

Office of the Mayor

Cr Tony Athanasopoulos

7 February 2018

Mr Andrew Chow
Local Government Division
Essential Services Commission
Level 37 2 Lonsdale Street
MELBOURNE VIC 3000

Dear Andrew

Re: Submission on Local Government Efficiency Factor

Thank you for the opportunity to provide a submission on your December 2017 draft proposal on setting a local government efficiency factor as part of the Minister for Local Government's annual rate cap.

By way of context, this submission does not come from a position of rejection of the principles of efficiency and effectiveness in local government service provision. Glen Eira City Council has always operated as efficiently as possible and demonstrated a commitment to delivering value to our community. Like many other Councils we have committed to a program of continuous improvement, innovation and service review, and take a long term view to our financial and asset planning. We remain the second lowest rating municipality in Melbourne, and actions forecast in our Strategic Resource Plan and 10 year asset management plan will ensure that we remain financially sustainable, despite the challenges associated with the implementation of the Government's rate capping process.

That being said, we remain of the view that:

- there is little to no benefit in setting an efficiency factor in addition to the Minister's rate cap;
- that attempting to apply a one size fits all approach to Councils on this matter is inappropriate and does not recognise the vastly different starting positions of each Council before the introduction of the rate capping policy;
- as the long term impact of rate capping on individual Councils' financial sustainability is as yet untested, it would be more appropriate to delay any further consideration of an efficiency factor until the impact of rate capping on asset renewal and essential service delivery can be better assessed. It is expected that this would take at least 2 years.
- that there should be no additional reporting or administrative burden on Councils.

It is important that the consideration of the appropriateness of an efficiency factor is done in parallel with a reflection on your own December 2017 Report – *Council Compliance with the Rate Caps for 2017-18*.

While 3 Councils were publicly named as non-compliant with the rate cap (and only 1 of those assessed as materially non-compliant), the remaining 76 Councils were assessed as compliant. Disappointingly, there was no public reporting of the extent to which those 76 Councils' average rate increases were compliant. If this had occurred, it would have been clear that a number of those 76 Councils will have already delivered a further efficiency benefit greater than the 2% cap. In Glen Eira's case for example, our average rate increase was 77c better than the rate cap of 2%. This equated to a percentage increase of 1.94% - effectively delivering a 0.06% efficiency factor.

As Glen Eira has already made clear in earlier representations to your office, it is next to impossible for a Council to achieve a perfect 2% (for example) increase to the average rate due to the number of assumptions that must be made in advance of setting the annual budget. Assumptions must be made on:

- 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); and
- for Councils that apply an additional pensioner rebate (such as Glen Eira), the number of pensioners who may be eligible.

An adjustment in any of these assumptions could potentially cause non-compliance with the rate cap, or the delivery of a further efficiency. There is a need for a clear and transparent 'tolerance level' to cater for this, and a public recognition that many Councils are in fact already delivering additional efficiency without the need for a further burdensome process applied by the Essential Services Commission.

Other Commentary

Your draft proposal notes that ratepayer associations did not make any submissions on this matter as part of the consultation process (p2). I suggest that this is likely because the objective of ratepayer associations in early consultations on rate capping was to achieve control in rating growth, and that this has already been achieved through the Minister's rate cap policy. There is no evidence in your paper to support the inference that they are now strongly in support of a further efficiency factor.

As far as I am aware, the rate cap formulae of 60% CPI and 40% WPI was not introduced to accommodate short term cost pressures faced by Councils (p.11) but in recognition that as service organisations CPI alone is not an appropriate measure by which to consider reasonable cost escalation. It is also unreasonable to then assert that this makes it appropriate to include an efficiency factor as an incentive for Councils to operate more efficiently in order to share efficiency gains with ratepayers. All of Council's efficiency gains are directed back into frontline service delivery, or to support upfront investment in technology and service delivery infrastructure to enhance the resident and customer experience. Unlike utility industries, to which you continue to refer, 'profit' is already channelled transparently directly back into the community through the budget process.

The inability of Councils to quantify in definite terms the impact of cost shifting from other levels of Government, including the State, should not be a reason in itself for dismissing its consideration in the setting of an efficiency factor (p.12). Much work has been done by the sector through the Municipal Association of Victoria in quantifying cost impacts of State policies, but largely on a service by service basis (e.g. School crossing supervision). Despite this, we would welcome the opportunity to work with the ESC to better quantify the impact of cost shifting in a more transparent way.

Thank you for the opportunity to make a submission. Our CEO, Rebecca McKenzie and I would be happy to meet with you to discuss any aspect of this submission should it be helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'A' followed by a stylized flourish.

CR TONY ATHANASOPOULOS
MAYOR