

ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE

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

Melbourne — 12 September 2017

Members

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Witness

Professor Roberta Ryan, University of Technology Sydney Centre for Local Government (*via teleconference*).

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. All 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 within the week. Transcripts will ultimately be made public and posted on the committee’s website. I will now ask you to state your name and job title, please.

Prof. RYAN — It is Roberta Ryan, and I am a professor at UTS and the director of the UTS Centre for Local Government, and the UTS Institute for Public Policy and Governance.

The CHAIR — Thank you, Roberta. I now invite you to make a brief opening statement, somewhere between 5 and 10 minutes. Following on from that will be questions from members of the committee. Over to you.

Prof. RYAN — Thanks very much for the opportunity to talk with you. I have provided you with a slew of documents. I would be happy to talk through any of those in detail, but I thought I would just make a few overall observations. I am very happy to take questions and comments.

In terms of who we are, just to put our work in context, we are the only dedicated research centre for local government in Australia. We were funded by the commonwealth government in 2008 and 2012 to look at local government from a national perspective, and that was the Australian Centre of Excellence for Local Government. I was the director of that institute. The Centre for Local Government here at UTS has been around since 1991. Part of my job is to try to get a national picture of local government and do as much work as we can comparatively about what is going on. We work around and in local government a lot. I just came back from Cobarr this morning, so thank you for working in with my timetable to talk with you. I do a lot of work myself and in councils as well.

What we aim to do here at the centre is to enhance the professionalism and skills of local government, develop that research capability and build scholarship in that space and to facilitate a better informed public policy debate. We have done a bunch of work in this space around sustainability of regional and rural local government, and I just wanted to cherry pick some of that discussion. I have tried to provide you with some of the reports and capacity materials that we have developed. I have also got a much more detailed summary of some of the academic work we have done in this space. I thought that might just be a step too far for the committee, so I thought I would try to summarise that, because it is actually quite patchy in this space.

In terms of the key elements of our best practice capacity support, we have been particularly working in regional and rural New South Wales, Victoria, Western Australia and Tasmania, and we have developed a bunch of guides and processes and handbooks to assist smaller regional and rural councils. They include work around developing service delivery we have used, encouraging them to do workforce planning, performance reporting, particularly work around efficiency and financial analysis. We have graduate training programs here specific to local government et cetera. So that is some of the work that we do and some of the observations I can share that were born out of that work.

I wanted to take a moment to just summarise what I think is broadly the state of play in terms of what evidence we have about what supports financial sustainability in rural and regional councils. Broadly speaking the evidence is pretty thin. There is a lot of discussion around amalgamations as a way to enhance financial sustainability in councils, and I have a couple of points to make which will speak to that. But in terms of a couple of broad points I just thought I would share with you, you may have heard this before — and I have looked at some of the evidence that has already been before you, so I am trying not to repeat any of that — but broadly speaking across Australia the local government workforce is about 200 000 people. It is larger than the Australian public sector workforce — in other words, the federal public service workforce — and of course that workforce is much more diverse than the APS. Most of the

people who work in the APS are suits. People who work in local government of course are everything from outdoor workers to accountants to finance people and so on.

That workforce is highly distributed. Across the 540 or so local government areas in Australia, local government is either the biggest or the second-biggest employer in 100 local government areas in Australia, and for 60 local government areas in Australia local government is the single biggest employer. So when we think about local government and when we think about issues to do with sustainability, I think it is important to know that particularly in non-metropolitan areas local government is a significant player in the community in terms of the economic drivers, the contribution to the workforce, the capacity of that council to build the workforce and so on.

In terms of my second bullet point, there are very few, if any, effective governance models that I can share with you for very rural and remote councils. Several things have been tried. In New South Wales we have the Far West Initiative. That is an approach to governance to deal with what we call the ‘west of the divide’ councils in New South Wales. That has not been successful and it is not properly implemented yet, so there are no magic bullets in terms of governance arrangements for local government.

In terms of the role of local government, we think of local government in terms of the functions around local democracy and as a service provider, but increasingly — and this is reflected in the legislative reforms in Victoria but also other jurisdictions — local government has an important role to play in enabling the needs of the local community. I think that third function is important for us to keep in mind when we are thinking about local government.

