by the political process and it falls largely outside the direct control of municipal managers.

Secondly, dynamic or intertemporal efficiency can be defined as the achievement of allocative efficiency over time (Ferguson, 1972). In common with allocative efficiency, dynamic efficiency cannot be directly controlled by municipal managers due to exogenous factors, like regulatory burdens and legislative mandates, which are largely determined by state governments.

Thirdly, productive or technical efficiency (sometimes termed x-efficiency) refers to the proficiency by which inputs are converted into outputs (Ferguson, 1972). In local government, inputs include buildings, machinery and staff whereas outputs are specified in terms of proxies due to the extraordinary range of local goods and services produced by local authorities. In this context, a proxy is a variable that attempts to capture the essence of the local service in question. Economists routinely employ proxies because even the most sophisticated modelling cannot include every municipal good and service. Technical efficiency is largely synonymous with value for money. Indeed, in an input orientated[1] consideration of technical efficiency, it is reflective of the reduction in inputs that might be expected for a set level of outputs. Value for money forms the focus of any rate cap regime. It is clear that this is the type of efficiency that IPART ismost concerned about.

It is also probable that efficiency might bear a statistical association with financial sustainability. In this sense, efficiency represents a means through which councils might be expected to improve their financial sustainability (Drew, 2021). Thus, regulatory authorities, such as IPART, will be keen to ensure that municipal operations are as efficient as possible since it is associated with financial sustainability.

[1] There are two orientations that can be used to assess efficiency. An output orientation refers to the additional outputs that might be expected from a given fixed set of inputs. By contrast, an input orientation focusses on the reduction in inputs that might be expected given a fixed set of outputs. Inthe

local government context, scholars have long recognised that the input orientation is the most appropriate because outputs are largely driven by community need and thus fall outside council control.

However, both drivers of the regulatory agency concern for technical efficiency are far from being considered by scholars as apodictic. Indeed, whereas efficiency may be a crude measure of value for money, there is little reason to assume that value for money ought to be the sole consideration in local government decision-making (Drew, Razin and Andrews, 2018). Economists have long argued that competitive markets are the most efficient mechanism for delivering goods and services. However, because most people value public goods and services, which cannot beprovided through markets, democratic governmental entities exist to provide theseservices (Drew, 2021).

Moreover, the proposition that greater technical efficiency might generate superior financial sustainability is only tenuously supported by the empirical literature (Drew, Kortt and Dollery, 2015a). This is not surprising when one contemplates the comparatively marginal differences in relative technical efficiency in a single year against the substantial impact of debt, asset and management decisions over the lifetime of a local government. Accordingly, even radical improvements to technical efficiency are unlikely to materially affect financial sustainability over the short-term.

Not only is the regulatory concern for technical efficiency likely to be over-emphasised relative to its actual importance, but it is also no simple matter to accurately evaluate the association between inputs and outputs. Generally regulatory authorities resort to crude ratios that often mislead end users. As we will show later in this Report, only sophisticated techniques such as intertemporal data envelopment analysis (DEA) can hope to accurately assess relative[2] technical efficiency. Secondly, the absence of a suitable proxy for quality control means that differences in relative technical efficiency can be equally attributed to either (a) lower proficiency with respect to the deployment of inputs or (b) differences in the levels or quality of municipal goods and services.

The remainder of this report is divided into five main parts. In section 2, we present the crude ratio evaluations of efficiency typically used in regulatory contexts. This is done with respect to the fourteen peer local councils of Port Stephens Council used throughout our reports and we explain the problems in relying only on these comparisons. In section 3, we conduct a globally intertemporal data envelopment analysis of tax efficiency; that is, we assess technical efficiency in the way most closely related to value for (tax) money. In section 4, we conduct the standard scholarly local intertemporal analysis of relative technical efficiency. Section 5 focuses on an econometric analysis conducted to identify the determinants of relative technical efficiency and we discuss our results with respect to the particular characteristics of the Port Stephens local government area. We conclude our Report in section 6 with a series of recommendations aimed at improving the matters that form the principal locus of regulatory concern.

[2] Efficiency must be assessed in relative terms – that is, the most defensible approach is to assessefficiency with respect to other similar local governments. Thus we will henceforth refer to relative technical efficiency in this report.

