

Parliament of Victoria, Environment, Natural Resources and Regional Development Committee Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils

Victorian Government Response

The Victorian Government welcomes the Legislative Council's Environment, Natural Resources and Regional Development Committee's Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils.

Rural and regional councils are important contributors to the liveability and productivity of communities through their role in the provision of services, infrastructure, local governance and leadership. In addition, councils are important partners with the Victorian Government in the provision of services and infrastructure across regional Victoria.

The Victorian Government concurs with many of the report's findings and notes the report's confirmation of many long-standing issues and challenges to the sustainability of Victoria's rural and regional councils.

The report's findings complement the findings of the Victorian Government's earlier Rural and Regional Councils Sustainability Reform Project (RRCSR) undertaken in 2017-18. This research and consultation across the State identified challenges and barriers to financial sustainability for rural and regional councils. This project proposed a suite of possible reforms and support to the local government sector to ensure long term financial sustainability and resulted in the establishment of the Rural Councils Transformation Program (RCTP). The Victorian Government has committed \$20 million to the RCTP.

It is noted that issues of rural council sustainability have received significant attention over many years in Victoria and across other Australian jurisdictions. The key importance of the Commonwealth Government's Financial Assistance Grants to rural and regional councils provides an additional, federal dimension to the challenges of financial sustainability. The Victoria Grants Commission has identified that as a consequence of the indexation freeze of Commonwealth Financial Assistance Grants, rural and regional councils have foregone \$125 million in revenue in the five years since the indexation was paused.

The Victorian Government implemented the Fair Go Rates system in 2015 as a key plank of its local government policy agenda. Placing a cap on rate rises was an important step toward financial discipline and alleviating cost of living pressures on communities. The policy was implemented in the context of rate rises that for the previous decade had risen by an average of 6 per cent annually across the local government sector.

Complementing the Fair Go Rates system is a range of Victorian Government support and assistance initiatives designed specifically for rural and regional local governments to develop new service delivery models and ways of working to better manage costs and find efficiencies. Sharing services, council

collaboration, improving organisational capability, improving service planning and local governance are the foundations for future financial sustainability of rural and regional councils. All these areas have been supported by the Victorian Government through a range of funding programs over the last four years. The Financial Accounting and Support Team (FAST) program and the Collaborating Councils program are two such programs supporting rural councils.

The Victorian Government is focussing on greater engagement with rural and regional communities through the implementation of Regional Partnerships. The partnerships provide opportunity for regional priorities to be determined and communicated directly to Government.

The Victorian Government supports Victoria's regional and rural economy by supporting a strong agriculture sector. This is delivered through policy, research, development, extension, regulation and market access and facilitation services to long established as well as new and emerging industries.

The Victorian Government notes the many submissions and respondents to the Inquiry. This reflects the deeply held passion and commitment many hold for rural and regional Victoria. It also reflects the central role of local government in making rural and regional Victoria a great place to live and work. The Victorian Government thanks the Committee for their report.

The Victorian Government's response to each of the Committee's 14 recommendations follows.

The Legislative Council’s Environment, Natural Resources and Regional Development Committee’s Inquiry into the sustainability and operational challenges of Victoria’s rural and regional councils was established on 6 May 2015.

The Terms of Reference of the Committee included, but was not limited to, the following:

- a) Local government funding and budgetary pressures;
- b) Fairness, equity and adequacy of rating systems;
- c) Impact of rate-capping policies;
- d) Capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure;
- e) Maintenance of local road and bridge networks; and
- f) Weed and pest animal control.

The Committee released its final report in March 2018 and made fourteen recommendations.

Recommendation 1				
That the State Government evaluate the rating system to identify changes that would improve its fairness and equity, while continuing efforts to reduce the overall rates burden. This could include: (a) considering whether mandatory differential categories should be implemented, (b) reconsidering the rule that the lowest rate can be no less than 25 per cent of the highest rate, and (c) considering whether rates for agricultural land should be calculated in a different way to other categories of land to reduce the very high rates paid by some farmers.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
This recommendation is supported in full.				
In its 2018 election commitment ‘Skills, Health and Safety for Victoria’s Agriculture Industry’, the Victorian Government committed \$11.2 million to grow agricultural industries through supporting improved business skills, on-farm health and safety, and fairness and equity in council support. This election commitment included a commitment to “undertake an inquiry into the council rating system to identify changes that will improve its fairness and equity – this is to ensure that the burden of rates falls fairly amongst all ratepayers”.				
The Minister for Local Government has initiated a comprehensive review of the Victorian local government rating system by establishment of a Ministerial Panel convened under S. 220A of the <i>Local Government Act 1989</i> . The Ministerial Panel on Local Government Rating will conduct a review of the local government rating system and will be responsible for:				
<ul style="list-style-type: none"> • leading consultation processes with councils, peak bodies, stakeholders and the community; 				

- reviewing current arrangements of the local government rating system and its application by councils;
- analysis and consideration of other models and arrangements for property-based taxation and charges applicable to municipal government;
- establishing principles and priorities for the future application of local government rates and charges in Victoria; and
- making recommendations to the Government about an optimal rating system for Victorian local government, recognising rates and charges are the primary own source revenue for councils.

