



# Rural and Regional Councils Sustainability Reform Program

Local Government Victoria,  
Department of Environment, Land, Water and Planning

STAGE 1 PROJECT REPORT – 19 December 2017

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# 1. Executive Summary

# The Rural and Regional Councils Sustainability Reform Program aims to identify options for long term financial & operational sustainability

Rural and regional councils are important contributors to the liveability and productivity of regional and rural communities through their role in the provision of services, infrastructure, local governance and leadership, as well as in the facilitation of community wellbeing. In addition, these councils are important partners with the State Government in the provision of services and infrastructure in regional Victoria.

The Victorian Auditor General along with a range of stakeholders, such as Rural Councils Victoria, have highlighted over past years the financial pressures and structural issues experienced by rural and regional councils. In recognition of these challenges and the need to ensure regional Victorians benefit from stronger and more sustainable local governments, the Victorian Government has committed to work collaboratively with rural and regional councils to help them respond to the barriers and structural issues facing the sector.<sup>1</sup> This work will build on the Victorian Government's Regional Statement in 2015, which sets out a plan for greater engagement in regional areas, and the creation of Regional Partnerships to give regional communities a greater say about their unique challenges and priorities and increase collaboration between the community, industry, business and government.<sup>2</sup>

The 2017-18 Victorian State Budget announced the establishment of the *Rural and Regional Councils Sustainability Reform Program* (the Program) to identify challenges and barriers experienced by rural and regional councils and develop policy reforms to provide long-term financial and operational sustainability for the sector.

As a part of this program, Local Government Victoria (LGV) have engaged KPMG to:

- explore the current and emerging barriers to financial and organisational sustainability experienced by rural and regional councils;
- understand the impact of these barriers for rural and regional Victorian communities; and
- develop a suite of reform options to address sustainability barriers and support the long term financial and operational sustainability of rural and regional councils.

The Program is overseen by a Steering Group comprising representatives of state and local governments and peak bodies.

**The Victorian Local Government Performance Reporting Framework provides an established definition for local government sustainability**

## Sustainability

*Local governments having the capacity to meet the agreed service and infrastructure needs of their community and absorb foreseeable changes and unexpected shocks into the future.<sup>3</sup>*

Source: (1) Victorian Government, Minister for Local Government, *Better Supporting Our Regional Councils*, 11 May 2017, accessed at <https://www.premier.vic.gov.au/better-supporting-our-regional-councils/>

(2) Regional Development Victoria, 2017, *Regional Partnerships* <http://www.rdv.vic.gov.au/regional-partnerships#What>

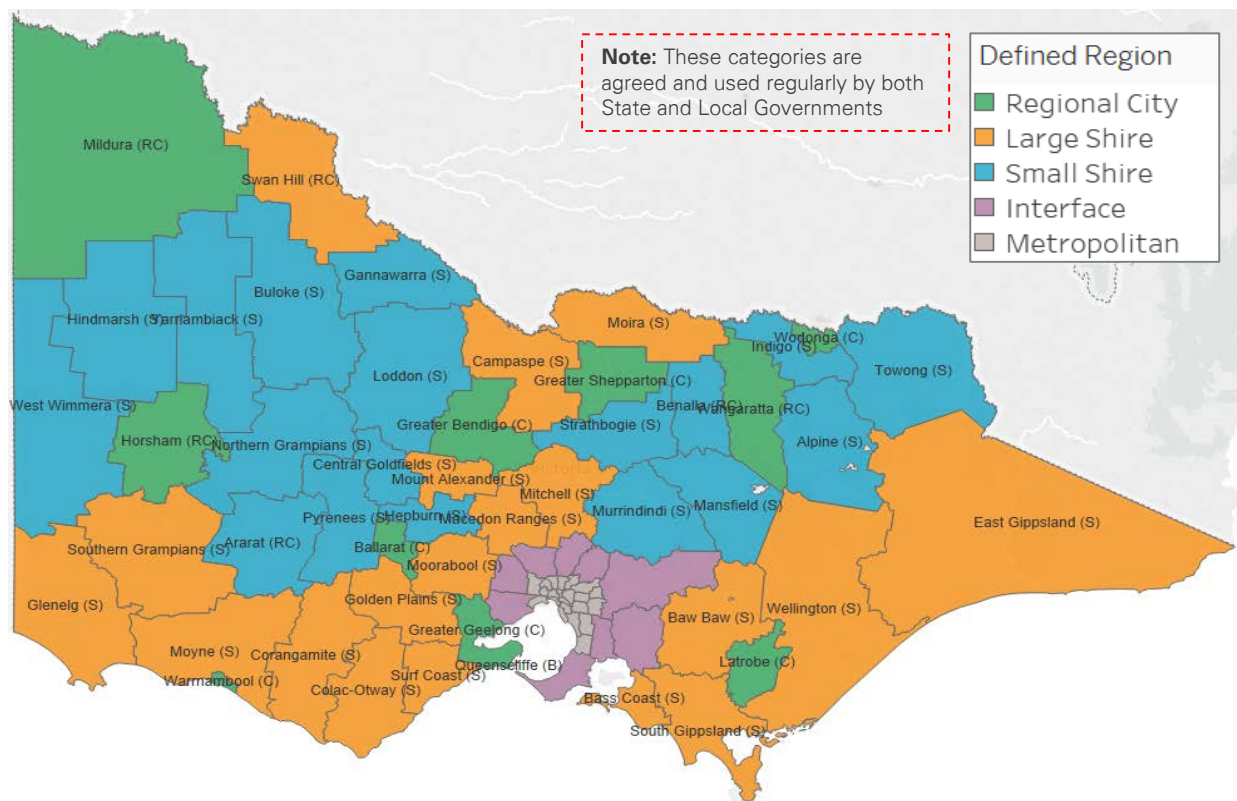
(3) Department of Environment, Land, Water and Planning (DELWP), 2012, *Local Government Performance Reporting Framework*



# The scope of this project spans 48 regional and rural councils, categorised into three cohorts for the purpose of analysis

There are 79 Local Government Areas (LGAs) in Victoria. Of these, 48 LGAs are in rural and regional areas and are commonly categorised into three cohorts: 'Regional Cities' (10 LGAs), 'Large Shires' (19 LGAs) and 'Small Shires' (19 LGAs).

Throughout this report, analysis has focused on identifying issues and barriers that are common across councils within each broad cohort. However, we recognise that individual circumstances may vary significantly. As such, our findings draw upon a diverse set of indicators outlined in a Sustainability Assessment Framework (see next page).



Small Shires	
Alpine	Mansfield
Ararat	Murrindindi
Benalla	Northern Grampians
Buloke	Pyrenees
Central Goldfields	Strathbogie
Gannawarra	Towong
Hepburn	West Wimmera
Hindmarsh	Yarriambiack
Indigo	
Loddon	

Large Shires	
Bass Coast	Moira
Baw Baw	Moorabool
Campaspe	Mount Alexander
Colac-Otway	Moyn
Corangamite	South Gippsland
East Gippsland	Southern Grampians
Glenelg	Surf Coast
Golden Plains	Swan Hill
Macedon Ranges	Wellington
Mitchell	

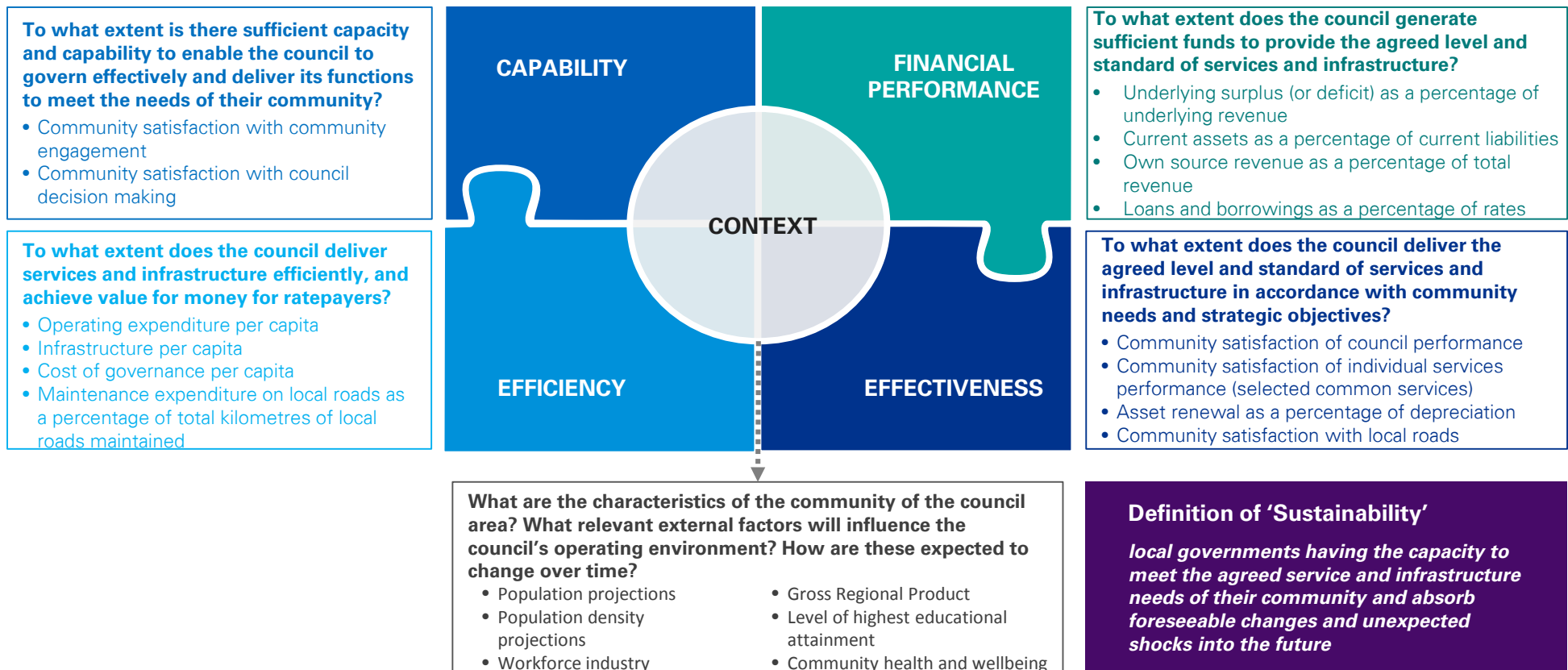
Regional Cities	
Ballarat	Latrobe
Greater Bendigo	Mildura
Greater Geelong	Wangaratta
Greater Shepparton	Warrnambool
Horsham	Wodonga

# Council sustainability is influenced by a range of factors

A multi-faceted Sustainability Assessment Framework was developed to assess the sustainability of rural and regional councils. The framework is comprised of five performance and operating environment domains that present critical elements of sustainable councils. This project has explored performance against each of these domains using evidence drawn from available data sources as well as the views of consultation participants.

The domains of the framework are presented below alongside examples of indicators that present elements of each domain. It is important to note the limitations of available data sources on council staff and service delivery to measure the efficiency, effectiveness and capability elements of the framework. We have drawn on views of consultation participants to support analysis of available data sources where this supported the identification of sustainability issues and barriers.

## PERFORMANCE AND OPERATING ENVIRONMENT DOMAINS



# Importantly, rural & regional councils operate within different contexts

The 79 Councils across Victoria vary significantly in terms of their land area size, population size, demographic characteristics, geography, climate and economic industry. The most densely populated metropolitan areas in Melbourne are very different to Victoria's remote rural areas. Given the wide degree of variation in the scope of council operations across Victoria, it is important to consider local contextual factors and the challenges they pose specifically for the long-term sustainability of regional and rural councils.

The analysis and consultation undertaken as a part of this project has highlighted the following key observations regarding the relationship between local contextual factors and the sustainability of rural and regional councils:



Small and large shire councils have lower populations spread across larger areas compared to other Victorian councils. These councils face relatively larger service delivery costs per unit and are often under pressure to fill a 'market gap' for services (given absence of alternative providers).



Population will change at different rates across Victoria over the coming decades. Population growth will be minimal for small shire councils and is forecast to decline in many of the LGAs in Victoria's west. These councils will face challenges in maintaining revenue raising capacity in the future.



Across Victoria, the population is ageing which will impact the scope and mix of expected services of rural and regional councils. This is expected to be most notable in small shires, where persons over 65 are forecast to equal one third of the population by 2031.



On average, people in rural Victoria are more likely to be socially disadvantaged, obese, have higher rates of tobacco smoking and higher levels of alcohol consumption than their average metropolitan counterparts. This may indicate a higher per capita demand for community and health services.



Local governments operate within a complex and shifting policy landscape. Future changes to regional development policies and grant allocation methodologies have a particular impact on the capacity of rural and regional councils to deliver services and plan ahead.



The level and quality of digital connectivity is lower in regional and rural areas, creating challenges for service delivery and the application of technology-driven solutions. This is a particular challenge for councils that operate within mobile black spot areas.



Specific local factors place additional costs on the delivery of services and infrastructure for some regional and rural councils, particularly councils in remote areas, councils that service seasonal (holiday) peak crowds, and councils with critical freight routes

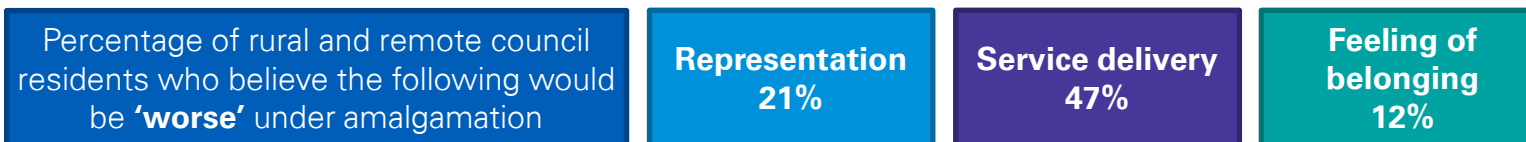


# Rural and regional councils are the 'backbone' of their communities

The view of local government as being confined to roads, rates and rubbish is long gone, in both practice and in terms of what communities expect. Australians want local government to be responsible for a diversity of activities in their local community, with planning for the future being among the most important.

Research from the Australian Centre of Excellence for Local Government (ACELG) has shown that the majority of Australians value local government more highly than they do either the federal government or the states and territories, with around 75 per cent of Australians surveyed believing that **local government is best able to make decisions about their local area**. Local government is also often the first point of contact for people in the community to solve issues or problems (e.g. pot holes, noise, advice on local community programs) even when local government does not directly provide the service.

Respondents living in rural and remote areas are generally more concerned about the consequences of amalgamation on local representation, cost of rates and impact on service delivery and their sense of belonging to the local area<sup>1</sup>.



Local governments also matter because of their roles as 'place-shapers' and their importance in meeting the needs that most drive people's attachment to, and satisfaction with, the areas in which they live. Local consultations for this project revealed the depth of feeling local residents have for their local council as being a binding fabric of a local community. An example of this is the role that local government plays in community activities and programs like community health, library services, child care services and so on, that provide opportunities for connection and social cohesion. This sense of connection and the provision of services can mean healthier communities, and therefore greater wellbeing and productivity, leading to improved local economic activity.

Australians feel strong emotional connections to the local areas in which they live, providing them improved emotional wellbeing and a stronger sense of their personal identity. 65.6 per cent of respondents to a UTS study said it was extremely or very important for local government to have a role in community development<sup>2</sup>. These feelings of attachment are generally stronger for people living in rural and remote areas<sup>3</sup>.

According to the research, and backed up by the consultation for this project, **this emotional connection between people and the place where they live is one of the strongest messages policy makers can take from the study**.

Source: (1) Why Local Government Matters, p. 128

(2) Why Local Government Matters, p. 124-26

(3) Why Local Government Matters, p. i

# Many existing programs and funds are aimed at assisting rural and regional Victoria

Although there are a number of barriers to sustainability in rural and regional areas, some action has already been taken by federal, state and local governments to help improve sustainability in rural and regional councils and to help deliver better outcomes to the communities in these LGAs. Key examples of these actions include:

## State Government Initiatives

- The **Regional Statement**, released in 2015 sets out a plan for greater engagement in regional areas, and the creation of **Regional Partnerships** to build cooperation between communities, industry, businesses and Government.
- **Regional Jobs and Infrastructure Fund** is a \$500 million Victorian Government grant package that provides funding for three programs:
  - The **Regional Infrastructure Fund** (\$250 million), aimed at investing in major infrastructure projects that facilitate economic growth
  - The **Regional Jobs Fund** (\$200 million), to help companies grow their workforce and create jobs in regional areas
  - **Stronger Regional Communities Plan** (\$50 million), aimed at improving the liveability of rural and regional towns to attract population
- The **Victorian Infrastructure Plan** includes funding commitments for a range of rural and regional infrastructure, including rail, rural and regional roads and bridges and mobile black spots, amongst others.

## Federal Government Initiatives

- The establishment of the **Regional Australia Ministerial Taskforce** in March 2017
- The **Regional Growth Fund** is providing \$472 million in grants from 2017-18 to 2020-21 for infrastructure and community projects in regional and remote Australia, including \$200 million for the **Building Better Regions Fund**. These grants will be available to local governments and not-for-profit organisations.
- The **Infrastructure Investment Program (IIP)** which provides funding to help councils maintain and upgrade road and rail infrastructure. In 2017-18, Victoria will receive \$20.2 million from the Black Spot program, \$142.4 million from the Roads to Recovery program and \$12.3 million from the Bridges Renewal program. The IIP also provides funding for major road and rail infrastructure projects.
- The **Regional Investment Corporation (RIC)** will be established in 2018 to streamline the delivery of up to \$4 billion in concessional loans – available to farm businesses and state governments – that will help secure growth, investment and resilience in rural and regional communities.
- **Mobile Black Spot Program** committed \$600 million to investment in mobile connectivity in small rural areas, along major transport routes, and in areas prone to natural disaster.

# Nevertheless, rural and regional councils face many common barriers to long term sustainability

Beyond their changing local contexts, rural and regional councils face a range of barriers and challenges that limit their ability to be sustainable over the longer term. These barriers, identified through a combination of consultations, data analysis, and reference to previous investigations and reports include:



- **Financial pressures and constraints:** limited capacity to increase own-source revenue, limited community capacity to pay increased rates, fees, or charges, increasing expectation of service delivery; increasing cost base.
- **Relatively higher infrastructure and service delivery costs:** regional and rural councils face relatively higher unit costs in maintaining assets and in the delivery of some services. Large council areas with large lengths of roads and dispersed populations drive up costs in core functions of rural and regional councils. The functions delivered by local government have broadened in scope and increased in complexity over time. Regional and rural councils spend more of their budgets to meet demands for core functions, leaving less for the growing set of functions expected by their local communities.



- **Capability constraints and operational capacity issues:** Regional and rural councils face challenges attracting and retaining skilled, professional and knowledgeable staff. This is particularly the case for councils located further from metropolitan areas, or where staff are required for specific strategic and specialist roles. While commitments to 'continuous improvement' and 'innovation' are in effect in many regional and rural councils, these councils face challenges redirecting staff from operational functions to more strategic and specialist areas given expectations of service delivery and available capacity.

It is important to note these barriers effect small shire, large shire and regional city councils differently. The body of this report explores in further detail how these barriers influence each council cohort.

## Looking ahead, rural and regional councils face...

Reduced ability to invest for the long term (assets, service delivery, etc.)

Increased dependency on government for financial support (small and large shire councils only)

Continued difficulty attracting and retaining skilled, professional and knowledgeable staff (particularly for specialist roles)

**EFFICIENCY & EFFECTIVENESS**

**FINANCIAL PERFORMANCE**

**CAPABILITY**

## Meanwhile, rural and regional communities may suffer...

Lower standards of service relative to regional cities and metropolitan areas

Deterioration in infrastructure performance (roads, bridges, water, etc.)

Reduced breadth and scope of service delivery:

- less access to services
- less service for the vulnerable

# Given the key issues faced by rural and regional councils, we have developed a range of short, medium and long term reform options aimed at achieving long term sustainability

## Development of reform options to overcome sustainability challenges and barriers

- This report presents a range of options designed to help rural and regional councils overcome barriers to long-term sustainability for consideration by the State Government.
- To design a suite of reform options, KPMG has drawn on the findings of data analysis, desktop research, international best practice, consultation with key stakeholders, and emerging trends in many operational areas.
- We have also drawn on a number of reports, submissions, and consultations which have identified challenges and put forward suggestions to address council sustainability challenges.
- Reform options have been designed with the goal of long term council sustainability in mind, together with the long term wellbeing of the communities they serve.
- The options include actions, investments and policy changes that could be implemented in the short, medium and long term. Some of the proposed reform options are discrete, while others involve a longer term program of work that would be delivered progressively over time.
- As mandatory council amalgamations have been ruled out by the State Government, amalgamations have not been considered in developing these options and have not been the subject of analysis as part of this body of work.

## Key considerations for the assessment of reform options

- It should be noted that it is unlikely that all councils have the capacity, whether due to a lack of expertise, funding or other critical inputs, to effectively engage with all of these recommendations immediately or effectively. In selecting options for implementation, it is important to consider the additional support required by councils to effectively implement or engage with reforms.
- It is important to consider risks associated with the implementation of each reform option. Local governments are, for example, a major employer in regional areas, so consideration would need to be given to ensuring that achieving operational efficiencies at a council level does not cause a net harm to communities by disrupting employment opportunities in rural and regional areas.