In terms of the state of evidence, which is on page 7 of the slides I provided you with, there is actually very useful, robust empirical evidence that can inform a discussion about financial sustainability of local government in Australia. I draw your attention to just a couple of key recent papers produced by my colleagues here at the institute. The Drew and Dollary paper of 2014 looked carefully at New South Wales regional councils and suggested that bigger councils do not lead to increased financial sustainability. For just two of the 10 financial sustainability ratios did scale improve financial sustainability.

In terms of the second paper in 2004 by my colleague, which focused on Queensland and looked at the result of the amalgamations there, which have resulted in very large councils in Queensland and in Australian terms, 25 per cent of those councils now exhibit what we call mis-economies of scale, and those are the regional and rural councils and they cover 84 per cent of the population. So there is an issue here in terms of thinking about scale and efficiency.

Other factors impact on the efficiency of councils. We have some limited research that shows that wards increase expenditure, as do directly elected mayors. That finding is quite significant. That expenditure increase, based on New South Wales councils, is about 13 per cent. Having said all of that, there is actually pretty limited evidence around. There is a lot of speculation and a lot of conversations occur about the financial sustainability of councils across Australia, but there is actually quite limited empirical evidence around that.

In terms of financial assistance grants (FAGs), which are clearly a significant factor for rural and regional councils, and the distribution of financial assistance grants, if there was one thing you could do to assist rural and regional councils in Australia, it would be to look at the horizontal distribution of FAGs — grants — and particularly removing the minimum population payment. There is significant, what we describe as horizontal inequality, in the way FAGs work. We still have large capital city councils — Sydney and Melbourne in particular — that run significant surpluses in their budgets and have significant revenue capacity, while we have many rural councils in Australia that really are struggling financially. Doing something around that distribution formula would significantly assist rural councils in Australia.

The second thing that we think is very important is having conversations with the community about appreciating where revenue comes from and involving people closely in decisions with respect to how that revenue is spent in councils. We have done projects over the last 18 months working closely with rural councils, having those conversations about, ‘Okay, here’s the bucket of money. If you want more of this,

what are you going to have less of?', and having conversations with communities around trade-offs. This is very important, where you do not go out in a community planning process and say to councils or communities, 'What do you want?'. As I always say, I want to be richer, thinner, younger and taller, and I have got no chance on any one but one of those, so there is absolutely no point in going out into communities and saying, 'What do you want?'.

What we try to do — and we have developed quite a lot of work around this now — is to say, 'This is where council gets its money from'. Rates are one element of that, and of course it is a relatively small proportion of that, but if we want to have two swimming pools in a small community, what are we going to have less of? It is about having those kinds of conversations, and of course communities come along and appreciate the financial circumstances of their councils pretty well.

Linked to that we think it is very important that you provide statements about the financial sustainability of councils as part of the communications that you have. There has been some quite good work done on this in New Zealand, and that is probably worth looking at closely.

In terms of looking at the question around recommendations to address the evidence about gaps on financial sustainability, there is empirical work that can be done to establish more evidence about the financial sustainability of rural councils in particular. We have developed an approach around an efficiency analysis, which we are currently rolling out in a limited way in New South Wales in rural councils, and we think there is some value to that approach for Victoria — things around debt modelling and financial sustainability. That work is capable of being done; it just has not been funded to this point. That, along with looking at the redistribution of financial assistance grants, would be very important.

I do not intend to speak to it at length, because I have provided it to you in detail, but we did a report called *Giving Local Governments the Reboot*, which looked at the broad national picture of sustainability of local governments across Australia. I just wanted to highlight two or three points around that. Over the past 20 years, despite the fact that local government structural reform has occurred at a pace in Australia — so we have 500 or so fewer local governments in Australia than we did at the turn of the century — expenditure in local government has increased significantly, fourfold in the last 20 years. That is an average increase in expenditure of 7.3 per cent year on year, and that probably underestimates it because of the removal of water authorities from some of the local government areas.

But just thinking about that in terms of the amount of expenditure local governments are making, their contributions to service delivery and so on, that is just some evidence about that. Why has the expenditure increased? There have been a lot of arguments around cost shifting — I am sure you have heard that from other people who have talked with you — and of course for rural and regional councils there is the question of what we call market failure. Many councils provide services that will not be provided in other ways in rural areas in particular, particularly in the community services area — aged-care services, medical services, youth and children's services and so on. We are replete with examples where local governments, at significant financial cost, provide those services to their communities because they need them and there are no other players in that space. As I said I will not talk through that. There are 23 or so recommendations in that report, where we have outlined what we think would be useful things to assist the financial sustainability of councils.

