

# **ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE**

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

Shepparton — 24 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 Tony McIlroy, Chief Executive Officer, Benalla Rural City Council.

**The ACTING CHAIR (Ms Halfpenny)** — Welcome to the public hearing for both inquiries of the Environment, Natural Resources and Regional Development Committee, one is about sustainable councils — council sustainability — and the other one is about water, but of course we are starting with the inquiry into the sustainability of regional and rural councils. Thank you, Mr McIlroy, for coming in to present to us today. 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 the evidence is being recorded.

All evidence taken today is protected by parliamentary privilege, and therefore you are protected for what you say here today. However, if you go outside and repeat those same things, you will not be protected by parliamentary privilege. Once the transcript is available, you will get a copy of it, the proof, to check the accuracy of it prior to it being made public. With those formalities, I hand it over to you, Mr McIlroy.

**Mr McILROY** — Thank you, Chair. Firstly I will just make the point that I am not the chair of the Hume Region Local Government Network. I am a former secretary —

**The ACTING CHAIR** — Former secretary, yes. In our documents you are the former secretary and CEO now of the —

**Mr McILROY** — Benalla rural city. The current secretarial function is with Greater Shepparton council. It is very difficult to speak specifically when you are representing 12 councils in the Hume region, so I will let the submission be read in its entirety. It is a brief submission, but there are a number of commonalities — I suppose that is the best way to put it — to highlight. But, as you are aware, there are 12 councils ranging in population, size, density, area and characteristics. At one end of the spectrum we have Towong Shire Council, and at the other end we have the regional City of Wodonga. It is not one size fits all is the point that I wish to make. We are very much a collaborative group. There is no one major player — that is our point of difference to other regions in rural Victoria — but we work well together. This Hume Region Local Government Network has been very successful over the years, and I have been associated with it for 14 years now.

I want to take you to the base of page 7, actually, which talks about one of those commonalities I briefly mentioned before. We can see amongst our member councils that there are financial challenges which are becoming apparent with the deterioration of infrastructure and our ability to refurbish and replace infrastructure, which is getting harder by the day. With the withdrawal of government programs — the roads and bridges program and the local government infrastructure program — that has been made even more difficult, along with the rate-capped environment that we are operating within.

The point there is that we are all feeling that particular pressure at the present time, in particular Towong, which has sought and has been granted rate exemptions for the last two financial years. The majority of us are not in that position, but I am in the middle of the group, ranging from Wodonga through to Towong, and we have had to reduce overheads and reduce staff resources to be able to operate in the present environment. If it was only the rate capping, we could have accommodated that, but there are other factors that have come into play. The withdrawal of the programs that we have relied on so much over the years has made that difficult.

On top of that, Benalla rural city lost its major ratepayer, in the commonwealth government, associated with the Benalla munitions factory. We have made representations to the commonwealth, but unfortunately the change of ownership from the Thales operation back to the commonwealth has seen us negotiate a transitional arrangement over the next three years, but that has been a major factor in our reduction in staffing and overheads.

As it points out on page 10 down in the bottom section, our members are concerned that in the medium to long term the quality of local rural and regional roads and bridges will deteriorate to such a degree that safety will become a serious issue. It is also affecting the productivity of the region. So, without further comment, Chair, I will table the submission, which has been with the parliamentary committee since September 2016, and I am happy to take any questions if there are any.

**The ACTING CHAIR** — You do not need to table it, because we have already put it up on the website, so it has been made available to the public, so we will just go to questions. You just talked about — you referred to page 7 of your submission — how councils have made a number of savings or cuts to reduce costs. Have you got any specific examples of where? I know you just talked about general services, but what are some of the specific things that councils have done to reduce their costs?

**Mr McILROY** — In the case of Benalla rural city, I can comment that we have had to reduce our arts and cultural programs. We have had to cut back on our performing arts centre to a degree. The main source of saving has come through a reduction in staffing resources, and we have done that in a fairly significant way over the years in proportion to our size and generally.

**The ACTING CHAIR** — When you say staff, this is very general. Can you give us some specifics, like staffing in certain areas or across the board, in management and workers?