2. RATIO ANALYSIS OF EFFICIENCY

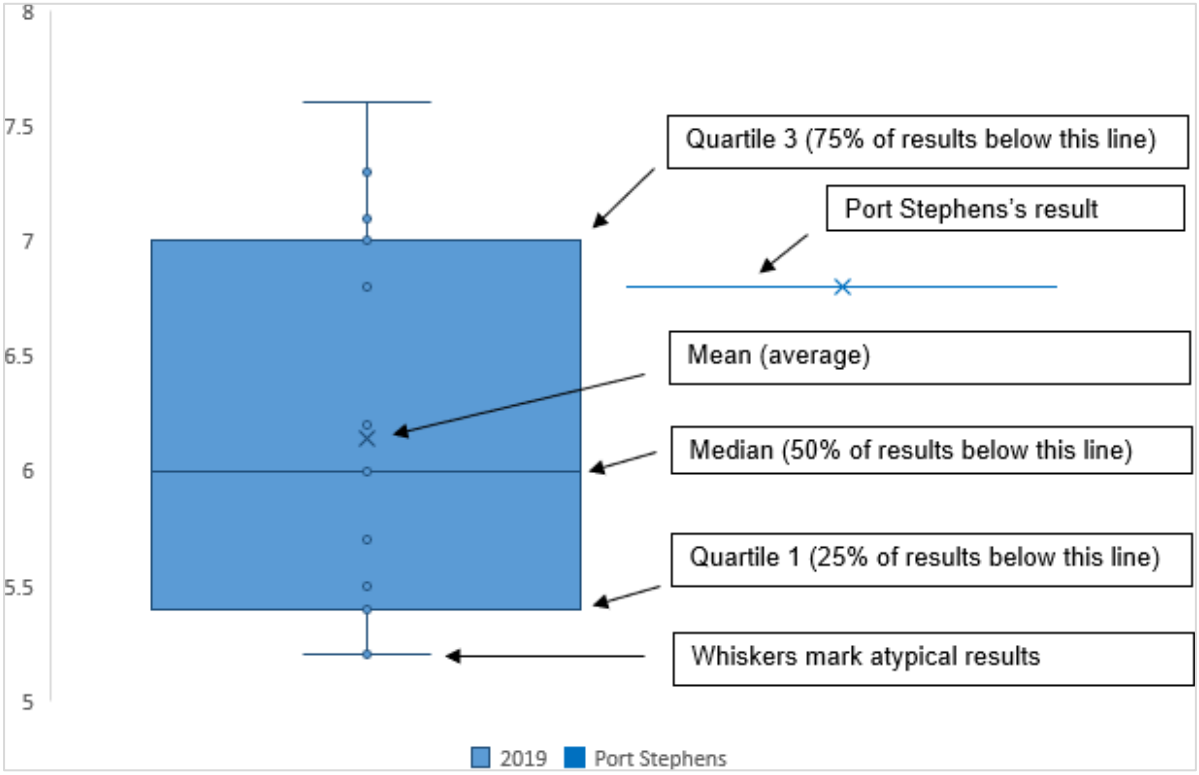
In section 2, we first present comparative data for total expenditure per capita, whichis a ratio that has been used in NSW to evaluate efficiency. Data is presented relative to the fourteen-member council peer group, as used in our other reports andalso detailed in Table 1:

TABLE 1. PEERS USED IN COMPARISONS

OLG 5 Councils	OLG 5 Councils	OLG 4 Councils	OLG 11 Councils
Coffs Harbour	Tweed	Cessnock	Muswellbrook
Newcastle	Maitland	Singleton	
Shoalhaven	Shellharbour	Tamworth	
Lake Macquarie	Wollongong	Wagga Wagga	
Port Macquarie			

The most efficient way of comparing Port Stephens to the peer group is to chart abox and whisker plot. Figure 1 provides details regarding how to interpret these plots:

