

ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE

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

Melbourne — 15 August 2017

Members

Mr Josh Bull — Chair

Mr Tim Richardson

Mr Simon Ramsay — Deputy Chair

Mr Richard Riordan

Ms Bronwyn Halfpenny

Mr Daniel Young

Mr Luke O'Sullivan

Witnesses

Ms Kathryn Arndt, Chief Executive Officer, and

Mr Bo Li, Senior Policy Adviser, Victorian Local Governance Association.

The CHAIR — Good afternoon and thank you for being here. I would now like to welcome Kathryn Arndt and Bo Li from the Victorian Local Governance Association. Today's evidence is being recorded. You will be provided with proof versions of the transcript within the next week. Transcripts will ultimately be made public and posted on the committee's website. Can I ask that you state your name and job title.

Ms ARNDT — My name is Kathryn Arndt, and I am the chief executive officer of the Victorian Local Governance Association.

Mr LI — Bo Li, senior policy adviser with the Victorian Local Governance Association.

The CHAIR — Thank you both. I now invite you to proceed with a brief opening statement somewhere in the order of 5 to 10 minutes, which will be followed by questions from committee members.

Ms ARNDT — Thank you very much, committee, for the opportunity to present at today's inquiry. The Victorian Local Governance Association is an independent membership-based organisation that supports councils, councillors and communities in good local governance. We have 19 rural and regional councils which are our members. The VLGA is of the view that the approach to local government in Victoria is not a one-size-fits-all model. There are 79 councils in Victoria; 48 of those are outside of the metro area, and each of these municipalities have diverse communities with diverse industries and therefore diverse needs in respect of infrastructure, roads, revenue generation, capacity et cetera. Forgive me if I do state the obvious, as I go through our research into this issue of sustainability in rural and regional councils and also the advice that we have received from our own membership base in conversation.

Rural councils have made submissions to the committee that overwhelmingly express concerns about maintaining services into the future within a rate-capped environment. Councils like the Rural City of Wangaratta have observed that a one-size-fits-all approach is regressive and inappropriate to rural and regional councils. Other councils, like West Wimmera for example, are less concerned about the immediate impact of rate capping. These councils express that they have performed well in a rate-capped environment by managing expenditure and increasing operating efficiencies, but it is also noted that many rural communities have reached their capacity in their ability to continue to keep paying increased rates, so the councils themselves are limited by the community's ability to pay increased rates. This contributed to a view that generally rate capping would have a minimal effect on their council.

In search of alternative sources of revenue many councils note that they were becoming increasingly reliant on federal and state grants. Concerns have been raised over cuts to key federal infrastructure initiatives like the country roads and bridges, coupled with the freeze on indexation of federal assistance, and this was somewhat offset by the satisfaction regarding the federal government's Roads to Recovery program. Rural councils have also raised the issue of state funding cuts to emergency assistance programs, child care, pest and weed reduction, and flood mitigation infrastructure. Most submissions related their objection to these cuts back to the unique features that make up rural councils.

Pyrenees Shire Council note that they have over 4000 kilometres of local road, and this has meant that the cost burden of roadside weed control has been significant. Rural councils also noted that they have significantly less revenue streams than metro and regional councils which are able to generate income from user fees, parking facilities and redundant asset sales. Loddon Shire Council submitted that they have limited capacity to generate internal revenue to fund required maintenance or capital works. Rural councils have overwhelmingly raised the issue of cost shifting as a significant burden on local budgets. Most councils submitted that state government cost shifting on programs like child care, emergency services and school crossing supervisors was putting pressure on council's capacity to deliver services.

Submissions placed emphasis on cost shifting involving flood mitigation infrastructure and maintenance. Buloke Shire Council explained that councils are now expected to fund a third of flood levy capital costs and provide the ongoing management and maintenance of infrastructure. The City of Greater Bendigo also warned about the impact of cost shifting state emergency services. They stated that their belief is that the SES should be funded by the state government at the same level as other emergency services.

