Rural Council Sustainability Project

Stage Two Report: Council Self Assessment and Analysis

ACELG
Australian Centre of Excellence
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1.1 Context

Rural Councils Victoria (RCV) and its 38 constituent councils operate within a complex policy and institutional environment. RCV is uniquely positioned to co-ordinate efforts to better understand, articulate and address the issues affecting rural councils across Victoria. RCV is seeking to support rural councils to build capacity to respond to current and future challenges and improve performance with the assistance of the Victorian State Government through Regional Development Victoria (RDV) and Local Government Victoria (LGV).

RCV has embarked on a program to further support the capacities and capabilities of rural councils, to help achieve transformational change and create a culture and working environment that encourages and facilitates collaboration and partnerships between councils as well as with other government entities, businesses, universities, non-government organisations (NGOs) and the broader community.

1.2 The Rural Council Sustainability Project

The financial and operational sustainability of rural councils has been raised as an ongoing priority by RCV member councils over recent years, including during consultations for the development of RCV's Strategic Plan in late 2013 and early 2014.

The Rural Council Sustainability Project seeks to answer the question:

How can RCV best support councils to build capacity and improve performance in the context of the wider local government reform agenda of the Victorian government?

The Rural Council Sustainability Project seeks to identify the best ways for RCV to support rural councils' elected members and senior staff to demonstrate their leadership on improving sustainability within local and across regional boundaries, manage the changing demands and expectations of stakeholders, and maximise outcomes for communities.

1.2.1 Stage One: Towards a Strategy for Sustainability

In late 2014, RCV engaged the Australian Centre of Excellence for Local Government (ACELG) to conduct the first stage of the Rural Council Sustainability Project, which comprised a series of research and engagement activities aimed at developing sector agreement on some of the key issues and challenges to be addressed.

ACELG produced a discussion paper which acted as a starting point for discussion and engagement with some of the RCV constituent councils and stakeholders during the 2014 Innovate and Educate Spring Tour. The discussion paper explores the issues impacting the financial and operational sustainability of rural councils. The paper synthesises existing empirical work as a basis for developing shared agreement on the following:

> a detailed portrait of the 38 rural Victorian councils, demographically, spatially and financially

> key areas for building strategic capacity and more effective local government.

The RCV Innovate and Educate Spring Tour presented a timely opportunity for RCV to introduce the Rural Council Sustainability Project to RCV's constituent councils, and to systematically and thoroughly discuss the current state of play for rural councils, the objectives of the project, and the key priority areas for building strategic capacity.

ACELG's Deputy Director presented at a series of five events throughout October 2014 in Hamilton, Wedderburn, Beaufort, Benalla, and Warragul. ACELG presented the findings of the discussion paper at these events, and in doing so discussed with councillors and staff some of the sustainability challenges and opportunities facing rural areas. At the workshops, ACELG heard about the innovative work that is already occurring between councils and across boundaries in rural and regional Victoria. Findings of the Stage One research can be found here.

Based on the Stage One research and engagement activities, ACELG suggested the following four focus areas and processes for building the strategic capacity of RCV constituent councils.

Self-assessment and analysis

As there are differences within the 38 rural councils in terms of the level of capacity building needs and their progress in addressing each of the areas identified for building strategic capacity, it is necessary to collect some additional data across RCV constituent councils in order to further explore areas for future facilitation and support, and to ensure the capacity building initiatives are well targeted to the needs of individual councils.

Improving service delivery

Stage One revealed that there are significant opportunities to build the capacity of some RCV councils around service delivery and levels of service. A service delivery review is one way to drive more efficient use of resources whilst providing services to meet the needs of the community. Establishing a review process builds the capacity of both staff and the community to think critically and systemically about current and future service needs. It can also lead to innovation in service provision and helps build a culture of continuous improvement within local government.

There is an opportunity to build on, and share learnings from existing work that is already occurring around the State – including existing ACELG research – to:

> build the capacity of RCV councils to undertake service reviews

> establish a set of tailored guiding principles for RCV council service reviews

> provide guidance on understanding the community and engaging around service levels develop improvement frameworks, processes, method and tools

> foster an organisational culture of improvement

> report on efficiency and effective provision of services.

Shared services, collaboration and resource sharing

It is clear from the outcomes of Stage One that there are an impressive number of rural councils already engaging in shared services, resource sharing and collaboration. LGV continues to support councils across Victoria to explore business efficiency and improve economic, social and environmental outcomes by collaborating together.

Stage One of the RCV Sustainability Project revealed that there is an opportunity for rural councils to further build capacity around shared services, collaboration and resource sharing, and to build on and share learnings from existing work that is already occurring around the State, particularly amongst rural councils, in the following key areas:

> case studies and knowledge sharing from existing arrangements in Victoria and nationally

> cost–benefit assessments of shared service arrangements

> guidance with determining what services to share and the initiatives on which to collaborate

> guidance regarding the scale of service sharing or collaboration, including in working with regional cities

> governance models and frameworks for shared services

> monitoring and evaluating shared service initiatives.

Improving asset and financial management

Stage One identified that further work needs to be undertaken to assess the potential of the councils to operate in a financially sustainable manner. An appropriate starting point requires councils to be confident about the longer-term implications of their 'business as usual' base case. Firstly, this requires being satisfied that existing data used by councils for financial and asset management planning are reliable and consistent. Secondly, it is important to understand the capacity may exist to vary existing financial strategies (for example to increase own-source revenue or to make better use of debt) and what impact this could have on financial sustainability. Reliable information would then allow informed decisions to then be made as to the potential for resource sharing and shared services to assist in overcoming longer-term financial challenges and/or the extent to which changes in service levels (or additional external financial support) may be needed.

1.2.2 Stage Two: Council Self-Assessment and Analysis

In late May 2015, RCV engaged ACELG to conduct a second stage of the Rural Council Sustainability Project, which included collecting data across individual RCV constituent councils in order to:

> Test a detailed approach to 'local government strategic capacity' and capability elements with individual RCV councils

> Conduct individual assessments of how RCV councils perceive their performance under "key capability areas"

> Compare individual RCV Council self-assessments in key capability areas against existing baseline data, including detailed financial analyses

> Identify the capability gap for individual RCV councils, and make recommendations for improving long term success

> Test areas for future facilitation and support, to ensure future capacity building initiatives are well targeted to the needs of individual RCV councils.

The following tasks were undertaken as part of this project:

> Inception meetings with RCV and Local Government Victoria (LGV)

> Synthesis of outcomes of Stage One, as well as additional literature, national local government assessment frameworks, and ACELG work to further distil the elements of 'local government strategic capacity' into a two page document

> Collection, synthesis and reporting on existing baseline data across each of the participating RCV councils

> In-depth telephone interviews with 26 RCV council CEOs/ executive staff delegates

This report details the methodology, key findings and outcomes of Stage Two of the Rural Council Sustainability Project.

INTRODUCTION

2 Methodology

This section provides a summary of the key activities undertaken as part of Stage Two of the Rural Council Sustainability Project.

2.1 Local Government Strategic Capacity Framework

As a result of four initial telephone interviews with selected CEOs from rural councils at the commencement of the project, it became clear that there was a need to widen the definition of 'sustainability', draw on the debates and discussions on local government strategic capacity, and to further define and understand the implications for rural councils in Victoria. ACELG synthesised the outcomes of Stage One, as well as additional literature, national local government assessment frameworks, and ACELG work to further distil the elements of local government strategic capacity into a two-page document which was provided to council interview participants prior to the telephone interviews.

Drawing on the debates and discussions on local government strategic capacity, the following tentative definition of the concept was put forward to RCV councils:

> Consideration of strategic capacity places the focus on local government's long-term success as a valued partner in the overall system of government. Local communities are responding in diverse ways to the influences and pressures affecting their futures, requiring a better positioning of local government organisations within their environments. This calls for a comprehensive policy focus on all the factors – structures, governance models, skills, resources and a shared sense of strategy – that enable local government, both as a sector and as individual organisations within that sector, to manage complex change and to respond in sustainable ways to the needs and expectations of local communities.

Table 1 outlines the key elements of local government strategic capacity that ACELG put forward for further testing and refinement during in-depth interviews.

Table 1. Elements of Local Government Strategic Capacity

Strategic Capacity Area	Capability elements
Leadership, management and regional collaboration • **Executive** • **Elected level** • **Staff**	External leadership and regional collaboration > Establishing a vision and direction for the future of the locality and the region (including a detailed appreciation of the local context threats and opportunities) > Aligning priorities of stakeholders and encouraging stakeholder cooperation > Advocating on behalf of the locality > Being an effective intergovernmental partner > Promoting local economic development > Participating in policy networks > Community Planning > Strategic Resource Planning and Integrated Operational Planning Organisational leadership and human resources > A commitment to innovation and a culture of improvement > Processes for continuous organisational improvement > Workforce development strategies and planning > Investment in leadership (executive and councilor) and staff training and

Strategic Capacity Area	Capability elements
	development
	> Strategies for fostering effective and positive relationships between councilors and the executive team
	> Participation in professional development and professional associations
	> Transparent procurement and internal governance processes.
Community governance **Demonstrated organisational commitment to enabling community influence over council decision making**	> Demonstrated understanding of the demographics, needs and aspirations of the local community (e.g. social needs analysis, etc.)
	> Community engagement policy
	> Community engagement guidelines (including stakeholder analysis)
	> Examples of the implementation of community engagement processes into key council decision making
	> Standing committees that provide input into Council decision making
	> Regular and effective communication activities
	> Accessible and up to date web site
	> Opportunities for formal and informal input into council decision making processes
	> Feedback processes when community views have not been supported
	> Support of the establishment and partnerships with NGOs and community organisations and key service providers
	> Processes to establish community satisfaction with council performance (e.g. community satisfaction surveys).
Asset and financial management	> Long term financial plans and annual budgets linked to strategic plans and detailed in operational plans
	> Demonstrated links between financial plans and asset management plans with each informing the other
	> Asset management plans based on life cycle costing, whole of life and whole of organization approaches
	> Asset management strategies including short, medium and long term plans to address asset backlogs
	> Appropriate levels of and use of debt
	> Demonstrated community influence on establishing service levels for key asset classes
	> Rating strategy
	> Delivering services informed by the Local Government Act 1989 Best Value Principles
	> Articulated service areas, with service level unit costing with some benchmarking of delivery costs against other relevant councils
	> Exploring/participating in regional service delivery and/ or shared service arrangements.
Effective organisational systems and processes	> Using appropriate frameworks for the effective management of information within the LGA
	> Land use mapping
	> Using adequate hardware, software, networking and communications equipment
	> Embracing emerging trends and technologies including social media, cloud computing and online services.