FIGURE 1. INTERPRETING BOX AND WHISKER PLOTS

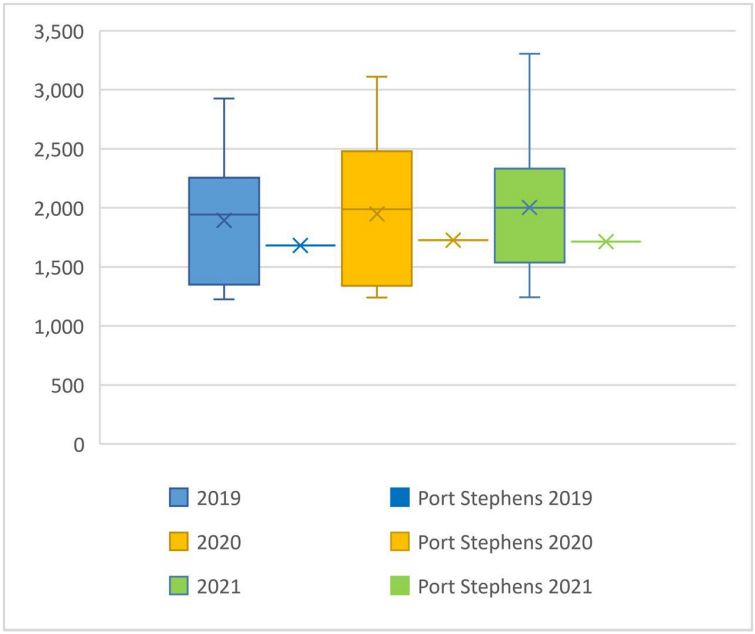


At face value, Figure 2 Operational Expenditure per Capita suggests that the efficiency of Port Stephens relative to the peer group is good; Port Stephens sits at alevel significantly lower than the typical result (as measured by either the mean or the median). In the most recent year it is close to the bottom of the second

quartile.

However, there are a number of problems associated with relying on expenditure per capita data. First, the Australian Bureau of Statistic (ABS) population data is no more than an estimate in intercensal years with expected errors of 2.4 through to 15.6 percent (Drew and Dollery, 2014). Second, the ratio implicitly asks us to accept that most municipal services are delivered to people rather than to properties. Whilst all Australian local government systems have steadily increased 'services to people' relative to 'services to property' over recent decades, this assumption is still not reasonable[3] (Dollery, Wallis and Allan, 2006; Drew, 2021). Indeed, operational expenditure per capita completely ignores outputs associated with the single largest component of Australian local government expenditure (i.e. roads). Moreover, roads are in fact negatively correlated with population size (the relevant Pearson correlation coefficient is negative[4] and equals -0.2531 on a state-wide basis). Third, the ratio implicitly asserts that the cost of providing services to people on farmland is the same as the cost of providing the same services to residential citizens in suburbs[5]. Fourth, operational expenditure per capita ignores the demands of business entirely, which is particularly concerning in local government areas that attract large numbers of tourists (and thus have a relative high number of businessesper capita as in Port Stephens). For all these reasons the operational expenditure per capita data is not a reliablemetric by which to measure relative technical efficiency.

FIGURE 2 OPERATIONAL EXPENDITURE PER CAPITA ($)



[3] In order to defend this assumption it must be demonstrated that the cost of delivering services, such as domestic waste disposal, are closely correlated with the number of occupants in a house. Put differently, it must be shown that the cost of collecting and disposing of solid waste for a household offive is precisely five times more than a household of one person.

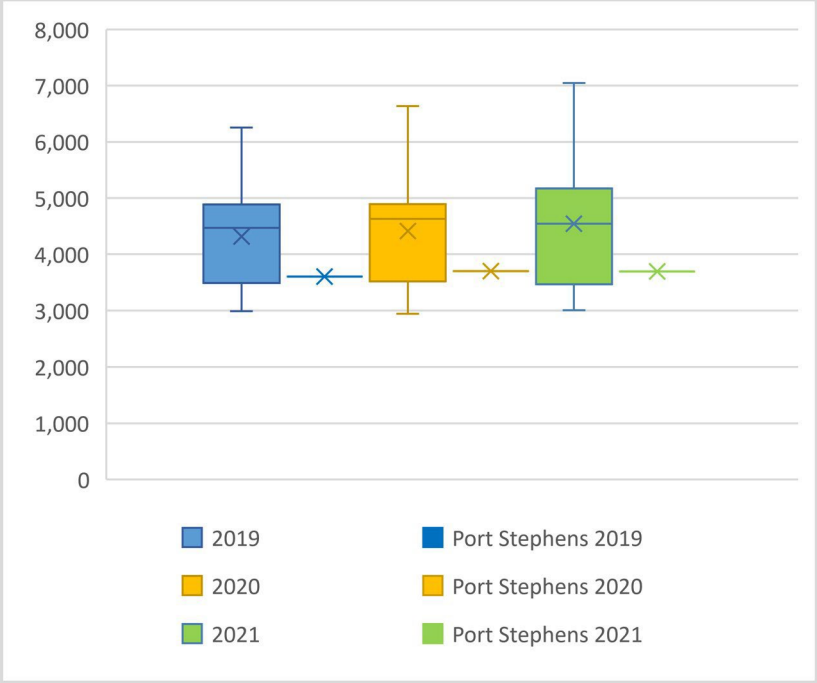
[4] This means that as population increases, road length tends to decrease on an interjurisdictional basis.

[5] It also boldly assumes that these different kinds of people require and receive the same kinds ofservices.

Operational expenditure per property assessment (Figure 3) – as used in jurisdictions such as Victoria – is a much more defensible metric. However, it is stillnot adequate for important decision making because it also (a) neglects outputs associated with the single largest item of local government expenditure (roads) and
(b) implicitly asserts that the cost of servicing residential properties is somehow comparable to the cost of servicing farms or businesses.