Councils have also submitted concerns regarding the costs associated with roadside weed and pest control. Many small shire councils expressed their dissatisfaction with the state government shifting responsibilities for these programs. Murrindindi Shire Council claimed that the annual state funding for roadside weed control is enough to cover just 10 per cent of council's roadside reserve. Moreover, in their submission they estimated that they would have to allocate \$450 000 per year to regionally contain weeds.

Most councils expressed some concern about a growing infrastructure renewal gap. The lack of federal funding has meant that some councils had to delay vital road maintenance work. Councils like Campaspe shire and Hindmarsh shire submitted that the future costs of maintenance would only increase as the infrastructure renewal gap widens. Some councils detailed their objection associated with the landfill levy prescribed by the environmental protection agency. Both Macedon Ranges Shire Council and Warrnambool City Council view the levy as a major cost to the area without any investment from the revenue raised. Macedon Ranges estimated that they spent \$800 000 in landfill levies in 2015–16 with little to no return.

In regard to some of the solutions or strategies put in place to address these concerns, some council submissions presented steps that they were taking to become more financially sustainable in an income-constrained environment. These solutions were mostly submitted by regional and city councils as opposed to the metro councils.

Improving workplace planning and operational efficiencies were among the common areas where improvements could be made. The Rural City of Wangaratta noted that they had undertaken a voluntary redundancy program and had seen a 3.5 per cent reduction in the workforce. They also reduced business operational costs by 5 per cent through targeting efficiencies and payroll processes and mobile technology and asset management.

The City of Whittlesea cited their use of partnerships with other organisations to deliver key infrastructure in high-growth areas. By partnering with the YMCA they delivered a multipurpose community centre that saved ratepayers approximately \$4 million. They estimate to save a further \$1.6 billion on operational costs. Mildura Rural City Council have also used strategic partnerships to manage the impact of invasive plants and animals on local roads and farms. Council has partnered with landowners, community groups and state government agencies to ensure desired outcomes.

In 2015 Greater Bendigo City Council initiated a review of over 100 services that sought to prioritise the needs of the community. This review assisted in finding innovative ways to improve systems without impacting the ability of the council to provide services, and the council estimates a net saving of \$4.3 million over four years.

I guess, in summary, in regard to these solutions, the question remains: are these innovative measures sustainable into the future? Thank you.

The CHAIR — Thank you very much. You referred in your opening statement to cost shifting, and I think a recurrent theme from today has been: who pays for what, and when and how are those structures set up? I understand the VLGA has a cost-shifting working group, and I just wanted to get some more information on that — what is its purpose, who is on it and what work has been done so far?

Mr LI — The cost-shifting working group is not currently active at the moment. We did establish a cost-shift working group in the past. The reason I am aware of that is, just for the record, I was a serving councillor in the City of Darebin between 2012 and 2016, and one of my fellow councillors was actually on that cost-shift working group. So that membership, as far as I am aware, is no longer active. There are some internal documents which guided the views of the VLGA, and those are not dissimilar to the input from the councils that has been articulated in the opening statement.

The CHAIR — How do you evaluate the federal assistance grant freeze in terms of what you are hearing from a number of, particularly rural, municipalities? How do you see that play out? What are the biggest impacts of that freeze?

Mr LI — I think the freeze of indexation of the federal assistance grant meant a regression in real dollar terms, if I can call it that. One of the impacts is that the planned activities of councils, particularly in rural and regional regions, were not able to proceed as per their plan. For example, if a council had in its four-year council plan to resurface 50 kilometres of roads per quarter, for argument's sake, the regression in real dollar terms meant that they could not meet that target, due to the lack of ability for council to raise funds locally through their rates, because their dependence on rates is much lower compared to metropolitan councils.

Mr RAMSAY — Thank you very much for your time this afternoon. I have a couple of quick questions. One is: are you happy to table that presentation as a submission from the VLGA, given that you have not got a submission to the committee?

