



Alpine Shire Council
Benalla Rural City Council
Greater Shepparton City Council
Indigo Shire Council
Mansfield Shire Council
Mitchell Shire Council
Moira Shire Council
Murrindindi Shire Council
Strathbogie Shire Council
Towong Shire Council
Wangaratta Rural City Council
Wodonga City Council

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INQUIRY INTO THE SUSTAINABILITY AND OPERATIONAL CHALLENGES OF VICTORIA'S RURAL AND REGIONAL COUNCILS

Hume Region
Local Government Network

September 2016

Ms Bronwyn Halfpenny MLA
Chair
Environment, Natural Resources and Regional Development Committee
Parliament House
Spring Street
East Melbourne VIC 3002

26th September 2016

Dear Ms Halfpenny

Thank you for the opportunity to provide a Submission for the *Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils* on behalf of the Hume Region Local Government Network (HRLGN). We also appreciate the time extension that was granted to HRLGN in recognition of the number of councils represented by the Network.

HRLGN's twelve council members are a diverse group, with their own opportunities and challenges. These councils are:

- Alpine Shire Council
- Benalla Rural City Council
- Indigo Shire Council
- Greater Shepparton City Council
- Mansfield Shire Council
- Mitchell Shire Council
- Moira Shire Council
- Murrindindi Shire Council
- Rural City of Wangaratta
- Strathbogrie Shire Council
- Towong Shire Council
- City of Wodonga

A snapshot of each council is provided in this submission.

While some of our members may also make submissions on behalf of their individual council, this submission reflects our shared, regional perspective.

We acknowledge and applaud the focus of the State Government on rural and regional Victoria. We vigorously maintain that strong, viable local governments are critical to the success of the State Government's strategies for regional development. We believe this inquiry will be critical to ensuring Government's understanding of the challenges faced by many rural and regional councils in Victoria to their ongoing sustainability.

For further information, please contact Tony McIlroy, Secretary of the Network by phone on

[REDACTED]

Yours sincerely

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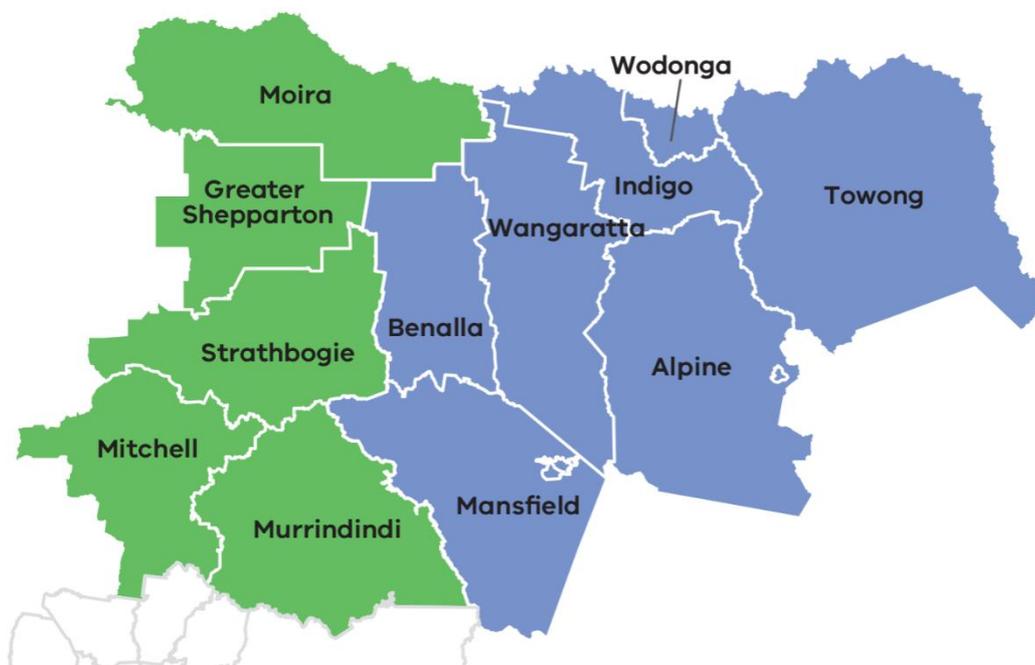
Cr Justin King
Chair
Hume Region Local Government Network

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

Introduction

The Hume Region covers over 40,000 sq kms of rural and Regional Victoria. It encompasses twelve municipal areas and most of Victoria’s Alpine Resorts.

