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Environment, Natural Resources and Regional Development Committee

Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils

Final Report

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Committee functions

The Environment, Natural Resources and Regional Development Committee is constituted under section 10 of the *Parliamentary Committees Act 2003*.

The Committee's functions are to inquire into, consider and report to the Parliament on any proposal, matter or thing concerned with:

a. the environment

b. natural resources

c. planning the use, development or protection of land

d. the provision of services to rural and regional Victoria

e. the development of rural and regional Victoria.

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This report is available on the Committee's website.

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Terms of reference

Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils

Received from the Legislative Council on 6 May 2015:

To the Environment, Natural Resources and Regional Development Committee to inquire into, consider and report, no later than 31 March 2016*, on the sustainability and operational challenges of Victoria's rural and regional councils, including but not limited to the following —

(a) local government funding and budgetary pressures;

(b) fairness, equity and adequacy of rating systems;

(c) impact of rate-capping policies;

(d) capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure;

(e) maintenance of local road and bridge networks; and

(f) weed and pest animal control.

** The reporting date was extended to 30 March 2018.*

Chair's foreword

Victoria's rural and regional councils provide critical support to their local communities and maintain vital local infrastructure. They play an important role in making regional Victoria a great place to live and work.

It is crucial that councils have the financial capacity to fulfil their core responsibilities. This inquiry explored the current situation in Victoria's rural and regional councils. The Committee sought to understand the pressures these councils are facing, how they are responding and the impacts of council decisions on communities.

The Committee heard many positive things about rural and regional councils (as well as a number of areas for improvement). The Committee also heard that some councils face serious challenges when it comes to financial sustainability. In particular, rural municipalities with small populations and large areas can have high costs but limited capacity to raise revenue to cover those costs.

A number of grants programs recognise this situation and partly address it. However, the Committee found that more needs to be done to ensure that all Victorians receive the level of service from local government that they deserve.

The introduction of rate capping has been an important step towards making sure that ratepayers are not excessively burdened. It was generally agreed by submitters and witnesses to this inquiry that large rates increases were not an appropriate or practicable solution to councils' financial challenges, but rate capping is not the solution by itself.

The inequities of the rating system for some ratepayers need to be addressed. There is a need to increase grants to certain councils, especially the rural councils with smaller populations. At the same time, councils' costs needs to be brought down. There needs to be a reconsideration of which responsibilities councils should be required to undertake. There needs to be support for councils to identify and implement efficiencies. Accompanying all of this, community expectations need to be managed, so that there is an acceptance of these changes.

The 14 recommendations in this report set out in more detail how these changes could be brought about.

I believe this suite of reforms is important to maintain the liveability and economic strength of regional Victoria.

Over the course of this inquiry, many people and organisations took the time to share their experiences, knowledge and ideas with the Committee in writing or in person. Their efforts were essential in helping the Committee to understand life in regional and rural Victoria and what it means for people on the ground. On

behalf of the Committee, I would like to sincerely thank the councils, community groups, peak bodies, government departments and individuals who assisted the Committee with this inquiry.

I would also like to acknowledge the hard work of my fellow committee members. This inquiry involved a considerable amount of evidence gathering, including travel to various parts of regional Victoria. The collaborative approach undertaken by the committee members was key to the effectiveness of these processes and to producing this report.

Finally, I would like to recognise the important work of the Committee's secretariat and staff, whose support has also been essential to the successful conduct of this inquiry.

The financial sustainability of rural and regional councils is an important matter and it is essential that other levels of government work closely with these councils to improve sustainability and viability, which in turn helps improve the lives of regional and rural Victorians.

Josh Bull MP
Chair

Executive summary

In May 2015, the Environment, Natural Resources and Regional Development Committee was asked to examine Victoria's rural and regional councils. Specifically, the Committee was asked to look at the sustainability and operational challenges facing these councils.

In undertaking this inquiry, the Committee not only examined financial and other data, but also took evidence from councils, peak bodies, individuals and community groups around the State. From this, the Committee was able to develop an understanding of councils' financial pressures and the impact of these on communities.

This report sets out the Committee's findings and recommendations based on this understanding. It also sets out the evidence received about the pressures on rural and regional councils, about the current rating system and about how councils are currently responding to their challenges.

A diverse situation

The Committee found that there is great diversity between the 48 rural and regional councils. Demographic factors, physical characteristics and the location of municipalities impact on how much revenue a council can raise and how much it needs to pay to fulfil its responsibilities.

For some councils, these factors combine in a way that both pushes up costs and decreases revenue. This is most commonly seen in more sparsely populated rural municipalities. For councils in this position, financial sustainability can be a challenge. Grants from other levels of government are vital to support the finances of these councils.

A changing situation

While councils have been managing this situation for a long time, a number of changes in recent years have introduced additional challenges for some councils. Decisions by other levels of government, decisions by the councils themselves and increasing demand from the community have all put pressure on councils to deliver more services. Other factors which were also identified as increasing councils' expenditure included senior management costs, inefficiencies, unfunded liabilities, changing demographics and a need to catch up on infrastructure backlogs.

At the same time, changes to councils' revenue streams have made it harder for councils to fund their activities. Until 2016-17, many councils had been increasing rates to cover their additional expenditure. This had put significant pressure on many ratepayers. The implementation of the Fair Go Rates system (rate capping)

from 2016-17 limited councils' capacity to increase their revenue from rates above the rate of inflation. However, most councils noted that rates could not have increased at the previous pace anyway, as this would have placed an unfair burden on ratepayers.

A suite of reforms

Given the current situation, action is required to assist some rural and regional councils so that they can provide the services and infrastructure that all Victorians deserve. In particular, the Committee believes that changes need to be made in four areas.

Firstly, there is a need for a **new approach to funding councils**. The Committee considers that rates are an appropriate source for a portion of councils' revenue. However, the Committee also believes that there are some inequitable aspects to the current rating system. The rating system should therefore be reviewed, with a view to improving its fairness and equity.

At the same time, it is important to increase funding from other sources, so that councils' dependence on rates can be reduced. To that end, the Committee has recommended that the State Government advocate for changes to the Financial Assistance Grant scheme and introduce a new State Government grants program specifically designed to assist the councils which are least financially sustainable.

Secondly, **councils' responsibilities should be reconsidered and reviewed**. There was much debate through this inquiry about what services and infrastructure councils should be responsible for. Reviewing what councils are currently doing, considering what they should be doing and developing a clear set of core responsibilities have the potential to help clarify the situation and inform future decisions.

Thirdly, there is potential for **efficiencies** to be made. Many councils have already undertaken their own reviews to identify and implement efficiencies. Sharing services and facilities between councils was seen by many as a particularly effective way to reduce costs. The Committee acknowledges that there is a limit to how much money can be saved though efficiencies, but considers it important for the State Government to support councils to identify and implement efficiencies as far as practicable and desirable.

Accompanying that, the Committee notes the importance of continuing efforts to grow the population of regional Victoria, especially more remote rural areas, as larger populations will provide a number of benefits for local communities and will assist councils' finances.

Fourthly, it is important to **manage community expectations**. For changes to be successful, councils need to bring the community along with them. The Committee considers it important for councils to communicate the full range of services they deliver and the infrastructure they manage, along with information about how much these things cost and how they are funded.

Going forward, it is also important for councils to publicly report how much of their expenditure is on core responsibilities and how much is discretionary. This will provide greater transparency and a better understanding of council decisions and priorities.

Making Victoria's regions thrive

Rural and regional councils play a key role in enabling their municipalities to thrive. The Committee heard that people in regional areas do not expect the same services as people in metropolitan Melbourne. However, there is a certain level of services that all Victorians are entitled to and which are essential to maintain the liveability and economic contribution of Victoria's regional areas. It is essential for the State and Commonwealth Governments to ensure that councils have the means to provide this level of service.

The suite of changes proposed in this report are designed to support rural and regional councils to fulfil their responsibilities without putting additional pressure on ratepayers.

Findings

3 Challenges specific to regional councils

FINDING 1: A number of underlying factors in regional municipalities increase the services and infrastructure councils are required to deliver (and the costs of doing so), but decrease their capacity to raise funds to pay for them. Councils have limited or no capacity to change these factors. 48

4 The growth of local government expenditure

FINDING 2: Councils' expenditure has increased considerably in recent years, partly as a result of State and Commonwealth Government decisions. In some cases, councils have expressed concerns about their ability to undertake the responsibilities assigned to them, both financially and in terms of expertise. 57

FINDING 3: In addition to the Local Government Performance Reporting Framework, councils have to regularly report to a variety of State Government bodies (including the Essential Services Commission, Victoria Grants Commission and Victorian Auditor-General's Office). In some cases, the same or similar data are supplied. Efficiencies in reporting have the potential to save councils money. 58

FINDING 4: Council costs have been driven up by increasing compliance requirements, changing regulations, council decisions to take on additional responsibilities and growing demand and expectations from communities. 62

FINDING 5: A number of regional councils have been increasing spending in recent years to reduce infrastructure backlogs. However, a backlog remains and is going to continue to place pressure on the finances of many regional councils in the future. 68

FINDING 6: It is difficult to quantify many of the pressures leading to increased expenditure by regional councils, which makes it difficult to identify which are the most significant contributing factors. Many of the factors that can be quantified tend to have relatively small impacts individually. However, the cumulative impact of multiple factors has put significant pressure on councils. 68

FINDING 7: There is debate within the community about what services councils should offer. Clarifying what councils are expected to do has the potential to resolve some of this debate and help community members understand council decisions. Developing minimum service levels for councils also has the potential to shift debate away from what councils are doing to whether or not they are doing it efficiently. 71

FINDING 8: Additional professional development opportunities relating to current best practice in finding efficiencies and managing within tight budgets may be helpful for both councillors and council staff. 72

5 Council funding has been changing

FINDING 9: Financial Assistance Grants are an essential revenue source for many regional councils. The three-year freeze on the total grants pool between 2013-14 and 2016-17 put significant pressure on some councils' finances. 80

FINDING 10: Financial Assistance Grants are not as significant for many metropolitan councils as they are for regional councils. Decreasing the share that goes to councils with higher capacities to raise their own revenue and distributing more to regional councils would better recognise the financial challenges facing regional councils. 80

FINDING 11: Competitive grants programs may not provide the funding that councils need and can disadvantage rural councils. Grants programs are required that recognise the limitations of rural councils.. 88

FINDING 12: Where co-contributions are required from councils as part of grants programs, this can present a barrier for regional councils which are already experiencing financial challenges. 88

FINDING 13: After a number of years of sustained rates increases, the State Government introduced rate capping from 2016-17. Though some submitters and witnesses argued against rate capping, the majority of people that the Committee heard from were supportive of it, at least in principle. Multiple councils noted that ratepayers were already under stress as a result of previous rate rises and that increases could not continue. While recognising that councils are experiencing financial pressures, the Committee does not consider sustained, large increases in rates to be the solution. 94

6 The current rating system

FINDING 14: Many ratepayers do not have a good understanding of what they and their community receive from council rates. Better communication in relation to what services cost and what rates are paying for may assist in building a community understanding of the pressures on councils. 101

FINDING 15: The current rating system does not always reflect the capacity of an individual to pay, as it measures capacity through property ownership, which does not necessarily reflect available income. 103

FINDING 16: Some farmers are required to pay disproportionately large rates bills which do not necessarily reflect their capacity to pay. The Victorian Farmers Federation and others have advocated for only charging rates on the house and curtilage of farms and not on productive farmland. 103

FINDING 17: There are large discrepancies between the rates in the dollar set by different municipalities. However, variations in property values mean that the average values of rates per property are relatively similar across municipality types. Given the lower household incomes in rural areas, though, a larger proportion of household incomes in rural municipalities is directed towards council rates compared to metropolitan municipalities. 106

FINDING 18: Rating differentials are applied in varying ways by different councils, leading to frustration and anger among ratepayers.. 113

FINDING 19: There are a number of inequalities and difficulties with the rating system. It would therefore be appropriate to review the rating system and to reduce the amount of revenue raised through rates. 117

7 Responding to the challenges

FINDING 20: Shared service and resource initiatives provide local government with the opportunity to gain efficiencies, realise ongoing financial savings and improve the level of service provided to communities. However, identifying and facilitating shared service arrangements can be time consuming and requires expertise. 125

FINDING 21: The extent to which regional councils are participating in and benefiting from shared service and resource arrangements varies greatly between municipalities. The State Government plays an important role encouraging and facilitating shared service and resource arrangements between councils. 125

FINDING 22: In some cases where councils believe that services should be the responsibility of other levels of government, councils have endeavoured to pass the service back to that level of government. Where funding for a service is provided by another level of government on a fixed-term basis, councils in the future may be less likely to fund the service themselves when the funding lapses.. 129

FINDING 23: User charges can provide additional revenue for councils and also remind users that there are costs associated with council services and facilities. Nominal user charges, especially if accompanied by information indicating the level of subsidy by the council, may be useful for raising awareness of cost pressures on councils and encouraging the community to use council services more sparingly.. 140

FINDING 24: Amalgamating councils is not an effective response to overcoming the inherent characteristics of regional councils that create sustainability challenges. 143

FINDING 25: Growing the population of regional Victoria, especially rural municipalities, will help to make councils more financially sustainable.. 146

Recommendations

2 Building a sustainable local government sector for regional Victoria

RECOMMENDATION 1: That the State Government evaluate the rating system to identify changes that would improve its fairness and equity, while continuing efforts to reduce the overall rates burden. This could include:

(a) considering whether mandatory differential categories should be implemented

(b) reconsidering the rule that the lowest rate can be no less than 25 per cent of the highest rate

(c) considering whether rates for agricultural land should be calculated in a different way to other categories of land to reduce the very high rates paid by some farmers. 11

RECOMMENDATION 2: That the Local Government Performance Reporting Framework be amended to include measures of the financial and social impact of rates on the community.. 11

RECOMMENDATION 3: That the State Government seek, through the Council of Australian Governments, an increase in the Financial Assistance Grant pool to compensate for inflation and population growth between 2013-14 and 2016-17. 13

RECOMMENDATION 4: That the State Government seek, through the Council of Australian Governments, a guarantee from the Commonwealth Government that the Financial Assistance Grant pool will be indexed in future years in line with inflation and population growth. 13

RECOMMENDATION 5: That the State Government seek, through the Council of Australian Governments, changes to Commonwealth legislation to reduce the proportion of the Financial Assistance Grant pool that must be distributed to councils based on their population, so that a larger proportion can be distributed based on councils' need. 13

RECOMMENDATION 6: That the State Government establish a new grants program designed to assist small rural councils to deliver core services. Grants through this program should be:

(a) ongoing, to provide certainty to councils and assist with planning

(b) untied, so councils can use the money according to local priorities

(c) distributed by the Victoria Grants Commission according to councils' needs without councils being required to apply for the grants or provide co-contributions.. 14

RECOMMENDATION 7: That the State Government conduct a detailed review of councils' current responsibilities. This review should:

(a) identify what services councils are currently delivering and what types of infrastructure they are currently managing

(b) identify which responsibilities councils are best suited to manage and which could be better managed by other levels of government (for example, roadside weed and pest animal control, floodplain management and flood mitigation infrastructure should be considered)

(c) develop a clear set of core responsibilities that councils are expected to undertake

(d) develop minimum service levels for councils' core responsibilities. 15

RECOMMENDATION 8: That Local Government Victoria continue and expand efforts to facilitate councils finding efficiencies. This should include supporting information sharing between councils and facilitating shared service and resource arrangements where appropriate (including joint purchasing, shared service delivery, sharing staff and sharing equipment). 16

RECOMMENDATION 9: That the State Government make grants available for councils wishing to investigate and establish shared service and resource arrangements or to bring in experts to identify potential efficiencies. The grants should assist councils with the costs of identifying potential arrangements and working with other councils to put them in place. To be eligible for these grants, councils should be required to have independent experts review their operations to identify efficiencies at least once every four years and to make the results of these reviews publicly available. 16

RECOMMENDATION 10: That the State Government continue and expand efforts to grow the population and economy of regional Victoria, especially in the more remote rural areas. Among other things, these efforts should include job opportunities and infrastructure to make areas liveable and to enable businesses to succeed. 17

RECOMMENDATION 11: That councils take more opportunities to communicate the level of subsidy provided by councils for services. For example, councils should consider including information when people pay indicating how much of the service is covered by user charges and how much it is subsidised from other sources. 18

RECOMMENDATION 12: That, following the review of council responsibilities set out in Recommendation 7, the Local Government Performance Reporting Framework be amended to require councils to report on the proportion of their expenditure used to deliver core services and infrastructure compared to the amount spent on discretionary services and infrastructure. 19

4 The growth of local government expenditure

RECOMMENDATION 13: That Local Government Victoria work together with other government bodies to investigate data-sharing processes that could reduce the reporting burden on local councils without compromising accountability. 58

5 Council funding has been changing

RECOMMENDATION 14: That, when establishing grants programs requiring co-contributions, the Government consider additional use of varying funding ratios for different council categories, including setting no co-contribution requirements for small rural councils, where possible and appropriate. 88

1 Introduction

1.1 Background to the inquiry

Regional Victoria is home to a quarter of Victoria's population.[1] It has many unique and desirable qualities that make it a great place to live, such as open spaces, access to the natural environment and close communities. Regional areas offer affordable housing, less congestion, lower levels of pollution and a different lifestyle to metropolitan Melbourne. Regional Victoria is also an important part of Victoria's economy, as it provides approximately one third of Victoria's exports[2] and is home to almost 30 per cent of Victoria's small businesses.[3]

Local councils play an essential role in regional communities. They provide a variety of services, including maternal and child health care, home and community care, land use planning and waste management. In more remote areas, councils often compensate for market failures, and provide services that are delivered by the private sector in larger population centres (such as child-care and aged-care services). Councils maintain extensive infrastructure portfolios, including local roads, bridges, community centres, pools, libraries and parks. These services and infrastructure are vital to the liveability and economy of regional areas.

In May 2015, the Committee was asked to inquire into the sustainability and operational challenges facing Victoria's rural and regional councils (see the full terms of reference at the beginning of this report).

The inquiry reflects concerns expressed by many councils about growing financial pressures they are experiencing. In recent years, councils have been expected to take on an increasing range of responsibilities. This is partly due to other levels of government, which have increased councils' responsibilities and requirements. Changing community demand and expectations have also contributed.[4]

Despite these increasing responsibilities, regional councils' revenue growth has averaged approximately 1.6 per cent per year over the last seven years (when population change and inflation are taken into account).[5] The Committee was told by many councils that this is insufficient to keep up with the increasing demands.

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1 Committee calculation based on Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no. 3218.0 (2017)

2 Victorian Government, *Victoria's Regional Statement: Your Voice, Your Region, Your State* (2015), p.24

3 Department of Treasury and Finance, *Victorian Budget 17/18: Rural and Regional Budget Information Paper* (2017), p.1

4 See Chapter 4 of this report

5 See Section 5.1 of this report

The Victorian Auditor-General has expressed concerns about many regional councils' financial positions. Looking at councils' ability to generate surpluses from their ordinary course of business, the Auditor-General has classified 17 of the 48 regional municipalities as high-risk and a further 19 as medium-risk. He has also identified a growing shortfall between what councils are spending on infrastructure and what they need to spend.[6]

Many councils have responded to their current challenges by finding ways to be more efficient. Many have also reduced discretionary services to ensure that they are continuing to provide key services and infrastructure to their communities. However, a number of councils expressed concerns about their ability to continue cutting costs without negatively affecting the lives of their communities.[7]

The terms of reference for this inquiry highlight some areas where recent changes have increased councils' responsibilities:

- flood planning, preparation, mitigation infrastructure
- weed and pest animal control.

A number of other factors that are driving up the expenditure of local councils were also identified through this inquiry.[8]

The terms of reference also note the maintenance of the local road and bridge network. Some rural councils have extensive local road networks and large numbers of bridges. Maintaining these to an appropriate standard is one of these councils' most expensive responsibilities.[9]

The Committee was also told that council decisions have contributed to the pressure on councils' finances, including decisions to take on additional responsibilities.[10] The Committee heard a variety of opinions about what councils' responsibilities should be. There is a lack of clarity about exactly which services and infrastructure are core responsibilities and which are discretionary. This makes conversations in this area difficult and is one of the things that the Committee has recommended addressing.[11]

The Committee considers that all Victorians have a right to certain basic levels of service from all levels of government, no matter where they live. To maintain the liveability of Victoria's regional areas, it is important to ensure that regional councils can continue to deliver the important services for which they are responsible. This inquiry has examined what changes are needed to ensure this can happen.

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6 See Section 1.3 of this chapter

7 See details of councils' actions and concerns in Chapter 7 of this report

8 See Chapter 4 of this report

9 See Section 3.3.5 of this report

10 See Sections 4.2.4 and 4.3 of this report

11 See Sections 2.3 and 4.7 of this report

1.2 The diversity of regional Victoria

Regional Victoria is divided into 48 municipalities, which have a variety of different circumstances. Their populations vary from fewer than 3,000 residents to over 230,000. Their sizes vary from 13 square kilometres to over 22,000. Some are experiencing rapid population growth, others are experiencing population decline. Some contain large urban areas, some are more rural in character. Some have multiple population centres, some have only one. Some are close enough to Melbourne for people to access employment and services in the city. Other municipalities are more remote.

Given these disparities, councils' financial situations vary. For the purposes of analysis in this inquiry, the Committee has divided Victoria's councils into five categories (Appendix 2 lists the councils included in each category):

- metropolitan (Melbourne and the interface councils)
- peri-urban (municipalities that are located close to the Melbourne and Geelong metropolitan areas), which are a mixture of rapidly growing commuter towns, rural living areas and agricultural land
- large cities (municipalities with cities of more than 20,000 people), which have growing populations and often function as service centres for neighbouring municipalities – in some cases, the municipality may be little bigger than the urban area, though in other cases, a large rural area may also be included in the municipality
- rural-dense (rural municipalities with higher population densities, as indicated by having less than 150 metres of road per person on average[12]), which generally have one or more larger towns
- rural-sparse (municipalities with greater than 150 metres of road per person), which generally have large geographic areas and small populations; a number of municipalities in this category are experiencing population declines.

The last two categories have been grouped together as 'rural municipalities' in some parts of this report. The peri-urban, large cities, rural-dense and rural-sparse municipalities together make up regional Victoria and are referred to in this report as 'regional municipalities'.

The Borough of Queenscliffe has been excluded from analyses of individual council categories in this report, as it has a very different nature to all other municipalities. However, it has been included in figures for regional municipalities as a whole.

A number of factors impact on councils' costs and ability to raise revenue, particularly:

- the population (including its size, rate of change, age structure and levels of disadvantage)

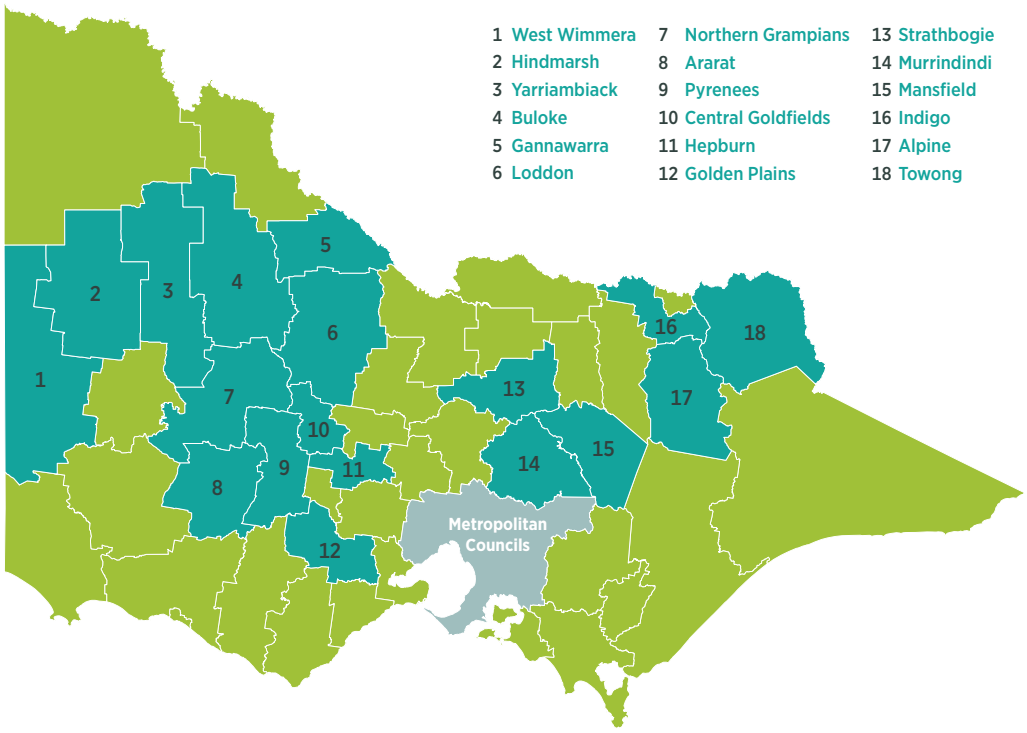
12 Population density has been measured by reference to the road network rather than the total land area to account for the fact that some municipalities have large areas of uninhabited land.

- physical features of the municipalities (such as remoteness, population density and the size of the asset base)
- location factors (including vulnerability to natural disasters, market failures and levels of tourism)
- employment opportunities and economic diversity.[13]

Factors like these can increase the costs of delivering services and maintaining infrastructure. They can also reduce councils' ability to raise revenue from the local community. The end result is often that those councils facing the highest costs per capita have the least capacity to raise revenue to cover those costs.

Looking at these and other factors, a 2010 report by Merv and Rohan Whelan identified 18 rural councils where such factors significantly reduce the councils' capacity to be financially sustainable (see Figure 1.1).

Figure 1.1 **Least sustainable councils, as identified in the Whelan Report**



Source: Environment, Natural Resources and Regional Development Committee, based on Merv & Rohan Whelan, *Local Government Financial Sustainability: Abridged Report* (2010), p.18

While many of the factors identified above and detailed in Chapter 3 of this report impact on a large number of regional councils, the impact was strongest in these municipalities. The Whelans' conclusion was that these councils require additional funding from outside the municipality to enable them to provide services and infrastructure at the required standard.[14]

13 These and other variations are explored in more detail in Chapter 3 of this report.

14 Merv & Rohan Whelan, *Local Government Financial Sustainability: Abridged Report* (2010), p.18

The Committee notes that current grant distribution programs do recognise the additional needs of rural municipalities facing larger sustainability challenges.[15] However, the Committee heard that more is needed to meet the current pressures on many councils.

1.3 An ongoing problem

As noted above, the Committee heard that councils have been required to fulfil an increasing number of responsibilities in recent years. These are set out in detail in Chapter 4 of this report. In some cases, the additional responsibilities are the result of decisions by other levels of government. For example, legislative changes in 2013 resulted in local councils assuming responsibility for controlling weeds and pests on local roadsides.[16] A policy change in 2016 increased the responsibilities of local councils in relation to flood planning and preparation (including the maintenance of flood mitigation infrastructure).[17] These additional responsibilities have increased councils' annual expenditure.

Pressure from demographic changes, changing community expectations and decisions by councils have also seen council services and facilities expand, further increasing expenditure.[18]

At the same time as councils' expenditure has increased, however, there have been changes to funding arrangements (see Chapter 5). The Commonwealth Government stopped indexing Financial Assistance Grants from 2013-14 to 2016-17.[19] The State Government introduced a cap on council rate increases from 2016-17.[20] Changes have also occurred to the funding councils receive for some jointly funded responsibilities (for instance, libraries, school crossing supervisors and health services).[21] Although other grants have been introduced which partly offset these changes, many regional councils have experienced a decline in their overall revenue from grants in recent years.[22]

The combination of these two forces – pressure to increase expenditure and changes to revenue – has made it more challenging for many of Victoria's regional councils to be financially sustainable.

The Victorian Auditor-General's analyses of councils' finances show that regional councils are financially unable to continue providing the extent of services they do. Looking at adjusted underlying results (a measure of a

15 See Sections 5.3 and 5.4 of this report

16 Catchment and Land Protection Amendment Bill 2013

17 Department of Environment, Land, Water and Planning, *Victorian Floodplain Management Strategy* (2016)

18 See Sections 4.2.4, 4.2.5 and 4.3 of this report

19 Commonwealth of Australia, *Budget Paper No. 2: Budget Measures 2014-15* (2014), p.178

20 *Local Government Amendment (Fair Go Rates) Act 2015*

21 See Section 5.4.1 of this report

22 See Section 5.4 of this report

council's ability to generate a surplus from its ordinary course of business[23]), the Auditor-General has assessed regional councils as a whole as medium-risk. In relation to individual councils:

- of 10 regional city councils, four were assessed as high-risk and three were medium-risk
- of 19 large shire councils, five were assessed as high-risk and nine were medium-risk
- of 19 small shire councils, eight were assessed as high-risk and seven were medium-risk.[24]

The Auditor-General noted:

> A longer-term negative trend in this indicator will have an adverse impact on the services that these councils are able to offer to their communities. It is important that councils can generate positive surpluses, and councils' ability to do so will assist them in the longer term to generate sufficient funds to keep delivering the service levels that their communities expect.[25]

Councils' sustainability challenges can also be seen in relation to **infrastructure**. Many regional councils are spending less on asset investment than is required. This creates an asset renewal gap (the difference between expenditure and the amount required to maintain infrastructure to an acceptable standard).

A number of councils noted the growing renewal gap their municipalities are facing.[26] Wangaratta Rural City Council noted:

> We have curtailed the renewal expenditure in our 2016/17 budget below that required by our modelling. By 2020, our renewal gap will be $1.8M and will continue to grow if these trends and processes continue to be implemented.[27]

Horsham Rural City Council outlined that one in 40 roads in its municipality are close to an unserviceable condition and, if the current renewal shortfall continues, this will reach one in six roads over the next 20 years.[28]

The Auditor-General estimated that the renewal gap for Victorian councils in 2012 was $225 million.[29] The Auditor-General's annual analyses of councils' renewal gap and capital replacement efforts (an indicator looking at the total expenditure on assets) show that the situation has become worse over the last five years for regional councils (see Figure 1.2).

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23 This is determined by comparing an adjusted underlying surplus (or deficit) to an adjusted underlying revenue (excluding non-recurrent capital grants). These figures are adjusted to exclude certain revenue intended to fund asset investment (such as non-recurrent capital grants).

24 Victorian Auditor-General's Office, *Results of 2016-17 Audits: Local Government* (2017), pp.90-9

25 Victorian Auditor-General's Office, *Results of 2016-17 Audits: Local Government* (2017), p.36

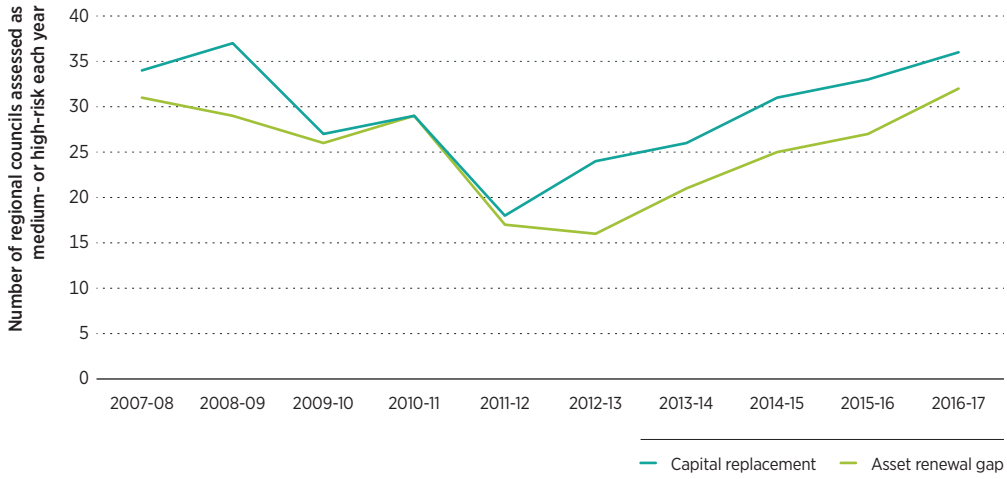
26 Glenelg Shire Council, *Submission 19,* p.1; Campaspe Shire Council, *Submission 54*, p.2; Wangaratta Rural City Council, *Submission 7*, p.5

27 Wangaratta Rural City Council, *Submission 7*, p.5

28 Horsham Rural City Council, *Submission 12,* p.2

29 Victorian Auditor-General's Office, *Asset Management and Maintenance by Councils* (2014), p.2

Figure 1.2 Victorian Auditor-General's Office asset renewal and maintenance indicators, regional councils



Source: Committee calculations based on Victorian Auditor-General's Office, *Results of 2016-17 Audits: Local Government* (2017), Appendix F; Victorian Auditor-General's Office, *Local Government: 2015-16 Audit Snapshot* (2016), Appendix D; Victorian Auditor-General's Office, *Local Government: Results of the 2011-12 Audits* (2012), Appendix E

In a 2016 report, the Auditor-General highlighted that small shires face particular financial sustainability risks:

> Overall, small shire councils are facing additional pressures due to smaller year-on-year revenue increases, and steady increases in expenditure. This has a direct impact on the level of funds these councils have available for capital expenditure. This could potentially have an adverse impact on the services and infrastructure that councils are able to offer to their communities.[30]

The consequence of underinvesting in infrastructure is asset deterioration. This can compromise the safety of roads and bridges, reduce agriculture productivity and make travel difficult. It is important to take steps to avoid these outcomes, so that regional Victoria's liveability and productivity can continue.

1.4 The Committee's approach

The Committee commenced gathering evidence for this inquiry in July 2016. Through the course of its investigation, the Committee has:

- received written submissions from 69 individuals and organisations
- undertaken a survey of all 48 regional councils in Victoria
- held public hearings with stakeholders in Melbourne, Traralgon, Wycheproof, Kerang, Shepparton, Bendigo and Colac.

More details of the Committee's evidence-gathering process can be found in Appendix 1 of this report.

30 Victorian Auditor-General's Office, *Local Government: 2015–16 Audit Snapshot* (2016), p.12

The Committee also examined data from a number of sources, including the Victoria Grants Commission, Victorian Auditor-General's Office, the Australian Bureau of Statistics, local councils' annual reports and the Department of Environment, Land, Water and Planning.

Local Government Victoria told the Committee that it was undertaking a rural and regional council sustainability project in 2017. It was intended that this project would examine the major structural and operational barriers facing regional councils and provide options to address these.[31] The results of this project were not publically available at the time of preparing this report.

1.5 Structure of the report

The Committee finds that reforms in a number of areas are required to create a long-term financially sustainable local government sector in regional Victoria. Chapter 2 of this report outlines the Committee's overall findings and the required reforms. The Committee's key recommendations are presented in Chapter 2.

Chapters 3 to 7 detail the evidence received during this inquiry that led to the conclusions in Chapter 2.

Chapter 3 looks at the population, physical and revenue-raising challenges experienced by regional councils, leading to increased burdens and sustainability issues compared to metropolitan councils.

Chapter 4 examines the growth of local government expenditure over time, looking at the increasing responsibilities of councils, as well as some of the choices councils have made.

Chapter 5 explores how council funding has been changing, including changes to grants, cost shifting concerns and the impacts of rate capping.

Chapter 6 examines the current rating system and the inequalities created by it, along with ways these could be reduced.

Chapter 7 discusses the actions taken by local councils in response to the increasing challenges set out in the preceding chapters. These include changes to service provision, staff changes and changes in infrastructure investment. The chapter also considers a number of suggestions that have been made about further potential changes.

The appendices provide details of the Committee's consultation process and the categories used by the Committee in its analyses of regional councils.

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31 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, pp.5, 8

2 Building a sustainable local government sector for regional Victoria

2.1 Overview

Through the course of this inquiry, the Committee was told that there is significant variation between Victoria's municipalities. Some are able to raise significant amounts of revenue from their own sources and can provide a wide range of services and facilities. Others have less capacity to raise their own revenue and are only able to deliver essential services.

While all councils are experiencing financial pressures, some are facing greater challenges than others. In some cases, especially in the more remote rural municipalities, financial pressures are impacting on councils' financial sustainability and making it difficult for them to deliver the services and infrastructure their communities need.

As outlined in the previous chapter, concerns about some regional councils' sustainability have been expressed not only by councils but also by the Victorian Auditor-General and others who have undertaken analyses of councils' financial positions.

The evidence received by the Committee through this inquiry is set out in Chapters 3 to 7 of this report. These chapters detail the issues and potential solutions raised by submitters and witnesses.

This chapter presents the Committee's conclusions and recommendations based on this evidence.

On the whole, the Committee finds that regional councils have responded appropriately to their current situations and have been financially prudent. Councils are taking action to ensure that they can deliver the most needed services and infrastructure for their communities. However, the Committee considers that the current financial arrangements for regional councils may not be sustainable in the long term. Based on the evidence received through this inquiry, the Committee finds that changes in the following areas should be explored:

- the development of a new funding model (see Section 2.2 of this chapter)
- a review of council responsibilities (see Section 2.3)
- a more efficient local government sector (see Section 2.4)
- the management of community expectations (see Section 2.5).

The suite of changes proposed by the Committee would both increase revenue and reduce the expenditure of regional councils, thereby improving financial sustainability. The proposed changes are also designed to address the underlying factors which make financial sustainability more challenging for some regional councils (especially rural councils).

The Committee considers changes in these areas to be the only practicable solutions to the current situation.

2.2 A new funding model

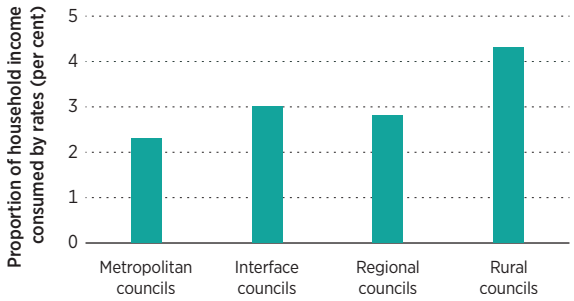
2.2.1 Reduce councils' dependence on rates

There are relatively few ways that councils can raise revenue. Rates and charges on property are by far the most significant source of revenue that councils can raise directly, accounting for 70.1 per cent of their revenue when grants from other levels of government are excluded (72.6 per cent for regional councils). Rural councils are more dependent on rates and charges, as they do not have access to some streams of revenue that metropolitan, peri-urban and large regional cities may have, such as parking fees and developer contributions (see Section 3.5.2 of this report). Rates and charges can account for as much as 90 per cent of non-grant revenue in some rural municipalities.[32]

However, as discussed in Chapter 6 of this report, there are multiple problems with the current rating system. In particular, the way that rates bills are calculated does not necessarily reflect ratepayers' capacity to pay.

Many households in rural municipalities have lower incomes than families in other parts of Victoria. Rates bills therefore have a much larger impact on these households (see Figure 2.1). The Committee was told by a large number of community members and councils that people in many regional municipalities currently find it difficult to pay rates bills and do not have the capacity to pay any more in rates.

Figure 2.1 Proportion of average household incomes consumed by rates



Source: Environment, Natural Resources and Regional Development Committee, based on Baw Baw Shire Council, Presentation, *Public Hearing*, 9 October 2017, p.9

32 Committee calculations based on data from councils supplied to the Victoria Grants Commission; figures reflect the average for 2014-15 to 2016-17

Some ratepayers also pay significantly larger amounts than others in the same municipality. In particular, the Committee heard that farmers can be required to pay rates bills in the $10,000s and that their bills may be both disproportionate to their capacity to pay and inequitable relative to other ratepayers. A number of suggestions were made about changes to the way that farmers' rates are calculated (see Sections 6.3.1 and 6.4.1).

The Committee also heard that there are advantages to raising revenue through rates, such as that it is a relatively easy and straight-forward way to raise tax. Tax avoidance is difficult and the geographic nature of rates means that the people who pay rates are generally the ones most commonly using local services and infrastructure (see Section 6.2.1).

The Committee believes that there is a role for rates to play as part of councils' revenue. Recognising the inequities in the way that the rating burden is shared, though, the Committee also believes that the rating system should be reviewed to identify changes which would make it fairer and more equitable.

Consideration could be given to mandatory rate differentials for farms and retirement villages (see Section 6.4). Consideration could also be given to other categories where mandatory differentials might be appropriate. The Government could look at the impact of the rule requiring the lowest rate to be no less than 25 per cent of the highest rate (especially the impact of this rule on rates paid by farmers). The review may examine the benefits and impacts of charging rates on only the house and curtilage of farms and excluding agricultural land (see Section 6.3.1).

In addition, the Committee believes that the impact of local councils' rates on local communities needs to be monitored. The Committee notes that the Local Government Performance Reporting Framework currently requires reporting on the average residential rate bill in a municipality and on rates as a percentage of property values. The Committee considers that additional measures should be devised specifically monitoring the level of financial stress caused by rates in each municipality. This would enable a deeper understanding of the situation in a municipality and assist with comparing similar municipalities. The measures might, for example, compare rates bills with household incomes and identify the proportion of households in which rates exceed a particular threshold.

RECOMMENDATION 1: That the State Government evaluate the rating system to identify changes that would improve its fairness and equity, while continuing efforts to reduce the overall rates burden. This could include:

(a) considering whether mandatory differential categories should be implemented

(b) reconsidering the rule that the lowest rate can be no less than 25 per cent of the highest rate

(c) considering whether rates for agricultural land should be calculated in a different way to other categories of land to reduce the very high rates paid by some farmers.

RECOMMENDATION 2: That the Local Government Performance Reporting Framework be amended to include measures of the financial and social impact of rates on the community.

2.2.2 Changes to grants

After rates and charges, grants from other levels of government are the next most significant source of revenue for councils.

Grants programs recognise that councils do not have the capacity to raise sufficient revenue from their own sources to cover their required expenditure. In many cases, factors related to the demographics, geography and the municipality's location mean that regional councils have higher expenses per capita than metropolitan councils and less capacity to raise revenue to cover those expenses (see Chapter 3 of this report). These factors are generally outside councils' control and there are very limited options for councils to compensate for these factors. Recognising this situation, regional councils (especially in rural municipalities) receive higher levels of grants per capita than other municipalities.

The evidence provided to the Committee suggests that the current level of grants may not be sufficient for some councils to compensate for the factors driving their expenditure up and driving their revenue down. The effect of this can especially be seen with infrastructure investment, where the Auditor-General's assessments have indicated a growing problem over the last five years (see Section 1.3 of this report). The Committee notes the importance of asset maintenance for the economy and liveability of regional communities.

The Committee believes that there would be benefits to changes to both Commonwealth and State grants to regional councils.

Commonwealth Government grants

Financial Assistance Grants are the most important grants from the Commonwealth Government to councils. These grants are provided each year, the amount is relatively predictable and they are untied (that is, councils can spend the money according to their own priorities).

As set out in Section 5.3 of this report, there are two major issues that were identified with Financial Assistance Grants through this inquiry.

Firstly, the Financial Assistance Grants pool was 'frozen' for three years between 2013-14 and 2016-17. Normally the grant pool is increased each year to keep up with inflation and population growth. However, during this period, indexation was not applied and the total value of the pool varied only marginally from one year to the next. Indexation resumed in 2017-18 but without any adjustment for inflation during the period of the freeze. As a result, regional councils now receive approximately $40 million per year less through this program than they would have if the freeze had not occurred.[33]

33 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing,* 15 August 2017, p.7

From 2015-16, there was an increase in some other Commonwealth grants for councils, most notably the Roads to Recovery Program. This provided some offset of the indexation freeze on the Financial Assistance Grants. However, councils noted that this additional funding was temporary and that, in contrast to the Financial Assistance Grants, the funding was tied and therefore could not be used in the same ways.[34]

The second major issue identified with the Financial Assistance Grant program is that, while most of the Financial Assistance Grant pool is distributed according to need, the current legislation requires that at least 30 per cent of the grant pool be distributed on a per capita basis. This means that some councils with large amounts of own-sourced revenue receive money from the grant pool. It was argued that this money would be better used to assist councils with less capacity to raise funds from their own sources.

The Financial Assistance Grants are a Commonwealth grant scheme. However, the Committee considers that the State Government should seek changes through the Council of Australian Governments to address these problems.

