

ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE

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

Kerang — 13 October 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

Witness

Mr Tom O'Reilly, Director Corporate Services, Gannawarra Shire Council.

The CHAIR — 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. I extend a very warm welcome to members of the public who may be present today and also members of the media.

The committee is hearing evidence today in relation to the inquiry into the sustainability and operational challenges of Victoria’s rural and regional councils, and evidence is being recorded. All evidence taken today is protected by parliamentary privilege; therefore you are protected for what you say here today, but 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 now invite you to make a brief opening statement somewhere in the order of 5 minutes, followed by questions from committee members. I ask that you state your name and role for the record before proceeding with your opening statement.

Mr O’REILLY — Good morning. My name is Tom O’Reilly. I am the director of corporate services for the Gannawarra Shire Council.

The CHAIR — Thank you, Tom. Over to you.

Mr O’REILLY — Unfortunately our CEO, Eric Braslis, is unable to be here today. I thank you for the opportunity to address the committee on behalf of Gannawarra Shire Council. Gannawarra shire is a rural community covering some 3700 square kilometres with a population of just over 10 000 which is spread across a number of small towns, including Kerang, Cohuna, Koondrook, Murrabit, Leitchville and Quambatook. The local economy has historically been based on cropping in the western half and dairying in the irrigated areas in the eastern half, with tourism playing an increasing role.

Gannawarra shares many of the challenges facing the rest of rural Victoria, including small population size and a consequent lack of capacity to pay for services, lack of economies of scale, geography — that is, large distances between towns and locations — lower incomes and socio-economic disadvantage, a high proportion of aged people in the population, lack of competition from service providers and suppliers, difficulties in recruitment of staff and skilled contractors, reliance on grants, the inability to generate alternative income streams, and decay of council and community assets without the ability to fully fund their renewal.

The cost to run and operate a small rural council and to deliver the services reasonably expected by our communities is becoming increasingly difficult as we are fundamentally dependent on two sources of income — that is, rates and grants, both state and federal. Gannawarra shire is not averse to the rationale of rate capping as we recognise the impost of high annual rate increases is not sustainable; however, the impact of rate capping has made it increasingly difficult for our council to move from a financially unsustainable adjusted underlying result. To balance our budget and attempt to maintain a reasonable level of services and functions, we must seek to source additional grant income, increase user fees and charges or explore alternative income-generating business ventures.

To put things into perspective, our council generates approximately \$10 million in rates each year. With the current 2 per cent rate cap, this financial year we will raise around \$200 000 of additional moneys. The additional \$200 000 barely covers the increases to wages and salaries, let alone providing for the trend of contract and material expenditure exceeding the CPI rate cap. The trend of small rural councils’ deteriorating financial sustainability has been evidenced for several years.

The Whelan report into local government financial sustainability in 2010 and 2013 found that a permanent adequate annual operating entitlement was required to enable small rural councils in Victoria to remain financially viable. This report proposed a total additional recurrent annual requirement across the small rural councils of \$27 million. The Victorian Auditor-General’s report of June 2013 on the organisational sustainability of small councils noted the increasing reliance of small shires on government grants.

The provision of financial assistance grants under the current structural arrangements is not sufficient to address the disadvantage faced by small rural shires. So that a minimum level of services can be provided, small rural

councils need additional financial support to remain financially viable. Without it they are faced with the decision of reducing services below a reasonable level or seeing their infrastructure gaps continue to increase.

Addressing the infrastructure renewal gap is increasingly challenging, as rural councils do not have the resources to keep their assets, especially roads, bridges and buildings, up to standard and are delaying maintenance in order to maintain more immediate services. The lack of quality road networks is having a direct impact on the economic viability and productivity of our regions, given the additional time and cost to enable agricultural product to reach its destination.

Rural councils will continue to be disadvantaged in their ability to renew or build new community assets without a review of the funding framework, which in most cases requires a 1 to 1 funding ratio. Given our limited capacity to raise matching funding, Gannawarra Shire Council suggests that the state government consider a review of the current funding ratios so as to provide increased opportunity for rural and small shire councils to more readily access state government grants.

In terms of service provision, rural councils are often the provider of last resort, with limited or no commercial options available in the area. Often where state government does support the delivery of a service, the additional cost of delivery of a service in rural areas is not covered — that is, longer distances travelled and higher real cost of service delivery.

Rural people are realistic and do not expect services at the same level as those provided in the city; however, the disparity is worsening. Without change, rural communities will suffer and their ability to attract new residents will dwindle. Surely it is reasonable and achievable for all Victorians to have access to a basic minimum set of services to make where they live reasonably livable.

