



## Warrnambool City Council Stakeholder Feedback Submission to the Essential Services Commission on the Consultation Paper “Measuring productivity in the local government sector”

Thank you for the opportunity to respond to the consultation paper Warrnambool Council is committed to ensuring the ongoing development of efficient services for its community and acknowledges the Role the ESC has to play in the monitoring and development of both the Rate cap and the efficiency dividend for the sector.

Warrnambool City Council likewise has a role to respond where it sees an inequity developing in the methodologies being explored around the development of the efficiency dividend.

It is true that when the commission was initially tasked to develop the rate cap and explore the application of an efficiency dividend very little time existed to develop the evidence base to accurately apply a differential rate cap on different municipalities or apply a specific efficiency dividend to different Councils.

The emphasis was left to Municipalities to apply for a rate cap variation on the premise that each municipality new its own needs and that the Commission would review the voracity of the application. This shifted both the political and fiscal burden on to the Council to make the rate cap variation application.

Subsequently the Commission has explored a great deal of data and would in real terms know of the position of ongoing viability of all Victorian Councils.

## Comments on measuring productivity in the local government sector

*Councils have already contributed a cumulative efficiency factor in excess of that originally proposed by the ESC on an annual basis.*

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The previous minister has already ignored the ESC recommendations in the application of the previous rate caps with an application of the cap set at the nominal CPI rate of 2.50% in 2016-2017 and 2.0% in 2017-2018 as opposed to recommendations of 2.80% and 2.15% respectively.

The cumulative loss in rates and charges income would equate to an efficiency dividend of 0.25% based upon an average rate income equal to 50% of revenue in the two year period well above the nominal 0.05% annually being sought from the commission through this consultation. This efficiency gain has not been recognised in any of the analysis we have seen to date, along with any compounding effects by achieving this forced efficiency upfront.

*Disparity in the make-up of Councils for Comparative purposes*

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Whilst some acknowledgement in the consultation paper goes to the disparate nature of the Regional Cities cohort of councils it does not deal with this disparity and focuses on the fact there are homogenous services all Councils deliver. On face analysis of the 5 models being mooted to determine "Technical Efficiency" there is very little chance that Warrnambool would fit into a positive model of technical efficiency.

A clearly political decision taken at the time of amalgamations sees Warrnambool with a smaller area, commensurately technically smaller population and a range of services on offer equal to its benchmark Councils.

Moyne Council sits a figurative donut of area, population and consumer of regional resources around Warrnambool yet due to the artificial boundaries set in 1994 no consideration is given to the combined outcome of both municipalities. Amalgamations resolved many of these instances except for Moyne and Queenscliff both as a result of political machinations rather than a progression of the prevailing logic of economies of scale.

Over 20% of Warrnambool Councils services are directly related to a regional offering from a regional airport owned by Warrnambool but located in Moyne to regional tourism and economic development spends Warrnambool councils role as capital of the South west comes at a premium for the local community. The cost to the region if Council were to step away from this role to aim for "Technical Efficiency" would be catastrophic to the region's economy.

### *Ad hoc and un-restricted efficiency built in via cost shifting*

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Local government has had an ad hoc efficiency factored built into its operations through a continued cost shift of both services and reduced incomes from state and federal authorities. It is incumbent on the ESC to analyse the extent of this cost to Local authorities and factor this as an added component of ad hoc efficiency that has had to be found within the sector during the rate capped period

### *Next steps for the ESC*

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The ESC has the information to make a more granular assessment both on an individualised rate cap assessment and the merits of local efficiency. Warrnambool encourages the ESC to utilise this information to create a more full review of each Councils relative position and add commentary to the analysis undertaken rather than rely on blunt measures relating to bench marks at the cohort level.

That the ESC advocate to the State government for fiscal support for Councils where it identifies structural hardship related to the composition of municipalities stemming from the 1994 amalgamations.

Where it identifies Councils that are at future risk of not meeting their service or infrastructure obligations and where an added burden to the rate payers would be inequitable.

Clearly Warrnambool understands many Councils including Warrnambool undertake discretionary activities for their communities. These discretionary activities are always weighed up against competing community demands and sustainability obligations.

Overall as a sector it is agreed further productivity improvements can be driven but again this must be assessed at a more granular level. Acknowledgement should also exist where the current service levels of a Council is meeting community expectation and where abnormal imposts exist due to structural conditions established by the State Government.

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