The Terms of Reference for the review are sufficiently broad in scope to fully consider the local government rating system in Victoria in its entirety and its interaction with key pieces of legislation.

The Panel will establish principles and priorities for the future application of local government rates and charges in Victoria and will formally advise the Minister for Local Government on the optimal arrangements for local government rating and charges including legislative and non-legislative arrangements.

The Panel is to provide a report to the Minister for Local Government by 31 March 2020.

The government has previously recognised that the continued growth in local government rates substantially beyond what is reported as the annual Consumer Price Index places a burden on the cost of living for Victorians. It is for this reason that the government introduced the Fair Go Rates System, designed to put downward pressure on local government rates across the state.

The Fair Go Rates system is not within the scope of the rating review. Section 185G of the *Local Government Act 1989* requires a Ministerial review of the Fair Go Rates system by 31 December 2021. The Fair Go Rates system will be the subject of a separate review by this date.

Recommendation 2

That the Local Government Performance Reporting Framework be amended to include measures of the financial and social impact of rates on the community.

Victorian Government Response

Support in full	Support in part	Support in principle	Under review	Not support
			Under review	

Comment

This recommendation is under review.

The Local Government Performance Reporting Framework (LGPRF) currently provides for a number of performance measures, both financial and non-financial. An LGPRF Strategic Directions Paper 2018-2021 has been released for consultation with the local government sector. This paper examines amongst other things, the implementation of council-set performance targets against a number of performance indicators. Consultation on the Directions Paper will inform the response to this recommendation.

The Victorian Auditor General's Office has undertaken a performance audit on local government performance reporting that was tabled in Parliament in May 2019. The report emanating from that performance audit provides input into the LGPRF Strategic Directions Paper.

Recommendation 3				
That the State Government seek, through the Council of Australian Governments, an increase in the Financial Assistance Grant pool to compensate for inflation and population growth between 2013-14 and 2016-17.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
<p>This recommendation is supported in full.</p> <p>The Victoria Grants Commission has estimated that, in the five years to 2018-19, the total funding made available to Victorian councils as Financial Assistance Grants was approximately \$230 million less than would have been the case had indexation not been frozen in the 2014 Commonwealth Government budget. Ongoing, the annual grants pool of the Commonwealth's Financial Assistance Grants program will be approximately 12.5 per cent lower than it would have been if indexation had continued. Aggregate Financial Assistance Grants to rural councils in Victoria in 2018-19 will be at least \$30 million lower as a result.</p> <p>Despite the Commonwealth Government's indexation freeze, the Victoria Grants Commission has actively worked in recent years to increase the share of the available grants pool allocated to rural councils, recognising their relatively greater financial needs. Rural councils comprise 12.8 per cent of Victoria's population; however, in 2018-19, they will receive an estimated 44.7 per cent of the Financial Assistance Grants pool in recognition of their additional needs.</p> <p>The Victorian Government will continue to advocate to the Commonwealth Government for the need to increase funding to compensate for the freeze in indexation of the Financial Assistance Grants pool between 2013-14 and 2016-17.</p>				

Recommendation 4				
That the State Government seek, through the Council of Australian Governments, a guarantee from the Commonwealth Government that the Financial Assistance Grant pool will be indexed in future years in line with inflation and population growth.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
This recommendation is supported in full.				

It is noted that indexation of the national pool of Financial Assistance Grants resumed in 2017-18.

The Victoria Grants Commission has estimated that, in the five years to 2018-19, the total funding made available to Victorian councils as Financial Assistance Grants was approximately \$230 million less than would have been the case had indexation not been frozen in the 2014 Commonwealth Government budget. Ongoing, the annual Financial Assistance Grants pool will be approximately 12.5 per cent lower than it would have been if indexation had continued. Aggregate Financial Assistance Grants to rural councils in Victoria in 2018-19 will be at least \$30 million lower as a result. Ongoing indexation of the funding pool - in line with inflation and population growth - is essential to ensure the value of Financial Assistance Grants is maintained in real per capita terms as a minimum.

