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INQUIRY INTO THE SUSTAINABILITY AND OPERATIONAL CHALLENGES OF VICTORIA'S RURAL AND REGIONAL COUNCILS

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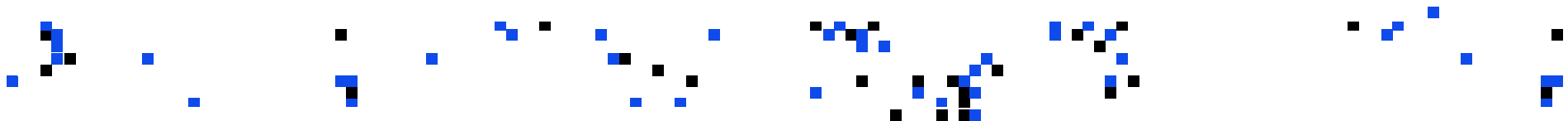
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SUMMARY OF KEY POINTS

- Thank you for the opportunity.
- Introduction to UTS:CLG and UTS:IPPG.
- I have provided a separate document with links to key reports and documents that contain the detail of research we have conducted.
- I have reviewed the other material presented to you – and will not repeat any of that material.
- I will just outline a few key summary points and happy to take questions.

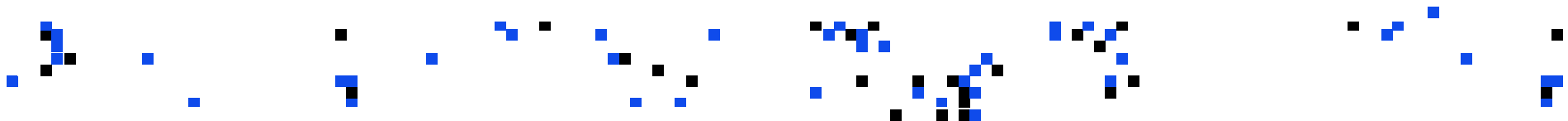
Who we are – UTS IPPG and CLG

- University of Technology Sydney Centre for Local Government (part of the Institute for Public Policy and Governance).
- Public policy and social research centre operating since 1991.
- Only university based centre with the purpose of supporting the sustainability and capacity of local government.
- Expertise in the structure, functions and operations of local government, inter-governmental relations particularly in a reform context.
- Work with councils across Australia and internationally providing tailored solutions through flexible courses, targeted research and specialist consultancy services.
- Aim to:
 - To enhance professionalism and skills in local government
 - Showcase innovation and best practice
 - Facilitate a better-informed policy debate



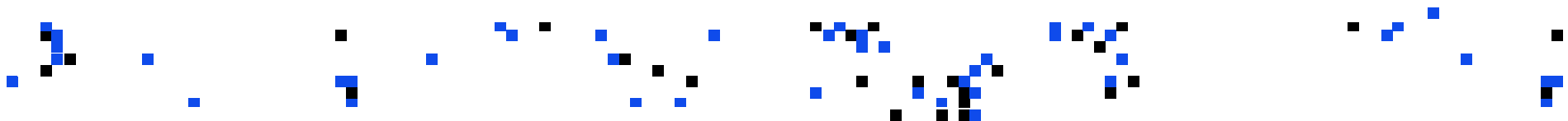
Key elements of best practice capacity support – guides and handbooks

- Service delivery reviews.
- Workforce planning.
- Performance reporting – peer assessment – pilots.
- Local government – performance as part of the public sector.
- Efficiency and financial analysis.
- Education and training – Master of Applied Policy.
- Developing a profile of scholarship in LG studies.
- Recent books and reports.



Summary of key points

- Depends on what you mean by sustainability.
- If more narrowly – financial sustainability – limited robust evidence – claims made but little actual empirical work has been commissioned.
- Broadly – considering the workforce and the importance of LG – significant in the locality.
- Very few models exist - e.g. NSW Far West Councils – governance – not yet successful.
- Importance of political representation, questions of scale, capacity support, mechanisms for cooperation and shared services.



State of the evidence

There is very little robust empirically informed literature on financial sustainability of local government in Australia.

Paper on NSW Drew and Dollery 2014 - This paper demonstrated a statistically significant association for population size for just 2 of the 10 financial sustainability ratios employed in NSW (suggesting that bigger councils will not necessarily be more sustainable).

Paper on Qld - Drew Kortt and Dollery (2014) which showed that as a result of the Qld amalgamations 25% of all councils now exhibit diseconomies of scale covering 84% of the state's population. The Qld amalgamations in 2007 resulted in increased unit cost – i.e. inefficiency making sustainability worse.