2.2 Baseline Data Collection

In order to make a robust and accurate assessment of the capability gap for RCV councils in key strategic capacity areas, there was a need to collect existing baseline data from RCV council websites for comparison against the self-assessment interview component. Information was collected through systematic desktop searches of participating council websites, from sources outlined in Table 2.

Table 2. Baseline data sources

Capability element	Source/ data
Leadership, management and regional collaboration	
> An established vision and direction for the future of the LGA	> Annual Reports
> Successful advocacy on behalf of the community	> Online information
> Being an effective inter-governmental partner	> Strategic planning documents
> Participation in policy networks and regional alliances	> Council Plan
> Promoting local economic development	> Community Plans
> A commitment to innovation and a culture of improvement	> Advocacy strategies
> Processes for continuous organisational improvement	> News items
> Workforce development strategies and planning	
> Investment in leadership (executive and councilor) and staff training and development	
> Strategies for fostering effective and positive relationships between councilors and the executive team	
> Participation in professional development and professional associations	
> Transparent procurement and internal governance processes.	
Community governance	
> Demonstrated understanding of the demographics, needs and aspirations of the local community	> Annual reports
> Examples of the implementation of community engagement processes into key council decision making	> Online information
> Standing committees that provide input into Council decision making	> Community engagement policies, guidelines or frameworks
> Regular and effective communication activities	> Demographic analyses / stakeholder analyses / community needs analyses
> Opportunities for formal and informal input into council decision making processes	> Governance policies and documents
> Support of the establishment and partnerships with NGOs and community organizations and key service providers	
Asset and financial management	
> Long term financial plans and annual budgets linked to strategic plans and detailed in operational plans	> Asset management strategies
> Asset management plans based on life cycle costing, whole of life and whole of organization approaches	> Long term financial plans
> Asset management strategies including short, medium and long term plans to address asset backlogs	> Asset management plans
	> Rating strategy
> Delivering services informed by the Local Government Act 1989 Best	> Annual reports

Capability element		Source/ data	
	Value Principles	>	Online information
>	Articulated service areas, with service level unit costing with some benchmarking of delivery costs against other relevant councils		
>	Exploring/participating in regional service delivery and/ or shared service arrangements.		
Effective organisational systems and processes			
>	Land use mapping	>	Website accessibility and design
>	Embracing emerging trends and technologies including social media, cloud computing and online services	>	Presence on social media
		>	Online information
		>	Annual Reports

2.3 Interviews with Rural Council CEOs and Executive Staff

A key component of this research was to engage with individual RCV constituent councils around their perceived performance under the 'key capability areas' outlined in Table 1. This included in-depth discussion around some of the challenges, strengths and opportunities facing RCV councils.

ACELG contacted all 38 RCV councils by emails addressed personally to the CEO and their Executive Assistant requesting an in-depth telephone interview with an ACELG research officer. Follow-up telephone calls were made to all 38 Councils, and 28 interviews were scheduled with CEOs, acting CEOs or executive staff in the following councils (of which 3 interviews were cancelled or did not answer):

Table 3. Participating RCV councils

>	Alpine	>	Moorabool
>	Ararat	>	Moyne
>	Baw Baw	>	Murrindindi
>	Bass Coast	>	Northern Grampians
>	Buloke	>	Pyrenees
>	Campaspe	>	Queenscliffe
>	Central Goldfields	>	South Gippsland
>	Colac Otway	>	Southern Grampians *(interview cancelled)*
>	Glenelg	>	Strathbogie
>	Golden Plains	>	Surf Coast *(interview cancelled)*
>	Hindmarsh	>	Towong
>	Indigo	>	Wellington *(interview cancelled)*
>	Loddon	>	West Wimmera
>	Mitchell	>	Yarriambiack

Figure 1. Map of participating RCV councils

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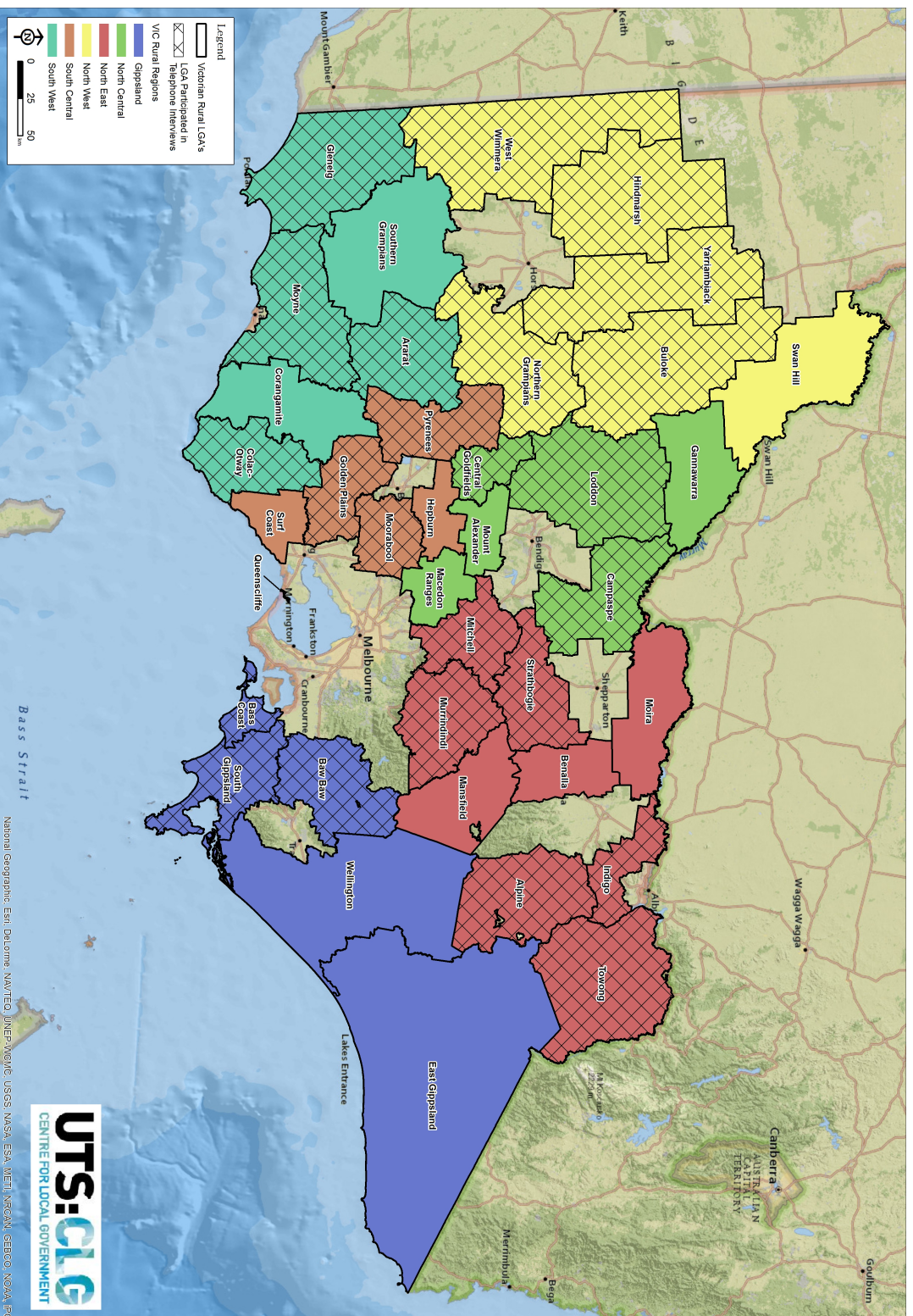
A two page document distilling the elements of 'local government strategic capacity' was sent to interview participants prior to the telephone interviews, and a full discussion guide can be found at Appendix A. On average, interviews took around 45 minutes to complete.

The level of engagement by RCV councils is evident by the take up of interview requests. Participants gave very generously of their time, and a wealth of new information was provided during the interviews.

3 Key Findings

The following provides a high level summary of key findings from baseline data collection, and in-depth telephone interviews with RCV council representatives.

3.1 Baseline Data

In order to make a robust and accurate assessment of the capability gap for RCV councils in key strategic capacity areas, there was a need to collect existing baseline data from RCV council websites, for comparison against the self-assessment interview component. Information was collected through systematic desktop searches of participating council websites, and findings are tabled for each participating council can be provided in a separate report.