# With targeted reforms, rural and regional councils can work towards the achievement of long term sustainability

Local councils are an essential players in the ongoing sustainability of Victoria's rural and regional areas, with a unique understanding of local needs and priorities. They are important contributors to the liveability and productivity of regional and rural communities through their role in the provision of services, infrastructure, local governance and leadership, as well as in the facilitation of community wellbeing.

Through a comprehensive regional consultation process, as well as analysis of existing council data, it was found that rural and regional councils face a number of unique challenges. These include ongoing financial sustainability, capability challenges, and operational challenges, that we seek to address through short, medium, and long term reform options aligning to three key themes:



The proposed reforms will contribute to three key outcomes designed to improve the sustainability of rural and regional councils into the future:



Together, these outcomes work to achieve the overall vision for the Rural and Regional Councils Sustainability Reform Program, namely:

## VISION

**VICTORIA'S RURAL AND REGIONAL COUNCILS ACHIEVE LONG-TERM SUSTAINABILITY, BUILDING VIBRANT, LIVEABLE AND PRODUCTIVE RURAL AND REGIONAL COMMUNITIES**

# Summary of proposed reform options

REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
STATE-LOCAL GOVERNMENT ALLIANCE	<b>1. Sustainable service delivery funding model</b>	1.1 Support Service Delivery Planning for each rural and regional council; Analyse Plans to develop benchmarking & other analytical tools	Develop	Analyse	
	<b>2. Funding model</b>	2.1 Undertake a taxation and funding model inquiry to support rural and regional council sustainability.	Inquiry	Review	
		2.2 Address short term critical services funding gaps	Fund availability		
OPERATIONAL TRANSFORMATION	<b>3. Regional service delivery</b>	3.1 Regional Service Delivery model development and implementation	Pilot	Implementation	
	<b>4. A modern digital strategy</b>	4.1 Support collaboration and innovation through enabling back office transformation	Design	Implementation	
	<b>5. Small shires stabilisation</b>	5.1. Establish a <i>Stabilisation Fund</i> for infrastructure needs to maintain productivity and liveability in rural Victoria, focused on at-risk small shires and at-risk communities	Fund availability		
STRONGER LOCAL GOVERNANCE	<b>6. Building local capacity</b>	6.1 Improve knowledge and capability of council staff	Establish	Implementation	
		6.2 Support development of workforce plans for each rural and regional councils	Establish	Implementation	
		6.3 Develop a program and support for councillors to better equip councillors with the knowledge and tools to meet community expectations	Establish	Implementation	
	<b>7. Innovative community engagement</b>	7.1 Establish a fund to help local governments identify innovative ways to efficiently and effectively engage with the community	Fund availability		



# Next steps

**This report represents a summary of the findings and recommended reform options identified during Phase 1 of the Rural and Regional Councils Sustainability Reform program.**

Using this report, LGV and the project's Steering Group will endorse a set of reform options to progress to Phase 2.

In Phase 2, KPMG will develop a business case that examines the chosen reform options, including detailing the costs and benefits of each option to build a case for investment. As part of the business case, KPMG will build an assessment framework to support the identification of priorities.

During the final stage of the project, KPMG will prepare a final report for LGV, summarising key findings from both Phases 1 and 2, as well as including the key reform recommendations developed as part of the business case.



# 2. Project context and approach

# Project scope and limitations

## Project scope

The scope of Stage 1 of this engagement includes:

- targeted consultation and engagement with representatives of State Government, Local Government, local government peak bodies, and community members in selected locations in regional Victoria
- the development of a suitable conceptual framework to identify barriers and assess the sustainability of rural and regional councils
- analysis of existing data sources to identify and assess key challenges and barriers to sustainability experienced by rural and regional councils
- development of a suite of high-level reform options to address sustainability barriers and support the long term financial and operational sustainability of rural and regional councils
- high-level analysis of emerging trend and 'best practice' both nationally and internationally, with specific applicability to the Victorian local government sector
- High-level analysis of the direct and indirect economic, social and environmental value Victorian rural and regional councils bring to the Victorian and Australian economies.

## Project Limitations

The following key limitations apply to the outputs of Stage 1 this engagement:

- the analysis included in this report is limited by the quality and availability of data regarding local government performance. In particular, there is limited data available to enable the measurement of the performance of service delivery, operational efficiency and staff capabilities in great detail;
- the project scope does not extend to the collection of primary data from councils. The data sources used to support analysis include publicly available sources and reporting by councils to relevant state government bodies, such as the Victorian Grants Commission and Local Government Victoria.
- the breadth of the consultations undertaken to inform the findings of this project were limited in scope due to short engagement timelines - in terms of both locations visited and breadth of participants. In addition, KPMG notes that many participants in the community workshops sessions were previously councillors or council staff, which may influence the key themes raised during these sessions.

# The Rural and Regional Councils Sustainability Reform Program aims to identify options for long-term council sustainability

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*Local governments having the capacity to meet the agreed service and infrastructure needs of their community and absorb foreseeable changes and unexpected shocks into the future.<sup>3</sup>*

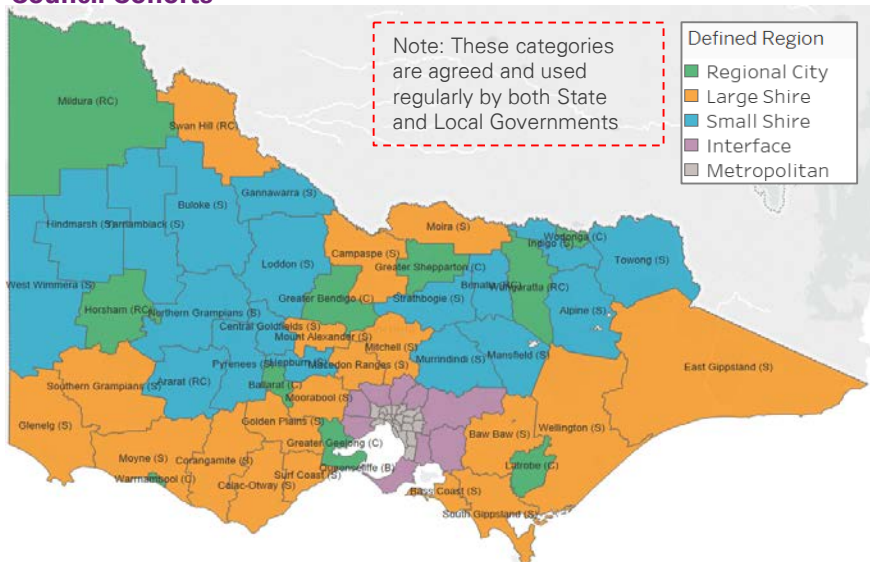
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Throughout this report, analysis has focused on identifying issues and barriers that are common across councils within each broad cohort. However, in recognition of the large degree of variation between individual councils, our findings also draw on analysis of individual councils against a set of key sustainability indicators.

## Council Cohorts



## Regional Partnership Regions



### Small Shires

- |                    |                    |              |
|--------------------|--------------------|--------------|
| Alpine             | Hindmarsh          | Pyrenees     |
| Ararat             | Indigo             | Queenscliffe |
| Benalla            | Loddon             | Strathbogie  |
| Buloke             | Mansfield          | Towong       |
| Central Goldfields | Murrindindi        | West Wimmera |
| Gannawarra         | Northern Grampians | Yarriambiack |
| Hepburn            |                    |              |

### Large Shires

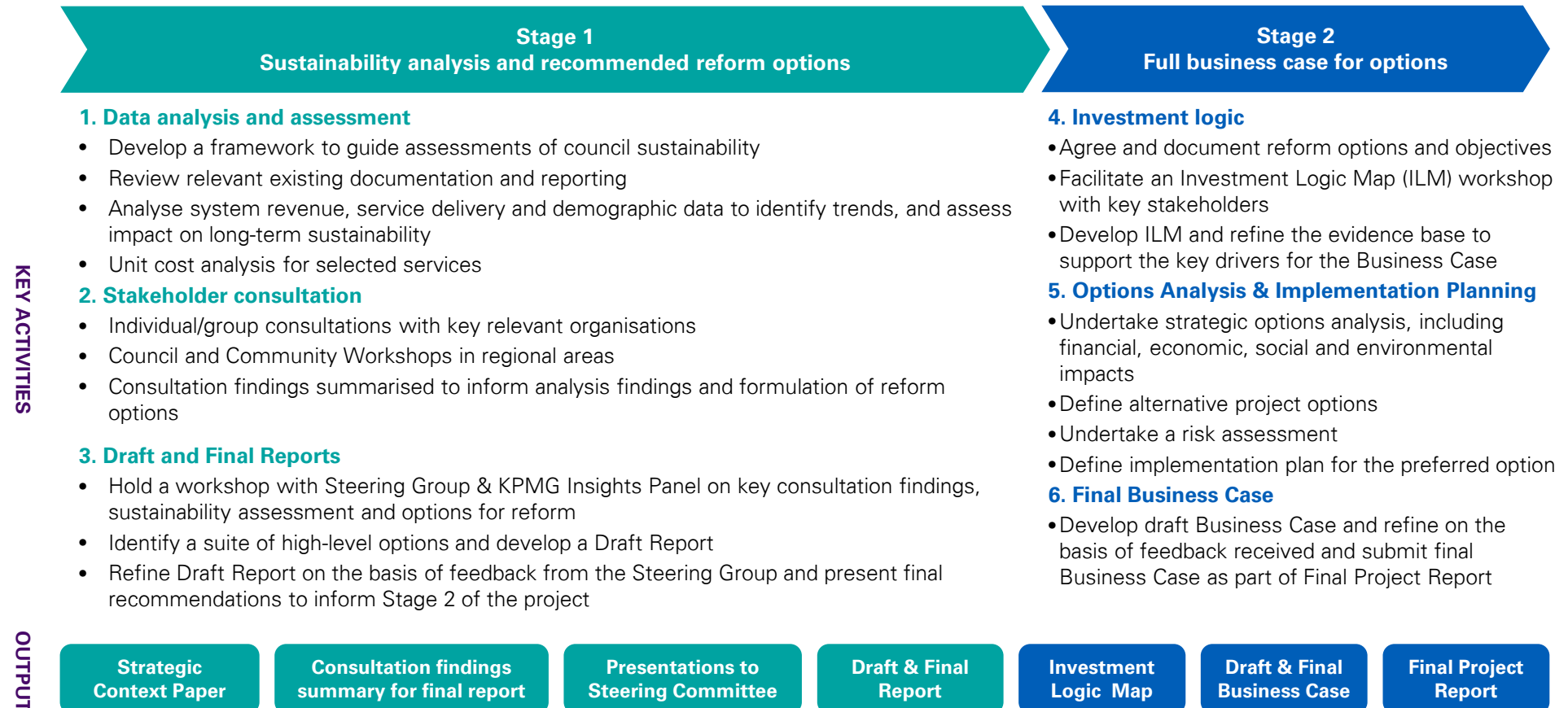
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|----------------|-----------------|--------------------|
| Bass Coast     | Golden Plains   | South Gippsland    |
| Baw Baw        | Macedon Ranges  | Southern Grampians |
| Campaspe       | Mitchell        | Surf Coast         |
| Colac-Otway    | Moira           | Swan Hill          |
| Corangamite    | Moorabool       | Wellington         |
| East Gippsland | Mount Alexander |                    |
| Glennelg       | Moyno           |                    |

### Regional Cities

- |                    |             |
|--------------------|-------------|
| Ballarat           | Latrobe     |
| Greater Bendigo    | Mildura     |
| Greater Geelong    | Wangaratta  |
| Greater Shepparton | Warrnambool |
| Horsham            | Wodonga     |

# Project approach

This report represents the primary deliverable for Stage 1 of the two-stage work plan for the review, as presented below. The primary activities conducted during Stage 1 included data analysis and assessment, a review of existing documentation and reporting, and consultation with key stakeholders from peak bodies, councils, community, and government representatives. Stage 2 will involve further investigation of the the costs and benefits of endorsed reform options through the development of a business case with an Investment Logic Map and a final report summarising key findings across the two project stages.

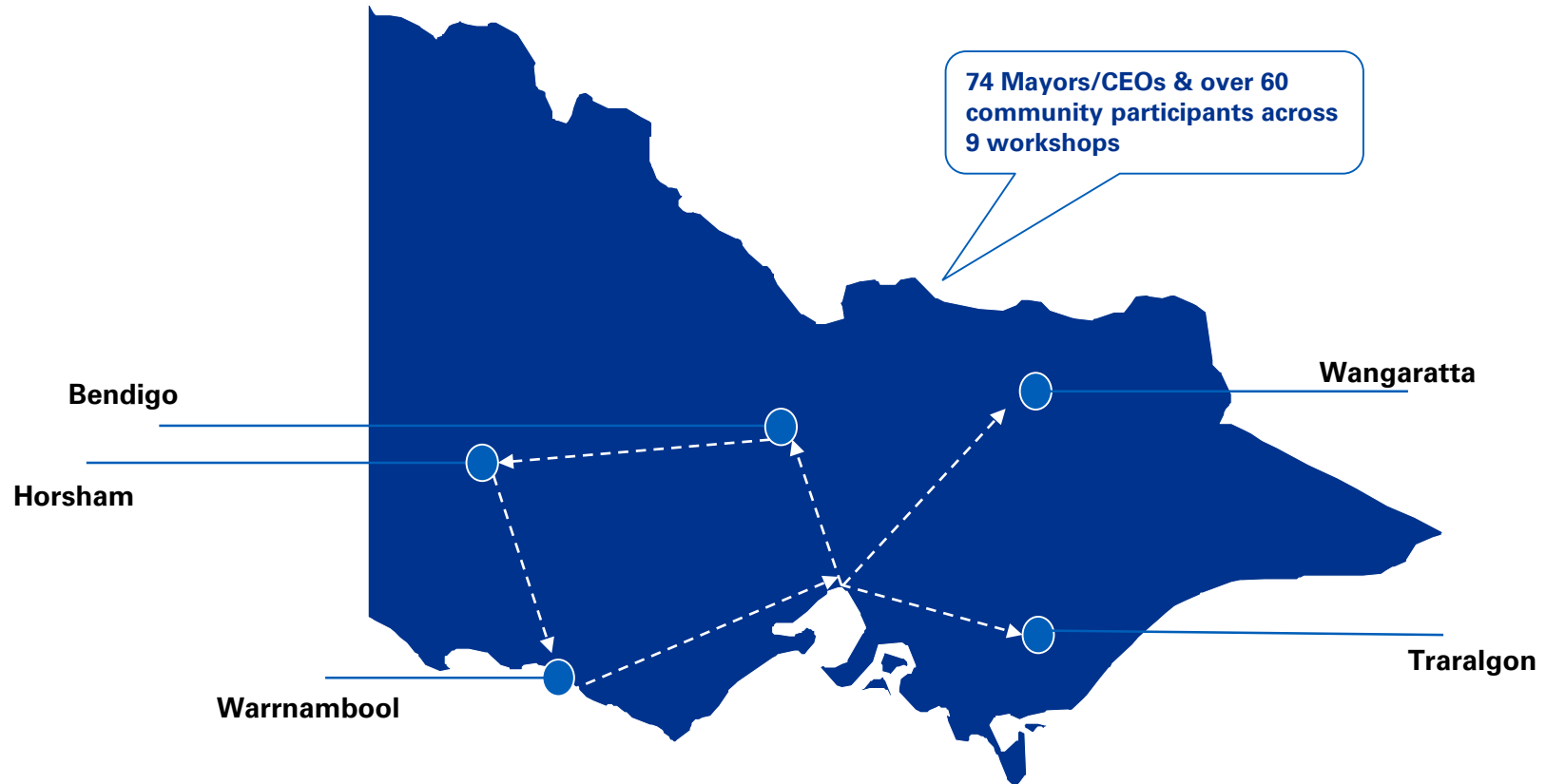




# Broad consultation with councils, community and government informed the findings of this report

To inform this findings of this report, a series of stakeholder interviews and workshops were held across Victoria to discuss issues and barriers to sustainability experienced by regional and rural councils and potential long-term solutions.

This included targeted interviews with state government and peak body organisations, workshops with the CEOs and Mayors of 36 LGAs, and community members from 23 LGAs. A summary of consultation participants and key themes drawn from the process are provided in Appendix 6.3.

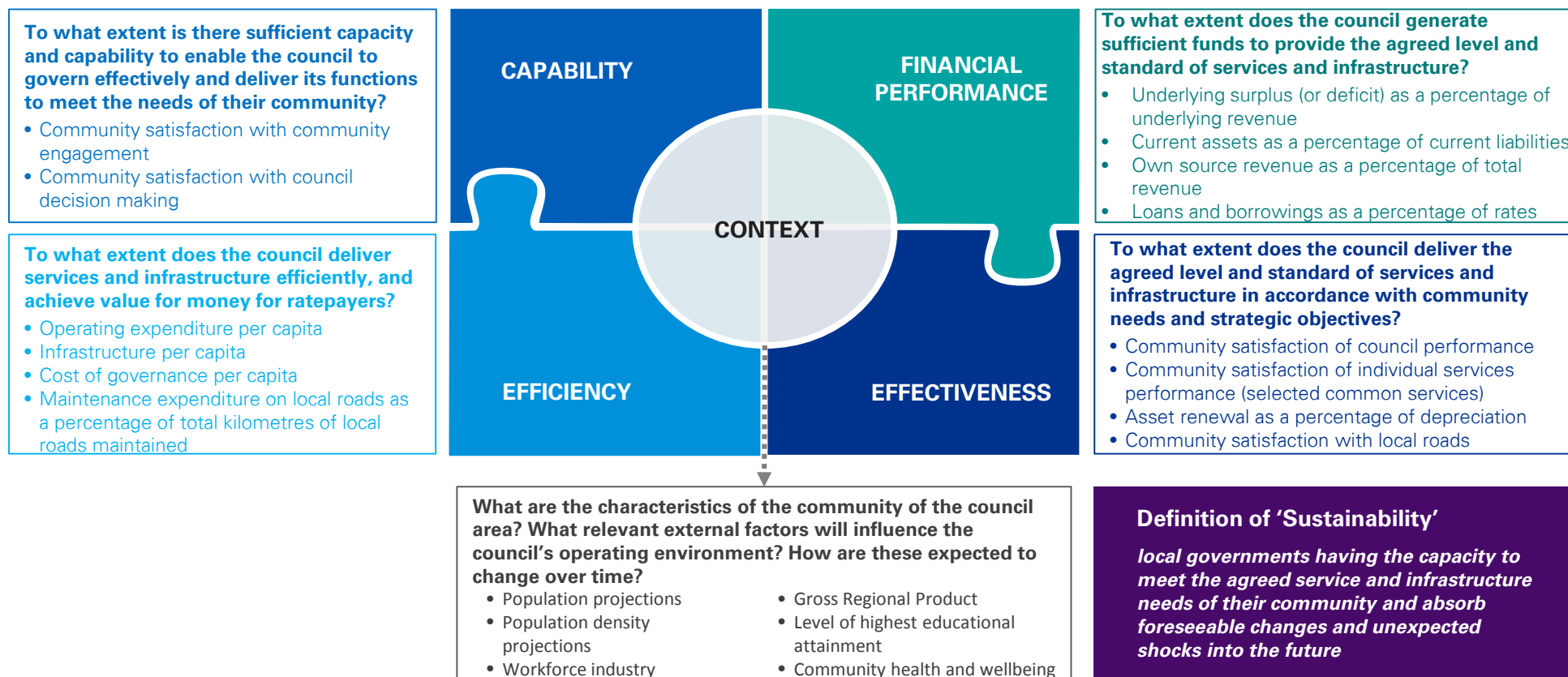


# Sustainability Assessment Framework

A multi-faceted assessment framework was developed to assess the sustainability of rural and regional councils. The framework is comprised of five performance and operating environment domains that present critical elements of sustainable councils. This project has explored performance against each of these domains using evidence drawn from available data sources as well as the views of consultation participants.

The domains of the framework are presented below alongside examples of indicators that present elements of each domain. It is important to note the limitations of available data sources on council staff and service delivery to measure the efficiency, effectiveness and capability elements of the framework. We have drawn on views of consultation participants to support analysis of available data sources where this supported the identification of sustainability issues and barriers.

## PERFORMANCE AND OPERATING ENVIRONMENT DOMAINS





# 3. Assessment of the sustainability of rural and regional councils



# 3.1 Context

# Councils operate within different contexts, posing particular challenges for long-term sustainability

The 79 Councils across Victoria vary significantly in terms of their land area size, population size, demographic characteristics, geography, climate and economic industry. The most densely populated metropolitan areas in Melbourne are very different to Victoria's remote rural areas. Given the wide degree of variation in the scope of council operations across Victoria, it is important to consider local contextual factors and the challenges they pose specifically for the long-term sustainability of regional and rural councils.

