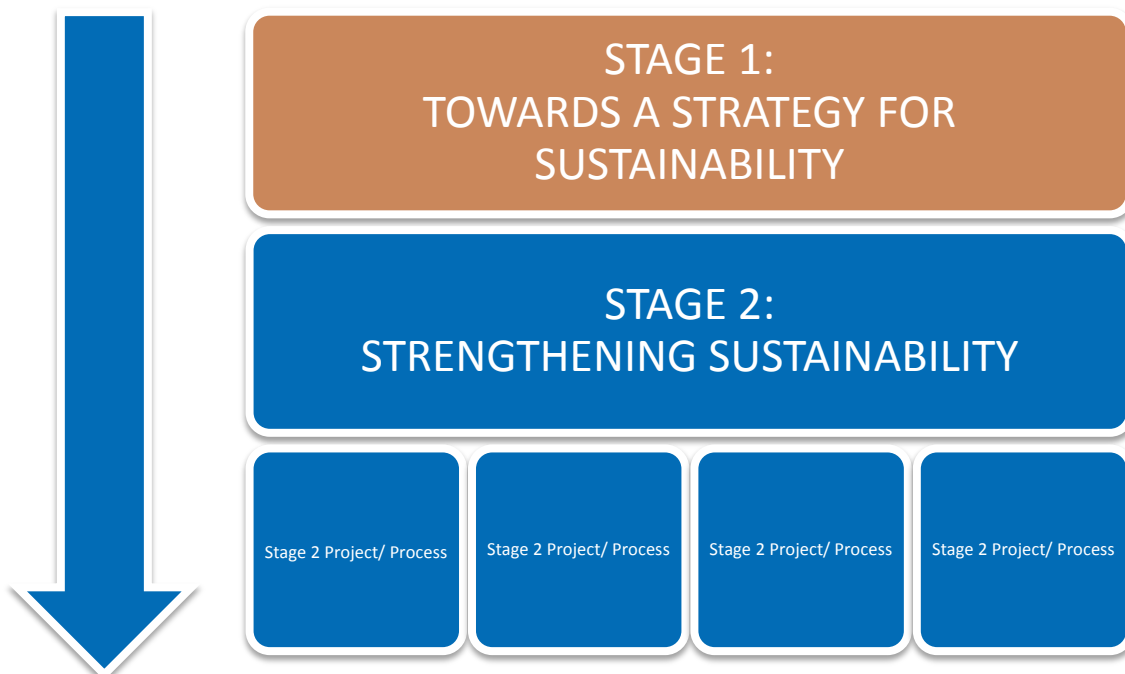


Introduction to the Rural Council Sustainability Project

Within a complex policy environment, Rural Councils Victoria (RCV) is seeking to support rural councils to build capacity and improve performance with the assistance of the Victorian State Government (Regional Development Victoria (RDV) and Local Government Victoria (LGV)). RCV wishes to support rural councils' elected members and senior staff to demonstrate their leadership in embracing opportunities within local and across regional boundaries, manage the changing demands and expectations of stakeholders, and maximise triple bottom line sustainability.

The Rural Council Sustainability Project aims to strengthen the sustainability¹ of RCV constituent councils through a two-part process as show in Diagram 1 below.

Figure 1: Rural Council Sustainability Project Methodology



Stage 1. Towards a Strategy for Sustainability

The Australian Centre of Excellence for Local Government (ACELG) has been engaged by RCV to conduct the first stage of this project. A critical first step in building strategic capacity to address sustainability is the process of developing sector agreement on the key issues and challenges that

¹ The term sustainability is used here as per the definition in the Victorian Local Government Performance Reporting Framework and Indicators Working Paper (May 2013):
Sustainability is about having the capacity to deliver services, absorb changes and shocks and make decisions in the best interests of the community over the long term. This includes:

- > *Meeting the agreed service needs of the community*
- > *Absorbing foreseeable changes and unexpected shocks without having to make disruptive revenue or expenditure adjustments*
- > *Having strong governance and management frameworks in place covering community engagement, planning, monitoring, reporting and decision making.*

are to be addressed. This will ensure there is common understanding, and will facilitate agreement on the key steps to be taken to address the issues and challenges.

This summary paper is the starting point for discussion and engagement with RCV constituent councils and stakeholders, to further explore the issues that impact the financial and operational sustainability of rural councils². The summary paper synthesises existing empirical work as a basis for developing shared agreement on the following:

- > A detailed, consensual portrait of the 38 rural Victorian councils, demographically, spatially and financially.
- > Key areas for building strategic capacity and more effective local government.

Agreement on the current state of play, and the key priority areas for building strategic capacity to address sustainability, will position RCV to lead Victoria's rural councils in addressing the issues through a series of effective, well-targeted projects and processes which will form Stage Two of the project.

Demographics and Workforce Data

The following are key findings from the review of demographic data, population projections and workforce data for RCV's 38 constituent councils. The demographic data is based on data from the Australian Bureau of Statistics (ABS) 2006 and 2011. The full analysis provides a high level overview of key characteristics for each of the 38 councils, comparing changes between 2006 and 2011.