The Victorian Government will continue to advocate to the Commonwealth Government the need to guarantee future indexation of the Financial Assistance Grants pool to provide funding certainty and security to Victoria's rural and regional councils.

Recommendation 5

That the State Government seek, through the Council of Australian Governments, changes to Commonwealth legislation to reduce the proportion of the Financial Assistance Grant pool that must be distributed to councils based on their population, so that a larger proportion can be distributed based on councils' need.

Victorian Government Response

Support in full	Support in part	Support in principle	Under review	Not support
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Comment

This recommendation is under review.

The Victoria Grants Commission will continue to undertake analysis and provide advice to the Victorian Government on the future appropriateness of the minimum grant distribution principle and its impact on the allocation of Financial Assistance Grants to Victoria's rural and regional councils.

The Victorian Government will seek the views of the local government sector through the Municipal Association of Victoria (MAV) on this recommendation and will consider sector feedback before responding further.

Recommendation 6

That the State Government establish a new grants program designed to assist small rural councils to deliver core services. Grants through this program should be:

- (a) ongoing, to provide certainty to councils and assist with planning,
- (b) untied, so councils can use the money according to local priorities, and

(c) distributed by the Victoria Grants Commission according to councils' needs without councils being required to apply for the grants or provide co-contributions.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
This recommendation is not supported.				
The Victorian Government's preferred strategy to address these challenges is to provide targeted support programs to councils most in need to achieve positive, enduring reform that will lead to favourable financial outcomes for recipient councils.				
The Victorian Government has in the 2018-19 Budget allocated \$20 million for a new targeted funding program: the Rural Councils Transformation Program (RCTP). This program is designed to support and incentivise the implementation of transformational service delivery at a scale not previously possible. The RCTP is a competitive grant program available to all 48 rural and regional councils. It is designed to seed fund transformative projects requiring \$2 - \$5 million in funding and comprising three or more rural or regional councils. This targeted funding program will help improve the long-term financial sustainability of rural and regional councils that would not otherwise be able to invest in large-scale transformations.				

Recommendation 7				
That the State Government conduct a detailed review of councils' current responsibilities. This review should:				
(a) identify what services councils are currently delivering and what types of infrastructure they are currently managing,				
(b) identify which responsibilities councils are best suited to manage and which could be better managed by other levels of government (for example, roadside weed and pest animal control, floodplain management and flood mitigation infrastructure should be considered),				
(c) develop a clear set of core responsibilities that councils are expected to undertake, and				
(d) develop minimum service levels for councils' core responsibilities.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
This recommendation is not supported.				
The delivery of council services and infrastructure beyond legislated responsibilities is best determined by individual councils in response to the needs of their respective communities.				

The *Local Government Act 1989* requires councils to plan and respond to local needs and priorities. The variable characteristics and diversity of needs across Victoria’s 79 municipalities is not conducive to centrally determined core services or core responsibilities for all councils.

Where the State or Federal Governments have determined the need for a specific service to be delivered by all councils, this is generally reflected as a legislative requirement. Such legislated requirements are evident in areas including food safety, statutory planning, and road management. Legislative responsibilities are generally imposed where a universal, public good exists from delivery of the responsibility by all councils.

Councils can provide additional levels of service above legislated requirements to meet local community needs. Councils make such decisions in accordance with strategic objectives identified within Council Plans and budgets, which are developed in conjunction with local communities.

The comprehensive review of the *Local Government Act 1989* over 2015, 2016, 2017 and 2018 considered the identification of roles and responsibilities of local government. The review reaffirmed the distinct and essential role of local government as an independent tier of government, which is empowered to determine in conjunction with their communities, the range and quality of services provided to their communities.

Recommendation 8

That Local Government Victoria continue and expand efforts to facilitate councils finding efficiencies. This should include supporting information sharing between councils and facilitating shared service and resource arrangements where appropriate (including joint purchasing, shared service delivery, sharing staff and sharing equipment).

Victorian Government Response

Support in full	Support in part	Support in principle	Under review	Not support
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Comment

This recommendation is supported in full.

Councils across the State are already undertaking initiatives to find efficiencies through shared services and collaborative procurement. The review of the *Local Government Act 1989* identified a range of measures to make it easier for councils to expand these efforts.