The analysis and consultation undertaken as a part of this project has highlighted the following key findings regarding the relationship between local contextual factors and the sustainability of rural and regional councils:

## Key findings:

	<b>Page</b>
 <p>Finding 1: Victoria's local councils play a key role in enabling liveability and economic productivity for their communities, and contribute significantly to both local and state economies. Effective councils can further support the growth of new industries and diverse regional economies.</p>	26-29
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# Victoria's local councils play a key role in enabling liveability and economic productivity for their communities

Councils provide a wide variety of services to their municipalities and enforce various state and local laws for their communities. These services include:



## Under Section 3C of the *Local Government Act 1989*, a council has as its facilitating objectives to:

- promote the municipal district's social, economic and environmental viability and sustainability
- ensure that resources are used efficiently and effectively, and services are provided in accordance with best-value principles to best meet the community's needs
- improve the overall quality of life of community members
- promote appropriate business and employment opportunities
- ensure that services and facilities provided by the council are accessible and equitable
- ensure the equitable imposition of rates and charges
- ensure transparency and accountability in council decision-making.

## The role of Victoria's 630 democratically elected councillors includes:

- acting as a representative government by taking into account the diverse needs of the local community in decision-making
- providing leadership by establishing strategic objectives and monitoring their achievement
- maintaining the council's viability by ensuring resources are managed in a responsible and accountable manner
- advocating the interests of the local community to other communities and governments
- fostering community cohesion and encouraging active participation in civic life.

The principal legislation in Victoria governing the establishment and operation of councils is the *Local Government Act 1989*, along with various Regulations made under that Act. These documents define the purposes and functions of local government as well as providing the legal framework for establishing and administering councils.

The *Local Government Act 1989* gives the Victorian Parliament the power to make laws it considers necessary for local government, including laws relating to the constitution of councils, council elections and the powers and duties of councilors and council staff. This, as well as the constitutional protection of the *Victorian Constitution Act 1975*, confirms a close relationship between the Victorian State Government and Victorian local councils.

Source: DELWP, 2015, *Local Government Act 1989 Review - Discussion paper*

Municipal Association of Victoria, *Snapshot of Victoria Local Government*, Updated August 2017, <http://www.mav.asn.au/about-local-government/Pages/default.aspx>



# Rural and regional councils are thought to be the 'backbone' of rural and regional communities

The view of local government as being confined to roads, rates and rubbish is long gone, in both practice and in terms of what communities expect. Australians want local government to be responsible for a diversity of activities in their local community, with planning for the future being among the most important.

Research from the Australian Centre of Excellence for Local Government (ACELG) has shown that the majority of Australians value local government more highly than they do either the federal government or the states and territories, with around 75 per cent of Australians surveyed believing that **local government is best able to make decisions about their local area**. Local government is also often the first point of contact for people in the community to solve issues or problems (e.g. pot holes, noise, advice on local community programs) even when local government does not directly provide the service.

Respondents living in rural and remote areas are generally more concerned about the consequences of amalgamation on local representation, cost of rates and impact on service delivery and their sense of belonging to the local area<sup>1</sup>.

Percentage of rural and remote council residents who believe the following would be **'worse'** under amalgamation

**Representation**  
21%

**Service delivery**  
47%

**Feeling of belonging**  
12%

Local governments also matter because of their roles as 'place-shapers' and their importance in meeting the needs that most drive people's attachment to, and satisfaction with, the areas in which they live. Local consultations for this project revealed the depth of feeling local residents have for their local council as being a binding fabric of a local community. An example of this is the role that local government plays in community activities and programs like community health, library services, child care services and so on, that provide opportunities for connection and social cohesion. This sense of connection and the provision of services can mean healthier communities, and therefore greater wellbeing and productivity, leading to improved local economic activity.

Australians feel strong emotional connections to the local areas in which they live, providing them improved emotional wellbeing and a stronger sense of their personal identity. 65.6 per cent of respondents to a UTS study said it was extremely or very important for local government to have a role in community development<sup>2</sup>. These feelings of attachment are generally stronger for people living in rural and remote areas<sup>3</sup>.

According to the research, and backed up by the consultation for this project, **this emotional connection between people and the place where they live is one of the strongest messages policy makers can take from the study.**

Source: (1) Why Local Government Matters, p. 128

(2) Why Local Government Matters, p. 124-26

(3) Why Local Government Matters, p. i

# The Local Government sector is a significant contributor to both local and state economies

Victoria's 79 local governments are a significant contributor to the state economy and are critical delivery partners for the State Government in improving the lives of Victorians. For example, in Victoria's local government sector:



**More than \$7 billion**  
Spent on services each year



**Over \$84 billion**  
Public assets are under management

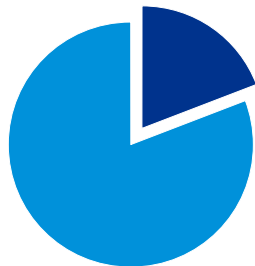


**Over 50,000 people**  
Employed

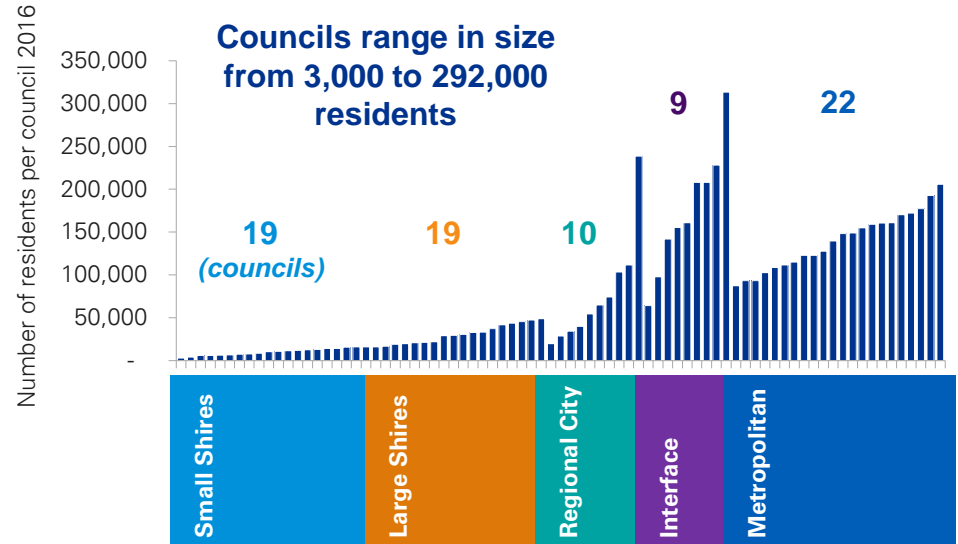


**\$2 billion**  
Spent on infrastructure each year

The 48 rural and regional councils cover over 218,000 km<sup>2</sup> (95 per cent of the total area of Victoria) and are responsible for over 1.5 million residents (25 per cent of the State's population).



**The regional economy is worth \$71.6 billion**  
One-fifth of Gross State Product

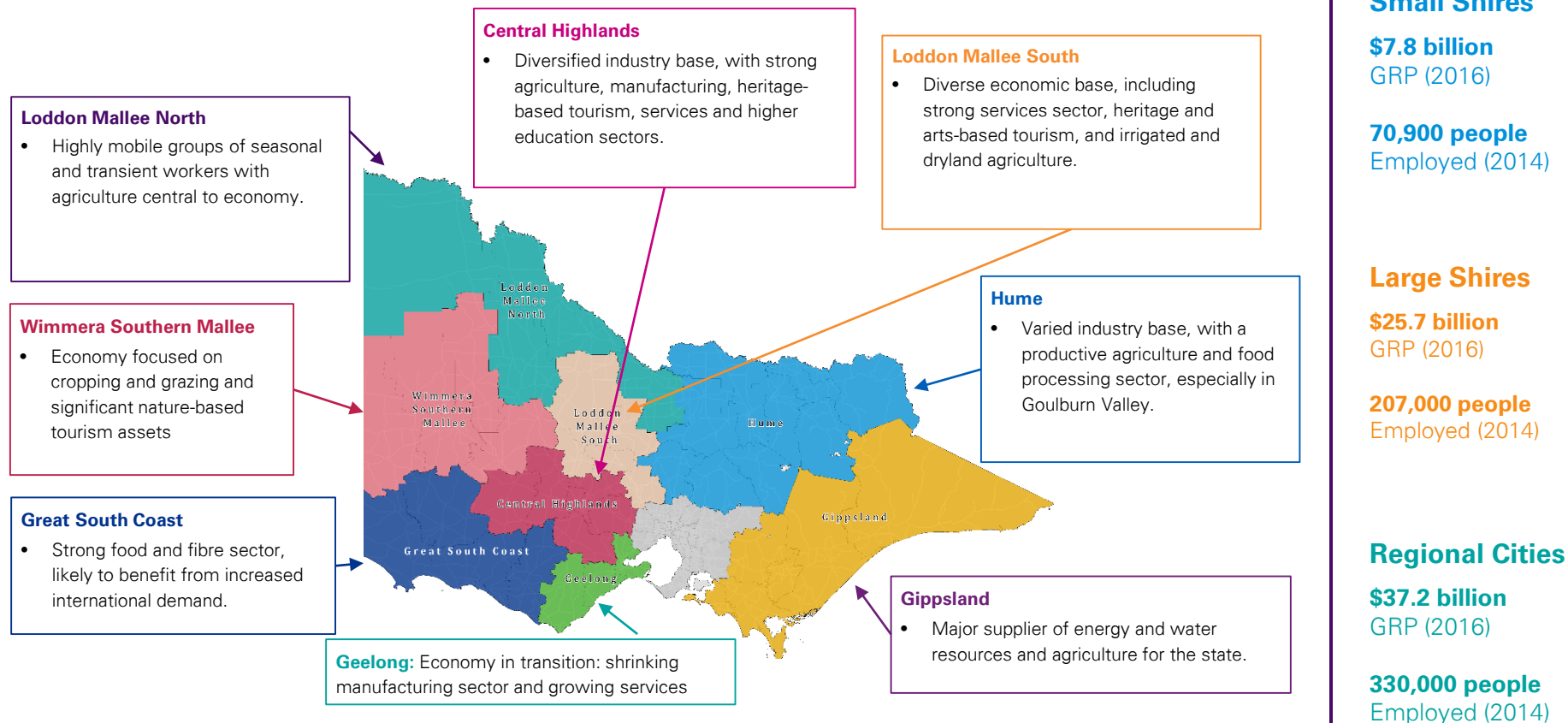


The value rural and regional councils provide to the economy and community is explored further in Appendix 6.1

Source: DELWP, 2015, *Local Government Act 1989 Review - Discussion paper*; 2016 council submissions to the Victoria Grants Commission; SGS Economics and Planning (2016), *The current and future state of Victoria: A spatial perspective*. Retrieved from: <http://www.infrastructurevictoria.com.au/document-library>.

# Victoria's regional economies are diverse and effective councils can support the growth of new industries

A number of regional areas of Victoria are undergoing transitions in their economies away from traditional sectors. Others maintain areas of competitive advantage in areas of traditional strength. In some sectors, like tourism and the digital economy, councils play a key coordinating role.



Source: Based on SGS Economics and Planning (2016), *The current and future state of Victoria: A spatial perspective*. Retrieved from: <http://www.infrastructurevictoria.com.au/document-library>.

# The scale of council operations varies considerably across Rural and Regional and Metropolitan council cohorts

The 48 rural or regional Councils are categorised as 'Small Shires' (19 councils), 'Large Shires' (19 councils) and 'Regional Cities' (10 councils). There are 31 metropolitan councils in total, including 9 interface councils. The table below highlights variations across these cohorts, including rural and regional councils having comparatively smaller populations and larger land areas. This key variation results in a relatively higher per-person spend in rural and regional councils compared to metropolitan and interface councils.

## Key indicators, per council average and per capita measures as titled

Council Group	Council Expenditure		Rates and Charges Revenue		Council Assets		FT Employees (avg.)	Population (avg.)	Land Area (avg.)	Roads (avg.)
	(avg.)	(per capita)	(avg.)	(per capita)	(avg.)	(per capita)				
<b>Small Shires</b>	\$23 million	\$2,380	\$13 million	\$1,296	\$223 million	\$23,026	74	10,000	4,500 km <sup>2</sup>	590 km
<b>Large Shires</b>	\$55 million	\$1,834	\$34 million	\$1,124	\$463 million	\$15,405	171	30,000	4,900 km <sup>2</sup>	980 km
<b>Regional Cities</b>	\$118 million	\$1,537	\$72 million	\$938	\$1,044 million	\$13,553	376	77,000	3,900 km <sup>2</sup>	850 km
<b>Metro and Interface Councils</b>	\$166 million	\$1,111	\$117 million	\$780	\$2,028 million	\$13,511	496	150,000	290 km <sup>2</sup>	650 km

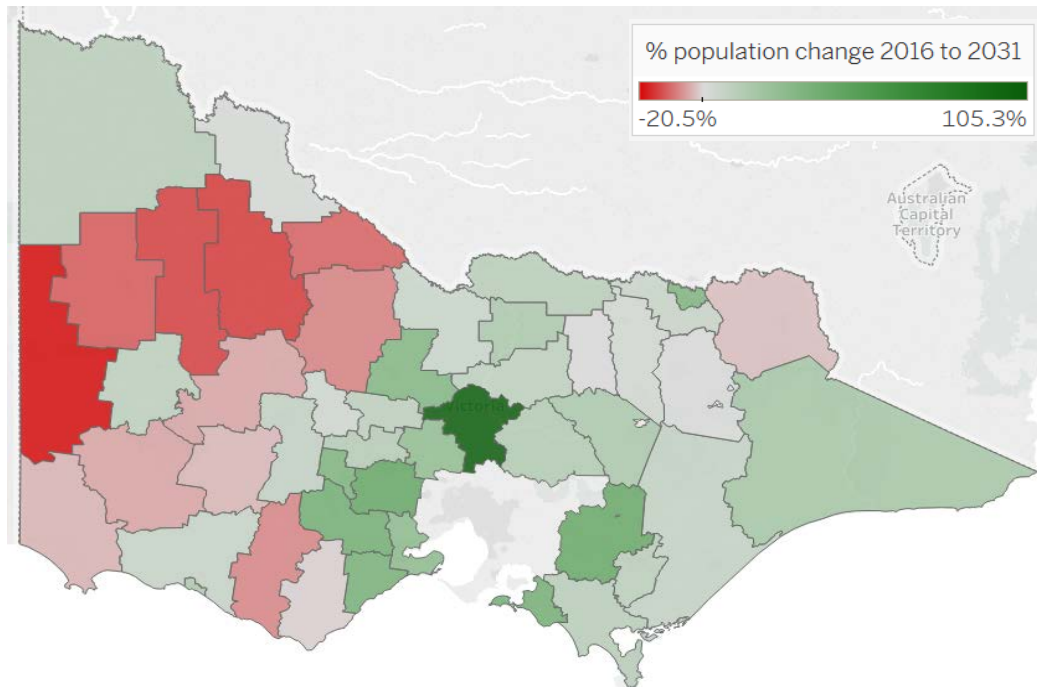
Source: DELWP, 2015, *Local Government Act 1989 Review - Discussion paper*, 2016 council submissions to the Victoria Grants Commission

# Population growth will vary greatly across rural and regional councils, with direct implications for revenue raising capacity

Projected population growth varies greatly between council cohorts and across different regional areas. Populations in small shire council areas are expected to grow by 1 per cent by 2031, while large shire and regional city councils will see a 25 and 23 per cent increases in populations, respectively. Populations are expected to decline in many of the LGAs in Victoria's west, with the largest decline forecast for West Wimmera (-20.5%).

In all shires there is forecast to be an increase in the number of dwellings driven partially by the increase in lone-person households due to the ageing population. This will have a direct impact on rate revenue for local councils. The highest increase in dwellings will be in Mitchell with a 100% increase between 2016 and 2031. The lowest growth in number of dwellings is forecast for Hindmarsh (2.8%) and West Wimmera (2.9%).

## Forecast population change, 2016 to 2031



### Regional Cities

- Average population growth of 23% is predicted between 2016 and 2031
- All regional cities are forecast to grow with Wodonga and Ballarat predicted to be the fastest growing cities (32.6%) followed closely by Bendigo.

### Large Shires

- Average population growth of 25% is predicted between 2016 and 2031
- The fastest growing shire is expected to be Mitchell (105.3%) and largest decline is expected in Corrangamite (-8.2%)
- Some young families move from small to large shires to access employment and education opportunities

### Small Shires

- Average population growth of 1% is predicted between 2016 and 2031
- The fastest growing shire is expected to be Mansfield (15.7%) and largest decline is expected in West Wimmera (-20.5%)
- This change is largely driven by a loss of young families, moving to large shires and regional cities

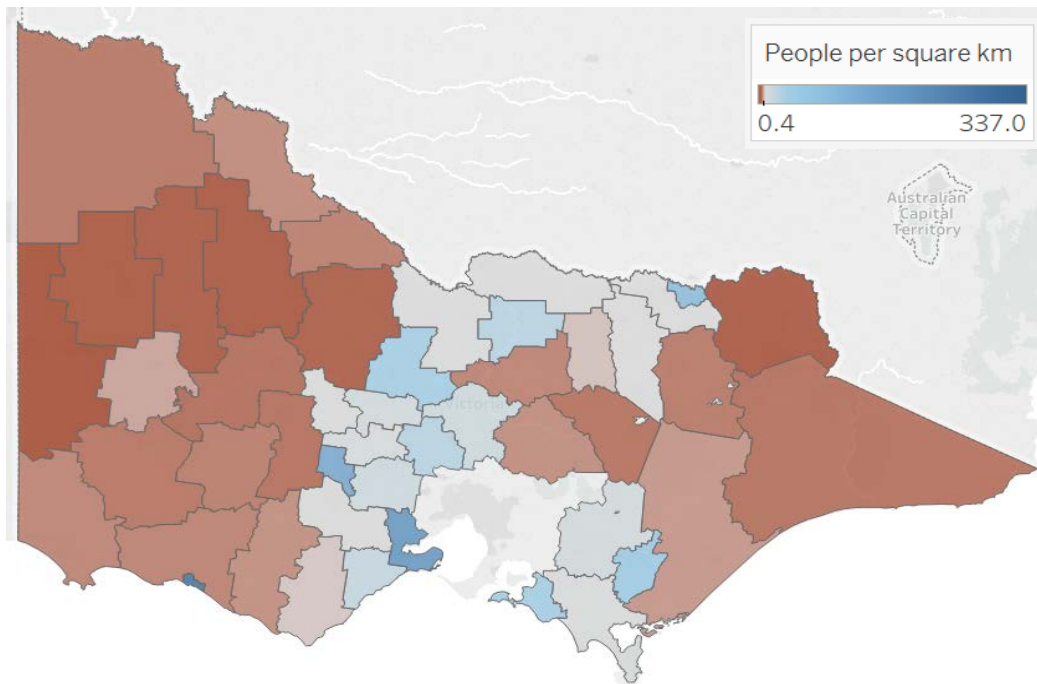
Sources: ABS Regional Population Growth, Australia, 2016 cat 3218.0; DELWP, Victoria in Future 2016.

# Rural and regional areas have low population densities, resulting in larger service delivery and asset management costs

Rural and regional councils have a low population density compared to metropolitan and interface areas. This has an impact on service delivery by increasing the cost of delivering services and maintaining assets such as roads. It also means residents may have higher travel times to reach available services.

The map below shows the relative population densities of LGAs in rural and regional areas.

## LGA Population density, 2016



### Regional Cities

- In 2016, regional cities had an average population density of close to 20 residents per square km
- This is forecast to grow to 24 residents per square km by 2031
- 2016 density levels ranged from 2.5 people/km<sup>2</sup> in Mildura to 283 people/km<sup>2</sup> in Warrnambool

### Large Shires

- In 2016, large shires had an average population density of 6 residents per square km
- This is forecast to grow to almost 8 residents per square km by 2031
- 2016 density levels ranged from 2.7 people/km<sup>2</sup> in East Gippsland to 52.4 people/km<sup>2</sup> in Bass Coast

### Small Shires

- In 2016, small shires had an average population density of 2 residents per square km
- Population density is not predicted to change significantly between 2016 and 2031
- 2016 density levels ranged from 0.4 people/km<sup>2</sup> in West Wimmera to 337 people/km<sup>2</sup> in Queenscliffe

Sources: ABS Regional Population Growth, Australia, 2016 cat 3218.0; DELWP, Victoria in Future 2016; ABS 1270.0.55.003 - Australian Statistical Geography Standard (ASGS): Volume 3 - Non ABS Structures, July 2011



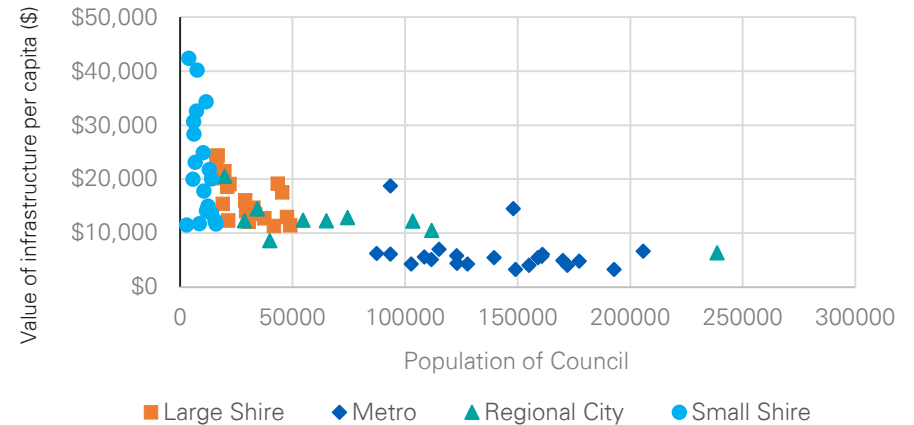
# Less populated council areas spend more per person to maintain infrastructure and provide services

Small shires (and to a lesser extent, large shires) have lower populations spread across larger areas relative to other council cohorts, particularly metropolitan LGAs and regional cities. A more dispersed population, coupled with the need to maintain longer stretches of roads and more dispersed infrastructure means that small and large shires tend to have much larger infrastructure stocks per capita than metropolitan LGAs.