It is noteworthy that in a relative sense Port Stephens performs even better with respect to its peer group for the ratio measured on a per assessment basis. The comparative improvement (with respect to the earlier per capita results) is principally driven by the number of persons who inhabit each household, which is lower at Port Stephens than it is for many of the peer councils. In addition, recognising the relatively higher number of generally smaller tourist-orientated businesses at Port Stephens compared to many of its peers also improves its relative performance.

FIGURE 3. OPERATIONAL EXPENDITURE PER PROPERTY ASSESSMENT ($)



The main problem associated with these ratio approaches to measuring relative technical efficiency relates to the limitations implied by using just a single input and single output. The solution to this problem is to employ DEA. DEA is able to accommodate *multiple* inputs *and* outputs and it applies variable weightings to the respective elements to construct an efficient frontier against which the weighted performance of relatively less efficient councils might be compared.

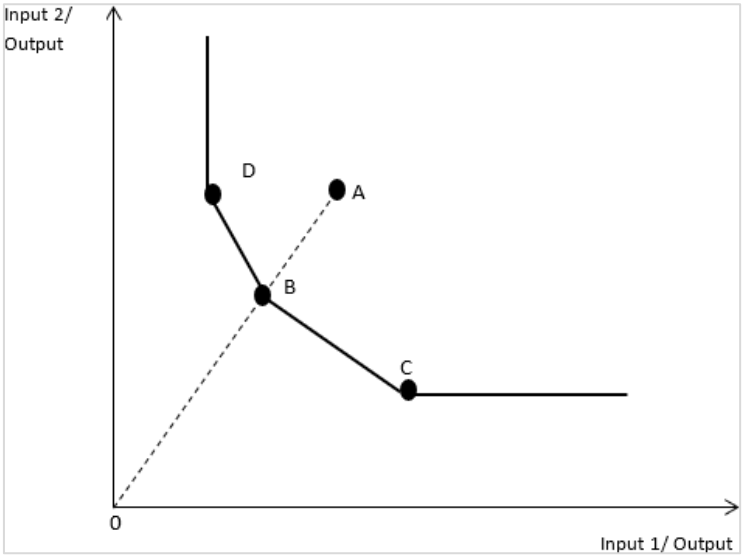
The best way to understand DEA is to consider a graphical illustration. Figure 4 presents a simplified version of an input-orientated DEA where the most efficient councils (D, B and C) envelop the production frontier. Council A is relatively less efficient and lies to the interior of the frontier curve. By measuring the ratio of theradial

distance with respect to the frontier and interior points respectively, it is possible to calculate relative technical efficiency whereby a score of 0 would

represent complete relative inefficiency and 1 perfect efficiency (that is the council would lie on the curve like C, B or D).

Readers requiring further information are referred to the seminal works of Coelli *et al.* (2005) or Cooper, Seiford and Tone (2007).

FIGURE 4. INPUT-ORIENTATED DEA



In section 3, we present a DEA of tax-efficiency. This seems to be the concept that best aligns with IPART's SRV concerns.

3. TAX EFFICIENCY

The value for money proposition that seems to be at the heart of the IPART concern for efficiency is best assessed by a DEA of tax efficiency. In order to undertake this exercise, we used the total tax take as a single input and proxied local government output according to five variables (the number of each type of the three major disaggregated property assessments as well as the length of sealed and unsealed roads respectively[6]). The DEA thus measured the efficiency of the conversion of local property tax funds collected from landowners in Port Stephens with respect to the major outputs of the Port Stephens Council. As we shall see, this specification deals with all of the principal criticisms of the crude ratios that we examined earlier. It also recognises the very different cost structures associated with maintaining sealed and unsealed roads respectively[7]. Consistent with our other work, we consider the broadest classification of NSW local governments, which numbers some sixty-sevencouncils.

6 Because of its underlying ratio conception, DEA allows scholars to combine quantities measured in different units.

7 Nunamaker's rule means that the total number of inputs and outputs considered by a given DEA cannot be allowed to exceed one third of the total number of decision-making units (councils) (see Cooper *et al.,* 2007).

A summary of the DEA specification is:

Total taxation take ($'000) → residential (no.) + farm (no.) + business (no.) + sealed roads (km) + unsealed roads (km).