Ms ARNDT — Yes, absolutely.

Mr LI — Yes, I am happy to.

Mr RAMSAY — I always struggle with the roles between the MAV and yourselves. I am never quite clear about why we need two organisations representing councils, but you might wish to respond to that. You referred to West Wimmera as being able to capably sit within the cap, but in fact it is one of three councils in my Western Victoria Region that have applied to the ESC for an exemption. They have sought an exemption and received one of 3.5 per cent over the three years. So they are struggling to be able to operate under the present rate capping policy. You might want to respond to that.

The other question: although your cost-shifting committee, as indicated to the Chair, is not functional as yet, you have raised two out of those cost-shifting services which I wanted you to respond to. One is the roadside weed control, which I understand was previously a state government responsibility and is now a local council responsibility, and there are funds that are attached to that service from the state but not enough. The landfill levy is something that I am very interested in because it is a huge cost to councils, yet no-one seems to know where that money goes. It seems to go into consolidated revenue then be spit out into solar panels and other things. I would have thought being an advocate organisation there may well be more questions raised about where that landfill money goes, because the idea was to reduce the waste and encourage and support councils with the new technologies in getting rid of the waste.

Can you comment on these three issues: the West Wimmera extension, because even though you said it sits well under the cap, we know it does not; the pest and weed control, as there is not enough funding for councils to be able to control weed pests on roadsides; and the landfill levy.

Ms ARNDT — In respect of West Wimmera I guess my comments there were simply in relation to what they themselves have submitted at some point in time to this inquiry in regard to their ability. I guess their ability was already constrained by their community's ability to pay rates. So it is not to suggest that they are not struggling, but I guess the point that we assessed from their comments was that given that they are already struggling because of the ability of the community generally in terms of the capacity to pay rates and also the costs that they need to fund, the rate cap did not affect that any more than what they were already dealing with.

Just going back to the difference between the VLGA and the MAV, I was not sure if you wanted me to comment on that or not.

Mr RIORDAN — I would.

Mr RAMSAY — Feel free.

Ms ARNDT — Certainly. As I said in my opening address, the VLGA is an independent organisation. We do not have a state act of Parliament that governs our organisation. Our primary focus is on supporting councils and councillors in good governance — so to provide individual support to councillors — and also to increase the capacity of councillors to work with their community to empower democracy at a local level.

In regard to the other matters I might defer to Bo. One thing I also wanted to inform the committee of was that the cost-shifting working group was operating previously, but it is not just at the moment. The reason for that is that there was a significant turnover of staff at the VLGA early this year, including myself and Bo. We are both new to the organisation. We are at the final stages of implementing a new strategic plan, which will inform our key pieces of work into the future. There is work that has been undertaken in the past that is currently on hold in respect of that.

Mr LI — Just on the issue of the landfill levy, I think others may have already highlighted the fact that some of those services are rising — those levies are certainly rising over and above the CPI within a rate-cap environment. With regard to where that money is going, again we were always under the impression, as you were, Deputy Chair, that that pooled money was used to fund local environmental sustainability programs or projects. We are not privy to and we do not have access to the terms of reference of those particular funds or how they are expended.

I do note that a new bill governing the EPA has been introduced in the Victorian Parliament, and we are looking at that. Based on my very limited understanding it is moving towards a more independent and statutory model as opposed to an agency of government, so there might be some nuances in relation to the way it is governed and having greater accountability regarding the funds it gathers from local government. That is my limited understanding of the EPA to date and the landfill levy. No doubt you have heard from other submitters that it is a pot of money that is sitting there, and the access to it is somewhat opaque at the moment, probably.