- Alpine Shire Council
- Benalla Rural City Council
- Indigo Shire Council
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The combination of both rural and regional locations within Hume Region provides a diversity of life experiences and priorities for our communities. The variety of landscapes, three regional centres, differing levels of access to services and infrastructure, various approaches to land use planning and a range of economic and social drivers also provide a range of expectations and outcomes for communities and the environment.

The following table provides a snapshot of each council in the Hume Region Local Government Network (HRLGN), including current population, forecast population growth and land area. Overall population growth for the Hume Region is predicted to be 39% to 2031, higher than the rate projected across Victoria.¹ It is clear from the figures in the table that significant growth rates are mainly around the larger regional cities such as Shepparton and Wodonga, and in the interface Local Government Area (LGA) of Mitchell. Small rural LGAs such as Towong Shire have limited capacity for growth, and therefore of increasing their revenue internally.

LGA	Pop. (2011)	Projected pop (2031) ²	Land area (km ²)	Road n'work (kms) ³	Av. age (years)	LOTE	Unemp. rate (Sept 15)	Main industries
Alpine	12,138	12,499 (2.8%)	4,787	597	48.2	8.8%	4.4%	Accomm. & Food Services Retail Trade Health Care & Social Assistance
Benalla	13,279	14,144 (6.1%)	2,375	1,348	47	2.9%	7.2%	Health Care & Social Assistance Manufacturing Retail Trade
Greater Shepparton	62,352	77,974 (20%)	2,421	2,497	37.9	12.5%	6.9%	Health Care & Social Assistance Retail Trade Manufacturing
Indigo	15,377	16,937 (9.2%)	2,044	1,567	44.8	2.2%	4.7%	Manufacturing Health Care & Social Assistance Retail Trade
Mansfield	8,067	10,043 (19.6%)	3,843	804	45.5	4.1%	3.7%	Accomm. & Food Services Retail Trade Education & Training
Mitchell	36,244	86,038 (58%)	2,864	1,473	37.1	5.7%	7.8%	Manufacturing Construction Public Administration & Safety
Moira	28,675	31,665 (9.4%)	4,045	3,654	44.5	4.7%	5.8%	Agriculture, Forestry & Fishing Manufacturing Health Care & Social Assistance
Murrindindi	13,434	16,161 (16.8%)	3,889	1,202	45.5	3.3%	5.1%	Construction Health Care & Social Assistance Agriculture, Forestry & Fishing
Strathbogrie	9,660	11,108 (13%)	3,302	2,243	49.8	2.7%	5.3%	Agriculture, Forestry & Fishing Health Care & Social Assistance Manufacturing
Towong	5,949	5,766 (-3%)	6,673	1,183	48	1.8%	6.0%	Agriculture, Forestry & Fishing Health Care & Social Assistance Construction
Wangaratta	27,236	29,435 (7.4%)	3,639	1,949	43.2	4.6%	6.4%	Health Care & Social Assistance Manufacturing Retail Trade
Wodonga	36,626	51,428 (28.7%)	433	500	34.8	4.7%	7.6%	Manufacturing Public Administration & Safety Health Care & Social Assistance

¹ Gilmour, T., Hume Region Housing Affordability Review, Housing Action Network, 2012

² Know Your Council website, www.knowyourcouncil.vic.gov.au, accessed 19/9/2016

³ Parliamentary Inquiry into Rural and Regional Councils, Municipal Association of Victoria, 2016

Victoria's Regional Statement

"Victoria's economy would be nothing without our regions."⁴

The Victorian Government has expressed a strong commitment to Regional Victoria. Victoria's Regional Statement (2016) shows a clear commitment by the Government to work for and with regional communities. It recognises that every region and community across the state is different, and that every community has its own aspirations, opportunities and challenges.

Importantly, the Statement recognises that the opportunities and challenges facing regional communities are 'complex and intertwined, and that a narrow, sectional view of the world will not take us where we need to go'. The Statement recognises that a 'one size fits all' approach often doesn't work. We support this assertion, as it is certainly the case amongst the communities in Hume Region, and the varied approaches councils take in developing plans and strategies on behalf of their communities.

We believe that councils are key partners with the Government in their plans for rural and regional Victoria. Councils provide the interface between community and government at the local level; this is particularly the case in rural areas where council staff interact with the community on a daily basis (for example, in the supermarket, walking the dog).

We acknowledge the significant work that is already taking place in terms of education, family violence, road safety and economic development, and the potential for these and other government strategies to create positive change in regional Victoria.

We acknowledge the formation of the Regional Partnerships structure and the important role of HRLGN members in the Goulburn and Ovens Murray Partnerships.

However, without strong and viable rural and regional councils we feel that the success of the State Government's strategies for regional development will be limited.