3.2 Interviews with Rural Council CEOs and Executive Staff

The following section provides a summary of key findings under capability areas discussed during the in depth interviews.

3.2.1 Views on Local Government Strategic Capacity

Most council representatives interviewed were positive about the approach put forward by ACELG for defining local government strategic capacity. Interviewees were generally of the view that the elements captured were holistic and covered the key areas that can either enhance, or limit organisational sustainability. Several councils suggested that that the approach was beneficial, thought provoking, "fair" and "reasonable". Some councils suggested that smaller rural councils may "struggle to do everything on this list", whilst others suggested they were well progressed in most areas put forward. The majority of councils felt that whilst they may have been well progressed in some areas, there was room to improve in others, and that the approach generally provided a good starting point for discussion around local government sustainability. Some specific feedback about the framework put forward included:

> The workforce and HR component detailed in the 'organisational leadership and HR' area is under-detailed

> There is a need for more emphasis on partnerships with the community in the 'community governance 'area

> The inclusion of debt in the 'asset and financial management' area is not appropriate

> There needs to be a greater focus on local government reporting and evaluating performance e.g. service delivery, financial outcomes, capital works etc

> The 'organisational systems and processes' area needs to capture the importance of a strong alignment between community outcomes that are contained in the community plans, the objectives and the initiatives that are contained in the council plans and the translation of these into service planning/ annual business planning/ budgeting.

Most interviewees cited external factors in the local government operating environment, such as the State Government rate capping policy and the freeze on Federal Government Financial Assistance Grants, as potential factors that would limit future local government strategic capacity. Several interviewees also cited staff resourcing issues, such as attracting knowledgeable, skilled and professional staff, and people with an ability to "think strategically" as a barrier for enhancing strategic capacity. One CEO described challenges with attracting people with the capacity "to facilitate the training and learning of their staff to either develop or grow the skills that are necessary for a council to take a more strategic rather than operational approach".

3.2.2 External Leadership and Regional Collaboration

Relationships with other key leaders and players

Participants nominated a range of key leaders and players as being significant in securing the future of their LGA, including:

> Other surrounding councils – most often direct neighbours

> Neighbouring regional cities and growth areas

> Specific regional groups of councils and strategic alliances

> Local Government Victoria (LGV)

> Regional Development Australia (RDA) and Regional Development Victoria (RDV) – regional offices

> State Government Agencies e.g. Department of Transport, Planning and Local Infrastructure

> Federal Government

> Major businesses/ industries/ employers

> Major NGOs

> Private land owners.

Most interviewees reported having generally positive relationships with other key stakeholders involved in securing the future of their LGA, and all showed a willingness to participate in regional initiatives and conversations. Some interviewees described relationships with neighbouring councils through regional groupings, as "strong" and "coordinated" working relationships. Several participants appeared to be more proactive in fostering and driving strategic relationships (motivating others to get involved, leveraging off/building policy networks, actively seeking out opportunities to work together etc), whilst others were more inclined to be less proactive and more reactive.

Some participants reported having strong working relationships with adjacent regional cities (characterised by some shared service arrangements, MoUs, coordinated advocacy, and relationships between individuals etc), whilst a small number of participants indicated difficulties in working together due to a "big brother, little brother" mentality, different organisational systems and processes or political instability.

There was a view by some interviewees that had worked closely with individual people from LGV and RDV on specific projects, that their council shared good relationships with the State Government, and had benefitted from these relationships. A small number of participants indicated some tension in inter-governmental relationships, with one suggesting that the "top-down" approach from the State Government had not assisted with building strategic capacity of rural councils in the past. Two councils were of the view that the State Government was critical of the reliance of rural councils on grants, and there was a view from another two participants that other levels of government had high/unrealistic expectations about the role of local government in terms of service delivery and administration/ compliance.

Regional alliances and strategic partnerships

All interviewees suggested their councils participated to varying degrees in regional alliances and strategic partnerships. The most common regional alliances and partnerships referenced were:

> Regional 'Groups of Councils' – some specified by State Government regional groupings to do regional strategic planning e.g. Great South Coast Group of Councils, Hume Regional Local Government Network, Central Highlands Regional Councils Group

> Special interest 'Groups of Councils' e.g. Peri-Urban Group of Councils, Murray River Group of Councils, Wimmera Regional Transport Group

> Economic development and tourism associations e.g. Wimmera Development Association, Goulburn River Valley Tourism Association, Grampians Tourism Group

> Advocacy Groups e.g. Gippsland Advocacy Group, Committee for Ballarat, Rural Advisory Committee

> Mayors and CEO Forums e.g. Hume Regional Management Forum, Loddon Mallee Regional Managers Forum, Mitchell Community Leaders Forum

Participants and council websites generally listed multiple boards, committees, and groups their council was involved with, however some councils demonstrated a greater level of commitment to regional alliances and strategic partnerships than others, suggesting that these were crucial for advocating on behalf of the locality, and promoting local economic development. A few councils were of the view that strategic leadership was the most important area outlined in the 'strategic capacity' document and "everything else flows down from that". In several cases, commitment to regional alliances and strategic partnerships was driven at an executive staff level as opposed to an elected member level.

It was evident that some regional alliances and strategic partnerships were more progressed than others in terms of their ability to establish a vision and direction for the future of the locality and region, and secure funding from other levels of government. A key enabler to successful regional alliances and strategic partnerships was cited by several councils as an ability to put aside local and operational issues, in order to develop a shared vision and common purpose for the region. The following characteristics of successful strategic alliances and partnerships were mentioned:

> mutual trust and cooperation between individuals and institutions

> honest and open dialogue

> common purpose, and clear objectives.

Regional strategic planning and advocacy

All interviewees acknowledged the importance of regional strategic planning, and indicated that their councils participated in regional strategic planning processes, usually through the State Government RDV prescribed regional groupings. It was clear that some councils were very proactive in this area, with some CEOs/executive staff/elected members leading strategic planning "pillar groups" and pushing priority projects that would benefit the region and the locality. Several participants were actively ensuring their councils' major infrastructure and service delivery projects were being included into regional strategic plans, ensuring "a strategic alignment from Federal Government all the way through to local government". This process was seen as being integral to securing funding from other levels of government.

Approximately a quarter of participants emphasised the importance of having robust frameworks, strategies and collateral in place for coordinated and well-prioritised advocacy, with three participants stating that this is best done at a region level, utilising a "unified and strong voice". A small number of participants referred to increasing community pressure on

local government to advocate on behalf of the community, and reflected on poor results in the advocacy area of the State Government Community Satisfaction Survey.

A few councils were of the view that the regional groupings created by State Government for strategic planning didn't always represent the most relevant or effective geographical groups for their council to work with, and looked beyond regional boundaries to pursue strategic opportunities.

Several participants cited challenges for some councillors with engagement in regional collaboration and strategic planning, suggesting there was sometimes tension between balancing local priorities with regional issues. Whilst several participants cited this as a challenge, a few councils demonstrated that they were able to successfully work together with elected members to achieve good strategic planning and visioning capabilities, sometimes aided by holding informal workshops, collaborative training, and problem solving sessions between council staff and elected members.

3.2.3 Internal Leadership, Staff Capacity and HR

Organisational restructure

Approximately half of all participating councils had undergone or were in the process of some degree of organisational restructure in recent time (approximately the past five years). Most of these were reported to result in financial savings in terms of salary expenditure. Some of these restructures were identified as being driven by a need to become more financially sustainable organisations, to implement cultural change, or to provide more clarity around individual roles and responsibilities within the organisation.

Attracting and retaining skilled, professional and knowledgeable staff

There was a strong view from participating councils, particularly those located further from metropolitan areas, that rural councils faced challenges in terms of attracting and retaining skilled, professional and knowledgeable staff. This was seen to present challenges in terms of building local government strategic capacity. The 'peri-urban' councils, and councils in closer proximity to metropolitan Melbourne were less likely to cite issues around attracting and retaining skilled, professional and knowledgeable staff. One participant reported to have strong organisational and HR capacity, with an "ability to draw skilled and knowledgeable staff and contractors from a larger workforce out of Melbourne".

When the issue of staff resourcing was raised by participants, it varied as to the context/area of the discussion it was raised in.

Some of the smaller councils were of the view that attracting and retaining skilled, professional and knowledgeable staff was particularly challenging in roles where only one staff member is required to perform a specific role, sometimes on a part-time basis. The deficiencies were usually cited in skilled/technical roles such as building surveyors, environmental planning officers and statutory planners. A number of councils described the risks these 'one-off' positions pose in the event of resignation, sick leave, annual leave etc, and cited a limited workforce pool to draw on in these events.

Approximately half of the participants suggested their councils did not have adequate staff resources, skills or knowledge to build the organisation's strategic capacity. Some participants were of the view that the knowledge and skills existed within the organisation, however the people best placed to do this work were already fully occupied performing their respective roles, with "no capacity to work on the business, as opposed to in it".

Staff resourcing constraints were also raised in the context of local government capacity to pursue innovation and organisational improvement, engage in shared services, implement economic development initiatives, and engage in regional collaboration and strategic planning activities.

Relationships between executive staff and Councillors

Most participants reported generally positive relationships between councillors and executive staff, fostered by informal strategies such as workshops, de-briefing sessions and informal discussions, and in some case formal collaborative training or facilitation (such as MAV Top Teams Program). Council participants who purported to have the strongest relationships between executive staff and councillors suggested that some of the key enablers to fostering positive working relationships were being able to "have honest and frank conversations" , "respectful communication" and a consideration for different opinions.

