



**CORANGAMITE
SHIRE**

Our Ref. D/18/7587 pam

13 February 2018

Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Sent by email: localgovernment@esc.vic.gov.au

Dear Sir/Madam

Re: Submission to Setting a local government efficiency factor – Draft Proposal

I am pleased to provide Corangamite Shire's submission to the Essential Services Commission in relation to the *Setting a local government efficiency factor – Draft Proposal* (December 2017). I also refer you to our previous submission (dated 3 October 2017) on this subject.

Corangamite Shire contends no efficiency factor should be introduced in the short to medium term, as the sector has effectively had an efficiency cap introduced through rate capping. For example, historically Corangamite Shire had rate increases in the order of 5% annually - essentially an efficiency factor applied of 2.5%. Using the ESCs notional factor of the efficiency factor increasing by 0.05% per year it would take 50 years to reason 2.5%. If the ESC insists on applying an efficiency factor, the use of a notional figure of 0.05% capped at 0.1% is the preferred approach. Any change to this factor (including future use of DEA) should involve further and effective consultation.

The proposal notes that no consultation on the efficiency factor was undertaken with rate payers, and is it also noted that no consultation seems to have occurred with unions or, for example, asset and engineering bodies. The impact of rate capping and an efficiency factor has and will continue to impact on wages and asset renewal. Pleasingly, the paper recognises the diversity within the sector. However, more explicit recognition of the issues and difference between metro and rural councils is required. Rural councils are required to manage large numbers of assets (predominately roads) with much smaller rate bases and fewer alternative income sources.

The ESC response on page 13 of the draft proposal to our previous submission suggests "as rates fund a broad range of council services we consider that an aggregate measure of efficiency is reasonable". This simplistic approach is flawed and the premise that there will be winners and losers (described in the proposal as acknowledging "...for some services, an overall efficiency factor will overestimate what can be achieved. Elsewhere it will underestimate opportunities...") fails to recognise the diversity within the sector which the ESC has observed.

CORANGAMITE SHIRE COUNCIL

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Furthermore, the paper states that insufficient evidence was provided to assess cost shifting and the implication that cost shifting acts as a de facto efficiency factor. There has been numerous reports and submissions on the impacts of cost shifting. Did the ESC discuss this with peak bodies such as the MAV and LGPro?

Finally, the draft proposal still sufficiently fails to recognise the theoretics and practical difficulties of using DEA. For example, many (small rural) councils considered 'technically efficient' in the initial consultation paper are potentially those councils the Victorian Auditor General's Office would consider high risk in terms of long-term financial sustainability. In that regard, the competing objectives of efficiency and sustainability need to be carefully considered.

The efficiency and effectiveness of Local Government remains an important issue, however the ESC has not adequately demonstrated to or consulted with the sector on the application of DEA. As the ESC "recognises that there are some limitations at the moment as the effects of the rate capping regime on productivity and efficiency are not yet fully revealed", the introduction of an efficiency factor by the Essential Services Commission is premature until further discussion with the sector occurs.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Andrew Mason', written in a cursive style.

Andrew Mason

Chief Executive Officer

Cc Dr Graeme Emonson, Executive Director, Local Government Victoria
Mr Rob Spence, Chief Executive Officer, Municipal Association of Victoria
Cr Rob Gersch, Chairperson, Rural Councils Victoria