

ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE

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

Colac — 10 November 2017

Members

Mr Josh Bull — Chair

Mr Simon Ramsay — Deputy Chair

Ms Bronwyn Halfpenny

Mr Luke O'Sullivan

Mr Tim Richardson

Mr Richard Riordan

Mr Daniel Young

Witnesses

Mr Robert Dobrzynski, acting chief executive officer,

Cr Chris Potter, mayor, Colac Otway Shire Council;

Mr Ransce Salan, general manager, environment and development, Surf Coast Shire Council; and

Mr David Rae, director, corporate and community services, Corangamite Shire Council.

The CHAIR — Good morning and welcome to the Environment, Natural Resources and Regional Development Committee's public hearing in relation to the inquiry into the sustainability and operational challenges of Victoria's rural and regional councils. It is wonderful to be here in a very sunny Colac, and I thank you for the opportunity. I would like to extend a warm welcome to members of the public and media if present today.

All evidence taken today is protected by parliamentary privilege, therefore you are protected for what you say here today. However, if you go outside and repeat those same things, those comments may not be protected by this privilege. Today's evidence is being recorded. You will be provided with proof versions of the transcript at the earliest opportunity. Transcripts will ultimately be made public and posted on the committee's website.

I will now invite each of you to proceed with a 5-minute opening statement, which will be followed by questions from committee members. Before we do so, if you can state your name and role for the record, and then we will have the opening statements. Cr Potter, we might start with you.

Cr POTTER — Sure, thank you. My name is Chris Potter. I am a councillor at Colac Otway shire.

Mr DOBRZYNSKI — Robert Dobrzynski, acting chief executive officer at Colac Otway shire.

Mr SALAN — Ransce Salan, general manager of environment and development at Surf Coast Shire Council.

Mr RAE — David Rae, director of corporate and community services from Corangamite Shire Council.

The CHAIR — Thank you and welcome. Over to you to make an opening statement. Who wants to open the batting?

Cr POTTER — We will if we may, thank you. First of all, Colac Otway shire sincerely appreciates the opportunity to present to this inquiry. The comparative disadvantage experienced by rural and regional councils at a socio-economic level is growing alarmingly, as evidenced by the SEIFA scores. Our presentation this morning seeks to illustrate levels of disadvantage and propose a solution to bring much-needed equity into the financing arrangements of rural and regional councils. All Victorians have the right to a standard of living comparable to those living in other areas of the state. Chronic socio-economic disadvantage leads to intergenerational loss in our rural and regional communities, and we urge this committee to recognise it. The acting CEO will now undertake a brief presentation to the committee in relation to those issues.

Mr DOBRZYNSKI — And I understand we have 5 minutes, Mr Chairman, so I will be brief within that context. Colac Otway shire believes that councils such as ours are disadvantaged by a per capita grants commission distribution, which we would suggest is heavily biased towards wealthier Melbourne councils, and we have provided some metrics around that. We believe rural and regional councils generally are disadvantaged by social and economic indicators, which are significantly lower than those in metropolitan council areas. The affluence in Victoria is not evenly spread, and the SEIFA scores certainly indicate that Colac as a city is in the lowest quartile in SEIFA scores and Colac Otway shire sits at level 60, which is one above the lowest quartile.

Our councils are disadvantaged in revenue generation by a lack of population and urban density and are also disadvantaged by a lack of diversity in economic drivers in comparison to metropolitan councils, where when one business closes often residents can move a relatively short distance using public transport to gain employment close by.

In addition to that, we are disadvantaged by having to maintain very significant asset networks, particularly our large rural road network, to service rural communities and, importantly, rural economies, and which typically have a large asset renewal gap. Colac Otway shire has 1621 kilometres of road — two-thirds of that is unsealed — and 153 bridges, so a very significant asset management challenge. Even within its urban areas, Mr Chairman, Colac is disadvantaged in raising sufficient revenue to fund those activities and that long asset base due to a lack of capacity to pay resulting from socio-economic disadvantage and, as I indicated, from Colac being in the lowest quartile on the SEIFA index.

We are disadvantaged by a rating system which is demonstrably inequitable, and I think this plays very much to the terms of reference of the committee. The values of rural properties do not reflect capacity to pay and are often inflated by non-traditional rural factors. Cashed-up tree changers are moving in to buy lifestyle properties

in the rural sector, which are artificially inflating prices above the productive capacity of those properties. The ratings system currently comprises progressive and regressive tax elements, which are very difficult for rural and regional councils to manage equitably in challenging socio-economic circumstances.

The municipal charge, which was largely brought about to try to alleviate the rate burden on larger asset, one-household farms, is a regressive tax and impacts on low incomes, particularly in Colac. The progressive rate in the dollar has significant disadvantages, which we hear every year from the rural sector, where their large asset value is not reflected in the revenues that are being derived from those properties.

Importantly, the second biggest revenue source to councils is the grants commission funding that we receive. The general purpose methodology discriminates significantly against rural and regional councils in both the per capita criteria and the resulting pool of funding that is available to address horizontal fiscal equalisation. That often results in equating to a few cents in the dollar for demonstrated disadvantage using the grants commission methodology because of the amount of funding that is taken out of that horizontal fiscal equity pool by the per capita distribution that goes to metropolitan councils. This results in an unfair burden of rates required to be raised by rural and regional councils compared to their metropolitan counterparts. That is a huge challenge for rural and regional councils.