RECOMMENDATION 3: That the State Government seek, through the Council of Australian Governments, an increase in the Financial Assistance Grant pool to compensate for inflation and population growth between 2013-14 and 2016-17.

RECOMMENDATION 4: That the State Government seek, through the Council of Australian Governments, a guarantee from the Commonwealth Government that the Financial Assistance Grant pool will be indexed in future years in line with inflation and population growth.

RECOMMENDATION 5: That the State Government seek, through the Council of Australian Governments, changes to Commonwealth legislation to reduce the proportion of the Financial Assistance Grant pool that must be distributed to councils based on their population, so that a larger proportion can be distributed based on councils' need.

State Government grants

Grants from the State Government are also an important source of revenue for regional councils. The Committee believes that a key way to improve regional council sustainability is for the State Government to establish a new grants program specifically designed to help small rural councils to deliver core services.

The Victoria Grants Commission is currently responsible for determining councils' need for financial support as part of its work administering the Financial Assistance Grants. The Committee therefore considers that the Victoria Grants Commission would be best placed to allocate grants as part of this proposed new program.

34 See further discussion in Section 5.3.1 of this report

Section 5.5 of this report outlines the way that some grants programs tend to disadvantage or not meet the needs of small rural councils. With those considerations in mind, the Committee considers that the new grants program should be ongoing, untied and given without the need for applications or co-contributions.

The Government may consider funding this program by allocating a set portion of other taxes to the grant pool for this program. A relatively stable tax which increased in line with inflation and population growth would be ideal (such as the goods and services tax, capital gains tax or stamp duty).

RECOMMENDATION 6: That the State Government establish a new grants program designed to assist small rural councils to deliver core services. Grants through this program should be:

(a) ongoing, to provide certainty to councils and assist with planning

(b) untied, so councils can use the money according to local priorities

(c) distributed by the Victoria Grants Commission according to councils' needs without councils being required to apply for the grants or provide co-contributions.

2.3 Reviewing council responsibilities

The Committee was told that the role of councils has increased considerably in recent decades and that councils now deliver over 100 different services.[35] This has come about through a mixture of decisions by other levels of government, community demand and decisions by councils.

The Committee heard mixed views on how many responsibilities councils should have and what they should be. Some argued that councils' responsibilities should be reduced. They believed that the State or Commonwealth Government would be better placed to take responsibility for certain services or infrastructure. Others argued that councils are best placed to deliver many services to their local communities and that the only problem is that councils have insufficient funds. Section 4.7 of this report explores this debate in more detail.

Some submitters and witnesses called for the development of a clear set of core responsibilities and minimum service levels for councils (see Section 4.7). It was hoped that this would assist councils and voters to understand what activities are required of councils and what activities are discretionary. This may also help to focus discussions away from what should be delivered to how efficiently things are being delivered.

The Committee considers that there would be benefits to an in-depth review of councils' current responsibilities and what responsibilities are most appropriate for councils to deliver. The review should identify a set of core responsibilities that councils should be undertaking and establish minimum service levels.

35 Peri Urban Group of Rural Councils, *Submission 41*, p.4; Greater Bendigo City Council, *Submission 45*, p.4

RECOMMENDATION 7: That the State Government conduct a detailed review of councils' current responsibilities. This review should:

(a) identify what services councils are currently delivering and what types of infrastructure they are currently managing

(b) identify which responsibilities councils are best suited to manage and which could be better managed by other levels of government (for example, roadside weed and pest animal control, floodplain management and flood mitigation infrastructure should be considered)

(c) develop a clear set of core responsibilities that councils are expected to undertake

(d) develop minimum service levels for councils' core responsibilities.

2.4 A more efficient local government sector

Reviewing councils' responsibilities has the potential to reduce councils' expenditure by curtailing the range and volume of services paid for by councils.

Efficiencies will enable councils to deliver whatever services they provide for the least cost. Efficiencies will be an important part of making councils more sustainable.

2.4.1 Supporting councils to find efficiencies, share services and share resources

As outlined in Chapter 7 of this report, many councils have already responded to their current situation by seeking efficiencies. A number of councils gave the Committee details of efficiencies they have implemented that have successfully reduced their costs. Several bodies have provided assistance to councils in finding efficiencies, including Local Government Victoria, the Municipal Association of Victoria, Regional Development Victoria and the Victorian Local Governance Association.

The Committee recognises the value of this work and encourages councils and peak bodies to continue this work. The Committee believes that additional support from the State Government in this area would be helpful. In particular, the State Government can assist by facilitating information sharing between councils, so that innovative ways to achieve efficiencies that are identified by one council can be implemented by other councils where appropriate.

Shared services and resources were identified by many submitters and witnesses as a particularly effective way to reduce council costs (see Chapter 7). A shared approach can provide economies of scale for both purchasing and delivering goods and services. Sharing staff can prove useful for councils in certain circumstances (for example, where the quantity of work for a role in a council is less than one full-time equivalent). Sharing equipment that is used only part of the time may also provide cost savings.

Various councils across Victoria have explored shared service and resource arrangements (see Section 7.2.1). These have included roadworks, back-office functions and procurement. Local Government Victoria told the Committee that it has encouraged councils to look at shared services, resources and procurement and has done some work facilitating such arrangements.[36]

The Committee recognises that there are limitations to what can be shared while still keeping the local aspect of local government. There are also circumstances in which sharing may not be practicable or desirable. However, the Committee considers that there is potential for additional savings to be made for many councils through sharing services and resources.

The Committee notes that identifying potential models for sharing services or resources and undertaking negotiations between councils to establish sharing arrangements can be time consuming and difficult. Assistance from the State Government with these processes is likely to be valuable.

RECOMMENDATION 8: That Local Government Victoria continue and expand efforts to facilitate councils finding efficiencies. This should include supporting information sharing between councils and facilitating shared service and resource arrangements where appropriate (including joint purchasing, shared service delivery, sharing staff and sharing equipment).

RECOMMENDATION 9: That the State Government make grants available for councils wishing to investigate and establish shared service and resource arrangements or to bring in experts to identify potential efficiencies. The grants should assist councils with the costs of identifying potential arrangements and working with other councils to put them in place. To be eligible for these grants, councils should be required to have independent experts review their operations to identify efficiencies at least once every four years and to make the results of these reviews publicly available.

2.4.2 Growing the population of regional Victoria

One of the major challenges facing many regional councils is a small population and limited economic activity. As detailed in Chapter 3, a smaller population and economy reduce the capacity for councils to raise revenue themselves, whether through rates or fees. Smaller populations also lack the economies of scale and competition among suppliers that can bring costs down. Municipalities that lack a large urban area may have to pay more for goods and services to be brought from service centres further away.

In some rural municipalities, these problems are becoming more severe as the population declines.

Many of the regional communities and councils that the Committee spoke to (especially in more rural areas) advocated for programs that will grow the population and economy of regional Victoria (see Section 7.9). State Government population projections indicate that substantial growth is expected

36 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, p.7

in metropolitan Melbourne, peri-urban municipalities and large regional cities between 2018 and 2031. However, the projections suggest that growth will be much more subdued in rural municipalities, with most rural-sparse municipalities expected to decline over that period.[37] These projections and the impact of population change on councils are discussed in more detail in Section 3.2.1 of this report.

The Committee regularly heard that there were many positive aspects to living in regional Victoria but that a lack of employment opportunities was a key barrier preventing more people from leaving the big cities to settle there. Moving government offices to regional centres, providing incentives for private industry to move to regional areas and establishing regular public transport connections to Melbourne were noted as potentially valuable strategies.

The Committee notes that the State Government currently has a variety of programs designed to grow the population of regional Victoria.[38]

It is beyond the scope of this inquiry to evaluate these programs or to identify the most effective ways to grow regional Victoria. For the purposes of this inquiry, the Committee recognises the importance of growing the population and economy of regional Victoria (especially the more remote rural areas). Programs that successfully achieve these goals may significantly improve regional councils' sustainability.

RECOMMENDATION 10: That the State Government continue and expand efforts to grow the population and economy of regional Victoria, especially in the more remote rural areas. Among other things, these efforts should include job opportunities and infrastructure to make areas liveable and to enable businesses to succeed.

2.5 Managing community expectations

The Committee heard that one of the forces driving up council expenditure is demand from the community (see Section 4.2.5 of this report). This may come from changing expectations and needs within the community or from new people arriving in the community who are accustomed to a broader range of services from their council.

The Committee also heard that councils' efforts to reduce services are sometimes hampered by community objections. As noted in Section 7.3.2, while there may be general support for reducing councils' expenditure, people are often reluctant to give up the services that they use. As Mr David Morcom of Wellington Shire Council explained to the Committee, 'People are happy for council to cut all of our services. "Just don't cut the one I use, because that's the most critical one".'[39]

37 Department of Environment, Land, Water and Planning, *Victoria in Future 2016* (2016), estimated resident population for local government areas data table

38 Department of Treasury and Finance, *Victorian Budget 17/18: Rural and Regional Budget Information Paper* (2017)

39 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.9

To successfully implement the Committee's recommendations about reducing council responsibilities and finding efficiencies, it will be important for councils to bring their communities along with them. The Committee considers that this will require a number of strategies to ensure that community members understand what councils do and how much that costs.

2.5.1 Improving the understanding of what councils do and how much it costs

It was suggested to the Committee that many people are unaware of the full range of services that councils provide and the amount of infrastructure they are responsible for (see Section 6.2.2). Similarly, many members of the community are unaware of how much it costs to deliver these services and maintain this infrastructure.

Without this information, it may be difficult for people to understand why rates bills are as high as they are or why some councils are currently facing financial challenges and having to make difficult decisions.

An important component of improving community understanding of council activities is communicating the levels of subsidy involved with many services. For example, when people pay entry to their local swimming pool, they may not be aware that what they pay might be less than the full cost of running the swimming pool. It was suggested that councils better publicise the levels of subsidy (for example, through a sign at council facilities that indicates what proportion of running costs are covered by user charges and how much the council is subsidising the service from other sources of revenue).

Improving public knowledge of council activities, their costs and the levels of subsidy has the potential to assist with community acceptance of the changes recommended above.

> **RECOMMENDATION 11:** That councils take more opportunities to communicate the level of subsidy provided by councils for services. For example, councils should consider including information when people pay indicating how much of the service is covered by user charges and how much it is subsidised from other sources.

2.5.2 Communicating what is a core expenditure and what is discretionary

Related to this, there was much debate during this inquiry about what the core responsibilities of councils are (see Section 4.7 of this report). The Committee has seen some confusion in the community about whether certain responsibilities are mandatory or discretionary. This sort of confusion may make community understanding about financial pressures and council decisions difficult.

A number of submitters and witnesses believed that some councils were spending too much money on services or infrastructure that are discretionary. The lack of clarity around what are core functions and what are discretionary makes discussion of these matters difficult and makes it hard for voters to make informed decisions about councillors and their decisions.

The review of council responsibilities outlined in Recommendation 7 may help to clarify this situation. In addition, once this review has been completed, the Committee considers that councils should be required to break down their annual expenditure based on whether it is related to core or discretionary responsibilities. This reporting may be useful for community members seeking to understand councils' performance. It may also be helpful in identifying councils where there is greater scope for finding efficiencies.

RECOMMENDATION 12: That, following the review of council responsibilities set out in Recommendation 7, the Local Government Performance Reporting Framework be amended to require councils to report on the proportion of their expenditure used to deliver core services and infrastructure compared to the amount spent on discretionary services and infrastructure.

3 Challenges specific to regional councils

3.1 Overview

'The reality is – all Councils are not created equally!'[40]

The Committee believes that regional councils generally deliver the required services and infrastructure needed by their communities, while remaining financially prudent. However, there are a number of factors, outside councils' control, that make this more challenging for regional municipalities compared to many metropolitan municipalities. The make-up of the population, physical factors of the municipalities and financial circumstances present unique financial and operational challenges for many regional councils.

These factors influence the number, level and cost of services and infrastructure that regional councils are required to provide. They also impact on the capacity of councils to raise the funds to pay for these services and infrastructure. In a 2006 examination of the financial sustainability of local government, Price Waterhouse Coopers identified that:

> The efficiency of each council varies considerably and depends on many factors, such as absolute population, population density, distribution and growth, other demographic characteristics, age and type of infrastructure, rainfall, topography, and soil types.[41]

Merv and Rohan Whelan developed the Whelan Model in 2006-07 to calculate the relative sustainability capacity of councils based on geographic, demographic and financial characteristics.[42]

The model used the recurrent costs and the capacity of the community to pay to determine a sustainable capacity ratio for each council. It identified 18 rural councils that are not sustainable due to these inherent factors (see Figure 1.1).[43]

The major factors identified by the Committee through this inquiry are set out in Figure 3.1 and discussed through this chapter.

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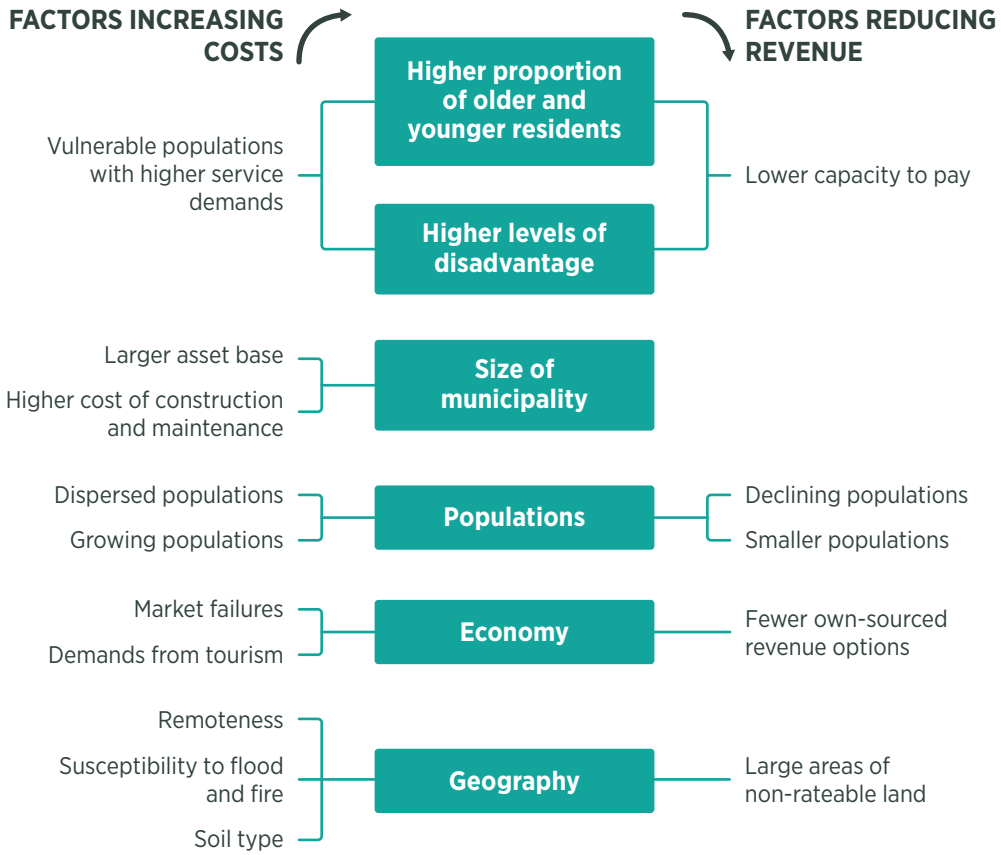
40 Central Goldfields Shire Council, *Submission 27,* p.2

41 Price Waterhouse Coopers, *National Financial Sustainability Study of Local Government,* report commissioned by the Australian Local Government Association (2006), p.73 (quoted in Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.4 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*)

42 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.5 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*)

43 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), pp.11-12 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*)

Figure 3.1 Factors contributing to reduced financial sustainability in regional councils



Source: Environment, Natural Resources and Regional Development Committee

Each regional council is unique. Councils experience the challenges set out in this chapter to varying degrees. They respond to these challenges in differing ways. The Committee notes the importance of assessing each regional council individually to determine the specific challenges it faces, the impact of those changes and the assistance a council requires to be financially sustainable.

3.2 Demographics

3.2.1 Population

Absolute population (population size)

One-quarter of Victoria's population lives in regional areas. In 2016, 12.0 per cent of Victorians lived in large regional cities, 4.5 per cent in peri-urban municipalities, 6.2 per cent in rural-dense municipalities and 2.7 per cent in rural-sparse areas. The population of regional municipalities varies from approximately 3,905 (in West Wimmera) to over 233,000 (in Greater Geelong).[44]

44 Not including the Borough of Queenscliffe (2,854 residents); Committee calculations based on Australian Bureau of Statistics, Census 2016, place of usual residence

The size of the population impacts on council finances in a number of ways. Smaller population size has been shown to have a causal link with:

- higher costs per head
- a lack of economies of scale[45]
- reduced competition between suppliers lending to increased costs for goods and services[46]
- market failures from limited private sector investment (particularly in aged care and childcare), resulting in regional councils providing services that are offered by private companies in metropolitan councils.[47]

Mr David Jochinke from the Victorian Farmers Federation explained the additional difficulties rural-sparse councils face in comparison to large cities:

> If you have got a Mildura, a Shepparton or a Portland, even to the size of Horsham, in your catchment, you have got more capacity than you have got in West Wimmera, Buloke or Yarriambiack. They are councils that do not have a large population. In fact they are under 6000 or 7000 people, yet they are still having to deliver the same amount of services — admittedly to a smaller population — of hopefully the same quality, because we do not want to have children missing out on that early childhood care. We are seeing that the councils that have those regional towns and regional cities being able to deliver that better.[48]

Perhaps most significantly from the perspective of financial sustainability, a smaller population means that there are fewer people to spread the burden of funding services and infrastructure across.

Population change

Growing, declining and stable populations each present different challenges for regional councils. Currently in Victoria, large cities and peri-urban municipalities have growing populations, while more remote regional municipalities have relatively stable or declining populations (see Figure 3.2).

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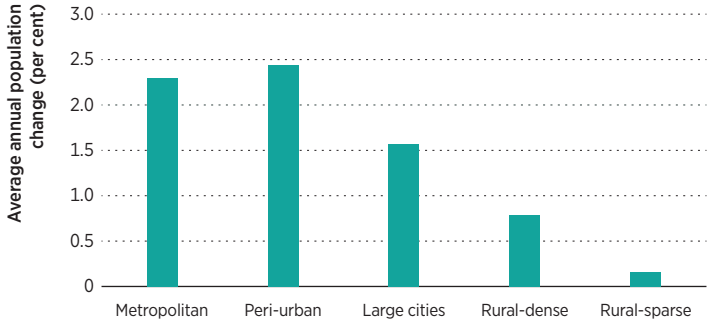
45 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.6 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*); Horsham Rural City Council, *Submission 12*, p.4; South Gippsland Shire Council, *Submission 14*, p.1; Buloke Shire Council, *Submission 24*, p.1; Rural Living Group of Councils, *Submission 25*, p.2; Hindmarsh Shire Council, *Submission 33*, p.5

46 Buloke Shire Council, *Submission 24*, p.1

47 Buloke Shire Council, *Submission 24*, p.1; Rural Living Group of Councils, *Submission 25*, p.2; Rural Councils Victoria, *Submission 49*, p.8; McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), p.15 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

48 David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, p.9

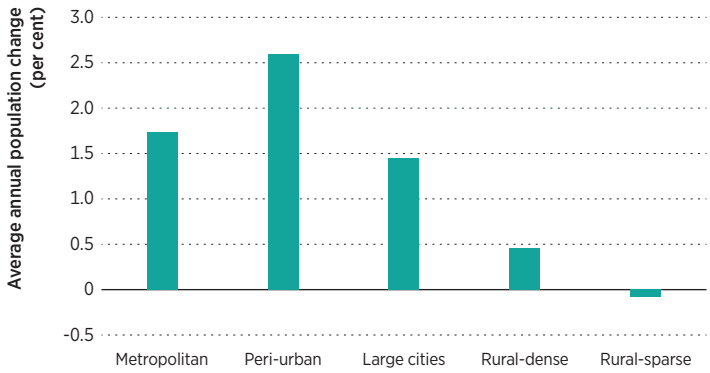
Figure 3.2 Population change, 2011 to 2016



Source: Committee calculations based on Australian Bureau of Statistics, Census 2011 and 2016, place of usual residence

Going forward, this trend is expected to continue. State Government projections made in 2016 indicate that growth will continue to be strongest in metropolitan Melbourne, peri-urban municipalities and large cities, with limited growth in rural-dense municipalities and population decline in rural-sparse municipalities (see Figure 3.3).

Figure 3.3 Population projections, 2018 to 2031



Source: Committee calculations based on Department of Environment, Land, Water and Planning, *Victoria in Future 2016* (2016), estimated resident population for local government areas data table

'Population growth will continue to apply financial challenges associated with funding current and future infrastructure needs.'[49]

A **growing population** requires councils to anticipate and cater for the future demands of an increasing community. Councils in growing municipalities experience an increased demand and reliance on services and council resources.[50] Growing communities increase the pressure on existing council infrastructure (including roads and bridges) and require new infrastructure.[51]

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49 Baw Baw Shire Council, *Submission 42*, p.1

50 Baw Baw Shire Council, *Submission 42*, p.3; Colac Otway Shire, *Submission 58*, p.4

51 Surf Coast Shire Council, *Submission 15*, p.2; Mitchell Shire Council, *Submission 21*, p.6; Wodonga City Council, *Submission 31,* p.7; Peri Urban Group of Rural Councils, *Submission 41*, p.3; Whittlesea City Council, *Submission 50*, p.11

The peri-urban councils are experiencing the largest population growth amongst regional councils (see Figures 3.2 and 3.3). The Peri Urban Group of Rural Councils explained to the Committee the population growth they are experiencing and outlined their approach to managing this:

> The Peri Urban region is the fastest growing rural area in Victoria. The region will grow by an average of 49% through to 2036 with some of the Peri Urban cities forecast to more than double and in some cases triple in population. In contrast the regional cities of Ballarat Bendigo and Geelong have a slower rate of growth at 40%.
>
> We are committed to managing our communities in a sustainable way, that facilitates sensible population growth and employment opportunities while retaining local character, important agricultural lands and environmental assets for Victoria.[52]

Funding the needs of an expanding population can be a challenge. Councils must plan and fund additional spending on infrastructure maintenance and service growth before they reap the rise in rates revenue that a growing population brings.[53] Mitchell Shire Council explained this to the Committee:

> There is an assertion in some circles that a growing municipality receives an automatic lift in rate income due to that growth and therefore should be able to fund the additional demand. The fact is that the cost of providing new roads, community facilities and services outpaces the growth in revenue.[54]

In some cases, the new residents may have limited capacity to contribute substantially to the increased demand for infrastructure and services:

> It is also important to note that much of our population growth is driven by affordability in the housing market, i.e. cheaper land and housing north of the Melbourne metropolitan area. It is fair to say that the majority of these purchasers have a very constrained ability to pay increased rates yet the demand for infrastructure and services is high. As this is the case, there needs to be a circuit breaker, which means a partnership between Local, State and Federal governments is crucial to meet this need without overburdening the ratepayers of this municipality.[55]

Surf Coast Shire Council summarised the issues that growing regional councils face:

> Many regional and rural councils will continue to experience budgetary pressures due to population growth. This pressure is likely to increase as population growth is encouraged outside of metropolitan areas. Residents often move to rural and regional councils from cities and expect the same level of services and facilities. This expectation places further budgetary pressure on rural and regional councils. Meeting this increase in community expectation will place further pressure on council to deliver services and facility at an adequate standard. Achieving this in a rate capped environment presents a significant operational challenge for many years to come.

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52 Peri Urban Group of Rural Councils, *Submission 41*, p.1

53 Surf Coast Shire Council, *Submission 15*, p.2; Peri Urban Group of Rural Councils, *Submission 41*, p.6

54 Mitchell Shire Council, *Submission 21*, p.5

55 Mitchell Shire Council, *Submission 21*, p.3

> Resultant rate income from population growth lags behind the need for services and infrastructure associated with the growth. This needs to be considered and appropriately funded when the State and Federal Governments plan and implement policy related to population growth outside of metropolitan areas. A lack of adequate funding and proper planning increases the risk of social disadvantage in the regions.[56]

A **static or declining population** results in declining rates revenue,[57] a smaller population base to spread the rate burden across and a decrease in economies of scale.[58] According to Towong Shire Council, diminishing populations can influence the 'social fabric of the community',[59] which can reduce the attractiveness of an area for potential new residents, further perpetuating the problem.

A declining population creates greater financial pressure on councils that often already have limited capacity to raise revenue. Reducing population numbers creates a greater burden on smaller councils that are still expected and required to provide the same services and maintain the same assets, but with less income.[60] Horsham Rural City Council stated that this is not recognised in the population factors applied by the Victoria Grants Commission when apportioning grants (see Section 5.3.2 of this report).[61]

Some of Victoria's rural-sparse municipalities are experiencing significant levels of population decline. In particular, West Wimmera Shire has seen an average annual decline of 1.7 per cent over the last five years. This trend for rural-sparse municipalities is expected to continue in the future (see Figure 3.3). The rural-dense councils have experienced more static population figures, a trend which is also expected to continue (see Figures 3.2 and 3.3).

3.2.2 Age structure

Age can be a strong indicator of vulnerability and can directly influence council service requirements. Older and younger people are often considered the most vulnerable age cohorts within a population. Physical and social isolation were raised during this inquiry as issues that older and younger people are more susceptible to.[62] People in these demographics are often more constrained by barriers (such as service availability, transport and costs) in accessing services, programs and care.[63]

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56 Surf Coast Shire Council, *Submission 15*, p.2

57 Yarriambiack Shire Council, *Submission 40*, p.3; Better Local Government Association, *Submission 68*, p.4

58 Horsham Rural City Council, *Submission 12*, p.4; South Gippsland Shire Council, *Submission 14*, p.1

59 Towong Shire Council, *Submission 48*, p.7

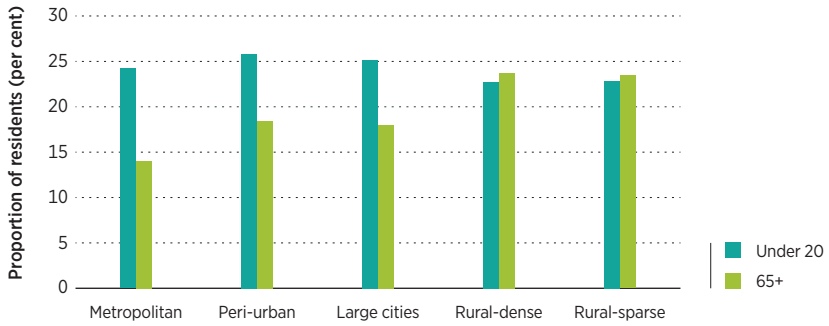
60 Horsham Rural City Council, *Submission 12*, p.4; Towong Shire Council, *Submission 48*, p.7

61 Horsham Rural City Council, *Submission 12*, p.4

62 Macedon Ranges Shire Council, *Submission 13*, p.11; Hume Region Local Government Network, *Submission 52*, p.6

63 Macedon Ranges Shire Council, *Submission 13*, p.11

Figure 3.4 Proportion of residents aged under 20 and over 65 years according to council category



Source: Committee calculations based on Australian Bureau of Statistics, Census 2016, place of usual residence

Ageing residents

Australia has an ageing population. Aged people make up a higher proportion of the total population in regional councils (20.1 per cent) compared to metropolitan councils (14.0 per cent). These proportions have been rising and this growth is expected to continue.

Aged and disability services provided by local government include senior citizens' groups and centres, delivered meals, home and personal care, respite care and the Home and Community Care program (which provides support and services to young, elderly and frail people with a disability).[64]

Councils develop strategies to manage and provide for their ageing demographic. Several councils have created 'positive ageing strategies' in response to the challenges of an ageing population. These plans seek to improve local social, health, infrastructure and lifestyle outcomes for older people.[65]

The larger distances between people and service centres in regional municipalities (especially rural municipalities) multiplies the costs associated with delivering services for ageing residents.

Given the growing ageing population in regional areas, increased expenditure by councils is required to provide the appropriate services and to plan for future increases. Concern was also expressed that the National Disability Insurance Scheme will add further costs in this area for regional councils.[66]

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64 Know Your Council, *Guide to Councils* <https://knowyourcouncil.vic.gov.au/guide-to-councils/what-councils-do/community-services>, viewed 28 November 2017

65 Municipal Association of Victoria, *Positive Ageing Plans* <http://www.mav.asn.au/policy-services/social-community/ageing-disability/ageing/Pages/positive-ageing-plans.aspx>, viewed 28 November 2017

66 Corangamite Shire Council, *Submission 56*, p.2; Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing*, 15 August 2017, pp.2, 6; Gregory Drumm, General Manager Corporate Services, Latrobe City Council, *Public Hearing*, 9 October 2017, pp.7-8; David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing*, 10 November 2017, p.11

The impact of the increased need for council services is exacerbated by the fact that ageing ratepayers are often asset rich, but cash poor.[67] They therefore do not have the means to pay fees and charges associated with many services and may pay less in rates due to pensioner rebates. This leaves councils to find the money to pay for the services from other sources.

The Committee heard that an associated consequence of an ageing population is the corresponding ageing workforce in the council. This produces challenges for workforce planning, including knowledge retention, recruitment and replacement.[68] Loddon Shire Council outlined that the 'long-term' employment of a high proportion of its staff required an investment of time to retain that corporate knowledge.[69]

An ageing workforce also places additional pressures on council budgets in relation to the defined benefit superannuation schemes (see Section 4.4 of this report). This fund was closed to new members in 1993, but councils with longer-serving employees may have greater financial liabilities under the scheme.

Younger residents

Younger populations (people aged under 20 years) are also recognised as a demographic that have higher service demands and can be at a higher risk of social isolation in regional areas.[70]

Youth services provided by local government include counselling and drug and alcohol services, skate parks, youth-oriented festivals, neighbourhood houses, sports programs and youth-based advisory councils. Councils also provide a variety of family and young children's services, including childcare facilities, preschools, maternal and child health facilities, playgroups, kindergartens, school bus programs and school holiday programs.[71]

A number of councils highlighted that cuts to youth services were occurring as a result of councils' reduced capacity to raise funds.[72]

Regional councils as a whole have a similar proportion of young people compared to metropolitan councils (approximately 25 per cent). Large cities and peri-urban councils are experiencing the fastest growth in younger people. Currently 27.7 per cent of Mitchell Shire and 27.4 per cent of the Wodonga City residents are aged under 20 years.

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67 East Gippsland Shire Council, *Submission 10*, p.2

68 Loddon Shire Council, *Submission 53*, p.4; Catherine Hastings, Roberta Ryan, Melissa Gibbs & Alex Lawrie, *Profile of the Australian Local Government Workforce 2015 Report*, report for the Australian Centre of Excellence for Local Government, University of Technology Sydney (2015), p.9

69 Loddon Shire Council, *Submission 53*, p.4

70 Municipal Association of Victoria, *Submission 46*, p.48; Hume Region Local Government Network, *Submission 52*, p.6

71 Department of Environment, Land, Water and Planning, *Guide to Councils* <https://knowyourcouncil.vic.gov.au/guide-to-councils/what-councils-do/community-services>, viewed 28 November 2017

72 Buloke Shire Council, *Submission 24*, p.2; Rural Councils Victoria, *Submission 49*, p.12; Hume Region Local Government Network, *Submission 52*, p.6

3.2.3 Socio-economic disadvantage

'Often it is community members with lower socio-economic means that most need access to local government services and infrastructure.'[73]

Socio-Economic Indexes for Areas (SEIFA) rank areas based on socio-economic advantage and disadvantage (see Box 3.1). An area with a lower rank indicates a more vulnerable community that will have an increased need and reliance on council services. A 2011 analysis of all Victorian local government areas found regional municipalities constitute 34 of the 40 most disadvantaged areas in Victoria (see Figure 3.5). Of these, 13 are rural-sparse councils and 12 are rural-dense councils.

BOX 3.1: Socio-Economic Indexes for Areas (SEIFA)

Socio-Economic Indexes for Areas (SEIFA) are developed by the Australian Bureau of Statistics to rank areas in Australia according to relative socio-economic advantage and disadvantage.

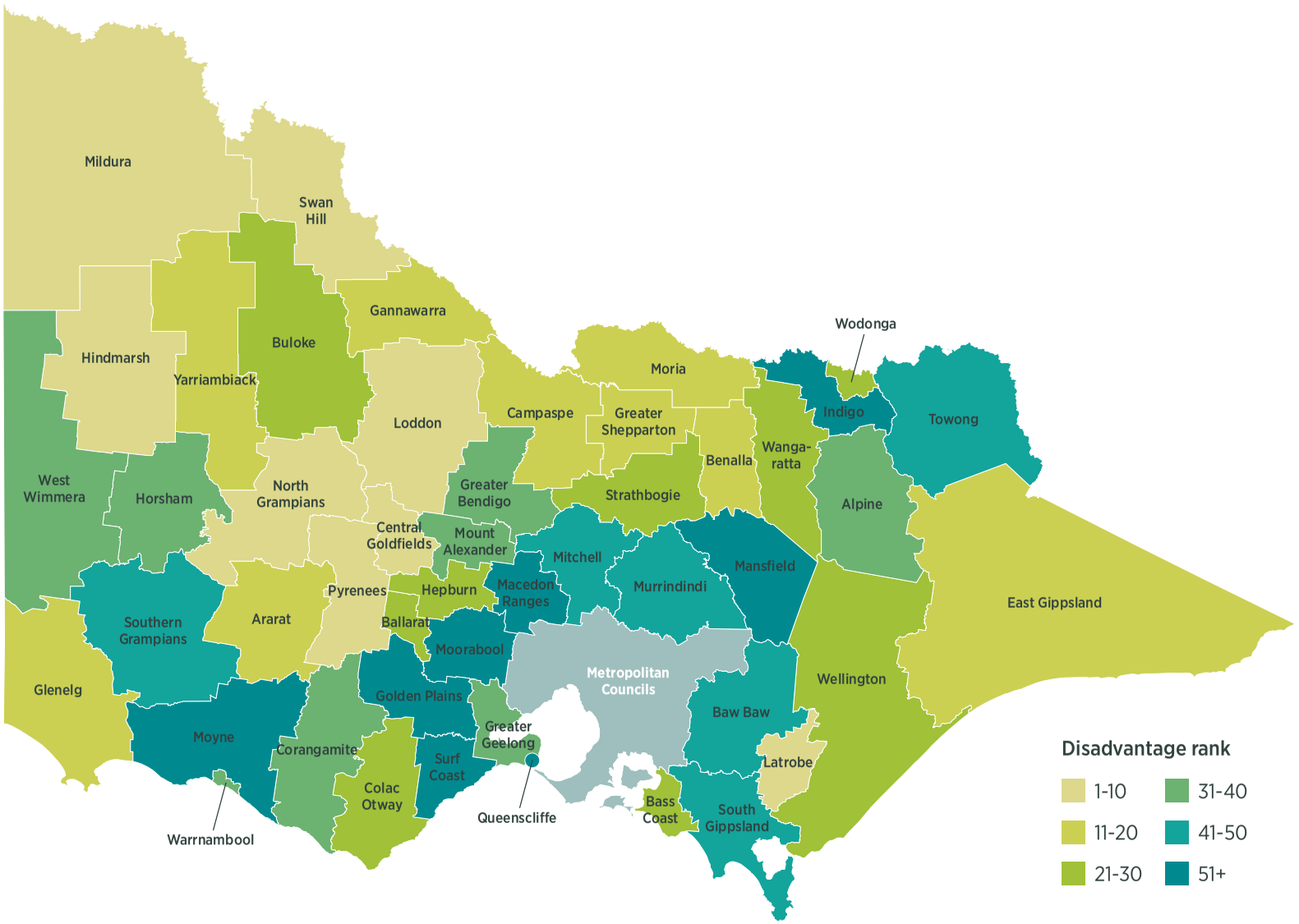
There are four indexes used by SEIFA. The Committee has relied on the Index of Relative Socio-Economic Disadvantage for the purposes of this inquiry.

In Victoria, the 79 local government areas and the unincorporated areas of Victoria have been ranked based on 2011 census data from one (most disadvantaged) to 80 (most advantaged).(a)

(a) Based on Australian Bureau of Statistics, *Socio-Economic Indexes for Areas (SEIFA)*, cat. no. 2033.0.55.001 (2011)

73 Towong Shire Council, *Submission 48*, p.8

Figure 3.5 Disadvantage ranking of regional local government areas in Victoria



Source: Environment, Natural Resources and Regional Development Committee, based on Australian Bureau of Statistics, *Socio-Economic Indexes for Areas (SEIFA)*, cat. no. 2033.0.55.001 (2011)

A higher proportion of vulnerable communities generally increases the demand for services.[74] Disadvantaged individuals and communities have a double impact on council finances – they have more complex needs, but have a lower level of income, resulting in a decreased capacity to pay for the required services and programs.[75]

Some regional areas experience a diverse spread of socio-economic circumstances within the one municipality. Macedon Ranges Shire Council and Mitchell Shire Council explained the issues this presents:

> The demographic diversity within Macedon Ranges Shire presents funding challenges. Our shire rates well on standard measures of economic and community wellbeing and Local Government Area (LGA) level, however there are pockets of relative disadvantage and vulnerability within the shire. The allocation of funding to address disadvantage is typically allocated on the basis of LGA level data, meaning there is limited capacity to provide additional support where needed. Public investment in townships or neighbourhood areas, as an alternative to LGA level investment, would better equip councils such as Macedon Ranges Shire Council to respond to vulnerability and disadvantage.[76]

> Parts of our municipality experience significant socio-economic disadvantage with a SEIFA index of 6 overall and as low as 1 in Seymour and 2 in Broadford. Seymour also has the highest inequality when comparing the poorest residents with the wealthiest. This presents unique challenges for service provision and planning. Part of Council's role is to work with local service providers and other government spheres to help address this disadvantage and inequality.[77]

Other challenges associated with population diversity are discussed in Section 3.3.4 of this chapter.

3.3 Physical factors

> ***'... issues such as bushfire management, climate change, flooding, pest, plant and animal control, significant growth, dispersed settlement patterns, seasonal tourism and available skill sets provide additional challenges. These challenges are not experienced within established urban metropolitan councils. Indeed they are unique to rural councils.'***[78]

Regional councils can face challenges from physical factors, such as the size of a municipality, spread of residents and number and scale of assets that require maintaining. Regional municipalities are much larger geographically than metropolitan municipalities. Regional areas also experience lower population density, higher dispersion of residents and higher levels of remoteness.

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74 Whittlesea City Council, *Submission 50*, p.6

75 Macedon Ranges Shire Council, *Submission 13*, p.4; Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.18 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*)

76 Macedon Ranges Shire Council, *Submission 13*, p.4

77 Mitchell Shire Council, *Submission 21*, p.2

78 Ransce Salan, General Manager, Environment and Development, Surf Coast Shire Council, *Public Hearing*, 10 November 2017, p.4

The Committee heard that geographic factors, for instance location, climate (including susceptibility to floods and bushfires), topography, geology and soil types also place greater pressure on some regional councils.[79]

Regional councils, on average, cover 4,564 square kilometres, though they vary from 13 square kilometres (the Borough of Queenscliffe) to 22,330 square kilometres (Mildura Rural City).[80]

Land area challenges are most pronounced in rural-sparse councils, which consist of 5,889 square kilometres on average. Comparatively, large cities and peri-urban councils cover an average of 3,965 and 2,472 square kilometres, respectively.[81]

A larger size and population spread requires a more extensive asset base to cater for the needs of a dispersed population over a larger area. These factors also drive up operational and infrastructure costs in regional areas through:

- increased costs of transporting materials over longer distances[82]
- increased costs of employees travelling longer distances to provide services and perform maintenance (including labour costs of time taken to travel)[83]
- larger distances lending to increased costs of transporting clients to and from activities or services[84]
- expectations and requirements for duplicate facilities and services in multiple locations to ensure accessibility for all residents[85]
- higher demand on transport, both private and public, to access services.[86]

Ms Lucy Roffey from Buloke Shire Council estimated that the average cost per unit for services in Buloke can be up to three times the cost per unit in a metropolitan area.[87]

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79 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), pp.4, 6 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*); Horsham Rural City Council, *Submission 12*, pp.1, 7; Municipal Association of Victoria, *Submission 46*, p.5

80 Committee calculations based on data supplied by councils in response to the Committee's questionnaire

81 Committee calculations based on data supplied by councils in response to the Committee's questionnaire

82 Macedon Ranges Shire Council, *Submission 13*, p.2

83 Macedon Ranges Shire Council, *Submission 13*, p.2

84 Macedon Ranges Shire Council, *Submission 13*, p.2

85 Macedon Ranges Shire Council, *Submission 13*, p.2; South Gippsland Shire Council, *Submission 14*, p.1; Robert Dobrzynski, Acting Chief Executive Officer, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, p.13

86 Macedon Ranges Shire Council, *Submission 13*, p.2

87 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.27

3.3.1 Population spread

> *'Local councils are challenged to duplicate some services and facilities across numerous towns in order to ensure that they are accessible to residents.'*[88]

Some regional municipalities have a large land area, but the majority of their population is located in one major town (for example Horsham Rural City). Other regional councils consist of one or more large population centres, but also have many dispersed communities over a large area (for example East Gippsland Shire).[89] Some municipalities have small populations spread across multiple small towns over a large area with no major urban area (for example Buloke Shire). Each of these compositions creates challenges for these councils relating to service provision, transport and access.

Population dispersion can cause financial viability issues with programs which require minimum attendance, as some towns do not have the population to achieve the required levels.[90] These same factors can also lead to market failures for private sector providers, leaving councils to deliver services that are delivered by the private sector in other municipalities (see Section 3.4.1 of this chapter).