⁴ Victoria's Regional Statement, 2016

Local Government funding and budgetary pressures

Communities living in rural and regional Victoria expect to receive a high level of service, and we as councils in Hume Region aim to provide those services. These include:

- A safe, cost effective road network
- Community infrastructure such as sporting facilities, swimming pools and libraries
- Flood mitigation infrastructure
- Rubbish collection and disposal
- Home and Community Care
- Emergency response and management
- Arts and cultural infrastructure and activities
- Youth and family services

Many of these are essential services, legislated under the Local Government Act 1989. Others are non-essential, but make a significant contribution to resilient and sustainable communities, and help to make regional Victoria an attractive place to live.

The Regional Statement identifies the:

- Importance of tourism and the Visitor Economy, including arts and cultural facilities
- Importance of improvements to road productivity to benefit regional producers
- Need for stronger place-based approaches to addressing disadvantage

Local government plays a critical role in all of these areas, even though they may not provide direct services. A good example of this is the role of local government in the prevention of family violence. Whilst not having responsibility for this as a law and order issue, councils recognise their role in creating an environment where 'locals look out for each other, respect every family and faith, and celebrate our differences.'⁵ This is an integral part of the place-based community development function of every council in the HRLGN; how well strategies are implemented and sustained depends to a large degree on the availability of ongoing funds and resources.

Another example is the provision of youth services by councils. As identified in the Regional Statement, young people in rural and regional Victoria are at higher risk of being socially isolated. Many councils in the HRLGN are proactive in working with young people, and incorporate youth services into their community development strategies. However, with limited resources this is an area at risk of service reduction.

Building resilience is a critical part of any strategy relating to community wellbeing, including drug and alcohol abuse, community safety and response to natural disasters. The Regional Statement says that government and local communities need to work together to deliver the projects and services that will bring more jobs and families to regional Victoria, and create a vibrant and sustainable regional economy. We need to keep in mind that Local Government is an important part of this equation!

Extensive analysis undertaken by the Municipal Association of Victoria (MAV) using data from the late 1990s onwards identifies that rural and regional councils are more likely to face financial difficulties than metropolitan councils. This is basically due to two important facts:

1. Rural and regional councils have less ability to raise revenue per head of population
2. Rural and regional councils have higher costs per head of population

⁵ Victoria's Regional Statement, 2016

Councils in Hume Region have a more limited ability to raise revenue through rates and other charges than metropolitan councils. For example, Mitchell Shire forecast that rates for 2015/16 contribute 55% of all revenue. Towong Shire rates and charges contribute between 30-35% of all revenue. The experience in Hume Region is confirmed by data from MAV, which shows that most rural and regional councils have a higher reliance on non-rate revenue than their metropolitan counterparts, the majority of which generate between 60% and 80% of their income through rates.

Most of the HRLGN members receive a greater per head allocation of Commonwealth funding through the Financial Assistance Grants (FAG) program than metropolitan councils. There is recognition through this program for councils with a lower rate base, lower property values and higher levels of disadvantage, which describes many of the councils in Hume Region. The recent decision to cease indexation of the FAGs will create significant budgetary pressures for many of our members. The Rural City of Wangaratta has estimated that this will have a \$11M cumulative impact over 10 years.

We are seeing an increasing reliance on external funding (special and general purpose grants from State and Commonwealth; project funding). However, grant availability is decreasing and becoming more competitive, requiring additional time and resources to write successful applications. There is a much greater expectation that projects will involve a range of partners, which in itself is a positive, but requires considerable time and expertise to do effectively and sustainably.

Whilst we believe that it is generally a positive to bring project-based funds into our communities to assist us in the work we do, we feel there is a weakness with this model that is generally overlooked by both State and Commonwealth Governments. Where a project results in infrastructure or a program that requires ongoing resourcing and investment at a local level, there needs to be realistic expectation of how the project results will remain sustainable, and the role that councils may have in that. The increasing budgetary constraints that our councils are experiencing limit councils' ability to support these kinds of community projects. An example of this is in Murrindindi Shire, where the council is faced with the cost of maintaining extensive community infrastructure built after the Black Saturday fires. Another example is the Benalla Street Art project which is currently supported by Benalla Rural City (BRC) as well as through grants and donations from government and community members, but may be something that Council is requested to provide funding for in future.