The last thing that I wanted to draw your attention to specifically, which starts on page 17 on that summary PowerPoint I have provided to you, is the value and opportunity that shared services and resource sharing can provide, particularly for rural councils. We did an 18-month study with a group of small councils in the north-western part of Tasmania, councils that are very similar in scale and geographical dispersion to Victorian rural councils. We evaluated the changes that the councils made with respect to sharing resources and shared services, and we were able to demonstrate significant year-on-year savings for those councils.

They were able to preserve their local democracy functions. They were able to preserve the level of services, but they were able to do it in a much more efficient way. So they improved their service quality. They dealt with the questions of economies of scale, and they dealt with the efficiencies question, and just

in the two areas that we worked in there were savings of around about \$1 million a year. In councils of that scale, that is a significant saving. So there have been lots of claims made about shared services, resource sharing and the money that you can save if you support councils down that process as an approach to capacity building; however, I am pleased to say that I think this is the first actual demonstration with robust evidence of that, and that was in that study that I have provided to you.

We did a specific study of the 38 rural councils in Victoria, which I have also provided to you. That was concluded in 2015. I do not think there was any news in that that the committee has not heard more generally in terms of the key challenges, reliance on grants, challenges and barriers to embracing new ways of work, burdens with respect to compliance and administrative recording, changes to demographics, changing expectations of local government and issues around the preservation of local character. And the recommendations, which again are on the last slide of this slide deck, from that study address those broader capacity supports that we think are very helpful, particularly to rural local governments to enhance their capacity for longer term sustainability.

So I am happy to conclude my opening remarks there. I am sorry if I have run over a bit in time; I just wanted to draw the committee's attention to the state of that evidence and some of the work that we think can assist councils with their capacity.

The CHAIR — Thank you very much, Roberta. It is clear that you have done some extensive research in this area, and it is something that I think will be very valuable to the committee. In your submission you oppose rate capping. How would that impact communities in rural and regional Victoria, potentially those that could face rises of up to 6 per cent, for example?

Prof. RYAN — I am sorry. I missed that. How would rate capping —

The CHAIR — Let me go again. In your submission you oppose rate capping, and I am just interested in your thoughts as to how that would impact communities in rural and regional Victoria facing rises of potentially 6 per cent plus.

Prof. RYAN — I think part of the solution to financial sustainability for local government is to really get that nexus between what it is councils provide in terms of public goods and services and what communities can and are willing to pay for, and rate capping takes that responsibility away from councils and having those conversations. That is the first point, so one of the things we talk about by way of example in the rebooting local government report is that there are lots of hidden subsidies that occur in local government. I just use the example of swimming pools. It is a bit vanilla as an example, but if you go anywhere in regional Australia a lot of conversations about local pools occur, as you would know. What happens is we charge at the turnstile whatever it is — \$6 or \$8 — for people to use the swimming pool. Council is always concerned that if they charge \$15 there will be equity implications around that. But what people do not know when they enter the swimming pool and they use that important community facility is that it probably costs \$25 per entry.

Now, councils can make decisions about how they want to subsidise those services, but what we do not do is engage the community in helping them to understand what it is that those subsidies are. What we should be doing — and this happens in some places — is we should be saying we are charging you \$6 for this service, but this service costs us \$20 a year to run. When you engage with your community, you are actually having people fully informed about the implications of those resourcing decisions. If you overlay rate capping into that, what happens is everybody steps back and says, 'This is all out of our hands. We can't do anything about this. This is the state government treating us as arms of the state government'.

I think it critical in the financial sustainability discussions that local governments are responsible for the fees, charges and rates that they charge and they have the ultimate accountability when they go to the ballot box. If the community does not like it, they can vote in another council. I think that is really important. I think rate capping does not allow that. But I also think that when you look at the consequences of rate capping in New South Wales it has done nothing but further imperil the financial sustainability of rural and regional councils by having such low rating levels. Many elected people think it is their job to

say, 'Oh, take the anti-tax argument. We're not going to charge you extra rates', and they pass on those structural changes to generation upon generation. Suddenly the next lot of councillors come in and go, 'We're about to build a road. We're going to have to ask the community to stump up the 25 per cent rate increases otherwise we're going to have to close our shop'. So I think there are a whole lot of reasons around rate capping that are unhelpful in terms of this debate.

The CHAIR — I think you mentioned the New South Wales Far West Initiative for councils. Can you elaborate further on that for me and the committee, please?