The expectation and requirement to provide duplicate services and infrastructure is a key challenge that councils experiencing higher levels of dispersion and remoteness highlighted to the Committee:

> In Macedon Ranges Shire there are multiple towns across the shire with no main central town. This, along with a lack of public transport, creates high expectation for duplicate facilities across the shire.
>
> An example is the four libraries across the shire for a population of approximately 45,000 people. The financial burden of providing and maintaining the infrastructure is one aspect, however the staffing of the libraries to cover required operating hours and occupational health and safety for staff is also costly.[91]
>
> [Towns] all have their parks that need to be mowed and they all have their main streets that need to be upgraded from time to time and they all have service demands. Whether there is a thousand people there or 200 people, you still have to be able to service those various responsibilities.[92]

Wellington Shire Council noted that one of the challenges of having to provide duplicate facilities is that the facilities required (such as sporting, recreational and cultural venues) are often not profitable, due to lower population numbers and incomes.[93]

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88 Macedon Ranges Shire Council, *Submission 13*, p.8

89 East Gippsland Shire Council, *Submission 10*, p.4

90 Macedon Ranges Shire Council, *Submission 13*, p.2

91 Macedon Ranges Shire Council, *Submission 13*, p.2

92 Ransce Salan, General Manager, Environment and Development, Surf Coast Shire Council, *Public Hearing*, 10 November 2017, p.13

93 Wellington Shire Council, *Submission 55*, p.2

East Gippsland Shire Council outlined the higher infrastructure burden and the associated costs that some regional councils experience due to their dispersed communities spread over longer distances:

> Despite having several significant population centres, there are also many dispersed communities, hamlets and remote farming properties spread over a significant area. All of these community members require infrastructure and because that infrastructure is spread over such a vast area, maintenance, renewal and replacement of infrastructure is a significant challenge, particularly when coupled with limited funds from a small rate base. The Shire seeks to drive and improve the ongoing efficient use of its resources. However, often the distances that are required to be covered to undertake inspections, maintenance, renewal and replacement of infrastructure leads to greater costs to complete these essential works. The Shire is aware that infrastructure works usually cost significantly less in locations closer to materials and resources.[94]

While higher dispersion and remoteness result in physical isolation, it can also cause greater social isolation within populations. This can lead to an increased need for and reliance on support and care services from the council.[95]

3.3.2 Remoteness

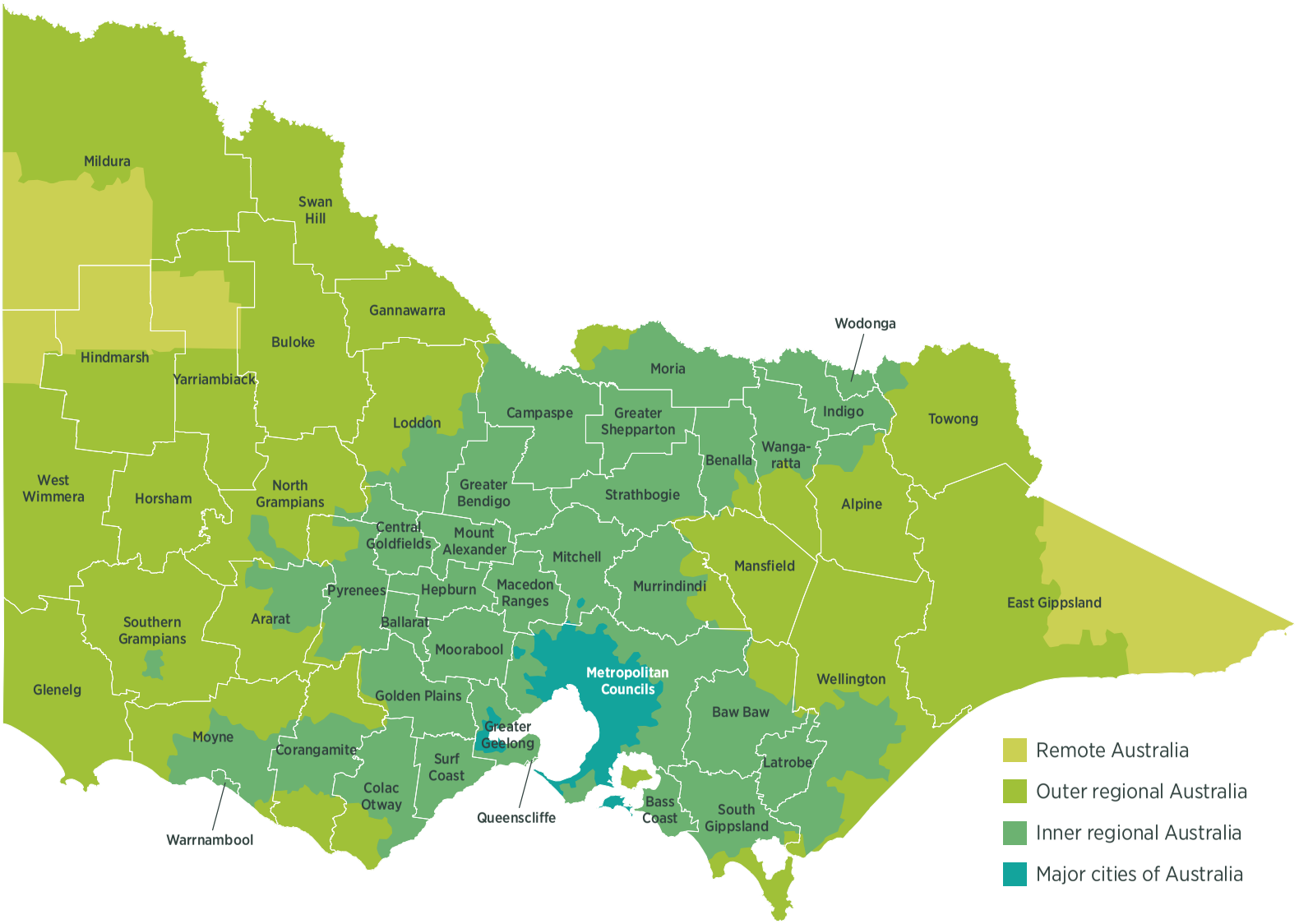
Remoteness levels, as measured by the distance from major population centres, assist in understanding the level of services required to overcome accessibility barriers. The Accessibility/Remoteness Index of Australia (ARIA+) is used to define remoteness. ARIA+ attributes values to locations based on road distance from any point to the nearest service centre according to five population size categories. The index ranges from zero, indicating high accessibility, to 15, indicating high remoteness.

Figure 3.6 shows that the highest levels of remoteness are experienced in rural-sparse municipalities. Large areas of western and eastern Victoria are classified as 'outer regional' or 'remote', with scores over 2.4.

94 East Gippsland Shire Council, *Submission 10*, p.4

95 Macedon Ranges Shire Council, *Submission 13*, p.2

Figure 3.6 Accessibility/Remoteness Index of Australia (ARIA+) for Victorian local government areas, 2011



Source: Environment, Natural Resources and Regional Development Committee based on Australian Bureau of Statistics, *Australian Statistical Geography Standard (ASGS): Volume 5 – Remoteness Structure*, cat. no. 1270.0.55.005 (2011)

Higher levels of remoteness generate a greater need for councils to have duplicate services and community infrastructure across the municipality. There is also an increased reliance on public transport to ensure more remote communities have access to services. Remoteness creates more demand for mobile services and services delivered directly to the home. This can include delivered meals, maternal and child health services, aged care and family support services.[96]

Higher remoteness levels also result in higher costs to deliver services and maintain, renew and replace infrastructure.[97] The Municipal Association of Victoria explained:

> ... the actual cost of providing the same or a lesser level of service to a more remote or less central location may be higher when calculated on a per head or per assessment basis due to economies of scale or logistical reasons.[98]

Wellington Shire Council outlined another consequence it faces as a result of remoteness:

> It must also be noted that there are other challenges due to geography and remoteness that are only experienced by rural and regional Councils. For example, due to a previous attack on individual Council Officers, we have introduced lone worker pendant technology to ensure that Council Officers who travel outside of mobile phone range are safe and can call for assistance at any time. This is an added cost which must be derived from our already constrained income.[99]

3.3.3 Population density

> *'The population densities highlight the challenges of managing small populations across large municipalities and the challenges of providing adequate infrastructure across the peri urban region.'*[100]

Population density measures the number of people per unit of area. Low population density creates sustainability challenges for services and infrastructure. Populations that are more dense require duplicate services and community infrastructure, but have less people to spread the associated costs across.

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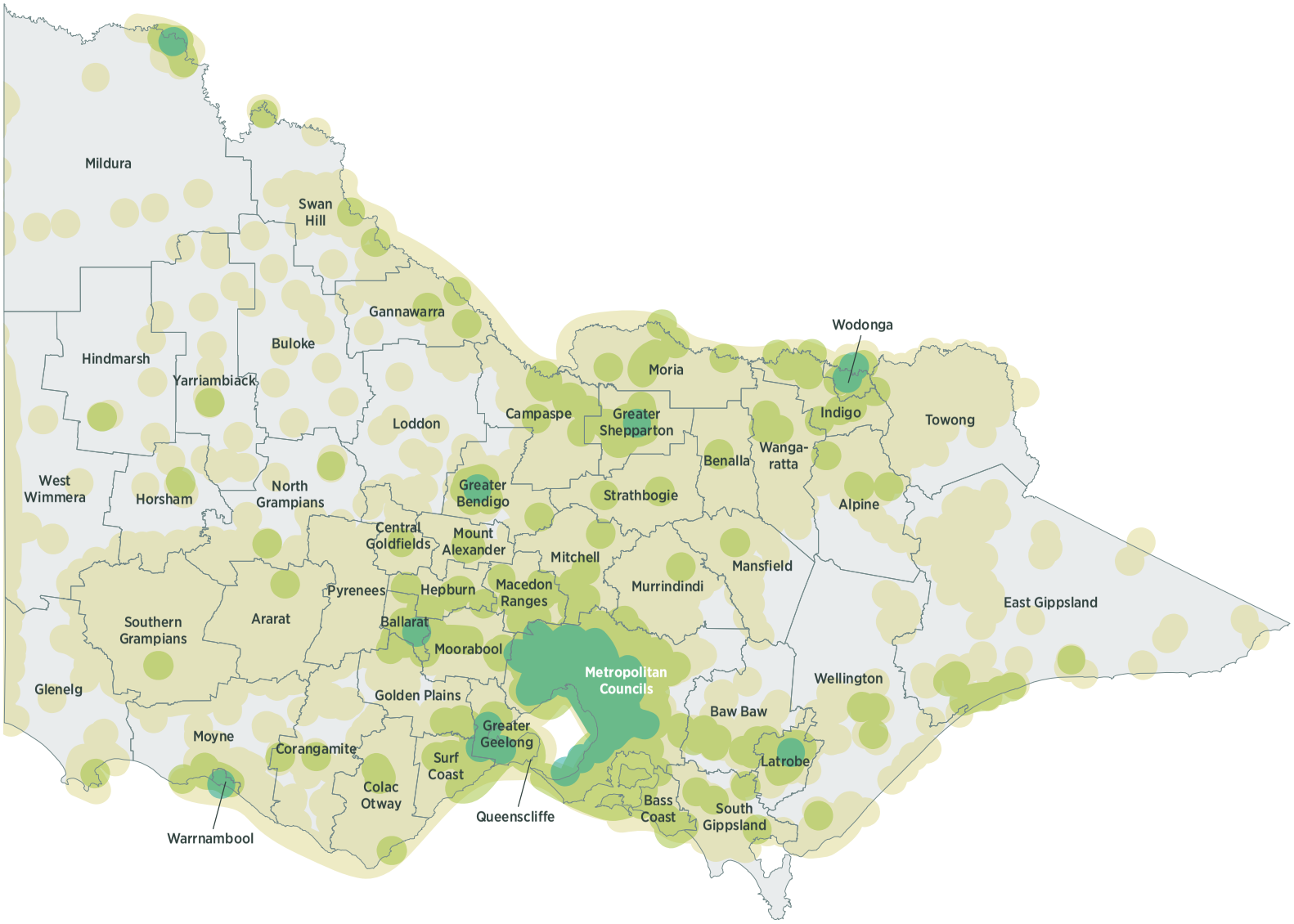
96 Macedon Ranges Shire Council, *Submission 13*, p.2
97 Australian Services Union, *Submission 20*, p.3
98 Municipal Association of Victoria, *Submission 46*, p.46
99 Wellington Shire Council, *Submission 55*, p.2
100 Peri Urban Group of Rural Councils, *Submission 41*, p.2

Figure 3.7 Residential population density of Victorian local government areas



Source: Environment, Natural Resources and Regional Development Committee, based on Commonwealth Government, *National Map: Residential Population Density* <https://nationalmap.gov.au/#share=s-8k8533vj3fx5vdKjG28ED4OUXBp>, viewed 8 February 2018

Another aspect of population density that is particularly significant for councils is the amount of road per person (as outlined in Section 3.3.5 of this chapter). The amount of local roads that regional councils must maintain can be up to 850 metres per resident. In contrast, metropolitan councils have on average 5.3 metres of local roads per resident.[101]

3.3.4 Population diversity

Diversity within a population also impacts on what a council is required to deliver. Some councils explained to the Committee that their municipalities consist of diverse environments, including urban, rural and coastal areas, with differences in lifestyle, housing choices and needs from the council. Greater Geelong City Council outlined the diversity it experiences:

> The City of Greater Geelong is a high growth council with a current population of 230,000. 82% of people live in urban areas, 18% in rural areas. There are social equity issues to be addressed. The 1,248 square kilometres of municipality is a diverse mix of environments – urban, rural and coastal areas - requiring specialised management.[102]

Mitchell Shire Council similarly noted that it has a mixture of urban and rural residents, requiring it to 'plan for and balance the needs of very diverse populations'.[103]

3.3.5 Large asset base

> *'... the infrastructure per head of population for Buloke shire in 2016-17 was $28 000 per capita, compared to the average for Victoria of $13 000.'*[104]

A number of regional councils highlighted the challenges resulting from having large asset bases relative to their populations. For many councils this challenge is becoming greater, with their asset portfolios growing.[105]

Substantial costs are associated with monitoring, assessing and maintaining council-owned infrastructure. A larger, and often ageing, asset base places a disproportionate asset management burden on regional councils in comparison to metropolitan councils.[106]

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101 Committee calculations based on Australian Bureau of Statistics Census 2016 population numbers (place of usual residence) and road network data supplied by councils to the Victoria Grants Commission

102 Greater Geelong City Council, *Submission 66*, p.2

103 Mitchell Shire Council, *Submission 21*, p.1

104 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.27

105 Municipal Association of Victoria, *Submission 46*, p.22

106 Latrobe City Council, *Submission 34*, p.1

Road and bridge network

Regional councils have expansive local road networks and associated infrastructure, such as bridges and culverts, across their municipalities. Roads and bridges make up a significant amount of the asset base of regional councils.[107] Towong Shire Council outlined that its road and bridge infrastructure is valued at $150.8 million, which accounts for 85 per cent of its fixed asset base.[108]

Regional councils, on average, have 72 metres of local roads per person. This figure varies widely amongst regional councils, as shown by the breakdown between different categories of regional councils:

- peri-urban councils: 44.4 metres per person
- large cities: 23.7 metres per person
- rural-dense councils: 90.3 metres per person
- rural-sparse councils: 289.9 metres per person.[109]

Buloke and Yarriambiack Shire Councils are at the higher end of this measurement, with 857 metres and 720 metres of local roads per person, respectively (see Box 3.2).

Hindmarsh Shire Council highlighted that it manages 'assets worth $115m with an operation budget of $18m.'[110] The council outlined a number of factors that impact on the costs associated with road infrastructure:

> Major factors affecting the cost of constructing and maintaining roads include the availability of suitable road making materials, the stability of sub-grades, climatic conditions and the volume of freight traffic.[111]

Some regional councils experience environmental conditions which can increase the cost of road and bridge maintenance compared to other municipalities. Horsham Rural City Council explained the impact soil substrates have on the costs associated with road infrastructure:

> A significant body of work on road conditions across Victoria has highlighted that road sub-grades play a critical factor in influencing the effective lives of roads. It is recognised that much of western Victoria and some other areas incur higher road costs as a result of these poor sub-grades.
>
> Empirical evidence indicates that the range in effective lives of roads could vary between 40 years and 180 years – an effective variation of 450%, having a proportionate impact on the cost of road maintenance and renewal.[112]

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107 East Gippsland Shire Council, *Submission 10*, p.4; Horsham Rural City Council, *Submission 12*, p.1

108 Towong Shire Council, *Submission 48*, p.9

109 Committee calculations based on Australian Bureau of Statistics Census 2016 population numbers (place of usual residence) and road network data supplied by councils to the Victoria Grants Commission

110 Hindmarsh Shire Council, *Submission 33*, p.7

111 Hindmarsh Shire Council, *Submission 33*, p.6

112 Horsham Rural City Council, *Submission 12*, p.7

Baw Baw Shire Council noted that its 'high volume of rainfall each year ... impacts road integrity, placing further financial burden on Council's budget.'[113]

Glenelg Shire Council noted the increasing volumes of timber, grain and mineral sand being transported across its municipality. This level and type of freight cause the roads to deteriorate at a faster rate and require infrastructure enhancements to keep up with the demand.[114] Moyne Shire Council noted the Great South Coast region is burdened by almost one-third of the State's freight, but indicated that this is not reflected in funding allocations.[115]

The Peri Urban Group of Rural Councils noted that their 'infrastructure challenge is exacerbated by increasing use of peri-urban facilities by residents of neighbouring municipalities'.[116]

In addition to maintaining local roads, roadside weed and pest animal control is another local government responsibility. Councils with more extensive roadsides are burdened with a greater financial and operational responsibility in relation to the work required to perform this task. The Committee heard that the funding provided for this work is not commensurate with the extent of the activity in most councils (see Section 4.2.1 of this report).[117]

Other council assets

Other council-owned assets include community buildings, recreation facilities and facilities that are required to deliver council services. Councils are also responsible for council land, parks, gardens, playground equipment, kerbs, channels, cycle paths, footpaths, sewerage infrastructure and drainage networks.[118]

Local government is partly responsible for flood mitigation infrastructure. The Committee heard that this responsibility is another example of an unequal burden on regional councils. Municipalities that are at greater risk of flooding require more extensive and complex flood infrastructure, with associated construction and maintenance costs (see further discussion in Section 4.2.1 of this report).

The Committee heard that asset maintenance shortfalls and backlogs have become prevalent in many regional municipalities (see Section 7.5 of this report). These issues are creating further challenges for regional councils in relation to managing and funding infrastructure maintenance.

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113 Baw Baw Shire Council, *Submission 42*, p.4

114 Glenelg Shire Council, *Submission 19,* p.3; Government of South Australia and Victorian Government, *Green Triangle Region Freight Action Plan* (2009), p.2

115 Moyne Shire Council, *Submission 35*, p.3

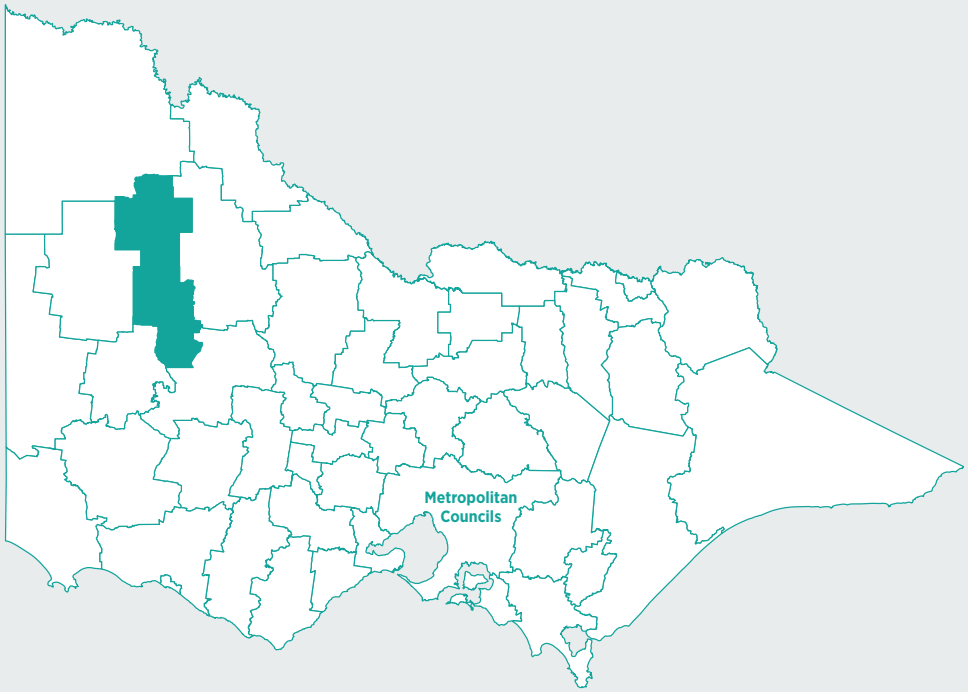
116 Peri Urban Group of Rural Councils, *Submission 41*, p.2

117 Horsham Rural City Council, *Submission 12*, p.8; Surf Coast Shire Council, *Submission 15*, p.4; Mitchell Shire Council, *Submission 21*, p.6; Murrindindi Shire Council, *Submission 39,* p.16; Yarriambiack Shire Council, *Submission 40*, p.4

118 Mitchell Shire Council, *Submission 21*, p.1; Wodonga City Council, *Submission 31,* p.8; Colac Otway Shire Council, *Submission 58*, p.5; Victorian Auditor-General's Office, *Asset Management and Maintenance by Councils* (2014), p.1

BOX 3.2: Case study – Yarriambiack Shire Council

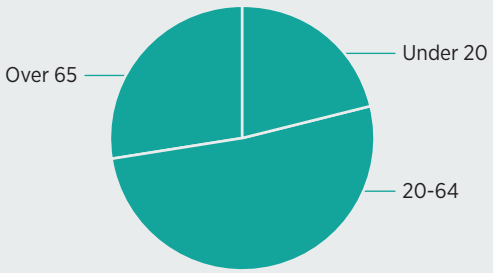
The following statistics provide a snapshot of some of the challenges of just one rural-sparse council. Yarriambiack Shire Council is located in north-west Victoria.



It covers an area of 7,158 km^2, with a total 2016 population of 6,675 people spread over more than 16 townships (down from 7,090 people in 2011, which is an average 1.2 per cent population decline per annum).

Source: Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no. 3218.0 (2017)

Almost half the population is either under 20 years or over 65 years of age.



Source: Australian Bureau of Statistics, Census 2016, place of usual residence

Yarriambiack is ranked the 14th most disadvantaged municipality in Victoria, with an ARIA+ score of approximately 5.(a)

It has 4,809 km of local roads to maintain, consisting of:

- 884 km of sealed roads
- 1,281 km of gravel roads
- 2,615 km of earth roads.(b)

In its submission, the council notes that this 'equates to from Warracknabeal to Perth and half way back again'.(c)

The *2013-17 Council Plan* states:

> ... with an aging life of the road network and increased heavy vehicle traffic, it is making it more and more difficult to maintain our long-lived assets due to increasing costs. Council assets represent a significant financial investment with a replacement value of over $200M.(d)

The council has adopted the following condition assessment schedule for its infrastructure:

Roads – gravel and sealed	Annually
Footpaths – high pedestrian use	Annually
Footpaths – medium pedestrian use	Bi-annually
Kerb and channel	3-yearly
Bridges and culverts	Level 1 inspection annually, level 2 inspection 5-yearly (by consultants)
Buildings	3-yearly
Aerodromes	Annually
Street beautification/furniture	3-yearly

Source: Yarriambiack Shire Council, response to the Committee's questionnaire, received 12 October 2016, p.6

The road lengths coupled with this assessment schedule begins to illustrate the level of work associated with larger asset bases.

Over the last four years, the council has spent an average of $4.9 million per year on roads and bridges. This represents 21.9 per cent of its revenue.(e)

Despite this work, the Know Your Council website indicates that Yarriambiack achieves a 38 out of 100 community satisfaction score in relation to sealed local roads.(f)

(a) University of Adelaide, *ARIA+ 2011* <http://www.spatialonline.com.au/ARIA_2011/>, viewed 7 March 2018
(b) Yarriambiack Shire Council, response to the Committee's questionnaire, received 12 October 2016, p.1
(c) Yarriambiack Shire Council, *Submission 40*, p.1
(d) Yarriambiack Shire Council, *2013-17 Council Plan* (2013), p.8
(e) Committee calculations based on Yarriambiack Shire Council annual reports
(f) Department of Environment, Land, Water and Planning, *Yarriambiack Shire Performance Summary 2016-2017* <https://knowyourcouncil.vic.gov.au/councils/yarriambiack/reports/summary>, viewed 14 December 2017

3.4 Location factors

The geographic location of a municipality can make it less attractive and viable for residents and businesses. It can also result in high volumes of visitors driven by tourism. Both these factors create challenges for regional councils.

Geographic factors also contribute to the susceptibility and vulnerability of councils to natural disasters, both floods and bushfires.[119] This has implications for regional councils in terms of natural disaster preparation, emergency management responses and the associated financial pressures.

3.4.1 Market failures

Market failures in regional areas result in councils being required to provide some services that are delivered by private enterprises in metropolitan areas. Professor Roberta Ryan explained:

> ... for rural and regional councils there is the question of what we call market failure. Many councils provide services that will not be provided in other ways in rural areas in particular, particularly in the community services area — aged-care services, medical services, youth and children's services and so on. We are replete with examples where local governments, at significant financial cost, provide those services to their communities because they need them and there are no other players in that space.[120]

Latrobe City Council highlighted how market failures were impacting its municipality:

> Latrobe City Council unfortunately experiences some of the highest levels of disadvantage in the state. This puts us in a position of having to provide services that other Councils may not. Our provision of Day Care and Early Learning services such as kinder is an example of this as these services have not been seen as viable commercial options from the private sector.[121]

The Municipal Association of Victoria explained to the Committee that it had received advice through the National Disability Insurance Scheme that 'they are struggling to get providers' for aged-care services in remote areas.[122] Concerns were expressed by a number of councils that this may result in councils having to undertake more work in this area in the future (see Section 4.2.1 of this report).

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119 Hume Region Local Government Network, *Submission 52*, p.9

120 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, p.4

121 Latrobe City Council, *Submission 34*, p.3

122 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing,* 15 August 2017, p.2

3.4.2 Tourism drains

Councils with high-tourism areas reported the pressure that increased visitation has on council infrastructure, facilities and services.[123]

As popular tourism destinations, Surf Coast and Bass Coast Shire Councils provided the Committee with the following estimates of the visitor numbers they experience during peak times:

> In Surf Coast's case, the population almost triples at peak times to a population of 85,500 but generates little in the way of direct income for Council to accommodate the rise in service demand. Year round visitation through Surf Coast Shire has increased by 22% over the past four years to a figure of 1,752,749.[124]

> With over 30,000 permanent residents calling Bass Coast home, our proximity to Melbourne also makes it very attractive to visitors and to people wanting to make a sea change, with our population swelling to over 80,000 during peak periods.[125]

Councils highlighted the challenges this increased visitation places on their municipalities:

> Councils in high tourism destinations experience pressure on infrastructure and services from non-ratepayers during peak visitation periods ... These visitors use Council infrastructure and services but do not contribute financially to fund services, asset maintenance or renewal. The impact of visitation on Surf Coast Shire services is evident in our 2015/16 customer service statistics showing call numbers swell to 5,800 in January which is a 17% increase compared to August.[126]

> ... if you have a look at Macedon Ranges, if you have a look at Surf Coast, if you have a look at Baw Baw shire, tourism is quite a significant industry within those areas. So it is not just the people that live in the streets that use those roads; it is primarily all Victorians and it is all of those outside Victoria, yet the burden to fix those local roads stays with local government.[127]

Regional councils that experience high levels of tourism argued that the challenges associated with increased visitor numbers should be considered in funding distribution to avoid the associated costs being unfairly shifted to local communities:

> For rural and regional councils in high tourism destinations, funding provision from other levels of government needs to take into account visitation levels not merely permanent population. Failure to do so places the burden of funding facility and service provision disproportionately onto ratepayers.[128]

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123 Surf Coast Shire Council, *Submission 15*, p.2; Warrnambool City Council, *Submission 22*, p.1; Bass Coast Shire Council, *Submission 51*, p.1; Wellington Shire Council, *Submission 55,* p.2

124 Surf Coast Shire Council, *Submission 15*, p.2

125 Bass Coast Shire Council, *Submission 51*, p.1

126 Surf Coast Shire Council, *Submission 15*, p.2

127 David Edwards, Chair, Peri Urban Group of Rural Councils, *Public Hearing,* 12 September 2017, p.4

128 Surf Coast Shire Council, *Submission 15*, p.2

The Committee notes that the impact of tourism on councils' expenditure is one of the factors taken into account by the Victoria Grants Commission in distributing Financial Assistance Grants.

3.4.3 Difficulty attracting staff

Some councils reported that their locations make it difficult for them to fill advertised positions. For example, Ms Lucy Roffey of Buloke Shire Council explained:

> Rural councils still require a number of statutory positions with particular qualifications; however, they often work on a part-time basis. This will include project managers, engineers, environmental health officers, maternal and child health staff and building surveyors. It is becoming increasingly difficult for us to attract staff to rural areas given the limited employment opportunities for other family members and the continual reduction in services at all levels of government. We have recently repeatedly advertised for manager of finance and project manager positions without success.[129]

These staff shortages have led some councils to rely on more expensive contractors.[130]

Mr Tom O'Reilly from Gannawarra Shire Council discussed how the council approaches the challenge of attracting and retaining staff:

> Yes, both the recruitment and retention of skilled professional staff is an ongoing, constant challenge. It is quite fair to say that people will vote with their feet. If we cannot compete with our municipal neighbours or other councils across the state, it is very hard to retain a staff member if they are offered salaries higher than what we can provide. I think it is also fair to say that at Gannawarra shire, in terms of our benchmarks on salaries and wages, we are lower and probably at the low end across the state. So we have to try and provide opportunities and creative ways to attract people here other than the lure of the dollar. We try and do that through different workforce flexibility options and opportunities for training and development, but we also look to recruit people who love to live where they live.[131]

3.5 Raising revenue

As discussed in this chapter, regional councils experience a range of challenges that increase their service and asset burdens. These challenges bring additional costs that councils must fund. Given the demographic characteristics of regional councils, such as age and disadvantage, many regional residents have a lower

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129 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.27

130 Macedon Ranges Shire Council, *Submission 13*, p.12; Australian Services Union, *Submission 20*, p.10; Wellington Shire Council, *Submission 55*, p.4; Ransce Salan, General Manager, Environment and Development, Surf Coast Shire Council, *Public Hearing,* 10 November 2017, p.4; Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.27; Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, pp.6-7

131 Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, p.6

capacity to pay. Lower population numbers also mean there are fewer people to raise the funds from. Therefore, regional councils have a reduced capacity to raise revenue from rates and other sources, such as parking charges and user fees.

3.5.1 Capacity to pay

Lower community income, fewer employment opportunities and higher levels of disadvantage result in populations that have a higher reliance on council services, but do not have the capacity or means to pay for them.[132]

Furthermore, given the level of disadvantage some regional areas experience, there is a greater application of pension and other special consideration discounts on council rates. This impacts the revenue councils receive through the rating system. Ms Lucy Roffey from Buloke Shire Council explained the impact rebates can have on council revenue:

> Fifteen per cent of our ratepayers are entitled to the pensioner rebate. As pensioners are often asset rich and income poor, the adoption of significant rate increases does have an impact on the disposable income of a significant portion of our community. The council has hardship provisions in place, but these can impact on council's cash balances, particularly when large volumes of our ratepayers are also involved in events such as floods and drought.[133]

The Committee also heard about the higher cost of living in some regional areas, which further compounds the community's inability to contribute more through rates. Mr John McConville highlighted this point to the Committee:

> We were told recently that we live in the highest cost of living shire Victoria. If you want the lowest cost of living, it is the CBD in Melbourne. We have an area with the lowest average income in Victoria. We have a population of 6230 in the Buloke shire, but only 2486 are actively employed. We are a shire of 8000 square kilometres. We have the largest road kilometres of any shire. We have a median age of 52 … We cannot afford any more rates. With the rate capping we are at the limit.[134]

Mr McConville further explained that 'Our fuel is too dear, and that is the biggest cost that we have. Our registration is too dear, our power is too dear and our water for recreational and sporting associations is too dear.'[135]

The 2015 Whelan Report outlined that some regional councils 'have the lowest capacity to pay and the highest cost structure'.[136] The report assessed the capacity of the community to pay based on the net disposable community

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132 Rural Living Group of Councils, *Submission 25*, p.6; Pyrenees Shire Council, *Submission 32*, p.2

133 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.27

134 John McConville, Chairperson, Donald 2000, *Public Hearing,* 12 October 2017, p.2

135 John McConville, Chairperson, Donald 2000, *Public Hearing,* 12 October 2017, p.3

136 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.13 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*)

income (NDCI).[137] This analysis found high-density metropolitan residents' average capacity to pay is 2.5 times higher than small rural council residents (see Table 3.1).[138]

Table 3.1 Relative community capacity to pay

Council classification[(a)]	Average capacity of the community to pay ($)	Percentage increase (%)
Small rural	34,963	Base 0
Medium rural	45,668	31
Large rural	50,942	46
Rural centre	48,931	40
Regional city	64,713	85
Fringe metro	60,473	73
Low density metro	72,879	108
High density metro	87,933	151

(a) Classification by Whelan; this varies from the categories used by the Committee

Source: Based on Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.8 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*)

3.5.2 Own-sourced revenue options

> *'In rural areas we don't have the ability to generate significant income through fees and charges, and we certainly can't generate the substantial parking revenue capabilities of the metro councils.'*[139]

In addition to rates revenue, many metropolitan councils raise funds through:

- user charges for facilities and services
- parking fees and fines
- building fees
- development applications.

A number of regional councils told the Committee that these alternative revenue sources were not an option in their municipalities. Demographics, including population size, age and disadvantage, along with community income, all indicate a reduced capacity of residents to pay user fees and charges. There is also a reduced demand for things, such as parking spaces. Cr David Pollard, Mayor of Buloke Shire Council, told the Committee that, 'We cannot set up parking meters because we would not get enough out of the parking meter to pay the inspector'.[140]

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137 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.7 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*)

138 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.13 (provided to the Committee by Central Goldfields Shire Council, *Submission 27*). See p.5 and Appendix 2, p.21 of that report for a description of the council classifications used in their analysis.

139 Northern Grampians Shire Council, *Submission 59,* p.1

140 David Pollard, Mayor, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.29

Colac Otway Shire told the Committee:

> In large rural and regional councils, a smaller population coupled with less developed commercial and industrial facilities limits the capacity to generate significant internally generated income from user fees.[141]

Municipalities with a less diverse economic base may also have a less reliable source of income. In such situations, a downturn in the predominant industry may have a large impact on the community's capacity to pay rates, user charges and fees.

Of the regional municipalities, large cities have greater access to own-sourced revenue streams due to their larger and denser population bases. This capacity is vastly lower for rural-sparse and rural-dense councils, which results in a far greater reliance on government grants. Chapter 5 of this report provides more details on councils' revenue sources.

3.6 Impact of these challenges on sustainability

The underlying factors discussed in this chapter, including population size and spread, demographics, geography and financial constraints, mean that some regional councils are unable to raise the funds from their population base required to ensure they remain sustainable. Even when these councils are financially prudent, it is not possible for them to provide adequate services and infrastructure to their communities without help from other levels of government.

The Government recognises these challenges, in part, through the distribution of grants and assistance. The Committee notes the importance of finding the right balance of grant distribution in light of these challenges. The distribution of government grants is discussed in Chapter 5 of this report.

In addition to the underlying factors identified in this chapter, changes to councils' responsibilities and funding streams have made sustainability more challenging for many councils. These changes are discussed in Chapters 4 and 5.

FINDING 1: A number of underlying factors in regional municipalities increase the services and infrastructure councils are required to deliver (and the costs of doing so), but decrease their capacity to raise funds to pay for them. Councils have limited or no capacity to change these factors.

141 Colac Otway Shire Council, *Submission 58*, p.2

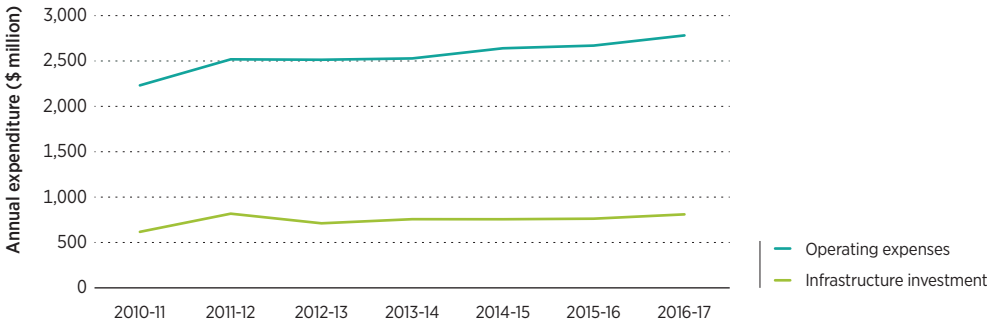
4 The growth of local government expenditure

4.1 Overview

Between 2010-11 and 2016-17, the operating expenses for Victoria's 48 regional councils increased from $2.2 to $2.8 billion (see Figure 4.1). This is an average increase per year of $91.7 million or 3.6 per cent.

A similar pattern can be seen with infrastructure investment (see Figure 4.1), which has increased from $617.1 per year to $809.8 million (an average of 4.6 per cent per year).

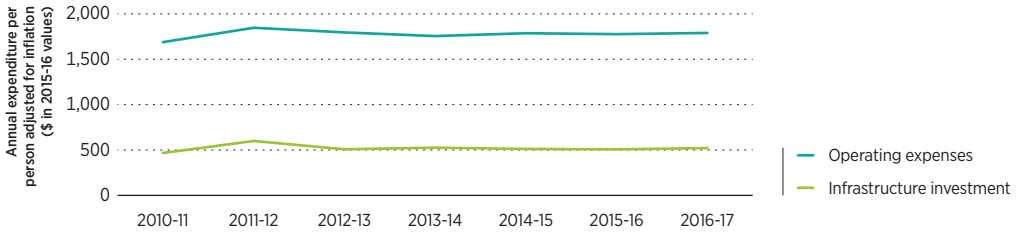
Figure 4.1 Operating expenses and infrastructure investment (all regional councils)



Source: Committee calculations based on data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee

Much of this can be explained by inflation and population growth, as can be seen in Figure 4.2. However, operating expenses have increased even when these factors are accounted for (by an average of 1.0 per cent per year). In some individual councils, increases have exceeded inflation and population growth by larger amounts.

Figure 4.2 **Operating expenses and infrastructure investment, adjusted for inflation and population change (all regional councils)**



Source: Committee calculations based on expenditure data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee; population estimates based on Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no 3218.0 (2017), using population estimates as at 30 June on the first calendar year of the financial year; values adjusted using price deflator used by Department of Treasury and Finance to calculate real gross state product, *Macroeconomic Indicators* <https://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 11 December 2017

A key question for this inquiry has been to understand why these increases in expenditure have occurred. Major factors identified during this inquiry include:

- increasing responsibilities (as a result of decisions by other levels of government, due to council decisions or due to growing community expectations)
- inefficiencies and increasing senior management costs
- requirements to top up the defined benefits superannuation scheme
- a need to catch up on infrastructure backlogs.

These factors are discussed in more detail through this chapter.

Local council expenditure growth is not exclusive to Victoria. Across Australia, council expenditures increased by an average of 7.3 per cent per year between 1994-5 and 2014-15.[142] This suggests that some of the pressures on Victorian councils are a result of broader and longer-term trends and not just factors or decisions specific to Victoria.

4.2 Increasing responsibilities

The Committee heard repeatedly that a major cause of the growth in expenditure was an increase in the responsibilities undertaken by local councils. The Committee heard that both the number and scale of responsibilities has increased. Greater Bendigo City Council quoted a review which found that:

> Historically, local government has been focussed on what are defined as 'essential' or 'core services' being roads, rates and rubbish. Today local government has become much more complex.

142 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), p.12 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*); Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing*, 12 September 2017, p.4

> The concept of essential or core services has moved beyond the historic definition and today includes strategic planning, childcare, waste, community development and recreation.
>
> In addition to an evolving definition of services is the expectation that local government is not just a provider of services but should also facilitate and promote economic growth and development within the municipality and wider region.[143]

Dr Graeme Emonson from Local Government Victoria also noted that councils are involved in areas today which were outside their traditional areas 20-30 years ago. In the case of regional councils, this can include services which might be provided by the private sector in metropolitan municipalities (see Section 3.4.1 of this report).[144]

Several councils informed the Committee that they now offer in excess of 100 different services.[145]

The increase in the number of responsibilities was attributed to a range of factors.

4.2.1 Additional responsibilities given to councils by other levels of government

> ***'The cumulative effect of a number of state decisions that influence the resources and costs of rural councils is significant. These decisions include inadequate funding, increasing reporting requirements and shifting additional responsibilities on to councils.'***[146]

The State Government requires councils to undertake a significant number of responsibilities. Currently, 126 acts and regulations of the Victorian Parliament include responsibilities for local councils (though some of those apply to only one council).[147]

A number of State and Commonwealth Government decisions in recent years have required councils to undertake additional responsibilities. In some cases, no additional funding was provided to cover the associated costs.

In many cases, these changes have had a larger impact on regional councils than metropolitan councils, especially rural councils.

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143 Aurecon Australia, *Independent Review of the City of Greater Bendigo: Final Recommendations Report* (2013), in Greater Bendigo City Council, *Submission 45*, p.15

144 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, p.8

145 Peri Urban Group of Rural Councils, *Submission 41*, p.4; Greater Bendigo City Council, *Submission 45*, p.3; Greater Geelong City Council, *Submission 66*, p.2; Kathryn Arndt, Chief Executive Officer, Victorian Local Governance Association, *Public Hearing*, 15 August 2017, p.3; Malcolm Lewis, Acting Director, Corporate and Community Services, Baw Baw Shire Council, *Public Hearing*, 9 October 2017, p.14; Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.8; Ransce Salan, General Manager, Environment and Development, Surf Coast Shire Council, *Public Hearing*, 10 November 2017, p.10

146 Municipal Association of Victoria, *Submission 46*, p.27

147 Department of Environment, Land, Water and Planning, *Acts and Regulations* <https://knowyourcouncil.vic.gov.au/guide-to-councils/how-councils-work/acts-and-regulations>, viewed 13 December 2017

Policies and legislation which have increased council responsibilities

Councils identified a number of additional responsibilities that have been passed to them by State or Commonwealth Governments which have led to increased costs:

- collecting the Fire Services Levy[148]
- streatrader (a system for community groups or businesses to register to sell food from a stall, truck, van or cart)[149]
- fire plug maintenance[150]
- certain emergency management, relief and recovery responsibilities[151]
- co-ordinating and providing immunisations and administration connected with 'No Jab, No Play' initiatives[152]
- developing a filming policy and procedure[153]
- inspecting septic tanks[154]
- requirements to have environment officers[155]
- roadside weed and pest control (see Box 4.1)
- floodplain management and flood mitigation infrastructure (see Box 4.2).

Concern was also expressed about activities currently underway which may lead to additional responsibilities and costs in the future. These include the review of the Local Government Act, the development of the Victorian Rural Drainage Strategy and the roll-out of the National Disability Insurance Scheme.[156]

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148 South Gippsland Shire Council, *Submission 14*, p.2; Murrindindi Shire Council, *Submission 39*, p.7; Campaspe Shire Council, *Submission 54*, p.2; Wellington Shire Council, *Submission 55*, p.1; Colac Otway Shire Council, *Submission 59*, p.1

149 Greater Bendigo City Council, *Submission 45*, p.6; Rural Councils Victoria, *Submission 49*, p.7

150 Municipal Association of Victoria, *Submission 46*, pp.27-8; Rural Councils Victoria, *Submission 49*, p.7; David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.8

151 Murrindindi Shire Council, *Submission 39*, p.7; Rural Councils Victoria, *Submission 49*, p.6; David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.4; Ransce Salan, General Manager, Environment and Development, Surf Coast Shire Council, *Public Hearing*, 10 November 2017, p.5

152 Municipal Association of Victoria, *Submission 46*, p.29; Rural Councils Victoria, *Submission 49*, p.7

153 Rural Councils Victoria, *Submission 49*, p.7

154 Rural Councils Victoria, *Submission 49*, p.7

155 Chris Potter, Mayor, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, p.10

156 Municipal Association of Victoria, *Submission 46*, pp.28, 30; Corangamite Shire Council, *Submission 56*, p.2; Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing*, 15 August 2017, pp.2, 6; Gregory Drumm, General Manager Corporate Services, Latrobe City Council, *Public Hearing*, 9 October 2017, pp.7-8; David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing*, 10 November 2017, p.11

BOX 4.1: Roadside weed and pest control

In 2013, changes to the *Catchment and Land Protection Act 1994* clarified that councils are responsible for controlling weeds and pests on the roadsides of local roads.[a] Regional councils' annual expenditure on weed and pest animal control rose from an average per council of approximately $115,000 in 2012-13 to $166,000 in 2015-16, an increase of $51,000.[b]

The Committee was told that there are multiple problems with this being a council responsibility.

The first problem is funding. Although the State Government has provided grants to help with roadside weed and pest control, several councils noted that the grants are well below what is required to cover costs.[c] Surf Coast Shire Council explained:

> This clarification [about responsibility for weed and pest animal control] resulted in a rise in weed and pest management costs from $20,000 to $220,000 for Surf Coast Shire. Council receives non recurrent State Government funding of $20,000 each year. There is great uncertainty about whether rural and regional councils will sustainably manage weed and pest animals with these significant costs and funding shortfall.[d]

Regional councils indicated to the Committee that their total expenditure on roadside weed and pest control in 2015-16 was over $7.6 million.[e] The budget for grants through the Roadside Weed and Pest Program for 2015-16 totalled only $2.6 million.[f]

A number of councils also noted that what they actually spend is only a small portion of what would be needed to fully tackle roadside weeds.[g] Murrindindi Shire Council and Buloke Shire Council, for example, estimated that the State Government funding only covers approximately 10 per cent of the cost of fully managing weeds.[h]

As a result, some councils explained that they are doing less work in this area than is needed:

> ... there still remains lots to do and with the current level of funding we are only ever just in maintenance mode rather than truly eradicating the problem.[i]

> ... the Shire is usually only able to respond to specific complaints rather than conduct an extensive annual eradication program. To proactively address the issue of pest weeds, Council would need to increase its work in this area significantly which in turn, would require additional physical and financial resources. These are not currently available to the Shire.[j]

Some councils were particularly concerned that they would be unable to manage weed outbreaks.[k] Others indicated that having responsibility for roadside weeds and pests opened them up to potential litigation.[l]

Buloke Shire Council also expressed concerns about future funding, noting that grants for weed and pest animal control are on a year-to-year basis with no guarantees of ongoing funding.[m]

Several suggestions were made to manage this situation.