**Mr McILROY** — The policy we have adopted is doing the same with less, so we are adamant that we will not cut services, and therefore we have reduced overheads in the form of administration. Cutting out a number of management positions is the way that has been done — a rationalisation of functions, but preserving services at all costs. One of the examples given in terms of the increased costs associated with our operations is the increased cost of landfilling and the necessity to meet EPA requirements. That has been a very stringent, costly exercise, albeit that Benalla is looking at a potential regional facility, being right in the heart of the Hume region. That is some years down the track to get the efficiencies associated with a shared service arrangement with the 11 other councils.

**The ACTING CHAIR** — They are some examples from the Benalla council. What about other councils?

**Mr McILROY** — I have touched on those in the submission. They are all different in complexity, but there are some real examples covered in the submission.

**The ACTING CHAIR** — Just one other question I have at this point, and I will let the others have a go. You have talked about the strains put on the finances of regional and rural councils around rate capping and so on. What about the federal government's freeze on payments, which I think was in 2014–15? Has that had a big effect?

**Mr McILROY** — In the case of Benalla, over the three years of the freeze, it was somewhere in the order of \$400 000, which, when you talk about 1 per cent of your rate revenue being in the order of \$160 000, was a significant hole in your revenue. The rate situation associated with the Benalla munitions facility was close to half a million dollars, so you can imagine how that came out of left field and hit us unexpectedly, albeit that we have got a transitional arrangement reducing over the next three years, but we had to negotiate that.

**Mr O'SULLIVAN** — Thanks, Tony, for coming in and presenting to the committee this morning. I have got a couple of questions I would like to ask you. To start off I just want to talk about the balance in terms of the rates that regional councils charge their ratepayers, particularly when you compare that to some of the metropolitan areas. We have heard examples of where, if you live in the eastern suburbs of Melbourne, you are paying \$1500 to \$1800 in rates on a property that could be worth \$1.5 million to \$2 million. If you come out into some of the regional areas, we have heard examples of rates from \$2500 to \$4000 for a property that is worth only \$300 000 or \$400 000. What is the balance in terms of trying to get equity for regional and country ratepayers in terms of the amount of rates that they pay against the services that the council are trying to deliver?

**Mr McILROY** — In my view we have got to the stage where we cannot push the rate burden any further. It is a case of other forms of financial assistance. Whether it is a revamping of the grants commission, I am not sure, but I do not think the rate effort can be ramped up any further than it is at the current time. Having heard what you just said, I have been in local government for 40 years, and 25 of those were spent in affluent metropolitan Melbourne suburbs. I do experience having a property in Melbourne, and I know exactly what you are talking about there, but again it is all about the spread of the services and what is available to the general ratepayer.

**Mr O'SULLIVAN** — Is it fair, in terms of the way the rate structure is sort of sanctioned against all ratepayers, when you have got such inequity in terms of what country people pay compared to city people?

**Mr McILROY** — I think that is the argument for concessions from state and federal government. I think that is the only source that can be identified to rectify that situation.

**Mr O'SULLIVAN** — So in terms of concessions, and you touched on alternate revenue sources, do you have anything in mind as to how that could be put together, how that could be set up or what we could put in place that would make it more equitable?

**Mr McILROY** — I think it is the programs that I referred to, like the country roads and bridges and the local government infrastructure program. I think they were, in my experience in regional Victoria —

**Mr O'SULLIVAN** — What were the benefits that the regional councils received in those two programs?

**Mr McILROY** — It just gave us the ability to address more issues associated with failing infrastructure, and we managed to get on top of it for the period of time that we had it. It is a big hole when you are talking about \$4 million over the term of the government and also the \$1 million per year per regional council. It was a very good help and assistance in our real scheme of things.

**Mr O'SULLIVAN** — Has that been replaced by anything?

**Mr McILROY** — No, it has not. That is the problem. Of course then we had the freeze on indexation of financial assistance grants, then the rate capping and then, in our case, the significant loss of a major revenue provider.

**Mr O'SULLIVAN** — In terms of the infrastructure, you mentioned bridges. Out in the regional areas bridges are a significant issue because a lot of the bridges are starting to get old. They have been around for a long time now, some of them, and I guess across those councils that were you talking about, and particularly in your own Benalla council, there would be hundreds of bridges. What is the plan as they need repairing or replacing? Under the current structures, how does that work?

