

Measuring productivity in the local government sector



Key facts



In 2017, we commissioned a productivity study of the local government sector to help us identify the best way to set an efficiency factor. We'll use this approach for future annual rate cap decisions.

The study looked at different ways of establishing an efficiency factor. Each has strengths and weaknesses and represent a valid approach to the question.

We're seeking feedback from stakeholders on the study by **13 October 2017**. We'll use this feedback to help inform our draft report, which will recommend an approach to setting the efficiency factor.

An efficiency factor encourages councils to operate more efficiently

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.

The aim of the productivity study was to help us determine how we should set the efficiency factor for this process. An efficiency factor encourages councils to operate more efficiently and ensure efficiency gains are shared with ratepayers in the form of lower rates.

Efficiency factors are commonly used in infrastructure pricing decisions. We use an efficiency factor when determining prices for Victorian water businesses. The Independent Pricing and Regulatory Tribunal (IPART) also includes an efficiency factor in its rate peg formula for councils in New South Wales.

We considered a number of options for setting the efficiency factor

We considered setting our efficiency factor on:

- a small, notional factor of 0.05 per cent (cumulatively)
- a proxy value drawn from historic Australian industry productivity data
- a value calculated from data envelopment analysis (discussed in chapter 2 of the study)





- performance data from the local government performance reporting framework.

Send us your feedback via email by 13 October 2017

We are seeking stakeholder feedback on the study including the productivity trends and benchmarking of the sector and the approaches for setting an efficiency factor. All feedback will help be used to inform our draft report which will recommend an approach to setting the efficiency factor.

Stakeholder feedback should be emailed to us (localgovernment@esc.vic.gov.au) by 13 October 2017.

We expect to release our draft report with a recommended approach to setting the efficiency factor in December 2017 and a final report in early 2018.

Key dates

- 13 October 2017: Closing date for feedback on this study.
- December 2017: We'll release a draft report on a recommended approach to setting the efficiency factor.
- Early 2018: We'll release a final report.

Supporting resources

- Read the study: *Measuring productivity in the local government sector*: www.esc.vic.gov.au/measuring-productivity
- Our 2015 report *A blueprint for change – local government rates capping and variation framework* discusses what we consider when we advise the Minister for Local Government on setting the annual rate cap: www.esc.vic.gov.au/blueprint-for-change-local-government/
- We use the Fair Go Rates system to set rate caps for local councils. The system limits the maximum amount councils may increase rates in a year without seeking additional approvals: www.esc.vic.gov.au/fairgoratesystem/.

Contact us

Got a question? Follow us on LinkedIn and Twitter (@EssentialVic), and view our contact details: <http://www.esc.vic.gov.au/contact-us/>.