Other factors that impact on efficiency – wards – leads to increase in expenditure, (study of Vic councils – 3.4%) as does directly elected mayors (based on NSW rural and urban councils – 13.5%).

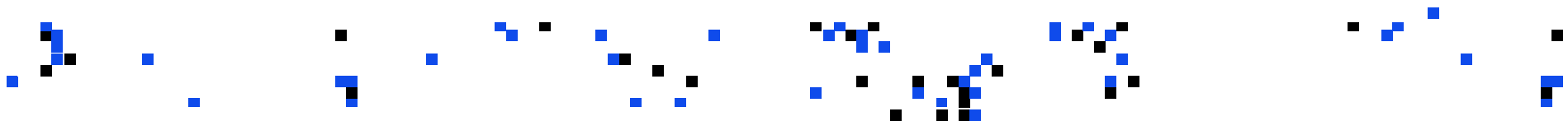


State of the evidence - 2

FAG grant distributions: ensuring FAGs are distributed strictly according to need and revenue effort principles embodied in horizontal fiscal equalisation theory. This would require a change to FAG legislation (removing the minimum population payment) as well as the need for robust empirical methodology.

Participatory Budgeting: This is important for getting the public to recognise the need for trade-offs when deciding on spending. The more information the community has the more spending can be managed.

Pre-election Financial Sustainability Statements: NZ – short statement of the financial sustainability of Council and measures introduced to enhance sustainability. Providing information to residents prior to election decision making should improve the decision making – and put sustainability to the forefront of voters mind.



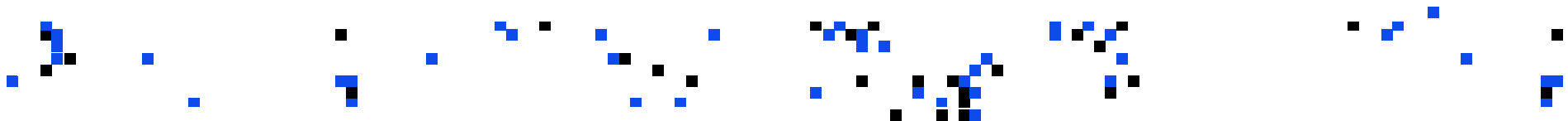
Recommendations to address the evidence gaps on financial sustainability

There is a need for a comprehensive study of financial sustainability of Vic rural councils as a matter of some urgency.

Efficiency analysis (using intertemporal DEA) will guide better decision making and management.

Debt capacity modelling before councils go out and take on debt.

Comprehensive and rigorous modelling is required before countenancing amalgamations.



Exposition of the Report



ABOUT THE MCKELL INSTITUTE


The McKell Institute is an independent, not-for-profit, public policy institute dedicated to developing practical policy ideas and contributing to public debate. The McKell Institute takes its name from New South Wales' wartime Premier and Governor-General of Australia, William McKell.

William McKell made a powerful contribution to both New South Wales and Australian society through significant social, economic and environmental reforms.

For more information phone (02) 9113 0944 or visit www.mckellinstitute.org.au


ABOUT THE AUTHORS

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Dr Joseph Drew is a Research Fellow in the Institute for Public Policy and Governance at the University of Technology Sydney. His research interests focus on expenditure and revenue structures for local government, performance measurement and corporate governance. Previously Joseph worked in senior management positions in performance monitoring within the retail banking sector. Joseph is the author of over 35 scholarly works and has consulted with numerous Victorian and New South Wales councils on municipal reform, accounting, finance and economic matters.

ASSOCIATE PROFESSOR ROBERTA RYAN




Associate Professor Roberta Ryan is a leading social researcher and policy, program evaluation and stakeholder engagement practitioner with over 30 years' experience in both the public and private sectors. Roberta is the Director of the Institute for Public Policy and Governance and the UTS Centre for Local Government at the University of Technology Sydney. Roberta has completed over 300 social research and evaluation projects, including major national reviews and evaluations, methodologically complex projects using outcome and process evaluation approaches, program logic and many service reviews and evaluations.

UTS INSTITUTE FOR PUBLIC POLICY & GOVERNANCE & UTS CENTRE FOR LOCAL GOVERNMENT

The Institute for Public Policy and Governance at the University of Technology Sydney (UTS:IPPG) is a leading group of researchers and practitioners in the areas of applied policy, social research, stakeholder engagement, and leadership. The UTS Centre for Local Government is part of the UTS:IPPG, and is a leader in local government research, teaching and advisory.