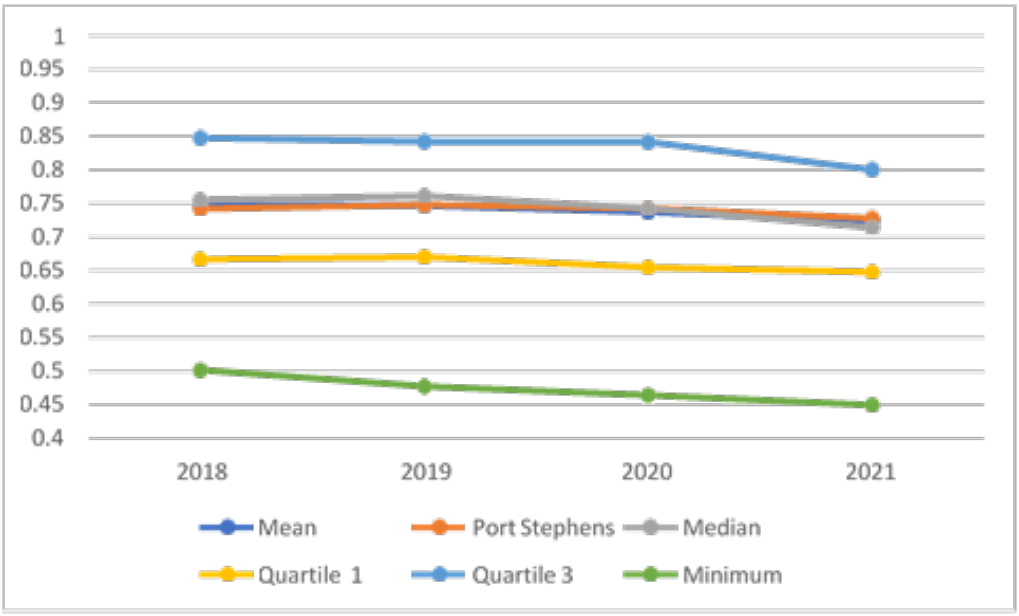
Moreover, it should be noted that the DEA was conducted as a globally intertemporal analysis because we only had four years of data with which to work. Global intertemporal DEAs are suitable for comparisons over time when it can be reasonably assumed that there have been no changes to dynamic efficiency over theperiod of analysis. In addition, it is important for end-users of this Report to understand that we employed a variable returns to scale (VRS) DEA. This means that we controlled for potential size effects on efficiency.

To ensure that our analysis was as robust as possible we bootstrapped results at2,000 replications. Bootstrapping is essentially a probabilistic procedure that provides greater assurance, especially where input data might have gaps.

In Figure 5, we plot the DEA scores for Port Stephens Council for each of the four years, along with suitable measures of central tendency for the sixty-seven councils under analysis. As we shall see, the performance of Port Stephens is close to the typical (both median and mean) result. Moreover, the score attained was consistently at or about 0.75; that is, the efficiency of Port Stephens Council is far closer to perfectly efficient (1) than it is to perfectly inefficient (0).

This robust DEA evidence should provide both the IPART and Port Stephens Council ratepayers with strong assurance that they are indeed getting good value formoney. However, there is always room for improvement and we will discuss some changes that could increase efficiency in the conclusion to this Report. In this regardit should be noted that because there is no consistent state-wide control for quality –such as the citizen satisfaction survey conducted annually for each local council in the Victorian local government system – that it is thus not possible to precisely identify the cause of apparent extant relative inefficiency. One possibility is that what appears to be inefficiency is indeed a reflection of relatively higher service levels at aparticular local government area. This seems to be probable given the entrenched fiscal illusion at Port Stephens that we have considered in our other reports. A second possibility is that the Council is spending more to produce certain goods andservices than its peers, which would be more consistent with a strict understanding of technical efficiency.

FIGURE 5. TAXATION EFFICIENCY, GLOBAL INTERTEMPORAL 2018-2021



This DEA has been useful for the purposes of demonstrating sound value for (property tax) funds at Port Stephens Council. However, as we discussed earlier, regulators are also keen for local governments to attain efficiency because they believe it might be translated into stronger financial sustainability over time. To evaluate this proposition it is necessary to conduct an additional DEA with a more standard input specification.

4. STANDARD RELATIVE TECHNICAL EFFICIENCY

The 'standard' DEA specification replaces the single input (total tax take) with two inputs to reflect the specific elements that a local government combines in the production process; staff and operational expenditure (all of the outputs remained unchanged from our earlier specification). Moreover, to ensure that we recognise differences in experience, capacity and productivity of staff, we followed the scholarly precedent of expressing staff as 'staff expenditure' rather than full-time equivalent numbers (FTE) (Drew, Kortt and Dollery, 2015b).

