

# Productivity in the local government sector

**14 September 2017**

## *Electricity and gas*

A new report has proposed a way forward for measuring productivity in the local government sector in the context of setting the annual rate cap.

The Essential Services Commission report, now out for consultation, looked at different ways of establishing an efficiency factor as a measure of productivity.

The commission's Andrew Chow says the efficiency factor is a small but important number.

“When we advise the Minister for Local Government on setting the annual rate cap, we consider the consumer price index, the wages price index and an efficiency factor.

An efficiency factor encourages councils to operate more efficiently and ensure any efficiency gains are shared with ratepayers in the form of lower rates,” he said.

The commission engaged two independent consultants to develop possible approaches to calculating an efficiency factor specific to the local government sector.

The report looked at four different ways of establishing an efficiency factor including:

- a small, notional factor of 0.05 per cent (cumulatively, up to a point)
- a proxy value drawn from historic Australian industry productivity data
- a value calculated from data envelopment analysis
- performance data from the local government performance reporting framework.

Mr Chow says each has its strengths and weaknesses but all represent a possible approach to the question.

“The aim of the study was to help us determine the best way to set an efficiency factor as part of our annual advice to the minister.

“We’re now seeking feedback on the paper as well as the findings of the consultants,” he said.

Comments should be emailed to [localgovernment@esc.vic.gov.au](mailto:localgovernment@esc.vic.gov.au) by 13 October 2017.

The [approach to setting a local government efficiency factor](#) report, along with the consultants’ reports, is now available.

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