**Mr McILROY** — In the previous arrangement with the roads and bridges funding, we were doing in the order of three or four bridges per annum, and we have 67 bridges in total, but now we are down to one or maybe two if we are lucky, depending on how far we can stretch the funding. Then of course you have a situation where a bridge will fail in the space of a 12-month turnaround of inspection and you have got to place load limits on it, and then it effects productivity. In the end you have to compensate by not addressing other infrastructure issues and putting the effort into the bridges.

**Mr RIORDAN** — Mr McIlroy, I want to just head into what I see as the structural difficulties. We have heard from many representatives of local council about the withdrawal of federal or state funding and the consequences of rate capping. If you accept that governments come and go, that means that funding is going to come and go. Your evidence today and others is that we have probably maxed out on the amount we can charge our rural and regional ratepayers, so rate capping, by and large, has probably only minimal short-term effect in the sense that you probably could not do much more anyway. Would you generally agree with that?

**Mr McILROY** — Absolutely.

**Mr RIORDAN** — So one of the issues seems to be, from your evidence and others, that weed and pest management, flood and emergency management, roads and bridges, and waste management issues seem to be a growing, snowballing, out-of-control cost. It does not matter whether you are the smallest country shire or one of the larger ones, they are enormous costs, and whether you have got 5000 ratepayers or 60 000, those costs are sort of the same. As you have pointed out, the fewer ratepayers you have, the even less you get of that done. What are your thoughts on those four things as being the big unmovables that you are being lumbered with to look after?

**Mr McILROY** — I agree in that sense, but I think the only avenue I can see is incentive for population growth in regional centres and government policy directing the population to regional centres. We have a situation where we have second-to-none facilities. In fact we probably should not have the range of facilities we have in the size of municipality we have, but we have got it and that is what attracts people, but the overheads associated with running those facilities — and I am referring to a regional art gallery, a performing arts centre, an aquatic centre, an indoor recreation centre —

**Mr RIORDAN** — Lifestyle issues.

**Mr McILROY** — A community care centre is one of our key features, and it always attracts people because it presents the opportunity for high-value health services — and a learning centre. And we have the capacity through development opportunities that we have taken to provide affordable housing. It is all there, 2 hours out of Melbourne, so if we could just get a decent train service and get people through —

**Mr RIORDAN** — Yes. Looking at your projected population, it is 6.1 per cent, although looking right through your Hume region you have got relatively strong growth projections compared to some other areas?

**Mr McILROY** — That is interesting. I always thought it was a fairly poor sort of growth factor.

**Mr RIORDAN** — When you actually look at the total numbers, it is fairly poor, but as a percentage it is better than a lot of other rural areas.

**Mr McILROY** — Yes, it is there.

**Mr RIORDAN** — Also drawing on your experience from suburban councils, we talk about these other services that local councils are expected to provide — health and community services, lifestyle and leisure opportunities. City councils obviously have far greater capacity to do that. Not only have they got enormously greater revenues with much less infrastructure, but they also have other external income sources, such as parking. As a solution to this problem I seek your thoughts on the concept of rethinking the way we do rates in the state of Victoria. The evidence that we have heard is that if you assume that the lower socio-economic groups are in rural and regional areas, they are paying as a percentage of their income twice what people in Melbourne pay and getting a lot less because it has got to be spent on so much more. Do you think there is an opportunity to rethink the pre-1850-style tax that we have in rates, where it is on property values in the area, and rethink it so that that tax take, which is right across the state, is more effectively targeted so that essential infrastructure and community services that we as a state deem necessary — roads, bridges, waste management and all those things that are of statewide benefit — can be better funded?

**Mr McILROY** — The only thing I can point to is a rethink on the grants commission funding where those municipalities that do have the propensity to up the other revenue sources and the other charges that perhaps they should not be getting, as of right, the grants commission allowance that they get. I have been on the other side of the fence to argue against that in previous municipalities. I came from Bayside and prior to that Boroondara, so I know how they feel about that, but I think that is the only source that I can see that needs to be redistributed and might assist the rating situation. But I have not got a solution for the rating structure that we have in place.