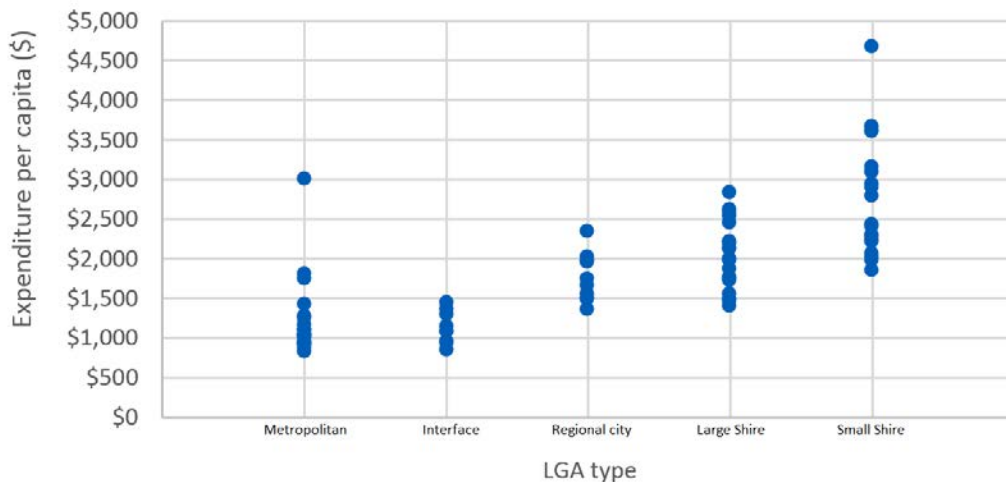
There is a clear negative correlation between the population of an LGA and its total stock of infrastructure per capita.

The need to upkeep additional infrastructure per resident is a potential barrier to financial sustainability in less populous LGAs.

Council Infrastructure per capita - 2015-16



Council expenditure per capita, 2015-16



The variation in per capita capital stock is also reflected in total council expenditure. On average, per capita expenditures are lower in metropolitan and interface council areas than in regional cities, large shires, and small shires.

Small shires have the highest per capital expenditures of any of the council areas examined, with one small shire reporting per capita expenses in excess of \$4,500.

Small shires also showed the greatest range of per capita expense results, demonstrating the impact that differing local contexts can have on council financial performance and service delivery, particularly in smaller shires.

Sources: ABS Regional Population Growth, Australia, 2016 cat 3218.0; Council submissions to the Victorian Grants Commission; Local Government audited financial statements

# Victoria's population is ageing, with this shift expected to impact the mix and scope of services all councils provide

Across Victoria, the population is ageing, with this shift expected to impact the mix and scope of services provided by councils to support their local communities. The rise in proportion of residents over the age of 65 is most notable in small shire council areas, where this group is forecast to make up around one third of the population by 2031. The proportion of residents over 65 is forecast to rise across all LGAs, except Moreland (*metro LGA*) where the proportion is expected to remain unchanged. As of 2016 the highest proportion of 65+ residents was in Queenscliffe (over 40%).

The tables below show the population in 2016 and the expected change in population by 2031.

## Population by age group, 2016

Council Group	Small Shires	Large Shires	Regional Cities	Metropolitan	Interface
<b>Under 65</b>	138,713	456,415	635,436	2,626,965	1,391,689
<b>65 and over</b>	45,434	114,495	134,791	448,965	185,459
<b>Total</b>	<b>184,147</b>	<b>570,910</b>	<b>770,227</b>	<b>3,075,930</b>	<b>1,577,148</b>

## Forecast population change 2016 to 2031

Council Group	Small Shires	Large Shires	Regional Cities	Metropolitan	Interface
<b>Under 65</b>	-10%	17%	17%	17%	40%
<b>65 and over</b>	34%	56%	52%	43%	103%
<b>Total</b>	<b>1%</b>	<b>25%</b>	<b>23%</b>	<b>21%</b>	<b>47%</b>

### Regional Cities

- In 2016, residents aged 65 and up made up 18% of the population
- By 2031, the proportion of the population over 65 is expected to rise to 22%

### Large Shires

- In 2016, residents aged 65 and up made up 20% of the population
- By 2031, the proportion of the population over 65 is expected to rise to 25%

### Small Shires

- In 2016, residents aged 65 and up made up 25% of the population
- By 2031, the proportion of the population over 65 is expected rise to 33%
- In the small shire of Queenscliffe, the over 65 age group comprises over 40% of the population, rising to nearly 50% by 2031

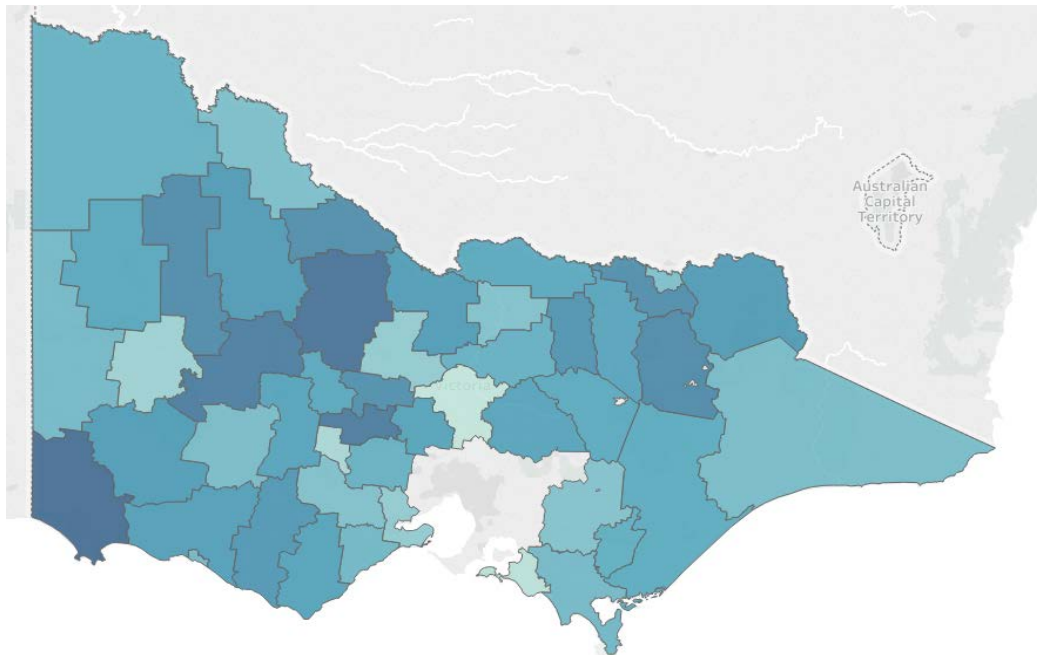
Sources: ABS Regional Population Growth, Australia, 2016 cat 3218.0; DELWP, *Victoria in Future 2016*.

# An ageing population will drive demand for particular council services and facilities at a local level

As highlighted on the previous page, the Victorian population is ageing, with the impact being clearest in some of Victoria's large and small shires. Four shires are projected to see the share of population made up by over 65s increase by more than ten per cent between 2016 and 2031, dramatically reshaping local demographics.

This trend is likely to change the scale and type of services that are expected of local councils as they respond to the changing needs of their populations. Some examples of how this trend could impact council services are provided to the right.

## Change in the proportion of population 65+, 2016-2031



### Aged care services

- An ageing population is expected to increase demand on some of the services local government often provide, including meal programs, in home support, respite, and social support activities.
- Aged care reform initiatives including the National Disability Insurance Scheme (NDIS) and Commonwealth Home Support Programme (CHSP) will have an impact on the provision of these services

### Community facilities

- Local government can expect to face declining demand for certain facilities that are not suitable for use by an ageing population, such as certain sporting facilities. Councils may be placed under pressure to provide more age appropriate facilities, while carrying the cost of maintaining legacy assets.

### Transport options

- Transport options need to be diverse in order to meet the needs of older people to access community services, friends, and family, particularly in rural and regional area. This may include the provision of community-based transport.

### Health and community engagement

- Promoting healthy ageing and lifestyle may reduce the demand for more expensive healthcare services (be they state or local government services).
- Efforts to keep individuals engaged with their community past retirement age can reduce feelings of isolation and support positive mental health outcomes.
- Local government will need to increase expenditure on such programs/initiatives as demand for them increases

Sources: ABS Regional Population Growth, Australia, 2016 cat 3218.0; DELWP, Victoria in Future 2016; Department of Infrastructure and Regional Development, 2004, Report on the operation of the Local Government (Financial Assistance) Act 1995 (Chapter 6); Australian Local Government Association, 2004, Australia's Ageing Population – Economic implications for local government

# An ageing population may constrain the capacity of rural and regional councils to raise own-source revenue

As well as impacting the demand for services that rural and regional councils often provide, the ageing of the population in rural and regional Victoria may reduce the ability of these councils to raise revenue through rates, fees, and usage charges. This is the projected result of three expected impacts of the ageing population, namely:

## Declining Rate Carrying Potential

- As a group, retirees tend to be asset rich, but income poor relative to the rest of the rate payer base. At the time of the 2016 census, roughly 66 percent of Victorians aged 70 or over reported an annual income of less than \$26,000, twice the rate of Victorians aged 20-69. Approximately 44 percent earned less than \$20,800 per annum, compared to 29 percent of those aged 20-69.
- As more of the population in rural and regional areas moves into this older age bracket (increasingly in single person households)<sup>2</sup> there is potential for there to be an increasing gap between the value of the rates that ratepayers are charged (based on the value of a property) and the capacity of those ratepayers to pay those rates (determined by the net earnings of the residents of that property).

## Increased Concession Entitlements

- In addition to the pressure that the ageing population is likely to place on the rate base of rural and regional councils, it is also expected to increase the burden associated with accommodating entitlements to pensioner rate concessions.
- An increase in the share of the population entitled to discounts on these fees and charges, coupled with a proportionate decrease in the share of the population who pay full municipal rates will have an impact on own-source revenue, particularly if rate-capping or capacity to pay constraints limit the ability of councils to increase the municipal rate itself to adjust for the growing number of concessions.

## Diminished Regional Productivity

- Many stakeholders during the consultation stage of this project identified economic growth as a key driver of council sustainability.
- If the share of the population in these areas that are past working age increases, downward pressure will be placed on average productivity and economic growth.

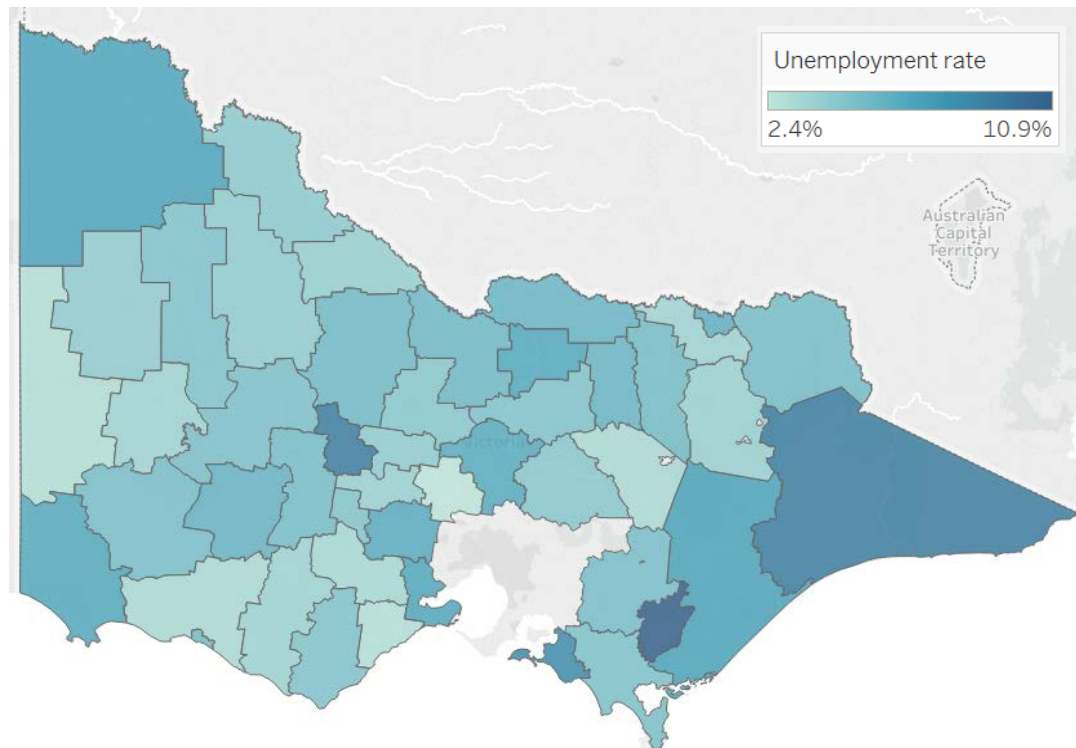
Sources: Australian Bureau of Statistics, 2017, Census of Population and Housing 2016

# Unemployment rates have risen in most LGAs since 2012

Unemployment rates have risen across the state since 2012. On average, unemployment is highest in regional cities, followed by large shires, with small shires having the lowest unemployment rates. However, small shires tend to have a high proportion of their population concentrated in the Agriculture, Forestry and Fishing industry. Ideally a regional economy would be diversified, with workers should be distributed across a variety of industry sectors to manage risk and impact in the event of a shock to that sector.

The map below shows the unemployment rates across rural and regional LGAs.

## Unemployment rate, March 2017



### Regional Cities

- Total Gross Regional Product of \$37.20 billion (2016)
- Total employment numbers of 330,191 (2014)
- Unemployment rate ranged from 3.63% in Horsham Rural City to 10.24% in Latrobe City (Q1, 2017)
- The largest industries by number of workers are Health Care & Social Assistance and Retail Trade, followed by Manufacturing

### Large Shires

- Total Gross Regional Product of \$25.67 billion (2016)
- Total employment numbers of 206,960 (2014)
- Unemployment rate ranged from 2.53% in Macedon Ranges Shire to 8.66% in East Gippsland (Q1, 2017)
- There are a diverse range of industries in large shires, including health, agriculture, manufacturing, retail, and construction.

### Small Shires

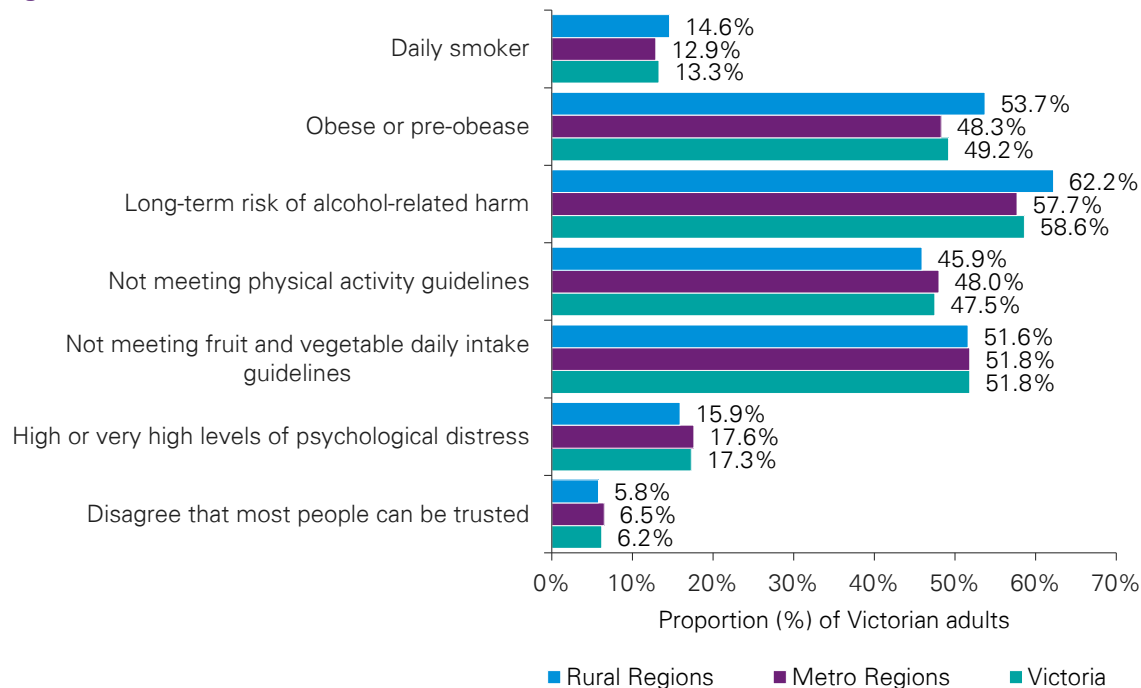
- Total Gross Regional Product of \$7.79 billion (2016)
- Total employment numbers of 70,903 (2014)
- Unemployment rate ranged from 2.86% in Queenscliffe to 8.62% in Central Goldfields Shire (Q1, 2017)
- A high proportion of workers in small shires work in the agriculture, forestry and fishing sector.

# Obesity, smoking, and other health risk factors are higher in rural and regional areas than in metropolitan areas

The health and wellbeing of Victorians is high by national and international standards; however there are health inequalities between metropolitan and rural areas, and within rural areas.

People in rural Victoria, on average, are more likely to be obese, have higher rates of tobacco smoking and higher levels of alcohol consumption than their metropolitan counterparts. Adults in rural and regional areas are also more likely to report a high level of psychological distress, in part due to isolation. The chart below shows variability in health-related risk characteristics between Victorian adults in metropolitan and rural regions.

## Prevalence of selected risk factors in Victorian adults residing in metropolitan and rural regions, 2015



### Regional Cities

- Average smoking rates are 14.8%, ranging from 9.2% in Horsham to 24.4% in Latrobe.
- The proportion of adults reporting high levels of psychological distress range from 6.5% in Horsham to 17% in Latrobe.

### Large Shires

- Average smoking rates are 15.3% in large shires. Baw Baw has the highest smoking rates at nearly 30%.
- The proportion of adults reporting high levels of psychological distress range from 5.9% in Moyne to 20.5% in South Gippsland.

### Small Shires

- Average smoking rates in small shires are the highest in the state at 17.3%, significantly higher than as well as the metropolitan average of 12.1%
- The proportion of adults reporting high levels of psychological distress range from 2.7% in Queenscliffe to 20.3% in Central Goldfields

Sources: DHHS, 2014, Victorian Population Health Survey



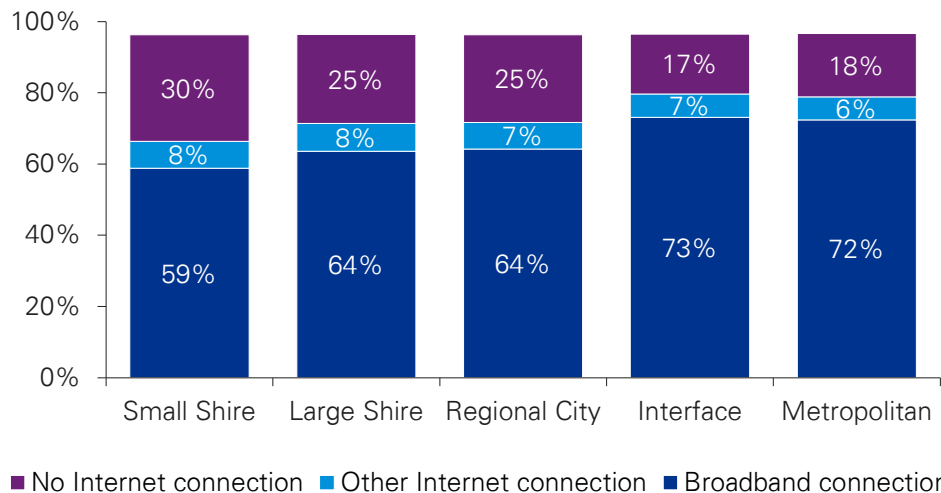
# The level and quality of digital connectivity is lower in regional and rural areas, creating challenges for service delivery

Greater connectivity, including high quality broadband, supports both community well-being and economic prosperity as well as the delivery of services such as health, education and emergency management.

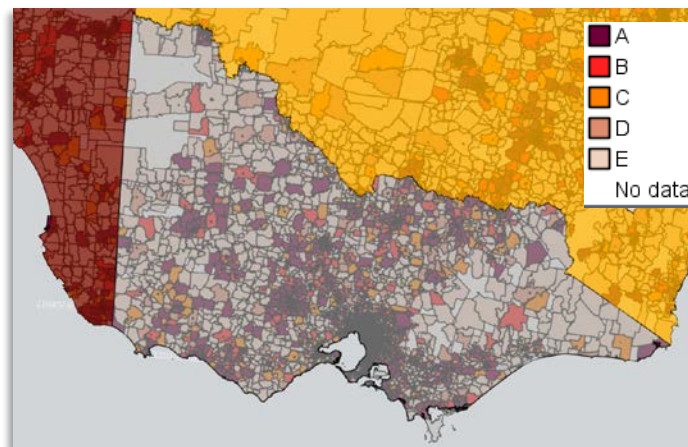
However challenges remain with the figures on this page illustrating relatively wide ranging quality of broadband outside of metropolitan Melbourne and a number of reported mobile black spots.