A number of councils called for the State Government to provide more funding to councils.[n] Some submitters emphasised the importance of funding being ongoing.[o] The Lexton Landcare Group, for example, noted that 'longevity of funding is, for us, more critical than quantum ... you don't win the war on weeds in a 5, 10 or even 20 year time frame'.[p]

Several councils suggested that roadside weed and pest control should be a State Government responsibility.[q] Surf Coast Shire Council noted that inconsistent approaches across municipal boundaries undermine weed and pest animal management efforts. The council argued that placing the responsibility with a higher level of government may help to address that problem.[r] Glenelg Shire Council noted that the State Government has the power to enforce weed and pest animal control on adjoining private land, which councils do not.[s] This may also make the State Government better able to undertake the responsibility.

On the other hand, Mr David Clark of the Lexton Landcare Group argued that, if councils are responsible for local roads, it would make more sense for them to be responsible for everything associated with those roads, including roadside weeds and trees.[t] The Victorian Farmers Federation also considered councils best placed to manage efforts to control weed and pest animals on local roads (though it called for additional funding to be provided).[u]

The Committee heard from a number of people that landowners are often willing to assist with managing roadside weeds but are prevented by regulations. There were calls for the relaxation of regulations or assistance from the State Government with advice and support to facilitate work being undertaken by landholders.[v]

The Committee considers that weed and pest animal control should be considered as part of the review of what councils' responsibilities should be, as recommended in Section 2.3 of this report.

If, following these reviews, weed and pest animal control are still considered council responsibilities, then it is important that the Government ensure that adequate funding is provided for the task.

(a) Catchment and Land Protection Amendment Bill 2013

(b) Committee calculations based on responses to the Committee's questionnaire (excludes two regional councils which did not supply data)

(c) Horsham Rural City Council, *Submission 12*, p.8; Macedon Ranges Shire Council, *Submission 13*, p.11; South Gippsland Shire Council, *Submission 14*, p.7

(d) Surf Coast Shire Council, *Submission 15*, p.4

(e) Committee calculations based on responses to the Committee's questionnaire (excludes two regional councils which did not supply data)

(f) Department of Treasury and Finance, *2015-16 Service Delivery: Budget Paper No.3* (2015), p.56

(g) Rural Living Group of Councils, *Submission 25*, p.7; Murrindindi Shire Council, *Submission 39*, p.16; Peri Urban Group of Rural Councils, *Submission 41*, p.7; Baw Baw Shire Council, *Submission 42*, p.5; Loddon Shire Council, *Submission 53*, p.14; Colac Otway Shire Council, *Submission 58*, p.5

(h) Murrindindi Shire Council, *Submission 39*, p.16; Buloke Shire Council, *Submission 24*, p.4

(i) Baw Baw Shire Council, *Submission 42*, p.5

(j) East Gippsland Shire Council, *Submission 10*, p.4

(k) Rural Living Group of Councils, *Submission 25*, p.7; Buloke Shire Council, *Submission 24,* p.4

(l) Rural Living Group of Councils, *Submission 25*, p.7; Corangamite Shire Council, *Submission 56*, p.6

(m) Buloke Shire Council, *Submission 24*, p.4

(n) Peri Urban Group of Rural Councils, *Submission 41*, p.9; Whittlesea City Council, *Submission 50*, pp.5, 13; Loddon Shire Council, *Submission 53*, p.15; Colac Otway Shire Council, *Submission 58*, p.6; Greater Geelong City Council, *Submission 66*, pp.1, 7

(o) Lexton Landcare Group, *Submission 37*, p.2; Upper Mount Emu Creek Landcare Network, *Submission 38*, p.2; David Clark, Network Coordinator, Lexton Landcare Group, *Public Hearing*, 25 October 2017, p.11; Municipal Association of Victoria, *Submission 46*, p.42; Hume Region Local Government Network, *Submission 52*, p.11; Colac Otway Shire Council, *Submission 58*, p.6; Victorian Farmers Federation, *Submission 29*, p.19

(p) Lexton Landcare Group, *Submission 37*, p.2

(q) West Wimmera Shire Council, *Submission 3*, p.5; Surf Coast Shire Council, *Submission 15*, p.4; Pyrenees Shire Council, *Submission 32*, p.2; Greg McKenzie, Manager, Environment, Greater Shepparton City Council, *Public Hearing*, 24 October 2017, p.20

(r) Surf Coast Shire Council, *Submission 15*, p.4

(s) Glenelg Shire Council, *Submission 19*, p.3

(t) David Clark, Network Coordinator, Lexton Landcare Group, *Public Hearing*, 25 October 2017, pp.13, 14

(u) Victorian Farmers Federation, *Submission 29*, p.19; David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, p.2

(v) David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, p.10; Gary Summerhayes, Chairman, Berriwillock Community Development Group, *Public Hearing*, 12 October 2017, pp.17-18; David Pollard, Mayor, and Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, pp.32-3

BOX 4.2: Floodplain management and flood mitigation infrastructure

The Victorian Floodplain Management Strategy was released in 2016. It was designed to clarify the roles and responsibilities of government agencies and authorities involved in flood management. Under the strategy, councils are required to (amongst other things):

- make decisions about flood mitigation infrastructure (including levees)
- partly fund the construction, maintenance and management costs of some flood mitigation infrastructure
- fund the maintenance of river gauges used for flood warnings.

A number of councils noted that these responsibilities will result in additional costs.[a] The Municipal Association of Victoria also expressed concerns about the liability implications of councils being responsible for flood mitigation.[b] Some called for the State Government to provide additional data and resources to help councils undertake this work.[c]

Other councils considered that they did not have the expertise to take responsibility for floodplain planning and management.[d] It was suggested that responsibility for this should rest with State Government bodies or Catchment Management Authorities.[e] Mitchell Shire Council explained:

> The Victorian Floodplain Management Strategy prescribes a range of accountabilities to Local Government, of which most are not provided for in long term financial plans and are generally beyond the skills and resources of regional municipalities. Furthermore, there are State agencies and departments with whom these responsibilities are more logically suited. Generally speaking, local government authorities are not well placed to meet these obligations.[f]

The Rural Living Group of Councils noted the financial impact of this responsibility:

> Councils are involved in flood planning and preparation but flood infrastructure and maintenance should be state based responsibilities. Flooding occurs across local government boundaries, is frequently beyond the capacity for Local Government to fund and has state wide impacts. The current funding model does allow for a shared capital cost of flood mitigation infrastructure, however the recurrent cost is borne by local government. Councils are now expected to fund a third of levy capital costs and to also provide the ongoing management and maintenance of infrastructure. Over the life of the infrastructure these costs are typically on a par with the total initial capital cost.[g]

Colac Otway Shire Council suggested that managing flood risk at a state level rather than a council level would also provide economies of scale.(h)

The Greater Bendigo City Council recommended a category of flood mitigation infrastructure of state significance, for which full funding for construction and maintenance would come from the State Government.(i)

The Committee considers that floodplain management and flood mitigation infrastructure should also be considered as part of the review of councils' responsibilities set out in Section 2.3 of this report.

(a) Wangaratta Rural City Council, *Submission 7*, p.4; Horsham Rural City Council, *Submission 12*, p.7; Municipal Association of Victoria, *Submission 46*, pp.35-6; Loddon Shire Council, *Submission 53*, pp.8, 15; Greg McKenzie, Manager, Environment, Greater Shepparton City Council, *Public Hearing*, 24 October 2017, p.17

(b) Municipal Association of Victoria, *Submission 46*, pp.37-8

(c) Whittlesea City Council, *Submission 50*, p.10; Loddon Shire Council, *Submission 53*, p.9; Municipal Association of Victoria, *Submission 46*, pp.36-7

(d) East Gippsland Shire Council, *Submission 10*, p.3; Municipal Association of Victoria, *Submission 46*, pp.32-3; Colac Otway Shire Council, *Submission 58*, p.4; Ransce Salan, General Manager, Environment and Development, Surf Coast Shire Council, *Public Hearing*, 10 November 2017, p.4

(e) East Gippsland Shire Council, *Submission 10*, p.3; Mitchell Shire Council, *Submission 21*, p.5; Buloke Shire Council, *Submission 24*, p.3; Rural Living Group of Councils, *Submission 25*, p.6; Hindmarsh Shire Council, *Submission 33*, p.8; Colac Otway Shire Council, *Submission 58*, p.4; Greater Geelong City Council, *Submission 66*, pp.1, 6

(f) Mitchell Shire Council, *Submission 21*, p.5

(g) Rural Living Group of Councils, *Submission 25*, p.6; Hindmarsh Shire Council, *Submission 33*, p.8

(h) Colac Otway Shire Council, *Submission 58*, p.4

(i) Greater Bendigo City Council, *Submission 45*, p.13

Other decisions by State and Commonwealth governments impacting on councils

The responsibilities and costs of councils can also be impacted indirectly by the consequences of decisions by other levels of government. Examples provided to the Committee included:

- reductions of services by State Government bodies (such as business support and rubbish removal from parks), leading to people expecting councils to fill the gap[157]
- pressure for councils to take over the management of land owned by the Department of Environment, Land, Water and Planning[158]
- the reduction of support and guidance from the Environment Protection Authority, causing increased costs and liabilities for councils[159]
- changes to speed restrictions leading to responsibility for roadsides being transferred from the State Government to councils[160]

157 Murrindindi Shire Council, *Submission 39*, p.5; Greater Bendigo City Council, *Submission 45*, p.6

158 Greater Bendigo City Council, *Submission 45*, p.7; see also Colac Otway Shire Council, *Submission 58*, p.2

159 Municipal Association of Victoria, *Submission 46*, pp.28-9

160 Murrindindi Shire Council, *Submission 39*, p.6

- realignment of VicRoads roads resulting in councils having to incur costs to rename roads[161]
- increasing charges for the Victorian Electoral Commission to conduct council elections; the costs for elections rose by 29.9 per cent (an average of approximately $39,000 per council) for regional councils between 2012 and 2016.[162]

FINDING 2: Councils' expenditure has increased considerably in recent years, partly as a result of State and Commonwealth Government decisions. In some cases, councils have expressed concerns about their ability to undertake the responsibilities assigned to them, both financially and in terms of expertise.

4.2.2 Increasing compliance and reporting requirements

'Both the State and Federal Governments need to take ... the cost of compliance into consideration when proposing additional requirements on local government.'[163]

Councils also told the Committee that changes in compliance, reporting and regulatory requirements have created additional work for them. Regional Cities Victoria stated:

> The increasing cost and volume of compliance obligations across a range of Acts (e.g. residential, emergency management, food, environment, domestic animals and public health) will also continue to impact council budgets and take resources away from ... services.[164]

The Local Government Performance Reporting Framework was introduced from the 2014-15 reporting period. The framework requires every council to report on 83 measures. There are various additional costs associated with this reporting.

Murrindindi Shire Council indicated that the council spends $10,000 on a community satisfaction survey as part of the reporting framework and noted that this 'is primarily for compliance reasons rather than the survey providing a valuable insight into community concerns and issues. Council conducts its own consultation with users, or potential users, of a service to gain their feedback.'[165] Rural Councils Victoria stated that the cost of the survey had increased by an average of 16 per cent over six years. The need for minimum sample sizes means that the cost for the survey is the same for all municipalities, regardless of size, therefore putting a larger strain on the municipalities with smaller budgets.[166]

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161 Rural Councils Victoria, *Submission 49*, p.7

162 Committee calculations based on Environment and Planning Committee, *Third Report into Rate Capping Policy* (2016), p.59 (excludes Greater Geelong City Council, which did not hold elections in 2016)

163 Macedon Ranges Shire Council, *Submission 13*, p.9

164 Regional Cities Victoria, *Submission 47*, p.3

165 Murrindindi Shire Council, *Submission 39*, pp.7-8

166 Rural Councils Victoria, *Submission 49*, pp.5-6

Corangamite Shire Council estimated that the resource implications of the reporting framework equate to $15,000 in lost productivity per year.[167]

The Fair Go Rates system (rate capping) has also led to additional requirements for councils to report to the Essential Services Commission.[168] Some councils noted that there is duplication in the data reported to different entities and called for better co-ordinated reporting processes:

> ... more recently the introduction of the local government performance reporting framework has provided a mechanism whereby councils can be measured in terms of their efficiency and effectiveness. That is a good thing, but what we are now seeing emerging is the Essential Services Commission wanting to play a role and also the Victorian Auditor-General's Office wanting to play a role in the space as well. This impacts on the cost of the organisation. These will drive costs into the organisation that will only be at the expense of our community. What we would like to see in that space is a single focus by all regulatory oversights to have one mechanism whereby local government can be held accountable and responsible to its constituency, not three.[169]

> The level of administration required of councils by various Victorian Government departments is often onerous with unclear benefits for the amount of work involved for councils. For example, in the area of food safety regulation councils have to report a considerable level of information to the Department of Health and Human Services (DHHS) on a quarterly basis, then they have to report separately with additional data to Local Government Victoria (LGV) for inclusion on the Know Your Council website. The data in the public arena often conflicts, as they are for different reporting periods. An improvement would be for DHHS to provide councils' data to LGV, so councils only report to one entity.[170]

Overall, Mr Rob Spence from the Municipal Association of Victoria estimated that red tape, such as reporting, costs Victorian councils approximately $40 million per year. Mr Spence stated that 'If you could pull that back by half, that is $20 million that could be used more effectively to benefit ratepayers.'[171]

FINDING 3: In addition to the Local Government Performance Reporting Framework, councils have to regularly report to a variety of State Government bodies (including the Essential Services Commission, Victoria Grants Commission and Victorian Auditor-General's Office). In some cases, the same or similar data are supplied. Efficiencies in reporting have the potential to save councils money.

RECOMMENDATION 13: That Local Government Victoria work together with other government bodies to investigate data-sharing processes that could reduce the reporting burden on local councils without compromising accountability.

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167 Corangamite Shire Council, *Submission 56*, p.2

168 Rural Councils Victoria, *Submission 49*, p.7

169 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing*, 10 November 2017, p.6

170 Municipal Association of Victoria, *Submission 46*, p.28

171 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing*, 15 August 2017, pp.4-5

4.2.3 Changing regulation

Changes to regulation in a number of areas have also led to increasing costs to deliver services or build infrastructure.

With respect to early learning services, recent changes have required smaller staff to student ratios and more highly qualified teachers. Latrobe City Council estimated that the ratio changes added an extra $1 million to its costs.[172] For Towong Shire Council, there was a $67,000 difference in 2015-16 between the total cost of providing kindergartens and the revenue from State Government grants and user fees.[173]

Macedon Ranges Shire Council noted increased requirements for supervision, facilities and water treatment at swimming pools.[174]

Waste management was also identified by several councils as an area in which regulatory changes were driving up costs. The Municipal Association of Victoria highlighted that the costs of design, construction, operation and rehabilitation of landfills have increased as a result of the Environment Protection Authority's requirements.[175] East Gippsland Shire Council argued:

> Increasingly, Council is incurring significant costs in complying with stringent and ever-changing EPA [Environment Protection Authority] legislation and guidelines. In addition, Council must comply with Sustainability Victoria's Best Practice Guidelines for Resource Recovery Centres 2009 ...
>
> The cost of complying with the exhaustive process and stringent guidelines to both construct and cap landfill cells continues to put a significant financial and legislative burden on Council. Changes currently proposed by EPA will increase Council's responsibilities in respect of its current environmental monitoring schedule (auditing, reporting and development of new procedures). The new requirements will also increase Council's operational costs in respect of haul-road management and regular hydrogeological tests. Scarcity of suitable clay material for capping and lining landfill cells in the region will also put enormous financial pressure on Council in the years to come.[176]

172 Latrobe City Council, *Submission 34*, p.2
173 Rural Councils Victoria, *Submission 49*, p.8
174 Macedon Ranges Shire Council, *Submission 13*, p.4
175 Municipal Association of Victoria, *Submission 46*, pp.28-9
176 East Gippsland Shire Council, *Submission 10*, p.2

BOX 4.3: The landfill levy

The landfill levy was introduced in the 1990s as a charge on waste sent to landfill. The levy was intended as 'both an incentive to reduce waste and a source of funds for waste reduction programs.'[(a)] The Environment Protection Authority explains:

> Landfill levies play an important role in providing funding assistance to establish waste management infrastructure, support programs for industry, education programs and the resourcing of the bodies responsible for waste planning and management in Victoria. The levies also act as an incentive to minimise the generation of waste and to promote investment in developing alternatives to disposal to landfill.[(b)]

There are different rates for the landfill levy depending on whether the waste is disposed of in the metropolitan area or in regional Victoria. Rural landfill levies are half the rate of metropolitan levies.

The landfill levy was noted as an increasing burden by several councils. Mount Alexander Shire Council stated that the levy had increased from $9 per tonne of waste in 2008-09 to over $60 per tonne in 2016-17.[(c)] Mr Bo Li of the Victorian Local Governance Association pointed out that these costs are growing above the rate of the consumer price index which is used to cap rates.[(d)]

The Municipal Association of Victoria and a number of councils expressed disappointment that the money raised through the levy has not been used to support councils to achieve environmental outcomes.[(e)] It was also noted that the different rates between metropolitan and rural landfill was pushing councils to make decisions that did not provide the best environmental outcomes in some cases (such as using a landfill site with poorer greenhouse gas capture that is located in the country rather than a better-performing one in the metropolitan area).[(f)]

(a) *Victorian Parliamentary Debates*, Legislative Assembly, 23 October 1991, p.1301 (Hon. Steven Crabb MP, Minister for Conservation and Environment)

(b) Environment Protection Authority, *Calculating the Landfill Levy and Recycling Rebates* (Publication 332.7) (2016), p.1

(c) Mount Alexander Shire Council, *Submission 57*, p.5

(d) Bo Li, Senior Policy Advisor, Victorian Local Governance Association, *Public Hearing*, 15 August 2017, p.5

(e) Municipal Association of Victoria, *Submission 46*, p.29; Macedon Ranges Shire Council, *Submission 13*, p.7; Mount Alexander Shire Council, *Submission 57*, p.2; David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing*, 10 November 2017, p.6

(f) Macedon Ranges Shire Council, *Submission 13*, p.8; Mount Alexander Shire Council, *Submission 57*, pp.2-3

4.2.4 Council decisions to take on new responsibilities

Some witnesses and submitters believed that expenditure has increased as a result of decisions by councils to take on new services. Ms Linette Treasure, for example, noted:

> East Gippsland which despite its low socio economic demographic suffers under one of the highest rate levels in the State. In the 20 years since amalgamation the bureaucracy has grown exponentially. We have a range of 'services' that are not essential. The Health and Wellbeing plan adopted about 12 years ago is unrealistically open-ended —'physical, cultural, spiritual.'[177]

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177 Linette Treasure, *Submission 28*, p.2

Dr Alan Nelson from Ratepayers Victoria suggested that some councillors pushed for council money to be used on services that should be provided by other levels of government.[178]

4.2.5 Increasing demand from the community

'... our community keeps demanding more and more, and it is very hard when you are at the ballot box to say no.'[179]

The Committee was also informed that community expectations can put pressure on councils to expand their services:

> One of the problems I think in the past is that councils needed more money to meet greater expectations from the community — some expectations are good, some are not perhaps — but it is an issue for council that the community in general is expecting more from them. One of the advantages perhaps of rate capping is that it is going to force councils to make decisions on some of these services and to what extent they provide over and above the type of core businesses they run.[180]

A particular challenge for regional councils can be community demand for facilities at multiple locations within a municipality (see Section 3.3.1 of this report).

A number of forces have led to increased community expectations in some regional municipalities.

Population and economic growth are increasing the demand for services and infrastructure in some municipalities, especially the peri-urban municipalities and regional cities (see Chapter 3 of this report).

Social changes can also lead to increased demand. For example, increasing numbers of women participating in sports can require the expansion of sporting facilities.[181] Some councils also indicated that residents were increasingly expecting regional councils to provide the same services or infrastructure as metropolitan councils. A number of councils suggested that a particular source of pressure was people moving from the city to regional areas.[182]

Mr Colin Fenton noted that, in some cases, people move to country areas to retire. These people often pay less in rates due to pensioner discounts but may still want or require a range of services.[183] He argued that this puts an unfair burden on other ratepayers:

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178 Alan Nelson, Treasurer, Ratepayers Victoria, *Public Hearing*, 15 August 2017, p.6; see also Joanne Campbell, Traralgon Chamber of Commerce and Industry, *Public Hearing*, 9 October 2017, p.9

179 Rod Fyffe, Deputy Mayor, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.9

180 Alan Nelson, Treasurer, Ratepayers Victoria, *Public Hearing*, 15 August 2017, p.6

181 Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.3

182 Surf Coast Shire Council, *Submission 15*, p.3

183 Colin Fenton, *Public Hearing*, 13 October 2017, pp.3, 5

> We have got people who move out of the city and come to Kerang — I am not being personal about this. They arrive in a town like Kerang, Cohuna or wherever, and they go straight to the local council and ask, 'What services have we got here in this town?'. They are trotted out — 'You can have this, you can that and you can have that'. Nothing is free in this world. If you are not prepared to pay for something, you should not be getting it free. It is being paid for by other people. I am suggesting it is being paid by the rural ratepayers.[184]

Other social changes have also driven demand for services. For example, the Municipal Association of Victoria noted pressure on libraries due to multiple social changes. People now expect a wider range of services from libraries, such as being educational and community hubs and providing public access computers. The general expansion of workplace hours in society means that there is demand for longer opening hours. Technological changes have led to demand for materials in new media, for example e-books.[185]

Pressure to continue delivering programs after funding runs out

The Committee was also told that problems can arise for councils when programs funded by Commonwealth or State Governments (but delivered by councils) are discontinued:

> The Commonwealth and Victorian Governments will often initially fund a highly valued service within a municipality then withdraw or freeze their support. This creates a community expectation that the service will continue regardless of funding support. It is council that is then left to decide to meet the shortfall by using ratepayer funds, reduce other services or cease providing the service.[186]

Wodonga City Council also stated:

> Federal and state government funded projects having funding pulled at short notice or prior to their expected completion dates, results in councils having to redeploy (inefficiently) or cover redundancy costs.[187]

Box 4.4 provides an example of funding provided in recent years for emergency management which Murrindindi Shire Council has come to rely on but which is not guaranteed into the future.

A number of councils indicated that, in response to their current financial situations, they are being careful to avoid picking up programs from other levels of government once they lapse (see Section 7.3.3 of this report).

FINDING 4: Council costs have been driven up by increasing compliance requirements, changing regulations, council decisions to take on additional responsibilities and growing demand and expectations from communities.

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184 Colin Fenton, *Public Hearing*, 13 October 2017, p.5

185 Municipal Association of Victoria, *Submission 46*, p.17

186 Rural Living Group of Councils, *Submission 25*, p.5; see also Wodonga City Council, *Submission 31*, p.4

187 Wodonga City Council, *Submission 31*, p.4

BOX 4.4: Funding for emergency management in Murrindindi Shire Council

The Municipal Emergency Resourcing Program (MERP) is a State Government program which provides $4.6 million annually to 64 Victorian councils. The objectives of the program are:

- effective delivery of emergency management responsibilities established in legislation, state plans and policies
- contributing to better-prepared and more resilient communities
- embedding emergency management as a core component of council business.[a]

Murrindindi Shire Council indicated that funding it has received through this program has been helpful in meeting statutory obligations, but has only partly covered the costs. The council also expressed concern about the funding running out in the future:

> As a result [of the funding], a number of full-time two-year positions known as Emergency Management Fire Coordinators (EMFC) were created to assist Councils in high risk areas. Without access to the MERP funding, Council would find it extremely difficult to meet both its statutory emergency management obligations and planning requirements. The EMFC resource has allowed Council to more fully implement its emergency management programs and strengthen the skills of current Council staff with non-substantive emergency management roles such as the Municipal Recovery Manager and Municipal Emergency Resources Officer. This resource has substantially increased the capability and capacity of Council to be able to respond to an emergency situation in a timely and efficient manner.
>
> However, $100,000 is required per annum to fund the additional effective full time position of the Emergency Management Fire Coordinator (EMFC). Currently Council only receives a $60,000 contribution per annum (MERP Funds) for this position resulting in a $40,000 cost to Council. In addition, post 2020 it is not certain whether this contribution will continue or Council will need to fully fund this essential function.[b]

(a) Department of Environment, Land, Water and Planning, *Municipal Emergency Resourcing Program* <https://www.localgovernment.vic.gov.au/our-programs/emergency-management/municipal-emergency-resourcing-program>, viewed 22 January 2018

(b) Murrindindi Shire Council, *Submission 39*, p.7

4.3 Senior management salaries and council inefficiencies

Some participants in this inquiry believed that large salaries and inefficiencies in the way that councils are run have contributed to the increasing expenditure.

4.3.1 Senior management salaries and numbers

A number of submitters and witnesses argued that the salaries of senior management in some councils were excessive or that there were more staff in senior management positions than are required. Mr Tony White of the Australian Services Union drew a distinction between executive and non-executive pay rates. He stated that:

> Every now and again we hear people saying that it is local government wages that are driving up local council rates. If I could give perhaps one example, in the Rural City of Ararat, their rate increase was 2.5 per cent last financial year, the wage increase that was in their EBA as of 1 July this year was 1.75 per cent and their wages as a percentage of total expenditure was about 40 per cent. So you can see that the real effect on the budget is around 0.8 per cent from the wage increase, and the rate increase has gone up two and a half. So the extra money is not going into workers' pockets.
>
> In other rural councils, I can think of perhaps the Alpine council. They have an enterprise agreement which has 0 per cent per year for the next three years. So it is not highly paid council fat cats at the non-management level which are driving any of the increases there.[188]

In contrast, he argued that 'there never seems to be any handbrake on money for consultants, there never seems to be a handbrake on money for lawyers and there never seems to be any handbrake on senior executives'.[189] He suggested that 10-15 per cent pay increases for chief executive officers were not unusual in some municipalities.[190]

Mr Owen Harvey-Beavis from the Municipal Association of Victoria noted that chief executive officer salaries were rising at slower rates than in early years. He also stated that these salaries are equivalent to executive officers at the state level, with small rural councils generally at the lower end of the band and large metropolitan councils at the top of the band.[191] However, the Committee notes that salaries in the state public sector may be higher than the private sector in some regional areas and therefore may not be the most appropriate benchmark.

It was also suggested that, in some cases, there were excessive numbers of senior management positions. For example, Mr Phillip Douglass told the Committee:

> Comparison with Shepparton, an equivalent rural city to MRCC [Mildura Rural City Council] that employs around 570 EFT [equivalent full-time] (vs around 500 EFT at MRCC), shows that MRCC have 16 Senior Officers paid over $160,000, while Shepparton have only 3. The total of salaries paid to Senior Officers at Shepparton is $1.306m, whereas at MRCC it is $3.839m. Shepparton appear to be in a much stronger financial position as a result of their salary restraint ...[192]

Mr Frank Deutsch expressed his view that:

> There are 17 small Rural Councils, each with it's own CEO and a number of Officers, i.e. in other words, a fully functional upper echelon organisation, over-staffed and under-utilised.[193]

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188 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.3
189 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.4
190 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.4
191 Owen Harvey-Beavis, Municipal Association of Victoria, *Public Hearing*, 15 August 2017, p.8
192 Phillip Douglass, *Submission 62*, p.3
193 Frank Deutsch, *Submission 60*, p.1

Councillor Howard Myers, when mayor of Strathbogie Shire, noted that common responses at public meetings to discuss budget problems included that 'the CEO was overpaid, and we had too many staff'.[194]

It was also suggested by a number of submitters and witnesses that there was an excessive use of consultants or expensive outsourcing in some councils.[195]

4.3.2 Poor decisions by councils

It was also argued by some that poor decisions made by councils have led to unnecessary costs, such as:

- not hiring the right companies or contractors to do a job, leading to work having to be redone[196]
- processes not being correctly followed, leading to contested council decisions[197]
- rubbish bins being replaced when they are still functional[198]
- overseas trips to sister cities.[199]

Several submitters and witnesses suggested that councils pay more for certain services than they should.[200]

Some believed that council staff were pushing up costs and that it is difficult for councillors to oppose staff. Mr Leigh Barrett stated:

> While theoretically elected councillors are meant to be the decision makers they are really just well meaning part timers depending on the advice of council officers and often feel under pressure to comply. Elected councillors today cannot compete with the resources of intelligent and well educated council officers who have staff to assist them with their reasoning and arguments.[201]

194 Helen Keighery, *Submission 5*, p.6

195 Leigh Barrett, *Submission 17*, pp.1-2; Linette Treasure, *Submission 28*, p.2; Phillip Douglass, *Submission 62*, pp.1, 3-4; Leonard Mainard, *Submission 63*, p.1; Gordon Hamilton, *Submission 68*, p.11; Joanne Campbell, Traralgon Chamber of Commerce and Industry, *Public Hearing*, 9 October 2017, pp.5-6, 8; Bronwyn Kerr, Vice-President, Traralgon Community Development Association, *Public Hearing*, 9 October 2017, p.8; Peter Fillmore, Secretary, Otway Forum, *Public Hearing*, 10 November 2017, pp.29, 33

196 Joanne Campbell, Traralgon Chamber of Commerce and Industry, *Public Hearing*, 9 October 2017, p.8

197 Gordon Hamilton, President, Better Local Government Association, *Public Hearing*, 24 October 2017, pp.9-10

198 Leigh Barrett, *Public Hearing*, 10 November 2017, p.16

199 Frank Deutsch, *Public Hearing*, 10 November 2017, p.23

200 Leigh Barrett, *Submission 17*, pp.4-6; Leigh Barrett, *Public Hearing*, 10 November 2017, p.17; Peter Gibbons, *Public Hearing*, 9 October 2017, p.3; Cheryl Wragg, *Public Hearing*, 9 October 2017, p.5

201 Leigh Barrett, *Submission 17*, p.3; see also Leigh Barrett, *Public Hearing*, 10 November 2017, p.16; Linette Treasure, *Submission 28*, pp.1-2; Phillip Douglass, *Submission 62*, p.4; Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, pp.5-6

Mr Barrett advocated for a reduction in the power of council chief executive officers. Rather than only chief executive officers being accountable to the elected council, Mr Barrett argued in favour of three senior general managers also being accountable to the council.[202] Alternatively, it was argued that there was a need for more independent scrutiny of council decisions.[203]

On the other hand, some people suggested that councillors were the problem and recommended limits to the length of time that a councillor can hold office.[204]

Reviews of the local government sector have also suggested that there is scope for improved decision making. The Victorian Auditor-General in 2014 found that:

> Effective asset management is also being compromised by underdeveloped asset management information systems and a lack of skilled resources, particularly in smaller and regional councils.[205]
>
> ... smaller and regional councils experience difficulties in attracting people with the relevant skills and knowledge.[206]

The difficulty attracting skilled staff to remote regional areas was also noted by several councils (see Section 3.4.3 of this report).

The Committee does not have a view on the particular examples of council decisions that were put to it. However, improving decision making has the potential to reduce costs. As discussed in Sections 2.3 and 2.4 of this report, the Committee believes that assistance to clarify councils' roles and to help councils be more efficient will be an important part of improving the situation for regional councils.

4.4 Defined benefits superannuation scheme calls

In recent years, councils have also been required to top up the Local Authorities Superannuation Fund Defined Benefit Plan. This plan provides a pension or lump sum of a guaranteed amount to certain former employees of local councils and other organisations. A fund has been established to cover the costs of these pensions. However, this fund sometimes needs to be topped up to ensure that there is sufficient capital to make all payments.

In 2013, there was a particularly large call to top up the fund:

> By July 1, 2013, local government was required to pay a $396.9M shortfall to the closed Local Authorities Superannuation Fund Defined Benefit Plan following an actuary review by the scheme's trustee Vision Super. The former Defined Benefit Plan for local government employees was a compulsory scheme set up by the Victorian

202 Leigh Barrett, *Submission 17*, pp.2-3

203 Linette Treasure, *Submission 28*, pp.1-2; Peter Gibbons, *Public Hearing*, 9 October 2017, pp.3-4

204 Traralgon Community Development Association, *Submission 67*, p.4; Suzanne Pinchen, Secretary-Treasurer, Traralgon Community Development Association, *Public Hearing*, 9 October 2017, p.3

205 Victorian Auditor-General's Office, *Asset Management and Maintenance by Councils* (2014), p.xii

206 Victorian Auditor-General's Office, *Asset Management and Maintenance by Councils* (2014), p.32

> Government in 1982 and was closed in 1993. It must be fully funded to pay the benefits owed to members now and into the future, unlike state and federal public sector super funds which remain unfunded by $22.9B and $72B respectively. Councils have a legal obligation to fund these compulsory contributions, often using cash reserves, borrowing money, selling surplus assets or through rates.[207]

Rural Councils Victoria indicated that defined benefits superannuation calls tend to disproportionately impact on small rural councils, as they have comparatively higher numbers of staff who have been employed for longer periods.[208]

The Municipal Association of Victoria calculated that the 2013 call was equivalent to as much as 25 per cent of the rates revenue in that year for a number of regional councils.[209]

4.5 Catching up on the infrastructure backlog

> *'... there is largely an infrastructure renewal issue that has probably been coming for a long, long time. Like most rural communities we have swimming pools, large road networks, bridges et cetera that have been in the ground for a long time and are coming to the end of their life. In hindsight you could always go back and say should provision for the replacement of those assets and allowing for inflation over the last 30, 40, 50, 60 years have been put aside by councils historically? But we are where we are ...'*[210]

As noted in Section 1.3 of this report, a number of regional councils are struggling to maintain their infrastructure and have been for a number of years.

Analysis by the Municipal Association of Victoria found that a number of regional councils have been attempting to reduce the backlog. As a result, in recent years they have been spending an increasing proportion of their rates revenue on asset renewal, particularly smaller shires.[211] The Municipal Association of Victoria noted that this is one of the factors leading to increased spending and rates rises:

> ... while gaps continue to persist there has been a 15% decrease in the renewal gap since 2010/11 in rural and regional councils. The above analysis confirms that this has been funded largely by rate increases and an increasing proportion of rate revenue being devoted to asset renewal.[212]

The Victorian Auditor-General recently found that the asset renewal gap is going to continue placing pressure on many regional councils in future years:

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207 Greater Bendigo City Council, *Submission 45*, p.7
208 Rural Councils Victoria, *Submission 49*, p.6
209 Municipal Association of Victoria, *Submission 46*, pp.21-2
210 Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, p.6
211 Municipal Association of Victoria, *Submission 46*, pp.22-5
212 Municipal Association of Victoria, *Submission 46*, p.25

> With regard to the renewal gap indicator, rural and regional councils are trending below 1:1. This highlights the need for councils to prioritise asset maintenance as part of their planning processes. This renewal gap is forecast to trend sharply downward in response to rate capping.[213]

FINDING 5: A number of regional councils have been increasing spending in recent years to reduce infrastructure backlogs. However, a backlog remains and is going to continue to place pressure on the finances of many regional councils in the future.

4.6 Quantifying the impact of these pressures

> *'It is essential that the Committee consider the cumulative effect of the full scope of financial pressures being placed on councils, rather than looking at some of the decisions in isolation.'*[214]

Though all of the factors discussed in this chapter may contribute to councils spending more money, the Committee notes that there is a lack of quantified data about the financial impact of the individual factors.

Some councils have been able to quantify some factors, as indicated throughout this chapter. In most cases, the cost increases which can be quantified have been relatively minor. However, several councils noted that the cumulative impact of these increases is sufficient to put significant pressure on councils.[215]

FINDING 6: It is difficult to quantify many of the pressures leading to increased expenditure by regional councils, which makes it difficult to identify which are the most significant contributing factors. Many of the factors that can be quantified tend to have relatively small impacts individually. However, the cumulative impact of multiple factors has put significant pressure on councils.

4.7 Clarifying council responsibilities

As noted earlier in this chapter, councils have over 100 different responsibilities. A key point of debate through this inquiry has been how many services councils should be delivering and which services councils are best placed to deliver.

A number of submitters called for councils to return to their traditional core responsibilities. For example:

> ... the general opinion would be that we want a simpler council, or that we want councils to do less — to stick with the basics and do it well.[216]

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213 Victorian Auditor-General's Office, *Results of 2016–17 Audits: Local Government* (2017), p.43

214 Municipal Association of Victoria, *Submission 46*, pp.29-30

215 Municipal Association of Victoria, *Submission 46*, pp.27-30; Campaspe Shire Council, *Submission 54*, p.2

216 Leigh Barrett, *Public Hearing*, 10 November 2017, p.19

> Concentrate on the three R's: Rates, Rubbish, Roads. Lets stop the political bribes of Governments to promise things that nobody needs nor wants. (Other then maybe the Mayor/CEO) Such as Arts Centers.[217]

> I think we have got to the point where councils in regional Victoria are going to have to bite the bullet and go back to what councils are about. They are about roads and bridges. This business of health and human services is completely out of whack in the sense that we get grants coming to our regional areas. It is like a carrot situation, where state government fund it for the first year, and then in the next year's round it is cut and the next year it is cut — and then in the year after that it is gone completely. Infrastructure is built in the local area to provide these services, but there is no money to support it … health and human services, in my view, should be being dealt with by the federal government … You have got miles too many things being operated by local councils, and it is out of their control.[218]

The Committee heard from a number of councils about responsibilities that they felt might better sit with other levels of government. These included:

- roadside weed and pest animal control (see Box 4.1)
- enforcing tobacco legislation[219]
- maternal and child health services[220]
- early learning services[221]
- school crossing supervisors[222]
- elderly services.[223]

It was also suggested by others that local roads might be better managed by a State Government entity.[224]

Not everybody agreed that these responsibilities should be moved from councils to the State Government. Some submitters and witnesses argued that councils are well placed to deliver many local services. The Hume Region Local Government Network argued that councils play a critical role in areas such as the prevention of family violence, youth services and enhancing community wellbeing:

> A good example of this is the role of local government in the prevention of family violence. Whilst not having responsibility for this as a law and order issue, councils recognise their role in creating an environment where 'locals look out for each other, respect every family and faith, and celebrate our differences.' [as advocated in

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217 Frank Deutsch, *Submission 60*, p.2

218 Colin Fenton, *Public Hearing*, 13 October 2017, pp.2-3

219 Greg McKenzie, Manager, Environment, Greater Shepparton City Council, *Public Hearing*, 24 October 2017, p.19

220 Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.7; Chris Potter, Mayor, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, p.10

221 Chris Potter, Mayor, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, p.10

222 Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.7

223 Chris Potter, Mayor, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, p.10

224 Leonard Mainard, *Submission 63*, p.1; Linette Treasure, *Submission 28*, p.2; David Jochinke, President, Victorian Farmers Federation, *Public Hearing,* 15 August 2017, p.4; Frank Deutsch, *Public Hearing,* 10 November 2017, p.26

> *Victoria's Regional Statement*] This is an integral part of the place-based community development function of every council in the HRLGN [Hume Region Local Government Network] ...[225]

Representatives of Greater Bendigo City Council argued that council has a trusted name and that there is demand for a range of services from the community:

> **Mr NIEMANN** — We provide art galleries, performing arts centres and tourism. They are all economic drivers, they are all important to people in our community and they are important to bringing people to Bendigo that generate economic activity. They are clear council decisions each year when we go through a budget as to what is important to our community. We had a complete review of our home and community care services a couple of years ago, looking at, 'This is costing the council a lot of money. Is there another service provider that can do it better and more efficiently?'. We are still in the service, because the response from the community and the response from clients, carers and their families was pretty extreme. It is really difficult for local government to make those decisions to take away a service that has been there that is highly regarded by the community.
>
> **Cr FYFFE** — Because council has a trusted name. Backing up what Craig said, throughout that home and community care consultation it was quite clearly articulated by many, many people that council is trusted and council provided a great service.[226]

As detailed in Section 2.3 of this report, the Committee believes that there is a need for a review by the State Government of what services councils are currently providing. This review should ultimately establish what councils are required to do (that is, what are core responsibilities) and what is discretionary.

Among other things, a clear explanation of what councils are expected to do would help voters to understand whether councils, in delivering particular services, are undertaking work that is required of them by other levels of government or undertaking discretionary work.

Accompanying this review, it would be valuable to determine minimum service levels that councils are expected to achieve. Rural Living Councils Victoria has called for the development of such standards and has done some work towards developing them. Further work is now being undertaken by Rural Councils Victoria.[227] The idea of clarifying minimum service standards has been supported by a number of councils and other organisations.[228]

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225 Hume Region Local Government Network, *Submission 52*, p.6

226 Rod Fyffe, Deputy Mayor, and Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.5

227 Rural Living Group of Councils, *Submission 25*, p.4; Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.26

228 Horsham Rural City Council, *Submission 12*, p.5; Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, p.6; Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.5; Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing*, 12 September 2017, p.8; David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing*, 10 November 2017, p.11

VicWater noted that clear minimum service standards in combination with regulated revenue mechanisms (such as rate capping) can shift debates about funding:

> ... economic regulation works best when priorities are pretty clear and standards are clear as well. So the argument really shifts away from what you should be doing as much as possible to how you should do the things that you are supposed to be doing most efficiently.[229]

VicWater also indicated that clarifying obligations can also create a greater onus on the organisation to prove that any discretionary services are appropriate. VicWater indicated that, when water corporations want to go beyond mandated standards:

> ... then the discussion is about, 'Okay, prove that this is actually wanted by customers, prove that this is actually needed, and also prove how you are going to deliver the outcomes, and is that the best of delivering outcomes'.[230]

The Committee agrees that there would be value in developing agreed minimum service levels and has recommended this in Section 2.3 of this report.

FINDING 7: There is debate within the community about what services councils should offer. Clarifying what councils are expected to do has the potential to resolve some of this debate and help community members understand council decisions. Developing minimum service levels for councils also has the potential to shift debate away from what councils are doing to whether or not they are doing it efficiently.

4.8 Building council skills

The Australian Centre of Excellence for Local Government, in its review of Victorian rural council sustainability, recommended additional support and training for both councillors and senior management. In particular, it called for professional development in relation to 'strategic planning and visioning, regional leadership and negotiation, shared services, financial sustainability and relationship management'.[231]

Professor Roberta Ryan from the University of Technology Sydney told the Committee:

> Workforce training; service delivery review training; supporting regional organisations and developing region-based programs for shared services and service delivery; and improved asset management and improved finance management are, we think, the critical capacity things that will help every rural and regional council.

229 Tony Wright, Chief Executive Officer, VicWater, *Public Hearing*, 12 September 2017, p.2

230 Tony Wright, Chief Executive Officer, VicWater, *Public Hearing*, 12 September 2017, p.3

231 Australian Centre of Excellence for Local Government, *Rural Council Sustainability Project: Stage Two Report: Council Self Assessment and Analysis* (Draft) (2015), pp.29-30

> Those programs need to be funded and ideally driven on a regional scale so that you get a group of small councils in a location together, because that then helps them begin to work together and you demonstrate how to do stuff.[232]

Professor Ryan also noted the value of service delivery reviews, including developing an understanding of what services actually cost and how sustainable they are. She explained that all rural councils in Western Australia had recently been given service delivery review training to assist with those.[233] Such reviews, if done effectively, can facilitate councils making evidence-based decisions that are appropriate to their communities when managing with constrained budgets. As discussed in Section 7.3 of this report, a number of Victorian councils have undertaken their own service reviews.

The Committee recognises that a range of training and support services are currently available for Victorian councils through organisations such as the Municipal Association of Victoria, Victorian Local Governance Association and Local Government Victoria. The Committee supports a continuation and expansion of this work.

FINDING 8: Additional professional development opportunities relating to current best practice in finding efficiencies and managing within tight budgets may be helpful for both councillors and council staff.