Mr Chairman, 30 per cent of the total general purpose grants commission pool is required by commonwealth methodology to be distributed to local government on a per capita basis. Using 2017–18 general purpose grants pool figures that is an amount of \$124 722 000 that is basically per capita — not horizontal fiscal equalisation; you get it basically from existing. With Victoria's population of a bit over 6 million, it is about a 3 to 1 split. Metro councils get a proportion of \$4.5 million, rural and regional councils get \$1.5 million. Conversely, if there was an equity adjustment to that per capita distribution and it was removed from metropolitan councils, it would put an additional \$93.3 million into the horizontal fiscal equalisation pool.

Just to indicate the magnitude of that for a council like Colac Otway shire, that would put an extra \$1.2 million into Colac Otway shire's general purpose grant to address a lot of those fundamental socio-economic issues that we have. Even if half the figure that is currently contributed to the cashed-up metro councils was redistributed on fiscal equalisation principles, that would increase the Colac Otway shire grants commission contribution by \$619 000 based on 2017–18 figures — a major additional revenue source to fund infrastructure within the shire that supports rural communities and a significant part of the economy in not only Colac Otway shire but also the region.

I know that members have received copies of our presentation, Chair. I have drawn comparisons between Boroondara, which is rated number two on the SEIFA index of disadvantage — that does not mean they are second from the top of being the most disadvantaged, I might add; it means they are among the most affluent — and Colac Otway is rated 60th. I have indicated the average rates and waste charge per head of population, which shows the rating effort of Colac Otway shire, is 43 per cent higher. I have also indicated the property expenses per assessment, which indicate Colac Otway shire is 19 per cent higher in terms of the costs of servicing its individual properties. In terms of rates as a percentage of property values, in Boroondara it is 0.16 per cent and in Colac Otway it is three times that level at 0.5 per cent.

In closing, if the median residential rates in Colac Otway — and we are talking residential rates — were applied to the median valuation in Boroondara, it would mean that Boroondara residents would be paying \$6479 as their median rate compared to Colac Otway shire's \$1642. And we note that that figure is actually \$909 in Boroondara.

Colac Otway shire would conclude by indicating that the disparity between the socio-economic circumstances of metropolitan councils compared to rural and regional councils is growing alarmingly and must be addressed urgently to ensure positive futures for our communities. There are mechanisms available within the rating system but also importantly within the other major revenue source available to councils, which is the Grants Commission funding. We do not have the parking and millions of dollars that metro councils do, so they are basically the dominant sources of funding available to rural and regional councils. Thank you, Chair.

Mr SALAN — Thank you for the opportunity to present to the parliamentary inquiry and to highlight some of the unique challenges that Surf Coast and indeed many other rural and regional councils face in an environment of high community expectation and unprecedented change. Whilst I am relatively new to council

and was not with the council when this submission was made, the issues are not unfamiliar as they are common within rural local governments. Today I will briefly cover off on a few that are particular to the Surf Coast.

As no doubt you will know, councils across Australia raise approximately 3.5 per cent of the total taxation collected by all levels of government in Australia and are entrusted with the maintenance of more than 30 per cent of all public assets. This is a real challenge. This, coupled with the ever-increasing expectations and demands for services, provides a real challenge for all local governments everywhere but is exacerbated in rural councils and areas such as the Surf Coast where 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.

The diverse nature of rural councils presents a range of unique challenges, and the answers are not found in one-size-fits-all-type solutions. Indeed rural and regional councils face many unique revenue challenges. Some of them have already been touched on. Rate capping will cost rural councils hundreds of millions of dollars, for example. Surf Coast revenues will be reduced by over \$100 million in the next 10 years compared to the historic average rate revenue increases over the previous decade, and there will come a time for councils when choices must be made to reduce services or to forgo investment in their assets, which is not a desirable outcome.

There has been a reduction in underlying service funding for local government, exemplified by the state's contribution to operational funding of public libraries dropping from 50 per cent to 18 per cent, as highlighted in our submission. And there is a range of other examples that have been used. There are limited opportunities for non-rate revenues that are often available in other areas, particularly metropolitan councils where things such as parking revenue form a significant income source. On the Surf Coast, for example, a major source of parking revenue could be derived from parking along our coastal foreshores. However, this land is not under council's control, and any revenue derived from these areas would most likely not be returned to councils and into their general revenue.

There has also been a shift in the uptake of non-government core services and roles and responsibilities. Rural and regional councils are experiencing new and expanding roles in areas such as bushfire management. The new BMO that has come in places an emphasis, for example, on councils to maintain conditions on planning permits in perpetuity, and yet there are no associated revenue sources. Flood plain management is another example of a service where the onus is now being placed back on local councils, who do not necessarily have the skills, experience or finances to be able to deal with these things. Climate change and coastal inundation are just other examples of things that councils have to grapple with.

Local government generally does not have the skills and expertise to deliver a number of these services because they are not their historical responsibilities and therefore the expertise in Victoria is not held within a lot of councils. Also, rural and regional councils rarely have the scale to make recruitments into positions that are needed to service some of these activities. This forces local councils into engaging expensive external expertise to carry out the requirements of some of these responsibilities, a cost that is ultimately borne by our communities.

Growth in tourism is another area where the Surf Coast is presented with considerable challenges from a sustainability and operational perspective. Councils in high tourism destinations experience pressure on infrastructure and services from non-rate payers during peak visitation periods. Surf Coast shire, for example, has a population that almost triples during peak tourism times, so we have to provide the services to meet those peak demands that are under-utilised for most of the rest of the year. Surf Coast shire tourism is up by 22 per cent over the past four years, and we now experience 1.7 million visitors coming into our area every year. Many of these have very diverse needs.

For rural and regional councils in high tourism destinations funding from other levels of government needs to take into account visitation levels, not merely permanent population levels. Failure to do so places the burden of funding facilities and service provisions disproportionately on to ratepayers. It needs to be noted that rate income from population growth also is a contributing factor and 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 population growth policy in regional areas.