Prof. RYAN — I am happy to provide some of the public documents on that, and I am just about to publish a paper on the topic myself. As part of the Fit for the Future reforms in New South Wales there was, if you like, a kind of acceptance that — if you can imagine a map of New South Wales — the councils west of Dubbo, so Cobar, Balranald and Bogan etc., the councils that have very large geographical areas and relatively small populations, should just be disbanded. There was no way that they were ever going to be made financially sustainable. One of the councils, Central Darling, has been in and out of administration and currently is in administration around its financial sustainability. It is very difficult to get staff in these locations. Some of these economies are based on mines and so on and they go up and down and so on.

The proposal was, and this was driven by the Department of Premier and Cabinet in New South Wales, 'Let's look at a different governance model for these communities', and perhaps local government is not the solution. Perhaps the solution is a form of regional governance, because the geographies are large and the populations are small. Local government in these localities is often not particularly representative of the communities. As I said, I was just in Cobar this morning. There is 13 per cent or 14 per cent of Aboriginal people in Cobar. There is not an Aboriginal person on council as an elected representative. The growing populations are Indigenous. Local governments are still largely white men. So there are a whole lot of arguments for saying, 'Let's look at a different kind of governance arrangement for councils'.

These are council areas that in New South Wales have much greater geographical challenges than in Victoria. One of the, if you like, things that is helpful in Victoria is that the Victorian councils are relatively close to each other, whereas Cobar is almost the size of Tasmania and has 5000 people, just to give you an example. That is one of six councils of that scale in that area. So the suggestion is, 'Let's go to a regional governance model'. There are significant challenges with that with respect to two things: one, it does all sorts of damage to the local democracy dimension; and secondly, what it does is it does not actually bear on the evidence about how this is going to be provided. There is some evidence that the roads are the main game in these communities and would help communities get produce to markets. Roads need to be built, need to be maintained. Some of these council areas have 90 per cent unsealed roads and so on; it is only the town centres in some that are sealed.

On the whole, the state governments commission local governments to maintain their roads, and they do that because local governments can do it more efficiently than state governments in these contexts. So I am not sure how getting rid of local government in some of these areas is going to help with their service delivery. If you think roads are a significant component of rural councils expenditure — there needs to be work done on this — local governments can deliver road services as least as efficiently as state governments. State governments are still going to have to set up plant, depots, boards and employ people in locations that cover very large areas of land. So it is not clear to me how a governance arrangement at a regional scale is going to do anything other than reproduce some form of localised service provision, even if you look at something that is basic, such as roads.

Mr RAMSAY — Good afternoon, Ms Ryan, and thank you for your PowerPoint. I am familiar with some of the recommendations out of the expenditure end of local government. I was interested in your thoughts about the revenue base. Our regional councils here, I think, collect around 48 per cent from rates, and in your recommendations you are talking about removing the differentials and increasing the user-pays system. As you know, we have a CIV property tax system here for funding the rates part of it. It has been said to me that we should perhaps look outside the square and go away from a property tax to a people tax. That is not a new idea. As you know Margaret Thatcher flagged this through a poll tax many years ago.

But the reality is that the expectation of the services provided by local government is moving away from property-related services to social-related services, so if you are going to remove differentials and other tools to provide greater equity in the ratepayer base, why shouldn't everyone pay a proportion of the service rather than just those that require land or property for their business if you are not providing any equity?

Prof. RYAN — That is a controversial one, isn't it, and an interesting one. My view would be that, particularly when you look at rural local government areas, a significant part of the rate base is often the agricultural sector, and when you look at the source of rates in many of these councils they disproportionately pay, if you like, particularly compared to individual home owners or renters and so on. So the argument would go as such, in my view, that everybody contributes to rates, whether you are a renter or a landowner, because you pay for that through your rent if you are a renter, and that the rating system, whilst it could be clearly improved in any jurisdiction in Australia, does something to reflect the value of the property that is rated through the way the rating system works. In other words, farmers pay lots of rates, for example, in rural areas.

The second thing that I would say about that is that the significant proportion of expenditure in non-metropolitan council areas is on services like roads, stormwater and bridges. It is a relatively small proportion of all normal council budgets that would go to things like community services, child care, aged care and so on. The best way to address this, in my view, is to get a clearer nexus between the role of government in the provision of public goods — in other words, make transparent in the way that I was referring to before the cost of the swimming pool, which is not in and of itself a public good of course. But if communities and councils wish to provide those things, that will make transparent the nexus between the subsidy so that we can address the questions around people who are not big, if you like, ratepayers — perhaps renters, people on low incomes and so on — who may be disproportionately higher users of services like child care or swimming pools or whatever by firstly making the implicit subsidy that occurs more transparent. Then you can have an actual conversation with communities about what you are prepared to subsidise and what you are prepared to pay for.