The Commonwealth Mobile Black Spot Program sought to improve mobile connectivity in some regional areas in 2016. Telecommunications companies were eligible to apply with support from local government in rural and regional areas, however this required a local government cash co-contribution, which may not have been affordable for some councils.

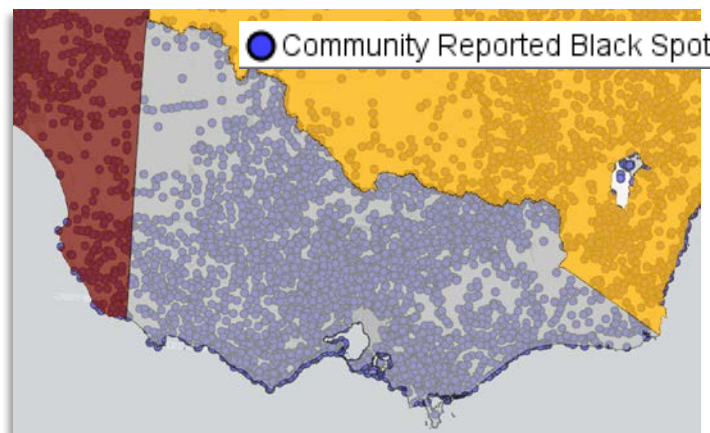
## Type of internet connection, Victorian occupied private dwellings (2011)



## Broadband Availability (A = high availability)



## Community reported Mobile Black Spots

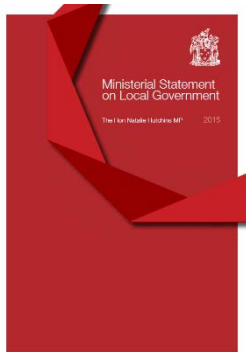


Sources: ABS 2011. Census of Population and Housing; Department of Communications and Arts (2016). Community Reported Black Spots



# A number of current Victorian Government priorities seek to improve rural and regional councils in the future

The Victorian Government works alongside local governments to improve economic, equity and liveability outcomes in Victorian communities. Key policies and commitments that will seek to improve Victorian rural and regional councils in the future are highlighted below and on the following page.



The **Ministerial Statement on Local Government** outlines the Victorian Government's plans to reform local government and help councils to deliver for all Victorian communities. The reform agenda focuses on three strategic areas for action:

1. Integrity and good governance – amendments to the Local Government Act are soon to be introduced, modernising council roles, responsibilities and relationship to the State; improving councillor governance; and strengthening the integrity of council elections.
2. Capacity and performance – a comprehensive Performance Reporting Framework has been implemented via the 'Know Your Council' website; accelerating collaborative procurement and shared services; and reducing the administrative burden on councils via a Common Funding Agreement.
3. Delivering for communities – the *Fair Go Rates system* has been implemented to strengthen rating discipline and transparency; providing additional support for interface and rural councils (including via the *\$500 million Regional Jobs and Infrastructure Fund*); integrating state and local infrastructure investment; and strengthening social inclusion.



- **Victoria's Regional Statement**, released in 2015 sets out a plan for greater engagement in regional areas and outlines key challenges faced in Victoria's rural and regional communities
- It outlines a strategy to address a range of challenges including strong regional economies for the creation of jobs in regional Victoria, transport and infrastructure, education, healthcare, and quality of life in regional communities.
- The Regional Statement set out a plan for the establishment of nine **Regional Partnerships**, to build cooperation between communities, industry, businesses and Government.
- Regional Partnerships provide a platform for engagement with the Victorian Government, in order to understand the varied challenges faced by regional communities and ensure that unique regional priorities are understood by government.

Sources: Rural Councils of Victoria (2017), *2017-18 Budget Submission*. Retrieved from: [http://www.ruralcouncilsvictoria.org.au/wp-content/uploads/170323\\_RCV-budget-submission-Final-1.pdf](http://www.ruralcouncilsvictoria.org.au/wp-content/uploads/170323_RCV-budget-submission-Final-1.pdf); Victorian Infrastructure Plan, 2017, [https://www.premier.vic.gov.au/wp-content/uploads/2017/10/2017\\_Victorian\\_Infrastructure\\_Plan.pdf](https://www.premier.vic.gov.au/wp-content/uploads/2017/10/2017_Victorian_Infrastructure_Plan.pdf)

# A number of current Victorian Government priorities seek to improve rural and regional councils in the future (cont.)



- Infrastructure Victoria's **30-year Infrastructure Strategy** makes a number of recommendations to improve the provision, operation, maintenance and use of infrastructure in regional and rural Victoria.
- The Strategy places a particular focus on the need to address infrastructure challenges in areas with low or negative population growth (Need 2) and the need to improve access to jobs and services for people in regional and rural areas (Need 12). It includes recommendations that the state provide additional funding to support local government.
- The Strategy recognises the significant role that local government plays in infrastructure planning and delivery. It also recognises the need for local government to adopt a more strategic approach to asset management and maintenance, given that most of the infrastructure Victorians will use in 30 years' time is already in place today.
- The Victorian Government's response to the Strategy includes a commitment of \$2.7 billion over two years towards regional public transport, including upgraded stations and new connections. It also includes funding for regional roads and bridges, and other initiatives for rural and regional Victoria such as doubling the first home buyer grant, improving bandwidth and connectivity for students, redevelopment of Goulburn Valley Health, and improving water security in South West Loddon.<sup>2</sup>

## Further State Government Initiatives

A number of further programs and initiatives delivered by the Victorian Government that impact on rural and regional Victoria are outlined below:

- Regional Jobs and Infrastructure Fund is a \$500 million Victorian Government grant package that provides funding for the three programs:
  - The **Regional Infrastructure Fund** (\$250 million), aimed at investing in major infrastructure projects that facilitate economic growth
  - The **Regional Jobs Fund** (\$200 million), to help companies growth their workforce and create jobs in regional areas
  - **Stronger Regional Communities Plan** (\$50 million), aimed at improving the liveability of rural and regional towns to attract population

Sources: State Government of Victoria (2016), *Victoria Grants Commission Annual Report 2015-16*, p.7. Retrieved from: <https://www.localgovernment.vic.gov.au/council-funding-and-grants/victoria-grants-commission>

# A number of Commonwealth Government programs and priorities will impact rural and regional councils in the future

The Commonwealth Government provides a range of assistance to build stronger and more prosperous rural and regional communities. The Financial Assistance Grants Program is a key source of funding for local government.



- The **Financial Assistance Grants program** provides 'untied' grants to all Victorian councils to be used towards the provision of council services. These grants are a core revenue stream for councils, particularly small rural councils who have a smaller ratepayer base.
- The program is usually indexed annually in line with inflation and population growth. However, indexation was paused between 2014 and 2017, resulting in Victorian councils missing out on approximately \$200 million in grants.
- This is administered and allocated by the Victoria Grants Commission (VGC).

Future changes to the Financial Assistance Grants program – for example, pausing indexation of the grants or changing the methodology for distribution of the grants – are likely to impact the sustainability of rural and regional councils in Victoria.

## Further Federal Government Initiatives

A number of further programs and initiatives delivered by the Federal Government that impact on rural and regional Victoria are outlined below:

- The establishment of the **Regional Australia Ministerial Taskforce** in March 2017
- The **Regional Growth Fund**, which is providing \$472 million in grants from 2017-18 to 2020-21 for infrastructure and community projects in regional and remote Australia, including \$200 million for the **Building Better Regions Fund**. These grants will be available to local governments and not-for-profit organisations.
- The **Infrastructure Investment Program (IIP)** which provides funding to help councils maintain and upgrade road and rail infrastructure. In 2017-18, Victoria will receive \$20.2 million from the Black Spot program, \$142.4 million from the Roads to Recovery program and \$12.3 million from the Bridges Renewal program. The IIP also provides funding for major road and rail infrastructure projects.
- The **Regional Investment Corporation (RIC)** will be established in 2018 to streamline the delivery of up to \$4 billion in concessional loans – available to farm businesses and state governments – that will help secure growth, investment and resilience in rural and regional communities.
- **Mobile Black Spot Program** committed \$600 million to investment in mobile connectivity in small rural areas, along major transport routes, and in areas prone to natural disaster.

Future changes to regional development policies, programs and regulations are likely to impact the level of Commonwealth Government assistance provided directly to rural and regional councils in Victoria or indirectly to the broader community.



# 3.2 Financial performance








# Regional and rural councils face financial pressures given high reliance on external funding and a growing cost base

A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the level and scope of services and infrastructure agreed with its community<sup>1</sup>. To demonstrate financial sustainability, a council should evidence that:

- they are aiming for a break-even budget scenario or have an attainable operating surplus target in the medium to long-term;
- operating expenditure programs are managed and delivered with stability and predictability from the revenue generated and demonstrate an ability to pay their liabilities when due; and
- resource allocation for service and infrastructure investment is based on an equitable distribution of the revenue (rates, fees, charges, other income) for current and future generations

Analysis undertaken as a part of this project has highlighted the following key observations regarding the financial performance of regional and rural councils:

## Key findings:

	Page
 <p>Finding 8: Small, large and regional councils have a smaller population base from which to raise their own source revenue such as rates and fees and fines which places pressure to deliver services in the absence of grant funding</p>	46-49
 <p>Finding 9: High reliance on grant revenue may place financial pressure on rural and regional councils as the level of grants change</p>	50
 <p>Finding 10: Regional and rural councils are expected to become more reliant on external funding sources to maintain infrastructure and deliver services. Small shire councils face particular financial pressures in maintaining a break-even operating position</p>	52
 <p>Finding 11: Funding for capital expenditure is forecast to decline for regional and rural councils which places greater financial pressure on these councils to renew and expand capital</p>	51
 <p>Finding 12: Low working capital levels may hinder the ability of regional city councils to absorb adverse financial shocks in future. Most councils have liquidity positions at or above accepted norms</p>	53,56
 <p>Finding 13: Small and large shire councils are looking to reduce their levels of debt, rather than fund capital expenditure. There may be opportunities for more cost effective borrowing and debt management for some councils with low levels or no debt so costs are spread over a number of years.</p>	57
 <p>Finding 14: Local government costs are growing faster than the rate of inflation according to a number of historical cost indices</p>	55

Note: (1) This definition is drawn from a 2013 New South Wales Treasury Corporation (TCorp) study into the financial sustainability of New South Wales councils

# Financial snapshot

The table below provides an overview of the aggregate financial performance and position of each council cohort. The table illustrates the relative scale of revenue and expenditure across each cohort. Adjusted revenue and adjusted underlying surplus / deficit have been used in the table as this better reflects the underlying activity of the councils as it excludes non recurrent capital grants etc. Small, large and regional councils collectively generated deficits in FY16 which is a key indicator of financial sustainability.

However, the performance of the council cohorts presented below may be impacted by the timing of government grants received. For example, the first financial assistance grant payment for 2015-16 was received by councils in June 2015, and therefore recorded in 2014-15.

2015/2016 financial snapshot \$'000	Small Shire	Large Shire	Regional City	Interface	Metropolitan
<b>Adjusted Revenue<sup>1</sup></b>	\$404,279	\$1,023,632	\$1,175,638	\$1,747,083	\$3,732,011
<b>Expenses</b>	\$447,565	\$1,045,033	\$1,192,613	\$1,588,385	\$3,440,355
<b>Adjusted surplus/deficit<sup>1</sup></b>	-\$43,286	-\$21,401	-\$16,975	\$158,698	\$291,656
<b>Cash and financial assets</b>	\$140,125	\$322,014	\$298,782	\$718,620	\$1,205,286
<b>Total Interest-bearing loans and borrowings</b>	\$42,675	\$155,163	\$246,935	\$260,501	\$492,929

The following pages explore the financial performance and the financial pressures faced by rural and regional councils in further detail.

Source: Local Government audited financial statements

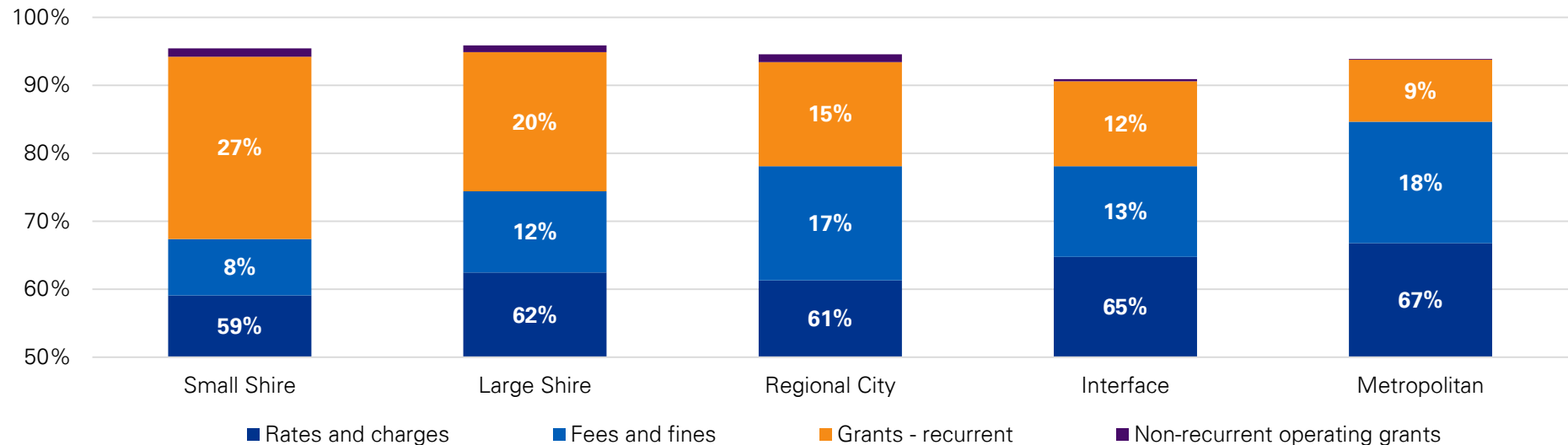
Notes: (1) Adjusted revenue and the adjusted underlying surplus (deficit) excludes revenue from Non Recurrent Capital Grants and developer capital contributions, both cash and non cash.

# Regional and regional councils generate less own-source revenue and rely more on grant funding than metropolitan councils

Small shire, large shire and regional city councils raise a smaller proportion of total revenue from rates, fees and fines relative to metropolitan councils. Consequently, these councils rely more heavily on external grants to fund their operations. The capacity of a council to generate sufficient revenue to fund operating expenditure is a key indicator of long-term sustainability.

Small, large and regionals councils have a smaller population base from which to raise their own source revenue such as rates and fees and fines which places pressure to deliver services in the absence of grant funding. Small councils in particular have the smallest population bases and as a result generate the least amount of own source revenue such as rates and charges and fees and fines. These drivers are explored further over the following pages.

## Rates, charges, fees and grants as a percentage of adjusted revenue – 2015/16<sup>1</sup>



Source: Local Government audited financial statements and Strategic Resource Plans

Note: 1) The balance of adjusted revenue includes monetary contributions, interest income, net gain on disposal of property, infrastructure, plant and equipment, and any other sources of income identified by the council.

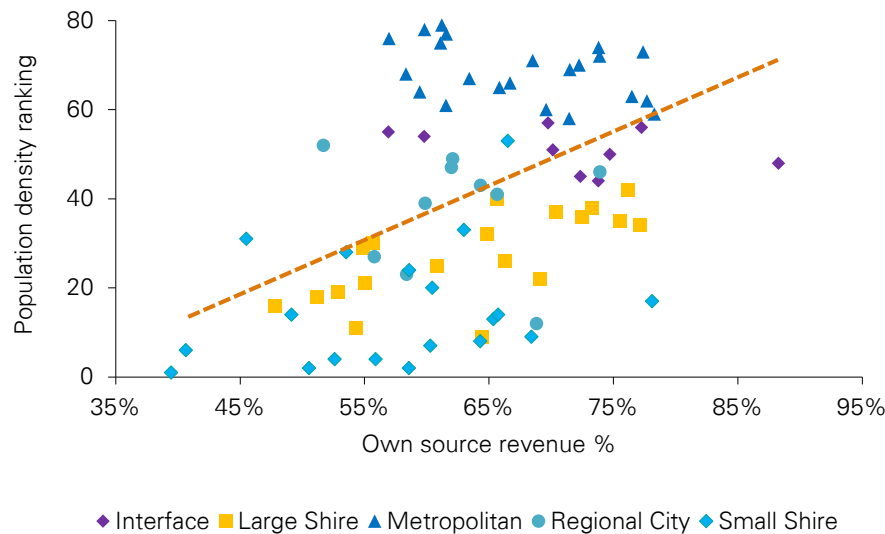


# Rural and regional council population bases limit their capacity to generate own-source revenue

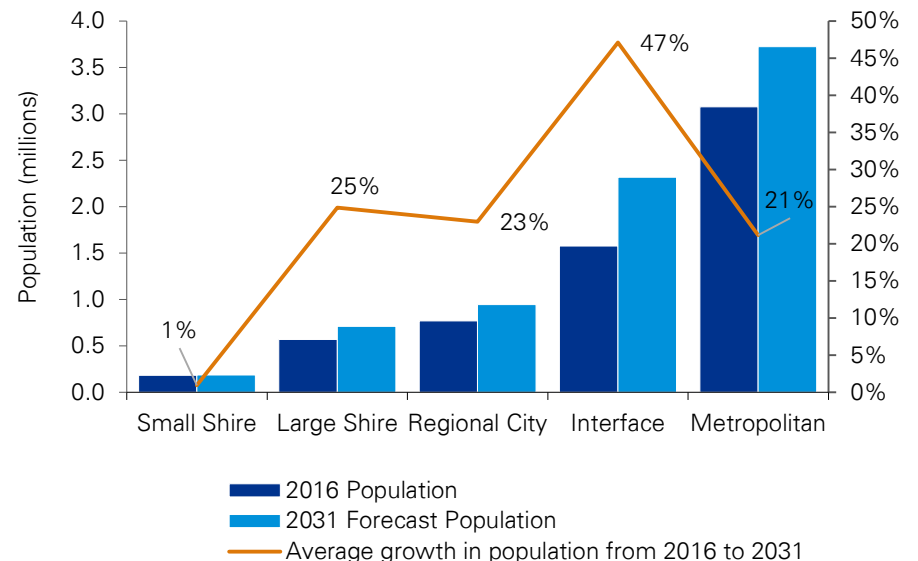
Regional and rural councils have smaller population bases and lower population density (*population as a proportion of area*) relative to Victorian interface and metropolitan councils as illustrated below (bottom left). The chart below (left) suggests a strong relationship exists between population density and the capacity of a council to generate own source operating revenue. The chart shows small shire and large shire councils are those with both the lowest population densities and greatest reliance on external funding.

The level of reliance on external funding sources will continue, and in some cases be exacerbated, in future given the expected rate of population growth. The chart below (right) shows that local populations are projected to grow by one per cent through to 2031 for the small shire council cohort. Of the 19 small shire councils, nine are expected to see population declines by 2031. Similarly, while the large shire cohort will see an overall growth in population size, four councils will see their local populations decline. These councils can be expected to become reliant on external funding to a greater degree over time.

**Population density, percentage of total revenue sourced from rates, fees and charges – 2016**



**Current and projected populations and rate of population growth – 2016 to 2031**



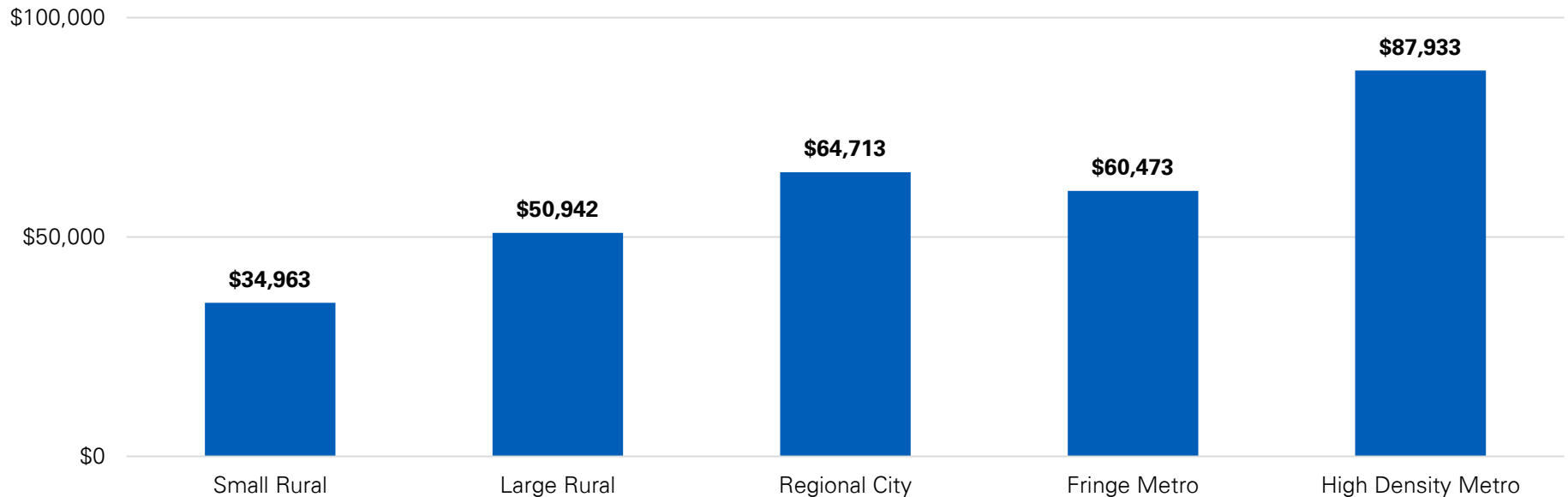
Sources: ABS Regional Population Growth, Australia, 2016 cat 3218.0; Local Government audited financial statements and Strategic Resource Plans

# Communities in small shire and large shire council areas have less capacity to pay rates and charges relative to city and metro areas

In addition to smaller population bases, residents in small and large councils have relatively lower capacity to pay council rates, fees and charges as modelled by Merv & Rohan Whelan (illustrated below).