Mr RICHARDSON — Thank you, Kathryn and Bo, for popping in. I just wanted to go to your historical base — the organisation obviously being established in the Kennett era as a response to local democratic issues and the silencing of community voices. In your strategic plan it talks about leading the agenda on local government and community and in that process talking about leading that agenda. We have the Auditor-General finding that small rural councils are in all sorts of bother. I am just wondering how that is balanced with conversations that we had with MAV before about better collaboration between councils and the pooling of resources. What is your organisation's response to some of those discussions, and is it envisaged that amalgamations or merging of council resources is an appropriate way to try to solve those systemic challenges?

Ms ARNDT — From my time in the sector, which, as I said, has been since late January this year, I get a sense that a lot of councils themselves are working together quite collaboratively both within the metro areas and also in the regional and rural areas and that they are in fact already beginning to share different types of resources and to work on collaborative initiatives together. What that looks like in a lot of detail I cannot really comment on, and what that might look like in the future I cannot comment on either, but I think there is a natural collaboration happening amongst councils.

Mr RICHARDSON — Do you support that going further? If we have got these financial and sustainability issues, is economies of scale, as mentioned by Local Government Victoria, a pathway towards addressing some of those issues, or is it purely upon the state and federal governments to address those funding issues?

Ms ARNDT — As I said in my opening statement, we have 79 very diverse municipalities in Victoria, so whatever measures are proposed or put in place will need to reflect the diversity of those communities and ensure that that diversity and the diverse needs of the communities can still be met.

Mr RICHARDSON — Taking the example of Ararat that was mentioned before and the approaches from the CEO, and going back to the prism of why the VLGA was established in the first instance, are you satisfied that councillors are equipped in this governance and the support they receive to effectively audit and respond to those challenges that are presented? What more could be done to better equip local councillors?

Ms ARNDT — I think the VLGA, through the types of services we offer our members and also other stakeholders in the sector, aims to really help further equip those councillors to undertake their duties as

councillors and to fulfil their governance responsibilities. So with having the VLGA and other organisations like the VLGA available to support councillors in their role, I think there is a big piece of work in raising the understanding, even amongst the community, of the size, scope and complexity of the business of local government. This work will also therefore inform those people who may consider running for council in the future as to truly what those significant obligations are. The VLGA would then continue its work in supporting those councillors. That piece of work I believe will also, hopefully, encourage participation of the community in the voting process, in the electoral process of local government, which is lower than in the other levels of government.

Mr O’SULLIVAN — Thank you for coming in today. As I go around my electorate in northern Victoria — and it is certainly the case down in the Western District — one of the issues that comes up most in relation to councils is the state of the roads. We have had evidence this morning which shows the road network in some of the council areas and their inability to really maintain the roads that they have got, as a result of the funding sources being restricted through a whole range of things, including rate capping. What sort of impact has the scrapping of the country roads and bridges program had on the councils’ ability to upgrade roads and bridges?

Mr LI — I am not sure if I can answer that question directly. However, I just want to go back to the opening of your question about the satisfaction with local roads. When the surveys are done annually with local councils, 11 councils out of the current 79 do not participate in the LGV program for community surveys. They do them through their own research, commissioned through their own independent consultants, but with the approval of LGV, so they are actually standardised with the LGV methodology.

The issue of local roads in the questionnaire I do not believe is sufficiently clear, so that the respondent is not immediately clear on whether that piece of road is actually a council-owned road versus a state road — versus a VicRoads road. In other words, I have heard comments from some mayors and councillors saying that the reason why rural and regional councils get marked down on their satisfactory road maintenance and repair program is due to the fact that the vast majority of those local roads are in fact VicRoads roads; they are not council-owned roads. So whether the respondent is able to distinguish between what is a council road versus what is a VicRoads road is not all that clear and that may have some undesired consequences in the actual survey results. I think more work needs to be done in that area to clarify the question so that respondents are very clear on what they are responding to.