One more aspect that I will touch on is emergency recovery, which is another significant cost to council and is a relatively new responsibility. Rural and regional councils are being asked to play a greater role in the relief and recovery efforts following emergency events such as bushfires and storm events. We are so familiar with these. The capacity for councils to manage planning, preparation and recovery for bushfires is a significant challenge. Councils have once again been left holding the mantle of providing support and coordination of many essential services.

Councils play an important role in emergency relief and recovery, and this often comes at a very significant cost. On the coast they also contribute to the building and operation of many clubs and facilities, such as surf lifesaving and bowls clubs et cetera, which also has an impact on the bottom line. If councils have responsibility for planning and relief and recovery from floods, bushfires, pandemics and emergencies, then the appropriate support and long-term funding needs need to be taken into account to enable them to undertake this work.

There needs to be flexibility to use capital grant income for asset improvement and protection to protect against reoccurrence of damage when floods occur. Some post-flood grants prohibit asset improvement, and grants do not allow for increased service levels.

Today I have highlighted some of the challenges that Surf Coast is grappling with. Council is adapting to the challenges of rate capping and restricted revenue source and 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.

Suffice to say, there is a very real ethos of continuous improvement amongst most regional and rural councils, but Surf Coast is finding that adapting to the new responsibilities that have come to them is an ever-increasing challenge. The tyranny of small decisions that result in local governments having to continually do more with less to a higher quality is a paradigm that cannot continue on forever. The real risk is to our communities and their ongoing sustainability. I sincerely hope that the long-term implications of rate capping in New South Wales are not the road map for Victoria and that the future generations will value the decisions and directions that we are seeking today. On behalf of the Surf Coast council, I thank you for this opportunity.

Mr RAE — Members, thank you for the opportunity to present on behalf of Corangamite Shire Council today. I would just like to note the apologies from our mayor, Cr Jo Beard, and CEO, Mr Andrew Mason.

You have our written submissions, so I am not going to rehash what you already have in writing. I just have some very brief opening remarks, and I want to open up with some conclusions that the Victorian Auditor-General made following the 2015–16 local government audit. His report was tabled in Parliament effectively this time last year. I will quote from the report:

We assess the sector generally as having relatively low financial sustainability risks. However, this is not uniform. Financial sustainability issues are emerging for the cohort of 19 small shire councils. Declining revenues are forecasted for this cohort over the next three years, while expenditure is expected to remain consistent.

Members, we are seeing this as essentially the canary in the coalmine for rural and regional councils. Whilst there is certainly no analogy made to large rural shires, of which we are all a member of that cohort, there is concern that this is beginning to have a significant impact on rural and regional areas. We are certainly very mindful of the conclusion that the Victorian Auditor-General has made.

Notwithstanding that, there are other inquiries or pieces of work running parallel to this parliamentary inquiry as well. Local Government Victoria is also undertaking a review through the regional and rural council sustainability program. I would ask that members perhaps refer to that work as well. I guess the challenges there are in terms of defining sustainability, and this is according to the *Local Government Performance Reporting Framework*, where sustainability is defined as local governments having:

... capacity to meet the agreed service and infrastructure needs of the local community and absorb foreseeable changes and unexpected shocks ...

There I guess lies the challenge for rural and regional in that continuing to maintain services at additional levels will be a challenge in the face of declining revenues. Not dissimilar to that is the federal government's

Productivity Commission report. They are certainly undertaking a report into transitioning regional economies. An initial inquiry report was tabled mid this year. Certainly that report does note the challenges facing regional communities and has made some interim recommendations about what can be done to address that particular issue.

What I will say in that regard is that it is evident that there need to be some levers through an incentivisation by governments to ensure that rural and regional economies continue to thrive and remain strong. Corangamite shire is only good as its economic output and the health and wellbeing of its community. In saying that, we are a highly productive agricultural region. A significant volume of exports through the port of Melbourne comes from Corangamite Shire Council. We have a number of gas processors which have flow-on economic benefits. In that regard, the lifting of the moratorium on onshore gas processing and exploration for commercial gas is essential to ensure that the economic benefit is derived by not only council but also our community.

We would like to see a fairer share of the tax take from rural and regional communities back to where the source is. I will give an example with respect to the EPA levy. Corangamite runs a regional landfill. We make a significant contribution to the state with the EPA levy of around about \$1 million per annum. We see very little return of that investment to our community. It would be great to see some policy shift to see some of that return to the source.

I guess, members, there is an increased regulatory overburden as well that councils continue to suffer. For example, 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.

I just want to close. I guess the challenge for rural and regional councils is: to what extent will there be efficient funds into the future to provide those agreed service levels for our community? We at Corangamite are in a very fortunate position: we are a debt-free council. In saying that, though, there are significant challenges ahead, particularly if there are additional financial shocks. We have been fortunate to be able to absorb recent defined benefit fund calls and absorb the impact of rate capping and the pausing of the financial system grants.

There is the ongoing challenge of cost shifting, and council's role in that space has been to hand back services to the state government. It had previously partnered with the government to provide those services. An example is the SES contributions. That has saved Corangamite shire around \$60 000. So I would just like to conclude there. Thank you for the opportunity, and I welcome any questions.

The CHAIR — Thank you very much for those opening statements and for putting a great deal of time and effort into them. I will ask the first question, if I may. Mr Salan, I wanted to touch on a couple of comments you made in relation to rate capping. Just having a look at the submission presented by Surf Coast shire, and I will quote here:

Surf Coast shire has adopted a positive and constructive approach to rate capping taking the view that the reform brings with it opportunities and challenges.