The key driver of capacity to pay is net disposable income. Lower capacity to pay may impact a council's ability to generate and increase the level of own-source revenue. This impacts small and large shire councils in particular.

## Capacity to Pay Index – 5 year Average - 2007-2012



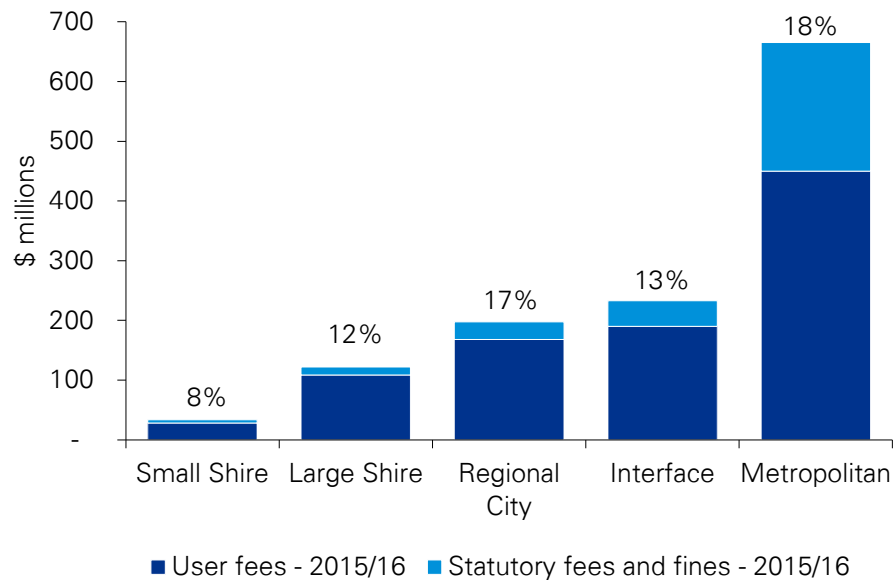
Source: Local Government Financial Sustainability Review, Merv & Rohan Whelan, 2012

# Rural and regional councils generate less user fees and fines revenue, with small shires generating the least

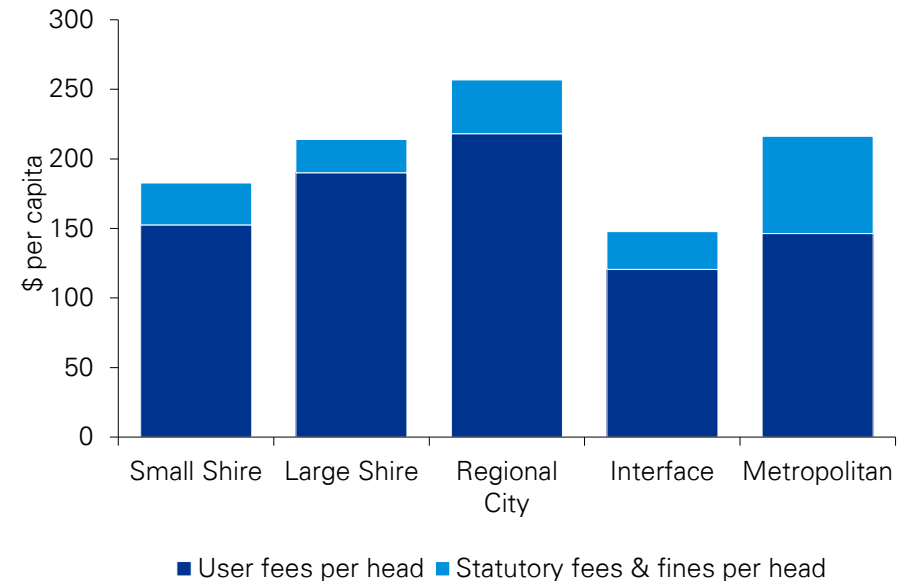
In 2015/16 user fees and statutory fees and fines accounted for 8% (\$33.6m) of small councils revenue as illustrated in below (bottom left). This is significantly less than other council cohorts and is largely driven by population size. The chart (bottom right) shows that on a per-capita basis, small shire council populations pay a similar amount to those of metropolitan council areas. Residents of regional city councils pay more per person than other council cohorts.

This outcome may also be driven by the types of fees and fines able to be collected from local populations. Metropolitan and interface area councils would have a greater capacity to generate various types of statutory fees and fines such as planning and environmental fees than regional and rural councils.

**User fees and statutory fees and fines – 2015/2016**



**User fees and statutory fees and fines per capita – 2015/2016**



Source: Local Government audited financial statements and Strategic Resource Plans

Note that the percentage quoted in the above graph is the proportion of user fees and statutory fees and fines over total adjusted revenue.

# High reliance on grant revenue may place financial pressure on rural and regional councils as the level of grants change

The level of grants provided to local government declined in real terms in recent years, primarily due to a policy decision to temporarily freeze of indexation rates of the core Commonwealth Government Financial Assistance Grants (FAGs).

The Victorian Grants Commission allocates FAGs, and provides a greater share of funding to regional and rural councils. This share has been increasing over time as shown in the chart (right).

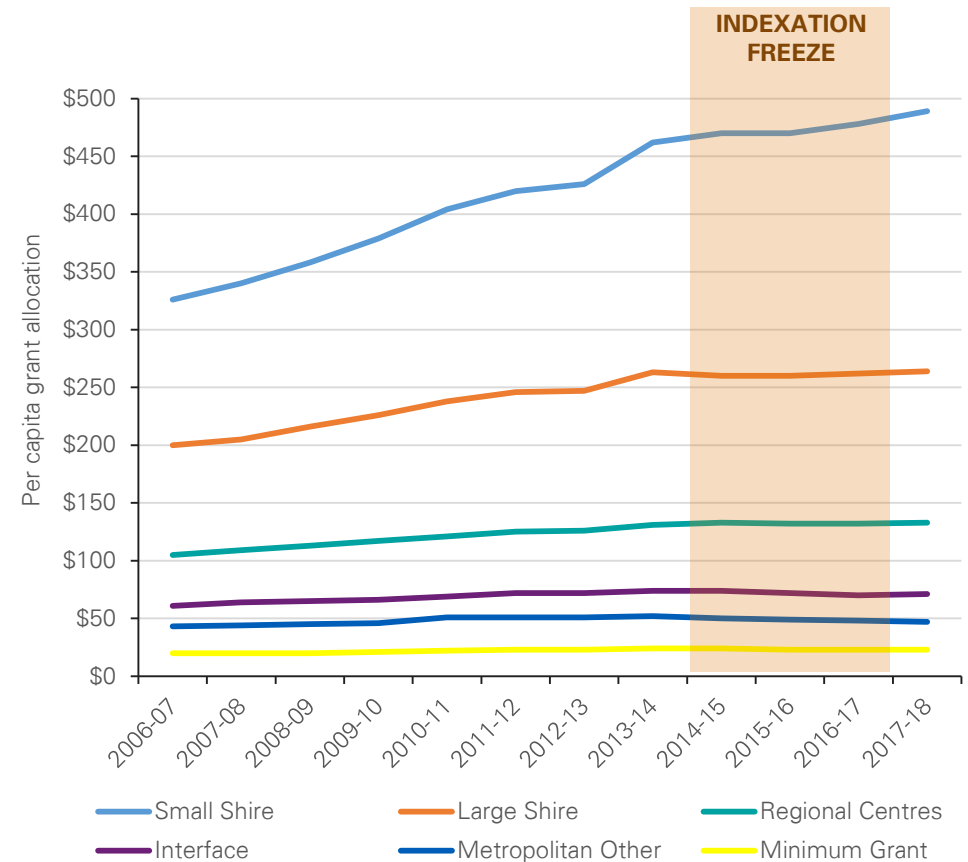
The time period of the indexation freeze is highlighted in the chart. Over this period, the level of grant funding remained fairly constant, with the exception of small shire councils which were allocated additional funding through the Victorian Grants Commission (VGC) allocation methodology.

In June 2013, VAGO tabled a Performance Audit on the 'Organisational Sustainability of Small Councils'. The report raised concerns about the growing dependency of these councils on government grant revenue:

*'Given Commonwealth and State Government budget positions, and the economic climate, the audited councils increasing reliance on grants may expose them to significant financial risk if the value and number of grants is reduced.'*

In their 2015-16 Local Government Audit, VAGO linked the decline in capital grant revenue, combined with a steady level of expenditure, to an expected decline in the operating result of small shire councils and a reduction in the funds available for investment in property, plant and equipment. The operating result of councils is explored further in the following pages.

**Total Grants Per Capita by Council Group – 2006-07 to 2017-18**



Sources: Victorian Auditor General Performance Audit, June 2013, p.8; Victorian Auditor General, Local Government: 2015-16 Audit Snapshot; November 2013, p.ix; Chart based on analysis undertaken by Local Government Victoria – data sourced from council submissions to the Victorian Grants Commission and ABS Regional Population Growth, (3218.0)

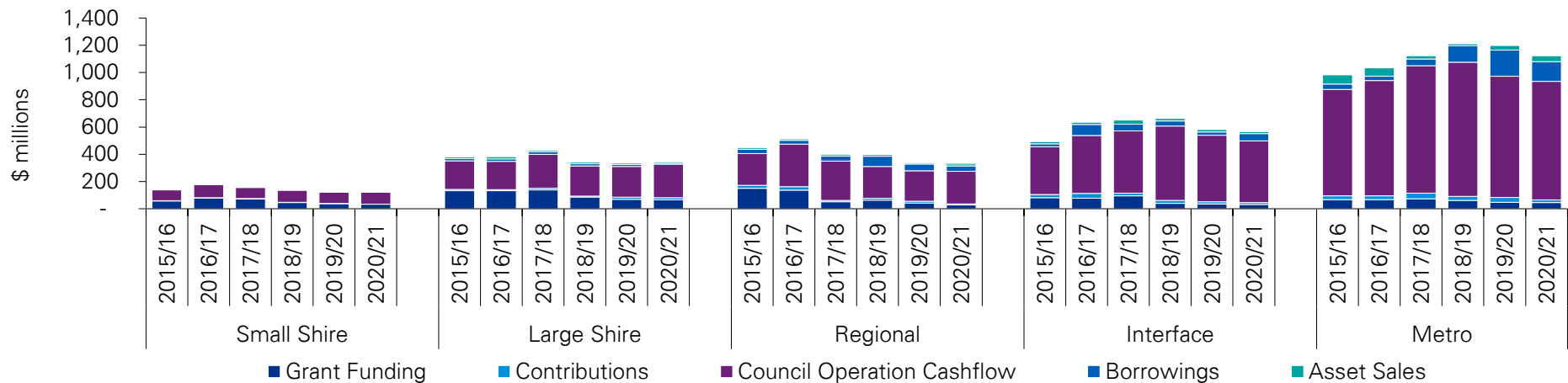
# Funding for capital expenditure is forecast to decline for regional and rural councils which places greater financial pressure on these councils to renew and expand capital

Councils fund most of their capital expenditure from their operational cash flows. The chart below shows that the proportion of total capital expenditure coming from operational cash flows are significant larger than other funding sources such as grants and borrowings for all council cohorts. However, small and large shire councils rely more heavily on grant funding to fund their capital expenses relative to the other cohorts.

All councils are forecasting the level of grant funding for capex purposes will decline over the period to 2021. **Note, these forecasts should be considered with caution due to the limitations in forecasting grant levels up to 2020/21.**

Small shire and large shire council cohorts are forecasting an overall decline in capital funding sources. Given this decline, there will be greater pressure on the these councils to fund their capital expenditure. In the absence of grant funding the ability of small shires to continue to provide the same level of infrastructure may be impacted, particularly in the delivery of new infrastructure as their capital expenditure will likely be allocated toward asset renewal.

## Capital expenditure funding sources actual (2015/16) and forecast (2016/17 to 2020/21)



Source: Local Government audited financial statements and Strategic Resource Plans

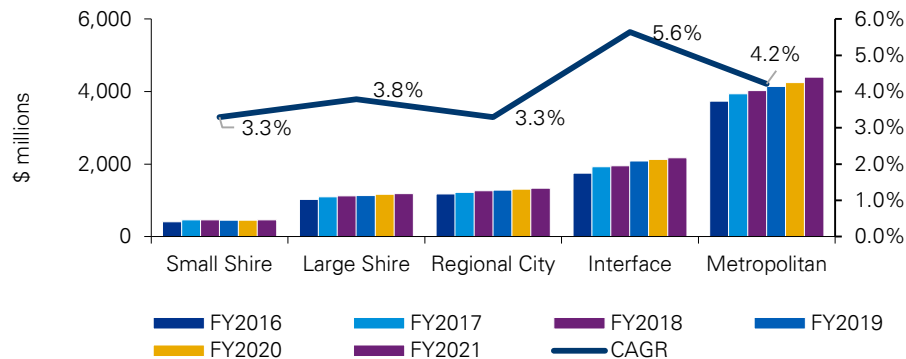
# Small shire councils are expected to become more reliant on external funding and face additional financial pressure in future

Adjusted revenue represents the revenue available to councils to support operational spending. It excludes non-recurrent capital grants used to fund capital expenditure; non-monetary asset contributions; and other contributions to fund capital expenditure.

Adjusted revenue by council cohort will increase between 3.3% and 5.6% from 2016 to 2021. This is primarily driven by indexation<sup>1</sup> and the expected growth in local populations.

The level of growth in revenue is lowest for small shire and regional city councils, which will place pressure on them to maintain current service levels. Particularly given the rates of growth in local government cost indices, which are in some cases close to four per cent per annum.

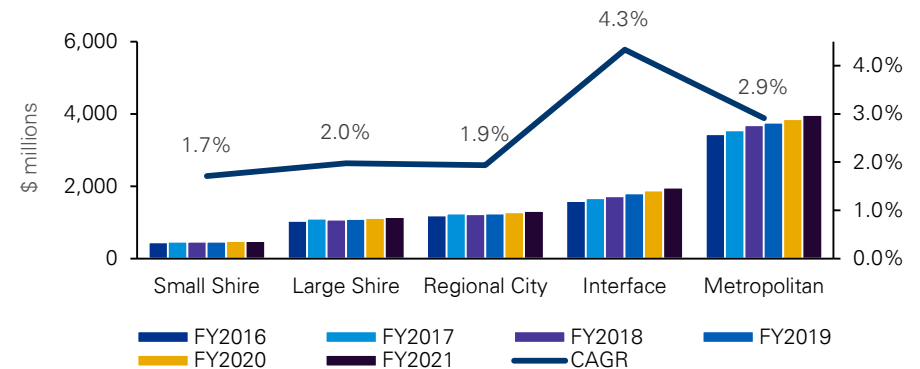
## Adjusted revenue – 2016 to 2021



The chart below shows the forecast growth in expenditure of each council cohort. The regional and rural council cohorts are projecting growth in overall expenditure between 1.7% to 2.0% per annum, while the metropolitan and interface council cohorts are projecting higher rates of growth in expenditure, at 2.9% and 4.3% per annum, respectively.

The three largest expenditure groups for all councils are employee costs, materials and services, and depreciation and amortisation. Rural and regional councils are projecting lower rates of growth for materials and services (0.3% to 0.9%) relative to metropolitan and interface council cohorts (2.5% and 3.4%). Employee costs for rural and regional councils are expected to increase between 2.1% to 3.1% over the period. Interface councils are projecting the largest growth in all expenditure items, particularly employee costs and depreciation (above 5% per annum).

## Total expenditure – 2016 to 2021



Source: Local Government audited financial statements and Strategic Resource Plans (for forecast data), Know Your Council data. Notes: (1) Adjusted revenue and the adjusted underlying surplus (deficit) excludes revenue from Non Recurrent Capital Grants and developer capital contributions, both cash and non cash. (2) Underlying result is Adjusted revenue less total expenses.

Notes: (1) The Reserve Bank of Australia economic outlook 2017 forecasts CPI inflation of between 1.5 and 2.75 per cent up to the beginning of the 2020 financial year, and between 2 to 3 per cent for the 2020 financial year. See RBA 2017 August Economic Outlook at <https://www.rba.gov.au/publications/smp/2017/aug/pdf/06-economic-outlook.pdf>

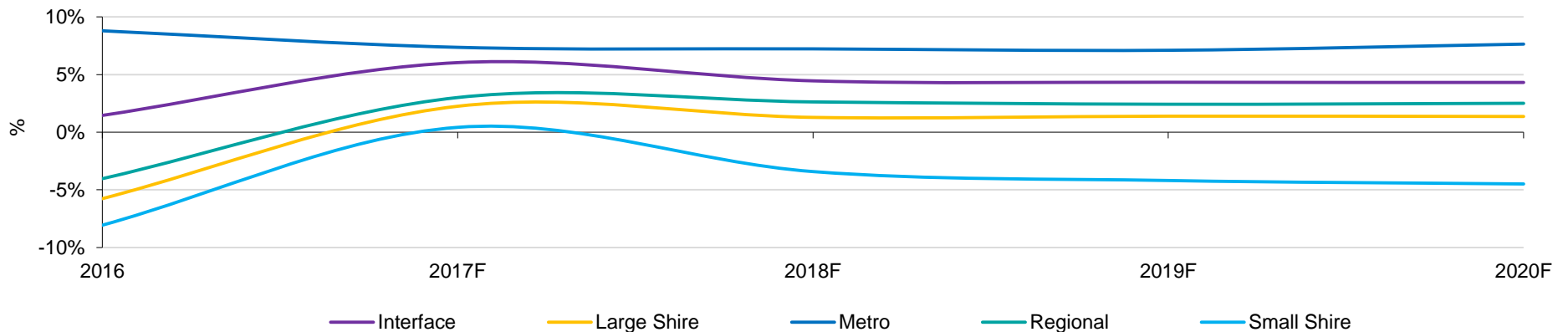
# Small shire councils are forecasting deficits as a cohort, which increases reliance on government support and places pressure on their ability to maintain assets and deliver services

Underlying result as a percentage of revenue is an indication of the capacity to meet on-going expenditure. Achieving a breakeven operating position on an ongoing basis is essential. The sustainability of councils is dependent on generating sufficient funds to meet the cost of maintaining and renewing assets and service delivery. Note the source the financial forecast data used in this report are council unaudited financial statements and strategic resource plans.

**The forecast results anticipate that all council cohorts with the exception of small shire councils are at least break-even if not generating a surplus. Small shire councils are forecasting deficits as a cohort, which increases reliance on government support and places pressure on the ability to maintain assets and deliver services, particularly those with a large asset maintenance funding gap (in 2015/16, ten out of 19 small shire councils had expenditure asset renewal below the level of depreciation on those assets).**

25 councils are forecasting to be in an underlying deficit position in the 2020 financial year, comprised of 14 small shire, 8 large shire, 2 regional councils and 1 metropolitan council.

## Adjusted underlying result as a percentage of revenue



Source: Local Government audited financial statements and Strategic Resource Plans (for forecast data), Know Your Council data. Notes: (1) Adjusted revenue and the adjusted underlying surplus (deficit) excludes revenue from Non Recurrent Capital Grants and developer capital contributions, both cash and non cash. (2) Underlying result is Adjusted revenue less total expenses.



# The local government sector is projected to be in surplus by the 2018 financial year, despite ongoing deficits for the small shire council cohort

The table below presents the forecasted underlying result for each council cohort, regional and rural councils as a group, and for the sector overall. Despite ongoing deficits for the small shire council cohort, the rural and regional council group (and overall sector) are expected to hold a surplus operating position from the 2018 financial year onwards.

Underlying result as a percentage of revenue is an indication of the capacity to meet on-going expenditure. Achieving a breakeven operating position on an ongoing basis is essential. The sustainability of councils is dependent on generating sufficient funds to meet the cost of maintaining and renewing assets and service delivery.