232 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing*, 12 September 2017, p.11

233 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing*, 12 September 2017, p.11; see also Australian Centre of Excellence for Local Government, *Rural Council Sustainability Project: Stage Two Report: Council Self Assessment and Analysis* (Draft) (2015), pp.32-3

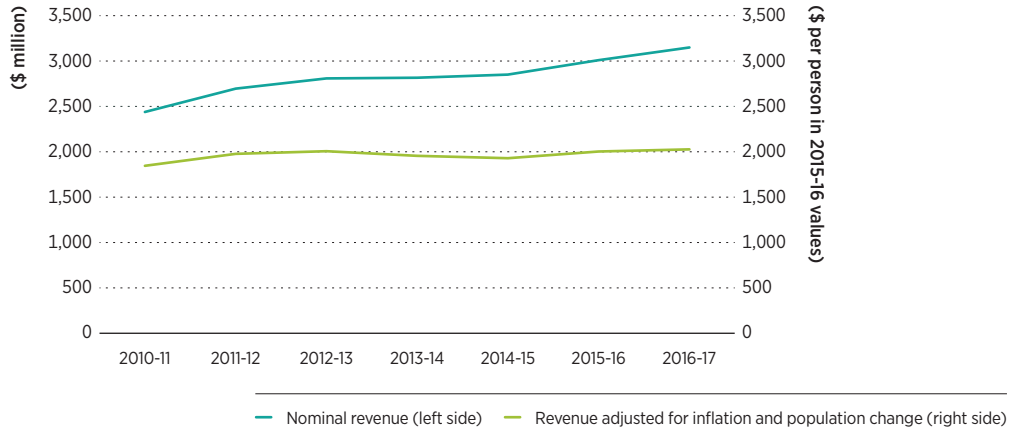
5 Council funding has been changing

5.1 Overview

At the same time as there have been pressures on councils to increase their expenditure (see Chapter 4 of this report), there have also been changes to councils' funding. This has included a three-year freeze on Commonwealth Financial Assistance Grants, changes to various other grants and cost shifting from other levels of government. Prior to 2016-17, these changes were largely offset by increased revenue from rates and charges. However, the introduction of rate capping from 2016-17 has meant that councils have been more restricted in their ability to increase rates.

Figure 5.1 shows the overall impact of these factors on regional council revenue. It shows that revenue[234] rose from $2.4 to $3.1 billion between 2010-11 and 2016-17 (an average annual increase of 4.4 per cent). Much of this growth can be accounted for by inflation and population change. When these are taken into account, the growth in regional councils' revenue has been less pronounced (see Figure 5.1), averaging 1.6 per cent per year.

Figure 5.1 Total revenue[(a)], all regional councils



(a) Revenue has been adjusted to recognise Financial Assistance Grants in the year for which they were intended rather than the year in which payments were made.

Source: Committee calculations based on revenue data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee; population estimates based on Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no 3218.0 (2017), using population estimates as at 30 June on the first calendar year of the financial year; values adjusted using price deflator used by Department of Treasury and Finance to calculate real gross state product, *Macroeconomic Indicators* <https://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 11 December 2017

234 For these figures, revenue has been adjusted to recognise Financial Assistance Grants in the year for which they were intended rather than the year in which payments were made.

Grants from the State and Commonwealth Governments are particularly important for regional councils. Changes to the grant programs have therefore had a significant impact on these councils and their financial sustainability.

Councils also noted a number of other challenges that they face with grants programs. There was a call for more grant programs which recognise the needs and circumstances of regional councils, especially rural councils.

Fees are another source of revenue for councils. In some cases, the indexation of fees is determined by the State Government. The Committee was told that some fee increases had not kept up with councils' costs, thereby increasing the burden on council finances.

The Committee heard a lot about rate capping during this inquiry. Under rate capping, councils cannot raise the average rates in a municipality by more than a limit set by the Minister for Local Government (unless they apply for and are granted an exemption). The cap set by the Minister currently reflects forecast changes to the consumer price index. Most groups the Committee spoke to were supportive of rate capping. It was considered a necessary measure to reduce pressure on ratepayers. Some also saw it as a way to encourage councils to reduce unnecessary expenditure. Most regional councils recognised that ratepayers had only limited capacity to manage further rate increases and that previous trends of rate increases could not continue.

5.2 Revenue sources for local government

Local councils in Victoria rely on three main sources of funding:

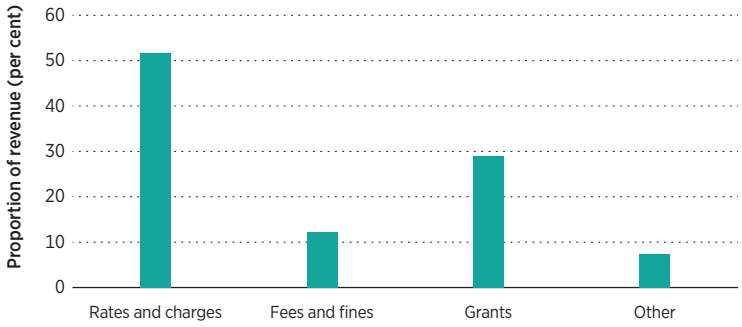
- rates and charges (which are levied on property owners in the municipality)
- grants from the Commonwealth and State Governments
- fees for services delivered by councils and fines.

Together these make up 92.7 per cent of revenue for regional councils (see Figure 5.2). Key issues to note are that:

- prior to 2016-17, councils could determine the amount of revenue they took through rates and charges; now the State Government sets a cap each year for the maximum amount that the average rates bill can increase
- grants from other levels of government are generally outside councils' control, though some grants are distributed based on applications written by councils
- some grants are tied to specific areas of expenditure or particular projects, while other grant programs (most importantly, the Financial Assistance Grants) give councils complete discretion in how to spend the money
- some fees and fines are determined by councils and some are set by the State Government

- developer contributions (included in the 'other' category in Figure 5.2) are not a major revenue source for most municipalities, but can be significant in some municipalities with high growth.

Figure 5.2 Revenue sources, all regional councils, 2014-15 to 2016-17



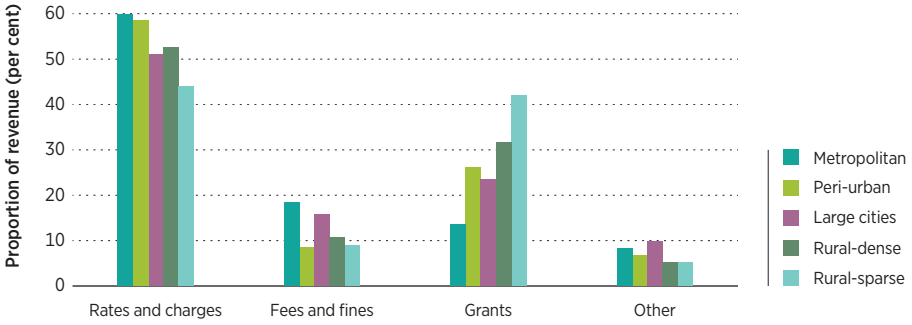
Source: Committee calculations based on data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee

5.2.1 Regional councils' dependence on grants

While Figure 5.2 shows the relative importance of the different revenue sources for regional councils as a whole, there are significant differences in the revenue streams available to different councils.

Figure 5.3 breaks down the revenue streams available for different municipality categories. As noted in Chapter 3 of this report, metropolitan councils have a much greater ability to raise revenue from their own sources than regional councils. Regional councils are therefore much more heavily dependent on grants. This is particularly the case for rural councils.

Figure 5.3 Revenue sources, different council types



Source: Committee calculations based on data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee

> *'[Mount Alexander Shire] Council's entire road reconstruction and rehabilitation programs are funded by Roads to Recovery – Government Funding. There are limited funds available for additional road reconstruction/rehabilitation and bridge replacement due to the relatively small population base/ratepayers in the Shire, compared to the length of the sealed and unsealed road network and the number of bridges and major culverts.'*[235]

This situation is a result of factors discussed in Chapter 3 of this report, such as the higher asset base combined with a lower population to spread the rate burden across and the relatively lower capacity of residents to pay.

As a result of the higher dependence on grants, changes in grants have a significantly greater impact on rural councils than other categories.

5.3 Financial Assistance Grants

> *'The Federal Government's freeze on the indexation of Financial Assistance Grants to local government significantly impacted Council's already lean financial situation. This decision has resulted in a $658,000 decrease to Council's projected income over the 2014/15, 2015/16 and 2016/17 financial years. To put this into perspective, a 1% increase to Council's rates and municipal charge income generates an additional $63,000.'*[236]

Financial Assistance Grants from the Commonwealth Government are an important source of revenue for many councils, especially in rural municipalities. They account for 11 per cent of revenue for regional councils as a whole and approximately 40 per cent of grants. However, they can be a significantly larger proportion of revenue for some councils, as they are distributed unevenly, with more disadvantaged councils receiving higher amounts per capita.[237]

Financial Assistance Grants are particularly important for councils because they are untied – that is, councils can spend the money in any way that they choose. They are also regular and relatively predictable[238] (though the timing of payments is sometimes adjusted). This facilitates long-term planning for councils.

5.3.1 The Financial Assistance Grants freeze

From 2014-15, the Commonwealth Government decided to stop indexing the total Financial Assistance Grant pool for three years. The total grant pool was therefore approximately the same each year from 2013-14 to 2016-17.[239] In 2017-18,

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235 Mount Alexander Shire Council, *Submission 57*, p.7

236 Towong Shire Council, *Submission 48*, p.3

237 Committee calculations based on data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee; based on revenue from 2014-15 to 2016-17; all figures are adjusted to recognise Financial Assistance Grants in the year for which they were intended rather than the year in which payments were made.

238 Though there are fluctuations from year to year, which the Municipal Association of Victoria considers to be significant (see Municipal Association of Victoria, *Submission 46*, pp.10-12).

239 The pool for the whole of Australia varied between $2,267.8 and $2,301.5 million.

the indexation of grants was resumed, but without any adjustment for inflation between 2013-14 and 2016-17. As a result of the freeze, regional councils in total received approximately $40 million less in 2017-18 than they would have if there had been no freeze.[240]

A number of councils told the Committee that this had put pressure on their budgets:

> ... the freeze of indexation of the federal assistance grant meant a regression in real dollar terms, if I can call it that. One of the impacts is that the planned activities of councils, particularly in rural and regional regions, were not able to proceed as per their plan. For example, if a council had in its four-year council plan to resurface 50 kilometres of roads per quarter, for argument's sake, the regression in real dollar terms meant that they could not meet that target, due to the lack of ability for council to raise funds locally through their rates, because their dependence on rates is much lower compared to metropolitan councils.[241]

> ... from Moorabool's perspective the freezing of the grants has certainly caused us a lot of harm in the fact that we have a number of projects — for example, we are three football ovals, three soccer fields and six netball courts short of what statistics tell us we should have for our region ... By freezing those grants that means that we cannot borrow the money necessarily, because we would have to make the repayments, to ensure that we can build those not just for the future generations. This is actually to cater for our current growth ... So what do we do? We put those things off for another two or three years, and in the meantime we grow our population by another 10 000 to 12 000 people. All of a sudden we are now not three short; by the time we actually build these things we are going to be just as far behind as we were four years ago.[242]

The Municipal Association of Victoria noted that the freeze particularly affected regional municipalities, given their higher level of dependence on grants.[243]

The association recognised that the Financial Assistance Grant freeze had been offset by increased funding through the Roads to Recovery program, but noted that the increase was only temporary (see further discussion in Box 5.1 of this chapter).[244] Mr David Morcom of Wellington Shire Council pointed out that the Financial Assistance Grants were untied and could be used for a range of programs, whereas the Roads to Recovery funding was specific to road construction or maintenance.[245] The Committee also notes that Financial Assistance Grant general purpose funding is allocated to states based on population but Roads to Recovery funding factors in the size of the road network as well as population.[246] As a result, Victoria receives smaller shares of Roads to Recovery grant pools than Financial Assistance Grant pools.

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240 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, p.7

241 Bo Li, Senior Policy Advisor, Victorian Local Governance Association, *Public Hearing*, 15 August 2017, p.4

242 David Edwards, Chair, Peri Urban Group of Rural Councils (and Mayor of Moorabool Shire Council), *Public Hearing*, 12 September 2017, p.3

243 Municipal Association of Victoria, *Submission 46*, p.41; see also Rural Councils Victoria, *Submission 49*, p.4

244 Municipal Association of Victoria, *Submission 46*, p.41

245 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.7

246 Commonwealth Department of Infrastructure, Regional Development and Cities, *Roads to Recovery Program* <https://investment.infrastructure.gov.au/infrastructure_investment/roads_to_recovery>, viewed 21 February 2018

The Municipal Association of Victoria contended that, when adjusted for population growth and inflation, Financial Assistance Grants had been falling even before the freeze in 2014-15.[247] This would have increased the pressure on local councils' finances from the freeze.

5.3.2 The distribution of Financial Assistance Grants

While the Commonwealth Government determines the size of the total grant pool for Financial Assistance Grants, the Victoria Grants Commission determines how the pool for Victoria is distributed between councils. Commonwealth legislation requires the commission to base its determination on the principle of 'horizontal equalisation'. This principle means that grants should be distributed so that:

- each council can function, by reasonable effort, at a standard not lower than the average of the other councils in the state
- differences in councils' required expenditure and capacity to raise revenue are taken into account.[248]

The Commission has developed a number of measures to identify councils' relative need for grants in order to apply the principle of horizontal equalisation. These include demographics, tourism, economies of scale and councils' capacity to raise revenue.[249]

However, the Commonwealth legislation also requires at least 30 per cent of the grant pool to be distributed based on councils' population.[250] As a result, councils with large own-sourced revenue also receive Financial Assistance Grants, even though they would be able to achieve horizontal equalisation without the grants.

> *'We are giving big chunks of federal assistance grants to areas that are sustainable and that have got the capacity to pay, and the smaller rural councils are really struggling for revenue streams.'*[251]

Several submitters and witnesses argued that the population requirement should be eliminated or reduced, so that a larger portion of the grant pool is distributed based on need.[252] It was argued that this would be a better use of the Financial Assistance Grants money:

> ... if there was one thing you could do to assist rural and regional councils in Australia, it would be to look at the horizontal distribution of FAGs [Financial Assistance Grants] ... and particularly removing the minimum population payment.

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247 Municipal Association of Victoria, *Submission 46*, pp.7-10

248 *Local Government (Financial Assistance) Act 1995* (Commonwealth), s.6(3); see further the *National Principles for the Allocation of Grants under the Local Government (Financial Assistance) Act 1995*

249 Local Government Victoria, *Financial Assistance Grants* <https://www.localgovernment.vic.gov.au/council-funding-and-grants/victoria-grants-commission/financial-assistance-grants>, viewed 23 January 2018

250 *Local Government (Financial Assistance) Act 1995* (Commonwealth), s.6(2)(b)

251 David Pollard, Mayor, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.29

252 Loddon Shire Council, *Submission 53*, p.5; David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.4; Tony McIlroy, Chief Executive Officer, Benalla Rural City Council, *Public Hearing*, 24 October 2017, p.5; Robert Dobrzynski, Acting Chief Executive Officer, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, pp.3, 7

> There is significant, what we describe as horizontal inequality, in the way FAGs work. We still have large capital city councils — Sydney and Melbourne in particular — that run significant surpluses in their budgets and have significant revenue capacity, while we have many rural councils in Australia that really are struggling financially. Doing something around that distribution formula would significantly assist rural councils in Australia.[253]

The Committee notes that for some municipalities, such as Melbourne, Yarra and Port Phillip, Financial Assistance Grant allocations can account for less than 1.5 per cent of their total revenue. Distributing their grant allocations to regional councils would provide a major additional revenue source to disadvantaged rural communities.[254] Mr Tom O'Reilly of Gannawarra Shire Council noted that the Whelan Report recommended an additional $27 million (in 2010) in grants for Victoria's 18 least sustainable councils.[255] Mr O'Reilly argued that this is approximately 5 per cent of the total Financial Assistance Grant pool and could therefore be achieved with relatively little adjustment to the distribution formula.[256]

The Committee considers that this is worth further consideration and has recommended that the State Government seek changes in the requirements for Financial Assistance Grant distribution (see Section 2.2.2 of this report).

The Municipal Association of Victoria also noted that there has been a shift in the way that Financial Assistance Grants are distributed. As a result, rural shires have received an increasing proportion of the total grant pool for Victoria, growing from 33 per cent in 1999-2000 to 41 per cent in 2014-15. In contrast, the share going to regional cities has declined from 21 to 20 per cent and metropolitan councils' share has gone from 45 to 39 per cent.[257]

Dr Graeme Emonson from Local Government Victoria explained to the Committee:

> The Victoria Grants Commission has made a very conscious attempt to shift the total pool available through the Victoria Grants Commission toward small rural councils … You can see proportionately against the other cohorts that small rural councils enjoy a much higher level now of per capita grant from the Grants Commission than they did back in 2006–07. It is interesting that about 13 per cent of the population that lives in rural councils now receives about 44 per cent of the total grant from the $560 million Victoria Grants Commission allocation.[258]

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253 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing*, 12 September 2017, p.3

254 Robert Dobrzynski, Acting Chief Executive Officer, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, p.3

255 Merv & Rohan Whelan, *Local Government Financial Sustainability: Abridged Report* (2010), p.18

256 Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, pp.4-5

257 Municipal Association of Victoria, *Submission 46*, p.7

258 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, p.4

While the Committee understands the reasons for this approach, it notes that, when combined with changes to the total Financial Assistance Grant pool, this has resulted in a decline in Financial Assistance Grants per capita in real terms for regional cities,[259] which has put pressure on these councils' finances.

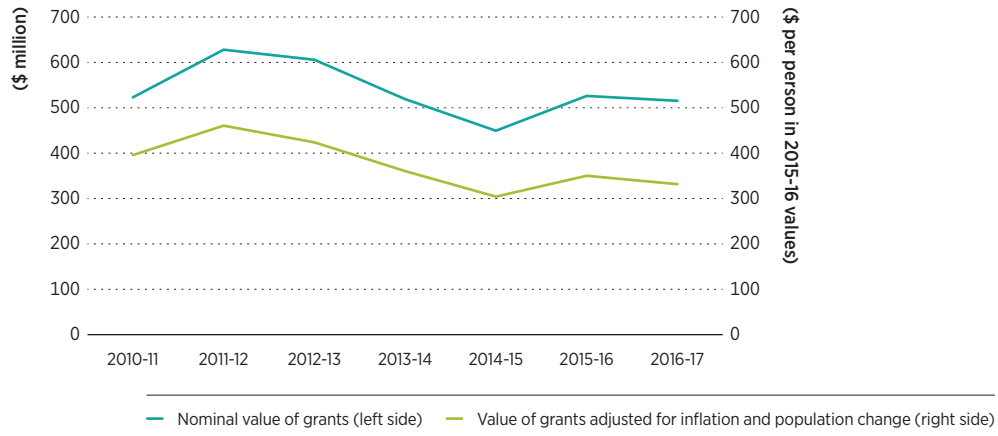
FINDING 9: Financial Assistance Grants are an essential revenue source for many regional councils. The three-year freeze on the total grants pool between 2013-14 and 2016-17 put significant pressure on some councils' finances.

FINDING 10: Financial Assistance Grants are not as significant for many metropolitan councils as they are for regional councils. Decreasing the share that goes to councils with higher capacities to raise their own revenue and distributing more to regional councils would better recognise the financial challenges facing regional councils.

5.4 Changes to other grants

In addition to the freezing of the Financial Assistance Grants, Victorian regional councils have also faced a general decline in the overall value of other grants in recent years, when population change and inflation are factored in (see Figure 5.4).

Figure 5.4 Grants received by Victorian regional councils (excluding Financial Assistance Grants)

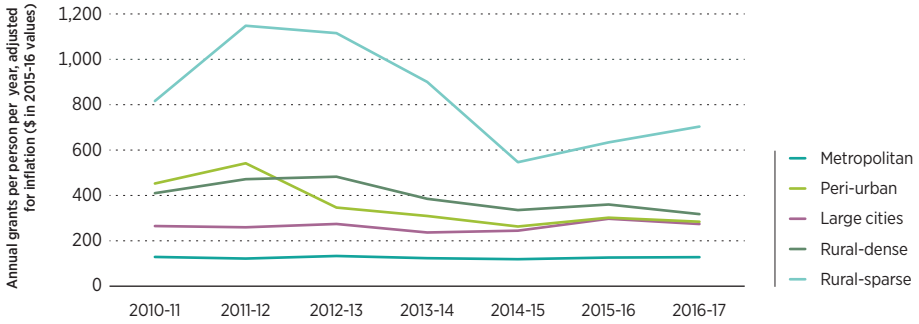


Source: Committee calculations based on revenue data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee; population estimates based on Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no 3218.0 (2017), using population estimates as at 30 June on the first calendar year of the financial year; values adjusted using price deflator used by Department of Treasury and Finance to calculate real gross state product, *Macroeconomic Indicators* <https://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 11 December 2017

These changes in grant levels have not been evenly distributed across all municipality categories (see Figure 5.5). While grants to large regional cities have been relatively stable (when adjusted for inflation and population change), peri-urban and rural councils have generally seen a decline.

259 Municipal Association of Victoria, *Submission 46*, p.8

Figure 5.5 Grants received by council types (excluding Financial Assistance Grants)



Source: Committee calculations based on revenue data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee; population estimates based on Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no 3218.0 (2017), using population estimates as at 30 June on the first calendar year of the financial year; values adjusted using price deflator used by Department of Treasury and Finance to calculate real gross state product, *Macroeconomic Indicators* <https://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 11 December 2017

This decline in grants for rural councils is partly explained by the fact that additional grant money was provided to a number of councils in 2011-12 and 2012-13 for natural disaster relief following the floods in 2010-11. However, changes to other grants programs have also contributed to the overall change in grant levels.

Changes to grants for roads were highlighted by a number of councils (see Box 5.1).

BOX 5.1: Grants for roads

Well maintained local roads and bridges in regional areas can be vital for local economies. Farmers rely on trucks being able to access their property to supply necessary goods (such as fertiliser and fuel) and to take produce or livestock to market. Roads and bridges can also be important for keeping residents connected and enhancing the liveability of rural areas.

Many regional municipalities have large local road networks and maintaining these roads is one of the major expenses for regional councils. Overall, regional councils spent $358.5 million on roads and bridges in 2016-17.[(a)] The Peri Urban Group of Rural Councils noted that roadworks can be up to 50 per cent of capital works budgets for some councils.[(b)]

Grants for roadworks are therefore particularly important. This is especially the case in municipalities with large road networks and small populations, where it would be difficult for ratepayers to cover the full cost of maintaining the local road network (see Section 3.3.5 of this report).

Councils receive grants for roads from both Commonwealth and State Governments through a variety of programs.

Commonwealth Financial Assistance Grants include a component specifically for local roads (though councils are not required to spend the money on local roads). Victorian regional councils were allocated $107.8 million through this program in 2016-17.[(c)]

The Commonwealth Government also provides funding through the Roads to Recovery Program. While this program is ongoing, the level of funding is variable. Between 2015-16 and 2017-18, the funding for this program was boosted, so that Victorian councils received a total of $164.6 million through this program in 2016-17.[d] However, this is expected to reduce to $75.5 million in 2018-19[e] (a return to the level before the boost in 2015-16[f]).

From 2011-12 to 2014-15, the State Government provided $1 million per year to each of 40 regional councils through the Country Roads and Bridges Program. This program lapsed in 2015 and was not continued. The Government has stated that it has committed to a 'much larger and more comprehensive program of funding for the construction, maintenance, resurfacing and repair of regional roads than that which was delivered via the previous Country Roads and Bridges Program.'[g]

However, Mr Tony McIlroy of Benalla Rural City Council told the Committee that Benalla has not received funding through other sources and has had to reduce its program of work on bridges.[h]

A number of councils expressed disappointment about the ending of the Country Roads and Bridges Program. For example:

> The **RURAL LIVING** Group of Councils acknowledges the previous government's Country Roads and Bridges Program. This was the first time that the Victorian Government had supported Local Government in such a way. The funding allocation ($1 million/council/year) did not reflect the amount of roads and bridges individual councils were required to maintain but played a vital role in addressing the infrastructure gap faced by small rural shires.[i]
>
> The country roads and bridges funding was the most significant, the most beneficial funding program experienced by Central Goldfields Shire Council. Its impact was real, with a noticeable and appreciable difference in works and addressing the infrastructure renewal gap.[j]

Murrindindi Shire Council believed that the Country Roads and Bridges Program was particularly helpful because it was non-competitive, consisted of a guaranteed amount (which facilitated planning) and required no co-contribution from the council.[k] The importance of factors like these for regional councils are discussed further in Section 5.5 of this chapter.

Overall, the Committee recognises the importance of grants for funding local roads in regional councils. The Committee notes with some concern the increasing asset renewal gap for a number of regional municipalities (see Section 1.3).

(a) Committee calculations based on data supplied by councils to the Victoria Grants Commission

(b) David Edwards, Chair, Peri Urban Group of Rural Councils, *Public Hearing*, 12 September 2017, p.2

(c) Data supplied by the Victoria Grants Commission

(d) Commonwealth of Australia, *Final Budget Outcome 2016-17* (2017), p.69

(e) Commonwealth of Australia, *Federal Financial Relations: Budget Paper No. 3 2017-18* (2017), p.50

(f) $68.4 million was provided in 2014-15 – Commonwealth of Australia, *Final Budget Outcome 2014-15* (2015), p.74

(g) Victorian Government, *Victorian Government Response to Legislative Council Environment and Planning Committee Inquiry into Rate Capping Policy First Report* (2016), p.3

(h) Tony McIlroy, Chief Executive Officer, Benalla Rural City Council, *Public Hearing*, 24 October 2017, p.4

(i) Rural Living Group of Councils, *Submission 25*, pp.6-7

(j) Central Goldfields Shire Council, *Submission 27*, p.4

(k) Murrindindi Shire Council, *Submission 39*, p.15

5.4.1 Cost shifting

> *'Cost shifting that is currently happening in areas such as flood management; reduced state share of expenditure in areas such as Maternal and Child Health services, libraries, school crossing supervisors and weed and pest control; additional legislative requirements such as the management of landfills; and additional administrative requirements such as reporting of food safety regulations, coupled with the impact of rate capping and the reduction in special grants funding, places additional pressures on council budgets, and increases the costs per head of population.'*[260]

For a number of services provided by councils, State and Commonwealth Governments provide partial funding. However, changes to grants programs for these services have meant that grants cover a decreasing proportion of the cost.

Councils noted that this puts them in a difficult position:

> ... the manner in which joint services funding continues to not keep pace with the increased costs of providing those services is another key concern of Council, which results in councils continually and increasingly subsidising what are fundamentally state responsibilities.[261]

> One off grants and recurrent funding from Federal and State Governments have declined, meaning that we either have to stop programs or pick up the bill. For services such as libraries and community resilience planning we have had no choice but to do the latter.[262]

Examples of cost shifting provided by councils include:

- libraries, for which the State Government originally provided 50 per cent of costs, but now provides 17 per cent; for rural and regional councils, the Municipal Association of Victoria estimates that library funding declined from 26 to 21 per cent between 2002-03 and 2014-15[263]
- school crossing supervisors, for which State Government funding was also 50 per cent originally, but which dropped to 20 per cent (though the Government has recently announced its intention to restore funding to 50:50[264])
- health services (including maternal and child health and home and community care); the Municipal Association of Victoria and others also argue that the unit prices paid by the State Government for these services are below actual prices[265]

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260 Hume Region Local Government Network, *Submission 52*, p.7

261 Bass Coast Shire Council, *Submission 51*, p.2

262 Mansfield Shire Council, *Submission 26*, p.3

263 Municipal Association of Victoria, *Submission 46*, pp.15-16

264 Hon. Luke Donnelan MP, Minister for Road Safety, 'Better School Crossings to Keep Kids Safe' (media release), 16 December 2016; Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.28, 38

265 Municipal Association of Victoria, *Submission 46*, pp.14, 17-20; Rural Councils Victoria, *Submission 49*, p.8; Murrindindi Shire Council, *Submission 39*, p.6

- independent panels for planning scheme amendments (previously funded by the State Government, now funded by councils)
- heritage advisory services (previously funded by the State Government) and heritage studies (previously 50 per cent funded by the State Government), which are now funded by councils.

The Municipal Association of Victoria noted the difficulty of precisely calculating the impact of cost shifting:

> It is not possible to comment conclusively and accurately on the actual levels of cost shifting that have occurred across the full gamut of services that councils provide on behalf of, or with the financial assistance of State Government or where the State has control over the levying of fees and charges. This would require forensic analysis at individual council level and an accurate determination of the real costs of service provision and levels of support for each service in each council.[266]

Warrnambool and Greater Bendigo City Councils estimated the impact on them of cost shifting for some services (see Tables 5.1 and 5.2).

Table 5.1 Estimated impact of cost shifting on Warrnambool City Council

Services where State Government funding has reduced	Estimated impact between 2011-12 and 2015-16 ($)
Home and community care	180,000
Library services	126,000
Maternal and child health	106,000
School crossing supervision	87,000

Source: Warrnambool City Council, *Submission 22*, p.4

Table 5.2 Estimated impact of cost shifting on Greater Bendigo City Council

Services where State Government funding has reduced	Estimated annual impact ($)
Libraries	994,201
School crossing supervisors	307,517
Panels for planning scheme amendments	140,000
Heritage advisory services	15,000
Maternal and child health services	333,000
Streatrader	21,804

Source: Greater Bendigo City Council, *Submission 45*, pp.5-6

266 Municipal Association of Victoria, *Submission 46*, p.13

A number of the changes that have been identified represent relatively small amounts. However, Murrindindi Shire Council stated:

> Whilst a number of these cost shifts may be small in their own right and experiencing only incremental change, in their totality they reflect a significant burden on local government at a time when traditional revenue increases are constrained.[267]

The Municipal Association of Victoria similarly argued:

> There is evidence that "marginal attrition" rather than significant annual reductions have affected the funding of services over a long period of time. In other words, the contribution of the annual cost-shift in these services to annual rate increases is quite small – the damage being not so much done by the indexation, as the starting level and cumulative marginal shortcomings in escalation.[268]

The Committee notes that some recent decisions have seen the State Government take on larger shares of funding. Most notably, in 2017 the Government committed to providing $1.8 to $1.9 million each year to fund State Emergency Services.[269]

Nonetheless, the Committee recognises that cost shifting has impacted on council finances. The Committee considers it important for other levels of government to carefully consider the impact of decisions on councils and how that impact should be managed.

5.5 Challenges with competitive grants

'In essence competitive grant funding programs mean that those who are most in need have the least capacity to participate in such programs.'[270]

Councils identified a number of problems with competitive grants programs which meant that grants did not necessarily provide the funding that councils needed:

- grants are generally for capital works, with few grants available to fund service delivery programs[271]
- programs tend to favour new projects rather than repairs[272]
- programs favour projects which are 'bright and shiny' rather than some of the more mundane services that councils offer (such as toilet blocks)[273]

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267 Murrindindi Shire Council, *Submission 39*, p.8

268 Municipal Association of Victoria, *Submission 46*, p.13

269 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.94, 96; Hon. James Merlino MP, Minister for Emergency Services, 'The Best Tools For Our State's Heroes' (media release), 2 May 2017

270 Murrindindi Shire Council, *Submission 39*, p.15

271 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.3

272 Murrindindi Shire Council, *Submission 39*, p.4

273 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.10

- grants may cover the cost of building infrastructure, but often do not cover the ongoing costs of maintaining and operating the infrastructure[274]
- some post-flood grants cannot be used for asset improvement, when asset improvement might be what is required to prevent future flood damage.[275]

These difficulties impact more heavily on councils facing larger financial challenges. For example, councils that have had to restrict their infrastructure spending to maintenance and not investing in new infrastructure will need grants for maintenance but not new projects. Where co-contributions are required from councils (see below), councils with less available cash are less able to get grants.

This can result in councils being unable to fund required infrastructure or services, particularly in an environment where other funding sources are limited.

5.5.1 The need for processes that recognise the limitations of rural councils

> *'... non-recurrent grant funding has a number of inherent challenges for small rural councils. In particular, non-recurrent grant funding is often won through a competitive process and is therefore an uncertain funding source, particularly for a small rural council if they are bidding against better resourced councils.'*[276]

A number of submitters and witnesses told the Committee that competitive grants programs tend to disadvantage rural councils:

- grants which are determined based on economic benefits or outcomes may disadvantage rural municipalities, where returns on investment may be lower due to lower populations and smaller economies[277]
- larger councils can devote more resources to developing applications for grants than rural councils, enabling them to produce higher-quality applications[278]
- some grants programs require co-contributions, which may be more of a challenge for regional councils than for councils with larger budgets.[279]

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274 Murrindindi Shire Council, *Submission 39*, p.4; Hume Region Local Government Network, *Submission 52*, p.7; Tony Wright, Chief Executive Officer, VicWater, *Public Hearing*, 12 September 2017, pp.4, 8

275 Surf Coast Shire Council, *Submission 15*, p.3

276 Murrindindi Shire Council, *Submission 39*, p.4

277 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing*, 10 November 2017, pp.11-12

278 West Wimmera Shire Council, *Submission 3*, p.2; Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, pp.2-3

279 Murrindindi Shire Council, *Submission 39*, pp.4-5; Regional Cities Victoria, *Submission 47a*, p.3; Bass Coast Shire Council, *Submission 51*, p.3; Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.2

The Committee heard that some grants are more highly contested now than previously and that this places pressure on regional councils. Corangamite Shire Council stated:

> Grants are becoming increasing contestable and difficult to "win" particularly where the primary driver is not economic. This has impacted the level of services provided to the community.[280]

The Committee heard several suggestions about ways to assist rural councils.

A number of councils advocated for non-competitive, ongoing, untied grants.[281]

West Wimmera Shire Council recommended funding rounds specifically targeting small rural municipalities.[282]

Ms Lucy Roffey, from Buloke Shire Council, noted that Regional Development Victoria had informally provided some assistance to the council with grant applications. She called for a more formal scheme providing more of this sort of assistance.[283] She also suggested an electronic portal for applications which could enable application forms to be prefilled, reducing the time it takes councils to fill out application forms.[284]

Given the difficulty in finding matching funding, Gannawarra Shire Council recommended:

> ... a more appropriate funding ratio for projects, programs and initiatives should be metro, 1 to 1; regional and fringe, 1 to 2; peri-urban and rural, 1 to 3; and small shire, 1 to 4.[285]

Ms Roffey noted that Buloke Shire Council often negotiates more favourable funding ratios. She indicated that it would be helpful if funding ratios were guaranteed rather than having to be negotiated every time.[286]

Some grant programs already work on these sorts of principles. The Living Libraries Infrastructure Program, for example, has a sliding scale for co-contributions, as set out in Table 5.3.

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280 Corangamite Shire Council, *Submission 56*, p.2

281 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.14; Murrindindi Shire Council, *Submission 39*, p.15; Tony McIlroy, Chief Executive Officer, Benalla Rural City Council, *Public Hearing*, 24 October 2017, p.5; Hume Region Local Government Network, *Submission 52*, p.6

282 West Wimmera Shire Council, *Submission 3*, p.2

283 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.32

284 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.32

285 Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, p.3

286 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.29

Table 5.3 Co-contributions required for the Living Libraries Infrastructure Program

Council type	Funding ratio
Small rural councils	No council contribution required
Larger regional and rural councils	$3 for every $1 contributed by the council
Regional cities	$2 for every $1 contributed by the council
Interface councils	$1.50 for every $1 contributed by the council
Metropolitan councils	$1 for every $1 contributed by the council

Sources: Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, p.6; Department of Environment, Land, Water and Planning, *Living Libraries Infrastructure Program 2017 Grant Guidelines* (2017), p.7

The Committee supports this approach and encourages the Government to consider it where possible and appropriate.

More generally, the Committee believes that grants programs need to recognise the difficulties faced by rural councils. The Committee has recommended the establishment of a grants program for small rural councils that takes these matters into account in Section 2.2.2 of this report.

FINDING 11: Competitive grants programs may not provide the funding that councils need and can disadvantage rural councils. Grants programs are required that recognise the limitations of rural councils.

FINDING 12: Where co-contributions are required from councils as part of grants programs, this can present a barrier for regional councils which are already experiencing financial challenges.

RECOMMENDATION 14: That, when establishing grants programs requiring co-contributions, the Government consider additional use of varying funding ratios for different council categories, including setting no co-contribution requirements for small rural councils, where possible and appropriate.

5.6 Difficulties with the indexation of fees

Councils charge user fees to partly recover costs for a number of services they supply. In some cases, these fees are determined by the State Government. Often the fees do not cover the full costs, with councils paying the difference from other revenue sources. Councils noted instances where changes in these fees have not kept up with increasing costs of delivering services, effectively forcing councils to provide larger subsidies:

> An example of this being Land Information Certificates ($20) which has remained unchanged since 1992. Statutory planning fees (set by the State) have also remained unchanged for many years. Presently Wodonga ratepayers cross subsidise developers to the tune of $0.4 million annually as a result.[287]

287 Wodonga City Council, *Submission 31*, p.4

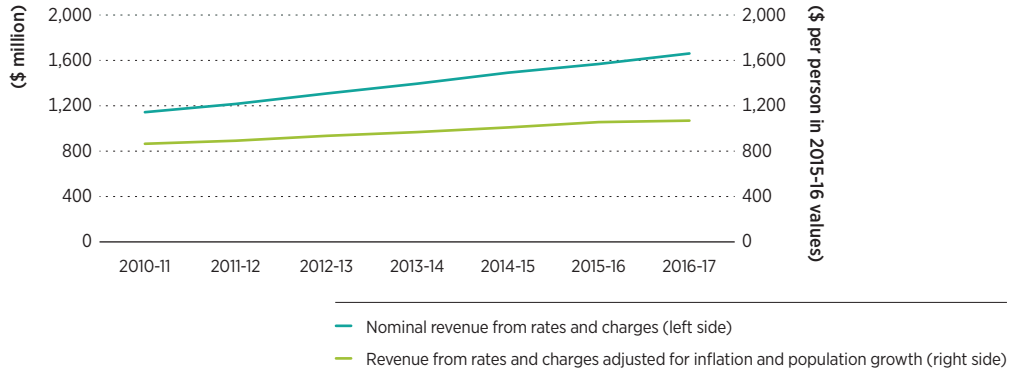
Several councils noted planning fees as an area where fees had not been indexed for a number of years.[288] Murrindindi Shire Council noted that, despite fees not increasing, the costs of administering the planning scheme have increased due to a number of changing requirements.[289] The Committee notes that changes to regulations in 2016 established planning fees as fee units, which are changed each year in line with inflation.[290]

Where fees are indexed at a lower rate than costs are growing, this can effectively become a form of cost shifting, with a larger share of the costs moved from the community to councils. As with other forms of cost shifting, the Committee considers that this is something that should only take place with due consideration of the impact and of how this impact is managed.

5.7 Changes to revenue from rates and charges

Between 2010-11 and 2016-17, regional councils' revenue from rates and charges increased from $1.1 to 1.7 billion (see Figure 5.6). This is equivalent to an average annual increase of 6.4 per cent.

Figure 5.6 Total revenue from rates and charges, all regional councils



Source: Committee calculations based on revenue data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee; population estimates based on Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no 3218.0 (2017), using population estimates as at 30 June on the first calendar year of the financial year; values adjusted using price deflator used by Department of Treasury and Finance to calculate real gross state product, *Macroeconomic Indicators* <https://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 11 December 2017

While population growth and increases in property values partly explain this increase, councils' decisions to increase their rates have also played a role in most cases. Of the 48 regional councils, 38 increased both their lowest and highest rate between 2011-12 and 2015-16.[291] When adjusted for population growth and inflation, the increase still averages 3.6 per cent per year.

288 Macedon Ranges Shire Council, *Submission 13*, p.4; Warrnambool City Council, *Submission 22*, p.4; Wodonga City Council, *Submission 31*, p.4; Peri Urban Group of Rural Councils, *Submission 41*, p.3

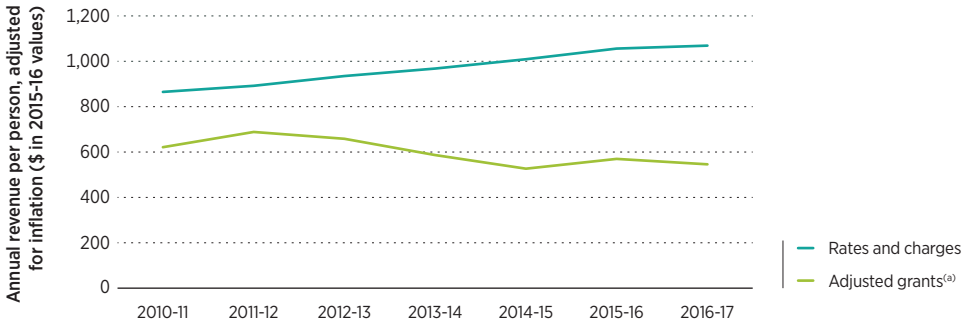
289 Murrindindi Shire Council, *Submission 39*, pp.5-6

290 Planning and Environment (Fees) Regulations 2016

291 Committee calculations based on responses to the Committee' questionnaire

The Committee notes that, overall, the amount of money received by regional councils as a result of rate increases has approximately matched the decline in grants revenue in some years (see Figure 5.7). Regional councils have therefore not had significant amounts of additional money to spend in those years, despite the rate increases.

Figure 5.7 **Changes in rates revenue compared to changes in grants**



(a) Grants revenue adjusted to recognise Financial Assistance Grants in the year for which they were intended rather than the year in which payments were made.

Source: Committee calculations based on revenue data supplied by councils to the Victoria Grants Commission, with some adjustments by the Committee; population estimates based on Australian Bureau of Statistics, *Regional Population Growth, Australia*, cat. no 3218.0 (2017), using population estimates as at 30 June on the first calendar year of the financial year; values adjusted using price deflator used by Department of Treasury and Finance to calculate real gross state product, *Macroeconomic Indicators* <https://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 11 December 2017

In some cases, though, individual councils have increased rates despite grants being stable or increasing. The increases in rates therefore cannot be simply explained as compensation for changes to grants programs. The growth in council expenditure (as discussed in Chapter 4 of this report) is no doubt also a significant contributing factor.

The Committee heard from a number of sources that the increasing rates bills have caused difficulties for some members of the community. The Committee was also told repeatedly that it was not practicable to put further pressure on ratepayers through rate increases. These concerns are discussed further in Chapter 6 of this report.

BOX 5.1: Hindmarsh Shire Council and rates

Hindmarsh Shire is one of Victoria's smallest municipalities in terms of population, with a 2016 population of 5,725 people.[a] However, the municipality covers 7,527 km^2 and has 3,177 km of local roads.[b]

Despite a relatively static population, the council's revenue from rates and charges increased by an average of 6.7 per cent per year between 2010-11 and 2015-16.[c] The rate for residential property increased from 0.51763 cents in the dollar in 2012-13 to 0.60401 in 2015-16. The rate for farm land and commercial land increased from 0.49175 cents in the dollar to 0.54361 over the same period.[d]

The council explained to the Committee:

> Council has always considered our community's reduced capacity to pay and been reluctant to increase rates at a high level. However, our inability to raise funds from other sources has meant that Council has been forced to increase rates by more than the current rate cap to maintain services and assets.[e]

(a) Australian Bureau of Statistics, Census 2016
(b) Hindmarsh Shire Council, response to the Committee's questionnaire, received 7 October 2016, p.1
(c) Committee calculations based on data supplied by the council to the Victoria Grants Commission
(d) Hindmarsh Shire Council, response to the Committee's questionnaire, received 7 October 2016, p.2
(e) Hindmarsh Shire Council, *Submission 33*, p.8

5.7.1 Rate capping

> ***'We do strongly support the continuation of rate capping, and I think it is worth pointing out that prior to rate capping, rates across Victoria increased by 100 per cent over 10 years. That was three times more than the consumer price index and the analytical living cost index, two and a half times the increase in wage earnings and approximately double the increase in the age pension for a couple. It was the fourth-highest increase of 40 household expenditures measured by the Australian Bureau of Statistics, 50 per cent more than the actual increase in cost incurred by councils as calculated by the Municipal Association of Victoria.'***[292]

The Fair Go Rates system (generally referred to as 'rate capping') was introduced in Victoria from 2016-17. Prior to rate capping, councils were able to decide how much to increase their rates revenue each year. With rate capping, the Minister for Local Government sets a maximum increase in the average rates bill that councils can charge each year. Councils can apply to the Essential Service Commission for an exemption to the rate cap. Without an exemption, councils may not exceed the cap (though they may choose a lower rate of increase).