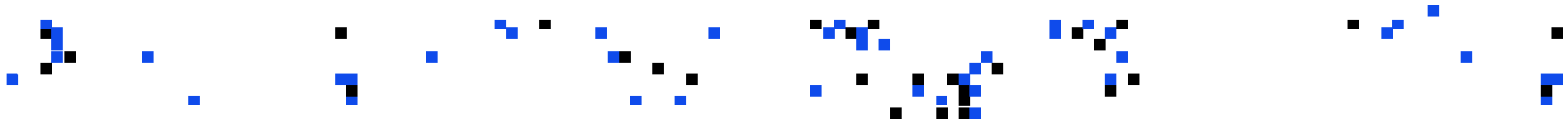
For more information phone (02) 9514 7884 or visit www.ippg.uts.edu.au

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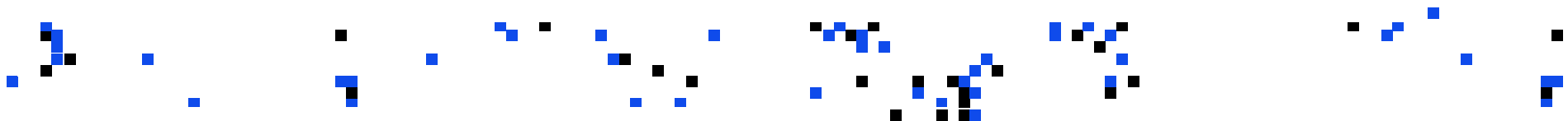
- Over the past 20 years local government expenditure has increased fourfold.
- That is an average of 7.3% p.a. every year over 20 years
- Indeed this is likely to understate the problem given that many jurisdictions removed water and sewer functions over this time.



Part 1 (ii)

Why has expenditure increased?

1. Cost-shifting.
2. Need to address market failure – i.e. where it is not financially viable for the private sector to provide essential goods/services.
3. Rising community expectations.



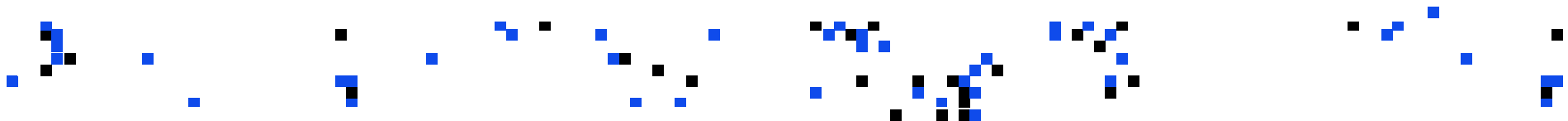
Background

- Financial sustainability has been the OVERWHELMING PUBLIC POLICY PREOCCUPATION in the area of local government.
- From 1990 alone here has been a plethora of public inquiries and accompanying academic literature on the topic.
- The OVERWHELMING POLICY RESPONSE has been to resort to compulsory or forced programs of amalgamation (although there have been other responses – e.g. shared services; leadership changes). Reduction of around 252 councils nationally since 1990;
- These programs have **not** resulted in the savings for government as projected.
- They have also been characterised by acrimonious state-local government relations.



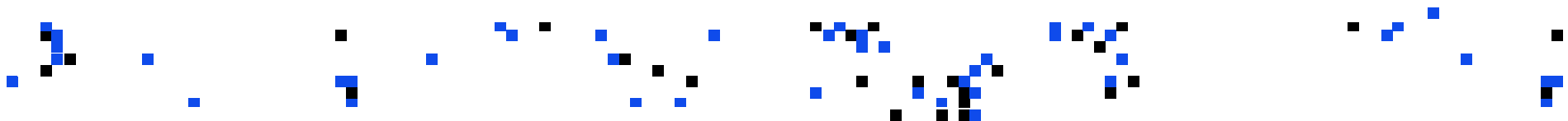
What is to be done?

1. The tier of government instigating the change should be financially responsible – which requires oversight.
2. Appropriate grant transfers (again with independent statutory oversight).
3. Responding to community demand -- This is largely the focus of re-booting.



New thinking is required

- Therefore, we cannot rely simply on structural reform to mitigate financial sustainability problems.
- There needs to be fresh thinking that addresses both revenue *and* expenditure deficiencies.