Adjusted underlying result – 2015/16 to 2020/21 \$'000	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Small Shire	-\$43,286	-\$10,758	-\$11,995	-\$13,908	-\$24,667	-\$26,917
Large Shire	-\$21,401	-\$5,928	\$45,707	\$34,945	\$39,556	\$35,341
Regional City	-\$16,975	-\$23,116	\$38,270	\$30,285	\$26,832	\$25,862
<b>Regional and rural area councils</b>	<b>-\$81,662</b>	<b>-\$39,802</b>	<b>\$71,982</b>	<b>\$51,322</b>	<b>\$41,721</b>	<b>\$34,286</b>
Interface	\$158,698	\$254,855	\$225,997	\$282,189	\$252,456	\$212,738
Metropolitan	\$291,656	\$393,090	\$339,478	\$382,582	\$392,037	\$429,294
<b>All Victorian councils</b>	<b>\$368,692</b>	<b>\$608,143</b>	<b>\$637,457</b>	<b>\$716,093</b>	<b>\$686,214</b>	<b>\$676,318</b>

Small shire cohort deficits range from \$10.7m and \$26.9m between FY17 and FY21. These annual amounts are a small portion of the total local government funding allocation and could potentially be addressed through revisions to the existing financial assistance grant allocation methodology, which is the primary mechanism for horizontal fiscal equalisation across the sector.

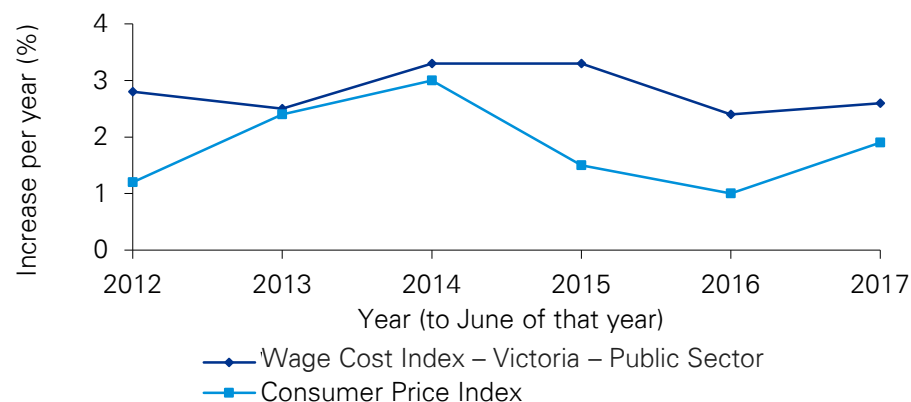
Source: Local Government audited financial statements and Strategic Resource Plans (for forecast data), Know Your Council data. Notes: Adjusted revenue and the adjusted underlying surplus (deficit) excludes revenue from Non Recurrent Capital Grants and developer capital contributions, both cash and non cash. Underlying result is Adjusted revenue less total expenses.

# Council costs are expected to increase at a greater rate than inflation, placing pressure on councils to maintain service levels

With wages a key cost driver for councils, expenditure growth is closely tied to changes in wages. Wage growth in the public sector in Victoria has consistently grown more rapidly than the Consumer Price Index (CPI), with above CPI growth in each of the assessed years. During several of the assessed years, public sector wages grew at more than twice the rate of CPI.

Local Government Cost Indexes (LGCI) prepared in NSW and Victoria assess the key cost drivers for local government. These also suggest that council costs are increasing at a rate faster than inflation, with the Victorian LGCI exceeding CPI by 1.4 percentage points per annum on average between 2012 and 2014.

**CPI vs Public Sector Wage Growth (State and LG inclusive), Victoria, 2012 - 2017**



Cost Index	2012	2013	2014	2015	2016	2017
NSW LGCI (annual change to September) <sup>1</sup>	3.7	2.8	2.5	1.8	1.5	1.50 (projected)
Municipal Association of Victoria LGCI (annual change to June) <sup>2</sup>	3.6	3.9	3.4	Not published	Not published	Not published
CPI (annual change to June) <sup>3</sup>	1.2	2.4	3.0	1.5	1.0	1.9
Wage Cost Index for VIC Public Sector (annual change to June) <sup>4</sup>	2.8	2.5	3.3	3.3	2.4	2.6
Road and Bridge Construction Index for Victoria (index value for June of the given year) <sup>5</sup>	101.9	104.7	107.1	107.4	105.1	105.9

Sources: (1) Independent Pricing and Regulatory Tribunal New South Wales, 2013-2017, rate peg for NSW fact sheets 2011/12-2016/17; (2) Municipal Association of Victoria, 2007-2014, Cost Index reports 2012-2014; (3) Australian Bureau of Statistics, 2017, All Group CPI Australia (4) Australian Bureau of Statistics, 2017, Wage Price Index, Australia 2017; (5) Australian Bureau of Statistics, 2017, Producer Price Indexes, Australia, 2017.

# Low working capital levels may hinder the ability of regional city councils to absorb adverse financial shocks in future

The current assets to current liabilities ratio is a measure of council's liquidity. This is a common indicator of financial strength as it measures the ability of an organisation to meet its short-term obligations. A current ratio of 2:1 is a generally accepted norm, where a higher or increasing ratio suggests an improvement in liquidity.

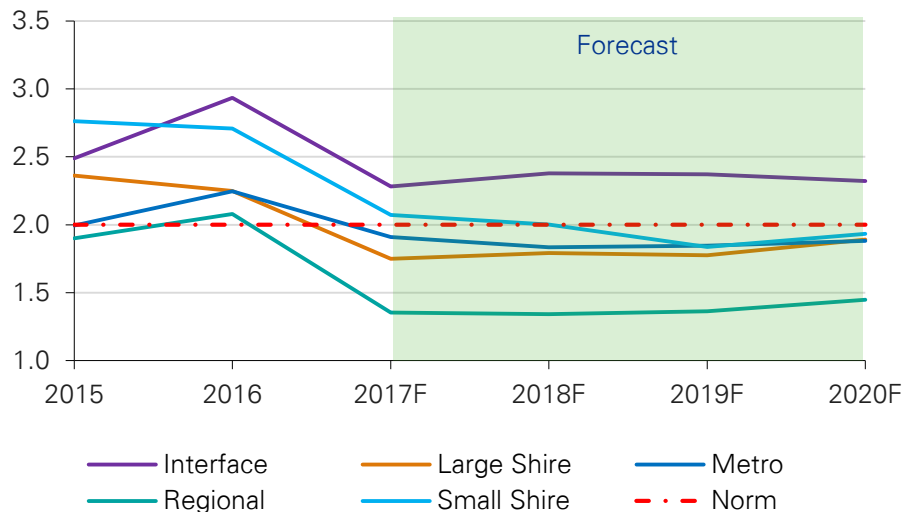
A low working capital level may hinder the ability of a council to absorb adverse financial outcomes. A ratio below one could indicate that an organisation may face issues meeting its short-term obligations.

With the exception of regional councils, the remaining council cohorts are forecasting a ratio of approximately 2:1 as shown below. All regional and rural councils achieved a ratio above one during the 2015-16 financial year.

To support their liquidity positions, councils have three major categories of cash reserves: cash and cash equivalents, short term investments and longer term investments. The table below presents cash as a percentage of revenue, which shows the extent to which a council is able to absorb adverse cash events i.e. lower revenue or higher costs and service debt.

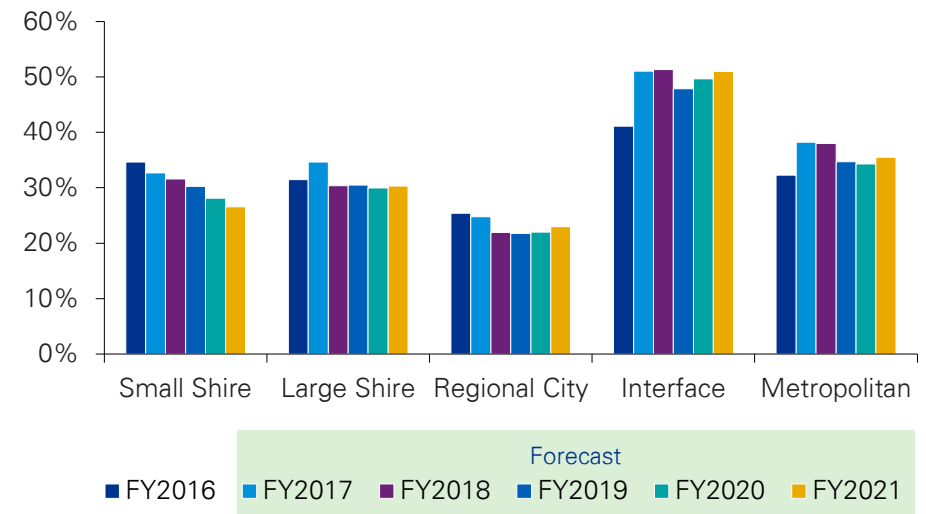
Small, large and regional cities councils hold between 20%-35% of cash and financial assets relative to their revenue. This level is similar to metropolitan councils for 2015/16. This ratio is forecasted to decrease for small shires which may reduce the capacity of these councils to absorb adverse cash events such as a reduction in revenue, or to service further debt to fund capital expenditure. Regional cities are also forecasting a decline in their cash and financial asset holdings relative to operating revenue.

## Current assets to current liabilities ratio



Source: Local Government audited financial statements and Know Your Council data

## Cash and financial assets as a % of adjusted revenue – 2016 to 2021



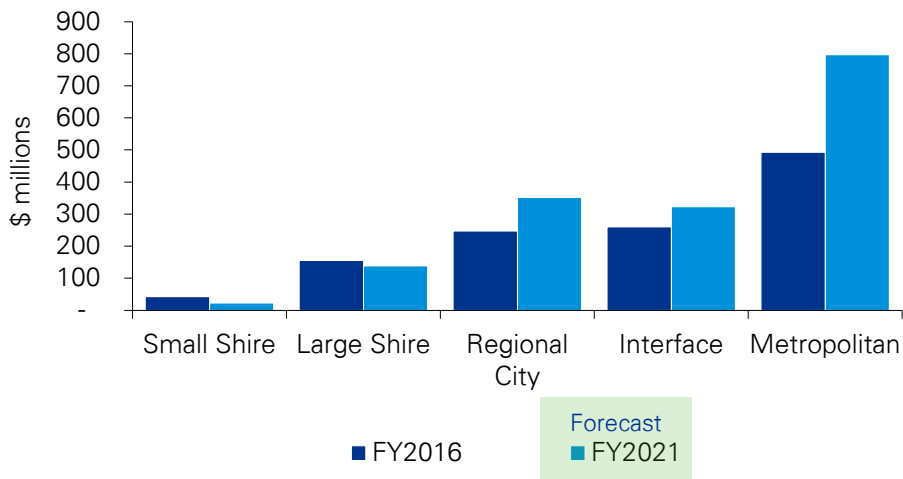
# Small and large shire councils are looking to reduce their levels of debt, rather than fund capital expenditure

The level of borrowings varies between council cohorts. Borrowings as a proportion of rates revenue is lowest for small and large shire council cohorts and highest of for the regional city council cohort. The absolute level of borrowings is anticipated to decline for small shire and large shire council cohorts and increase for all other council cohorts.

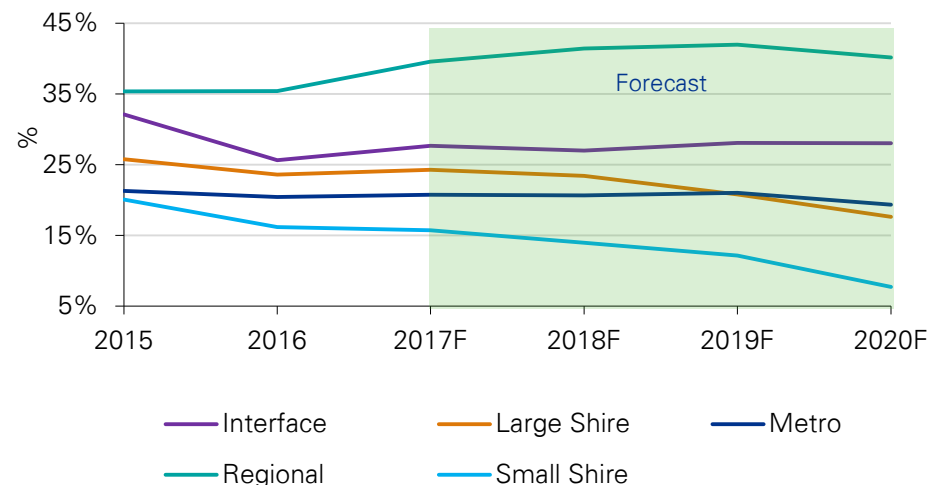
A key driver of the level of borrowings is expected capital expenditure. The charts below show how the regional city council cohort is forecasting to increase their borrowings to fund capital expenditure, whilst the small shire and large shire council cohorts expect to pay down their existing debt and reduce debt levels further. The reduction of debt levels by small and large shire council cohorts will assist them to remain financially sustainable as revenue generated is used to provide services rather than service debt. The higher the borrowings the greater the imposition to repay from council’s own-source revenue such as rates.

There may be opportunities for more cost effective borrowing and debt management for some councils with low levels or no debt. For example, ten (of 19) small shire councils had borrowings between zero to ten percent of their rates revenue in 2015/16. Some of these councils also have strong cash flows and low rates of asset renewal. These councils could consider using their financial capacity further to borrow funds to upgrade infrastructure, spreading the cost of this renewal over a number of years.

**Borrowings – 2016 and 2021**



**Borrowings as a percentage of rates revenue**



Sources: Local Government audited financial statements and Know Your Council data;

Notes that the percentages quoted in the borrowings as a percentage of rates chart represents a % change in borrowings from FY2016 to FY2021

# Rural and regional councils are responding to financial pressures by initiating cost reduction initiatives, including reprioritising service and infrastructure delivery in some areas

There is evidence to suggest rural and regional councils have implemented cost reduction initiatives (including adjusting the mix and scope of their services) in response to financial pressures brought on from various policy changes, including the recent freeze on indexation of Commonwealth financial assistance grants and the introduction of rate caps. A summary of these responses is provided below.

## Evidence Source

## Summary of Council Responses to Financial Pressures

### Project stakeholder consultations

During the consultation process for this project, stakeholders indicated that their councils had, in many cases, responded to the indexation freeze and other funding changes by **reducing infrastructure maintenance and renewal activities and the scope of services delivered to their communities**. Cited examples included the elimination of a community bus used to transport elderly residents to community activities, closing or reducing library and community facility hours, and ceasing home and community care for vulnerable members of the community. Cuts to economic development activity and other spending that is considered to be highly valuable but ultimately discretionary were also described<sup>2</sup>.

### Higher Cap Applications by Rural and Regional Councils to the ESC

The Victorian Government's Fair Go Rates system set a cap on the extent to which councils can raise their rates without approval from the Essential Services Commission (ESC). In 2016/17, the cap was 2.5 percent, with the 2017/18 cap now having been set at 2 percent, in line with CPI.<sup>1</sup> Councils can apply for a higher cap if they can demonstrate community support and a critical need for spending on services or projects that require a rate rise above the cap. The ESC judgment approving Towong Shire Council's request for approval for four years of sequential 5.55 percent rate rises stated that **"Towong's application demonstrates that it has undertaken and continues to undertake measures to improve its financial position, including undertaking a range of major cost reduction initiatives over the past six years."**

Six councils were given approval to adopt higher rate rises in 2016-17, and four have been given approval for 2017-18. **The decision to approve rate rises above the cap reflected the Essential Services Commission's view that the applying councils had taken robust measures to support their financial sustainability beyond seeking to raise rates.**

### Council / peak body submissions

Council and peak body submissions to the current *Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils* also provide evidence of responses of rural and regional councils to current financial pressures. These submissions provide several examples of a **reduced capacity of councils to provide services and renew infrastructure** as a result of financial pressures<sup>3</sup>.

A number of submissions also note that the impact of the **national funding allocation principle requiring all councils to at least receive a 30% minimum grant, which sees significant, mainly urban, councils with large and increasing populations grow their share of the overall grant pool thus reducing the balance available for all of the remaining Councils in the state**<sup>3</sup>.

Sources: (1) LGV, 2017. *A fair go rates system for Victorians*, 17 November 2017, accessed at <https://www.localgovernment.vic.gov.au/our-programs/a-fair-go-rates-system-for-victorians>; (2) See the following report for further examples: Australian Centre of Excellence for Local Government, 2015, *Rural Council Sustainability Project Stage 2 Report*, p18; (3) See submissions made by Horsham Rural City Council, Glenelg Shire Council, MAV, Rural Councils Victoria, Hume Region Local Government Network, City of Greater Bendigo, Latrobe City Council, among others – submissions accessed at <https://www.parliament.vic.gov.au/enrrdc/inquiries/article/2591>



# 3.3 Operational efficiency and effectiveness







# Regional and rural councils face a number of challenges in delivering infrastructure and services for their communities

An efficient and effective council plans, designs, manages and delivers infrastructure and services in ways that optimises use of financial, human and natural resources to meet current and future needs of their local communities<sup>1</sup>. To demonstrate effective operational efficiency and effectiveness, a council should:

- ensure development, maintenance and renewal of infrastructure assets appropriately leverages operational and capital resources, funded by a combination of Council finances and borrowings to reduce any backlog
- work strategically with partners to deliver cost effective services that leverage opportunities of scale and scope
- ensure service delivery unit costs represent value for money to the community
- prioritise resources to deliver infrastructure and operational programs and projects on time and to budget
- deliver services in alignment to community need in accordance with defined standards
- respond to the diverse and changing needs of different communities.

Analysis and consultation undertaken as a part of this project has highlighted the following key findings with respect to barriers faced by regional and rural councils in the delivery of infrastructure and services to their communities:

## Key findings:

		Page
	Finding 15: The functions delivered by local government have broadened in scope and increased in complexity over time. Regional and rural councils spend more of their budgets to meet demands for core functions, leaving less for the growing set of functions expected by their local communities	61
	Finding 16: Specific local factors place additional costs on the delivery of services and infrastructure for some regional and rural councils, particularly councils in remote areas, councils that service seasonal (holiday) peak crowds, and councils with critical freight routes	68
	Finding 17: Rural and regional councils face relatively higher unit costs in maintaining assets and in the delivery of some services. Large council areas with large lengths of roads and dispersed populations drive up costs in core functions.	66
	Finding 18: Growth in expenditure is outpacing growth in available revenue for some key functions delivered by regional and rural councils, placing additional pressure on rural and regional councils to consider the type and level of services provided	69
	Finding 19: Small Shires' capital expenditure is focused on asset renewal, with relatively less expenditure on new capital	64
	Finding 20: Rural and regional councils record high levels of community satisfaction and service delivery performance for a number of key services relative to metropolitan and interface area councils, though this is not the case for local roads, planning permits and weed control	72

Note: (1) This definition draws on the New South Wales Government Office of Local Government Integrated Planning and Reporting Framework



# The functions delivered by local government have broadened in scope and increased in complexity over time

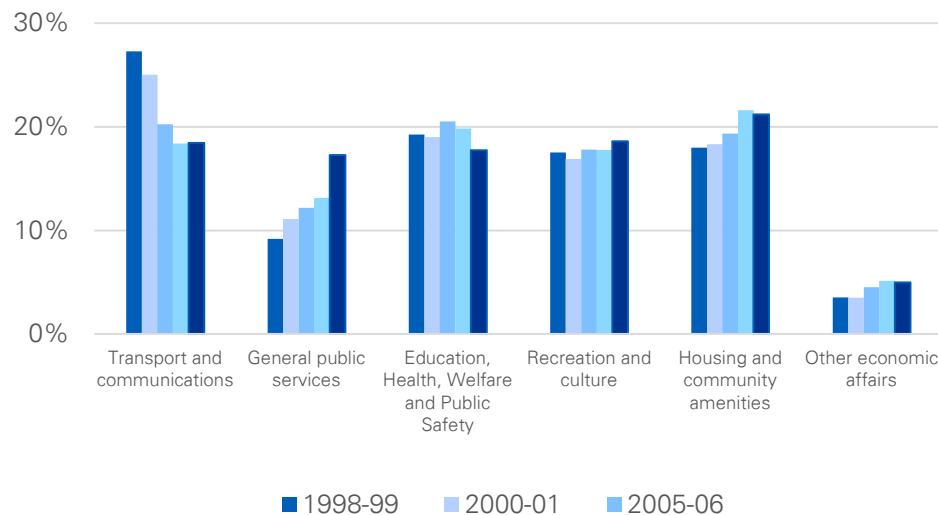
The functions of local government have broadened over time, with an increasing role in the delivery of social functions, such as management of health and community safety, as well as a regulatory role in the areas of development and planning, public health and environmental management.

A range of factors<sup>1</sup> are driving this outcome, including (among others):

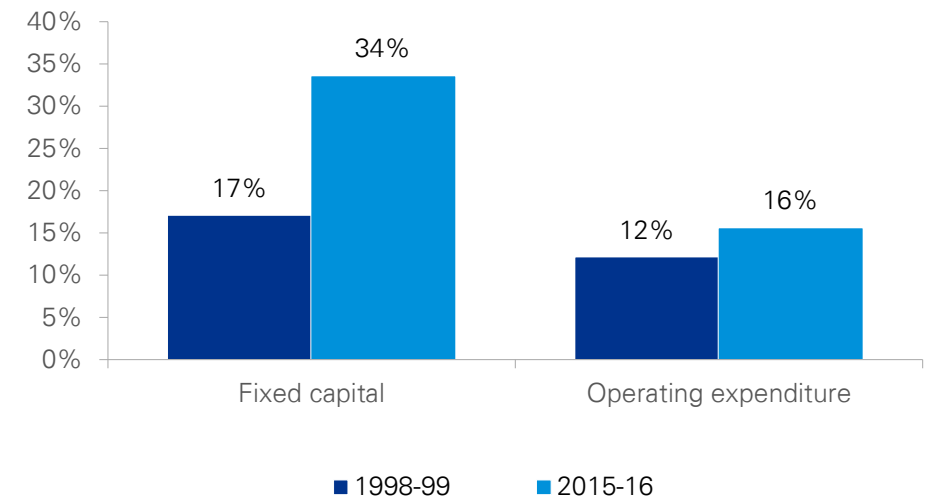
- increasing community expectations regarding core local government services
- increasing complexity or standard of service delivery
- devolution of service delivery responsibility for select functions (with the reverse also occurring in some cases)
- filling gaps in services, as a 'provider of last resort', left by other spheres of government.