Training and professional development for staff and councillors

All participating councils invested to varying degrees in staff professional development and training across various staff levels. Common training programs cited included LGPRO (*Emerging Leaders Program*, and *Ignite*), community leadership programs, and MAV training professional development courses (including some Diploma courses). Some of the bigger participating councils invested in in-house training from external facilitators.

The uptake of councillor leadership training was not as frequent as that of staff training. There was a strong view from participants that councillors may have completed training through the MAV at the start of their term, but it was evident that there was very limited up take of training and development beyond that. Some councils conducted intensive induction programs for councillors, and a few participants cited an investment in collaborative leadership training for councillors and executive staff. One council conducted a facilitated workshop by Swinburne University for councillors and executive staff on "tackling wicked problems".

There was a view from some participants that whilst investment in training for staff and councillors had been beneficial, the opportunities for networking and sharing learnings across council boundaries were a very positive and unintended benefit of this investment.

Commitment to innovation and a culture of improvement

Approximately half of the council participants reported adopting continuous improvement frameworks or business excellence frameworks at their council, which often included a commitment to innovation and new ways of working. A small number of councils were very proactive in fostering innovation and creative problem solving, whilst a few councils reported not doing anything in this area. One council had recently employed a "business innovation and improvement officer" who held a high level position in the corporate unit, and was tasked with employing innovation and new technology to improve organisational processes and business operations. Another council CEO held an internal 'innovation summit' with 120 people across the organisation to collectively problem solve organisational issues.

3.2.4 Community Governance

All councils interviewed participated in community planning activities, engaged with their community, and provided opportunities for community input into council decision-making processes; however it was very evident that this was done to varying degrees, and was influenced by local population factors, and the local political environment.

There was a genuinely expressed desire by several councils to be in closer partnership with the community, which was seen by some as being a key area for enhancing strategic capacity. A few participants indicated that their councils had recently engaged a new officer or consultants to reassess their existing approach to engagement, and implement new strategies going forward.

Community governance challenges

The majority of councils faced a variety of different challenges around community planning, community engagement and community governance. Some specific challenges cited by participants included:

> An historically disengaged population – "decisions made in the ivory tower"

> Population issues including declining, ageing and/or low socio-economic populations

> Creating "synergies" between new population growth areas and existing communities

> Rising expectations from the community around input into decision-making processes

> Community planning processes and plans which have reached the end of their lifecycle

> Community Plans that do not inform council decision-making

> Lack of representation on some Section 86 Committees of Management

> Some "loud voices" and special interest groups having greater influence over council decision-making

> Some unfavourable results in community satisfaction surveys.

Community planning and community engagement processes

Approximately a quarter of the participating councils were of the view that they had strong community planning processes in place, and there was an explicit commitment from several other councils to improve community planning and engagement approaches. A few participants provided examples of how community planning processes had fostered community leadership in their LGA, through targeted engagement in several different localities that fed into Community Action Plans, and informed council budgeting.

Approximately half of the participating councils did not have community engagement plans and guidelines available online, whilst others indicated they were in the process of developing these documents and frameworks. One participant suggested that although all the "frameworks and tools" were in place, there were sometimes challenges with the application of these on a project-by-project basis. Another participant discussed and identified a need to "tighten up guidelines and processes" for community engagement across the organisation, as "some units were stronger at it than others". A few councils had recently launched new online community engagement hubs, with complementary internal strategies and frameworks in place to support good practice.

Most participants were able to provide examples of where successful community engagement processes had informed a key council decision. A few councils had trialled innovative approaches to community engagement, with two councils utilising participatory budgeting processes, and several councils citing successful youth 'action' councils and committees.

Opportunities for formal and informal input into council decision making processes

The majority of participating councils had multiple Section 86 Committees of Management publicly documented to provide formal input into council decision-making processes;

however it is not clear from this research how effectively these committees are operating. One participant described an environment advisory committee with significant community expertise and capacity that led a submission on coal seam gas on behalf of the council. The extent to which councils provide opportunities for informal input into decision-making was difficult to determine from this research.

Partnerships with NGOs, community organisations and service providers

There was a view held by approximately half of council participants, that their councils fostered strong and effective partnerships with NGOs, community organisations and key service providers. This view was most commonly held by councils demonstrating a strong commitment to regional collaboration and regional planning. Several council participants in the in the Gippsland and South West regions cited strong and strategic partnerships with NGOs, not-for-profit and community organisations. Another participant discussed the importance of fostering partnerships with NGOs, community organisations and service providers as "they are actually doing some of the work", and there are opportunities to "support them" instead of trying to deliver services in isolation.

3.2.5 Asset and Financial Management

All participants were of the view that their council's economic efficiency had either increased or remained steady over recent time. Several councils reported significant improvements in financial sustainability in recent time (over the past five years) which some attributed to organisational restructures, cutting services, engaging in shared services and improving asset and financial management practices.

Operating context for local government

There was a strong view held by participants that the State Government rate capping policy and the Federal Government freeze on Financial Assistance Grants presented a significant threat to the future financial sustainability of rural councils. Several participating councils demonstrated that they were trying to "get on a front foot" with regards to planning for and managing these pressures. The different ways councils are trying to do this are further discussed below. Some participating councils were significantly more progressed than others (which may be attributed to staff capacity, resourcing and strategic leadership), however processes for improving financial sustainability were certainly at least on the agenda for all participating councils, and all participants demonstrated a good degree of knowledge around processes and strategies for improving asset and financial management.

Participating councils perceived a number of different challenges associated with asset and financial management including:

> High recurring expenditure on roads and bridges

> Limited capacity to raise own source revenue in comparison to metropolitan counterparts

> Some reported substantial asset renewal backlogs and infrastructure gaps – particularly in sealed road network

> Tension between the community expectations around delivering high levels of service and assets, and a need to be operating as a "lean" organisation

> Pressure from other levels of government with regards to picking up on service gaps for the community

> Scope to rationalise assets but challenges with community and councillors.

Tools, strategies and plans for asset and financial management

Less than half of participating councils had long-term financial plans available online, and approximately five participants stated that they were in the process of developing these plans. One participant reported not having a long-term financial plan, but identified the need to go through this process in the near future, whilst another identified the need for their council to complete a major review of both the long-term financial plan and asset management plan. Some participating councils held a view that their long-term financial plan and asset management plan were strongly linked, and were integral documents for informing council decision-making.

Rationalising assets

There was a very strong view held by participating councils that there was some scope to rationalise assets in their council areas, including roads and bridges, swimming pools, and community halls. There was a view held by participants in councils of greater geographical scale, that there were a number of under-utilised, stand-alone facilities in small towns. In relation to asset rationalisation, the challenge was raised by several participants that most of these assets were still highly valued by the community, and that councillors would likely not support decisions to "sell them off". A small number of councils had already undergone some asset rationalisation in recent times, including rolling out surplus land sales programs and selling off or repurposing community halls. One participant discussed a recent comprehensive strategic review of council's community halls, which only resulted in rationalising two.

Service levels

There was a perception held by some participants that the community had high expectation around what services local government should be providing, particularly in rural areas. It was evident from reviewing council websites, that a large proportion of participating rural council were providing several services that might be more suitably provided by NGOs, private entities including: immunisation, youth programs, property maintenance for older people or those with a disability, meals on wheels, and child and maternal health.

Some participating councils had recently transitioned out of Home and Community Care (HACC) services as well as kindergarten services. Two councils had identified opportunities to reduce levels of service around swimming pool operating hours, and one council recently cut a mobile library service. One participant discussed challenges around "cutting" services in rural areas, where the offering is "already pretty thin". This participating council was trialling not cleaning public toilets during weekend hours, to save paying weekend salary rates.

Some councils suggested they had organisational knowledge around service pricing concepts and benchmarking, however several participants were of the view that historically, service levels had been set in an ad hoc manner without the use of pricing tools. Most participants were not aware of how their service levels compared to other RCV councils, NGOs or other service providers.

Some participating councils identified the need to conduct service reviews and engage with the community around levels of service in order to "re-set on what the core services that we offer the community are".

Service reviews

Most participating councils were currently in different stages of rolling out internal service reviews and service planning across the organisation, whilst a couple of participants were of

the view that their organisation had already reviewed their levels of service, engaged with the community around service levels, and could not reduce these to any greater extent. One participant suggested that their council was "well down the track" of reviewing levels of service, benchmarking, and identifying services that can be provided by other agencies.

Most service reviews were being conducted in-house, and some participants were of the view that there was adequate staffing capacity, skills and knowledge to roll these out effectively. One participating council described a recent extensive review of all council services using a 'zero – based – budgeting' technique, which resulted in reduction in some service areas e.g. HACC and a visitor information centre. A couple of participants suggested that their approach to service planning was "informal" and had concerns about the "robustness" of internal service reviews, and had no resources to engage any external support. More than half of the participants who said they were conducting internal service reviews had not yet engaged with the community around service levels, however most of them suggested "that was the next stage".

Shared services and resource sharing

There was a clear willingness expressed by council participants to engage in shared service/resource sharing arrangements, and most participants were of the view that these opportunities would provide significant benefits to council and the community. Around half of the participating councils suggested that regional collaboration and shared services were high on the agenda for their council, and highly valued going forward.

All participating councils were either already engaging in shared service arrangements, were actively pursuing shared service arrangement, or were "very open" to engaging in shared service arrangements. A small number of participants suggested their councils were committed to exploring regional service models "for all back of office functions, whilst retaining local representation".