Demographics

- > Some of the 38 rural councils in Victoria are encountering challenges as a result of small populations and demographic change which impact on their capacity and capability to plan for and adapt to change.
- > Large councils generally experienced higher population growth rates than small councils from 2006 to 2011.
- > Some small councils have experienced high population decline from 2006 to 2011.
- > With the exception of Mitchell Shire (37 years old), the median age for all councils reviewed as part of this demographic analyses were above the median age for Victoria at 2011.

Population projections and migration trends

- > From 2013 to 2051 the population of Victoria's regions is expected to grow from 1.4 million to 2.2 million.
- > Within Regional Victoria, population growth will be greatest in the regional centres, areas on the borders of Melbourne, and areas with significant amenity attractors such as coastal or riverfront locations.
- > Population projections show significant parts of rural Victoria experiencing no or negligible growth over the coming twenty years.
- > In terms of average annual percentage change from 2011 to 2051, population growth is projected to be highest in the Ballarat, Bendigo and Geelong regions.

² A separate, detailed discussion paper with accompanying data tables, references and maps supports this document and is available for further viewing. This discussion paper provides some context with regards to the changing nature of local government, and draws on ACELG's work to date.

- > In terms of average annual percentage change from 2011 to 2051, population growth is projected to be slowest in the Warrnambool and South West, North West, and Shepparton regions.
- > Youth migration from regional Victoria to the city is occurring for education and career opportunities and as well as many young people regarding 'moving to the big smoke' as a 'rite of passage'.

Local Government as a place-based employer

Local government plays a significant role in generating local employment, particularly in small rural councils with limited population and greater distances to regional centres. Discussion between ACELG researchers and key local government stakeholders revealed that within many RCV councils there are also significant community expectations with regards to local government as an employer of choice, particularly with regards to front of house operations such as the outdoor workforce and Home and Community Care.

Financial Profile

The following are key findings from the review of RCV council's financial sustainability:

- > Data presented in Victorian Auditor General's Office Report (VAGO 2013a)³ is not adequate to form the basis of assessing the financial situation of constituent councils, although it provides some useful insights about small councils in Victoria, including:
 - Councils' reliance on grant income 'had more than doubled' in the past five years, despite an increase in own-source revenue.
 - The long term financial plans of the audited councils 'varied in quality'.
 - Service delivery reviews had focused on identifying 'cost savings' rather than being informed by an 'adequate understanding of community needs'.
 - Changes to the demographic profiles of councils, in particular ageing, represented significant challenges.
 - Payment of defined benefit superannuation entitlements of staff represented a significant financial burden, and
 - Adequate support and guidance needs to be provided for these councils, in particular by LGV.
- > When combined, data from VAGO (2013b)⁴ demonstrates that overall the councils are financially sustainable, with the following useful insights:
 - 'Small Shires' 'are the most vulnerable as their ratepayer bases are smaller, making them highly dependent on government funding to maintain their operations', and that 'their reliance on government funding exposes them to the potential for higher financial risks in the future'.
 - Of the 38 councils, 36 were assessed as 'Low Risk' in the 'Underlying Result' indicator.
 - Several of the indices returning 'Medium' or 'High' risk are explained in the VAGO Report (2013b) as being due to particular circumstances, such as borrowing to cover the defined benefit superannuation funding, timing of natural disaster funding and associated works etc.

³ Victorian Auditor General's Office: Organisational Sustainability of Small Councils, 2013

⁴ Victorian Auditor General's Office: Local Government Results of the 2012-13 Audits

- > Data and observations from the Whelan Report offers the following useful insights:
 - Twenty three of the twenty four small and very small rural councils are very adversely affected by environmental factors, and twenty one of these (88%) are rated as financially vulnerable/very vulnerable.
 - 18 most vulnerable councils – all of which are RCV councils – had a combined operating deficit of \$34 million.
 - Like VAGO (2013a) this data is not complete for RCV – only 18 of 38 councils are discussed specifically
 - The calculations do not include capital contributions (i.e.: revenue received for capital expenditure) while the methodology used by VAGO includes these amounts

Spatial Organisation

The following are key findings from the review of spatial groupings of councils in Victoria:

- > There are many formal networks, collaborations, and partnerships operating amongst Victoria's 79 councils, which represent a variety of spatial groupings.
- > To some extent, key local government stakeholder organisations including RCV, MAV, RDV and LGV all have differing regional groupings and associated names.
- > Whilst RCV, MAV and RDV have five or six defined regional groupings in Victorian, there are eight regional growth planning boundaries in existence, with associated regional growth plans.
- > There are also a number of regional organisations and local government networks operating across the state, consisting of member councils collaborating and working together to achieve common goals and represent local issues at a regional level.
- > A number of other informal networks, partnership and collaborations are occurring on a project-by-project basis.