For 2016-17 and 2017-18, the Minister set the rate caps at 2.5 per cent and 2.0 per cent respectively. These figures were based on forecast changes in the consumer price index.

292 Alan Nelson, Treasurer, Ratepayers Victoria, *Public Hearing*, 15 August 2017, p.3

The majority of people and organisations that the Committee met with supported the principle of rate capping:

> The VFF [Victorian Farmers Federation] are supportive of a local government rating cap, as a measure to curb ongoing hikes in local government taxation. The implementation of the cap though this year's local government budget cycle has required improved transparency and consideration of costs that a council chooses to factor into a budget. Having this year on year scrutiny is a positive to the process.[293]

> Rate capping has to stay. What needs to be reduced is the level of service for inappropriate things that the council provides.[294]

A number of councils acknowledged that the previous trend of increasing rates could not be sustained by ratepayers. For example:

> [Yarriambiack Shire] Council appreciates and understands the need for rate capping as it is simply unfair and unrealistic to continually increase rates to provide essential and much needed services to our community ...[295]

> Even if we were free to raise rates by more than 2 per cent, certainly at this time there is a limited appetite and ability in the community to be able to withstand that sort of increase.[296]

Mr Rob Spence of the Municipal Association of Victoria told the Committee:

> ... one of the perverse outcomes of rate capping has been a strong message coming out of the small shires now that the community cannot afford to pay anymore, and so there is an acceptance that sort of staying within the cap or at low numbers is going to be necessary for them going forward.[297]

However, several councils had planned to increase rates by more than the rate cap before rate capping was introduced.[298] For these councils, rate capping has required revision to their long-term plans and necessitated either reductions in spending or increases in revenue from other sources.

> ***'The rate cap that assumes all councils are the same is an unsophisticated approach which will hurt small communities.'***[299]

Not all stakeholders were supportive of rate capping. It was argued by some submitters and witnesses that councils should be able to decide on the appropriate level of rates for themselves. Others believed that a 'one size fits all' approach fails to recognise the diversity of local councils. For example:

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293 Victorian Farmers Federation, *Submission 29*, p.12

294 Frank Deutsch, *Public Hearing*, 10 November 2017, p.24

295 Yarriambiack Shire Council, *Submission 40*, p.3

296 Gregory Drumm, General Manager Corporate Services, Latrobe City Council, *Public Hearing*, 9 October 2017, p.2

297 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing*, 15 August 2017, p.3

298 See, for example, Warrnambool City Council, *Submission 22*, p.1; Wodonga City Council, *Submission 31*, pp.5-6; Murrindindi Shire Council, *Submission 39*, p.10; Greater Bendigo City Council, *Submission 45*, p.11

299 Mansfield Shire Council, *Submission 26*, p.3

> The cap takes no consideration of the unique characteristics of each Council, such as remoteness, regional significance, scale, language, road attributes, population density, socioeconomic status, and/or disadvantage … If there must be a cap, there should be a range, to take into consideration the unique attributes of councils, including the ability of the council to raise revenue through alternative methods.[300]

> If people are elected to set rates, they should be allowed to set rates, and if people do not like the rates they are setting, they can be voted out. This is the only level of government where we have this handbrake.[301]

> The imposition of a rate cap has however limited a council's ability to generate adequate funds to meet the specific requirements of that council. Not all councils are in the same stage of development and those who are building their infrastructure are at a distinct disadvantage to those who simply maintain a well-established asset base.[302]

Mansfield Shire Council argued that the rate cap was unfair, as the council had been frugal in terms of rate increases in previous years and was therefore starting on a lower base.[303] The Committee notes that there are significant differences between councils in terms of their rating effort and that not all councils started at the same level.

Councils are able to apply to the Essential Services Commission for exemptions to the cap where they believe that local circumstances require larger increases. Few councils have done this, with only nine applying for a variation for 2016-17 and five for 2017-18.[304] The Committee heard that applying for a variation requires significant effort and that rate capping establishes an expectation that councils not do this, making it politically difficult.[305] The costs for individual regional councils to prepare applications for rate cap exemptions in 2016 ranged from $3,000 to over $60,000 (or $80-100,000 of council officer time according to one municipality[306]).[307]

A variety of other concerns were raised about rate capping during this inquiry,[308] including the way that the rate cap is calculated (see Box 5.3).

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300 Wangaratta Rural City Council, *Submission 7*, p.2

301 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.5

302 Mitchell Shire Council, *Submission 21*, p.4

303 Mansfield Shire Council, *Submission 26*, p.2

304 Essential Services Commission, *Decisions on Higher Cap Applications 2016-17* (2016), p.7; Essential Services Commission, *Decisions on Applications for a Higher Cap 2017-18 to 2020-21* (2017), p.1

305 Australian Services Union, *Submission 20*, p.11; Mitchell Shire Council, *Submission 21*, p.5; Murrindindi Shire Council, *Submission 39*, p.11; Hume Region Local Government Network, *Submission 52*, p.9; Loddon Shire Council, *Submission 53*, p.7; Geraldine Christou, Acting Director, Sustainable Development, Greater Shepparton City Council, *Public Hearing*, 24 October 2017, p.17

306 Murrindindi Shire Council, response to the Environment and Planning Committee's questionnaire for the Inquiry into Rate Capping Policy (2016), p.3

307 Environment and Planning Committee, *Third Report into Rate Capping Policy* (2016), p.67

308 See especially Australian Services Union, *Submission 20*, pp.8-11; Victorian Farmers Federation, *Submission 29*, pp.11-15; Municipal Association of Victoria, *Submission 46*, pp.31-2, 41; McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), pp.24-5 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

The Victorian Parliament's Environment and Planning Committee has been conducting an inquiry into rate capping since 2015 which has looked at issues associated with rate capping in greater detail. This includes consideration of how the cap should be calculated. Four reports have been produced to date, with a final report due by 30 September 2018. To avoid replicating that committee's investigation, this inquiry has not focussed on the merits of rate capping.

In relation to regional council sustainability, the Committee notes that rate capping has restricted councils' ability to respond to financial pressures. However, the Committee does not consider that sustained, large rate increases should be relied on to solve councils' financial problems. Ratepayers only have a limited capacity to pay more, especially in regional areas.

Perhaps most importantly, rate capping by itself is not going to solve the problem of regional council sustainability. As Mr Ian Milburn told the Committee:

> Surely something like rate capping is purely a temporary solution — not even a solution — because inevitably governments will introduce it for a period of time, and then off it goes again … inevitably the rates will go up again after that, and then they will probably have to be increased too much to try and cover off the shortfalls that have been made in the past. What we really need to look at is: what is it that is causing the cost that we are faced with and how much out of balance are we in terms of what is in urban areas and the treatment of rural areas compared to urban? That to me is the central issue.[309]

The Committee agrees that a much broader approach is required to managing the financial situation of regional councils, as set out in Chapter 2 of this report. While restricting rate increases may be part of that broader approach, other actions will also be necessary to make regional councils sustainable.

Further concerns with councils' reliance on rates and the way the rating burden is spread are discussed in Chapter 6 of this report.

FINDING 13: After a number of years of sustained rates increases, the State Government introduced rate capping from 2016-17. Though some submitters and witnesses argued against rate capping, the majority of people that the Committee heard from were supportive of it, at least in principle. Multiple councils noted that ratepayers were already under stress as a result of previous rate rises and that increases could not continue. While recognising that councils are experiencing financial pressures, the Committee does not consider sustained, large increases in rates to be the solution.

309 Ian Milburn, Committee Member, Wycheproof Vision, *Public Hearing*, 12 October 2017, p.12

BOX 5.2: What should the rate cap be?

The rate caps for 2016-17 and 2017-18 have been based on forecasts of the consumer price index (CPI). However, a number of councils believed that this was an inappropriate figure to use, as several key costs for local councils increase at a higher rate than the CPI. For example, Warrnambool City Council argued:

> CPI is a measure of the price increases in a range of household expenditure items.
>
> The major cost driver for Council's budget is labour (currently averaging just under 3% per annum on a baseline annual cost of $30m) and other items such as concrete supplies, building materials, road making materials, waste disposal costs, chemicals, traffic management, plumbing & electrical services and supplies, etc. The cost of these items is generally, increasing at a rate well in excess of CPI.
>
> Given that rates subsidise the wide range of services that council's provide to the community it would seem reasonable for the income to move in accordance with the major cost drivers of the business.[(a)]

Wodonga City Council similarly stated:

> It is well documented that the CPI is not a valid measure of the costs for local government. The costs of infrastructure and social and community services alone generally exceed other cost increases in the economy, such as household goods measured by the CPI. This is due to councils cost base being predominantly wages and construction based, and not a basket of groceries, petrol, and rent/interest costs that make up the CPI.[(b)]

Up to 2013-14, the Municipal Association of Victoria calculated a 'local government cost index', which was intended to identify the changes in the costs incurred by councils. The Association found that 'local government costs typically increase by around one per cent above the consumer price index'.[(c)]

South Gippsland Shire Council suggested a number of other indices that are relevant to local councils and that differ from the consumer price index.[(d)] The rates for these are compared in Table 5.4.

Table 5.4 Average annual changes to price indices relating to local government costs (per cent)

	2014-15	2015-16	2016-17	2017-18
Consumer price index[(i)]	1.4	1.6	1.8	-
Public sector wages price index[(ii)]	3.2	2.9	2.3	-
Roads and bridges construction index[(ii)]	0.6	0.2	-2.7	-
Non residential building construction index[(ii)]	1.4	-0.1	-1.0	-
Rate cap	-	-	2.5	2.0

(i) Melbourne

(ii) Victoria

Source: Committee calculations based on Australian Bureau of Statistics, *Wage Price Index, Australia*, cat. no. 6345.0 (2017); *Consumer Price Index, Australia*, cat. no. 6401.0 (2017); *Producer Price Indexes, Australia*, cat. no. 6427.0 (2017)

In 2016-17, the cap (based on the forecast CPI) was higher than all these other indices. However, South Gippsland Shire Council noted that the roads and bridges construction index had been higher in the longer term and believed that it was likely to be higher in the future.[e] Mitchell Shire Council noted that enterprise bargaining agreements have also historically increased at a faster rate than the CPI.[f]

Table 5.5 presents the 10-year trends for the indices in Table 5.4.

Table 5.5 Average annual changes to price indices relating to local government costs, 2006-07 to 2016-17 (per cent)

Consumer price index[i]	2.4
Public sector wages price index[ii]	3.2
Roads and bridges construction index[ii]	2.9
Non residential building construction index[ii]	1.3

(i) Melbourne

(ii) Victoria

Source: Committee calculations based on Australian Bureau of Statistics, *Wage Price Index, Australia*, cat. no. 6345.0 (2017); *Consumer Price Index, Australia*, cat. no. 6401.0 (2017); *Producer Price Indexes, Australia*, cat. no. 6427.0 (2017)

The Committee recognises the importance of setting an appropriate rate cap but has not formed a view on exactly how that should be calculated. The calculation of the rate cap has been explored in more detail in the Environment and Planning Committee's Inquiry into Rate Capping Policy.

(a) Warrnambool City Council, *Submission 22*, p.4

(b) Wodonga City Council, *Submission 31*, p.3

(c) Municipal Association of Victoria, *Cost Index* <https://www.mav.asn.au/about-local-government/local-government-finance/Pages/cost-index.aspx>, viewed 12 December 2017

(d) South Gippsland Shire Council, *Submission 14*, pp.4-5

(e) South Gippsland Shire Council, *Submission 14*, pp.5, 7; compare Surf Coast Shire Council, *Submission 15*, p.3

(f) Mitchell Shire Council, *Submission 21*, p.5

6 The current rating system

6.1 Overview

> *'In a municipality with a low socio-economic ratepayer base overall, together with a large cohort of ageing ratepayers that may be asset rich and cash poor, a major challenge for the future will be around how the rates burden can be apportioned fairly and equitably.'*[310]

As discussed in Chapter 5, rates are one of the most significant revenue sources for Victorian councils. Through this inquiry, the Committee repeatedly heard that the current rating system is outdated and ineffective in providing fairness and equity across the State.

The amount each individual or company contributes is based on the value of their property, which does not necessarily reflect an individual's capacity to pay.

The distribution of the rates burden within municipalities can be unfair, with some groups paying much larger amounts than others. The rates burden also differs from one municipality to another. Regional residents often pay higher rates in proportion to the value of their land compared to metropolitan residents and often pay larger portions of their household income in rates.

The Committee considers that changes would enable a fairer and more equitable rating system.

6.2 Victoria's current rating system

Council rates are collected by each council from the owners of property within the municipality. Individuals' bills are determined by multiplying the value of their property by a rate in the dollar (see Figure 6.1). Councils are able to decide what rates in the dollar to charge people. Councils can decide to apply one rate to all properties or may establish any number of different categories with different rates. Many councils charge different rates in the dollar for residential, agricultural and commercial land. Some municipalities apply different rates to certain areas within the municipality, reflecting the different capacity to pay in these areas. Councils are restricted by state legislation to the highest rate being no more than four times the lowest rate.

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310 East Gippsland Shire Council, *Submission 10,* p.2

Figure 6.1 How council rates are calculated

Source: Department of Environment, Land, Water and Planning, *Calculating Rates* <https://www.localgovernment.vic.gov.au/our-programs/a-fair-go-rates-system-for-victorians/calculating-rates>, viewed 15 January 2018

As outlined in Section 5.7 of this report, council rates had been rising steadily in most municipalities prior to 2016-17.

The 'Fair Go Rates system', introduced in Victoria from 2016-17, legislates an annual rate cap set by the Minister for Local Government. This has limited councils' ability to continue increasing rates (see further discussion in Section 5.7.1 of this report).

6.2.1 Benefits of the rating system

The Municipal Association of Victoria outlined the benefits of the rating system to the Committee:

> The theoretical basis for councils raising revenue through rates is strong. They are an extremely efficient source of taxation, with little deadweight loss associated with this form of revenue. Key reviews have suggested that rates are a 'good' tax — there is little distortion in economic activity through their application, it is simple and relatively cheap to collect, tax avoidance is difficult and it is spatially constrained, which makes it suitable for use by smaller governmental units, such as councils.[311]

The McKell Institute has similarly noted:

> The scholarly literature is almost unanimous in its endorsement of the use of property based taxation for subnational government. The principal reasons for this preference are the immobility of the tax base, the transparency of the tax impost, relative stability, ease of administration and allocative efficiency. Immobility is an especially important trait for a subnational tax because of the relative ease of migration between subnational governments which might otherwise result in destructive tax competition ... Land tax is also a relatively stable base — unlike income tax or mineral royalties — and the tax impost is largely resistant to economic shocks.[312]

311 Municipal Association of Victoria, *Submission 46,* pp.30-1

312 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), p.20 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

Bass Coast Shire Council emphasised the importance of flexibility in determining what a fair distribution of the rates burden looks like in a particular municipality. The council appreciated the fact that the existing system allows councils to make an assessment of how the burden should be distributed (through the use of differential rates), based on local circumstances.[313]

6.2.2 Community understanding of the rating system

> *'Rates are very complex to understand and explain, and are often subject to negative media. Members of the community do not understand, I guess, the breadth and the depth of the services that council provides in return for the rates.'*[314]

The Committee heard from a number of sources that many ratepayers believe that their rates bills are too high and that they do not know what their money is spent on. The Municipal Association of Victoria explained:

> Most residents who raise the question "what do I get from my rates" think in the limited terms of what they actually see and use and not the wider community spending and investment that benefits society. In practice they tend to take a narrow and segmented view that focuses on a weekly rubbish collection or areas where they may encounter a specific problem and they are largely unconscious to benefits they receive but which are less obvious. It is considered likely that if put to them they favour things like the need for public safety, public open space, traffic management and arts and cultural events. These items are not free.
>
> Overlaying this is the fact that rates are the most visible of taxes. They tend to be the largest single bill encountered by households in the mail, lumpy, either requested quarterly or by single instalment. They are argued to be excessive. However, if they were to be compared with the aggregate value of other bills, say for example the suite of utilities consumed or insurances required by a household, the perception would be different.[315]

A number of submissions to this inquiry outlined that there is a misconception amongst ratepayers that the imposition of council rates should be a payment for service.[316] Local Government Victoria has noted that rates are based on a 'wealth tax' principle, rather than 'benefit' principle:

> The "wealth tax" principle implies that the rates paid are dependent upon the value of a ratepayer's real property and have no correlation to the individual ratepayer's consumption of services or the perceived benefits derived by individual ratepayers from the expenditures funded from rates.

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313 Bass Coast Shire Council, *Submission 51*, p.2

314 Geraldine Christou, Acting Director, Sustainable Development, Greater Shepparton City Council, *Public Hearing*, 24 October 2017, p.17

315 Municipal Association of Victoria, *Submission 46,* p.44

316 Horsham Rural City Council, *Submission 12,* p.6; Municipal Association of Victoria, *Submission 46,* p.44

> A popular complaint levelled at councils is that "the rates I pay have no correlation with the services I consume or the benefits I receive". This argument is based on the benefit principle (the opposite of the wealth tax principle) that argues there should be a clear nexus between consumption/benefit and the rate burden. A user pays system is closely reflective of the benefit principle.[317]

Greater Geelong City Council told the Committee that there is a 'Need to educate ratepayers about how [the] rating system works'.[318] It noted that:

> Rates are in the form of a general purpose levy and the benefits that a ratepayer may receive will not necessarily be to the extent of the tax (rates) paid. Benefits are consumed in different quantities and types over the lifecycle of the ratepayer (eg. maternal and child health, libraries and aged care roads and footpaths, local laws).[319]

Mr Bo Li, from the Victorian Local Governance Association, noted that some councils are making efforts to explain to ratepayers how their rates are used. However he questioned whether this is being done in the most effective way:

> Quite typically we see along with your rates notice a pie chart saying out of every $100 that you collect, $60 might go to this, $30 might go to that and $5 might go to this. That is one way of communicating. Whether that is resonating with the actual ratepayers or not, I am not quite sure, whereas some alternatives have been put forward by one of the ex-council CEOs who asked what is wrong with saying, 'Out of your rates you are paying for the library to open for X amount of hours, for X amount of square metres to be mowed and X square metres of parkland to be maintained'. Personalising the message may get a better buy-in. Again this is an area that from a council operational perspective needs to be looked at to essentially ensure that everybody is aware of what their rates go into.[320]

Mr David Jochinke of the Victorian Farmers Federation agreed that better explanations of what rates are paying for is important:

> We encourage our members to make submissions on rating strategies, but also we ask that the councils produce documentation to prove or demonstrate where funds have gone to different services, to demonstrate what their priorities have been.[321]

The Committee heard evidence that councils are experiencing increased community expectations and demand for facilities and services and that community objections often make it difficult for councils to cut back services (see Sections 4.2.5 and 7.3.2 of this report).

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317 Local Government Victoria, *Local Government Better Practice Guide – Revenue and Rating Strategy* (2014), pp.7, 9

318 Greater Geelong City Council, *Submission 66*, p.1

319 Greater Geelong City Council, *Submission 66*, p.3

320 Bo Li, Senior Policy Adviser, Victorian Local Governance Association, *Public Hearing*, 15 August 2017, p.8

321 David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, p.3

The University of Technology Sydney's Centre for Local Government highlighted the importance of re-establishing the link between revenue and expenditure, advocating for greater use of user charges (see Section 7.6).[322]

The Committee is of the opinion that many ratepayers do not fully understand what their rates pay for. Recommendations aimed at improving ratepayers' understanding are set out in Section 2.5.

FINDING 14: Many ratepayers do not have a good understanding of what they and their community receive from council rates. Better communication in relation to what services cost and what rates are paying for may assist in building a community understanding of the pressures on councils.

6.3 Inequities in the rating system

A number of submitters and witnesses told the Committee that they considered the current rating system to be inequitable. Key concerns included:

- property values do not necessarily reflect an individual's capacity to pay
- there are large discrepancies in rates bills between municipalities, relative to property value
- changes in property value due to rezoning can increase a person's rates dramatically despite them having no additional capacity to pay.

6.3.1 Property values do not reflect capacity to pay

> *'The current rating system is essentially a form of wealth tax. Rates are based on the total property value which may not necessarily reflect the income level of the property Owner as with pensioners and low income earners and their capacity to pay.'*[323]

Mr Craig Niemann, from Greater Bendigo City Council, told the Committee that the valuation system 'is not built on capacity to pay; it is built on what you own.'[324] The 2014 Local Government Better Practice Guide notes that:

> As rates are levied on unrealised wealth in the form of property, their nexus with ratepayers' capacity to pay may be tenuous — ratepayers may be asset rich but cash poor or vice versa. Councils have been provided with a number of rating instruments that allow them to address the capacity to pay issue to varying degrees, including differential rates, waivers and deferrals.[325]

322 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), pp.17-18, 26 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

323 South Gippsland Shire Council, *Submission 14,* p.3

324 Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.8

325 Local Government Victoria, *Local Government Better Practice Guide – Revenue and Rating Strategy* (2014), p.9

Greater Geelong City Council highlighted the problem a 'wealth tax' creates:

> Property taxes do not recognise the situation where ratepayers are "asset rich" and "income poor". In some cases ratepayers may have considerable wealth reflected in property they own but have a low level of income. Examples include pensioners, self funded retirees, businesses subject to cyclical downturn, households with large families and property owners with little equity but high levels of mortgage debt.[326]

The Committee heard that this issue is particularly evident in relation to farmers. The Victorian Farmers Federation explained to the Committee that:

> It has been a long held belief and concern of the VFF [Victorian Farmers Federation], that the local government rates derived from farm land ratepayers are inequitable. As farm businesses have become increasingly aggregated the rating burden faced by individual farmers has been compounded ...
>
> Extensive analysis completed by the VFF on the 2014/2015 financial year showed that on average in councils who apply both a farm and commercial differential rate, farm businesses are paying 2.5 times as much in rates as other commercial businesses. This equates to an average of $4,008 more for farming businesses, simply due to the model of striking rates based on land valuations. In no way does this model and discrepancy in rate payments capture the profitability of the farm or commercial business ...
>
> The rating strategy for rural and regional councils must be re-thought. The currently favoured model of capital improved value (CIV) and the use of land valuations for striking rates assessment notices, places undue financial stress on farming businesses. The value attributed to farm land does not reflect the farm businesses revenue generation nor capacity to pay.[327]

Farmers may own large areas of land, but have low relative incomes. In contrast, other commercial businesses may own less land and have much higher incomes. The Municipal Association of Victoria noted that farmers' revenue is also susceptible to greater fluctuations as seasonal and environmental factors influence their businesses.[328] Mr Leigh Barret highlighted this inequality to the Committee:

> In the Colac Otway Shire the lack of fairness in rating would be for farming enterprises, I know 2 farmers who pay over $20k, and they get little for that. A business in town that has a similar turnover and probably more profitable will only pay a fraction perhaps a quarter or a fifth. This serious inequity needs to be addressed ...[329]

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326 Greater Geelong City Council, *Submission 66*, p.3

327 Victorian Farmers Federation, *Submission 29*, p.3

328 Municipal Association of Victoria, *Submission 46*, p.62

329 Leigh Barrett, *Submission 17,* p.1

The Victorian Farmers Federation advocates for farmers' rates to be assessed on house and curtilage only (meaning farmland used for agriculture production would not be rateable).[330] This view was supported by other submitters to this inquiry.[331] In its report *Inequalities in Rural Rating*, the Victorian Farmers Federation noted:

> The value of farm land does not necessarily reflect the income potential of the land — agricultural land is not always valued on the basis of productivity. For example peri-urban land may be valued according to future development potential, while coastal land may be valued for aesthetic reasons rather than productive.[332]

While only charging rates on house and curtilage would reduce the burden for farmers, the Committee notes that it may increase the burden significantly on other ratepayers (such as urban residents), especially in municipalities which currently have a high dependence on rates from farmland (see Section 6.4.1). It may also raise equity issues with respect to small business owners, if they are still required to pay rates for both their homes and business properties.

The Committee notes that the current rating system provides other mechanisms aimed at addressing capacity-to-pay issues. These include exemptions, concessions, discounts, waivers, rebates and the application of differential rates.

However, even with these mechanisms in place, the Committee heard extensive evidence relating to the unfair rate burden and the reduced capacity to pay experienced by farmers and retirement village residents. Issues associated with these two groups are discussed in Section 6.4 of this chapter. The Committee believes that changes to the rating system should be investigated, with the rates paid by farmers one of the issues that should be considered (see Section 2.2.1 of this report).

FINDING 15: The current rating system does not always reflect the capacity of an individual to pay, as it measures capacity through property ownership, which does not necessarily reflect available income.

FINDING 16: Some farmers are required to pay disproportionately large rates bills which do not necessarily reflect their capacity to pay. The Victorian Farmers Federation and others have advocated for only charging rates on the house and curtilage of farms and not on productive farmland.

330 Victorian Farmers Federation, *Submission 29*, pp.8, 10

331 Chris Sharkey, *Submission 16*, p.2; Chris Sharkey, *Public Hearing*, 12 September 2017, p.4

332 Victorian Farmers Federation, *Inequalities in Rural Rating – A Comparison of the Rates on Businesses in Rural and Regional Victoria* (2015), p.6 (provided to the Committee by Victorian Farmers Federation, *Submission 29* and Chris Sharkey, *Submission 16*)

6.3.2 Inequality in rates bills between local councils

A number of councils highlighted the inequality in the rates paid for similarly valued properties between municipalities.

Towong Shire Council provided the Committee with a breakdown of the rates paid on an $800,000 property (see Table 6.1) across multiple municipalities, noting:

> With the current rating system a residential property in one municipality will pay different rates or property tax to that in another municipality ... the rates can vary from $962 to $6,990 per annum, depending on the local government area where the property is located. The contrast in the rates as a % of median household income is striking – from 1% in the City of Stonnington to 10% for the property owner in the Towong Shire.[333]

Table 6.1 Difference in rates paid across municipalities

Council	Rates on a $800,000 residential property	Median annual household income	Rates as % of median household income
	$	$	per cent
Stonnington City Council	962	89,544	1
Mornington Peninsula Shire Council	1,684	54,808	3
South Gippsland Shire Council	4,339	47,840	9
Buloke Shire Council	6,990	38,584	18
Towong Shire Council	4,201	44,200	10

Source: Towong Shire Council, *Submission 48,* p.8

Greater Geelong City Council warned the Committee about making comparisons of total rates paid per property between municipalities and instead suggested that any comparison must focus on the average valuation and the average rates payable. This accounts for the fact that property values differ considerably between municipalities.[334]

Figure 6.2 shows the average rates bill per residential property assessment. The data indicate that people in peri-urban councils pay the highest average rates on residential properties. Residents in metropolitan councils, large regional cities and rural-dense councils pay similar amounts. Residents in rural-sparse municipalities pay slightly less in rates per residential property. The similarities reflect the fact that, although some councils charge significantly higher rates in the dollar than others, the properties in these municipalities are generally valued lower.

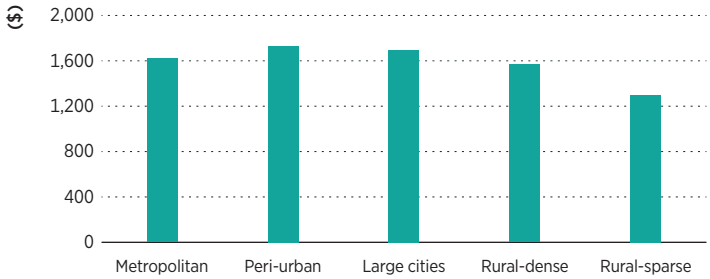
333 Towong Shire Council, *Submission 48,* p.8

334 Greater Geelong City Council, *Submission 66*, p.4

This can be seen in the 'rates effort', which measures the ratio of rates revenue to property values. Horsham Rural City Council told the Committee that the rates effort of regional councils is higher when compared to metropolitan municipalities, noting its rates effort is 0.67% (the recommended range is 0.20% to 0.70%).[335] Ms Lucy Roffey from Buloke Shire Council told the Committee:

> While our rates are higher per dollar in capital-improved value, our average residential rate for property was $863, compared to $1500 for the rest of Victoria. That is because our average housing prices are obviously a lot lower. But we have a rating effort of 0.96 per cent, compared to 0.47 per cent on average for the rest of Victoria, so we really cannot put much more pressure on the rating system.[336]

Figure 6.2 Average rates bill per residential property assessment, 2016-17



Source: Committee calculations based on data from Department of Environment, Land, Water and Planning, *Know Your Council* <https://www.knowyourcouncil.vic.gov.au>, viewed 12 February 2018

However, due to lower incomes, ratepayers in rural councils pay a higher percentage of their income towards rates (see Table 6.2).

Table 6.2 Percentage of household income consumed by rates

Type of local government	Average household income	Percentage of household income consumed by rates
	$	per cent
Rural councils	42,659	4.3
Regional councils	64,270	2.8
Interface councils	60,632	3.0
Metropolitan councils	79,622	2.3

Source: Baw Baw Shire Council, Presentation, *Public Hearing*, 9 October 2017, p.9

As a result, rates present a larger burden to regional ratepayers than they do to many metropolitan ratepayers. In addition, farmers often have multiple rated properties and therefore pay multiple rates bills (see Section 6.4.1), increasing the amount paid per person.

335 Horsham Rural City Council, *Submission 12,* p.6

336 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, pp.27-8

FINDING 17: There are large discrepancies between the rates in the dollar set by different municipalities. However, variations in property values mean that the average values of rates per property are relatively similar across municipality types. Given the lower household incomes in rural areas, though, a larger proportion of household incomes in rural municipalities is directed towards council rates compared to metropolitan municipalities.

6.3.3 Consequences of property revaluations for ratepayers

'The current legislative rating framework does not universally cater for significant revaluation property movements in rates ("rates shock") on a case by case basis. Ratepayers are surprised to receive a rate notice from one year to the next with significant and unexpected rate increases. We expect that the 2018 revaluation and results will once again highlight this weakness with ratepayer discontent. The revaluation results in no windfall gain for council but a redistribution of the rating burden.'[337]

The Committee heard about negative consequences that can arise for individual ratepayers due to property revaluations. Councils told the Committee that peri-urban areas were experiencing an increase in land value, without a change to residents' earning potential.[338] Whittlesea City Council highlighted the same concern and raised the need for rate assistance in areas with a high proportion of rural properties:

> Despite being one of the fastest growing municipalities in Australia in terms of population growth, almost 70% of the City of Whittlesea is rural land, where agriculture is the primary use. The impact of Council rates on commercial farming enterprises has been increasing considerably as the value of local farming properties has increased. This is of particular concern to those properties within the realigned urban growth boundary, which have seen extraordinary increases in value due to developer interest. Although the land has increased in value, farming as a business faces similar levels of profitability. An increasing rate burden in the context of unchanged profitability places significant financial constraints on the farming community.[339]

The Committee heard evidence from the Latrobe City Farm Ratepayers Association that some farmers in the City of Latrobe have experienced significant and unexpected rates rises from rezoning:

> For example, living on the boundaries of the town and the residential area ... If there is a zoning change, that affects us dramatically. If it moves from a farm rate to rural residential, that allows a 5 or 10-acre block to come in. They will invoke a potential rate, which we feel strongly about. Without any planned subdivision being in place, as soon as that zoning change is put in place, the potential rate comes in, and more or less your economies of scale are gone.
>
> ... it is normally only a proportion of their farm to start with, and they have got to cease operating because they cannot afford to pay for the rates.[340]

---

337 Greater Geelong City Council, *Submission 66*, p.4

338 Wellington Shire Council, *Submission 55*, p.3

339 Whittlesea City Council, *Submission 50*, p.9

340 Graeme O'Hara, President, and Bill Cawcatt, Vice-President, Latrobe City Farm Ratepayers Association, *Public Hearing*, 9 October 2017, pp.2-3, 5

The Committee is concerned that these unpredictable and unexpected changes in property values are impacting on residents that do not have the capacity to pay the rising costs. The Committee recognises the importance and benefits of rezoning. It supports councils in determining how areas of land within their municipality should be categorised. The Committee believes that councils must be mindful of the impacts that rezoning and large property value changes have on ratepayers and utilise the mechanisms available to them to lessen the financial consequences of rezoning on ratepayers.

BOX 6.1: Frequency and responsibility for valuations

Victorian councils currently carry out property valuations every two years.[a] The Victorian Parliament recently adopted changes that mean from 2019:

- general valuations will be conducted annually (as opposed to biennially)
- the Valuer-General Victoria will conduct all valuations (with councils able to nominate themselves as the valuation authority in their area until 2022).[b]

Prior to the legislation passing Parliament, several councils expressed concern about the proposed property valuation reform.[c] Mr Tom O'Reilly, from Gannawarra Shire Council, told the Committee his primary concern with changes to the valuation process were that it may 'increase the administrative burden and that indirectly would increase the cost to our council.'[d]

On the other hand, Mr Gordon Hamilton from the Better Local Government Association raised concerns with the Committee about councils' current use of private valuers:

> With respect to the revenue perspective, an inherent flaw within the current rating system is the lack of transparency by which values of properties are determined for rating purposes. I am of the opinion that the system of council engaging private valuers is open to abuse, notwithstanding the protections that are intended to be built into the system.
>
> … the committee should give consideration to recommending to the Victorian government that (a), it should follow the lead of the New South Wales government where all municipal valuations have been taken out of the hands of private valuers appointed by councils and have been placed into the hands of the valuer-general; (b), alternatively any intellectual property generated by valuers engaged by municipalities should be the property of that municipality; and (c), the matrixes used by the valuers and all underlying algorithms should be freely available for analysis by ratepayers or experts engaged by ratepayers.[e]

During debate in Parliament on this legislation, non-government members raised concerns about the changes relating to increasing the cost of the process, job losses and potential conflicts of interest associated with Valuer-General Victoria performing the valuations, given it is a state agency.[f]

When introducing the legislation, the Government explained the changes and rationale behind centralising valuations with Valuer-General Victoria and noted the cost savings councils would experience:

> The Valuer-General is best placed to undertake annual land valuations as they are able to let out larger contracts for valuation services across municipal boundaries, and have the expertise to manage valuation standards.

> ... Along with centralising the process, the Government will pay for the full costs of revaluations, with councils paying the full cost of the supplementary valuation component. It is estimated that councils will save $15 million every two years under the new arrangements.
>
> The change will also resolve the inconsistency of the current arrangement, in which some valuations are undertaken by in-house valuers, some by the Valuer-General, and some by contract valuers across municipal boundaries.
>
> The changes will begin in 2019, but Councils will have the opportunity to opt-out of the centralisation arrangement until 30 June 2022 to assist in the transition to the new arrangements.
>
> For those councils that do not opt out of the centralisation, the Labor Government will provide funding to help with the transition, including administration, IT and other costs.(g)

(a) *Valuation of Land Act 1960*, s.11

(b) State Taxation Acts Further Amendment Bill 2017

(c) Mount Alexander Shire Council, *Submission 57*, p.5; Greater Geelong City Council, *Submission 66*, p.1

(d) Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, p.4

(e) Gordon Hamilton, President, Better Local Government Association, *Public Hearing*, 24 October 2017, pp.8, 9

(f) *Victorian Parliamentary Debates*, Legislative Assembly, 16 November 2017, pp.3940-1 (Hon. Michael O'Brien MP); *Victorian Parliamentary Debates*, Legislative Assembly, 16 November 2017, pp.3949-50 (Ms Ellen Sandell MP); *Victorian Parliamentary Debates*, Legislative Assembly, 16 November 2017, p.3959 (Mr Graham Watt MP)

(g) Hon. Tim Pallas MP, Treasurer, 'Fairer and More Consistent Land Valuations for Victorians' (media release), 2 November 2017

6.4 The use of differential rates

> ***'One of the challenges, of course, is that while one part of the farming sector might be down, another might be up. Should it be 20? Should it be 15? What is the answer? At some stage we have to make a value judgement. Someone has to sit down and make a subjective judgement on what is the appropriate level of rates for, for example, a farm. One of our councillors is the local undertaker. He runs a chapel. He will get up and he will say equally, "I think my rates are far too high based on the assets that I use and the usage", so it is really, really difficult.'***[341]

Differential rates allow councils to set different rates in the dollar for different categories of rateable land. For example, a council may have differential rates for farmland, various categories of residential property or commercial/industrial properties – each paying a higher or lower rate in the dollar.

The lowest differential rate cannot be less than 25 per cent of the highest differential rate declared by the council.[342]

The availability and application of differential rates provides the current rating system and councils with the opportunity to consider (to an extent) the diversity and capacity to pay amongst its ratepayers.

341 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.14

342 *Local Government Act 1989*, s.161(5)

The *Ministerial Guidelines for Differential Rating* specify that councils 'must give consideration' to differential rates for farmland and retirement village land,[343] but do not require them.

The Committee explored the application of differential rates for these two categories.

6.4.1 Farmers

Of the 48 regional councils, 45 have a farm rate category or equivalent. Greater Bendigo City Council told the Committee that its rationale for applying a differential farm rate is to 'take account of the restricted access to many City services' that farmers have and:

- To encourage the continuation of farming pursuits on rural land in support of the strategic objective to support the economic development of the agricultural sector;
- To recognise the size of the landholding required to conduct a farm business is far greater than other nonfarm businesses with similar turnover and (pre-tax) profitability. Therefore farms, in comparison, have a higher valuation and would pay higher rates if a lower differential was not applied; and
- To recognise farm profitability is affected by weather which means t hat their income is more susceptible and fragile than other businesses.[344]

The Victorian Farmers Federation explained to the Committee that differential rates are used to 'address equity issues arising from levying municipal rates on the basis of capital improved value'. However, the organisation noted that farm differentials are not being consistently applied across the state and called for differential rates for farmland to be compulsory.[345]

Figure 6.3 highlights the ranges of rates paid for each regional municipality. Farm rates are indicated with crosses (x) on the graph. For the majority of councils, these rates are located at the bottom or towards the lower end of the range (meaning the rate in the dollar applied to the farm category is one of the lowest applied within the municipality). However, in some rural municipalities, the average value of farms may be significantly more than urban houses, leading to higher bills for farmers.

Councils are constrained in their ability to set larger differentials by the provision in the Local Government Act which means that the lowest differential rate within a municipality can be no less than 25 per cent of the highest rate.[346]

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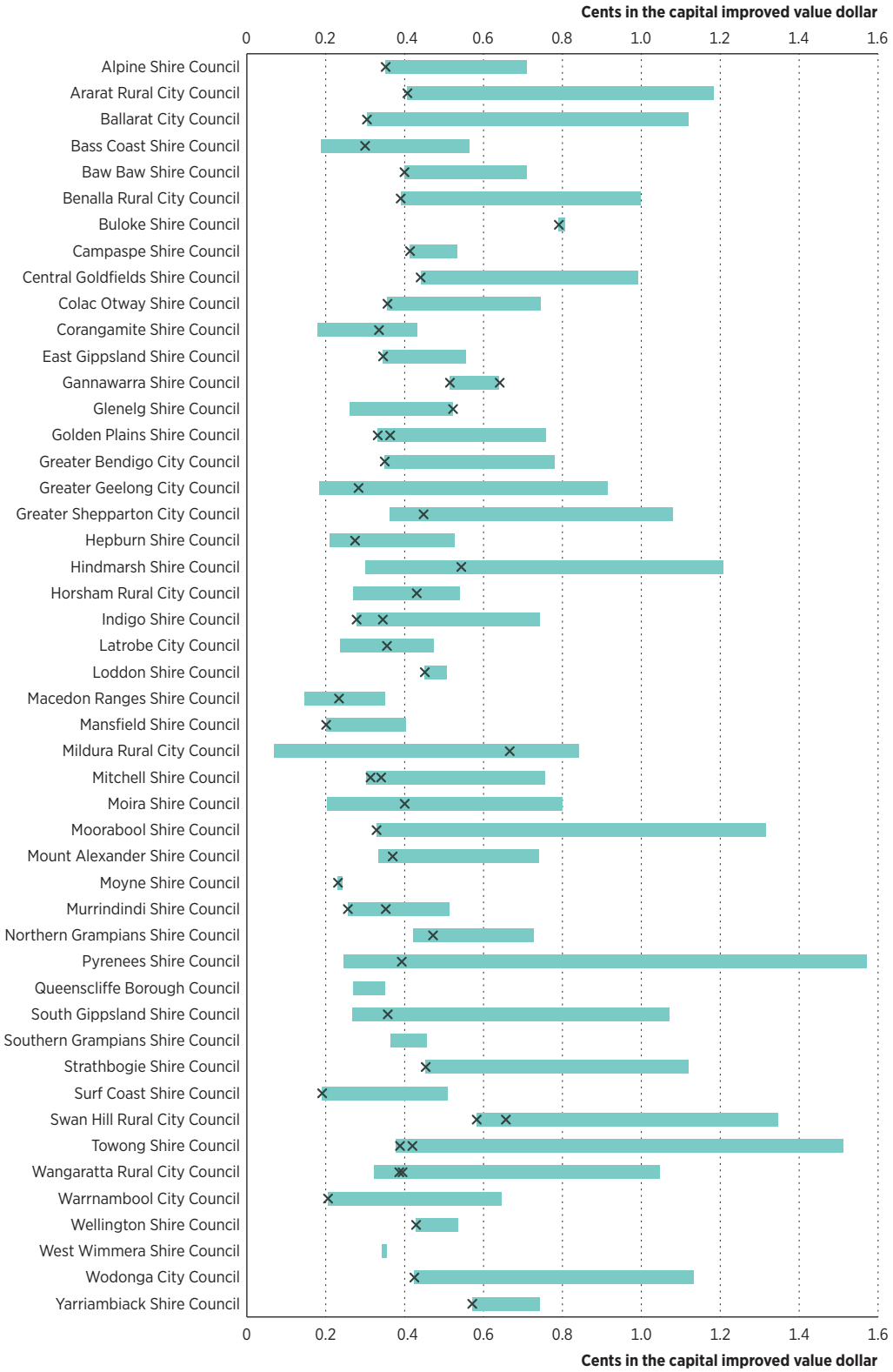
343 Department of Planning and Community Development, *Ministerial Guidelines for Differential Rating* (2013), p.8

344 Greater Bendigo City Council, *Submission 45*, p.10

345 Victorian Farmers Federation, *Submission 29,* p.10

346 *Local Government Act 1989*, s.161(5)

Figure 6.3 Ranges of rates for regional municipalities, 2015-16



Note: Farm rates or equivalent are marked by a cross

Source: Committee calculations based on councils' responses to the Committee's questionnaire

Even with differential rates, the Committee heard about the exorbitant rate assessments that some farmers receive:

> I have a member who pays over $100 000 worth of rates, and he jokingly asked me, 'Do you know what colour a grader is?', because he does not know. The feeling is not necessarily the fact that the council does not have the desire to look after them or give them the ability to grade every road around their property. It is that they do not have the capacity within the current system, being once again the fact that they have got legislative requirements and community expectations to meet, as well as grading every road outside of the city limits. So there is a feeling of frustration. There is a feeling of inequity there ...[347]

> At present, our municipal farm rates is one of our largest annual accounts. The 2015/16 rate bill was $30,000 including the Fire Service Levy.[348]

The Committee also heard a number of other concerns about the way agricultural properties are being rated. Mr Colin Fenton told the Committee that 'there has been land that has partial irrigation on it and the farms are actually being charged the rating of the irrigated rate.'[349] This results in ratepayers being subjected to a higher rate in the dollar than the production use of the land reflects.

> ***'... there is one ratepayer in the north-west of the Gannawarra shire who is paying $38 000 in rates ... If you live in either Cohuna or Kerang, you have got bitumen roads, you have got kerb-to-kerb guttering, you have got all the amenities under the sun, and people on average will pay anywhere between $1000 and $1800 a year for rates. Yet you have got a person who is paying $38 000 who gets his dirt road graded once every four years.'***[350]

Another issue raised during this inquiry in relation to farm rates was that farmers often receive multiple rate notices.[351] Mr David Jochinke from the Victorian Farmers Federation explained this issue to the Committee:

> In a lot of circumstances we see that farmers have multiple rate notices. Traditionally it has been put down to the selection size, be it mile by mile or mile by half mile in many areas, and therein lies a great issue of not only councils understanding how many farmers are actually ratepayers but then also when we look at the statistics to talk about who the farmers are, how much is their average landholding aggregate, how they can be better serviced, what is the return on investment per se for those individuals — it is very hard to identify. Then you straddle that with many farmers having landholdings in two if not three or four council areas. So in a lot of areas we are seeing multiple rate notices being put out within the council to the one enterprise.[352]

The Committee notes that most regional councils offer ratepayers in this situation a Single Farm Enterprise Exemption, which allows farmers to pay the municipal charge and/or the fixed Fire Service Property Levy charge only once.

