

1 February 2018

Mr Andrew Chow
Director Local Government
Essential Services Commission
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Dear Mr. Chow

Submission to Essential Services Commission- Setting a local government efficiency factor draft proposal

Thank you for the opportunity to submit our comments on the 'Setting a local government efficiency factor draft proposal'.

The City of Stonnington does not agree with the notion that an 'Efficiency Factor' will work as an incentive to be more efficient, promote innovation and improvements in the sector. Whilst Stonnington is supportive of the objectives of increased transparency and accountability for local government, our concerns regarding the Fair Go Rates Framework and the inclusion of an 'Efficiency Factor' remains unchanged.

Together with other Victorian councils and agencies, the City of Stonnington raised a number of concerns and identified gaps during the consultation phase for "Measuring Productivity in the Local Government Sector Consultation Paper". From the draft proposal on the 'Setting a local government efficiency factor' it is disappointing that calls from the sector to abolish the proposed 'Efficiency Factor' have not been taken on-board.

It is concerning that a number of issues raised by the sector have not been fully resolved before drafting this proposal. We would like to bring the following key points to your attention:

- There is insufficient guidance and evidence on how the introduction of an 'Efficiency Factor' in the rate cap formula will work as an incentive to be more efficient, promote innovation and improvements in the sector. No case studies or analysis have been provided to support an 'Efficiency Factor' to be a driver of innovation and improvements in the sector.
- From the recent research and analysis undertaken by ESC during the consultation phase, it was clear that councils are becoming less efficient on a technological front. As quoted in the consultation paper:

"historically councils have improved their efficiency using existing technology (moving closer to the frontier) but their efficiency from utilising new technology declined by a greater amount (a decrease in technological change means the whole frontier has contracted). This results in a decline in overall performance"

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There is no doubt that significant investment is required to improve systems and technology by the sector. Introduction of an 'Efficiency Factor' will further diminish councils' ability to invest in available technology and imposes a risk of widening the gap.

- The rate cap in itself is an 'Efficiency Factor'. In response to capped rate environment, councils are required to be more efficient. Impacts of the rate cap on the sector have not been considered in any of the analysis and the urgency of imposing an 'Efficiency Factor' at this stage is not clear.
- Setting an 'Efficiency Factor' to 0.10 per cent for the next 2 financial years, is over and above the proposed range of 0.01 to 0.09 per cent demonstrated from the data envelopment analysis (Measuring Productivity in the Local Government Sector Consultation Paper September 2017). This approach also assumes "one size fits all", ignoring diversity in operations, services, infrastructure, demographics, financial position etc. of 79 different councils.
- Over the past 2 years under the rate cap system and previous year's analysis, it is clear that achieving a perfect rate cap (2.00% FY17/18) is next to impossible. During the budgeting period, increases to the average rates is based on a number of assumptions such as the total amount of annualised supplementary valuations (approximately 2 months prior to year-end close); the total number of rateable properties (approximately 2 months prior to year-end close) etc. These assumptions mostly lead councils to set an actual rate rise lower than required by the rate cap. This is clear from following the analysis undertaken by the City of Stonnington:

	Rate increase set by the Minister	Rate increase by City of Stonnington	Efficiency Factor achieved
2017/18 Financial Year	2.00%	1.64%*	0.34%
2016/17 Financial Year	2.50%	2.39%*	0.11%

**Data Source; Annual Baseline Information submission 2016-17 and Annual Baseline Information submission 2017-18*


From the analysis above, it is clear that in the last 2 financial years, the City of Stonnington has delivered efficiencies to its community by increasing rates less than set by the Minister. Application of a uniform 'Efficiency Factor' will be detrimental to Stonnington and many other councils where average rate rise has been less than the set rate cap.

- As a long term impact, the introduction of an 'Efficiency Factor' will cripple councils' financial sustainability. This will lead councils to cut services or reduce service levels, which is not in the best interests of the community and is in conflict with the idea of 'Efficiency Factor'.

City of Stonnington calls on the ESC to abolish the 'Efficiency Factor' and allow councils for a period of 5 years to reinvest the equivalent of an 'Efficiency Factor' into business efficiencies and improvements.

If you would like to discuss Council's submission further, please contact Mr. Geoff Cockram, General Manager Corporate Services on 8290 1300 or gcockram@stonnington.vic.gov.au

Yours sincerely



Warren Roberts
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