From what I was hearing from you in your opening statement it sounded like you were quite scathing of rate capping, speaking about hundreds of millions of dollars that are lost. What I am trying to ascertain is in other hearings — and we have done quite a few of them now — a number of community groups, residents and other municipalities have indeed said that they are supportive of rate capping given the fact that residents are already facing significant financial pressures and that rate capping is assisting those residents and people that we do not actually want to put more financial burden on. Can you provide some more comments around that? And if any other members are also happy to, that would be most appreciated.

Mr SALAN — Rate capping is, in and of itself, an efficiency drive mechanism that councils have had to adjust to, and they do pose continuing challenges for local government. I think that in our submission we have pointed out that rate capping, which is set according to CPI, really is not a relative comparator or how councils should set their rates. We build things and do have a number of other services. We have to pay increased energy

costs. There are a whole raft of other associated costs that are well beyond CPI that we have to adapt to, and while rate capping essentially is forcing councils into a spot where they have to continuously reinvent themselves, there are limitations to how far you can go with that, especially in light of the growing community expectations around service levels and quality of services.

Mr DOBRZYNSKI — We did not make great about rate capping. Because of the capacity-to-pay issues that you have alluded to, Colac Otway shire increased its rates by 0.6 per cent last year. It really is a matter of how much you can squeeze the lemon from the ratepayer's point of view as well, and if you have a look at the socio-economic profile of the council area, it is clear that there are significant areas of the council that are under significant financial stress. Our argument is really that local government is well-equipped to perhaps take on more of the localised service delivery. The revenue model is broken and it is inequitable, and particularly with the grants commission it is a one size fits all where the metropolitan councils are significantly advantaged. Colac Otway shire councillors do not want to be rating ratepayers out of existence. It is a big platform for the current council. It is having to look at those other weaknesses in the current model for rural and regional councils and how we operate.

The CHAIR — Just by way of a supplementary, given that you spoke about grants, I think there are some real opportunities there for us. Obviously this committee is charged with finding recommendations and a whole range of mechanisms that are actually going to assist long term. We are hearing a whole heap of issues, and they are quite similar right across the board. What we are seeking are those solutions to be able to effectively make long-term, sustainable change. In relation to grants, I think we were out at Buloke and we had some suggestions around ratios and grant ratios. I think you sort of alluded to it both in your submission and in your opening statement. Can you give us any thoughts on how you think ratios could be structured geographically to allow rural and regional councils to have a greater advantage, whether it is 2 to 1 or 1 to 3 or 1 to 4 in rural and regionals rather than metropolitans? Is there more work that we can do in this space, do you think?

Mr DOBRZYNSKI — I do believe there is, and I think that that is a solution, albeit it would not necessarily be a popular solution. It may have to be transitioned in. If you have a look at the SEIFA index scores, which is probably the most persuasive data that we have got on the socio-economic circumstances of council areas and also townships within council areas and you have a look at the disadvantage in terms of the length of asset that needs to be created and maintained to support rural communities and the lack of urban density compared to metro councils, rating is not the answer; grants are the answer. And then if you are taking \$123 million out of the pool that is established to address those fiscal inequities in the local government sector and distributing that on a per capita basis, it makes life very difficult.

I would not make a broadbrush statement and say all metro councils — certainly in your area there are significant areas of disadvantage — but there are a lot of metro councils, in fact the majority of metropolitan councils, that have got multimillion-dollar, double-digit million-dollar, parking revenues available to them and they have population densities, and yet they still participate in that 30 per cent on the per capita pool. I just cannot believe that that has not been addressed over a period of time. I know the criteria are established by the commonwealth and administered by the states, but it is inequitable.

Mr RIORDAN — Just to your submission, Robert, just to clarify: on the back page of the submission as I read it, if Boroondara were to be rated the same as a Colac Otway shire resident, would it go from \$909 to \$6500? Is that how I read that?

Mr DOBRZYNSKI — The median residential rates payable in Boroondara, just on the previous page, \$2028, and Colac Otway, \$1642, so —

Mr RIORDAN — Right, so it is that —

Mr DOBRZYNSKI — Yes, and so if Boroondara used their median residential values and applied the rating effort in Colac Otway shire, they would be paying \$6479 compared to \$1642.

Mr RIORDAN — And what would the average Colac ratepayer be paying if we were —

Mr DOBRZYNSKI — The median residential rate — and you know the argument that the incidence of the rate falls heaviest on the domestic household because they cannot shift it into prices or anything — is \$1642.

Mr RIORDAN — That is what they are now, but what would it be if they were being rated in Boroondara? Do you have that rate?

Mr DOBRZYNSKI — Significantly less. No, I do not have that. I could get that to you and reverse it back. The argument was that —

Mr RIORDAN — So it is very clear that unlike any other tax in the country, this tax disproportionately wallops — not just charges more, but absolutely wallops — the least able to pay. The SEIFA score is used in education, it is used in health, it is used in every government service measure, and on the SEIFA score basis the out-of-date rating system that we use disproportionately wallops some of the most disadvantaged people in Victoria.

Mr DOBRZYNSKI — That is absolutely true. The commonwealth often says when local government seeks a greater proportion of funding from the commonwealth, ‘You’re not utilising the tax base that you’ve got’. What I tried to demonstrate in these figures is that rural and regional councils flog their tax base to death; in fact they are over the odds, and rate capping is a recognition of that. Metropolitan councils have got a lot more in-built factors that add wealth, economies of scale being the primary of those, and revenue sources that are not available to us, and yet they share in a significant proportion of that Commonwealth Grants Commission funding.

Mr RIORDAN — The next question is to all three shires. You are all in my patch, and I know the area quite well. In this patch, in your three shires, you have the Great Ocean Road and the Otway tourism area. It is a beautiful part of the world, but we know that we cater for millions of visitors a year, and on top of the millions of visitors a year we also have some of the most emergency-prone areas, whether it is flood or fire. We do not get famine too often, thank goodness, but we get all the others. My question is once again referring to the way the system works.