Some of the successful existing arrangements cited included:

> Shared building services, rates notices and environmental health services

> Shared rates and property services

> Multiple regional library services

> Regional waste alliances

> Shared procurement for temp/agency staff

> Shared procurement around road resealing

> Shared environmental health staff.

Some enablers to these arrangements were cited as high level CEO and executive support for shared services, existing trust and relationships between agencies, cultural and organisational "synergies", and common objectives.

It was evident throughout the research that there is significant traction with several shared service arrangements in multiple regions across the State. For example six councils in the Gippsland Local Government Network have signed up for a 'Shared Services Charter'. The organisations are currently benchmarking back of office functions, looking at risk management services, and looking to employ a coordinator/facilitator role.

Approximately six of the participating councils stated during the interview that they had submitted an application to the State Government seeking funding support to pursue shared

service arrangements. Identified support included the funding of an executive officer, funding to coordinate some of the shared service work, to "free up the resources" to pursue some of the identified opportunities. Some participants suggested there was a need for support and direction with the operation and governance of these arrangements, and cited support including:

> Understanding the value of shared service arrangements at a local level to guide decision-making, and which services are best to share on

> Building capacity around "preparing for sharing" to get shared service arrangements off the ground

> Providing high level staff resourcing to pursue shared service arrangements.

3.2.6 Organisational Systems and Processes

Approximately a quarter of participating councils reported to have inadequate IT systems and frameworks for the effective management of information within the LGA, and the majority of councils were of the view that IT systems and processes were adequate but "not great". Most participating councils used social media, but it was evident that some were more proactive than others in this space. Only a small number of councils appeared to be utilising a more extensive range of online services and cloud computing, and some councils suggested this was an area that needed further work. One council has recently invested very significantly in a new and sophisticated IT system, and two councils in the same region flagged opportunities to roll out similar programs (potentially on the same licence). Approximately three participating councils reported to have some challenges around accessing adequate broadband and internet coverage across the LGA.

3.2.7 Enhancing Strategic Capacity

There was quite significant diversity in responses around what council representatives felt their organisations needed to do in order to enhance strategic capacity. In order of commonality, responses included:

> Improve council's strategic leadership and strategic planning capacity

> Increase advocacy – particularly around rate capping

> Pursue shared services

> Engage with the community – particularly around service levels and asset management

> Build better relationships with the State and Federal Government

> Rationalise assets, particularly roads and bridges

> Improve financial management and councils financial position

> Attract and retain quality staff

> New IT systems, and

> Change the organisational culture.

3.3 Financial analysis

The following provides a high level summary of key findings from the financial analysis undertaken for the project.

The methodology for the financial analysis included gathering and reviewing available extant data, including ABS local government data and published financial statements of RCV councils.

The following analyses were undertaken:

> Multiple regression analysis

> Data envelopment analysis

> Depreciation parameters

> Analysis of debt levels.

3.3.1 Multiple regression analysis

There is a strong precedent in scholarly literature for employing multiple regression analysis to ascertain the existence of economies of scale for cohorts of local governments. Economies of scale exist where the average cost of production decreases as output increases. In the local government context, most business/service units demonstrate economies of scale when use of capital equipment is maximised, there is increased specialisation and greater purchasing power. However, as a business/service unit expands, it is possible for diseconomies of scale to result due to difficulties in co-ordination and monitoring service provision.

Population has been used as a proxy for council size, although recent research has drawn attention to some shortcomings in this approach, as population proxy fails to take account of services provided to businesses, and it is more volatile and less accurate particularly in inter-censal periods. Total number of assessments is suggested as a better estimate of local government goods and service production. In undertaking this assessment, both approaches are used, and a five year span of data is used to provide the most comprehensive and stable analysis possible.

In addition to determining whether economies of scale exist, multiple regression analysis also provides information regarding the determinants of local government expenditure – it is important to understand the drivers of expenditure as this may suggest actions for cost containment, and will allow for more accurate forecasts of future expenditure.

Evidence of economies of scale

There is no evidence of a statistically significant association between population size and expenditure per capita for RCV councils. This suggests that there is no reason to believe that shared services would yield economies of scale. ***However***, it is important to bear in mind two critical factors: firstly, that the drivers for shared services expand way beyond the financial – improved service quality, organisational and professional development, increased strategic capacity and economies of scope are compelling drivers for councils to pursue shared services, arguable more so for rural councils. The second factor to be mindful of is that the regression analysis relates to the entire service profile of RCV councils, and it is entirely possible that specific functions would yield economies.

Labour intensive services (for instance, parking inspectors) tend not to exhibit economies of scale because an increase in the size of the area generally requires a similar increase in staff numbers. It is more likely that capital intensive services (such as road construction) will produce savings as a result of eliminating slacks.

Determinants of RCV councils expenditure

The relative sparseness of a council area is an important factor in determining the cost structure. This suggests that increasing the size of a local government area will do little to produce savings, as the density profile of the area is not materially changed. Therefore, in-fill

development is an option that should be pursued – at least from a local government expenditure perspective – wherever possible.

There are two remaining common determinants impacting on council expenditure: firstly, an increase in financial burden associated with the proportion of the population over 65 years of age; and secondly, an increase in expenditure positively associated with the average wage of residents in a local government area. The association between age and local government expenditure is relatively strong, and can be used to improve the accuracy of expenditure forecasts. In contrast, the strong association between average wage of residents and expenditure suggests lessons for local government practice – specifically, it brings home the need for an understanding of the revenue effort exerted by the council.

Revenue effort measures the rates and charges levied by a council as a proportion of the income accruing to residents and entities within council boundaries. In order to ensure inter-council equity, it is critical for councils to be exercising relatively similar revenue efforts. Moreover, because expenditure is quite strongly associated with average income, local government sustainability is promoted by ensuring revenue effort is relatively constant over time – that is, rates and fees should be linked to growth in income. This is particularly important given the impending rate capping measures for Victorian councils.

3.3.2 Local government efficiency (data envelopment analysis)

There is very little literature on local government efficiency[1], despite its importance in the various local government sustainability reviews undertaken across the country in recent times. This is disappointing given the potential for the technique to inform regulatory practice. For example, relative efficiency scores allow councils to directly compare individual council performance against comparable peers, and it is also possible to compare council efficiency over time. A comparison of efficiency scores can also be used to identify estimates of scale, which can be used to determine the councils which stand to gain the most from shared services arrangements and identify the best partners for collaboration.

While the regression analysis looked at the economies of scale and determinants of RCV-wide expenditure, the efficiency analysis identified individual council efficiency over time.

Efficiency of RCV councils and Victorian peers

Productive or operational efficiency measures the conversion of inputs into outputs in production processes. The principal local government inputs are capital and staff. Outputs for local government are best proxied by the number of households, number of employing businesses, residual number of assessments[2] and the length of council-maintained roads (which account for around one quarter of local government expenditure). Data envelopment analysis (DEA) is the most appropriate empirical technique for efficiency analysis where multiple inputs and outputs are involved.

DEA calculates relative efficiency scores ranging from 0 (most inefficient) to 1 (most efficient) by first constructing an efficiency frontier defined by the councils which produce outputs from the least amount of inputs. Efficient councils (with technical efficiency of 1) lie on the

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[1] The term efficiency is used in the context of technical efficiency – the use of minimum inputs to produce a given set of outputs

[2] Residual number of assessments is determined by subtracting the number of households and employing businesses from the total number of assessments. It captures the difference between the respective ABS estimates and actual number of rate assessments used – principally non employing businesses (including small agricultural enterprises) and vacant lots

efficiency frontier whilst relatively inefficient councils (with technical efficiency scores between 0 and 1) lie outside of the efficient frontier.

Table 4 details measures of the distribution of efficiency estimates for RCV entities and the entire state during the 2014 financial year. Notably the council with the lowest relative efficiency score does not belong to the RCV cohort. The RCV quartile 1 (the point marking the upper bound of the lowest 25% of relative efficiency scores) is comparable to quartile 1 of the entire state. However, RCV entities have slightly lower median and quartile 3 efficiency. The average efficiency for RCV councils is slightly below the state mean. However, RCV councils have a lower standard deviation that the state which indicates that RCV relative efficiency has much less spread.

The results detailed in Table 4 are important because they illustrate that there is little difference in the relative efficiency of RCV entities and their peers.

Table 4. Comparative Efficiency RCV and Victoria, 2014

	RCV	Victoria
Smallest	0.620	0.583
Quartile 1	0.766	0.768
Median	0.849	0.892
Quartile 3	0.982	1
Largest	1	1
Mean	0.857	0.874
Standard deviation	0.119	0.120

3.3.3 Analysis of depreciation and infrastructure parameters

Depreciation accruals have been a vexed issue since the introduction of AASB116 almost a decade ago. Given the emphasis on analysing performance indicators in all Australian jurisdictions there is a clear need to investigate inconsistent depreciation accruals. There are a number of important reasons for addressing inconsistent treatment of non-current asset parameters. Firstly, non-current asset parameters form the foundation of sound infrastructure management practice. Secondly, depreciation accounts for approximately one fifth of Victorian local government expenditure. Therefore, inconsistent depreciation practice has the potential to seriously distort operating results.

Trends in depreciation

Table 5 provides details of depreciation expense expressed as a proportion of total expenditure for both RCV entities and the entire state. Two points of interest emerge from the table. Firstly, it can be seen that RCV councils have a consistently higher proportion of depreciation expense when compared to the Victorian council cohort as a whole. This may be due to higher rates of depreciation or to lower relative expenditure in other categories. (such as staff or materials).