Thank you for the opportunity to make this submission, and we hope that the government recognises the challenges confronting rural Victoria and responds with a change in the funding framework and a decentralisation policy which extends beyond regional cities and into rural Victoria.

The CHAIR — Thank you very much, Tom. I should have, at the beginning of the session, acknowledged the local member for Murray Plains, who is with us this morning — a former Minister for Water. It is so good to see you, Peter, and thank you for being here as well and for your work for your community.

Thank you, Tom. I will take the opportunity to ask the first question if I may. You mentioned the financial assistance grants. What impact did the freeze on the 2014, 2015, 2016 and 2017 years have in your view at a local level on the municipality?

Mr O'REILLY — Thank you for the question. I think the main outcome from that freeze — there was certainly a financial disadvantage and a reduction — was really the permanent loss of the income. That income that was not achieved over that period is significant in that it will never be recovered. I think that was the main impact.

Mr RAMSAY — We heard yesterday and discussed in our hearings some proposals around grant ratios, and you mentioned those just at the end of your opening statement. Can you outline for me how you think those grant ratios could be set up by way of a finding or recommendation that comes from this committee? That is obviously what we are charged with in terms of finding solutions that make the viability of municipalities such as yours better. Can you outline for us how you think that ratio structure could work? What solutions could you perhaps suggest to us?

Mr O'REILLY — Yes. Thank you again for the question. Our council, the Gannawarra Shire Council, did submit a motion to the MAV state council meeting in May 2017, and the motion, which was endorsed, suggested that 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. This was to reflect the capacity to raise matching funding. I think it is fair to say that the council in developing that motion was very conscious that the formula, we think, needs to have simplicity so that it is understood. We understand that when applying for grants it is not necessarily a one case for all, but we do see that that motion did provide a framework to provide flexibility and increase the capacity, particularly for small rural councils, to access grant funding.

Mr RAMSAY — I have a couple of questions for you, Tom. I am also particularly interested in the way the grants are currently scheduled, both federal and state, in relation to supporting local councils in the services they have got to deliver. We have heard from some councils that are looking at potentially some shared arrangements in relation to IT and administration to reduce some costs, and we have certainly heard from some councils that are concerned about the cost shifting that is going on in relation to services that the state government now expects local councils to be responsible for, whether it is roadside management, kindergartens or school crossing supervisors et cetera. Yesterday we saw discussion around the annual valuations, and I am interested to hear what costs will be borne by the Gannawarra shire. You currently have a range of tools in the rating structure, which I am interested to hear from you about, with the differentials. I am interested to know if you have a farm differential and what percentage rate it is applied at and what other differentials you use, as well as the municipal charge, to spread the cost burden across your ratepayer base.

Mr O'REILLY — Thank you for the question. Our current rate is structured. We have four differentials. We have a differential to cover residential, commercial, irrigated farmland and dryland farming. I do not have in front of me the exact proportions at the moment, but generally they are very closely aligned in terms of the cents in the dollar. Certainly the dryland farming under the current structure is around 15 per cent less than what the residential and commercial pay, and irrigated farming. The current council is looking to try and close that gap over the next four years but also, in doing that, to reduce the overall farm rate to a lower level than the residential and commercial as part of that strategy. That is determined each year in the annual budget-setting process, and we had healthy debate this year with our local community when setting our budget. I think there was excellent feedback that came back through from the community, and the council has responded to that. The current budget and rate framework was certainly influenced by the feedback from the community in that regard.

Just covering the other points you raised —

Mr RAMSAY — I raised the issue around the costs of the proposed annual valuations that councils will have to do each year instead of the biennials that currently are in place.

Mr O'REILLY — Yes, thank you. As you would be aware, the current valuation process across the state is mandated every two years. For small councils there is certainly an administrative burden with maintaining the revaluation of properties over each two years. Currently for our council we have the revaluation undertaken by external contractors. I am aware some councils across the state do their valuations — they have internally appointed staff — but I think the majority use external contractors. As to the proposed move by the government to bring it to an annual process, like everyone around the state we are still trying to digest and understand the implications of that. We would consider on the surface that it may, particularly with small rural councils such as ours, increase the administrative burden and that indirectly would increase the cost to our council. But we are still trying to come to grips with what the implications of the potential change may be.