You referred to our metropolitan counterparts. When visitors visit those areas they get a revenue stream from parking predominately, so as I understand it, if you want to take your family to an emergency doctors appointment or something in Melbourne, you could fork out \$90 a day. Presumably you do not know where to park, so you get slugged at the nearest park, from my experience. So you spend \$90 a day to take people for an emergency visit. People from Melbourne coming in through our region basically have full access to all the goods and services and the roads and the 129 bridges and your 69 bridges and whatever else — all that — and nothing is contributed.

What mechanisms, if any, do you employ at the moment? I understand some of the shires look at extra charges on accommodation and overnight stays, but that is probably limited. What opportunities, if any, exist? That is to all three of you really. And have any of you costed what extra burdens you have as organisations in trying to manage those? I think you referred to them, Mr Salan, as that seasonal, in your case, trebling of the population, so it is a big cost.

Mr RAE — I might take the opportunity to go first, please. Thank you for the question, Mr Riordan. Corangamite shire is fortunate to be home to the Twelve Apostles, and coming up to summer we are at a critical peak tourism period, particularly from Boxing Day right through to January, and in that period is Chinese New Year. You may have seen circulating in the media at the moment some social media activity around the state of roads, particularly in the south, and that is effectively a focus on state roads, but what we are seeing is a clear underinvestment in infrastructure, particularly state infrastructure, so the return to both council and the community as an economic driver is particularly low.

Our yield has been estimated currently at 18 cents per visitor. We attract 2½ million visitors per annum through the Great Ocean Road. If we can convert that yield to overnight stay and longer term stay, that would have some significant flow-on benefit to our community and also council. Council has been quite proactive in terms of trying to attract investment into the region. There are two proposals: one has gone through planning; the other is currently going through planning. We would like to see some co-investment by government to assist in improving the infrastructure of the Great Ocean Road. The *Shipwreck Coast Master Plan*, for example, is a key enabling document that not only includes Corangamite but includes elements of Moyne shire as well, but it would benefit all three of our municipalities. It requires a \$180 million investment. The recently announced Great Ocean Road task force, I think, is charged with looking at measures to improve the management of the

road and the assets. We think that the government has a role to play to be an enabler on seeking a better return on the tourism dollar.

In respect of what council can do, I guess we are trying to get out of the way of these proponents that want to invest in our shire. I guess there are some confidence signals they are looking for, and one of those confidence signals is the quality of that state-owned infrastructure. We can certainly put in metered parking, for example, in Port Campbell, but in reality it would drive limited economic benefit for our municipality. Certainly the idea that was put forward by Mr Riordan in terms of parking is certainly something that we should explore in terms of the benefits back to councils to capture some of that economic activity.

Mr DOBRZYNSKI — Chair, perhaps if I could add, I think the question is a really important one because traditionally local government is not structured to manage these sorts of massive inflows of additional users of its services. Its revenue generation mechanisms are not geared through the rating system to be able to respond, so what we are finding at the moment is that there is an underinvestment in partnership with the state and federal governments in facilities that will retain tourists that are coming into our area longer and spending. There is at least a strong suggestion and some statistics that will show that a majority of tourists coming along the Great Ocean Road are benefiting metropolitan Melbourne because they are basically going back and spending there in Melbourne rather than along the Great Ocean Road, and that is a dynamic clearly that we need to change.

We need a revenue source, and, as alluded to, Mr Riordan's initiative regarding providing VIP passes to provide a revenue source so that councils along the Great Ocean Road can work in conjunction with other levels of government in improving infrastructure and keeping people in those areas, to spend in those businesses, is a welcome proposal to be considered. Again there is a large resort development in Apollo Bay that is being proposed at the moment.

The challenge the council has coming off the bushfires and flooding after the bushfires and a number of other major developments where along one road we have got a wind farm, a major quarry and the highway duplication all going on on a road that probably nothing has happened on in the last 150 years is: how do we have the technical capacity and capability to be able to address those large-scale developments and do we need to partner with the state government in considering these major developments that play to some of the big strategies that the state has developed over the years for the Great Ocean Road, many of which remain unrealised to this day? If you have a look at the 2004 plan — I am on the task force — we are now looking at how many of those have actually been achieved. So the recognition of the problem is clear; it is the solutions that we will need some thought on. But clearly there needs to be a revenue stream if councils are going to proactively and productively participate in providing an environment that encourages our tourists not only to stay longer but to return.

The CHAIR — Thank you. Sounds like we might have a policy announcement there for next year.

Mr O'SULLIVAN — Thank you for coming and addressing the committee today on this particularly important issue. We have heard around the state a whole range of scenarios that are not dissimilar to what has been put to the committee this morning. One of the questions that I want to ask each of you to see where you go with the comments is: it seems to me that councils are providing somewhere around 100 different services, and that seems to be increasing all the time through cost shifting and decisions taken by council to get involved in other such things that the community might wish to have, so are we getting to a point where councils are overservicing the local communities?

Cr POTTER — I am not sure if we are overservicing, but sometimes we are in spaces we perhaps should not be in, because of cost shifting, because of perhaps some strategies of government that may, for example, support a youth worker in Colac Otway shire with funding for 12 months — and that service is expected then to continue by the community — but the funding dries up and it falls back on the council to support that. Because of our limited finances, we have to review what space we are operating in and wherever it is relevant to council and whether we are providing services that other organisations should provide. So it is definitely an issue. I think councils are filling in the gaps or picking up the shortfalls that other bodies should be providing, but we are closest to the community, and the community has that expectation, so we will do some of those things when perhaps we should not have to be doing it.

