

October 13, 2017

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Attention: Local Government Division

Essential Services Commission

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Via email: localgovernment@esc.vic.gov.au

Submission to Productivity Study: Victorian Local Government

City of Wodonga wishes to thank the ESC for the opportunity to provide feedback on the Measuring productivity in the local government sector consultation paper.

In the consultation paper there are four possible approaches suggested to set the efficiency factor:

1. small notional factor 0.05 per cent cumulatively, capped
2. proxy value drawn from historic Australian industry productivity data collated by ABS
3. Value calculated using data from the DEA, identified range 0.01 to 0.09 per cent
4. Performance data from local government performance reporting framework

To be able to make an informed assessment of the proposed approaches, sufficient analysis regarding the outcome of all four suggested approaches listed above should have been provided to enable a proper comparison to be undertaken. Unfortunately, the majority of the paper has been dedicated to selling the DEA methodology to readers of the paper, without providing equivalent analysis on the merits of each of the other methods.

• Suggested approach 1

This approach indicates a cap be set for a small notional cumulative efficiency factor. What is the cap that is being proposed? Without a proposed cap, we have not been provided with sufficient information to make a fully informed assessment of the proposal. In addition, the proposed 4 yearly reviews to consider whether changes need to be made to how efficiency is addressed in the cap is too long. To lock in an efficiency factor that is not due for review for 4 years could severely impact the sector in periods of substantial financial decline, or if the sector was operating at full productivity. The four year review period should be reduced to an annual review to be undertaken alongside the calculation of the rate cap. This methodology will provide the most simple and cost effective solution. However, it could also cause the most damage to councils if it is not administered with reasonable parameters, such as the level of the efficiency factor cap and the ability to reset the efficiency factor if the economic circumstances of the sector indicate a necessity to do so.

• Suggested approach 2

Suggested approach 2 indicates a proxy value be drawn from historic Australian industry productivity data collated by the ABS. In your report, it is stated that ABS data for the period 2010-11 to 2015-16 show local government productivity has declined and total productivity across the broader economy has increased slightly for the same period. To compare the broader economy performance against local government is unreasonable due to the increasing levels of governance obligations being pushed onto local government that is not required in the broader



economy. The increasing levels of red tape expected of local government is just not replicated in private enterprise, such as procurement processes, grant acquittals, additional government reporting obligations (Performance reporting, Grants Commission return, ESC return), legislative compliance to the Local Government Act requirements, additional local government legislative obligations for budget and annual reporting requirements are onerous and required by private enterprise). In addition, services are provided by local government that would never be provided by private enterprise due to the cost, however the community benefit to be obtained or legislative obligations require local government to provide those services. Accordingly, many services are provided by local government without the prospect of ever being able to fully recover the cost of provision on a user pays basis. Often many of these services were transferred to local government as part of the cost shifting from state government that has been occurring over many years.

The industry divisions that you have selected as representative of local government activities, being administrative and support services, arts and recreation services and transport, and postal and warehousing industries are not reflective of local government. In the City of Wodonga budget, the highest costing activities are road maintenance and renewal, parks and gardens maintenance and provision of waste services. Other high cost services provided include preschool and early years operations, strategic and statutory planning, arts and recreation services and community building maintenance, security and cleaning. As mentioned previously, private operators in these sectors do not have the same legislative obligations imposed upon them and therefore any comparison of productivity performance would be invalid.

- **Suggested approach 3**

Suggested approach 3 indicates a value calculated from the DEA should be considered. The information provided in the paper is very technical due to the complex nature of this productivity measurement tool. I refer to the submission made by Corangamite Shire Council to the consultation paper and agree with the points they have raised regarding the use of DEA. The data provided indicates that the use of this methodology has highlighted a number of councils are operating at full efficiency. It is impossible to verify the veracity of this information due to the names of the councils in Figure 2.2 in the consultation paper being removed. Not even the participants in the working group were provided with this information, which would have greatly assisted in the provision of full and frank feedback.

In addition, for those councils who are technically fully efficient under the DEA, the imposition of a state-wide efficiency factor will be a penalty for their efficiency. The imposition of any efficiency factor will penalise those councils who have already been working hard to cut their operating costs and/or keep their rates low.

- **Suggested approach 4**

Use of the performance data from the local government performance reporting framework set out in suggested approach 4 would not lend itself to an assessment of efficiency. Many of the service performance indicators are influenced by the quality of services provided and may be very expensive to deliver to that standard. There are no financial indicators that would provide a true and comparable reflection of the efficiency of councils across the state. As indicated earlier,

there has been insufficient analysis undertaken for this approach to warrant its inclusion in the consultation paper.

Other factors

This investigation does not properly acknowledge that all councils operate independently, providing a unique set of services to meet the needs and expectations of their individual and diverse communities. Their demographics are different and the size and scale of services differ greatly across the state. Many rural and regional councils will have limited ability to raise alternative income sources that can take the pressure off raising rates to cover the cost of council operations.

There will always be a differing level of maturity between councils in the delivery of services to their community. This will fluctuate from year to year and will be somewhat dependent upon the councillors, staff and executive at the council at any point in time. With staff and leadership position changes, the efficiency of the council will change. This can also be impacted upon by the maturity of the council IT systems in use and the level of funds available to further invest in IT systems to take advantage of technological improvements to increase the electronic capacity of councils to create productivity improvements.

I refer to the submission made by Warrnambool City Council to the consultation paper and also agree with the points they have raised regarding the disparity between councils for comparative purposes and the contribution that councils have already made through the rate cap announced by the Minister for the first two years being below the rate cap recommended by the ESC. The effect of any efficiency factor or reduced rate cap announced by the Minister results a permanent reduction to the rate base that will have a compounding impact in perpetuity on every council. This should be taken into account when calculating future years rate cap and efficiency factors.

In addition, council cost increases do not correlate to the CPI, which is calculated using a sample of expenses incurred by an average household. The cost of wage increases in the sector have also been ignored by the Minister in the first two years under a rate cap, where she has chosen to reduce the ESC recommended rate cap to CPI only. Regional and rural councils already have difficulty in attracting suitably qualified staff to the more remote regions in the state. Limiting the ability of councils to offer a reasonable rate of pay will result in less qualified staff being employed, which will in turn be reflected in reduced efficiency of a council.

Conclusion

Due to the complexity of the DEA methodology, the costs involved in its assessment and the fact that the Minister has chosen CPI instead of adopting the ESC recommended rate cap when announcing the rate cap, Wodonga Council would prefer to use a more cost effective notional efficiency factor. A variation of suggested approach 1 would be recommended; one that is not cumulative and can be set as low as zero if required, such as when the Minister has declared a lower than recommended rate in the preceding year/s (that has the practical effect of an efficiency factor).

The efficiency factor should also be able to vary between council type; for example, to take into account of the much higher ability of larger Metropolitan councils to absorb an efficiency factor in comparison to small rural councils who are operating on a shoe string budget. It should be acknowledged that when councils are required to submit an application to vary rates above the cap

just to cover their operating costs to provide basic services to the community, then the system is broken. These community members are predominantly those who can least afford a rate rise above the cap, however they are being penalised due to the current government funding model being inequitable.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Narelle Klein', with a long horizontal flourish extending to the right.

Narelle Klein
Manager Finance