Good Afternoon,

I refer to your email dated 13/09/2017 inviting submissions on your consultation paper on measuring productivity trends in the local government sector. On behalf of Greater Shepparton City Council I provide the following points and comments as our submission to the consultation paper –

- The paper notes the intended aim of the efficiency factor is to "create incentives for Councils to operate more efficiently and ensure that efficiency gains are shared with ratepayers in the form of lower rates". We believe that it is arguable that the implementation of the rate cap is already providing that incentive in that by the Minister applying the rate cap at the CPI forecast that Councils are only ever increasing rate income based on inflation. If a Council wishes to implement new initiatives or increase service levels at a higher level than normal growth (i.e. supplementary rates), because of the rate cap, Councils already have an incentive to be more efficient with its existing resources. Furthermore, the onerous requirements of applying for a rate cap variation, in particular demonstrating the support of the community in for a variation, combined with the negative connotation of doing so unnecessarily (until all other options have been explored) places further incentive on councils to be more efficient.

- The paper states that "data showed total factor productivity across the broader economy has increased slightly. Thus productivity in the local government sector is falling behind and going in a different direction to that of the broader economy." Comparing the local government sector, which operates within the constraints of the Local Government Act 1989, the Local Government Award 2017 and other legislation, to the broader economy that includes private sectors (which would use different inputs and outputs) is short sighted and not a fair comparison. The incentive for efficiency in the private sector/broader economy is profit. The incentive for the local government sector is now the rate cap itself. This is evident, for example, with councils negotiation of enterprise bargaining agreements with the rate cap significantly influencing discussions between councils and unions (i.e. incentive for efficiency). The paper notes that the analysis used to make the assertion of declining productivity "does not take into account the effects of rate capping" and therefore the statement comparing local government to the broader economy should not be made or relied upon. Further to this the paper does not consider the impact of cost shifting from state government to local government and the impact that this has on productivity measures.

- The consultation paper is lacking in that it has not considered a fifth option of not having an efficiency factor at all.

- The data envelopment approach is noted by the paper as being the best in meeting all criteria yet it scores the lowest in both cost effectiveness and being simple and understandable. Why introduce something like the data envelopment approach to incentivise efficiency that in itself is inefficient? Ratepayers and councils would be better off if the rate cap was left to being just that without the need to further confuse or justify what is essentially an arbitrary figure (as demonstrated in the first two years of its application). The assessment of the data envelopment approach against criteria under table 4.1 shows that it is scored at a 4 (assuming out of 5) for Objectivity. The paper admits that if the data envelopment approach was implemented it "would require a judgement to be made by the commission" on what a reasonable efficiency gain would be and what timeframe should the gain be achieved over". So while the original calculation of the efficiency factor may be objective, its implementation is more subjective which is not reflected in the assessment scoring

- The paper confirms the "minister adopted an average rate cap that was consistent with forecast CPI". The paper continues "However, for 2016-17 the CPI (and wages growth) was much lower than forecast, meaning that the cap actually enabled an increase in rates above both wages growth and the CPI." While in some way accurate (the 'much lower' part is debatable) this statement implies the support or need for introducing an efficiency factor but should not be as it is out of context. A number of councils would still have EBAs that are higher than the rate cap, agreed at a time when rate capping did not exist. Also, the rate cap is announced December each year which influences the development of the next financial year's budget (adopted by the June). As such councils have used that as the basis of their budget and allocated for the year ahead. What CPI actually is for the year in question is known well after the rate cap for that year is announced, after the year is finished, and (the actual CPI) has no bearing on resource allocations and financial management decisions made by Council. These financial decisions also assume CPI will increase by the same for existing service levels. This reiterates the argument that the rate cap itself is the incentive for efficiency. Also, it begs the question what statement would have been made if the actual CPI was higher than that of the CPI forecast/rate cap. An alternate view of Table B.1 is that councils have missed out on 0.3 and 0.15 respectively each year of the rate cap set by the Minister instead of using the ESC's recommended formula.

Kind regards,

Greater Shepparton City Council