What happens is lots of road infrastructure supports the capacity of farmers to get their grain and their produce to markets. They are in excess always of 50 per cent of the expenditure of rural councils. The proportion that is spent on the broader community services in terms of the social cohesion livability dimensions are relatively small, but neither of those — the support or the subsidy that goes through that in terms of the public good system — is made transparent to people. So when you are having discussions about who should pay for what, there is a whole process you need to go through, and we do all of this work with councils to make sure that they can demonstrate to their communities where these costs and subsidies actually sit.

We know from our research — and this is the case internationally, but it is particularly the case in Australia — that Australians are keen for the tax system to be progressive, and they are keen for the equity dimensions and tax systems to be in place. Every community I have ever worked with is very happy for a proportion of the income that they provide through ways to subsidise other people in the community. The issue is no-one knows. It is often that the conversations do not appear at all at the scale required.

Mr RAMSAY — Time does not permit me to have that discussion. It might even be an argument at some point, I am sure, because of the inequity of, say, the farming community paying \$16 000 in rates as against the local milk bar paying \$500, yet the cash income is the same, so we can argue that point down the track.

The MAV, Rod Spence — and I am only raising that because you have recommended removing the differentials and municipal charges and all the other tools the government has got to provide greater equity in their ratepayer base. We have been advised in another committee that in fact local government will take some responsibility for the NDIS, particularly for under-65s, which reverts back to the state, which reverts back to local government, and the feds pick up the over-65s. So there are a lot of those types of services creeping into the service provisions of local government that have no relationship to property at all, as I have indicated right from the start. So I am not sure we are addressing that issue, and user pays will not

address the issue and you have not really told me how you would expect to address the issue moving forward, much as I hate that term.

Prof. RYAN — Okay. Let us have that conversation when we have got more time. In terms of the McKell report, I would like to suggest to you that we have put that report out for public debate. It was a bit of a kind of bomb-throwing exercise to have a bit more of a robust discussion about the options around financial sustainability for local government, so I would not suggest they are recommendations to this committee, but they were certainly options that we think had not been brought out or canvassed in the debate.

Mr RAMSAY — Right. Thank you.

Ms HALFPENNY — Just a quick one: a representative of the water boards in Victoria had a suggestion in his organisation that maybe there ought to be identified core activities of council and then standards overlaying on top of that that they need to meet, and then you have your discretionary activities around that. We did not thrash it out — we did not have enough time — but do you see any sense in something like that in terms, I guess, of the government having the standard and then looking to see whether those standards can be met in the current financial restraints of a council?

Prof. RYAN — Yes, I do. I think the kind of performance reporting and the standards question could do with a whole lot more work and a whole lot more conversation about what that should be. Victoria has done very well in terms of the performance reporting work. It is the lead jurisdiction in Australia in having developed that work, but there is quite a bit more distance to go. I think they would be extremely helpful directions to pursue.

Ms HALFPENNY — In terms of cost shifting — because we do hear the word cost shifting; people have mentioned it, but there is not really anything explained behind that — I guess in Victoria they have implemented rate capping, and the argument was that there would be further state money provided to subsidise things like — and there is, at the moment — emergency services that maybe councils would otherwise fund, kindergartens, maternal and child health care. Do you see that there can be a model — because I guess that is the issue — for providing the costs back, not just shifting them onto local councils but also providing funding back? Do you see that as in some way mitigating the rate capping, if you are talking about it, meaning that it is reducing the income and the ability to spend from council?

Prof. RYAN — In the local government sector, as you rightly point out, cost shifting is thrown around all the time. I too struggle a bit with it. I think in some areas you do see examples of cost shifting. For example, Victorian councils stepped away quite significantly from home and community care services based on the argument that they were only being funded for 70 or 80 per cent or perhaps less of the real cost of the delivery of those services, and particularly in the areas where there were demands on them in terms of equity and not being able to charge and so on. So there are clear, I think, areas of service provision where you can say, ‘Look, if councils didn’t provide, no one would —

And that would be the risk and concern that councils have about NDIS. We have recently just done a significant study on the implications of the NDIS for local government nationally. That is on our website, and I am happy to provide that to the committee.