Mr RAMSAY — I will just ask a quick question. Just going back to what the Chair asked in his question, which was working around the two grant funding streams that councils have, both through the FAG grants and through the state grants. There was in a previous government the country roads and bridges program, which was a direct funding grant to local councils to do local road and bridge work. With the loss of that program, how do you see long-term funding sustainability for councils? Is it dedicated funding streams like the country roads and bridges program of old, which by all accounts was very successful, or a specific funding stream from the GST to support long-term sustainability of local councils? Do you have a view about what the perfect scenario would be for small rural councils in getting some confidence in their funding streams in the future?

Mr O'REILLY — Thank you for that question. The country roads and bridges program we believe was a very successful program. Gannawarra shire is unique in some ways. We are at the conduit of four rivers: the Loddon, Murray, Pyramid and Avoca rivers. We have 57 bridges, and that is significant infrastructure that needs to be maintained. Unfortunately we have had significant flood events — just the nature of the landscape and the geography. So the country roads and bridges program was very much a program we could relate to and it was very relevant to this area.

In terms of the financial assistance grant, the general purpose grant, I do have a view. I believe around \$560 million went into Victoria last year to be allocated across the councils across the state. If I refer back to the Whelan report, where he talked about maybe a \$27 million injection across the small rurals — and we know there are now 19 small rural councils — \$27 million could make a significant difference. If we were to look at that \$560 million and take, say, 5 per cent of that — and I do not think 5 per cent is a high figure out of 100 per

cent — if 5 per cent was redirected, 5 per cent is something like \$28 million. That is potentially part of the solution. Certainly, not wanting to pitch council against council, I think from a statewide sector basis, across the 79 councils if there was, if I can use the term, a tweaking of the grants commission distribution by 5 per cent towards councils that have, say, long, unsealed road networks, a large number of bridges and the like, that could see a redistribution of an amount back to those small rural councils to assist in that financial sustainability. I think that would be a formula that could potentially help solve that and give certainty to councils going forward.

Our council, for example, has a road length of some 2256 kilometres, of which 1755 kilometres are unsealed. As I said earlier, I am not trying to pitch small rurals against metros, but you certainly would not see any of those figures in a metropolitan council in terms of unsealed road networks. I think that is where the Victoria Grants Commission do have the capacity in terms of the elements of need to weight some of those elements for small rural councils that have those unsealed roads, that have the bridges, roadside reserves et cetera to help redistribute some of that \$560 million that comes into the state each year. I hope I answer your question. That would be a perfect scenario to see a permanent, known redistribution of that grants commission funding redistributed to give more weighting to small rural councils.

Mr O’SULLIVAN — Thank you, Mr O’Reilly, for coming in this morning. I just want to ask a question and follow on from a comment that you made during your opening presentation about rate capping and the effect that that is going to have on your council. You said that just with the CPI on your current rates you will see an increase of about \$200 000 in additional rate revenue. I also notice that your wage bill is going up by about 5.4 per cent each year over a four-year period. In terms of the Gannawarra council, how do you justify that? Do you have an expense problem or do you have an income problem as a result of the rate capping? Because if you have got wages going up by 5 per cent and you have also got the capping of rates, does that not sort of actually put additional pressure on the sustainability, financially, of the council? And will you have to cut services or something like that as a part of that process?

Mr O’REILLY — Thank you for the question. With Gannawarra Shire Council’s current EBA arrangement, which was negotiated with staff over a number of months last year, the outcome of that EBA was a 1.75 per cent increase to salary and wages over the next three years for staff. I have worked with Gannawarra Shire Council since April last year, but I am certainly aware that 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.

In terms of over the last 12 months we have certainly cut costs. I think around three years ago we had an underlying deficit of some \$800 000. We moved that last year to about \$430 000, and then to \$230 000. So the council has been making a very conscious effort to cut costs, and that will be ongoing and continuing and has to be. We look at every opportunity. We basically have a freeze on staff numbers. We have an EBA which we think is quite a reasonable outcome, 1.75 per cent, and we have shown across a number of areas a reduction in expenditure. You can only cut costs so far before it really starts to hurt. I think we have got to get more creative over and above cutting costs, and that is why we are starting to look towards additional income streams. Particularly the loss of water to this area and in northern Victoria, irrigation water — I have lived in this area for a long time — has seen a very obvious movement of wealth and economic production out of the area.

I think the challenge for a council such as Gannawarra and our municipal neighbours is to find creative ways to try and stimulate areas going forward. Certainly in the current context we are seeing some movements in the solar energy field, and that may provide opportunities, particularly for our shire. It is pleasing to note that we will have the first large-scale solar farm in Victoria, currently under construction. But that will not be a solution in itself.