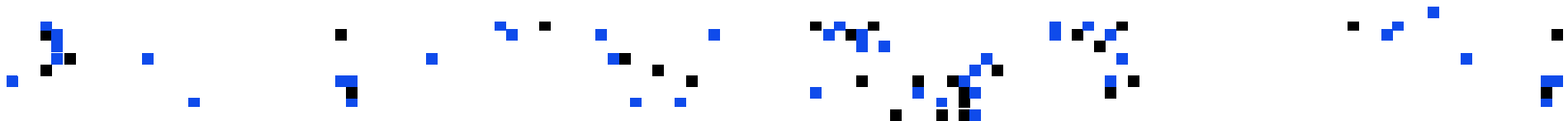


Part 2 (i): Some economic theory

➤ The mandate of government is to produce public goods and services. Pure public goods are both non-excludable and non-rival (i.e. consumption by one individual does not affect the quantity of the good available for consumption by others);

Juxtaposed with pure private goods:

- Merit goods, (pools; libraries), and
- Goods with positive externalities (sewerage and waste disposal).
- **Re-booting** argues that: “It is important to be conscious of the different types of local government goods and services, as the source of funding should *ideally* respond to the characteristics of consumption. When this association is not observed, then **inequity** and **inefficient levels of consumption** result”.



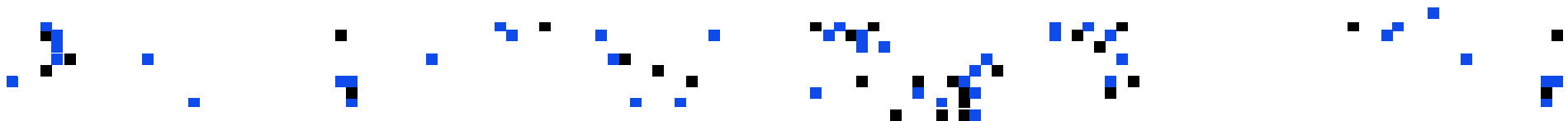
Part 2 (ii) who gets what and why is it not made explicit enough

Local government taxation is also often employed inappropriately.

The problem is rent-seeking lobbies...i.e. understandable behaviour that citizens argue for the priority of their interests.

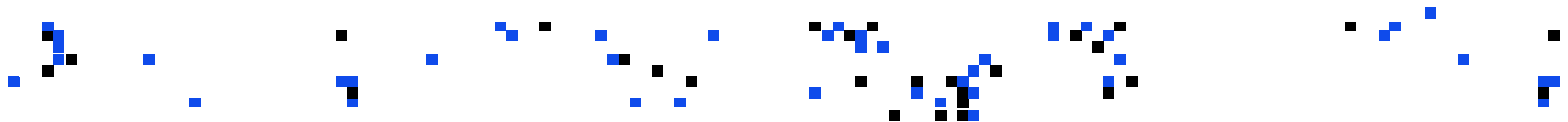
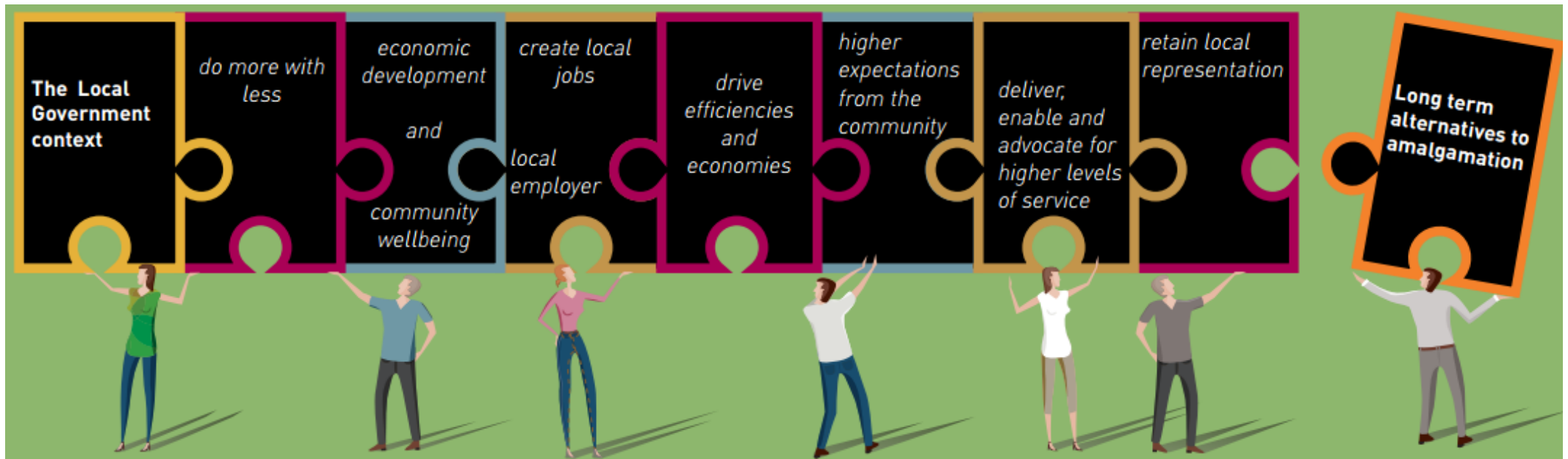
Failure to communicate the level of subsidy fails to send an adequate price signal to consumers of merit and positive externality goods. In the absence of a price signal, consumers will tend to demand an inefficiently high quantity and quality of the subsidised local government good.

