

10 October, 2017

Dr Ron Ben-David  
Chairperson  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

[localgovernment@esc.vic.gov.au](mailto:localgovernment@esc.vic.gov.au)

Dear Dr Ben-David,

**SUBMISSION TO PRODUCTIVITY STUDY: VICTORIAN LOCAL GOVERNMENT**

Thank you for your invitation to comment on the - Measuring Productivity in the Local Government Sector – Consultation Paper. One of the key objectives of FinPro is to provide advocacy for local government practitioners on issues, which affect the industry as a whole, and to act as the focal point of reference by regulatory bodies on financial issues affecting the sector.

In this process we have sought views from the FinPro Executive and unanimously we do not agree with the concept that Councils need an ‘incentive to operate more efficiently’ or with the ESC’s stated aim to lower rates by creating incentives for Councils to operate more efficiently and to pass those savings on to ratepayers in lower rates. Every Victorian Council has experienced cost shifting and reduced funding from State and Commonwealth Governments over many years. At the same time many Councils have introduced new and enhanced, or expanded existing services, to meet community expectations.

Our position has not changed since the efficiency factor was first mooted to be included in the rate cap mechanism. We believe that an efficiency factor should not be included in the rate capping mechanism. Local Government is already subject to enforced productivity gains via limits on grant revenues from other levels of government. Most service delivery grants are increased by only CPI (plus a growth factor for any additional services); Councils must therefore bear the increase in the real cost, over and above the CPI. Also, the Federal Government’s freeze on the Victorian Grants Commission (VGC) funding over the past three years will have a long lasting effect on Councils as it has eroded the grant base going forward.

Furthermore, rate capping, as it has been applied by the Minister over the past two years, by its very nature and application, is a form of forced productivity improvement. We therefore assert that the imposition of an additional efficiency factor is unwarranted. An efficiency factor, on top of rate capping, will disproportionately penalise Victorian Councils for their ongoing efficiency and low property rates. Applying an efficiency factor to local government property rates ignores the diversity of the local government sector.

The application of efficiency measures should be about each council identifying resources that could be better used for some other application (e.g. improved or higher level of services). It should be about reviewing and using scarce resources in a better way. Applying an efficiency factor, for lower rates sake only, will likely lead to a diminution of services, which disadvantages our communities.

With regards to the comments, members of the FinPro Technical Committee would be happy to meet and discuss the points raised.

Yours sincerely,



**Angelica Marshall**  
**President**  
**FinPro**