

Limestone Coast
Local Government
Association

4/11/19

Committee Secretariat
South Australian Productivity Commission
GPO Box 2343
ADELAIDE SA 5001

To the South Australian Productivity Commission

RE: INQUIRY INTO LOCAL GOVERNMENT COSTS AND EFFICIENCY DRAFT REPORT

Thank you for the opportunity to provide a submission to the *Inquiry into Local Government Costs and Efficiency*. This submission is provided to the Commission by the Limestone Coast Local Government Association. The Limestone Coast Local Government Association (LCLGA) is formed from the seven Local Government Councils in the Limestone Coast.

The LCLGA represents the interest of the following councils and their communities:

- Naracoorte Lucindale Council
- District Council of Grant
- City of Mount Gambier
- Kingston District Council
- Wattle Range Council
- Tatiara District Council
- District Council of Robe

We support the submissions from the Local Government Association of SA (LGASA) to the SAPC and do not seek to duplicate the matters raised in their submissions.

In fact, we were contemplating not making a submission as the LGASA work in representing local government members is comprehensive. However, having attended Dr Butlins presentation at the recent LGASA Annual Conference and noting there is still time to make a submission we have decided to raise a couple of points from our members for the Commission to consider.

We draw attention to our submission on the SAPC methodology and again assert that the difficulties and complexities in data sets to normalise inputs and outputs, means the best approach is to measure the changes in performance of a Council over time rather than seek comparative measures.

In informal discussions with staff at the ESC they made similar comments that due to the complexities of services and difficulties in normalising data for local government it is likely the

most effective approach for local government is to establish baselines and measure changes in performance per Council.

In terms of the suggestion for a state based EBA it is useful to consider the purpose of enterprise bargaining agreements. They are to establish agreements where changes in workplaces and work practice can be pursued to improve efficiency and productivity are incentivised to allow both parties to share in the resulting benefits. It is unlikely that a state-based approach will provide the same efficiency and productivity benefits as the opportunity costs for each council will be very different.

If a state-based approach is desired, then rather than a state EBA it may be more worthwhile to simply move to a modernised award but in doing so the enterprise incentive for collaborative performance improvements will be changed.

We note in Dr Butlins presentation at the recent LGASA conference that depreciation is one of the inputs considered in the efficiency equation, presumably a higher depreciation rate causes a relative fall in productivity. We think the use of depreciation is problematic and needs to be considered carefully and also note this aspect has had little attention.

What is an efficient and equivalent measure of depreciation considering life cycle investments, changes in demand on assets, asset valuations and timing of valuations and even consistency of valuation methodologies? If depreciation becomes a key input that is used to assess productivity and performance, then this may provide unintended signals for capital investment (in the short-term) those council that under invest in capital may find their rates as being considered more productive than those that do make prudent investments.

Like concerns around how the Regulated Asset Base for utilities (under variations of the CAPM type approach) can lead to an investment bias towards high capex and low opex solutions, the use of depreciation as a defacto measure for capital efficiency is questionable.

There are many aspects of the draft report that we do support and welcome, in particular the recommendation to clarify responsibilities between state government and local government.

Thank you for the opportunity to provide our feedback.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Wright', with a long horizontal stroke extending to the right.

Tony Wright | Executive Officer
Limestone Coast Local Government Association