Areas for Building Strategic Capacity

As part of ensuring their long-term sustainability, councils in Victoria are expected to look for opportunities to reduce expenditure and operate more efficiently—particularly as they face cost pressures and other challenges, such as renewal and replacement of assets and increases in service delivery costs⁵.

The concept of 'strategic capacity', as set out in ACELG's work on consolidation⁶ represents a combination of elements. It infers taking the organisation to a higher level of capability in terms of resources, skills, knowledge and innovation, building on economies of scale and particularly scope, to plan and act more strategically and effectively.

Options for building a council's capacity to address sustainability may include a range of approaches, such as:

Shared service delivery

As councils carry out similar functions and common activities, shared services are one way they can achieve greater efficiency in service delivery, improve service quality and deal with various

⁵ Victoria Auditor General's Report: Shared Services in Local Government 2014.

⁶ Aulich et al, 2011, Consolidation in local government: a fresh look - volume 1: report, ACELG.

challenges⁷. Shared services involve councils working together and sometimes with other organisations to share costs and resources, including delivering external services, such as libraries and waste collection, or providing back office functions, such as human resources and payroll, or the procurement of goods and services.

Financial and asset management

Victorian councils manage around \$73 billion of physical infrastructure assets and spend over \$2 billion annually to maintain, renew or replace them⁸. Poor asset management can lead to deteriorating or failing assets, reduced levels of service, higher council rates and an increased financial burden on future ratepayer generations.

A recent report by VAGO⁹, suggests that for councils to more efficiently and effectively manage their physical assets substantial improvements are required in a number of areas:

- > Better asset renewal planning and practice
- > Higher quality asset management plans, more effective implementation of these plans, and better linking of service levels and standards to these plans
- > Further developing asset management information systems that are integrated with other corporate information management systems
- > Recruiting and developing skilled and competent staff to manage assets, and
- > Improving the monitoring, evaluation and reporting on asset management.

Strategic leadership

There is not only a community expectation that local governments in rural and regional areas will be competent service providers, but that they will also be a leading advocate on behalf of the community and a facilitator and/or partner with other stakeholders in resolving community issues and promoting the development of the local economy¹⁰.

Research suggests¹¹ that effective local leadership is potentially more important in smaller communities than in large metropolitan areas as regional and rural places are less likely to attract attention in central government priorities and processes.

Effective local leadership involves undertaking many key roles that help to build strong and sustainable regions. These include:

- > Establishing a vision and direction for the future development of the region.
- > Setting and aligning priorities of stakeholders.
- > Tailoring initiatives to local circumstances.
- > Encouraging stakeholder cooperation.
- > Marshalling local support and action.
- > Creating a culture of positive change.
- > Implementing plans and processes that bring about positive institutional change.

⁷ Victoria Auditor-General's Report: Shared Services in Local Government 2014.

⁸ Victoria Auditor General's Report, Asset Management and Maintenance by Councils, 2014.

⁹ Ibid.

¹⁰ Morris, R. 2011. A Capacity Building Strategy for Rural-Remote and Indigenous Local Government.

¹¹ ACELG 2014, Local Government Leading the Development of Regional Australia: Stage 1 Literature Review (unpublished).

- > Encouraging and facilitating entrepreneurial activity.
- > Organising groups that function well and make things happen.
- > Maintaining enthusiasm, vigilance and purpose¹².

Service reviews and reviewing levels of service

A service delivery review helps local government clarify the needs of their communities and uses an evidence base to understand how efficiently and effectively they are meeting those needs. Using this information, local governments can then understand what changes they should make to service delivery, which will provide benefits to all stakeholders.

Councils are expected to develop mechanisms that define the levels of service they expect to provide to their communities. The National Framework 2: Asset Planning and Management encourages councils to:

- > Establish service delivery needs and define service levels in consultation with the community
- > Establish quality and cost standards for services to be delivered from assets; and

Regularly review their services in consultation with the community to determine the financial impact of a reduction, maintenance or increase in service. Levels of service statements describe the outputs or objectives an organisation or activity intends to deliver. Levels of service are usually defined in Customer measures relating how the customer perceives the service and Technical measures that service managers can use to vary allocation of resources to achieve service outcomes¹³.

Conclusion

The RCV Spring Tour presents a timely opportunity for RCV to introduce the Rural Council Sustainability Project to RCV's constituent councils, and to systematically and thoroughly develop shared agreement on the current state of play for rural councils, the objectives of the project, and the key priority areas for building strategic capacity.

Any Questions?

Australian Centre of Excellence for Local Government

Melissa Gibbs | Deputy Director

Tel +61 2 9514 4890

Mob +61 412 647 233

Email melissa.gibbs@acelg.org.au

Rural Councils Victoria

Olwyn Redshaw | Program and Policy Manager

Tel +61 3 9667 5590

Mob +61 424 536 006

Email oredshaw@mav.asn.au

¹² Department of Regional Australia, Local Government, Arts and Sport, 2013, Queensland Government, n.d., Stimson et al., 2005.

¹³ IPWEA Practice Note No. 8 - Level of Service and Community Engagement (soon to be published).