Cost shifting that is currently happening in areas such as flood management; reduced state share of expenditure in areas such as Maternal and Child Health services, libraries, school crossing supervisors and weed and pest control; additional legislative requirements such as the management of landfills; and additional administrative requirements such as reporting of food safety regulations, coupled with the impact of rate capping and the reduction in special grants funding, places additional pressures on council budgets, and increases the costs per head of population. A greater level of detail is provided in the MAV response to this inquiry; however, for the councils in the HRLGN some specific examples include:

- Benalla Rural City – increased cost of landfilling (cell development, gas management, capping and rehabilitation and annual monitoring and reporting)
- Indigo Shire – increased costs from changes to waste water legislation

What we are starting to see amongst our member councils is that these financial challenges are becoming apparent through the deterioration of infrastructure, particularly roads, footpaths, and bridges. Whilst most councils have gone through significant internal restructures, resulting in staff cuts and in some cases cuts to services, we know that this will be an ongoing issue that will potentially lead to increased financial vulnerability of many of our members.

Fairness, equity and adequacy of rating systems

The main point we would like to make in this area is that a 'one size fits all' approach is not appropriate for rural and regional councils. The rating systems must take into account the differing capabilities, requirements and priorities of the communities the councils represent.

Our member councils undertake an assessment of all options other than rate increases when annual budgets are developed; increasing rates is generally not popular with landholders so this is undertaken with due consideration and caution.

Councils have various tools available to apply their chosen definition of 'rating equity' into an operation system. These are detailed in the MAV response to this inquiry. For our members, other than the issue of rate capping, which is addressed in the following section, the main point in relation to the rating system is that councils have flexibility in how they are developed and applied. Rating should be set in line with individual councils' rating strategy, which in turn should be developed in consultation with the community. It is increasingly important that communities fully comprehend what local government is expected to provide in terms of services, and the impact of reduced rate increases.

Impact of rate-capping policies

Much has already been written in relation to the rate capping policies, including submissions by several of the HRLGN members.

There is general support for a robust and transparent framework that justifies rating and other financial decisions. All forms of government need to be accountable to the citizens they serve, and we acknowledge the need for councils to be accountable and transparent to their communities when rates are set. However, we strongly contend that CPI is not an appropriate indicator of local government costs. The cap based on CPI makes no consideration of the unique characteristics of each Council.

Many councils in HRLGN have been proactive in reviewing their structure and making significant cuts to expenditure. This includes reduction of staff numbers and rationalisation of some services. The positive is that in most cases this has led to greater efficiencies. The negatives are that some services can no longer be delivered or have been reduced, and remaining staff are put under additional stress. This is a particular risk in the areas of community development, which are often the programs and services where the outcomes are less visible and/or longer term. For some councils the immediacy of programs relating to community development are less pressing than ensuring roads remain open and safe. We have some concerns that there may be a refocussing from more financially vulnerable councils toward a more 'roads, rates and rubbish' approach, with less focus on social cohesion and community development.

An excellent example of the impact of rate capping on all councils in the HRLGN is the maintenance of local roads and bridges, which is the responsibility of Local Government. The 2015/16 CPI increase of 2.5% is significantly less than the increase to costs related to road and bridge maintenance. This includes salary; utilities, contractors, building material, road materials and delivery costs. So whilst there may be some short-term savings to the community in terms of their rates, there is a longer-term cost in the deterioration of the assets which will require extensive rehabilitation in the future. This cost needs to be covered somehow. Exactly how remains a big question.

All councils in the HRLGN are impacted by the following factors to some degree or another:

- Remoteness
- Low or no population growth
- Geographic size
- Extensive road networks and proportionally higher infrastructure portfolios
- Relatively small rate base in relation to the geographic
- Financial sustainability
- Higher dependence on external grant funding
- Socio-economic status impacts
- Increasing risk and impact of natural disasters, particularly fire and flood

These factors mean councils are more susceptible to financial pressures and make it more difficult to correct and/or recover from financial challenges.

In addition, the timing of the annual approval of the rate increase based on CPI allows for little long-term budget certainty.

We acknowledge the recent review of the rate capping system, and the Second Report into Rate Capping Policy produced by the Legislative Council, Environment and Planning Committee (June 2016). Some issues raised in this response, and in the earlier responses of our members and other councils in Victoria, have been considered in this report, and recommendations put forward. We also understand that the rate capping policy will be reviewed by the Committee on a six-monthly basis. We hope that issues raised in this response will be considered at the next review in December 2016.

We believe that a standard cap based on CPI is not sustainable, as expenses increase at a higher rate than rate income. There may be some support from our members for rate capping that considers different types of councils eg metropolitan, growth, rural and interface. We also acknowledge that councils can apply for variations to the annual cap; however, this requires considerable resources to go through the application process, which can be off-putting for councils that are already stretched.

Capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure

Flooding impacts on several councils in the HRLGN. The risk of flooding is set to increase, with climate change impacting on the magnitude of events such as flood and fire.