Mr O'SULLIVAN — Can you give us some other examples of some of the things that you believe you should not be doing but are being forced to do?

Cr POTTER — Historically council provided maternal health and early learning services. My personal view is that maybe that should be reviewed. It is an enormous financial impost on council. We have an education system, and likewise with elderly services we have a health system, where traditionally council has played in that space for a long, long time. It is harder and harder financially on councils to do that. A simple stroke of the pen in Parliament in relation to saying councils need, shires need, an environment officer — everyone has to have an environment officer — another impost on council not of council's wishes. Even the municipal health and wellbeing plan — it is a great strategy — I think was alluded to earlier. All these things create extra expenses to council, and some of these things are done without consultation with councils — another financial impost that we cannot afford sometimes.

Mr O'SULLIVAN — Therefore potentially you are overservicing.

Cr POTTER — Potentially, yes.

Mr O'SULLIVAN — We have heard earlier today and through the submissions that rate capping has created challenges and opportunities, and we have heard around the state that with some of those opportunities it has been a platform for councils to look at their cost structures and revenue structures and so forth and work out a way that they can cope with rate capping. Regarding the amount of services that are being provided and the sustainability of councils going forward — because we have heard right around the state that there is going to be disadvantage for regional councils, particularly the smaller ones, in terms of just financial sustainability going forward — is there an opportunity to say, in terms of where we are going to go into the future, that we need to have a look at our cost structures and our service delivery if you cannot squeeze the lemon any harder and you have got rate capping, which is restricting your ability to increase rates, even if you wanted to? Is there an opportunity where at some stage you are going to say, 'We cannot sustain the service provision for the future'?

Mr DOBRZYNSKI — No doubt. We are going through that exercise now, with 0.6 per cent rate increase and prospects of it being even lower the next financial year. We are categorising core, non-core, statutory and common-law requirements, policy or strategic, and we are categorising our services into that area and looking at the lowest priority ones to go back to councillors and say, 'Listen, we have to redefine our service model'. So whilst I lament that to a degree, because I think that there is a greater role for grassroots local government to provide services more efficiently than perhaps state government in certain circumstances, where local government has typically been burnt — and you would have heard this all across the state — is, as Cr Potter indicated, those services have been established at that grassroots level.

The most effective deliverer is local government under a funding model. That funding model has not been honoured, and it has created expectations, which then leads to cost shifting. So there is that aspect of it, plus a redefining of what services rural and regional councils should provide and whether that one-size-fits-all model across the whole of the state is really relevant, or whether we have to get a bit more scientific and find out whether some of those services are really high priority in some low socio-economic areas, where more fundamental things are really important to our residents.

Mr O'SULLIVAN — Mr Salan, as part of your contribution you mentioned that the council is involved in climate change, which surprised me to a degree. Is that something that council needs to be involved in when, realistically, there is nothing that your council can do that is going to do anything of any significance — even of a minute nature — to change the climate change scenario? I would argue a state government can do nothing, let alone a little council like yours.

Mr SALAN — As alluded to in the presentation, there are community expectations that all councils have to grapple with, and if your community is requiring of you to move in those directions, then generally councils will try and take a lead role, which ultimately ends in more expenditure and various initiatives having to be undertaken to support what the community is asking you to do.

Council is looking at redefining their service model. I did mention in my presentation our business improvement area, which is effectively going through auditing all of our 100-plus different services to look at whether we are actually providing a Rolls Royce or a beaten-up VW model of the various functions and looking for where the efficiencies are. But ultimately, every time we make improvements there are also other things that

keep getting thrown into the mix that local government has to accommodate. I did allude to a few of those — the extra servicing with bushfire management and a lot of the emergency management functions that councils undertake that David has already alluded to. They have moved out of some of those non-traditional areas and have handed them back to the state.

Is that a good outcome for the local community? It may or it may not be, and councils are finding that a challenging space. Ultimately a lot of hard decisions have to be made if councils are going to be reducing their service levels or pulling out of certain things that the community has come to expect of them. That is probably about as much as I can add. It is a difficult spot to be in.

Mr RAE — Chair, I might comment, if I may, on Mr O’Sullivan’s questions. I guess the question of overservicing is something that is always considered, particularly at annual budget time, with council. Again, councils, in their elected capacity, are charged with making those decisions around the appropriateness of the service and the service level.

The challenge we have at Corangamite shire is that we have 12 unique townships stretching from Port Campbell in the south to Skipton in the north. It is a fairly significant geographic range. We run six swimming pools. You will go to some metropolitan councils, and they will not run a swimming pool. Or a regional council will only have one. We run six swimming pools. 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.

They are the ongoing challenges that rural and regional councils have. If they want to continue to maintain their population base or to attract population, they have got to have a minimum level of service — that is, recreation facilities, sporting facilities et cetera. Most of our sporting grounds are on Crown land — state government-owned land. There is no operational funding coming from the state to maintain those facilities. We provide it. In terms of overservicing or the appropriateness of service, if there is something that is going to be a consequence, I suspect it will be a reduction in funding by council to those state government-owned facilities. I think there needs to be a better appreciation by the state government of what councils do in the space of Crown recreation reserves. We often find ourselves delivering services where there is market failure, where there is no private sector provider in a space.

The immediate challenge that I see at the moment is in regard to the national disability insurance scheme. We have existing clients and potentially new clients who want to come into the scheme, and if there is no private provider or no not-for-profit provider, who picks up that client? It is unfortunate that the safety net may ultimately come back to council to provide those services.