As detailed in response to recommendation 6, the Victorian Government has allocated \$20 million for the Rural Councils Transformation Program (RCTP) to support and incentivise the implementation of transformational shared service delivery by councils at a scale not previously possible. The RCTP is a targeted, competitive grant program available to all 48 rural and regional councils. The program is designed to seed fund transformative projects across three or more rural or regional councils. This funding program will help improve the long-term financial sustainability of rural and regional councils who would not otherwise be able to invest in large-scale shared service delivery.

The RCTP complements a range of other programs currently supporting councils to improve shared services and efficiencies. These programs include the:

- Collaborative Councils - Sustainability Fund Partnership Program, and
- Finance and Accounting Support Team Program (FAST program).

Since 2016-17, both these programs have allocated over \$1.8 million to seed fund business cases and feasibility studies towards council shared services and collaboration, chiefly in rural and regional Victoria. Thirty-two collaborative projects with a total value of \$3.8 million have been funded by Government. Projects include:

- Shared IT services for 3 rural councils to reduce costs and improve services,
- Shared rural council waste transfer facilities to improve services and infrastructure co-investment,
- Regional workforce planning for rural and regional local governments, and
- Waste to energy micro networks for a regional approach to organic waste management.

The results and lessons learnt from these programs are shared across the local government sector.

Recommendation 9

That the State Government make grants available for councils wishing to investigate and establish shared service and resource arrangements or to bring in experts to identify potential efficiencies. The grants should assist councils with the costs of identifying potential arrangements and working with other councils to put them in place. To be eligible for these grants, councils should be required to have independent experts review their operations to identify efficiencies at least once every four years and to make the results of these reviews publicly available.

Victorian Government Response

Support in full	Support in part	Support in principle	Under review	Not support
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Comment

This recommendation is supported in part.

Rural and regional councils are already pursuing shared services and resource sharing through current grant programs. The Victorian Government supports rural and regional councils to drive financial efficiencies via the Collaborative Councils - Sustainability Fund Partnership Program and the Finance and Accounting Support Team (FAST) Program. These competitive grant funding programs complement ongoing council efforts to enter into joint purchasing and shared services arrangements.

As described above, the Victorian Government’s \$20 million Rural Councils Transformation Program is providing funding for implementation of transformative initiatives in shared services and joint procurement in rural and regional councils. It is intended that this program will embed substantial collaboration in service delivery.

An independent, four-yearly review of council operations is not supported.

All councils are required by legislation to prepare a four-year Council Plan by 30 June following each general council election. The community must be consulted in the preparation of the Council Plan. The Council Plan sets out a council’s strategic goals, objectives and priorities. This represents a comprehensive and transparent approach to setting council objectives, expected outcomes and the associated allocation of resources. The introduction of regular independent reviews of council operations would introduce an additional financial and reporting burden on rural and regional councils and is therefore not supported.

Recommendation 10

That the State Government continue and expand efforts to grow the population and economy of regional Victoria, especially in the more remote rural areas. Among other things, these efforts should include job opportunities and infrastructure to make areas liveable and to enable businesses to succeed.

Victorian Government Response

Support in full	Support in part	Support in principle	Under review	Not support
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Comment

This recommendation is supported in full.

We are getting on with delivering the things that are important to rural and regional Victoria. We are delivering a range of initiatives that will benefit regional and rural Victorians building on more than \$13 billion of investment over the past four years. These efforts have seen more than 60,000 new jobs in regional Victoria since November 2014.

We inherited a regional unemployment rate of 6.6% from those opposite which now sits at 4.2% - the lowest regional unemployment rate nationally. In three months to March alone, Victoria's regional areas bucked the national trend, gaining more than 6,000 jobs, while nationally, regional jobs fell by 7,300.

The Victorian Government remains committed to attracting regional population and investment, ensuring our regions share in Victoria's growth. The Government invests in key drivers of population, jobs and infrastructure.

In 2016 the Victorian Government established the nine Regional Partnerships recognising that local communities are in the best position to understand the challenges and opportunities faced by their region. Regional Partnerships consult and engage with their communities to identify priorities for their regions and to develop collaborative solutions to local problems. The Partnerships provide advice directly to the Victorian Government about these regional priorities, so they can then be considered in government planning, policies and programs.