The recent shift of responsibility to local government in relation to flood levee maintenance and responsibility is potentially the biggest impact the flood prone councils will have to cope with. No one estimated the cost of the assets, the condition of the assets or the future liability before this process was put in place. This increases risk exposure for councils where they are now maintaining a Flood Levee (for example, Rural City of Wangaratta).

The accountabilities prescribed in the Victorian Floodplain Management Strategy have not been provided for in the budgets of councils such as RCOW, and will require the sourcing of additional resources, including additional government funding.

Indigo Shire has spent hundreds of thousands of dollars in one town alone on flood mitigation infrastructure. This has only been achievable with external funding assistance but Council is now

faced with additional infrastructure which it has a responsibility to maintain. These new maintenance responsibilities are not sufficiently budgeted for. The current environment, particularly rate capping, makes it difficult to expand or increase maintenance services.

Indigo Council also plays an important role in supporting SES. For a number of years, Council has provided direct financial support (~ \$40k pa) for local SES units based on a historic arrangement. Exiting from this arrangement has been considered by a number of rural Councils, including Indigo, but has very strong community and political ramifications.

In addition to the annual cash contribution, some councils provide other support to SES including provision of depots and facilities at no cost to SES, and critical response support in times of emergency. This does place pressure on Councils and this support is never without a reduction in another service area.

In addition, the implementation of the Murray Darling Basin Plan will have a significant impact upon business and rural landholders as well as local government through increased infrastructure costs and reduced revenue in the Upper Goulburn catchment. Murrindindi, Mitchell and Strathbogie Councils will be particularly affected. These costs have been significantly underestimated in the current Constraints Management Strategy work.

Maintenance of local road and bridge networks

As described in our earlier response to the question of local government funding and budgetary pressures, the maintenance of our local road and bridge networks is an area of increasing cost which is not matched by rate increases or FAGs.

There is increasing pressure on the local road and bridge networks caused by:

- Increased road usage from all vehicle types
- Extreme weather events & increased frequency of flooding – road culverts and bridges require upgrading to continue to provide the same service outcomes; additional water causes degradation to the road surfaces and structure
- Increased number of heavy vehicles provides additional pressure on roads and bridges
- Growth of asset base – growth of road network is proportional to subdivision and development activity, but bridges growth (particularly pedestrian & cycle bridges) is proportional to investment in pedestrian/cycle trail infrastructure. The impact will be more significant as the infrastructure ages.

Our members are concerned that in the medium to long term, the quality of local rural and regional roads and bridges will deteriorate to such a degree that the safety of communities will be placed at risk, and the productivity of our region will be reduced. Rural City of Wangaratta has estimated that by 2020 their asset renewal gap will be \$1.8M and will continue to grow.

The issue of maintenance does not only apply to roads and bridges, but to all council-owned assets. This includes community centres, sporting facilities, swimming pools, footpaths, libraries, performing arts centres and galleries.

Weed and pest animal control

Like asset management, weed and pest animal control is an issue that, if not managed well and with adequate resourcing, will lead to considerable degradation of private and state-owned land in the medium to long term. Lack of weed control on some roadsides can also increase fire risk.

Local Government is now responsible for weed and pest management on a number of roadsides. The current state funding for this responsibility is felt to be inadequate, and the fact that it is allocated on a short-term basis does not allow for long term planning and community engagement. Our members fear that without adequate long-term funding, supported by compliance and enforcement activity for pest and weed control on private land, this will become an issue with long term consequences, particularly for agriculture and tourism.

In Rural City of Wangaratta, the weed and pest control program has been well supported by the community and adjacent land holders, who work closely with Council to achieve more effective pest control outcomes. Without funding, the progress made will be lost, leading to reduced productive capacity of agricultural land and community frustration.

Benalla Rural City has invested a significant amount of its own resources to prepare the Roadside Weed and Rabbit Control Plan, and implementing on-ground works funded through the existing program. This extensive plan will become toothless without adequate funding.

Murrindindi Shire Council has estimated that it would require a further \$400,000 to manage regionally significant weeds.

Indigo Shire Council manages approximately 3,200km of roadsides; 40% of these roadsides have a High to Medium Conservation value. Weeds and rabbits significantly affect the biodiversity within these areas and with 70% of the shire under private ownership, these areas are becoming significantly more important for protecting the shire's natural environmental assets. The nature of these long linear roadsides mean that the areas are under severe environmental pressure from weeds and pests. Roadsides supporting native vegetation are an important link between isolated pockets of vegetation and habitat, providing corridors for wildlife and sources of native seed collection. As a result roadsides are identified as significant biodiversity assets, which are at threat from inadequate resourcing.