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Dear Mr Chow

South Gippsland Shire Council Submission - ESC Local Government Efficiency Factor

Thank you for the opportunity to make a submission to the 'Essential Services Commission Consultation Paper – Approach to setting a Local Government efficiency factor'.

As an introductory comment, there appears to be an emerging dichotomy in regards to future requirements on local government.

On the one hand Local Government Victoria is placing tighter constraints on councils through the introduction of rate capping, the freeze on grant commission funds, efficiency/productivity requirements and the tightening of key legislative requirements.

On the other hand, sentiments used in regard to the new Local Government Act promote empowering councils, encouraging maturity and councils being more self-governing, innovative and entrepreneurial in their approaches towards service delivery.

It is therefore a challenge to respond to any of these fluid factors in isolation. For example, while improving productivity and efficiency is highly desirable (page v), it is questionable if further enforced controls *placed equally across all councils* from any of the proposed models, will achieve the desired 'motivation and encouragement' for councils to act.

If the intent is to enforce requirements on councils to reduce the rate burden on ratepayers, then the models proposed may achieve the outcomes desired, but these are another form of 'regulation', not an 'incentive' encouraging motivation to achieve the same ends. Longer term results for ratepayers may also be adversely affected.



Some general comments are provided in regard to various aspects of the consultation paper:

1. **It is important for a 'simple to understand and apply' model to be used.**

Community members, Councillors, Officers and other stakeholders often struggle to understand the technical construction of performance and efficiency measures. Some of the models proposed will cause confusion. This confusion may lead to distrust as to their intent and possible errors in calculation.

2. **The application of number of households/businesses and lengths of roads serviced, is a better proxy for technical efficiency than application of population.**

The application of household/businesses provides a better proxy for rural councils, than population. Many large rural councils have numerous non-resident ratepayers (holiday makers and tourists) requiring services. Population, as a proxy, would underestimate the impact these non-resident ratepayers have on each Council's service provision.

The application of kilometers of road also provides a reasonable proxy that would be useful for large rural councils, as this measure gives a reasonable reflection of the increased extent of infrastructure required in rural areas to service every household with the most basic level of infrastructure – access to property.

3. **A level of caution is requested in comparing local government with other industries or all councils as a single group, for benchmarking comparisons.**

No other industry provides the extensive range of services, particularly not-for-profit services that local government provides. It is also important within the local government sector to compare 'like for like' councils, as the variables are extensive across the sector. Using the 'multiple group mean technical efficiency measures' would provide better comparisons than the 'single group mean' can achieve.

4. **Consider reducing the Rate Cap earlier than intended, but extend the Notional Efficiency Factor for a longer period.**

Another approach to be considered by the Technical Group would be to finish the rate cap earlier than intended, but extend the Notional Efficiency Factor for a longer period before capping it. This would provide a more sustainable culture change for councils.

The Rate Cap ties a council's ability to pursue future development of assets through reduced funds up front and then compounding. This is likely to be detrimental to communities in the longer term. Conversely the Notional Efficiency Factor allows for a council to plan the development of assets and systems but maintain the added incentive of doing so in a more efficient manner. For example:



- a. More environmentally beneficial buildings may be built.
- b. Higher returns on investment, improved efficiencies and greater levels of customer service, may be achieved through investment in advanced technologies or shared service provisions that may require a higher investment up front but have longer term sustainable outcomes.

5. **Consider the impact of the cost shift in service provision to Local Government from the State and Federal Government, when determining factors that may have contributed to undermining Local Government productivity trends over the past five or six years.**

The cost shift of service provision from higher levels of government to councils has occurred throughout the period of benchmarking comparisons. These shifts in costs and responsibility will have contributed to the 'reduction in local government productivity trends' that have been highlighted as a concern. The impact of these is likely to have been more substantial on some councils than others.

When establishing a performance and efficiency factor, it will be necessary to recognize and accommodate State and Federal cost shifting factors in the equation.

Shifting the cost burden, but not recognizing and accounting for it in a productivity factor, is not presenting a true account of the performance of the sector, or more specifically, groupings within the sector. Some of the many impacts, particularly on large rural councils, as a result of cost shifting include, but are not limited to:

- a. Roadside maintenance made a Local Government responsibility. This may not have minimal impact on metropolitan councils, but large rural councils with extensive rural road networks to maintain and few means of raising funds other than by rates, have been impacted negatively by the legislated change.
- b. Collection of the Fire Services Levy, funded for its introduction only, but this is an on-going cost arising from a service shift to councils.
- c. Regional Library Service was previously paid for by the State, but over the longer term as funding was withdrawn, the cost of this service is now predominantly carried by councils.
- d. Reduction and freeze on Victoria Grants Commission funding, has reduced a funding stream with a compounding impact over many years. Councils have had to rely more heavily on their own ability to raise funds to compensate for this loss.



- e. The provision of funds for Aged Services has been heavily subsidized by many councils, particularly in rural areas, where the funds and infrastructure resources provided by the State and Commonwealth are inadequate to service an increasingly ageing community over large rural and remote areas.

6. The 'curved frontier' representing variable returns to scale, provides a more accurate assumption of changes in proportion with input/output, than the 'straight line frontier'.

The curved frontier provides a reasonable guide to monitor how a shift in either input or output can assist in achieving full technical efficiency. Often a change requires a range on inputs, or outputs to see a compounding effect. Often a more substantial investment up front can have longer term productivity outcomes, which the curved frontier may better represent.

In summary, while a productivity/efficiency measure is supported in principle, the means to apply it may not necessarily be achieved by continually tightening the 'money belt' through compounding rate caps, productivity factors, freezes on grant funding, increased regulatory controls and other restrictive practices.

Consider the impact of cost shifting by other levels of government on productivity factors, particularly when benchmarking trends. An increased cost of providing services by council is not a decline in productivity, if that has occurred due to a reduction in costs or responsibilities by other levels of government.

Consider too that positive incentives, rather than mandatory restrictions, can 'motivate' councils to be innovative in making changes that have a sustainable and compounding impact. Some innovative approaches require an investment in resources up front to achieve longer term efficiencies.

If you would like to discuss the comments provided in this submission further, please contact June Ernst, Coordinator Corporate Planning & Council Business, on phone 5662 9810 or by email junee@southgippsland.vic.gov.au

Yours sincerely

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