The second point of interest is that it appears, at first glance, that there may have been a reduction in depreciation accruals over this period. However, further analysis is required given the fact that the period covered by Table 5 includes the significant defined superannuation calls which were made on the sector in recent years.

Table 5. Depreciation Expressed as a Proportion of Total Expenditure – Mean (Standard Deviation in Parentheses)

Year	RCV (%)	Victoria (%)
2009	21.952 (5.710)	19.329 (5.289)
2010	21.504 (5.848)	19.002 (5.414)
2011	19.987 (4.600)	16.532 (4.249)
2012	18.356 (4.600)	16.532 (4.249)
2013	20.033 (5.310)	17.930 (4.699)
2014	21.719 (5.788)	18.587 (5.222)

Useful life

Useful life estimates are important for calculating the depreciation accruals for classes of assets which do not have an active market (such as road infrastructure). They are also the foundation of local government infrastructure planning and are a key input for existing infrastructure performance indicators. Variation in useful life estimates may exist as a result of differences in asset use, geological substructure, construction or climate. However, lack of industry benchmark data also probably means that some variation is due to estimation error.

The useful life estimates reported in the 2014 financial statements of RCV councils were the source material for Table 6. It was difficult to construct a summary of useful life estimates owing to the extremely high level of inconsistency in categorisation of assets. Table 6 demonstrates that there is a very high level of variation in useful life estimates for local government assets. While some variation is necessary, the degree of variation evident is higher than expected. It is these assets for which there is no active market that useful life estimates are most critical.

Table 6. Useful Life Estimates for RCV Councils, 2014

Asset	Lower Bound	Upper Bound	Most Common	Degree of Variation
Buildings	5 to 75	20 to 193	50 to 100	High
Sealed roads	12 to 16	20 to 80	10 to 15	Very High
Unsealed roads	10 to 14	30 to 100	15 to 25	High
Plant and equipment	1 to 10	5 to 25	5 to 10	Moderate
Bridges (undefined)	40	80 to 120	80 to 100	Moderate
Drains (unspecified)	5 to 80	80 to 150	50 to 80	Moderate
Road formation/substructure	50	Indefinite	100	High
Culverts	50	130	60 to 80	Moderate

Asset	Lower Bound	Upper Bound	Most Common	Degree of Variation
Footpaths/cycleways	8 to 47	85	20 to 50	High
Kerb and channel	25	90	50	High
Office furniture	3 to 5	10 to 100	10	High
Library books	3 to 10	3 to 100	3 to 10	Low
Vehicles	1 to 5	9 to 10	5	Moderate
Bridge decks	10 to 70	80 to 120	80	Low
Playgrounds	3 to 40	5 to 80	No common lives	High
Computers and telecommunications	3	10	3	Low
Heritage buildings	20 to 200	100 to 150	100	Low
Recreation infrastructure	10 to 50	20 to 40	10 to 50	High

Attempts were made to provide benchmark data for asset recognition thresholds. However, the variation in these disclosures was so extraordinary that no common data emerged.

3.3.4 Analysis of debt levels

Debt is an appropriate supplementary means of funding construction for new long-life infrastructure. National inquiries have noted that debt levels in the local government sector are generally low and that councils should be encouraged to take on higher debt in order to address infrastructure backlogs. Where long-life assets such as buildings and bridges are funded from the general tax pool, current residents are being asked to pay for assets which they will not fully consume during their lifetime. Local government taxes are consequentially set at levels higher than they might have been had the burden been spread across all residents who receive the benefit of the asset.

Assessing debt levels with reference to existing Victorian metrics

The *Local Government Indicators* report issued by the Department of Transport, Planning and Local Infrastructure (2014) provides details of the liabilities per assessment carried by all Victorian municipalities in 2014. Measures of central tendency the RCV and Victorian cohorts are set out in Table 7. Table 7 suggests there is little difference in the liabilities carried by RCV councils and the entire Victorian cohort.

Table 7. Median Liabilities Per Assessment, 2014

	RCV	Victoria
Quartile 1	888	828
Median	1085	1074
Quartile 3	1362	1362

Median liabilities per assessment period over the period 2005 to 2012 have been graphed (see Figure 2). Clearly, there has been a substantial increase in the quantum of liabilities per assessment carried over the last decade.

**Figure 2. Median Liabilities Per Assessment, 2005-2014**
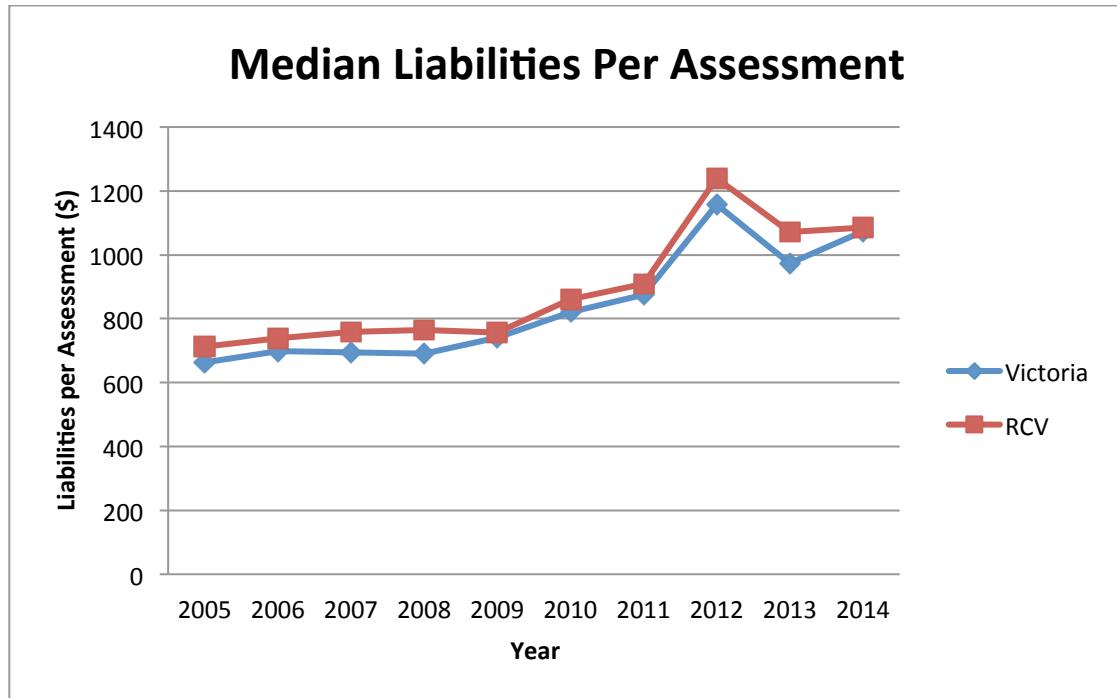
Another metric used in Victoria is the 'indebtedness' ratio which the Victorian Auditor General's Office defines as non-current assets divided by won-source revenue. This ratio relates non-current debt to some of the revenue which is used to service debt. However, it is still limited by the inability to incorporate the effect of the full range of variables associated with debt capacity and the tendency to employ arbitrary benchmarks. In this case, VAGO has defined high risk councils as those with indebtedness over 60%, medium risk as 40% to 60% and low risk as councils with less than 40%.

Table 9 details the measures of central tendency for the RCV and Victorian cohorts. Once again, there is little difference between the two groups. The trend in recent years for RCV councils more or less mirrors the trend in their peer group (see Figure 3).

Table 8. Indebtedness, 2014

	RCV	Victoria
Quartile 1	10.71%	10.71%
Median	21.97%	20.19%
Quartile 3	29.92%	30.28%
High risk	1	2
Medium risk	4	10

Figure 3. Median Indebtedness, 2010-2014
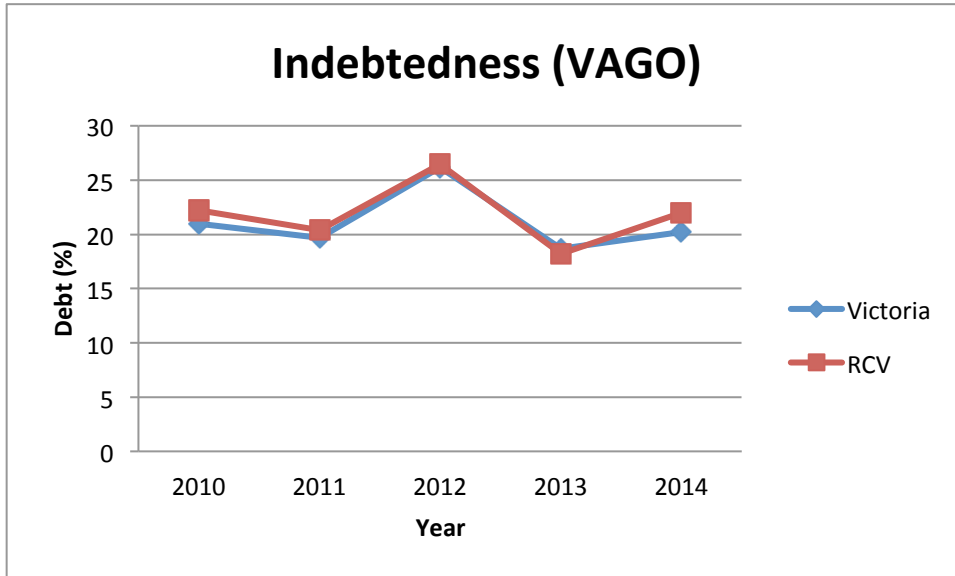
4 Recommendations

The following section highlights some high level recommendations based on the findings from the in-depth telephone interviews, the base line data from council websites and the financial analysis. Strong consideration has been given to the types of support nominated by council participants throughout the interviews, and the recommendations are skewed towards the types of activities/processes nominated by participants when asked "what the most important things" their council needed to do in order to enhance their strategic capacity.