Mr RIORDAN — We have heard a lot today about the consequences of rate capping, and I have been querying the other side of the ledger, the ability of councils to control expenditure and commitments. One I would raise with you is a malaise that I have seen with local council. They are very quick to grab a new funding stream for some particular cause or another. It might be some sort of resource officer or some program that is thrown up for a three-year funding cycle. Inevitably that funding cycle ends in three years — the government changes or whatever — and then of course the pressure is on the council. For the community suddenly it is the most important service they have ever had and they have to keep it, and council gets trapped.

There seems to be a lack of sensible, prudent planning on many councils’ behalf, where they do not actually look beyond the funding cycle for that particular program, plan otherwise and make it very clear at the outset that, ‘This is something we are committing to in the long term’, or, ‘This is just a one-off’. I seek your comments on the skill level of councils in getting that mix right, because I suspect there is an issue there.

Ms ARNDT — Yes. Again we are talking about, I guess, a governance issue and councillors’ ability to understand, together with the support of the CEO, as to how to plan strategically for the business — if we want to refer to it. I must say that I think that the local government sector is probably not dissimilar to other sectors, where they also seem at times to rely on single funding streams, rather than plan more strategically. As I said earlier, I think that just ongoing support and professional development for councillors is needed. I heard the previous speaker from the ASU talk about the way in which councillors are remunerated and therefore their ability to, I guess, commit the time required. Although they are remunerated currently for essentially what is a very part-time type of role, as we all know the work is

certainly quite extensive and involves commitments outside a part-time scenario. So the ability for a councillor to be remunerated in a way which would enable them to also commit to the level of training and development they need in order to fulfil their role I think would be a useful strategy.

Mr RIORDAN — Also, much has been made of the consequences of the rate capping. I think you also made the point that the alternative, which is to have kept the current system, for many councils was unsustainable too. I think we have seen across many rural shires where we had 7, 8, 9 or 10 per cent rate increases that that was completely unsustainable, when by and large we are dealing with some of the lowest income communities in the state. With that in mind the VLGA and other lobby groups have been very strong on the 2 per cent cap, but they have not been particularly articulate on presenting alternatives when it seems that they do accept the fact that 7 per cent on 7 per cent is unsustainable as well. So we asked the previous respondent about other alternatives. I wonder whether the VLGA have canvassed with their members other options for sustainable funding of local government?

Mr LI — Certainly in terms of the shared services model that the previous speaker mentioned, that is actively explored by a number of councils even within metropolitan Melbourne, based on my previous experience. Going back to your earlier question, if I may, about the governance, the council laws, first of all councillors are elected from the community, representing their community, so their level of understanding of the complexity and financial management of councils is representative of the community, if I can call it that, but once they do become elected they do go through a fairly intense induction program by the councils and also have the ability to attend workshops run by the MAV, the VLGA and so forth. It is always difficult for councillors to juggle their responsibilities as a councillor versus that of the expectation of the community. I think that would be a fair statement. There is also the fact that under the Local Government Act councillors' duties are very prescribed. They do have to take into account the diverse needs of the community — that is stated in the act. They also have to take into account the long-term financial sustainability of their councils.

Mr RIORDAN — Could I just add, though, in accepting your answer there, that no-one for a minute is fooled that in the vast majority of cases the CEO runs the show. To suggest anytime in the first two years of a new council term the CEO is not pulling 90 per cent of the strings would be to walk around with your eyes closed. It might be all very well to say we do not always have the best trained councillors, but we do have incredibly well remunerated senior CEOs and others who are, by and large, in a self-fulfilling ferret wheel of local government where they are just running from one shire to the next in an ever-climbing scenario. So to your comment on that, I do not think lack of skills and expertise is entirely the fault of this situation.

Ms ARNDT — I think, as I said earlier, there is an opportunity that the VLGA has identified in terms of really raising the understanding of the community of the complexity of the business of local government. Just going back to your question about the flip side of the rate cap and what other solutions potentially are, I did talk to some solutions, for example, that Greater Bendigo City Council had reduced costs significantly through their review of the way in which they provided services and reducing expenditure. I certainly support councils examining the opportunity to look at ways in which they can reduce expenditure. That makes good business sense, and that in fact would be a duty that they should undertake in respect of the communities that they represent. So I guess my closing statement was, though, are these innovative measures — if they are in fact innovative — sustainable into the future? And I guess there is still a question mark on that.