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347 David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, p.6

348 Chris Sharkey, *Submission 16*, p.1

349 Colin Fenton, *Public Hearing*, 13 October 2017, p.2

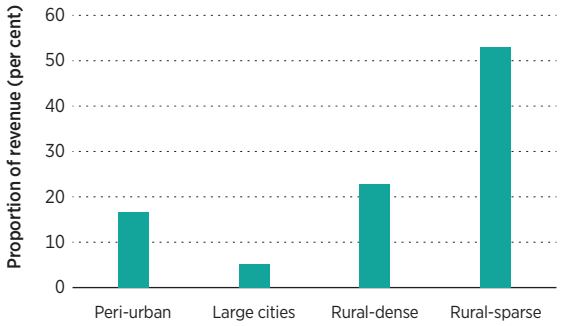
350 Colin Fenton, *Public Hearing*, 13 October 2017, p.4

351 Victorian Farmers Federation, *Submission 29,* p.15

352 David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, pp.6-7

The Committee recognises that some farmers are required to pay very large rates bills. However, the Committee also notes the high level of dependence on rates from farms in some municipalities, including some of the municipalities with the largest financial sustainability challenges (see Figure 6.4).

Figure 6.4 Level of dependence on farmers across regional council categories, 2015-16



Note: Only includes municipalities with specific farm rates or equivalents

Source: Committee calculations based on councils' responses to the Committee's questionnaire

6.4.2 Retirement village residents

Only one regional council (Moorabool Shire Council) currently applies a differential rate for retirement villages.

The Committee heard from a number of residents of retirement villages who argued the current rating system was unfair for them. They argued that they should pay a lower rate than other ratepayers because:

- they effectively pay a duplication of rates fees – in addition to council rates, they pay a monthly village fee for things that are provided by the retirement village but which would normally be provided by the council, including:
  - infrastructure within the village, for instance roads, footpaths and street lights
  - facilities, such as community centres, swimming pools, tennis courts, community buses
- their properties are valued higher than comparable houses in the area due to the community open space, infrastructure and facilities within the village
- they cannot access some facilities or services offered by council.

The Committee does not accept that council rates should necessarily be lower because one does not use some council services (see Section 6.2.2 of this chapter). However, retirement village residents are in the unusual position of having to pay both rates to the council and fees to the retirement village to deliver similar services, often at a time in their lives when they have a reduced capacity to pay. The submission to this inquiry from the Residents of Retirement Villages noted:

> Retirement village residents do, of course, use many municipal facilities in much the same way as other ratepayers do. They also use neighbourhood facilities in much the same way as other ratepayers do but with one big difference — their village provides the facilities they most use. Village provision of facilities spares the local council from the capital expenditure and the maintenance costs involved.
>
> The imposition of full rates by most municipalities means retirement village residents pay for some facilities and services a second time. This is a form of double taxation.[353]

Residents of Retirement Villages Victoria advocated to the Committee for the compulsory application of differential rates for retirement villages (at a minimum 25 per cent discount) to recognise that they provide certain infrastructure, facilities and services that save their council money.[354] Ms Sue Lafferty noted that the Property Council of Australia has advocated for the same reduction.[355]

FINDING 18: Rating differentials are applied in varying ways by different councils, leading to frustration and anger among ratepayers.

6.5 Changes to the rating system

'The current ratings system places an unfair burden on the residents of rural and regional communities and creates situations of feast or famine in the funding of Shires.'[356]

The current rating system has remained relatively unchanged since its inception. Central Goldfields Shire Council queried the relevance of the current rating system:

> Whilst many aspects of local government have evolved and grown, the property based income tax has remained unchanged and is no longer adequate in the twenty-first century.
>
> Local government needs access to a growth tax, either directly or through protocols with Government which recognise, and therefor resource, local government's role.[357]

Horsham Rural City Council noted the need to have a property tax, but highlighted that it should not be the funding source for key council services:

> Having a tax based on wealth as measured by property values is an important overall tax within the suite of taxes across federal, state and local government. The problem comes in that it is the main tax that local government is left with to raise and fund its services. Local services are easiest for ratepayers to identify whether they use them or not and consequently lead to misconceptions as to what is fair to pay.

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353 Residents of Retirement Villages Victoria, *Submission 23*, p.6
354 Residents of Retirement Villages Victoria, *Submission 23*, p.3
355 Sue Lafferty, Bendigo Domain Village, *Public Hearing,* 25 October 2017, p.19
356 Peri Urban Group of Rural Councils, *Submission 41,* p.3
357 Central Goldfields Shire Council, *Submission 27,* p.3

> There is a good argument for this funding source to be more diverse such that councils have more than just property rates as a source of income i.e. share of GST revenues.[358]

The Committee notes that Victorian councils rely more heavily on rates to fund services than councils in most other jurisdictions. Table 6.3 provides an overview of the reliance of all Australian and New Zealand local governments on council rates and government grants. Victorian and South Australian councils receive a far larger proportion of their revenue from rates (and rely far less on grants and subsidies) when compared to other Australian jurisdictions.

The Committee notes that the responsibilities of local government vary between jurisdictions, but the data provide a general overview of how local government is funded in other jurisdictions.

Table 6.3 **Sources of operating revenue in Australian states and territories and New Zealand, 2015-16[(a)]**

Source of revenue	VIC	NSW	QLD	SA	WA	TAS	NT	ACT	NZ
	%	%	%	%	%	%	%	%	%
Council rates and charges	52.9	30.7	32.4	63.5	44.4	49.8	23.4	32.8	60.0
Grants and subsidies	6.7	12.6	3.7	6.3	10.0	9.3	20.9	38.6	11.6

(a) This excludes grants for infrastructure and therefore differs from figures used elsewhere in this report

Source: Committee calculations based on Australian Bureau of Statistics, *Government Finance Statistics, Australia, 2015-16*, cat no. 5512.0 (2017); Stats NZ Tatauranga Aotearoa, *Local Authority Financial Statistics Income and Expenditure* (LAF001 AA) (2017)

The Committee explored a number of ideas for changes to the current rating system that might achieve greater equity and fairness for ratepayers.

Mr Rob Spence from the Municipal Association of Victoria told the Committee that more frequent and thorough reviews of rating strategies would help make them more responsive to the current needs of a community:

> I think councils should be required to do a bottom-up rate review every five years, minimum. You go back to the basis of the policy as to where your rating strategy is at and to build the rating strategy up.
>
> … Establish the principles first, and then work it up from the bottom up. Because what happens is that you end up with all these prehistoric remnants of decisions that have been made years ago in terms of the way the rate is structured that carry through. It is important because it is such an important tool for councils but also because its effect on the community is significant. It is important, I think, that the community see how it is built up and you actually build it up from a policy base. That would be my recommendation.

358 Horsham Rural City Council, *Submission 12,* p.6

> ... I think it comes back to building your rating strategy off a sensible policy base. It is reaching agreement on what that policy is as a starting point and who is going to be affected by what — so who has got capacity to pay. That means you have got to look at the farms and see whether they are commercially viable or not. All of those issues need to be considered as the baseline.[359]

The Committee heard evidence from Latrobe City Council advocating for the inclusion of mines as rateable land.[360] The Municipal Association of Victoria also raised the exemption of mining land in its submission to this inquiry:

> Given ... the likelihood of growth in mining arising from coal-seam gas and other activity, the State should consider making mining land rateable (one could reason to "bring it in line with other States") or ensuring some form of payment in lieu of rates as in the case of electricity generation.[361]

Colac Otway Shire Council told the Committee that 'Additional flexibility within the rating system and ability to charge rates on some classes of non-rateable properties will provide greater fairness and equity.'[362]

'A fairer rate system would recognise the lower level of service and the lower capacity to pay of rural ratepayers and provide a more equitable distribution of rates (a property tax established by the State) between local government areas.'[363]

The Committee heard suggestions that the current individual council rating system should be replaced by a state-wide system. For instance, the same rate in the dollar be charged on all rateable land across the state, with revenue pooled and distributed to councils as required. For example, Mr Frank Deutsch argued:

> ... if you are a plumber and you work in Victoria and you earn $100 000 you will pay X amount of tax, if you are a plumber in Darwin and you earn $100 000 you pay X amount of tax — the same amount, no difference. Why not have a rate struck by the government — it will be very unpopular, believe you me — in Victoria, that the CIV will be 0.0031 in the dollar, and that is applicable to all of the properties throughout Victoria — maybe even throughout Australia?[364]

Other witnesses noted the administrative challenges that would be associated with such a system:

> To create a global statewide rate pool has its attractions and has its challenges, one of which would be the size of the bureaucracy required to administer and distribute it and the degree of complexity associated with that.[365]

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359 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing,* 15 August 2017, p.9

360 Latrobe City Council, *Submission 34,* p.2

361 Municipal Association of Victoria, *Submission 46,* p.54

362 Colac Otway Shire Council, *Submission 58*, p.3

363 Towong Shire Council, *Submission 48,* p.8

364 Frank Deutsch, *Public Hearing*, 10 November 2017, p.25

365 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing,* 15 August 2017, p.10

> In a ratings system I have not, or others have not, come up with a better methodology, so that is a challenge. Whether it could be generated at a state level through a broader population base or ability to pay, the devil would be in the detail in terms of how you then distribute that amongst municipalities.[366]

The Committee heard some evidence in support of changing the rating system to consider income over property value:

> We are suggesting that you need to take into account capacity to pay. A lot of the times your income generation and your actual taxable income is a really good indication of what that is.[367]

> I like income tax a little bit better because it will pick up the rises and falls, because we can have such extremes with our business from year to year.[368]

The Committee considers that it is time for the rating system to be reviewed to identify ways to make it fairer and more equitable. Several areas to explore have been recommended in Section 2.2.1 of this report.

Ultimately, the Committee recognises that regional ratepayers only have a limited capacity to fund the services and infrastructure required in their municipalities. The financial sustainability challenges faced by many regional councils are not going to be solved through rates:

> It should be noted that local government rates are insufficient to redress the significant community infrastructure investment backlog being carried by the sector. Ultimately there needs to be fairer arrangements for funding local government which will provide reliable, growing sources of funding into the future and better address the vertical fiscal imbalance.[369]

> ... [rates are] not how that problem is going to be solved. While you have got large roads, significant infrastructure backlogs, stormwater, timber bridges and all of those kinds of things, that is only going to be solved by changes in the distribution of financial assistance grants from the commonwealth and significant ongoing grants from state government.[370]

As set out in Chapter 2, the Committee believes that councils' dependence on rates needs to be reduced. However, this is only going to be feasible if alternative revenue streams are created to replace rates.

Some submitters and witnesses suggested local government receive a portion of the goods and services tax (GST) to reduce the dependence on rates:

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366 Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing*, 25 October 2017, p.9

367 David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, p.7

368 Chris Sharkey, *Public Hearing*, 12 September 2017, p.9

369 Australian Services Union, *Submission 20,* p.7

370 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing*, 12 September 2017, p.10

> GST is one of the things that the peri-urban group did raise a number of years ago. It received very little support from either side of government at the time. From a councillor perspective one of our biggest issues is rates, and every time I get a revaluation that rate shifts, whereas a GST is appropriately arranged so that you have a consistent level of income.[371]
>
> I absolutely think the sort of fundamental change is something along those lines — a share of something like GST.[372]
>
> There is a good argument for this funding source to be more diverse such that councils have more than just property rates as a source of income i.e. share of GST revenues.[373]

The University of Technology Sydney's Centre for Local Government highlighted another potential revenue source for local government:

> ... serious consideration should be given to returning Capital Gains Tax (CGT) relating to subdivision of land to local governments (which bear the costs of providing infrastructure related to the subdivision). If it is not possible for the Australian Taxation Office to identify and transfer these amounts to local government then the same effect could be achieved by local governments levying a tax deductible fee on subdivisions equivalent to CGT liabilities.[374]

While the Committee has not formed a view on the most appropriate alternative revenue source, the Committee believes that local councils' reliance on rates must be reduced and that an alternative of some sort must be established.

FINDING 19: There are a number of inequalities and difficulties with the rating system. It would therefore be appropriate to review the rating system and to reduce the amount of revenue raised through rates.

371 David Edwards, Chair, Peri Urban Group of Rural Councils, *Public Hearing,* 12 September 2017, p.5

372 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.10

373 Horsham Rural City Council, *Submission 12*, p.6

374 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), p.22 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

7 Responding to the challenges

7.1 Overview

> *'Many councils in HRLGN [Hume Region Local Government Network] have been proactive in reviewing their structure and making significant cuts to expenditure. This includes reduction of staff numbers and rationalisation of some services. The positive is that in most cases this has led to greater efficiencies. The negatives are that some services can no longer be delivered or have been reduced, and remaining staff are put under additional stress. This is a particular risk in the areas of community development, which are often the programs and services where the outcomes are less visible and/or longer term. For some councils the immediacy of programs relating to community development are less pressing than ensuring roads remain open and safe. We have some concerns that there may be a refocussing from more financially vulnerable councils toward a more 'roads, rates and rubbish' approach, with less focus on social cohesion and community development.'*[375]

The challenges regional councils face, including demographics, physical factors, rising expenditure and funding changes, are not new. Many councils have been working for some time to identify and implement efficiency and cost-saving measures to remain financially sustainable.

In essence, councils are working at 'finding ways to do more with less'.[376] Wangaratta City Council noted its efforts to become 'a more efficient and responsive organisation reflecting the needs of our community, while ensuring our financial sustainability in the long term.'[377]

However, West Wimmera Shire Council expressed concern that the financial challenges will not just be met by efficiencies, but may also involve reductions in service levels or the elimination of certain services:

> The funding and budgetary pressures will continue to dominate the financial landscape for small rural Shires and will ultimately lead to reductions in service levels, consolidation of assets and reduction in employee numbers. It could also lead to some services not being delivered by Local Government at all.[378]

Common responses amongst councils to cope with the pressures include changes to the services provided, staffing restructures, under-investment in assets, increasing user charges and borrowing.

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375 Hume Region Local Government Network, *Submission 52*, p.8

376 Macedon Ranges Shire Council, *Submission 13*, p.9

377 Wangaratta Rural City Council, *Submission 7*, p.2

378 West Wimmera Shire Council, *Submission 3*, p.2

The Committee also heard a number of suggestions for what councils should be doing to improve their financial sustainability. These included managing their budgets more effectively, changes to the services they provide and structural changes (for instance, amalgamations).

A number of councils raised concerns about the long-term impacts of their financial situations on their ability to:

- provide the services required for their communities
- maintain their assets to a safe and functioning level.[379]

Councils noted the importance of considering the long-term consequences of any immediate response they take to cope with their financial challenges:

> Whilst Council considers how it will juggle these complexities and develop strategies to respond, we are also cognisant of the overarching need to ensure the health and wellbeing needs of our rural communities are met. Long term impacts of functioning at this level may however have damaging and irreversible impacts.[380]

> A short term response to addressing Council's deteriorating financial position will compromise a longer term, more sustainable approach that will assist our rural communities to be more vibrant and our Council to be more financially sustainable into the future.[381]

7.2 Finding efficiencies

Several councils highlighted that they were reviewing their current operations and identifying areas where efficiencies could be gained. Councils found efficiencies in a variety of different ways.

Warrnambool City Council noted that it was examining 'Internal processes and systems efficiencies and innovation' to reduce costs.[382] Wangaratta Rural City Council told the Committee:

> We have reduced non-salary operating expenditure across all business areas by at least 5% as a 2016/17 budget directive.
>
> In order to do so, we have implemented efficient and contemporary solutions in the areas of printing, document management, payroll processes and mobile technology for asset maintenance.[383]

379 Buloke Shire Council, *Submission 24*, p.2; Macedon Ranges Shire Council, *Submission 13*, p.12; Surf Coast Shire Council, *Submission 15*, p.2

380 Mount Alexander Shire Council, *Submission 57*, p.8

381 Towong Shire Council, *Submission 48*, p.7

382 Warrnambool City Council, *Submission 22*, p.2

383 Wangaratta Rural City Council, *Submission 7*, p.3

Some councils noted that they were exploring digital reform and assessing their information and communications technology strategies to find greater savings.[384] Other councils highlighted the installation of solar panels on council-owned buildings as a means of achieving ongoing electricity savings.[385]

Shared services and resources were discussed by many submitters and witnesses as an important potential source of efficiencies. These are discussed in more detail below.

Latrobe City Council identified that the limited funding it has to perform tasks has resulted in a reduced 'ability to innovate and collaborate'. It identified this as a barrier to achieving greater efficiencies.[386] The Committee notes that councils may require support to identify and achieve further efficiencies (see Section 2.4.1 of this report).

The Committee also recognises that there is a limit to how much money can be saved through efficiencies. As Mr Ransce Salan of Surf Coast Shire Council stated:

> … [Surf Coast Shire Council] has introduced many measures such as the establishment of a business improvement unit, which returns $450 000 worth of recurrent savings back to council every year. However, you can only squeeze the lemon and have juice come out to a certain extent. No doubt in the future it will become more and more challenging to find the savings and to reduce expenditure without affecting services.[387]

7.2.1 Sharing services and resources

'If we can work together in a more collaborative environment to reduce duplication in councils, that will be a great outcome for us all.'[388]

In a 2014 Report, *Shared Services in Local Government*, the Victorian Auditor-General noted that, 'Implementing shared services has been a key aspect of councils' response to dealing with cost pressures and other challenges.'[389]

The Auditor-General explained the role of shared services:

> As councils share many common statutory responsibilities and carry out similar functions and activities, there are opportunities to work together to jointly deliver services and share costs and resources. Shared services provide an opportunity to efficiently use resources and/or improve service offerings, and shared service arrangements in various forms have been implemented across government and the private sector in Victoria and other jurisdictions.[390]

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384 Surf Coast Shire Council, *Submission 15*, p.2; Greater Geelong City Council, *Submission 66*, p.4

385 Mount Alexander Shire Council, *Submission 57*, p.5

386 Latrobe City Council, *Submission 34*, p.2

387 Ransce Salan, General Manager, Environment and Development, Surf Coast Shire Council, *Public Hearing,* 10 November 2017, p.5

388 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing,* 10 November 2017, p.12

389 Victorian Auditor-General's Office, *Shared Services in Local Government* (2013), p.x

390 Victorian Auditor-General's Office, *Shared Services in Local Government* (2013), p.ix

Mr Rob Spence of the Municipal Association of Victoria explained the role he believes shared services will play in the future of local government:

> In my view, you will see the back ends of the business become shared services, really. That will have a number of councils clustered together to provide the administration and resources necessary to deal with the governance entities, and you could have maybe four or five governance entities with a shared service in the back.[391]

Professor Roberta Ryan, from the University of Technology Sydney, outlined to the Committee a resource-sharing study undertaken in Tasmania. The study examined the savings achieved by two sets of councils sharing resources, with savings of $768,000 and $996,000 for the respective pairs. The greatest savings were observed in relation to staff and ongoing savings were predicted to increase annually.[392]

Professor Ryan reported that:

> ... we were able to demonstrate significant year-on-year savings for those councils.
>
> They were able to preserve their local democracy functions. They were able to preserve the level of services, but they were able to do it in a much more efficient way. So they improved their service quality. They dealt with the questions of economies of scale, and they dealt with the efficiencies question, and just in the two areas that we worked in there were savings of around about $1 million a year. In councils of that scale, that is a significant saving.[393]

The Auditor-General found that 91 per cent of the 58 councils surveyed in 2014 were involved in shared-service initiatives, noting that:

> Most Victorian councils undertake some form of shared services, although the use of shared services is evolving and relatively immature. Existing initiatives are primarily related to procurement or external services, such as library services, waste management and aged care.[394]

A number of councils reported to the Committee that they were currently pursuing shared services opportunities.[395] Northern Grampians Shire Council is seeking 'efficiencies in service delivery through sharing capabilities and resources with council's in the region'.[396] Mansfield Shire Council is looking at 'sharing contracts with other councils', noting that its building surveyor is also

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391 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing,* 15 August 2017, p.3

392 University of Technology Sydney, Centre for Local Government, *Resource Sharing Success Stories in Tasmania* (2016), pp.1, 3; University of Technology Sydney, Centre for Local Government, *Review of Resource Sharing Arrangements Between Kentish and Latrobe Councils* (2016), p.35 (noted by Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, pp.4-5)

393 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, pp.4-5

394 Victorian Auditor-General's Office, *Shared Services in Local Government* (2013), p.12

395 Surf Coast Shire Council, *Submission 15*, p.2; Mitchell Shire Council, *Submission 21*, p.7; Warrnambool City Council, *Submission 22*, p.2; Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.27

396 Northern Grampians Shire Council, *Submission 59,* p.1

employed by Strathbogie Shire Council.[397] Bass Coast Shire Council highlighted that councils are working 'together collaboratively to reduce costs and share resources'.[398]

Mr David Morcom from Wellington Shire Council, told the Committee:

> We are working through a major shared service initiative with four other councils, where effectively we are looking to combine our back offices completely, with savings of about around $5 million per council.[399]

Mr Morcom noted that Wellington Shire Council aimed to direct those savings towards more community service roles for its community.[400]

Some of the other shared-resources initiatives that councils told the Committee they had explored include:

- co-ordinating information and communications technology functions[401]
- shared procurement[402]
- road maintenance and construction[403]
- shared infrastructure[404]
- sharing treasury services to access financing with lower interest costs[405]
- partnering with other councils in the region in relation to community services[406]
- partnering with private enterprise to deliver community infrastructure.[407]

Mr Spence from the Municipal Association of Victoria told the Committee that a shared-service model could assist councils to overcome workload and skill shortfall challenges:

> ... across the local government sector in the small councils there are a whole lot of issues like planning that are a burden in terms of workload and capacity in these councils — whether they have got the complete skill set to do it. That is why ultimately I think the shared service model will work more effectively for them.[408]

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397 Mansfield Shire Council, *Submission 26*, p.4

398 Bass Coast Shire Council, *Submission 51,* p.3

399 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing,* 9 October 2017, p.4

400 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing,* 9 October 2017, pp.6-7

401 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing,* 10 November 2017, p.12

402 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, p.27

403 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing,* 10 November 2017, p.12; Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing,* 15 August 2017, p.3

404 Paula Lawrence, Executive Officer, Peri Urban Group of Rural Councils, *Public Hearing,* 12 September 2017, p.7

405 Regional Cities Victoria, *Submission 47a*, p.4

406 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing,* 10 November 2017, p.12

407 Whittlesea City Council, *Submission 50*, p.8

408 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing,* 15 August 2017, p.5

Mr Tony White, of the Australian Services Union, told the Committee that sharing services can work in certain situations, but is not practicable in all circumstances:

> There are models for doing that, which presumably save money and do not result in a loss of services, and regional library corporations are one. They are already running across regional councils. It is not a panacea, and some things lend themselves to shared services, like maybe fleet management or something like that. But if the shared service gets down to plant, if council A and council B out in the north-west decide they will share all of their grass cutting plant, the grass grows and peaks at the same time in both councils, so they are not going to have to have less; they are going to have to have exactly the same amount. They might get slightly better utilisation rates, so perhaps there are some savings, but it is not a panacea and not something that can be applied across all councils with a cookie cutter method.
>
> There will be some horses for some courses where that can be done. There is nothing stopping it from happening now, and as I said the regional library corporations operate on a shared cost arrangement across council boundaries. With emergency management operations, that I have had some experience with at a local council level, which operate across groups of local councils where they share stuff, that can work okay. But if all those local councils have got a flood or a bushfire at the same time, then they do not work as well, because you cannot share stuff that someone else is using.[409]

The Auditor-General noted that Local Government Victoria has played a role in supporting and guiding shared service arrangements, particularly in relation to shared procurement.[410] Local Government Victoria indicated that it has encouraged or facilitated the sharing of services, resources and procurement.[411] Dr Graeme Emonson of Local Government Victoria stated that 'councils are getting distinct benefits from us providing support to them in considering business cases for shared services'.[412] Other bodies have also facilitated shared services, including the Municipal Association of Victoria and the Victorian Local Governance Association.

The importance of having staff with appropriate skills and support has been noted in studies of shared service arrangements. The University of Technology Sydney's study of Tasmanian councils noted that 'high degrees of trust, supported by a formal agreement' are important in commencing a successful shared-resources initiative.[413]

A paper on regional collaboration and shared services prepared for Local Government New South Wales found that informal, voluntary regional collaboration is unlikely to produce long-term gains. The authors note that creating strong shared-service arrangements requires 'clear, agreed objectives' and 'high-level skills in leadership and management'.[414]

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409 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing,* 15 August 2017, p.9

410 Victorian Auditor-General's Office, *Shared Services in Local Government* (2013), p.x

411 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing,* 15 August 2017, p.7

412 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing,* 15 August 2017, p.7

413 University of Technology Sydney, Centre for Local Government, *Review of Resource Sharing Arrangements Between Kentish and Latrobe Councils* (2016), p.ii

414 Graham Sansom, Jennifer James & Sarah Artist, *Regional Collaboration and Shared Services: Background Paper*, prepared for Local Government New South Wales Learning Solutions (2015), p.16

Surf Coast Shire Council highlighted to the Committee that the State Government plays a key role in funding, facilitating and supporting a shared services model in local government.[415] In its 2014 Report, the Victorian Auditor-General similarly highlighted that:

> Providing councils with support and guidance to develop shared services is important to drive the take-up of shared services, share knowledge and better practices and realise the potential benefits across the sector.
>
> LGV [Local Government Victoria] has the opportunity to build on its existing work to assist the sector to more fully realise the benefits of shared services ... There are also a range of challenges and barriers to councils undertaking shared services which LGV should investigate, as well as encouraging collaboration and knowledge sharing. LGV should continue to improve the evaluation of its programs and the collection and sharing of information.[416]

The Committee recognises the cost-saving potential that sharing services and resources has. The Committee agrees that there is an important role for the State Government to play in encouraging and assisting councils with shared service and resource arrangements, as set out in Section 2.4.1 of this report.

FINDING 20: Shared service and resource initiatives provide local government with the opportunity to gain efficiencies, realise ongoing financial savings and improve the level of service provided to communities. However, identifying and facilitating shared service arrangements can be time consuming and requires expertise.

FINDING 21: The extent to which regional councils are participating in and benefiting from shared service and resource arrangements varies greatly between municipalities. The State Government plays an important role encouraging and facilitating shared service and resource arrangements between councils.

7.3 Changes to services

Local government is required by legislation to provide a number of services (core services). Councils also provide a number of services that have no statutory, regulatory or legal requirement (discretionary services). The Committee heard that many councils are cutting back on discretionary services where possible to reduce expenditure.

7.3.1 Reviewing council services

A number of councils have conducted service reviews in an effort to reduce expenditure and become financially sustainable.[417]

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415 Surf Coast Shire Council, *Submission 15*, pp.2, 4

416 Victorian Auditor-General's Office, *Shared Services in Local Government* (2013), pp.xiv, xi

417 Warrnambool City Council, *Submission 22*, p.2; Murrindindi Shire Council, *Submission 39*, p.10; Golden Plains Shire Council, *Submission 44*, p.1; Campaspe Shire Council, *Submission 54*, p.1; Mount Alexander Shire Council, *Submission 57*, p.8; Colac Otway Shire Council, *Submission 58*, p.4; Northern Grampians Shire Council, *Submission 59,* p.1

Campaspe Shire Council highlighted that it intended to undertake a detailed review of its services by 'Prioritising services as mandatory (must-do), preferred (should do) and discretionary (like to do) – this last category should be cost neutral or provide revenue to Council'.[418]

Mildura Rural City Council undertook a 'Sustainability Review' in 2012, aimed at determining the answers to two questions:

> Should Council be providing this service?
>
> If so, what should we be providing, at what level and how can we do that as efficiently as possible?[419]

Greater Bendigo City Council conducts rolling service reviews (see Box 7.1) which it notes 'might help drive some efficiency, but will inevitably lead to under-servicing in other areas.'[420]

After undertaking service reviews, Murrindindi Shire Council found that 'Council has no capacity to undertake "new initiatives" or strategic or policy work other than to fulfil its statutory obligations'.[421]

BOX 7.1: Greater Bendigo City Council service reviews

Greater Bendigo City Council conducted an independent service review in 2013. From this, 69 recommendations for improvements were made and implemented. This achieved net savings of $4.3 million over four years. It also resulted in new and improved systems and processes, as well as improved or expanded services in multiple areas.

The council specifically highlighted reviews of its home and community care services and children's services. One-off savings were implemented in relation to these services, allowing them to continue.

The council initiated a rolling program of service reviews in 2015. They examine every aspect of each service the council provides. These reviews aim to:

- achieve cost savings
- identify the needs, priorities and expectations of the community.(a)

(a) Greater Bendigo City Council, *Submission 45*, pp.14-15

418 Campaspe Shire Council, *Submission 54*, p.1
419 Mildura Rural City Council, *Submission 18,* p.3
420 Greater Bendigo City Council, *Submission 45*, p.15
421 Murrindindi Shire Council, *Submission 39*, p.10

The Committee heard that, from these reviews, councils have reduced or ceased a variety of existing services including:[422]

- reducing and cancelling youth services and community transport[423]
- reducing the operating hours of sport and recreation facilities, such as public swimming pools[424]
- reducing arts and culture programs[425]
- not participating in the community satisfaction survey[426]
- reducing customer service (for example, Buloke Shire Council reported that it previously provided customer service centres in each of its towns but now only has one in Wycheproof)[427]
- reducing or removing support for emergency services (such as the SES, surf life saving and marine rescue)[428]
- reducing library services[429]
- ceasing funding for home and community care[430]
- reducing the road network to bring down replacement and maintenance costs.[431]

In other cases, councils noted that they were doing less work than was required to fully manage certain responsibilities. Hindmarsh Shire Council reported that:

> Kindergartens in the northern part of our shire are only able to provide 10 hours of four-year-old programs because we have neither the financial nor the human resources to provide 15 hours in each of these small communities.[432]

Several councils noted that their weed control programs were significantly smaller than what was required to properly manage the problem in the long term (see Box 4.1 in Chapter 4 of this report).

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422 Mansfield Shire Council, *Submission 26*, p.4; South Gippsland Shire Council, *Submission 14*, p.5; Murrindindi Shire Council, *Submission 39*, p.10; Golden Plains Shire Council, *Submission 44*, p.1; Towong Shire Council, *Submission 48*, p.8; Greater Bendigo City Council, *Submission 45*, p.7; Hume Region Local Government Network, *Submission 52*, p.8

423 Buloke Shire Council, *Submission 24*, p.2; Rural Living Group of Councils, *Submission 25,* p.2; Rural Councils Victoria, *Submission 49*, p.12

424 Towong Shire Council, *Submission 48*, p.4; Rural Councils Victoria, *Submission 49*, p.12

425 Tony McIlroy, Chief Executive Officer, Benalla Rural City Council, *Public Hearing*, 24 October 2017, p.3

426 Buloke Shire Council, *Submission 24*, p.3; Rural Councils Victoria, *Submission 49*, p.12

427 Buloke Shire Council, *Submission 24*, p.3; Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, p.27

428 Surf Coast Shire Council, *Submission 15*, p.2; Buloke Shire Council, *Submission 24*, p.3; Rural Living Group of Councils, *Submission 25,* p.2; Towong Shire Council, *Submission 48*, p.5; Rural Councils Victoria, *Submission 49*, p.12; Corangamite Shire Council, *Submission 56,* p.4

429 Buloke Shire Council, *Submission 24*, p.3; Rural Living Group of Councils, *Submission 25,* p.6

430 Surf Coast Shire Council, *Submission 15*, p.2; Buloke Shire Council, *Submission 24*, p.3; Rural Living Group of Councils, *Submission 25,* p.2; Towong Shire Council, *Submission 48*, p.5; Rural Councils Victoria, *Submission 49*, p.12; Corangamite Shire Council, *Submission 56,* p.4

431 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.28

432 Hindmarsh Shire Council, *Submission 33*, p.7

7.3.2 The importance of community consultation

Professor Roberta Ryan from the University of Technology Sydney explained the importance of community discussions in relation to council changes:

> The second thing that we think is very important is having conversations with the community about appreciating where revenue comes from and involving people closely in decisions with respect to how that revenue is spent in councils. We have done projects over the last 18 months working closely with rural councils, having those conversations about, 'Okay, here's the bucket of money. If you want more of this, what are you going to have less of?', and having conversations with communities around trade-offs. This is very important, where you do not go out in a community planning process and say to councils or communities, 'What do you want?'.[433]

Mr Robert Dobrzynski from Colac Otway Shire Council similarly noted the importance of identifying 'whether some of those [council] services are really high priority in some low socio-economic areas, where more fundamental things are really important to our residents.'[434]

As discussed in Section 4.2.5 of this report, community expectations are one factor driving up council expenditure. Community acceptance of reductions of council services may therefore be difficult. Mr Malcolm Lewis from Baw Baw Shire Council shared his experiences:

> Typically when councils or management go to their elected representatives, indicating and saying, 'We run 100–150 services; we can only afford to run 140. What thing do we stop doing because we can reallocate those?', there is always found to be a justification for why any 10 would seem discretionary. The discussion is: 'What is a discretionary service in local government?'. In some cases most of them could be potentially discretionary but there is a need, and often there is usually a fairly robust lobby group that might support them. It might come to council and indicate that their particular service ought not be one of the 10 that might result in a reduction from 150 to 140.[435]

Mr David Rae from Corangamite City Council told of a similar experience:

> We run six transfer stations. A couple of years ago we tried to close one of those transfer stations because of the issue of potentially overservicing. The challenge in that space was that the community needed it. They wanted it. So the decision was to keep it.[436]

These conversations may be helped by the clarification of what councils' core responsibilities should be, along with minimum service levels, as recommended in Section 2.3 of this report. Section 2.5 sets out some further steps to improve community understanding of councils' current financial situations.

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433 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, pp.3-4

434 Robert Dobrzynski, Acting Chief Executive Officer, Colac Otway Shire Council, *Public Hearing*, 10 November 2017, p.10

435 Malcolm Lewis, Acting Director, Corporate and Community Services, Baw Baw Shire Council, *Public Hearing*, 9 October 2017, p.14

436 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing*, 10 November 2017, p.11

7.3.3 Passing responsibilities to other levels of government

In at least one case, the council has decided to cease providing a service because the council believed that the service should be the responsibility of the State Government.

Mr David Rae from Corangamite Shire Council highlighted the council's desire to 'hand back services to the state government'.[437] Corangamite Shire Council has chosen to stop maintaining school bus shelters and advocates for greater state funding for school crossing supervisors, noting that these services come under public transport and education – both of which the council considers to be State Government responsibilities.[438]

Other councils also identified responsibilities that they considered might be more appropriately undertaken by other levels of government (see Section 4.7 of this report).

Similarly, in situations where other levels of government provide funding for programs on a fixed-term basis and the funding ceases, some councils may now have to be strict about not continuing the programs with their own money.[439]

The Committee notes that in such situations, there can be community demand to continue the service after the State or Commonwealth funding runs out (see further discussion in Section 4.2.5 of this report). If councils clearly communicate from the start that the service may only be offered on a fixed-term basis, this may assist with community acceptance when a program is discontinued.

Overall, as recommended in Section 2.3, the Committee considers that councils' responsibilities should be reviewed, with the intention of specifying what councils' core responsibilities are.

FINDING 22: In some cases where councils believe that services should be the responsibility of other levels of government, councils have endeavoured to pass the service back to that level of government. Where funding for a service is provided by another level of government on a fixed-term basis, councils in the future may be less likely to fund the service themselves when the funding lapses.

7.3.4 Consequences of service reduction

Many councils highlighted the implications that service reductions may have on their communities. Greater Bendigo City Council noted:

> ... whilst municipalities will find ways to cope in the short term the long term impact in terms of service decline will be significant and damaging to the wellbeing of rural and regional communities.[440]

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437 David Rae, Director, Corporate and Community Services, Corangamite Shire Council, *Public Hearing,* 10 November 2017, p.6

438 Corangamite Shire Council, *Submission 56,* p.3

439 David Morcom, Chief Executive Officer, Wellington Shire Council, *Public Hearing*, 9 October 2017, p.9

440 Greater Bendigo City Council, *Submission 45*, p.15

Potential consequences of service reduction raised by councils include:

- reduced economic development[441]
- lower community satisfaction[442]
- reduced service levels and assistance to vulnerable residents[443]
- less responsive councils[444]
- declining innovation.[445]

These consequences may reduce the attractiveness of regional areas to residents and businesses:[446]

> The economic strength of rural and regional areas is increased by the capacity of local government. This is partly a consequence of the local purchasing power of councils and the local spending by their employees. It is also a consequence of the quality of services and infrastructure provided by local government which may play a role in attracting business, workers and families to live in the local area.[447]

Councillor David Edwards, Mayor of Moorabool Shire Council, expressed concerns that the reduction of council activities would hurt the most vulnerable residents:

> In Moorabool in recent times we stopped providing childcare services, something the council had done for a long time. Why did we do that? Because it was costing council $600 000 a year and there were service providers out there who can provide that. But what does that mean in the longer term to the communities, particularly to those who are the most vulnerable? That is my concern as a councillor. We will start to look at ways of reducing our costs. We will look at cutting gymnasiums; we no longer run a gymnasium as of last week, with a significant impact on the community. Why? Because we have to maintain our roads. We have to look at our core business. Who is that most likely to affect? The most vulnerable.[448]

The Hume Region Local Government Network noted that the delivery of discretionary services can improve the resilience and sustainability of communities, making them more desirable places to live.[449]

Councils can also be significant employers in some regional areas. Dr Graeme Emonson from Local Government Victoria noted that the local government sector in Victoria employs 36,000 equivalent full-time positions.[450] Professor Roberta

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441 Buloke Shire Council, *Submission 24*, p.2

442 Macedon Ranges Shire Council, *Submission 13*, p.11

443 Moyne Shire Council, *Submission 35*, p.2

444 Buloke Shire Council, *Submission 24*, p.2

445 Latrobe City Council, *Submission 34*, p.2; Municipal Association of Victoria, *Submission 46*, p.32

446 Australian Services Union, *Submission 20*, p.2; Buloke Shire Council, *Submission 24*, p.2; Hume Region Local Government Network, *Submission 52*, p.6

447 Australian Services Union, *Submission 20*, p.2

448 David Edwards, Chair, Peri Urban Group of Rural Councils (and Mayor of Moorabool Shire Council), *Public Hearing*, 12 September 2017, p.4

449 Hume Region Local Government Network, *Submission 52*, p.6

450 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, p.3

Ryan noted that councils are the biggest or second-biggest employer in 100 of Australia's approximately 540 municipalities.[451] As examples of the significance of councils as employers, the Australian Services Union noted that Hindmarsh and West Wimmera Shire Councils employ 130 and 126 employees respectively, in municipalities with populations of 5,798 and 4,521.[452]

Given this situation, reductions in council services can lead to significant lost employment opportunities in some municipalities.

BOX 7.2: Towong Shire Council's cost reduction program[(a)]

Towong Shire Council provided a detailed outline of its responses to the shire's financial sustainability challenges.

Towong has introduced a 'systematic and aggressive cost reduction program' to realise on-going efficiencies and savings.

The Council reported initial savings in the following areas:

- water supply and usage (savings of $20,000 per year)
- motor vehicle policy changes (savings of $130,000 per year)
- banking services (savings of $16,000 per year)
- in-house garbage collection services (savings of $70,000 per year)
- organisational structure changes (savings of $250,000 per year)
- shared services for property and rates (reduced cost of service per property by 15 per cent)
- rationalisation of overheads including printing, subscriptions and advertising.

To cope with the loss of income from the Federal Assistance Grants freeze, the Council introduced the following measures:

- reducing summer swimming pool season (savings of $6,000 per year)
- reducing casual roads maintenance workforce (savings of $75,000 per year)
- ceasing mobile library services (savings of $50,000 per year)
- ceasing the funded position for the Towong Alliance partnership (savings of $23,000 per year)
- reducing opening hours of the Corryong Office/Library (savings of $3,000 per year).

451 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, p.3

452 Australian Services Union, *Submission 20*, p.2

Towong Shire Council applied for and was granted a rate cap of 6.34 per cent by the Essential Services Commission for the 2016-17 financial year (as opposed to the 2.5 per cent cap applied to other councils). The Council made the decision to apply a rate increase of 3.5 per cent (instead of the approved 6.34 per cent increase). The following reductions were made to accommodate the lower rate increase:

- ceasing to match the Victorian Government contribution to the three local State Emergency Services units from July 2016 (saving $32,340)
- reducing the youth events budget by $9,000
- reducing the seniors event budget by $9,000
- reducing the funding to the Eskdale pool by $1,000
- reducing the Tallangatta and Corryong pool budget by $10,000
- ceasing membership of the Murray Darling Association (saving $1,500)
- no longer participating in the whole-of-government community satisfaction survey (saving $9,000)
- ceasing local government tertiary scholarships (saving $21,000)
- reducing the contribution to Murray Arts by $2,000
- capping the budget available for annual salary and wage increases at 1 per cent or the consumer price index, whichever is the lesser (saving $87,000)
- reducing the staff training budget by $9,000
- ceasing membership of Timber Towns for 2016-17 and reviewing it for 2017-18 (saving $2,500).

The Council also committed to review operations in the following areas:

- swimming pools – considering alternative operating models, including the possibility of a community-run model
- maternal and child health services – considering opportunities for service delivery efficiencies or for better targeting of services
- Corryong and Tallangatta transfer station operations – considering alternative operating hours/models.

Towong Shire Council has developed a long-term strategy to increase the number of residents in an effort to remain sustainable in the future. The Council outlined the following projects to the Committee:

- master planning exercises in key communities (Tallangatta Tomorrow, Our Bellbridge, Our Valley Our Future, Upper Murray 2030)
- construction of new recreational facilities and multi-purpose centres throughout the Shire (Cudgewa, Mitta Mitta, Tallangatta, Walwa, Wyeeboo)
- establishment of a child care service in Tallangatta
- progressing a Domestic Wastewater Management Plan to enable additional residential development in sought-after areas of the Shire.

(a) Towong Shire Council, *Submission 48*, pp.3-7

7.4 Reviewing staff structures

A number of councils reported that they had reviewed staff structures in an effort to achieve savings. In many cases, councils had sought ways to reduce staff numbers. Broadly speaking, this can be achieved in two ways – by cutting back on services or by finding more efficient ways to deliver services (including shared service arrangements). Councils have adopted both approaches.

The Committee was also told that councils had sought to reduce staff costs by increasing salaries at a lower rate than inflation or by outsourcing to reduce staff salary costs.

7.4.1 Reducing staff numbers

A common response to financial constraints was a review of internal staff structures and a subsequent reduction in employee numbers.[453] Some councils reported staff redundancies. Other councils explained that they had adopted a policy of not replacing vacant positions.