**Mr RIORDAN** — My last question is: do you think there is an opportunity to more clearly codify what local government is responsible for so that funds stay targeted to key priorities? It is not so much that rural shires are guilty of this, but there has certainly been a commentary that urban shires get very sidetracked on other peripheral issues and send resources and effort into that, and once again referring to your previous comment, they have the extra resources to do it. Could that be a part of the solution?

**Mr McILROY** — It could be and part of the prime reason for the rate capping introduction, as I understand it, from a metropolitan point of view was to stop that wastage of expenditure, but at the same time very difficult to remove services once they have been put in place and people have that expectation that they are going to receive the service. There is no easy solution to that one either.

**The ACTING CHAIR** — I am interested in what you were saying about facilities versus upkeep and maintaining. Most of the grants programs — I am speaking from the state government point of view — as I understand it are about building a kindergarten or supporting facilities and infrastructure. I know in your submission you talk about these specific grants as opposed to general funding or ongoing funding, so how would you see that working? You are talking about, for example, the roads and bridges program. That would be a specific program as opposed to a general funding situation. What do you see as the best way that it could work?

**Mr McILROY** — I think it really comes back to what I said about the grants commission — the untied association of funding where a council can make that determination as to where it should be best put, just getting back to your earlier part of the question.

**The ACTING CHAIR** — How would that work in terms of if there is a state strategy, if we are talking about each individual council doing their own thing as opposed to having a bit of a plan in a region?

**Mr McILROY** — Maybe there needs to be a rethink of what core services local government needs to provide. Maybe that will come out of the sustainability study you referred to earlier, but how that is enforced and introduced is beyond me.

**The ACTING CHAIR** — So what do you think the core business of council should be? What is there?

**Mr McILROY** — I suppose it has grown exponentially. I refer to arts and culture. For instance, I know that our council in proportion makes the greatest contribution to arts and culture in Victoria, yet we are in the small category of regional councils, but it just so happens that we have a regional art gallery and that is a great attractor in terms of visitation and tourism and it brings people.

**The ACTING CHAIR** — But what do you think councils should be responsible for? What is the core business? We were just saying before that there is a bit of an overlap in responsibilities and cost shifting. Where do you think council ought to sit?

**Mr McILROY** — It gets back to basic infrastructure — roads, bridges, footpaths, and parks and gardens. Community services is another core function of local government, and that is without all the add-ons and the attractive pieces, but how you wind back the clock is beyond me to work out. Sorry I cannot be any more help.

**Mr RIORDAN** — Can I add too to Bronwyn's question, are there duties that councils are doing that they should not be doing, in your view?

**Mr McILROY** — Certainly not in the case of our council.

**Mr RIORDAN** — I am sorry. Not that you should not be doing it, but that you have been left responsibility for that you think should either go back to state or federal or other agencies?

**Mr McILROY** — No. I think it is the way the subsidies are provided. You can take the simple one of school crossing supervision, where it started off as a 50-50 and ended up a 70-30 or an 80-20. The cost shifting associated with those programs over time has been watered down. That is where the real pressure on local government has come whereby partnerships have not been honoured, and when you get to facilities, we are in a situation where we cannot embrace an infrastructure facility without partnerships with both federal and state government. We have done some very successful projects in the last decade or so as a three-way partnership with state and federal governments.

**Mr O'SULLIVAN** — I would just like to touch briefly on emergency management, particularly floods. This part of the world is prone to flooding. How do you find the councils are holding up in terms of being able to put in the proper infrastructure, whether it be levee banks or otherwise in terms of being able to protect property and people? Obviously we had the floods five or six years ago, and there was a whole range of flood studies done off the back of them which suggested works and so forth. We have had experiences and evidence elsewhere of where it has been difficult for councils to actually now fund the works that are required, let alone the ongoing maintenance required. How are the councils over in this part of the state faring that space?

**Mr McILROY** — In this neck of the woods, it has been very difficult for Moira shire and Shepparton in particular. We are upstream so we ourselves and Mansfield are not so badly affected by floods, but I know there has been difficulty in maintaining the infrastructure that you have referred to, but beyond that I do not have an in-depth understanding of that.

**The ACTING CHAIR** — Thank you very much.

**Mr McILROY** — Thanks for the opportunity.

**Witness withdrew.**