We were able to re-run our DEA over a much longer panel spanning the period 2009 to 2021 inclusive. Because of the longer time involved – whereby it no longer seemed reasonable to assume no changes to dynamic efficiency – we elected to runa locally intertemporal analysis with a two-year window. Local intertemporal analysis is a particular kind of sequential technique that provides much more accurate resultsfor the non-boundary years[8] (albeit at the cost of considerable additional time from the analyst). It should be noted that we used a variable returns to scale (VRS) DEAmodel to control for the potential effects of size on efficiency.

[8] Because boundary years are only analysed once – rather than twice – relatively less certainty can be placed on the 2009 and 2021 data points.

In Figure 6, we plot the DEA scores for Port Stephens for each of the thirteen years, along with suitable measures of central tendency for the sixty-seven councils under

analysis. As can be seen, for a regular DEA aimed at evaluating relative technical efficiency in the production process, Port Stephens does not perform very well.
Overall, the Council had efficiency slightly lower than the first quartile boundary (that is, its relative performance was in the bottom twenty-five percent of local governments).

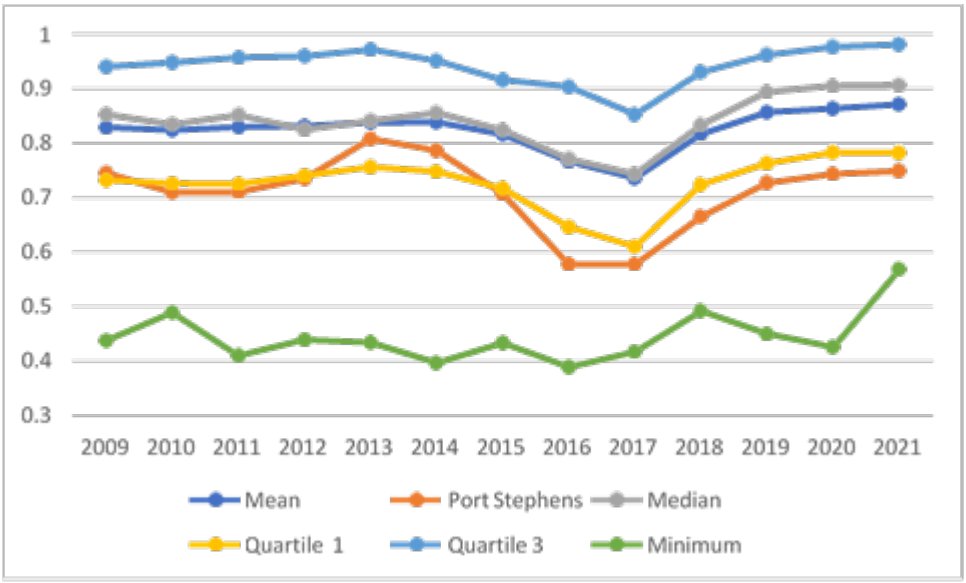
There are several reasons why Port Stephens Council appears to have done worsein a comparative sense for the DEA than it did in the earlier simple ratio analysis.
Firstly, the DEA has a much larger cohort than the earlier ratio analysis (sixty-six peers rather than fourteen). Second, Port Stephens has a relatively low ratio of roadsper assessment compared to the earlier peer group (which means that a proper analysis of outputs, that includes roads, will be relatively disadvantageous for Port Stephens). Third, the ratio of businesses to residential assessments is relatively higher for Port Stephens Council consistent with its status as a tourist destination.
This is also relatively disadvantageous if more money is spent on business assessments than on residential assessments. For all of these reasons, while theDEA results are disappointing, they are not entirely unexpected.

We also note that the standard relative technical efficiency is lower than the previously presented tax efficiency. This is mostly the result of the relatively low taxreceipts that Port Stephens Council receives, although the mix of production factors(i.e. relative combinations of staff and money) is also important.

It should be noted that relative technical efficiency at Port Stephens Council has been improving in recent years reaching a score higher than 0.74 for the past two years. This trend is pleasing and it provides assurance to both the local communityand IPART that Council understands the need to improve its efficiency.

There are two possible explanations for the relative technical efficiency outcomes at Port Stephens; either they represent relatively higher levels of goods or services (see our earlier explanation of the tax efficiency results), or alternatively, it is costingCouncil more to provide services. In the conclusion of this Report, we suggest a number of measures that could improve matters.

FIGURE 6. RELATIVE TECHNICAL EFFICIENCY, LOCAL INTERTEMPORAL, 2009-2021



In section 5, we briefly review the determinants of relative technical efficiency with a view to applying it to the circumstances faced by Port Stephens Council.

5. THE DETERMINANTS OF EFFICIENCY

It is important to understand the determinants of efficiency in order to appreciate how much control a council has over its predicament. To investigate this question, scholars generally conduct a secondary regression, using constant returns DEA scores as the regress and. A constant returns DEA is employed (rather than the variable returns employed for our other exercises) because we wish to also test the effect of size on efficiency (and a variable returns to scale (VRS) DEA would confound matters because it already controls for scale effects).