The CHAIR — I think we have got time for one more question from each committee member. I just wanted to go to your point around upskilling councillors and having them being more thoughtful and dealing with new challenges that they may not have dealt with 10, 15 or 20 years ago in terms of ICT, the suite of communication, social media — all of the things that people in public life and private life are dealing with as well. You spoke about raising the understanding for councillors. With examples of Ararat and Geelong to an extent in mind, does the VLGA investigate or look at other jurisdictions both nationally and around the globe in terms of ways that we can improve the governance model?

Ms ARNDT — We certainly do. In fact that will be part of our strategy going forward. We are not limiting ourselves. I have been a long-term director outside of the sector myself, and I understand the requirements of a board of directors and what is required in terms of governance roles, and we are talking about businesses anywhere from \$25 million a year to \$180 million. These are complex businesses, and it is a lot for anyone to get their head around in terms of the governance responsibilities required to govern an organisation of that size. So I think it is quite important for the sector that we look at models outside of the sector itself.

Mr RAMSAY — One of the fallouts from the rate capping is councils now being quite inventive in providing services on a user-pays methodology, services they traditionally used to provide as part of the ongoing service. Can you make some commentary about what you think about councils engaging in this user-pays service delivery?

Ms ARNDT — I cannot respond in a lot of detail on those, but there is also an element of the way in which that is communicated to the community. There has been some modelling done on ways in which a user-pays system is in fact a reasonable thing to do for some services, but I think we have to be very careful. Sometimes I think the downfall for the council is just the way in which that has been communicated in fact, though you might be able to comment a little bit about the work that Joe Carbone did at our last Leading the Agenda on that.

Mr LI — Yes, certainly. As Kathryn mentioned, the ability for council as an organisation to engage with the community, to inform the community and to bring them along with the conversation about introducing a user-pays scheme — be it some sort of environmental services levy, paid parking, increasing access to the pool or whatever that may be — is always a difficult conversation as the elected councillors get lobbied all the time about cost-of-living pressures, if you will, and the impact they have. But one of the ways in which I think councils need to be a bit more responsive is the way in which they communicate the message. Quite typically we see along with your rates notice a pie chart saying out of every \$100 that you collect, \$60 might go to this, \$30 might go to that and \$5 might go to this. That is one way of communicating. Whether that is resonating with the actual ratepayers or not, I am not quite sure, whereas some alternatives have been put forward by one of the ex-council CEOs who asked what is wrong with saying, ‘Out of your rates you are paying for the library to open for X amount of hours, for X amount of square metres to be mowed and X square metres of parkland to be maintained’. Personalising the message may get a better buy-in. Again this is an area that from a council operational perspective needs to be looked at to essentially ensure that everybody is aware of what their rates go into.

Mr RIORDAN — Just a last question on compliance. We have talked a little bit today about red tape. I know in the health sector quite an extensive review is being done — the smaller the organisations you get in the country the greater the percentage of administration that is spent on state and federal government compliance, and we have got some small health organisations running at 30 and 40 per cent of their admin just on compliance. Have you done similar study research into the effect on our small regional shires and councils of a growing burden and cost pressure — whether it is climate change, whether it is state government initiatives, whether it is the environment or whatever it is?

Ms ARNDT — I cannot comment on with what the VLGA may have done prior to my arrival, but we have not done that piece of work recently.

Mr RIORDAN — Are those concerns coming through to you from shires the compliance cost?

Mr LI — It has not been communicated directly.

The CHAIR — I thank you both for your time this afternoon. We greatly appreciate you being here.

Witnesses withdrew.