There are risks if councils are asked to deliver services, particularly if they are in areas where no-one else can do this, which will not be in the metropolitan areas, if they are not fully recompensed for those services. I think in Victoria the councils stepping away from HACC services was a very clear case of that, where they said, ‘We just can’t continue to let this gap widen between the money we are getting and the cost of those services’, and councils would talk about that in terms of cost shifting.

I think you would have to take that broader cost-shifting argument case by case. I do not see some of the claims that are made for cost shifting in other areas. I have not been able to see how they are substantiated financially. Again, for me it goes to having a clear nexus between what the community is prepared and able to pay for, the level of cross-subsidisation they are prepared to have in their communities to support things like doctors’ facilities — which is not a function of local government, but people think it is very

important to have a doctor in town, because if they do not families will not stay — those kinds of things. Again, in the relatively small proportion of their overall expenditure, the real costs of an area is the infrastructure, around roads, bridges, stormwater and so on.

Councils would argue that in areas where people are moving away from capital cities — and I think we see this strongly in Victorian rural councils — people bring city-level expectations with them to these communities. I think the only way to address that is through conversations with your communities and by making clear the nexus between planning that, paying for and the areas in which they are subsidising. At the moment most councils cannot have those conversations. There has to be a whole development of work to demonstrate that nexus.

Ms HALFPENNY — Thank you.

Mr RIORDAN — I am interested in the sustainability element of the budget. In some of the material we have received we talk about how welfare is the responsibility of the federal government, and yet many of our rural and regional and isolated communities are some of the poorest in the country, which means the rate of subsidy — they are out of discounts, they are out of concessions — is quite high. I would be interested in what research you have got of the extra load that rural councils have to carry in that. But also, one of the driving forces, it seems to me, in the push for rate capping by ratepayer groups and others was about the sense that everyone was paying as much as they possibly could. Simon talked earlier about farmers paying more than what they feel. So there seems to be a consensus in country areas that people are absolutely paying at their threshold, and yet we have still got these sustainability issues. I wonder what difference it makes to the sustainability when we continue to have relatively low incomes, high rates of concession and others to providing these services going forward, and whether there are any solutions around that.

Prof. RYAN — The solution is more money from the state government and a redistribution through FAGs. Rates in and of itself in my view will not solve the financial sustainability question of rural councils, not entirely because communities are at the threshold of their capacity to pay.

The examples, that I did not go into detail about, but that I mentioned earlier, were where we worked with rural and regional communities around what they are prepared to pay in terms of rates. So we have gone through that process of saying, ‘Okay, out of every \$100 this is the amount of money that council spends on roads and so on and so on’, and we had those conversations to make it all as clear and transparent as we could. Then we said, ‘Okay, for the community to be sustainable on these kinds of financial sustainability indices, rates will have to go up by this amount’, and not only that — that is just to keep services where they are. It is not that there have not been efforts to make efficiencies and improvements, and all of that is assumed because that work has been done. When we have had those conversations with these communities, there has not been one that has not supported an increase in rates.

The things that have been critical to that have been several things. One is that you have to actually be able to show people that for you, ratepayer farmer X — and I am making these numbers up just to demonstrate the point — if we put up rates by 20 per cent, it is going to cost you an extra \$5000, versus shop owner Y, here are your rates. We have done this using deliberative panels, and we have actually had people’s rate notices and we have modelled the rate increases under certain scenarios — you are going to pay this if the rates go up by 10 per cent, and you are going to pay this — for each of the classes of ratepayers.

Universally in light of those conversations communities have supported the proposal for rate increases. They have done it really based on three things. One, they value their own councils and they want them to be able to continue, so it is around financial sustainability arguments. Second, they value the local democracy dimensions. That is much stronger in non-metropolitan councils than in metropolitan councils. We have got significant research about people supporting local government with respect to scale and so on across Australia. In non-metropolitan communities people are much more committed and supportive of their local governments. I know there is a lot of contrary debate about this, both political and from certain interest groups, but people in metropolitan communities do care a whole lot less about amalgamations or changes to local government than people in rural communities; we have got significant research on that.

The third part of that is that people are prepared, when you make the subsidies transparent, to pay for those. There has not been one community where we have done this work in detail — and these are on the whole communities that are pretty uneven, if you like, or bimodal, with some good farming, some good industrial stuff, a bit of mining and some poor people, you know, to cut through — where people are prepared to make those subsidies when they understand what they are.