We also have opportunities with nature-based tourism — tremendous opportunities — and hopefully you have all had the opportunity to see some of the Gunbower State Forest and the Murray River trail et cetera. We know there is a large metropolitan community that are looking for things to do on the weekend, and hopefully we can entice them to come further north to see the beauty of this area. But to do that we also need to invest, and this is where we really are limited as a council and why the grant funding, particularly the capital grant funding, is important to try and build the infrastructure and the tourism infrastructure that people nowadays reasonably expect when they travel. So as a council we believe we have done all that we reasonably can do in terms of addressing expenditure. We think we have really hit the bottom of the barrel there. We have certainly moved our discussion into trying to find creative ways to increase our income.

Mr YOUNG — Thanks, Tom, for coming in today and providing us with your insights. It has been pretty good. Just in terms of what Mr Ramsay was talking about with a solution going down the track with respect to a funding model, there is always going to be opposition to just simply propping up financially regional councils. I see it all the time from the inner city. As soon as you start talking to a politician from in there, ‘Hang on a second. Why are we spending so much money out in the regions?’. So I do not think just propping it up is going to be the solution, but we have a situation where you need people to generate income and to provide services, and you are not going to get people here without the services, so it is a bit of a chicken and egg thing. Do you think it should be a focus of what we are trying to do here to try and drive people out into those regions, to be that solution, or are we simply just going to have to look at a funding model?

Mr O’REILLY — I think from our council’s perspective, yes, we would love to see more people coming into our region, but I think there is also the issue of jobs for those people. In terms of our council at this current time we have aged infrastructure, and really the asset management issues that we are trying to address are probably our immediate concern. I certainly concur that simply propping councils up — any council — is not the way to go if there is not accountability. I think we are seeing councils now having increased accountability, and one could argue that the rate cap is part of that accountability. To try and exceed the rate cap, to justify any movement over and above it, there has got to be substantial evidence to the Essential Services Commission.

But notwithstanding that, I do not know that the problem, the financial sustainability problem, is one that has arisen in recent times. I think 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, and I think the focus for our council is more about looking forward. We cannot undo the past, but it is how we provide a reasonable set of services with what we have in terms of financial capacity at the moment.

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. I use that term ‘accountability’. 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.

Mr RIORDAN — Thank you, Mr O’Reilly. Country communities keep a very watchful eye on their local councils, in my opinion far more so than they do in metro areas. One of those areas is always around wages and the amount of bureaucrats that are employed at local councils. As we are talking about operational challenges, I just wonder about your thoughts on the fact that many of our rural and remote communities and shires naturally have quite low incomes and average expectations there, but of course to garner the necessary skills and expertise in local government you are obviously having to compete in a statewide pool where the bigger shires or cities have a lot more sway. So I am just wondering about your thought on the operational challenge of running a small rural shire in terms of gaining the expertise and skills that you need to do planning and the key areas within the shire within a framework where what might seem to be a lavish wage in a country community is in fact the going market rate or at times under it and the challenges shires will have in being able to fairly compete in the labour force market to get the various skills they need.

Mr O’REILLY — Thank you for that question. 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. A large number of our staff are from the local area or have returned to the area after perhaps going to Melbourne for education or other opportunities. We wish we did have a solution to this. We do not have a magic bullet solution to retain

staff, particularly when we are in that competitive market force. But it is an ongoing constant challenge to recruit the staff.

Mr RIORDAN — Is the churn in some key or more highly sought-after positions monitored on a statewide basis for rural and regional councils? Is there benchmarking to see whether you are turning people over quicker than others are or where there might be challenges in certain skill areas?

Mr O'REILLY — I could not say factually whether our churn would be higher than other councils, regardless of where they are positioned in the state. I do know anecdotally. I obviously know a lot of people that work in local government across a number of councils across the state. I think you see a fair churn in metropolitan councils because there are so many opportunities to move from one council to another for career advancement, because those opportunities are there. Certainly in our council we have people who work with the council, live in the area and are committed to the area. We do everything that we can to retain them, but typically they are not going to go anywhere anyway because this is their home. It is more about when we try to recruit people that have not lived in the area before. We do get the churn in that demographic, particularly if their wife is unable to secure appropriate employment. There is a challenge with people with families and particularly access to tertiary education. We know in these areas it is not like metropolitan Melbourne where you have got public transport almost at your doorstep. So those broader challenges really have a major impact on how long people who are using the area stay or adjust to the area.

The CHAIR — Mr O'Reilly, thank you for answering questions from committee members, for your time this morning and for having us in the shire.

Mr O'REILLY — It is my pleasure. Thank you.

Witness withdrew.