

Enquiries: *Helen Sui, Director Corporate Services, 03 9217 2376*

27 September 2017

Andrew Chow
Director Local Government
Essential Services Commission
via email: localgovernment@esc.vic.gov.au

Dear Mr Chow

Submission to Essential Services Commission 2017, Measuring productivity in the local government sector: Consultation paper, September.

City of Whittlesea appreciates the opportunity to provide feedback regarding the Essential Services Commission's (ESC) study of productivity in the local government sector.

Summary

City of Whittlesea's feedback focuses on how the rate cap efficiency factor is set, namely the four options considered in this context. Council supports setting the efficiency factor notionally for the next four years at a rate of 0.03 per cent per annum. The ESC should monitor long term productivity trends using the data envelopment analysis method (or a suite of suitable approaches) and adjust the factor accordingly thereafter. There are benefits of keeping the factor constant over a period of time rather than adjusting it annually.

Of practical importance to the local government sector is an earlier announcement of the rate cap, preferably in October for the following financial year. This would allow for timely inclusion into budget development, which is typically well progressed by the time the cap is currently announced in December.

Option 1 – Notional efficiency factor — 0.05 per cent

City of Whittlesea considers this approach suitable for implementation at a factor of 0.03 per cent per annum over the next four years. The key arguments for this method are its simplicity and low cost for implementation. Process and productivity targets can be more easily communicated internally and are predictable for the period. The factor of 0.03 per cent per annum is more appropriate and sustainable, given the substantial change the sector is facing to adjust to a rate capped environment.

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Option 2 – Proxy measures

City of Whittlesea considers this approach not suitable to set the efficiency factor, irrespective of whether three (as per Deloitte’s recommendation) or sixteen industries (as per the ESC’s proposal) are used to calculate the factor. It is problematic to use a market sector benchmark, since local government is subject to a different set of drivers for organisational performance compared to the market sector. These include political and local considerations as well as community benefit. Local government’s role includes intervention to address failures and adverse outcomes of competitive service delivery. The sector would thus provide service activities considered unprofitable in a market environment, which in turn has an adverse effect on the sector’s productivity.

Option 3 – Data envelopment analysis

City of Whittlesea considers this approach methodologically appropriate but unsuitable for implementation in the sector. It is too complicated to communicate internally and would introduce unnecessary uncertainty into strategic resource planning. Given the results of the method can be implemented as effectively at lower cost over the long term using the notional method, this method should only be used for long term monitoring at State level.

Option 4 – Local government performance reporting framework

City of Whittlesea considers this approach not suitable to set the efficiency factor, in line with the assertion in the consultation paper that the Essential Services Commission has not yet “been able to calculate an efficiency factor at this stage using this approach.”

The City of Whittlesea looks forward to receiving your draft report on a recommended approach to setting the efficiency factor in December 2017.

Yours sincerely



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Chief Executive Officer

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