So in terms of the capacity for rates as a vehicle to solve the financial sustainability question, you could double the rates in most rural communities and you will not solve the financial sustainability question. It is not rates in and of itself. This is of course an important part of the discussion, and of course it is an important form of taxation, and there needs to be transparency and rules around that. But that is not how that problem is going to be solved. While you have got large roads, significant infrastructure backlogs, stormwater, timber bridges and all of those kinds of things, that is only going to be solved by changes in the distribution of financial assistance grants from the commonwealth and significant ongoing grants from state government.

I know that this work was presented to you by the Victorian department. The level of grants to rural communities in Victoria has been stable over a long period of time, and councils incorporate that grant as part of their operating expenditure.

In terms of the welfare dimension when councils and also governments give rate subsidies as a form of welfare, again that is something that people do that just needs to be made transparent. Our argument would be that the broader welfare system is the responsibility of the federal government, and if we in communities want to have significant pensioner rate rebates, that should be a matter for the federal government to pay for. It is just about trying to unpick the taxation muddle that local government sits in. Again proposals that we put forward in the rebooting local government report were to try and stimulate this discussion, because the discussion around the financial sustainability of local government has been locked into rate capping, rate increases or amalgamations, and we wanted to say that there are a whole lot of other things you should think about if you want to talk about how to achieve financial sustainability in local government.

Mr RIORDAN — If we take that what you have said just now demonstrates that this is a pretty complex issue — and there are some pretty interesting issues to deal with — have you done any research into the capacity of the skill sets that dominate rural and regional councils? So, for example, we either have the situation of CEOs who have been there for 500 years and are still probably having a G & T at 4 o'clock and a cigarette in the corner, or we have the 35-year-old CEOs that only want to be there 2 minutes and then they are moving on to a bigger metro council. Then of course we have the situation of a complete lack of skill sets and planning officers and other things. Rural councils often get clobbered with big issues. They are under-resourced; they cannot do it. In my own, one quarry alone can tie up the whole council for 10 years, and they have got nothing else — they cannot see the wood for the trees. So is there anything in what can be done to boost up skill sets and manpower in that local government industry to give it more strength in its decision-making and other issues?

Prof. RYAN — Yes, absolutely, and it is central to the work of our centre to do that and to help. In the Rural Councils Victoria report that I provided to the committee, we made — whatever it is there — six or eight recommendations for building the capacity of rural councils. I would not be quite as grim in my assessment. There are certainly elements to everything you say in terms of bright young things using their post as CEO of a rural council to go on to better places, but there are plenty of people — and I have the pleasure of working with them many days of the week — who want to make these regional communities their home. They are great places to bring up kids. They are very committed to their local communities and their local councils, and they ferret out different grants all the time to get things to happen, to fundraise for the local childcare centre and so on and so on. There is lots of good stuff happening in these communities, notwithstanding the broader point that you make, and I do understand it.

Western Australia does very well — again this is the benefit of working nationally. Western Australia does very well in building capacity support for rural councils. That is largely funded through the Royalties for Regions program in Western Australia. They spend much of that money on direct capacity-building

support for local government, and we would suggest there are key areas around leadership training both for elected members and for senior staff.

We think service delivery reviews — understanding what the services cost, unit costs, the sustainability of those. Are there better models? We have just trained every rural council in Western Australia in service delivery review training. We have a manual that is the most downloaded document we have ever written. I mean, it is a local government bestseller — who would have known? — 20 000 downloads. I mean, really — that is unbelievable. It is as boring as; however, it is an extremely useful document, downloaded by lots of people internationally. These are funded capacity-building programs that the Western Australian government rolls out.

Two years ago they took every rural and regional council in Western Australia through workforce planning training and then we repeated that training. The first round of that was to say, ‘What are you going to do for local government?’, because the mines had come on in Western Australia and suddenly engineers were being paid \$300 000 a year and no-one in local government could get an engineer, never mind somebody who could drive a backhoe. So Western Australia invested all this money in building the capacity of the regional and rural local governments to actually figure out how to sustain their workforces in face of the mining sector pressures. Then two years later we went back and said, ‘How do you sustain your workforce?’.

Now we got all these people back when the mining sector dipped. Workforce training; service delivery review training; supporting regional organisations and developing region-based programs for shared services and service delivery; and improved asset management and improved finance management are, we think, the critical capacity things that will help every rural and regional council. Those programs need to be funded and ideally driven on a regional scale so that you get a group of small councils in a location together, because that then helps them begin to work together and you demonstrate how to do stuff.