Regression analysis allows econometricians to determine the mean response in a dependent variable with respect to changes to multiple independent variables. We employed an OLS regression model with year dummies because a fixed effects panel regression was not deemed suitable given the results from diagnostic tests.

The econometric analysis that follows can be specified as:

$\mathbf{T} = \alpha + \beta 1\mathbf{P} + \beta 2\mathbf{X} + \boldsymbol{\mu}.$

In this specification **T** (the dependent variable) is the constant returns to scale technical efficiency score for each council in each year, **P** is a vector of relevant population data and **X** is a vector of socio-demographic and local government characteristics. Mu (**μ**) is an independent identically distributed random error term. Itshould be noted that natural log transformations were executed where required to correct for skewed distributions, as detailed in Table 2. All standard econometric tests were conducted and the residuals were confirmed to be near-normal in distribution (a critical assumption for valid statistical reasoning). The regression includes the sixty-seven councils that comprise the extended category cohort for NSW for the years 2018 to 2021 inclusive.

TABLE 2. DEFINITIONS AND MEANS OF VARIABLES, 2018-2021

Variable	Definition	Similar Councils
Rates		
CRS TE	Relative technical efficiency,constant returns to scale	0.849
Population		
Lnpop	Natural log of the population for each local government area	11.184
Lnpop2	The square of the logged population	125.741
Lndense	Natural log of population densitydata for each local government area	5.081
Controls		
Median employee income	Median employee income(lagged), divided by 1,000	50.363
Median unincorporated business income	Median unincorporated business income (lagged), divided by 1,000	12.159
Aged (ln)	Proportion of people on an agedpension	2.275
Under 15	Proportion of people under theage of 15	18.23
DSP	Proportion of people on a Disability Support pension	3.286
Newstart (ln)	Proportion of people on a Newstart allowance, logged	0.954
Single (ln)	Proportion of people on a SingleParent pension, logged	-0.329
IPPE (ln)	Natural log of the carrying value of infrastructure in ($'000)	14.148
Year	A dummy variable to control forthe effect of different years	
Amalgamation	A dummy variable to control forwhether or not a council was amalgamated in 2016	

In Table 3, we detail the coefficients and standard errors yielded by our regression analysis. We have not listed the results for coefficients that were not statistically significant or included merely as control variables.

TABLE 3. MULTIPLE REGRESSION RESULTS, 2018-2021 INCLUSIVE

	Extended Cohort
Population (ln)	-0.2366
	(0.2415)
Population squared (ln)	0.0125
	(0.0108)
Population density (ln)	-0.0189*
	(0.0077)
Aged (ln)	-0.1229**
	(0.0368)
Median employee income	-0.0013
	(0.0018)
Median unincorporated income	-0.0124**
	(0.0035)
Additional Controls?	Yes
N	263
Coefficient of Determination	0.2384

+p < 0.10, *p < 0.05, **p < 0.01. Standard errors in parentheses

It is noteworthy that population size was not statistically significant which suggests that scale effects are not as important as many regulatory agencies seem to believe. However, population density is important. Our model suggests that a one percent increase in population density results in a reduction to technical efficiency of approximately 0.0002 units (where technical efficiency lies on a scale between zero and one). This suggests that highly built-up areas tend to cost more to service, probably because of well-known congestion effects.

The proportion of people on an aged pension is also statistically significant (this time at the highest level). The model suggests that a one percent increase to the aged variable is associated with a reduction to technical efficiency in the order of 0.0012 units. This is an important finding given the high proportion of aged pensioners in Port Stephens, as well as projections of likely growth to this demographic in future. Itis also important to recall from our Financial Sustainability Report and Capacity to Pay Report that the pensioner demographic is provided with a partially funded discount on their rates which appears to have entrenched fiscal illusion within this cohort.

Increases in unincorporated business income also appear to be detrimental to technical efficiency. Here the model can be interpreted to suggest that a one percent increase in business income is associated with a 0.00012 reduction to relative technical efficiency.

All three variables that are negatively associated with technical efficiency are largely outside of the control of Council in the short term. However, the size of the associations is relatively modest and should thus mean that measures suggested in

section 6 could still exert a positive and material impact on the efficiency of Port Stephens Council in future.