4.1 Leadership training, capacity building and support for councillors

The research undertaken further validates the importance of elected members in leading strategic partnerships and processes – locally, regionally and with state government elected representatives and agencies.

There is overall consensus that elected members have a critical role in representing the interests of their communities, and their regions more broadly.

Equally there is consensus that this can be a challenging component of the role of elected representatives –a reluctance to make unpopular decisions at the local level, the pressure to prioritise local issues, ahead of regional issues, can at times be significant.

Recent work completed by ACELG discusses some of the complexities of the local government sector, and the impacts this has on councillors and their preparedness for the role[3]. The research supports the findings in the telephone interviews, and discusses the major ongoing challenges councils face, including:

> *Ensuring the long-term sustainability of local government. The pressures that produced major amalgamation programs have not eased and there is increasing impetus for collaboration and resource sharing amongst councils*

> *Identifying and building own-source funding streams which will require innovation*

> *Increased expectations of service level provision from the community*

> *Changes in technology and demographics*

> *Ongoing reliance on Federal Government grant funding and the associated increased accountability demands, particularly in small rural-remote councils*

> *Attracting and retaining staff in a competitive environment[4].*

While many councils have recognised the need to support their elected members through developing or commissioning internal or external training on leadership, decision making and strategic planning, this varies significantly across organisations. The training is delivered by different organisations, without any centralised or consistent focus.

There is also some anecdotal evidence suggesting that in some instances, elected members are reluctant to prioritise training ahead of more immediate demands, and a perception that they are expected to know it all by virtue of their election to council.

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[3] ACELG Issue Paper 5: A National Review of Training and Development for Local Government Councillors, April 2012.

[4] Ibid.

Recommendations:

A key finding of this research is the need to define and benchmark good practice in the type, content and regularity of training and support that should be delivered and undertaken by elected members. There is a need for greater consistency in the skills of elected members to engage in strategic visioning and regional leadership.

The recommendations relating to this element are:

1. Development of a professional development, training and support program that is tailored for, and targeted to elected members of rural councils. This program should be tailored to the unique opportunities and challenges faced by rural communities and organisations. The focus of this resource should be on strategic planning and visioning, regional leadership and negotiation, shared services, financial sustainability and relationship management within organisations.

2. Leadership training with an aim of building/fostering better relationships with the state government, focusing on better understanding the inter-governmental system to better inform advocacy.

3. In consultation with elected members and councils, lead the development of voluntary performance benchmarks and indicators to guide elected members and organisations in meeting established good practice for participation in professional development.

4. Explore the possibility of developing a mentoring program for newly elected members. There are numerous professional bodies (for examples doctors and pharmacists) and leadership foundations (for example, the rural leadership foundation) with established mentoring programs aimed at supporting professionals in regional areas. These programs have a strong focus on succession planning - where retired, retiring or experience professionals provide structured support to newer professionals. These programs are often delivered remotely via phone and online, and could be easily adapted to the context of elected members.

5. Ensuring new mayors and first time councillors undergo robust induction training, with consideration given for a special program for newly elected mayors to assist them come to grips with the complexities of the role.

While the above recommendations are universal and all councils could benefit from additional support to their elected members, our analysis notes that the following councils would particularly benefit from enhanced support for their elected members: South Gippsland, Strathbogie, Pyrenees, West Wimmera, Ararat, Moorabool, Moyne, Buloke, Mitchell, Glenelg, Indigo, and Central Goldfields, and Bass Coast

4.2 Increasing the capacity of senior management teams to lead strategic planning and partnerships

The research undertaken further validates the importance of senior management teams leading strategic partnerships and processes – locally, regionally and with state government agencies.

The research notes that the capacity of senior managers to engage in this work is limited by either or both experience in undertaking similar processes, and the significant other immediate demands of their work.

The research notes that as with elected members, senior managers are often well engaged with numerous regional networks and committees, however are required to prioritise local and immediate issues ahead of more strategic and longer-term visioning.

For example, the research noted that workforce planning is a key factor impacting on senior managers. This is a significant challenge and can create a lack of resources that further demand senior management teams to engage with immediate issues. This relates to both the limited skills of applicants or employees to undertake work of a strategic-nature, and the availability to backfill key roles quickly when positions are vacant due to resignation or long periods of leave.

With one exception, all organisations interviewed are absorbing strategic planning, partnerships, innovation and business improvement-related work into existing functions, rather than having the financial capacity to fund a designated lead to advance this important aspect of work. In this context it is difficult for organisations to prioritise investment and time in strategic planning and partnerships ahead of daily operational demands.

Recommendations:

There are a number of research findings that relate to the capacity of senior management teams to engage in strategic planning and partnerships.

Training and support

As with elected members, there is a need for greater consistency in the training and support that is available for senior managers in regional councils to advance the strategic component of their roles. The recommendations relating to this element are:

1. Development of a professional development, training and support program for senior management teams of rural councils. This program should be tailored to the unique opportunities and challenges faced by regional communities and organisations. The focus of this resource should be on strategic planning and visioning, regional leadership and negotiation, shared services, financial sustainability and relationship management within organisations and state government.

2. Development of a range of tools (such as frameworks and templates) to standardise the development and consideration of strategic planning-related issues across organisations.

Workforce planning and capacity

Access to suitable applicants to fill vacant roles quickly is an ongoing challenge across regional councils and this can have a significant flow on impact on the organisational capacity for engagement in broader strategic planning.

It is important for the capacity of councils to focus and maintain a commitment to strategic planning and partnerships to be increased. The recommendations relating to this element are:

1. Development of a range of initiatives to support strategic planning, innovation and business improvement. This could include:

    a) the establishment of a small competitive funding program to support councils

        involved in this type of work and encourage others to become involved

    b) the funding of external project partners/facilitators who can support/drive

        projects at key stages in specific councils, and/or

c) the establishment of central coordinator roles (to be funded by councils through pooled funding across a region) to drive regional strategic planning and partnerships centrally.

2. Developing 'regional recruitment talent pools' that allow for a larger database of potentially suitable applicants for key functions.

While the above recommendations are universal, our analysis notes that the following councils would particularly benefit from enhanced support: Golden Plains, Yarriambiack, Strathbogie, Pyrenees, West Wimmera, Loddon, Ararat, Moorabool, Northern Grampians, Colac Otway, Towong, Central Goldfields, Murrindindi, Baw Baw, Moyne, Buloke, Queenscliffe, Glenelg, and Bass Coast.

4.3 Fostering good community governance and partnerships to support difficult council decisions

The research undertaken highlights the challenges involved in reducing service levels and rationalising assets in rural LGAs, and that whilst in some cases there is scope to reduce services and rationalise assets, councils need support from their communities and councillors to make these very difficult decisions.

Knowing the community's needs and wants is a prerequisite to service provision. The 'community' in this sense includes individuals, community groups and businesses who are either based locally, or who otherwise use the local government services. When assessing community needs, those of the under-represented and hard-to-reach groups should be given special consideration, as should the future needs of the community.[5]

Community governance is about local government working with a broad range of other government and community stakeholders to determine preferred futures, and to facilitate shared decisions and joint action to achieve agreed outcomes, including the quality of the local environment and how communities access the services they need.[6]

Recommendations

The recommendations relating to this element are:

1. Development of a model program for the engagement/education of community leaders, including information on the roles and responsibilities of local government and councillors, the budget process, revenue and expenditure patterns, how to effectively engage with council, when and how to influence council decision making, when to expect feedback etc. This is particularly timely as Victorian councils move into a system of rate pegging. This could be carried out following the leadership/governance training of councillors and senior staff outlined in earlier recommendations.

2. Creation of opportunities for staff and councillors to learn about new approaches to community engagement, particularly how to conduct and evaluate community engagement activities. This could be supported by a professional network of local government personnel who have experience in undertaking engagement in small rural councils.

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[5] Hunting, Ryan and Robinson, *Service Delivery Review*.

[6] Peter McKinlay, Stefanie Pillora, Su Fei Tan and Adrienne von Tunzelman, *Evolution in Community Governance: Building on What Works* (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2011).

3. Development of a good practice guide on the essential information and organisational systems to enable councils to efficiently capture and manage community engagement data, to ensure timely feedback to the community and to embed community engagement outcomes in decision making.

4. Provision of guidance to rural councils on best practice approaches to broad communication with the community (e.g. effective use of websites, social media, mass media, etc).

5. Provision of guidance to rural councils on how to engage with the community to make tough, unpopular choices (including participatory budgeting, citizen juries etc) at a scale appropriate for rural councils (this could be an adaptation of existing guides to make it accessible for the scale and capacity of rural councils).

6. Exploration of options to improve the reliability and timeliness of data for rural councils to inform decision making and community planning.

7. Provision of guidance to rural councils on effective processes for linking community engagement outcomes to the integrated community planning processes.