The 2019-20 Budget continues our commitment, with the brand- new Delivering for Regional and Rural Victoria Program. This \$2.6 billion investment is dedicated to ensuring a whole-of-government focus on the needs of our regional communities, and this will support an estimated 4 500 jobs. With investments in local projects and local priorities, this Program will help make sure we continue to deliver for regional Victorians and includes;

- \$424.7 million for additional roadworks across regional Victoria to improve journey time and travel satisfaction;
- \$340 million to purchase 54 new VLocity carriages to meet the increasing demand on the regional rail network;
- \$166.2 million for a multi-jurisdictional regional headquarter court facility for Bendigo and the Loddon Mallee region;
- \$128 million for the third and final stage of the Geelong Performing Arts Centre redevelopment;
- \$100 million to boost the Regional Health Infrastructure Fund to enable regional health services to respond to local priorities and enhance service delivery;

These initiatives complement the Government's broader reforms to the business environment in regional Victoria which include:

- providing further tax relief to rural and regional businesses to create new regional jobs, by reducing regional payroll tax rate to 1.2125 per cent, or 25 per cent of the metropolitan rate by 2022-23;
- increasing the payroll tax free threshold to \$700 000 by 2022-23;
- introducing a land transfer duty concession for purchasers of commercial and industrial property in regional Victoria.

Recommendation 11				
That councils take more opportunities to communicate the level of subsidy provided by councils for services. For example, councils should consider including information when people pay indicating how much of the service is covered by user charges and how much it is subsidised from other sources.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
This recommendation is supported in full.				
Currently there is no impediment to councils taking action to communicate levels of subsidy in service delivery.				
The Victorian Local Government Model Budget is published each year by the Department of Environment, Land, Water and Planning to assist councils in preparing annual budgets in accordance with Australian Accounting Standards and legislative requirements. The Model Budget also assists councils to be transparent in reporting their financial arrangements as part of the annual budgeting process.				
The Government will continue to develop 'better practice' guidance for the local government sector to assist councils in determining and communicating costs of service delivery.				

Recommendation 12				
That, following the review of council responsibilities set out in Recommendation 7, the Local Government Performance Reporting Framework be amended to require councils to report on the proportion of their expenditure used to deliver core services and infrastructure compared to the amount spent on discretionary services and infrastructure.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
This recommendation is not supported.				
As detailed in the response to Recommendation 7, the delivery of council services and infrastructure beyond legislated responsibilities is best determined by individual councils in response to the needs of their respective communities.				
Where the State or Federal Governments have determined the need for a specific service to be delivered by all councils, this is generally reflected as a legislative requirement. Such legislated requirements are evident in areas including food safety, statutory planning, and road management. Legislative responsibilities are generally imposed where a universal, public good exists from delivery of the responsibility by all councils.				

The Local Government Performance Reporting Framework requires reporting against a selection of services which are required by legislation. Services include:

- Food safety assessments made under the *Food Act 1984*
- Planning applications decided within required statutory time frames under the *Planning and Environment Act 1987*
- Health inspections of aquatic facilities in accordance with the *Public Health and Wellbeing Act 2008*.

Councils can provide additional levels of service above legislated requirements to meet local community needs. Councils make such decisions in accordance with strategic objectives identified within Council Plans and budgets, which are developed in conjunction with local communities.

Increasing reporting obligations on councils under the Local Government Performance Reporting Framework would impose additional compliance and administrative costs on rural and regional councils.

Given the challenges associated with the identification of core and discretionary services detailed in the response to Recommendation 7, the Government does not support this recommendation.

Recommendation 13				
That Local Government Victoria work together with other government bodies to investigate data-sharing processes that could reduce the reporting burden on local councils without compromising accountability.				
Victorian Government Response				
Support in full	Support in part	Support in principle	Under review	Not support
Comment				
This recommendation is supported in full.				
Work has commenced with the release of the Local Government Performance Reporting Directions Paper 2018-2021 to improve data sharing and automation of reporting with the objective of reducing the reporting burden on councils. Reforms arising from the Directions Paper are also expected to boost accountability for service performance by councils while decreasing costs and improving data accuracy.				

Recommendation 14				
That, when establishing grants programs requiring co-contributions, the Government consider additional use of varying funding ratios for different council categories, including setting no co-contribution requirements for small rural councils, where possible and appropriate.				
Victorian Government Response				

Support in full	Support in part	Support in principle	Under review	Not support
<p>Comment</p> <p>This recommendation is supported in full.</p> <p>The Government currently offers a range of programs with variable funding ratio arrangements that benefit small councils, including:</p> <ul style="list-style-type: none"> • The Living Libraries Infrastructure Fund grant program does not require matching funding from small rural councils whilst different funding contributions are required from other council categories, • The Free from Family Violence funding program does not require matching funding from small rural councils, and • The Rural Councils Transformation Program (RCTP) does not require any matched co-contribution by councils. This program is available to rural and regional councils only. <p>The Government will continue to consider other grant funding opportunities to implement this recommendation, as appropriate.</p>				