I do not think for Corangamite it is an issue of overservicing. We made some hard decisions when rate capping was introduced. We adjusted our recurrent expenditure to reflect a reduction in income. We took out \$500 000 of recurrent costs, so that put us in a fairly good position. With a further reduction in the cap in 2016 we took out a further \$50 000. We adjusted our spending, and that was difficult. We went through a process not dissimilar to what Colac Otway has done; we identified our regulated services, what was discretionary and what the environmental obligations were. We went through a ranking process. We have done that. We have made some tough choices.

I think in the longer term in terms of future sustainability the cost of providing and maintaining infrastructure will be a challenge for us all. With the rate cap, if it stays at around 2 per cent or thereabouts, I think we will be fine as an organisation in the longer term because of the fortunate position where we are. I guess any further decisions around service levels will result in the cessation of services, and that ultimately means headcount as well.

We have been quite open and transparent with our organisation as well. We have recently negotiated a new enterprise agreement. We were very deliberate in getting future increases in employee costs to a level significantly below the rate cap. So our recent agreement is at 1.5 per cent. That ensures that we are adjusting to the cost, so this is the new normal, and it is something we accept.

Robert touched on grants in particular before, and I just want to circle back to that if I may. The grant programs coming out of government really are driven by economic outcomes. It is increasingly difficult for rural shires to demonstrate economic benefit or outcomes. A recent example: we put in an application for a grant for

effectively improving the playing surface of a hockey field. It was not successful because we could not demonstrate economic benefit or demand. So the challenge for us is, if we want to maintain services, that there needs to be some flexibility in grants systems to recognise that rural and regional councils are not necessarily going to have the economic drivers but that they just need grants to maintain what they have already got, essentially. I think the one-size-fits-all approach does not work, and some consideration and flexibility in grants programs would be welcome.

The CHAIR — Thank you. I think we have got time for one more quick one each. Before we go to that, I will just take the opportunity to welcome Colac West Primary School. We have students here from grades 5 and 6. Thank you for being here. Your local member, Richard Riordan, is to my right. I am sure if you have any questions, Richard will be happy to answer them in our break.

I just wanted to touch on one issue that I do not think we have gone into a great deal as yet. In a previous hearing we spoke to a council in relation to shared services and ways and strategies that they were coming up with along with opportunities they were finding in working together and sharing a lot of those back-end services. How is that for each of your municipalities? Is that happening to an extent, or are we not there yet?

Cr POTTER — We are not there yet, but the networking and the discussions are becoming more and more fruitful. I think we will get there in relation to some of those shared services, for sure.

The CHAIR — Does anyone else want to comment on that?

Mr RAE — I will, if I may, Chair. In terms of Corangamite shire's position, we are certainly very much in favour of shared-service opportunities. We have certainly undertaken some smaller steps in that space, but more recently we have been the beneficiary of a state government grant in terms of looking to see whether there are economies of scale and bringing together the respective ICT functions for Corangamite shire, Warrnambool city and Moyne shire.

We are certainly developing a business case. We believe there are some significant opportunities there for all three councils — not necessarily to save costs but to save future costs — so we are positioning ourselves for that piece of work this year. If that outcome proves to be favourable, then it is about transitioning the respective ICT platforms into one shared-service environment.

We have also done shared-service contracts with our road-sealing contracts between Corangamite and Warrnambool city. That has delivered some substantial economic benefits as well. There are a number of other regional opportunities that we take advantage of from time to time, particularly in the community services space. We are all partnered on women's health and wellbeing in the Barwon south-west region in terms of the prevention of violence against women and children. I think Colac-Otway are part of that initiative as well.

My aim is to reduce duplication in the system. If we can work together in a more collaborative environment to reduce duplication in councils, that will be a great outcome for us all.

Mr RIORDAN — I just wanted to go back. David touched on the topic, which I think is quite a crucial one in discussing the way we fund our rural and regional areas. I know from my experience in this electorate of Polwarth that is, I think I can claim, if not first, then equal first with Ripon as having the most townships. Your three shires represent an area at a local government level where you have lots of quite independent townships that make up your municipality, with the exception of Colac Otway and perhaps Surf Coast, where you have two larger centres, but even still they are not the only centres in themselves. When we talk about the distribution of federal grants, and at the moment a big amount is done just as a percentage of population, perhaps one of the figures we could move to in helping skew that towards rural and regional communities is to talk about population in population centres.

With the experience you may have had in the MAV or perhaps in previous lives in perhaps metro councils or other, I am sure that in this growing world of compliance you will have had issues where you have got to have health and safety plans or food-handling things or various plans and obligations that you have as a shire that, compared to a city that may only have to do one — as you said, one swimming pool or one sporting event — you have to do the same thing multiple times, which is just a whole added cost regardless of how big or small your shire or your capacity to pay. So could you give us an indication and some examples of that added cost, because you have these quite diverse and at times quite separate communities? I know that some of my

colleagues — whoop-de-do — have gone to visit one hospital; I have got eight. Or you have got 65 schools — huge quantities — and it does not matter how big they are, because they all require the same amount of attention or the same footprint of servicing, if you like, whether they have got 20 kids or 2000 kids. Any comment on what that cost looks like for your shires?

Mr DOBRZYNSKI — Look, the more townships you have got, the more disaggregated your council area is, the higher the level of services that are expected in a township and therefore the higher cost to councils now. While that is recognised to some degree in the grants commission funding, because you are only recognising cents in the dollar of outlay it does not provide the sorts of remedies that we want, even in terms of road infrastructure. The road infrastructure required for a small township is going to be significantly more if it was just passing through a rural area. Those factors all do increase the costs. Servicing those areas comes with an increased cost. The facilities that are required, even if they are moderate facilities in those small townships, are still a significant cost, and they are not funded, because we lack the scale of urban development that, say, a metro does, where they can have larger facilities that are proximate to their closely populated community. These are discrete areas that are some distance away, which does not make it logical, but that expect a minimum standard of services to be provided and then duplicated across the council area. David's shire is probably far more pronounced in that area than Colac Otway, but it is still an issue in Colac Otway shire.