While the above recommendations are universal, our analysis notes that the following councils would particularly benefit from enhanced support: South Gippsland, Campaspe, West Wimmera, Golden Plains, Loddon, Moorabool, Northern Grampians, Moyne, Buloke, Queenscliffe, Glenelg, Indigo, Central Goldfields, and Murrindind.

4.4 Building council capacity to conduct robust service planning processes and service reviews

The research undertaken further validates the importance of local governments conducting service planning and service reviews in order to clarify the needs of their communities, and establish an evidence base in understanding how efficiently and effectively they are meeting those needs. Using this information, local governments can then better understand what changes they should make to service delivery, which will provide benefits to all stakeholders. This was seen as a particularly important process in light of the current operating context for local government.

A key finding of this research is that most participating councils are currently in different stages of rolling out internal service reviews and service planning across their organisations. It is evident from the research that there is substantial variation in approaches, methodologies and frameworks being used. There is scope to provide additional support for councils to ensure:

> better alignment of services with community needs and a more engaged community

> higher quality service provision

> cost savings and sometimes income generation

> increased efficiency in the use of often limited resources

> identification of opportunities for partnerships and networks with other local governments and service providers

> increased capacity of staff to respond to changing needs of the community

> staff who work more cooperatively across departments

> a more systemic approach to understanding future community needs.

Recommendations:

The recommendations relating to this element are:

1. Development of guidelines for rural, regional and smaller councils which outline good practice principles, frameworks, processes and reporting for undertaking service delivery reviews.

2. Provision of service delivery review training and support for individual councils that are at the start of a service delivery review process, or would like to review current processes – training around guiding principles, and how to set up a robust framework for service delivery review processes, data gathering, analysis and developing recommendations.

3. Provision of mentoring, support and training for rural councils specifically around implementing change and engaging with the community on service levels.

4. Provision of information to councils on service pricing concepts and benchmarking other RCV council, NGO, private entity service levels.

While the above recommendations are universal, our analysis notes that the following councils would particularly benefit from enhanced support: Campaspe, Strathbogie, Pyrenees, West Wimmera, Loddon, Golden Plains, Ararat, Northern Grampians, Colac Otway, Moyne, Buloke, Mitchell, Queenscliffe, Glenelg, Indigo, Central Goldfields and , Murrindindi

4.5 Improving asset and financial management practices

A key finding of this research is that some participating councils have concerns about their long term financial sustainability in light of the State Government rate capping policy and the Federal Government freeze on Financial Assistance Grants. In many cases, councils are actively pursuing organisational restructures, service reviews and shared service arrangements with the aim of producing greater efficiencies and operating more "lean" organisations.

The research undertaken highlights the need for some rural councils to more efficiently and effectively manage their physical assets, improve ratings practices, and long term financial planning processes. It is evident that there is scope for some rural councils to:

> Review/ complete long term financial plans and rating strategies in light of rate capping policy and other external operating pressures

> Rationalise assets, and improve the quality of asset management plans and data contained in asset management systems

> Improve the implementation of asset management plans, long-term financial plans and asset management strategies, including linking these to each other, to council plans, to service levels and council decision making

> Ensure they are making responsible and effective use of their own-source revenue raising powers.

Recommendations

The recommendations relating to this element are:

1. Provision of resources and guidance for some individual councils to assist with completing or reviewing Long Term Financial Management Plans and Asset Management Strategies – to ensure they are linked to Council Plans and inform each other and council decisions.

2. Provision of facilitated training (where necessary), and better practice guidance documents tailored to rural councils to improve depreciation and asset management practice.

3. Engaging external experts to work with some individual rural councils to conduct analyses and form recommendations around asset management and depreciation.

4. Provision of information and guidance documents around principles rural councils should consider when striking general rates, particularly with regard to the creation and maintenance of any differential rates, and the equitable sharing of the rates burden between various categories of ratepayers*.

5. Engaging external experts to provide data analysis and modelling for some individual councils to assess the appropriateness and application of various components of the existing rating structure, and provide recommendations as to the enhancements required to mitigate changed circumstances faced by councils.

6. Provision of facilitated training, where necessary, on pricing theory and practice and revenue capacity concepts to maximise revenue before rate capping comes in.

7. Provision of infrastructure financing workshops, where necessary, to support councils to take on more debt where it is responsible to do so.

At this stage, the above recommendations are universal, however our analysis notes that the level and types of support needed in different areas (ratings, asset management, long term financial management) varies across councils.

4.6 Providing support to pursue shared service work and build strategic capacity

A key finding from this research is that all participating councils are either already engaging in shared service arrangements, are actively pursuing shared service arrangements, or are "very open" to engaging in shared service arrangements, and that pursuing shared service opportunities is very high on the agenda for several councils.

Several councils have provided specific examples of services or resources they see opportunities to share on, and many of them are already engaged in conversations with other councils and organisations about how to operationalise these opportunities.

There is a very strong view that additional support is needed to help get further traction with these arrangements, and several interviewees reported the need for high level staff resources to overcome some of the operational/ process challenges involved in shared services. There may be opportunities to use some of the LGV shared service applications to map where to direct support, and to prioritise staff resource sharing arrangements where councils have identified workforce gaps in more rural and remote areas.

Recommendations

The recommendations relating to this element are:

1. Provision of resources for an executive officer/external facilitator to coordinate some shared service work/pursue opportunities/help with governance and operation of shared services arrangements.

2. Provision of guidance to identify appropriate scale and geography to pursue shared services most effectively and on creating the right sort of organisational culture to move to a shared services environment.

3. Provision of case studies and knowledge sharing from existing arrangements in Victoria and nationally.

4. Assistance with preparing any forthcoming competitive applications to LGV for support to implement shared service arrangements.

The above recommendations are universal, as our analysis notes that all participating councils are either already engaging in shared service arrangements, are actively pursuing shared service arrangements, or are "very open" to engaging in shared service arrangements.

4.7 Financial analysis

The following analyses were undertaken:

> Multiple regression analysis

> Data envelopment analysis

> Depreciation parameters

> Analysis of debt levels and debt capacity.

The research undertaken has identified a number of key findings:

> The efficiency of RCV councils is comparable to the efficiency of the entire Victorian municipal cohort

> There is a good deal of inconsistency in the approaches taken on depreciation accruals and useful life estimates and there appears to be evidence of distortion in the data which may reflect the interpretation of infrastructure performance indicators and comprehensive income statements

> There is a clear case for exploring the need for more consistent practice in asset recognition thresholds

> There is generally little difference in the debt levels of RCV councils compare to the entire Victorian cohort.

Recommendations

The recommendations relating to this element are:

1. Conduct functional level analysis of capital intensive services for evidence of advantageous shared service fields.

2. Construct inter-temporal residential revenue effort metrics to inform pricing theory and practice.

3. Develop and deliver facilitated training on pricing theory and practice.

4. Continue to assess efficiency over time so managers in RCV councils have access to assess the success of strategies put in place to enhance efficiency.

5. Develop and deliver intensive workshops for councils with diminishing trends in efficiency with a view to enhance efficiency.

6. Develop and deliver facilitated training to arrive at an agreed minimum set of categorical descriptors for useful life disclosures.

7. Conduct facilitated training to improve the consistency in depreciation practice among RCV members.

8. Conduct further analysis to understand the effect of inconsistent practice on performance indicators and income statement summaries; and extend the analysis to councils outside of the RCV cohort for comparative purposes.

9. Construct a robust model for estimating debt capacity.

10. Conduct workshops to examine infrastructure priorities; options available to address priorities and other associated considerations such as benefit, risk and pricing.

4.8 Summary of recommendations

Table 4 below provides a summary of recommendations, specific councils that may benefit from targeted support, and some key existing support for councils in Victoria.

Table 9. Summary of recommendations

Recommendations	Specific RCV councils that may benefit
Leadership training, capacity building and support for councilors	South Gippsland, Strathbogie, Pyrenees, West Wimmera, Ararat, Moorabool, Moyne, Buloke, Mitchell, Glenelg, Indigo, and Central Goldfields, and Bass Coast
Increasing the capacity of senior management teams to lead strategic planning and partnerships	Golden Plains, Yarriambiack, Strathbogie, Pyrenees, West Wimmera, Loddon, Ararat, Moorabool, Northern Grampians, Colac Otway, Towong, Central Goldfields, Murrindindi, Baw Baw, Moyne, Buloke, Queenscliffe, Glenelg, and Bass Coast
Fostering good community governance and partnerships to support difficult council decisions	South Gippsland, Campaspe, West Wimmera, Golden Plains, Loddon, Moorabool, Northern Grampians, Moyne, Buloke, Queenscliffe, Glenelg, Indigo, Central Goldfields, and Murrindindi
Building council capacity to conduct robust service planning processes and service reviews	Campaspe, Strathbogie, Pyrenees, West Wimmera, Loddon, Golden Plains, Ararat, Northern Grampians, Colac Otway, Moyne, Buloke, Mitchell, Queenscliffe, Glenelg, Indigo, Central Goldfields and Murrindindi
Improving asset and financial management practices	All councils
Providing support to pursue shared service work and build strategic capacity	All councils
Financial analysis	All councils

5 Opportunities

This report provides an initial high level analysis of a very rich body of data. In due course, we suggest there are significant opportunities to:

> Test back more detailed findings and areas of support with individual councils on a one-on-one basis

> Use the LGV Collaborative procurement and shared services project applications to provide a more detailed scoping of identified shared service opportunities and support; and

> Compare and test findings and recommendations against the Local Government Performance Reporting Framework and the state-wide Community Satisfaction Surveys.

Appendix A   In-Depth Interview Discussion Guide