6. RECOMMENDATIONS

There are at least five measures that could be taken to improve relative technical efficiency at Port Stephens Council in response to this Report, which we set out inorder of relative importance:

(1) EXPLICIT MEASURES TO COMBAT FISCAL ILLUSION

A targeted campaign should be implemented to combat entrenched fiscal illusion at Port Stephens Council. Community education is critical, as is the correct pricing of fees and charges, as well as ensuring that adequate taxation is levied in a manner that respects principles of distributive justice and sends appropriate price signals (especially with respect to the level of subsidies provided for merit goods). In addition, reducing informational asymmetries by providing carefully constructed financial sustainability information with rates and charges notices will assist significantly. *Saving Local Government* (Drew, 2021) outlines what is required in considerable detail.

(2) ABOLISH WARD STRUCTURES

The scholarly literature has demonstrated beyond dispute that each additional ward results in significantly lower technical efficiency. Indeed, in a recent study Drew and Dollery (2017) showed that each additional municipal ward was associated with a 3.4% increase in unit expenditure. Moreover, ward structures tend to make planning more complex, complicate the political process and obscure matters with respect to citizen identification with Council. In fact, Place-scores and Place-plans make ward structures rather redundant. We strongly suggest that Council consider removing thisobstacle to future efficiency according to the process outlined in the relevant legislation. Indeed, we recommend that Council establish a working group on this matter and that IPART is duly informed of this initiative as part of the SRV process.

(3) REVIEW OF CORPORATE STRUCTURE

As we noted in our Financial Sustainability Report, Council has done a good job of containing staff costs. However, there may be opportunities for further savings.
Accordingly, the next regular organisational review should place particular emphasis on both the number of lower level managers and also ensuring a sufficient span of control.

(4) SERVICE LEVEL REVIEW

As we have argued, there is good reason to believe that fiscal illusion is a significant problem at Port Stephens. Council thus needs to re-establish a nexus between the price paid in taxation and the level of local services that it funds. We note that Port Stephens documentation refers to the Best Value approach to service level reviews that seeks to match service levels to community willingness to pay. Given the discordance that persists at present, in our view it is important at the next regular service level review to pay even greater attention on conveying to local residents the importance of paying adequate rates, fees and charges for the standard of services

desired. Moreover, the necessity of doing so to ensure intergenerational equity should also be emphasised. Thus, emphasis should be orientated less on what residents would like and more on what they are willing to pay for.

(5) COUNCIL LED INTERNAL EFFICIENCIES

Council management should continue to pursue other efficiencies associated with a range of internal activities. This may include matters such as the deferral of discretionary projects, better procurement practices, a review of community grant schemes, better capture of tourist revenues and more appropriate use of carefully tailored fees and charges. In his *Saving Local Government*, Drew (2021) provides considerable detail as to how to approach these matters.

In conclusion, ratepayers at Port Stephens Council, as well as IPART, can be assured that Council provides good value for money. Moreover, by vigorously pursuing the above recommendations, it should be possible for Council to improve its efficiency even further, notwithstanding the challenges posed by its disadvantageous socio-demographic profile.

REFERENCES

Coelli, T., Rao, D., O'Donnell, C. and Battese, G. (2005). *An Introduction toEfficiency and Productivity Analysis*. Springer: Singapore.

Cooper, W., Seiford, L. and Tone, K. (2007). *Data Envelopment Analysis*. Springer:Singapore.

Dollery, B. E., Wallis, J. L. and Allan, P. (2006). The Debate That Had to Happen ButNever Did: The Changing Role of Australian Local Government. *Australian Journal ofPolitical Science,* 41(4): 553-567.

Drew, J. (2021). *Saving Local Government*. Springer Palgrave: Singapore.

Drew, J. and Dollery B. (2014). Keeping It In-House – Households as an Alternative Proxy for Local Government Output. *Australian Journal of Public Administration*, 73(2): 235-246.

Drew, J. and Dollery, B. (2017). The Price of Democracy? Political Representation Structure and Per Capita Expenditure in Victorian Local Government. *Urban AffairsReview*, 53(3): 522-538.

Drew, J., Kortt, M. and Dollery, B. (2015a). Peas in a Pod: Are Efficient MunicipalitiesAlso Financially Sustainable? *Australian Accounting Review*, 77(26): 122-131.

Drew, J., Kortt, M. and Dollery, B. (2015b). No Aladdin's Cave in New South Wales? Local Government Amalgamation, Scale Economies and Data Envelopment Specification. *Administration & Society*, DOI: 10.1177/0095399715581045.

Drew, J., Razin, E. and Andrews, R. (2018). Rhetoric in Municipal Amalgamations: A Comparative Analysis. *Local Government Studies*, doi:10.1080/03003930.2018.1530657.

Ferguson, C. E. (1972). *Microeconomic Theory.* Richard D. Irwin: Homewood Illinois(Third Edition).