Again that has been done very effectively in Western Australia, and they have got significant challenges, such as geographical scale — they have got the smallest council with the largest landmass in Australia. You know, whatever it is — 1200 people in Sandstone or whatever the name of that council is that is bigger than Belgium. You know, et cetera, et cetera. So it is really about investment and support around that capacity training that can really change and deliver the outcomes for rural communities.

Mr RICHARDSON — Thank you, Professor Ryan. I will keep mine quick, and as the husband of a town planner I am not very popular when it comes to rate capping, I can tell you.

I just wanted to go to a couple of things, particularly the findings recently that 19 rural councils are struggling and are vulnerable. The Victorian local government oversight statutory authority found that some of the people in those council areas are the most vulnerable and do not have the capacity to pay. I guess you have comments about the fact that you could double rates and not have a discernible benefit to the underlying issues that we are addressing. Is it then the case that the Essential Services Commission in overseeing rate capping and those issues is the independent authority that is spoken to in some of those recommendations and that will tease out some of the issues around sustainability, rather than relying on democratically elected councils who could have the potential to increase rates beyond what people can afford to pay?

Prof. RYAN — I think there is a really important role for the Essential Services Commission, or you know, an independent oversight body, in local government and setting rates. I do think that is really important. I think the criteria that they set for how and why rates can be increased or not is very important, and there should be a close look at the implications for the current criteria that the Essential Services Commission or the government has set around that. I think capacity to pay should be one of those criteria.

One of the things that we have found in New South Wales and Queensland historically, particularly New South Wales, is that you have actually got to demonstrate the impact of any specific rate on particular rating groups or categories within the community, and you need to demonstrate that to the community, as well as to the regulator, because that is the way you address it when people cannot afford to pay that, and

that needs to be counted as part of the criteria that is used. I think that is an extremely important function, and as part of that councils should be encouraged to have those well-evidenced conversations with their communities about that. There was a second point that you made about those struggling. I think that will become evident in the way that that process is done.

In terms of my rather extravagant statement that you could double rate income — the issue for rural councils cannot be solved through rates alone is my point. There has to be a whole lot of other stuff. The capacity issues have to be dealt with through capacity support and training, staff particularly need that financial sustainability training so they actually know what their capacity for debt is. Ultimately I think that from a state government point of view we have to take seriously the democratic accountability of local councillors. The system is geared for the fact that they are the people who go to the electorate and who are accountable for the decisions made by that council, and I cannot see any other way ultimately that the accountability should finally sit with them, despite significant support that state governments can provide around guidance, support around financial capacity and capacity-building programs. I think ultimately the final accountability needs to rest with councillors. They go to the electorate, and if the community does not like what they are doing — but yes, lots of stuff happens on an ongoing basis, and I think capacity support for councillors is absolutely critical, and they need to understand the implications of the decisions that they are making.

The CHAIR — We are going to go to the final supplementary as we are out of time.

Mr RICHARDSON — I will take you to that point, Professor. I think the CEOs and senior executive are able to hide behind the councillors in pushing for that agenda, and sometimes they are the scapegoats that front the public when there is the backlash, but I take your point about what is a better system.

My final question is: have we got the model right? We have 19 rural councils who are in distress. They are vulnerable. The rate base are people who struggle to make ends meet. Have we got the model right with small rural councils? And what else could we do? I get your point about service delivery, but is that going to see such a substantial change in the predicament they have found themselves in, despite some of the fourfold increases in revenue over the last two decades?

Prof. RYAN — I do not think there is an alternative, so I think we have to get this model right. That was my reference to the far-west governance arrangements. I would be up for the Nobel prize if I had figured this out. There is no silver bullet model. You either lift it up to a reasonable governance model, and there are no proven efficiencies for that, or you go the amalgamation route, and the evidence is very mixed on that and it creates a lot of unhappiness, particularly in rural communities. I think what we have to do is give these small struggling councils every support to make it work by building that capacity and providing the kind of input that they need to really make these councils work as effectively as they can for their communities.

The CHAIR — Professor, thank you for your time. There is obviously a whole range of issues there that we could talk to at length. Thank you very much for presenting to the committee this afternoon.

Prof. RYAN — My pleasure. Thanks very much for the opportunity. Go well with your deliberations.

Witness withdrew.