Mr RIORDAN — Mr Salan, you have the tensions of Torquay, but then Winchelsea and Lorne and outlying towns do not see Torquay as the central hub, so you are forced to —

Mr SALAN — Yes, and once again there is a general expectation around minimum services. They 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. So, yes, it is a perplexing problem, especially when you have large areas like we all have, where the settlement pattern is quite dispersed. You will have an area such as Lorne, which is being serviced out of Torquay. The sheer logistics of sending people down there to patch roads and to fix up damaged infrastructure presents problems to us that you would not have when you are in a 15-square-kilometre municipality — but we do not have that; we have got a 1500-square-kilometre municipality with multiple areas that all require those services. So, yes, that is a challenge.

Mr RAE — I will just agree with what was said. I guess with infrastructure it is a challenge to maintain that base level of infrastructure services. So with roads in particular, communities have an expectation of minimum service standards, which was mentioned. For example: playgrounds; the amenity of townships in terms of parks and gardens; access to disposal of rubbish through transfer stations, which I have mentioned; access to recreational facilities; and so forth. Those challenges are not going away. I guess the difficulty is trying to maintain it at a reasonable service level. Where it will require some harder decisions is where there is population decline in those areas. What we do not want to see is population decline, so it is all the more important to continue to maintain those services.

Mr O'SULLIVAN — Just one question, and it is somewhat open-ended, but I am deliberately going to ask it in an open-ended sense. If you were the Prime Minister or the Premier for one day and you had a blank piece of paper, what would be one thing that you would do differently in terms of trying to assist councils, particularly regional councils, to be more sustainable than what they are currently?

Cr POTTER — It is a difficult question to answer on the spot, I think. Obviously we are here because the councils have challenges, and the biggest challenge is financial sustainability — the challenge of finances. Obviously if I was the Prime Minister and I wanted to look after rural shires, I would make sure that they were funded more completely, and that has to be done in conjunction with the state government as well, I think, as well as a complete review of shire services to determine what the shires should be servicing and what they should not and where the responsibility lies, whether it falls back on the federal government or state government and so forth.

Mr DOBRZYNSKI — Mine would be that grants commission funding is full horizontal fiscal equalisation, so it is based on need rather than the number of people you have in the council area. That would immediately give us \$1.2 million more based on last year's grants, which would help.

Mr SALAN — I think perhaps having a funding model that accommodated the unique nature of individual areas, rather than having some broadbrush initiatives like rate capping, would be where I would start. When I

was in New South Wales, for example, and we had rate capping for a number of years, I worked in one shire where their big issue was how many times a week the streets got swept. They spent \$2 million a year on sweeping their streets. Yet in other councils there was not even a streetsweeper, or if there was, it was confined to their main street. So their needs are completely different, but they all sat under that same revenue cap, and it became more and more disproportional for the rural councils. I think why we are here today is because we want something that is more proportionate to our unique situations and our needs than what we currently have and that better accommodates what the expectations of our communities are going forward.

Mr RAE — It is a very good question, and I guess not being an elected representative, it is probably not something I want to dive into too deeply today. I guess on the face of it, a better design of the system would be to have the system reflect the cost of delivery of services where it has been legislated by government to do so. We certainly would welcome that. It seems to me that the default service provider is always local government. Why does it have to be local government? We have all recently adopted a municipal health and wellbeing plan. Why can't that be the role of health services, or can that be done at a regional level as opposed to a municipal level?

I think a redesign of services at a larger regional level would perhaps be something that could be looked at. I guess local government was set up at a point in time for settling of the states and so forth, and they have served their purpose well up until this point. I think they have a very important role to play into the future in terms of being there to support communities and support communities to live where they choose to live. People choose to live in the townships that we maintain and provide, and I think if you ask any of our residents, 'Why do you live where you live?', they would respond, 'Because we love it. It's the amenity. It's the fresh air. It's the quietness'. Although there may be some distance to larger metropolitan and rural areas, largely I think what can be done better is for governments to support those individuals in their decision-making to remain in those areas. This comes back to that per capita funding in some respects and a better redistribution of grants commission funding.

Mr RIORDAN — Just as a supplementary, you mentioned the regional health and wellbeing plan, which has had little public discussion down your way. Just as an example, that was a state government-required plan that you had to do, which will have come straight out of your budget —

Mr RAE — Correct.

Mr RIORDAN — and governments of all persuasions make you do these things — is that something you have advanced knowledge of, or does it just turn up in a certain cycle and you are expected to do it?

Mr RAE — It is required to be delivered within 12 months of each new council election. I am certainly well aware of it. It is a requirement under the health and wellbeing act. Councils effectively go through a 6 to 12-month process of working with stakeholders in a community to develop a plan, and ultimately council adopts that plan. It does not mean council delivers everything in the plan. But it is a complex piece of work and in some respects a lot of councils, particularly rural councils, are not necessarily well-equipped to prepare the plan, so we find ourselves engaging external specialists in that space. For us it is really about ensuring that we continue to deliver services to early our years — maternal and child health and kindergartens, for example — and not wanting to bring anything necessarily new into that space either.

The CHAIR — Mr Rae, Mr Salan, Mr Dobrzynski and Cr Potter, thank you for being here today, for your submissions and for presenting to the committee. I found your answers incredibly insightful, and I am sure the other committee members will agree. We take the opportunity once again to thank you for submissions and for giving up your time.

Cr POTTER — Thanks for the opportunity. We appreciate it.

Witnesses withdrew.