The Hume Region Local Government Network noted councils have conducted 'significant internal restructures, resulting in staff cuts and in some cases cuts to services.'[454] Wangaratta Rural City Council reported that it had 'undertaken a voluntary redundancy program, achieving 14 approved nominees in a workforce of 400 – 3.5%.'[455] The council stated it has reduced the 'geographic spread' of certain services, resulting in a reduced workforce.[456]

Buloke Shire Council told the Committee:

> We did have customer service in each town, and now we only have customer service here in Wycheproof. That reduced staff numbers from 159 EFT [equivalent full time] to 115 EFT, and there has been a reduction in employee expenses from $12.1 million to $9.2 million ...[457]

Several submitters and witnesses suggested that there were too many managers in some councils and that efficiencies could be achieved by reducing the number of senior management positions. For example, Mr Gordon Hamilton, President of the Better Local Government Association, stated that councils should 'get rid of these multiple layers of expensive staff from council and bring them back to the basics of what they are good at — looking after the community.'[458]

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453 Mansfield Shire Council, *Submission 26*, p.4; Golden Plains Shire Council, *Submission 44*, p.1; Hume Region Local Government Network, *Submission 52*, p.7; Wellington Shire Council, *Submission 55*, p.3

454 Hume Region Local Government Network, *Submission 52*, p.7

455 Wangaratta Rural City Council, *Submission 7*, p.2

456 Wangaratta Rural City Council, *Submission 7*, p.3

457 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing*, 12 October 2017, p.27

458 Gordon Hamilton, President, Better Local Government Association, *Public Hearing*, 24 October 2017, p.13

Benalla Rural City Council indicated that it had specifically targeted management positions for reductions, so that it could preserve service delivery.[459] Wangaratta Rural City Council also noted it was 'currently undertaking a restructure that will see our third level management team reduced from fifteen to nine.'[460]

The Australian Services Union noted that some vacancies were being filled on a temporary or casual basis.[461] Wellington Shire Council noted the potential consequences of this:

> The motivation to reduce labour costs could also see a greater ongoing reliance on contract / temporary staff. Rural and regional Councils already find it challenging to attract appropriately skilled staff for key roles and a revolving door of temporary staff may directly impact on skill retention, compliance and governance requirements.[462]

The Australian Services Union also noted that, in some cases, councils were delaying filling vacant positions or deciding not to replace workers who leave.[463] The union outlined that vacant positions can result in reduced services to the community.[464]

The Committee heard that these staff reductions meant there were fewer job opportunities in small regional areas, adding to employment issues.[465] Councils also noted that those staff that remained were under additional stress from delivering services and programs with less support.[466]

Gannawarra Shire Council explained its position to the Committee:

> ... over the last two years there has been a reduction in staff numbers, and I would contend that we are running on the bare minimum in terms of staffing resources and our capacity to deal with the administrative burden.[467]

7.4.2 Reviewing staff wages

Some councils reported entering into very conservative enterprise bargaining agreements in an effort to reduce the growth of staff salaries:

> Most recently, some councils have offered their staff a 0% pay increase during enterprise bargaining negotiations, which in real terms represents a wage cut. These agreements typically last for 3-4 years, meaning staff won't get any pay increase at least until 2020.[468]

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459 Tony McIlroy, Chief Executive Officer, Benalla Rural City Council, *Public Hearing,* 24 October 2017, p.3
460 Wangaratta Rural City Council, *Submission 7*, p.3
461 Australian Services Union, *Submission 20*, p.10
462 Wellington Shire Council, *Submission 55*, p.4
463 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.4
464 Australian Services Union, *Submission 20*, p.10
465 West Wimmera Shire Council, *Submission 3*, p.2; Australian Services Union, *Submission 20*, p.10
466 Wangaratta Rural City Council, *Submission 7*, p.3; Hume Region Local Government Network, *Submission 52*, p.8
467 Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, p.5
468 Australian Services Union, *Submission 20*, p.10

> Our current EB [enterprise bargaining] annual increment is 4%, we are about to commence our negotiations and the increment number will more likely start with a 1. On top of this, bracket creep is anticipated to be 2.5%.[469]

In its submission to this inquiry, the Australian Services Union noted that staff salaries were being reduced, while 'senior managers and CEO salaries continue to rise'.[470]

Some councils reported reducing investment in skills development, including staff training.[471]

Some councils have used labour hire companies or outsourcing as way to reduce costs.[472] The Committee was told that this was used by some councils as a way to reduce people's salaries.[473]

The Committee heard that the changes to staff structures were resulting in less responsive councils, with less qualified staff. Ms Lucy Roffey from Buloke Shire Council noted that 'Given the limited availability of qualified staff, this is resulting in time delays to process permits and complete inspections, which impacts on economic development in the area.'[474] The Committee also heard that the use of contractors may result in less responsive service provision with less local knowledge.[475]

Mr White from the Australian Services Union also expressed concern about the impact on council staff of salaries being reduced or not keeping up with inflation.[476]

7.5 Insufficient infrastructure investment

> ***'Appropriate levels of sustainable funding for council infrastructure (provided by all three levels of government) is critical for community economic, social and recreational activity.'***[477]

The Municipal Association of Victoria noted that the building and infrastructure portfolios of councils have been growing significantly.[478] The association highlighted that an increasing proportion of regional councils' rate revenue is spent on infrastructure renewal (especially in rural councils).[479] A number of regional councils highlighted the significant portion of their annual and capital budgets that must be allocated to maintaining and upgrading their road and

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469 Wangaratta Rural City Council, *Submission 7*, p.3
470 Australian Services Union, *Submission 20*, p.10
471 Rural Councils Victoria, *Submission 49*, p.12; West Wimmera Shire Council, *Submission 3*, p.2
472 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.4
473 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.4
474 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, p.27
475 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.8
476 Tony White, Special Projects Officer, Australian Services Union, *Public Hearing*, 15 August 2017, p.4
477 Macedon Ranges Shire Council, *Submission 13*, p.11
478 Municipal Association of Victoria, *Submission 46*, p.22
479 Municipal Association of Victoria, *Submission 46*, p.25

bridge infrastructure in particular.[480] South Gippsland Shire Council reported that it spends approximately 40 per cent of its rates and charges revenue on maintaining its road network.[481]

However, as discussed in Section 4.5 of this report, despite the level of infrastructure investment in many councils, it is less than what is required to maintain the asset base. The Committee heard that this is one of the consequences of councils' current financial situation:

> Local road networks are being reduced and also maintained to lower service levels than ever before. At the same time the infrastructure gap is widening. This arises because Councils do not have the resources to keep their networks up to standard and are delaying maintenance in order to maintain more immediate services. This will come to a reckoning in the medium term.[482]

7.5.1 Councils' changing approach to infrastructure investment

In the context of not having a sufficient budget for infrastructure investment, councils have adopted a variety of responses. Some councils reported focussing on maintaining the assets they had, rather than constructing new assets.[483] Some regional councils are reducing capital spending and limiting investment in new infrastructure.[484]

Other councils reported undergoing asset rationalisation in an effort to reduce their asset burden.[485] Buloke Shire Council noted that it had reduced its road network by removing 700 kilometres of local roads.[486] Wellington Shire Council highlighted that it has prioritised assets that have wider public benefit and neglected, for instance, roads which are relied on by fewer residents:

> The need to restrict the service provided in these situations is driven by limited resources and a need to provide a safe and efficient service for the remaining road and bridge network. In many instances, roads which service one or few private properties are not maintained, limiting the maintenance of roads to situations of specific public use and benefit.[487]

Some councils noted they have imposed load limits on bridges in an effort to postpone renewal work.[488] A number of councils highlighted that they were delaying and reducing maintenance and renewal works.[489]

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480 Latrobe City Council, *Submission 34*, p.4

481 South Gippsland Shire Council, *Submission 14*, p.6

482 Buloke Shire Council, *Submission 24*, p.4

483 Murrindindi Shire Council, *Submission 39*, p.17; Corangamite Shire Council, *Submission 56*, p.6

484 West Wimmera Shire Council, *Submission 3*, p.2; South Gippsland Shire Council, *Submission 14*, p.5; Glenelg Shire Council, *Submission 19,* p.1; Rural Living Group of Councils, *Submission 25,* p.2; Murrindindi Shire Council, *Submission 39*, p.5

485 Macedon Ranges Shire Council, *Submission 13*, p.11; Greater Bendigo City Council, *Submission 45*, p.7

486 Buloke Shire Council, *Submission 24*, p.2; Rural Living Group of Councils, *Submission 25,* p.2

487 Wellington Shire Council, *Submission 55*, p.5

488 Mitchell Shire Council, *Submission 21*, p.6; Mount Alexander Shire Council, *Submission 57*, p.7; Tony McIlroy, Chief Executive Officer, Benalla Rural City Council, *Public Hearing*, 24 October 2017, p.4

489 Towong Shire Council, *Submission 48*, pp.8, 10; Rural Councils Victoria, *Submission 49*, p.13; Wellington Shire Council, *Submission 55*, p.3

7.5.2 Resulting asset deterioration

> *'Long term underinvestment in renewing assets will obviously see infrastructure decline and service quality fall. Generally, councils that continually under invest in asset renewal over many years will struggle to redress the quantum of asset backlog generated and inevitably lower service levels are provided to the community.'*[490]

A number of councils expressed concern about the long-term impact of underinvestment in infrastructure. Limiting infrastructure expenditure has the potential to result in:

- asset deterioration
- unsafe infrastructure
- widening asset renewal gap
- declining liveability
- reduced productivity for agriculture.

Greater Bendigo City Council warned that 'if infrastructure is not adequately maintained, replacement costs will be much higher for future ratepayers.'[491] Mansfield Shire Council noted that reducing maintenance standards 'would undermine the very things that help drive our economy and population growth.'[492] Wodonga City Council noted that underspending on infrastructure 'will not appear immediately, but will make a financial impact in the longer term.'[493]

The Committee heard that delaying infrastructure maintenance and renewal can have a wide range of consequences for communities and could contribute to ongoing financial concerns in the future:

> As the financial environment becomes even more constrained, it is expected that there will be a necessity to reduce asset renewal below expert recommended levels. In the medium term, this will have significant implications for Council's operating budget (with an expected increase in reactive maintenance and associated costs) and for community members and commercial operators using infrastructure assets of a deteriorating or unacceptable standard. This will impact on the safety of local road and bridge users, reduce the potential for our tourism businesses to be competitive and reduce the viability of our key industries (agriculture and forestry).[494]
>
> In the very short term delaying infrastructure renewal is unlikely to have a significant impact on community members. Over time, without appropriate renewal, it is expected that rural infrastructure will deteriorate and reach unacceptable levels for community members, commercial businesses and visitors. A reduction in asset renewal and maintenance is likely to lead to increased potholes and surface failings, less maintenance of gravel roads (resulting in slippery conditions in the wet), reduced

490 Wodonga City Council, *Submission 31*, p.9
491 Greater Bendigo City Council, *Submission 45*, p.7
492 Mansfield Shire Council, *Submission 26*, p.4
493 Wodonga City Council, *Submission 31*, p.13
494 Towong Shire Council, *Submission 48*, p.9

> tonnage limits on bridges. This will impact on the safety of rural road and bridge users, reduce the potential for tourism businesses to be competitive and reduce the viability of rural agriculture and timber industries.[495]

The Auditor-General has advised:

> In order for these [rural and regional] councils to meet community needs and expectations, they must actively monitor their rate of spending and remain focused on maintaining assets at serviceable levels as they age.
>
> In the short to medium term, rural and regional councils may need to defer spending on new assets or consider adding debt as a funding measure, to improve their existing assets. This will ensure current ratepayers who are using these assets now – rather than future ratepayers – bear the costs associated with them.[496]

Focussing on existing assets, rather than planning for and acquiring new infrastructure, may be difficult in growth areas, though, where population is increasing and community needs are expanding.[497]

7.6 Increasing user charges

Several councils reported seeking external funding sources and alternative revenue opportunities in response to financial sustainability challenges.[498] Some councils noted that they were increasing user charges to continue to provide services that had previously been funded by general revenue.

Warrnambool City Council noted it was 'Reviewing levels of subsidies to community groups'.[499] Campaspe Shire Council reported to the Committee that it intended to 'Rigorously review fees and charges to ensure appropriate services are self-funding'.[500] Greater Geelong City Council reported that:

> Council continues to respond to these pressures in a proactive way. A Fees & Charges policy has recently been adopted along with a Fair Play Strategy for Recreation & Open Space Usage. These policies will provide future guidance on the user pays approach for service delivery.[501]

A report from the University of Technology Sydney argued that there should be a greater focus on a 'user pays' model which involves councils charging for services provided. The report explains:

> We argue that part of the answer to the financial sustainability of local governments is to adopt a number of broad measures aimed at re-establishing the link between demand for local government services and the revenue used to meet the demand.

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495 Rural Councils Victoria, *Submission 49*, p.13

496 Victorian Auditor-General's Office, *Results of 2016–17 Audits: Local Government* (2017), p.43

497 Greater Geelong City Council, *Submission 66*, p.1

498 Macedon Ranges Shire Council, *Submission 13*, p.9; Warrnambool City Council, *Submission 22*, p.2; Campaspe Shire Council, *Submission 54*, p.1

499 Warrnambool City Council, *Submission 22*, p.2

500 Campaspe Shire Council, *Submission 54*, p.1

501 Greater Geelong City Council, *Submission 66*, p.2

> When citizens can perceive the link between the increase in local government services and the price which must be paid to fund that increase, then the current state of fiscal illusion will be tempered by citizens' willingness to pay.[502]
>
> Failure to price private goods appropriately not only erodes the link between revenue and expenditure but also induces an inefficient quantity and quality of production as well as creating inequity for the wider cohort of local government taxpayers.[503]

The report argues that a 'user pays' model will reduce the demand for services, will educate the community on how their money is spent and will help people understand the true costs of delivering services.[504]

The Committee heard from a number of community members supporting a user-pays system. In his evidence to the Committee, Mr Frank Deutsch stated:

> I am a firm believer in the user pays system. What value does the farmer get in the Ararat shire? He does not go to look at the arts centre or look at what it buys or look at a picture or whatever is at the arts centre. He does not get any value from that. He gets value from the road which goes past his property so he can send the sheep to the market and so he can send the wheat to the market. That is where he gets his value from.[505]

Mr David Jochinke of the Victorian Farmers Federation supported the principle in theory, but not at the expense of providing an essential service or facility:

> We believe that there is a place for user-pays. However, we are also quite cognisant that a lot of the services that are provided are there for social benefit. We want to make sure that people do have access to it. However, we do believe that there needs to be a component there of user-pays. In many circumstances it needs to come down to ensuring that the entity or facility is still affordable but that the burden created by the people that use it the most needs to be carried by them.[506]

The Committee does not consider that a full user-pays approach would be appropriate for local government services. An important part of the role of councils is to assist the disadvantaged. Important services and facilities should be accessible to the whole community. User charges have the potential to exclude the most vulnerable members of the community from access.

However, nominal charges may achieve some of the benefits identified by the University of Technology Sydney. For example, a charge of $5 per year for family membership to the library or for a hard waste collection could serve to remind

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502 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), p.8 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

503 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), p.26 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

504 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), pp.8, 15, 20 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

505 Frank Deutsch, *Public Hearing*, 10 November 2017, p.25

506 David Jochinke, President, Victorian Farmers Federation, *Public Hearing*, 15 August 2017, pp.4-5

people that there are costs incurred in using council services and make people use services more sparingly. Discounts or exemptions from user fees could be made for more vulnerable members of the community.

Where user charges are only nominal, rather than full cost recovery, it is important for users to be aware of this. The McKell Institute has recommended that the levels of subsidy be displayed on receipts or at facilities which are subsidised.[507] This may help users to appreciate the costs incurred by councils and the value that they get from their rates.

FINDING 23: User charges can provide additional revenue for councils and also remind users that there are costs associated with council services and facilities. Nominal user charges, especially if accompanied by information indicating the level of subsidy by the council, may be useful for raising awareness of cost pressures on councils and encouraging the community to use council services more sparingly.

7.7 Increasing debt

Different councils have taken varying approaches to borrowing as a way to supplement their revenue. Some councils have increased debt levels as a response to increasing pressures.[508] Wangaratta Rural City Council reported the following change to its attitude to borrowing:

> We commissioned an independent review of our borrowings in April 2016. This revealed that far greater use could be made of Council's capacity to borrow and recommended a different attitude to debt. Using Moody's metrics for Debt burden and Interest burden, Council could increase borrowings from its current $9M to $25M and still maintain a Aa2 Moody's credit rating, which is two notches below the Commonwealth of Australia and State of Victoria.[509]

In contrast, West Wimmera Shire Council, which currently has $287,524 in debt, explained its conservative approach to borrowing:

> A history of responsible financial management over a long period has ensured that the cash position of the Shire on a year by year basis is reasonably good. To ensure that this cash position has remained strong, entrepreneurial activities have been very conservative.[510]

Wodonga City Council also noted its cautious approach to increasing debt levels:

> The council carefully considers the potential for using debt to finance long-term multigenerational infrastructure through considered and prudent financial planning. Current debt levels have been reducing.[511]

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507 McKell Institute, *Giving Local Governments the Reboot: Improving the Financial Sustainability of Local Governments* (2016), p.10 (provided to the Committee by University of Technology Sydney, Centre for Local Government, *Submission 30*)

508 South Gippsland Shire Council, *Submission 14*, p.5; Greater Bendigo City Council, *Submission 45*, p.7

509 Wangaratta Rural City Council, *Submission 7*, p.3

510 West Wimmera Shire Council, *Submission 3*, p.1

511 Wodonga City Council, *Submission 31*, p.6

Corangamite Shire Council stated it would not 'borrow to subsidise operating activities', noting that 'this defers the problem to the future.'[512] Mansfield Shire Council emphasised a similar point:

> Yes, we could borrow more but how does this help us become financially sustainable? Increasing debt is a band aid solution, which is not only unfair on our ratepayers and community but also ignores the root cause of the issue – lack of income to provide core services.[513]

Overall, Local Government Victoria told the Committee that regional councils' level of reliance on borrowings as a source of funds on the whole is low. Interface councils have the highest reliance on borrowings due to their requirement to invest in new community infrastructure. Regional cities maintained their debt levels between 2014 and 2016, while other categories of regional councils have generally been reducing their debt levels over the same period.[514]

7.8 Amalgamations

'We just need to have a rethink on how we can fund ... small shires. I do not think making them bigger is going to solve the problem. It is only going to stretch it out further, and we need some local input. You have got to be born and bred nearly to live in these communities, really, to work the nuts and bolts out of how people think and what we need, but we just do not want to get too big.'[515]

In the mid-1990s, the Victorian Government restructured local government, amalgamating the then 210 municipalities into 78. In his submission to this inquiry, Mr Leonard Mainard noted that the 'theory behind amalgamations was that it would bring economies of scale and facilitate a rationalisation of services.'[516] Mr Craig Niemann, from Greater Bendigo City Council, stated that these amalgamations had 'enabled rural and regional places to grow and develop more'.[517]

The suggestion that further amalgamations could drive greater sustainability within regional councils was raised throughout this inquiry.

Mr Frank Deutsch advocated for the amalgamation of smaller rural councils,[518] but noted that it is an unpopular position:

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512 Corangamite Shire Council, *Submission 56,* p.5

513 Mansfield Shire Council, *Submission 26*, p.4

514 Graeme Emonson, Executive Director, Local Government Victoria, *Public Hearing*, 15 August 2017, p.4

515 Garry Summerhayes, Chairman, Berriwillock Community Development Group, *Public Hearing*, 12 October 2017, p.16

516 Leonard Mainard, *Submission 63,* p.1

517 Craig Niemann, Chief Executive Officer, Greater Bendigo City Council, *Public Hearing,* 25 October 2017, p.3

518 Frank Deutsch, *Submission 60,* p.1

> Amalgamation is one of the things which could be done to increase efficiency. Unfortunately, amalgamation was tried in New South Wales recently and they gave up, I believe, because people just do not like the idea of amalgamating three or four smaller councils into a super council to make it more efficient. There are pros and cons for each one.[519]

Mr Peter Gibbons told the Committee that amalgamations of local communities that are located close together have worked well. However, he outlined that those that create large distances within the one shire are undesirable.[520]

Mr Rob Spence, of the Municipal Association of Victoria, told the Committee that he was 'not a supporter of amalgamations'.[521] He noted that amalgamating municipalities can be particularly significant in regional areas, as it has the potential to change 'the community make-up'.[522] Councillor David Edwards, Chair of the Peri Urban Group of Rural Councils, agreed with this point, stating that amalgamations can change a municipality's identity.[523]

Professor Roberta Ryan highlighted that research has shown people in regional communities care more about amalgamations compared to metropolitan residents as they 'value the local democracy dimensions' of councils.[524] She noted that amalgamations have created 'a lot of unhappiness, particularly in rural communities.'[525]

When discussing possible amalgamations, Glenelg Shire Council raised concerns about addressing the needs of an area and ensuring fair representation:

> Can the formation of 'Super Councils' cater for all the region's needs? Outlying regions may lose out, be forgotten or overlooked. The voice of the outlying communities may be lost, particularly if there is not an equitable Councillor representation.[526]

There were also questions raised about whether or not amalgamations would actually provide financial benefits.

Mr David Jochinke, President of the Victorian Farmers Federation, argued that amalgamations are not going to solve the inherent problems facing regional councils:

> Coming to the discussion around amalgamations and mergers, when you talk about that, you talk about administration, you talk about cost sharing between potentially councils that are there, but you still do not change the fundamentals of what is

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519 Frank Deutsch, *Public Hearing*, 10 November 2017, p.23

520 Peter Gibbons, *Public Hearing,* 9 October 2017, p.4

521 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing,* 15 August 2017, p.6

522 Rob Spence, Chief Executive Officer, Municipal Association of Victoria, *Public Hearing,* 15 August 2017, p.6

523 David Edwards, Chair, Peri Urban Group of Rural Councils, *Public Hearing,* 12 September 2017, p.6

524 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, p.9

525 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, p.12

526 Glenelg Shire Council, *Submission 19,* p.1

> the problem. The problem is you have large amounts of roads, you have a small population and you have, to be quite frank, a very low capability to generate large revenue from the areas ...
>
> By amalgamating an area, in our eyes you are not actually addressing the key issue, and that is population and utilities that you are trying to maintain. I would suggest that if you discuss anything it be not primarily about the administration of an area, even though we are very keen and very focused and we encourage our members to ensure that councils are doing the most efficient job they can and we encourage them to work collectively with other councils. But reducing the cost of providing administration, which is essentially what you are talking about with amalgamation, versus the fact that you have still got a massive amount of assets that you are maintaining does not fix that equation.
>
> For me, if there is any talk about amalgamation and if there is any talk about making huge regional areas, it does not detract from the fact that you do not have the population and you have got a massive amount of infrastructure.[527]

Merv and Rohan Whelan similarly believed that:

> ... amalgamating two or more small rural councils (e.g. in the northwest) will result in little or no financial benefit, but rather, the creation of a geographically large area with inherent diseconomies. Uniting a small rural council with an adjoining larger one will benefit the ratepayers of one area to the financial detriment of those in the other, who would almost certainly require additional government assistance.[528]

Professor Roberta Ryan highlighted research into the amalgamations of councils in Queensland, which found that:

> ... 25 per cent of those councils now exhibit what we call mis-economies of scale, and those are the regional and rural councils and they cover 84 per cent of the population. So there is an issue here in terms of thinking about scale and efficiency.[529]

Further discussion about the practicalities of amalgamations in Victoria can be found in Box 7.3.

The Committee notes that the majority of evidence it received on the issue of amalgamations was not in favour of the idea. Amalgamations are unlikely to address the specific challenges that regional communities face. The Committee is of the view that increasing co-operation between regional councils and working towards greater use of shared services and resources, including sharing administrative burdens, will achieve similar economies of scale and efficiencies without the loss of local representation. Section 2.4.1 of this report recommends government assistance to facilitate these sorts of changes.

FINDING 24: Amalgamating councils is not an effective response to overcoming the inherent characteristics of regional councils that create sustainability challenges.

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527 David Jochinke, President, Victorian Farmers Federation, *Public Hearing,* 15 August 2017, pp.5, 9

528 Merv & Rohan Whelan, *Financial Sustainability Overview* (2015), p.19 (provided to the Committee by Central Goldfields Council, *Submission 27*)

529 Roberta Ryan, University of Technology Sydney, Centre for Local Government, *Public Hearing,* 12 September 2017, p.3 (citing Joseph Drew, Michael A. Kortt & Brian Dollery, 'Economies of Scale and Local Government Expenditure: Evidence From Australia' *Administration & Society* 46(6) (2014), pp.632-53)

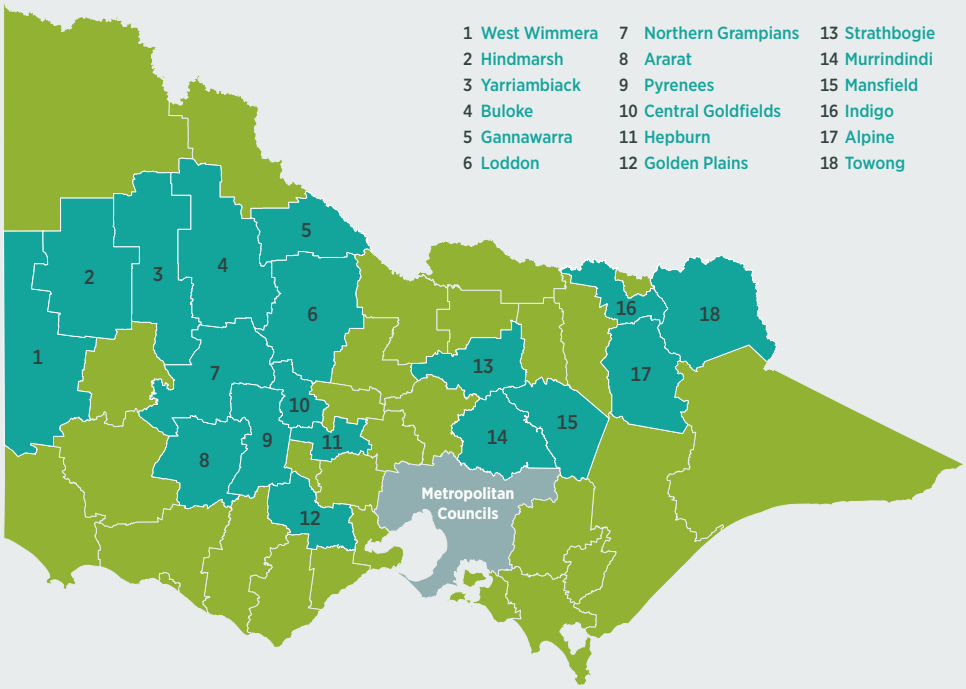
BOX 7.3: Amalgamations in Victoria in practice

The arguments in favour of and opposing amalgamating regional councils in Victoria are discussed in Section 7.8 of this chapter.

The theory behind amalgamations is to achieve:

- economies of scale
- a larger financial base
- efficiencies.

Any consideration of amalgamating councils in Victoria would likely target the councils that are considered the least sustainable, such as those highlighted by Merv and Rohan Whelan:



Source: Environment, Natural Resources and Regional Development Committee, based on Merv & Rohan Whelan, *Local Government Financial Sustainability: Abridged Report* (2010), p.18

Throughout this report, the Committee has noted the challenges facing the regional municipalities that have particularly large land areas with small populations:

- large road infrastructure burdens relative to the population
- issues with economies of scale
- a need to provide duplicate services and facilities due to the distance between communities.

Most of the councils identified by the Whelans that are located in the north-west of the state are large in size and low in population. The Committee notes that amalgamating these councils would only serve to create councils with the same problems on a larger scale. The population density of any new municipalities would be relatively unchanged, meaning that ratepayers would still carry a similar burden in terms of

funding roads and bridges. The geographic scale of the amalgamated municipalities would mean that there would be limited opportunities for the rationalisation of services. Residents and staff already struggle to travel through some of the existing municipalities, let alone across one three times the size.

The Committee notes that another option for amalgamations would be areas where a more sustainable regional city is located next to less sustainable municipalities (for example, Greater Ballarat, Pyrenees and Hepburn or Wodonga, Indigo and Towong). While the Committee believes that this would be the most viable type of amalgamation, the viability would rely on using revenue raised in the large cities to fund infrastructure and services in the rural areas. It is not clear that this is necessarily a fairer option than support through grants derived from revenue drawn from the whole of Victoria.

This option would also create municipalities with a majority of residents in one large city, potentially giving rise to issues of local representation for the rural areas. The needs and challenges of the distinct communities across the newly created municipalities would vary widely, and prioritising the differing demands may be difficult for the council.

7.9 Growing the population

> *'We have got a couple of larger businesses in our council, but it is important that we try to support and get others into it to try and ease the rating burden and actually share the rating burden over a larger number of people.'*[530]

Population growth was considered an important way to improve councils' financial sustainability by some submitters and witnesses. A larger population provides benefits such as reduced costs per person for infrastructure and economies of scale. Larger populations increase the amount of own-sourced revenue that councils can raise without increasing the burden on individual ratepayers.

Some regional municipalities (particularly large cities and peri-urban municipalities) are already experiencing population growth. However, other municipalities have stable or declining populations, especially the more remote rural municipalities (see Section 3.2.1 of this report). It was argued that these municipalities would benefit from assistance to grow their populations.

The Committee heard repeatedly that a key to growing the population in regional areas is to create job opportunities. Some called for incentives to encourage businesses to set up in regional areas.[531] Others advocated for improved transport

530 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, p.30

531 Graham Harris, Donald 2000, *Public Hearing*, 12 October 2017, pp.4-5; Tracy Pardella, President, Wycheproof Vision, *Public Hearing*, 12 October 2017, p.9; Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, p.30

to the city, so that people could commute.[532] There were also suggestions about the State Government moving departments or agencies to regional areas to boost jobs.[533]

Ms Lucy Roffey from Buloke Shire Council emphasised the importance of creating employment opportunities but also noted the need for improved access to important services:

> ... we need to have more locally based services so that it is an attractive place to live. It is physically an attractive place to live in many ways, and we have got lots of things to sell, such as participation in sport, social inclusiveness — those sorts of things — but we are missing so many fundamental services that is a really difficult sell in some cases to say to people, 'Come and live here, but you are going to have to travel 300 kilometres to get in X-ray'.[534]

Ms Roffey also called for improvements to mobile and internet connectivity to facilitate businesses.[535]

The Committee notes that the Government has a number of programs in place to boost the population of regional areas, including increasing jobs.[536] As noted in Section 2.4.2 of this report, further work in this area has the potential to help assist regional councils to be more financially sustainable.

FINDING 25: Growing the population of regional Victoria, especially rural municipalities, will help to make councils more financially sustainable.

7.10 Conclusion

> *'I do not think it is propping up of a council as such to ensure that rural communities have access to a reasonable level of services ... We are not looking for gold plating. We are looking for basic things, whether it is meals on wheels for people living in remote housing that do not have access to some of the basic needs of life or someone simply having a road graded occasionally, particularly with the agricultural producers. We are well aware that a shower of rain can change a person's ability to move either product or family up along the road network. I think it is about trying to at least ascertain what is a reasonable or basic minimum set of service levels and ensuring that all Victorians at least have access to that.'*[537]

This chapter has outlined how some regional councils have sought efficiencies, reduced services, reviewed staff structures and delayed asset maintenance in an effort to remain sustainable. This report has highlighted that these responses are

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532 Justin Di Caprio, President, Watchem Men's Shed, and Committee Member, Watchem Progress Association, *Public Hearing,* 12 October 2017, p.22; Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, p.26

533 Kelvin Burt, President, Kerang Progress Association, *Public Hearing*, 13 October 2017, p.12; Gregory Drumm, General Manager Corporate Services, Latrobe City Council, *Public Hearing*, 9 October 2017, p.16

534 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, p.31

535 Lucy Roffey, Chief Executive Officer, Buloke Shire Council, *Public Hearing,* 12 October 2017, pp.26, 30

536 Department of Treasury and Finance, *Victorian Budget 17/18: Rural and Regional Budget Information Paper* (2017), pp.1, 6-7

537 Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council, *Public Hearing*, 13 October 2017, p.6

not enough to make some councils financially sustainable. As a result, there is a growing disparity between regional and metropolitan councils in terms of their levels of service and infrastructure.

The Rural Living Group of Councils and Buloke Shire Council suggested that rural residents do not expect the same level of services as metropolitan residents, but that the disparity was making some regional areas unliveable:

> Rural people are realistic and don't expect services at the same level as those provided in a city, but the disparity has become unworkable. Agriculture is vital to the health of our nation and is increasingly more efficient, but we are not providing a liveable environment for those working in the country. This cannot continue without serious ramifications.[538]

The Committee has heard from a number of regional Victorian residents that are paying large rates bills while receiving fewer services and infrastructure in return. These residents are seeking change. Mr John McConville of Donald 2000 told the Committee:

> We pay the highest rates in Victoria, we pay income tax, obviously, and we pay GST, but we get the minimum level of services. But we do not expect the same services as our city cousins — and that is coming personally from me— we do not expect the same. We are quite happy to live out here.
>
> … 'Decentralisation' was a word thrown around, and it was something that excited us and something that should happen. I believe that maybe that is the avenue that we should take. We need that to work. We need action. We want to live in the Buloke shire, but it seems that we are penalised and we are being taxed too much.[539]

Without further changes, as recommended by the Committee, the disparity in living conditions and amenity across Victoria may continue to grow. The Committee has made a number of recommendations that could provide regional residents a minimum level of service and improve equality across the state. The Committee believes that changes in these areas should be explored to ensure that regional municipalities remain a sustainable and attractive place to live and work in the future.

538 Rural Living Group of Councils, *Submission 25*, pp.3, 5-6; Buloke Shire Council, *Submission 24*, p.3

539 John McConville, Chairperson, Donald 2000, *Public Hearing*, 12 October 2017, p.3

Appendix 1
Inquiry process

A1.1 Inquiry process

The Committee received the terms of reference for an inquiry into the sustainability and operational challenges of Victoria's rural and regional councils on 6 May 2015. The terms of reference are provided in full at the beginning of this report.

As the Committee was undertaking another inquiry at this time, it did not begin taking evidence until the middle of 2016.

A1.1.1 Submissions

A call for written submissions through the Committee's website, the Parliament's Twitter account and in several Victorian newspapers occurred in July 2016. The Committee also wrote to a range of key stakeholders inviting submissions, including government departments, ratepayer groups and all 48 regional councils.

The closing date for submissions was 12 September 2016. The Committee resolved to continue accepting submissions after this date, while it completed work on another inquiry.

In May 2017, before commencing public hearings, the Committee again wrote to the regional councils that had not provided submissions during the initial stage to give them an opportunity to participate.

In total, the Committee received 69 submissions from individuals and organisations.

A full list of submitters can be found in Section A1.2 of this appendix.

A1.1.2 Local Government questionnaire

The Committee also sent a questionnaire to Victoria's regional councils seeking specific data relating to council revenue and expenditure.

All 48 regional councils provided responses to the Committee.

A1.1.3 Public hearings

The Committee conducted eight days of public hearings between 15 August and 10 November 2017. It received evidence from 44 separate organisations and individuals.

The public hearings were held in:

- Melbourne
- Traralgon
- Wycheproof
- Kerang
- Shepparton
- Bendigo
- Colac.

The Committee spoke to witnesses from a number of local councils, local government organisations, community and ratepayer groups and individuals who are concerned about local government.

A list of the witnesses who attended public hearings is included in Section A1.3 of this appendix.

A1.1.4 Interim Report

The Committee tabled an interim report in Parliament on Tuesday 12 December 2017. The interim report provided an overview of the Committee's work to that date and the key issues that had emerged through the process. The interim report is available on the Committee's website (www.parliament.vic.gov.au/enrrdc).

A1.2 Submissions

Number	Submitter
1	Harry van Moorst
2	Joanne Campbell
3	West Wimmera Shire Council
4	Tricia Fleming
5	Helen Keighery
6	Colin Fenton
7	Wangaratta Rural City Council
8	Victorian Water Industry Association
9	Wind Industry Reform Victoria
10	East Gippsland Shire Council
11	Bendigo Domain Village Residents' Committee
12	Horsham Rural City Council

Number	Submitter
13	Macedon Ranges Shire Council
14	South Gippsland Shire Council
15	Surf Coast Shire Council
16	Chris Sharkey
17	Leigh Barrett
18	Mildura Rural City Council
19	Glenelg Shire Council
20	Australian Services Union
21	Mitchell Shire Council
22	Warrnambool City Council
23	Residents of Retirement Villages
24	Buloke Shire Council
25	Rural Living Group of Councils
26	Mansfield Shire Council
27	Central Goldfields Shire Council
28	Linette Treasure
29	Victorian Farmers Federation
30	University of Technology Sydney Centre for Local Government
31	Wodonga City Council
32	Pyrenees Shire Council
33	Hindmarsh Shire Council
34	Latrobe City Council
35	Moyne Shire Council
36	Victorian Planning and Environmental Law Association
37	Lexton Landcare Group
38	Upper Mount Emu Creek Landcare Network
39	Murrindini Shire Council
40	Yarriambiack Shire Council
41	Peri Urban Group of Rural Councils
42	Baw Baw Shire Council
43	Andrea Richards
44	Golden Plains Shire Council
45	Greater Bendigo City Council
46	Municipal Association of Victoria
47	Regional Cities Victoria
48	Towong Shire Council
49	Rural Councils Victoria
50	Whittlesea City Council
51	Bass Coast Shire Council
52	Hume Region Local Government Network
53	Loddon Shire Council
54	Campaspe Shire Council
55	Wellington Shire Council
56	Corangamite Shire Council

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Number	Submitter
57	Mount Alexander Shire Council
58	Colac Otway Shire Council
59	Northern Grampians Shire Council
60	Frank Deutsch
61	John Cooper
62	Phillip Douglass
63	Leonard Mainard
64	Victorian Local Governance Association
65	Iris and Clive Teusner
66	Greater Geelong City Council
67	Traralgon Community Development Association
68	Better Local Government Association
69	Ratepayers Victoria – Mildura Branch

A1.3 Public hearings

Tuesday 15 August 2017, Melbourne

Name	Position	Organisation
Dr Graeme Emonson	Executive Director	Local Government Victoria
Mark Grant	Director, Sector Performance and Development	
Rob Spence	Chief Executive Officer	Municipal Association of Victoria
Owen Harvey-Beavis	Manager, Insurance, Research and Strategy	
Tony White	Special Projects Officer	Australian Services Union
Kathryn Arndt	Chief Executive Officer	Victorian Local Governance Association
Bo Li	Senior Policy Adviser	
David Jochinke	President	Victorian Farmers Federation
Frank Sullivan	Vice-President	Ratepayers Victoria
Dr Alan Nelsen	Treasurer	

Tuesday 12 September 2017, Melbourne

Name	Position	Organisation
Cr David Edwards	Chair	Peri Urban Group of Rural Councils
Paula Lawrence	Executive Officer	
Tony White	Chief Executive Officer	Victorian Water Industry Association
Kate White	Director, Community Resilience and Communications	Victoria State Emergency Service
Professor Roberta Ryan		University of Technology Sydney Centre for Local Government
Lawrie Robertson	Vice-President	Residents of Retirement Villages Victoria
Chris Sharkey		

Monday 9 October 2017, Traralgon

Name	Position	Organisation
Gregory Drumm	General Manager Corporate Services	Latrobe City Council
Matthew Rogers	Manager, Finance	
David Morcom	Chief Executive Officer	Wellington Shire Council
Malcolm Lewis	Chief Financial Officer	Baw Baw Shire Council
Margaret Guthrie	Vice-President	Churchill and District Community Association
Graeme O'Hara	President	Latrobe City Farm Ratepayers Association
Bill Cawcatt	Vice-President	
Cheryl Wragg		
Peter Gibbons		
Suzanne Pinchen	Secretary-Treasurer	Traralgon Community Development Association
Bronwyn Kerr	Vice-President	
Joanne Campbell	Member	Traralgon Chamber of Commerce and Industry
Coola Nassiokas	Secretary	Rosedale Chamber of Commerce and Industry

Thursday 12 October 2017, Wycheproof

Name	Position	Organisation
John McConville	Chairperson	Donald 2000
Trevor Campbell	Former Committee Member	
Graham Harris	Committee Member	
Tracy Pardella	President	Wycheproof VISION
Ian Milburn	Committee Member	
Garry Summerhayes	President	Berriwillock Community Development Group
Graeme Milne	President	Watchem Progress Association
Jim Petrie	Vice-President	
Justin Di Caprio	Committee Member and President, Watchem Men's Shed	
Ian Roberts	Committee Member	
Lucy Roffey	Chief Executive Officer	Buloke Shire Council
Cr David Pollard	Mayor	Rural Living Group of Councils

Friday 13 October 2017, Kerang

Name	Position	Organisation
Tom O'Reilly	Director Corporate Services	Gannawarra Shire Council
Kelvin Burt	President	Kerang Progress Association
Irene Ayres	Vice-President	
Colin Fenton		

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Tuesday 24 October 2017, Shepparton

Name	Position	Organisation
Tony McIlroy	Former Secretary	Hume Region Local Government Network
Gordon Hamilton	President	Better Local Government Association
Greg McKenzie	Manager, Environment	Greater Shepparton City Council
Geraldine Christou	Acting Director, Sustainable Development	

Wednesday 25 October 2017, Bendigo

Name	Position	Organisation
Craig Niemann	Chief Executive Officer	Greater Bendigo City Council
Cr Rod Fyffe	Deputy Mayor	
David Clark	Network Coordinator	Lexton Landcare Group
Joel Owins	Network Facilitator	Upper Mount Emu Creek Landcare
Sue Lafferty	Member	Residents of Retirement Villages Victoria, Rates Justice Campaign
Trish Elliott	Resident Liaison Officer	

Friday 10 November 2017, Colac

Name	Position	Organisation
Robert Dobrzynski	Acting Chief Executive Officer	Colac Otway Shire Council
Cr Chris Potter	Mayor	
Ransce Salan	General Manager, Environment and Development	Surf Coast Shire Council
David Rae	Director, Corporate and Community Services	Corangamite Shire Council
Leigh Barrett		
Frank Deutsch		
Peter Fillmore	Secretary	Otway Forum

Appendix 2
Local council categories

As outlined in Chapter 1 of this report, the Committee divided Victoria's councils into five categories for the purposes of analysis:

- metropolitan (Melbourne and the interface councils)
- peri-urban (municipalities that are located close to the Melbourne and Geelong metropolitan areas)
- large cities (municipalities with cities of more than 20,000 people)
- rural-dense (rural municipalities with higher population densities, as indicated by having less than 150 metres of road per person on average[1])
- rural-sparse (municipalities with greater than 150 metres of road per person).

Table A2.1 (below) lists the local councils that make up each category.

The Borough of Queenscliffe has been excluded from analyses of individual council categories in this report (and does not appear in Table A2.1), as it has a very different nature to all other municipalities. However, it has been included in figures for regional municipalities as a whole.

Table A2.1 Local council categories

Metropolitan (31)	Peri-urban (8)	Large cities (8)	Rural-dense (16)	Rural-sparse (15)
Banyule City Council	Bass Coast Shire Council	Ballarat City Council	Alpine Shire Council	Ararat Rural City Council
Bayside City Council	Baw Baw Shire Council	Greater Bendigo City Council	Benalla Rural City Council	Buloke Shire Council
Boroondara City Council	Golden Plains Shire Council	Greater Geelong City Council	Campaspe Shire Council	Gannawarra Shire Council
Brimbank City Council	Macedon Ranges Shire Council	Greater Shepparton City Council	Central Goldfields Shire Council	Hindmarsh Shire Council
Cardinia Shire Council	Mitchell Shire Council	Latrobe City Council	Colac Otway Shire Council	Horsham Rural City Council
Casey City Council	Moorabool Shire Council	Mildura Rural City Council	Corangamite Shire Council	Loddon Shire Council
Darebin City Council	Murrindindi Shire Council	Warrnambool City Council	East Gippsland Shire Council	Moyne Shire Council
Frankston City Council	Surf Coast Shire Council	Wodonga City Council	Glenelg Shire Council	Northern Grampians Shire Council
Glen Eira City Council			Hepburn Shire Council	Pyrenees Shire Council

1 Population density has been measured by reference to the road network rather than the total land area to account for the fact that some municipalities have large areas of uninhabited land.

A2

Metropolitan (31)	Peri-urban (8)	Large cities (8)	Rural-dense (16)	Rural-sparse (15)
Greater Dandenong City Council			Indigo Shire Council	Southern Grampians Shire Council
Hobsons Bay City Council			Mansfield Shire Council	Strathbogie Shire Council
Hume City Council			Moira Shire Council	Swan Hill Rural City Council
Kingston City Council			Mount Alexander Shire Council	Towong Shire Council
Knox City Council			South Gippsland Shire Council	West Wimmera Shire Council
Manningham City Council			Wangaratta Rural City Council	Yarriambiack Shire Council
Maribyrnong City Council			Wellington Shire Council	
Maroondah City Council				
Melbourne City Council				
Melton City Council				
Monash City Council				
Moonee Valley City Council				
Moreland City Council				
Mornington Peninsula Shire Council				
Nillumbik Shire Council				
Port Phillip City Council				
Stonnington City Council				
Whitehorse City Council				
Whittlesea City Council				
Wyndham City Council				
Yarra City Council				
Yarra Ranges Shire Council				