Failure to make transparent the level of subsidy impedes the enhanced effectiveness of local governments.



Shared services and resource sharing

Resource sharing – Recent success stories in Tasmania for Circular Head/Waratah Wynyard Councils and Kentish/Latrobe Councils. [Summary available on the IPPG](#)



Circular Head and Waratah- Wynward, Tasmania

Improved service quality

- Enhanced expertise from staff
- Services delivered across a larger population
- Council positioned as innovator which improves reputation

Economies of scale

- Spreading cost and risk
- Responding to state government requirements for integrated asset and financial management
- Staff meetings

Economies of scope

- Employ staff who could not have been otherwise employed (type and quality)
- Broader range of services offered to the community
- Enhance capacity to promote the sub region and better advocate

Organisational development

- Attract and retain more highly skilled, experienced workforce
- Stronger strategic management (executives and managers)

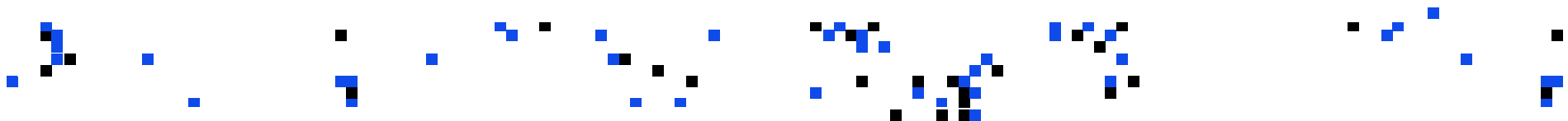


Key findings: Financial analysis 2015/16

Net savings (one-off and ongoing) from resource sharing in 2015/16 are \$1,375,477

Includes:

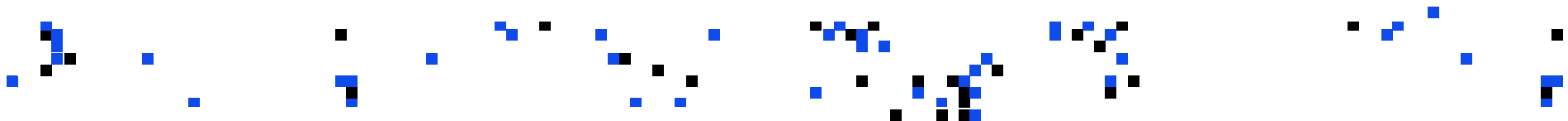
- Shared projects - \$226k (one-off) (*Sustainable Murchison Community Plan*, IT review and Form and Function review)
 - Shared procurement - \$238k (one-off) (road resurfacing and recycling)
 - Shared staff - \$911k (ongoing)
- > Over 66% of savings is staff costs (but increased scope)



Specific study into the 38 rural Vic councils – RCV - 2015

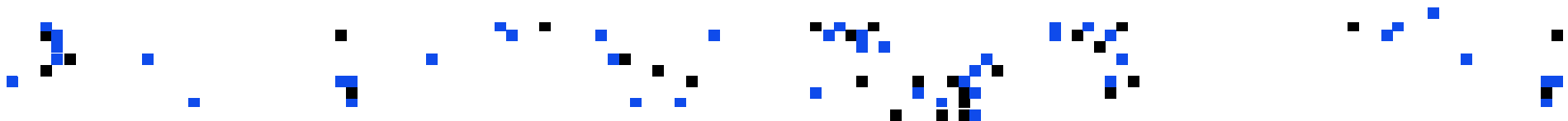
Some of the key challenges identified by rural councils:

- Reliance on grants and limited options for own-source revenue.
- Barriers to embracing new ways of working.
- The burdens related to compliance and administrative reporting.
- Changing demographics.
- Changing expectations of local government .
- Preservation of local character.



Recommendations for building capacity

- Leadership training, capacity building and support for councillors.
- Increasing the capacity of senior management teams to lead strategic planning and partnerships.
- Fostering good community governance and partnerships to support difficult council decisions.
- Building council capacity to conduct robust service planning processes and service reviews.
- Improving asset and financial management practices.
- Providing support to pursue shared service work and build strategic capacity.



For further information

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Thank
you

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