While road expenditure continues to be the largest capital expenditure item, its share of total expenditure has declined as responsibilities for other services and assets (i.e. social infrastructure) has increased.

## Victorian local government expenditure by purpose



## Fixed capital and operating expenditure, Victorian local government share of Public Sector spending



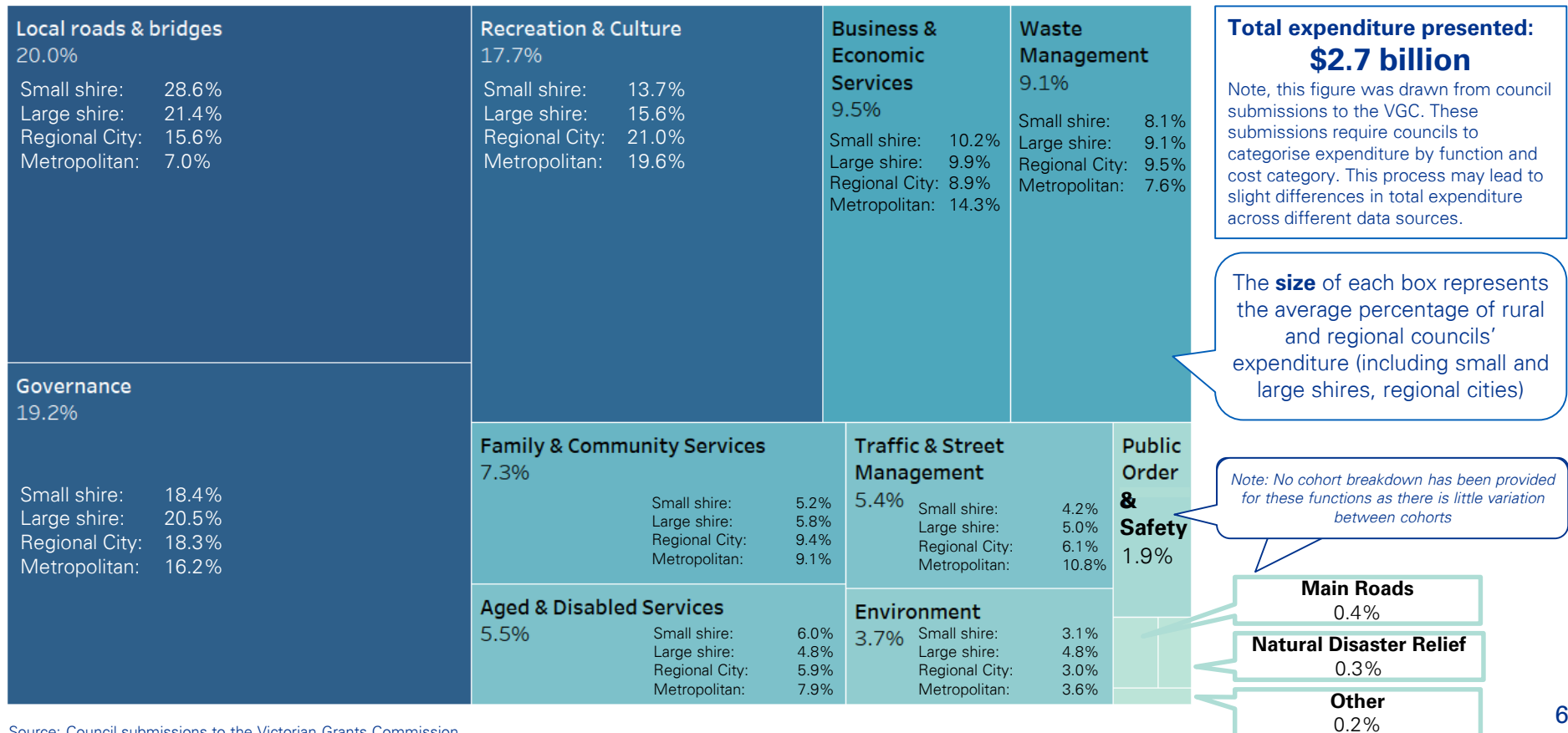
Source: ABS, Government Financial Statistics – 1998 - 2016

Notes: (1) See the Standing Committee on Economics, Finance and Public Administration Rates and Taxes Inquiry Report (2003) for further discussion of the factors driving the broadening of local government functions

# The share of council expenditure on specific functions varies greatly for different council cohorts

The cost map below shows a breakdown of rural and regional council's expenditure by function. The most expensive function for rural and regional councils is local roads and bridges, accounting for 20 per cent of all expenditure, closely followed by governance (19.2 per cent). The proportion of spending on local roads and bridges is much higher than in metropolitan councils (7 per cent), due to the longer road lengths that rural and regional councils are required to maintain, with relatively few roads maintained by VicRoads compared to in metropolitan councils.

**Percentage of rural and regional council's expenditure by function (small shire, large shire & regional cities) – 2015-16**  
*(cohort breakdowns are shown within each function's box for comparison)*



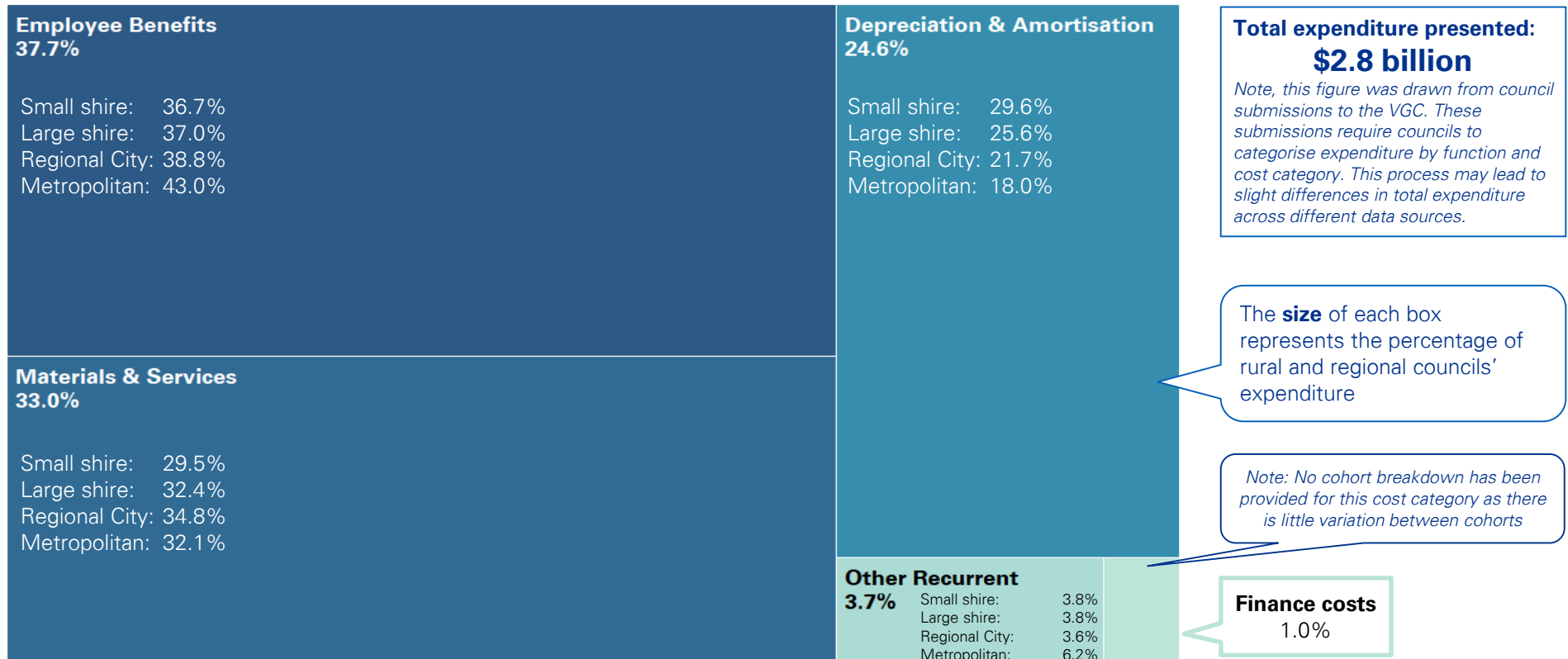
Source: Council submissions to the Victorian Grants Commission

# Employee costs are the largest expenditure item for all councils, while rural & regional councils spend relatively more on depreciation

The cost map below shows a breakdown of expenditure by cost category. On average for all types of councils, the largest cost category as a proportion of spending was employee benefits, although this was higher for metropolitan councils (43 per cent) than for rural and regional councils (37.7 per cent on average).

Depreciation & amortisation was significantly higher for small shires than for metropolitan areas (29.6 per cent and 18 per cent respectively), due to the significantly longer lengths of roads in rural areas, for which small shires are responsible.

## Percentage of rural and regional council expenditure by cost category (small shire, large shire & regional cities) – 2015-16 (cohort breakdowns are shown for comparison)



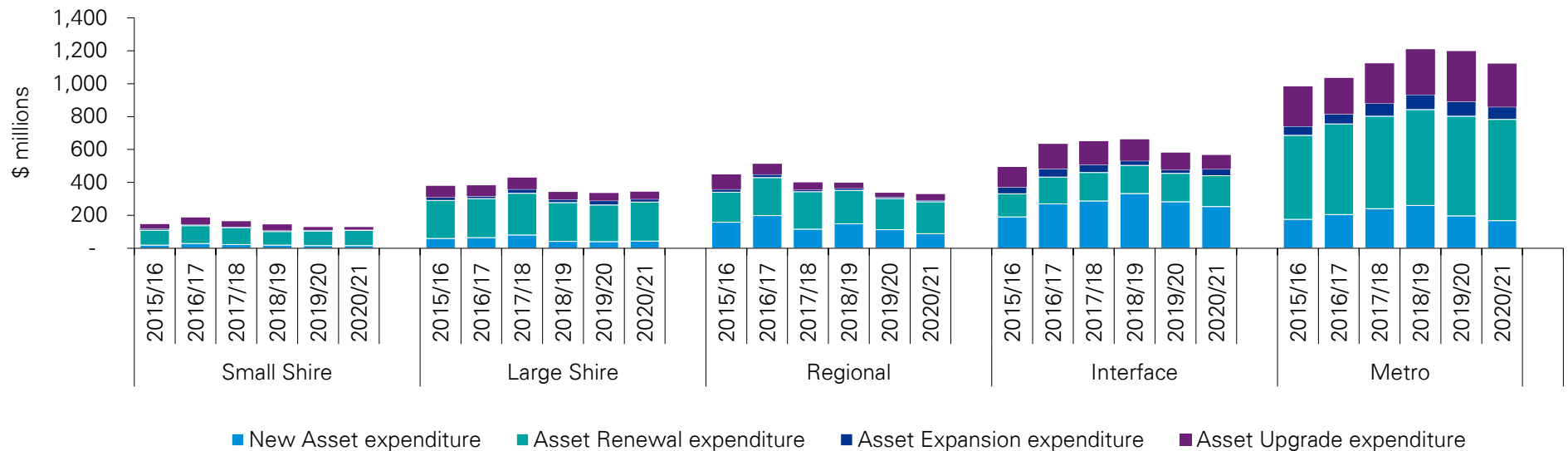
# Small shires' capital expenditure is focused on asset renewal, with relatively less expenditure on new asset spending

The chart below shows that metro councils have the greatest level of capital expenditure such as land, buildings, plant and equipment and infrastructure (including roads, bridges and parks) whilst small shires have the least. The composition of capital expenditure shows that small shire and large shire councils spend most on maintaining their existing level of assets through renewal, rather than on new assets, expansions or upgrades.

Small shires focus is on asset renewal as opposed to new asset expenditure in order to maintain current infrastructure provided. Small shires are forecasting to spend 61% (\$89m) of capital expenditure on asset renewal as compared to metro who spend 52% (\$511m).

Small shires undertake less new capital expenditure relative to metropolitan councils, in part due to lower projected population increases, but also due to a relatively higher focus on asset renewal.

## Capital expenditure actual and forecast

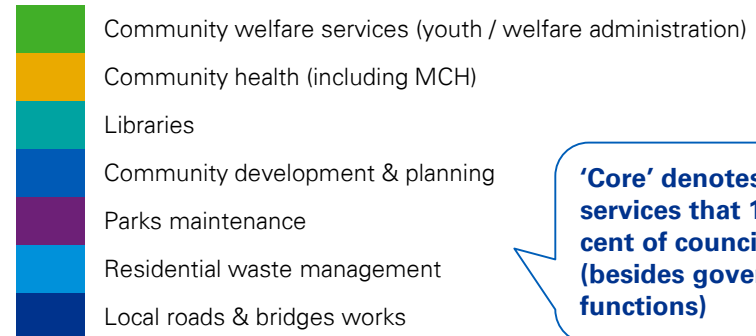
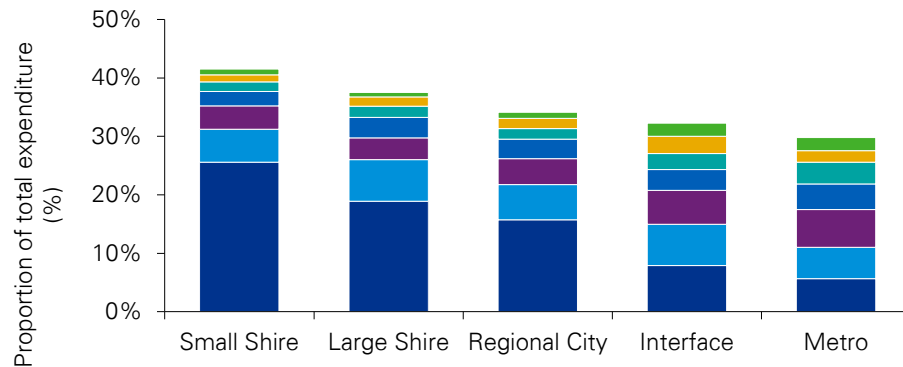


Source: Local Government audited financial statements and Strategic Resource Plans

# Regional and rural councils spend more of their budgets to meet demands for core services, leaving less for other functions

The proportion of total expenditure spent on 'core'<sup>1</sup> local government functions shows that R&R councils spend more on these functions, leaving less for the delivery of other functions.

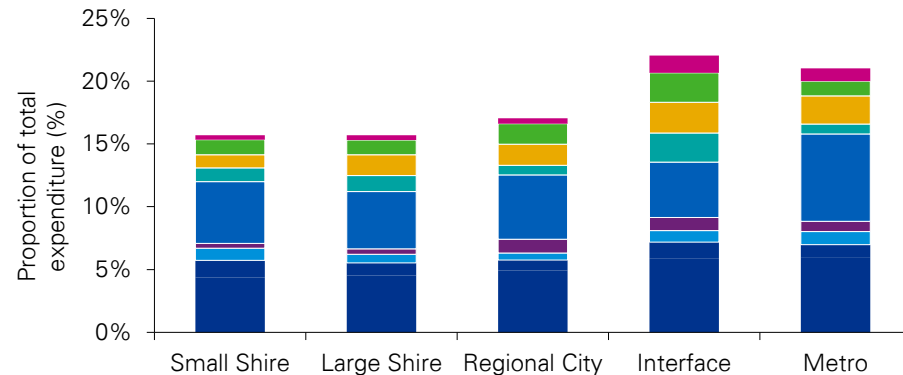
## Selected core<sup>1</sup> services, % of total expenditure



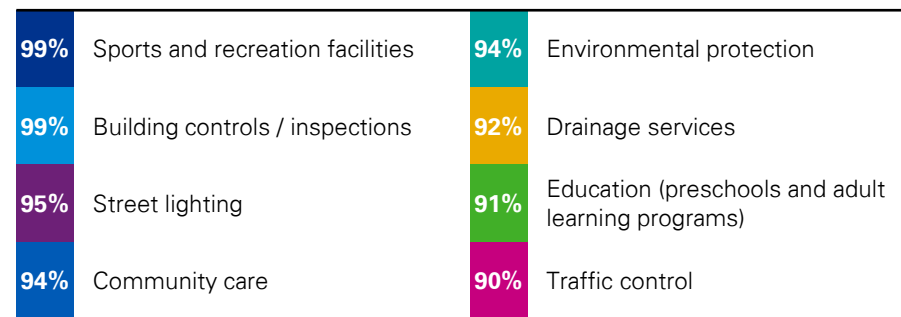
'Core' denotes the seven services that 100 per cent of councils perform (besides governance functions)

'Expected' denotes the next eight most frequently provided services (besides governance functions)

## Other 'expected'<sup>2</sup> services, % of total expenditure



% of total councils with > \$0 expenditure



Sources: Local Government Victoria – data sourced from Victorian Grants Commission

Note: 1) For the purposes of this analysis, 'core' services are defined as the services that are provided by 100% of councils, whereas 'expected services' denote those for which over 90% of councils have recorded expenditure. 2) Only one council did not record expenditure against building controls and inspections, and sports and recreation facilities. These are core council services, however for the purposes of this analysis they were excluded as it is unclear the reason that no expenditure was recorded for the councils in question.

# Rural and regional councils face relatively higher unit costs in maintaining assets and delivering some services

The total area of regional and rural councils is significantly larger (and population density lower) with resulting challenges for the management of infrastructure (see below) responsibilities and service delivery (see right).

Local government building and infrastructure portfolios have continued to grow over time increasing the cost and complexity of asset management.

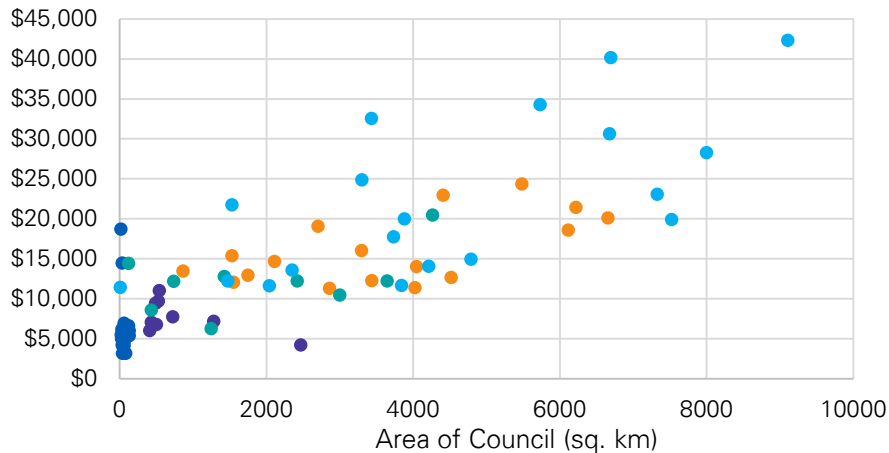
*The higher cost of delivering Maternal and Child Health services in small shires is in part due to the distances that nurses have to travel between centres.*

**Cost to council of the MCH service per hour of service delivered (2015/16)**



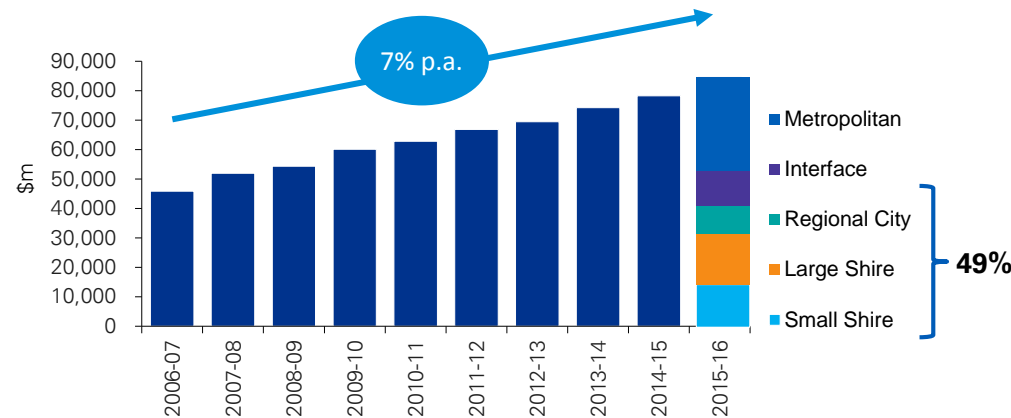
Source: 'Know Your Council' data collection

**Value of infrastructure per head (\$) relative to area (2015/16)**



Source: ABS Cat. 3218, Council asset register / road management system

**Local government, land and fixed assets (\$m)**



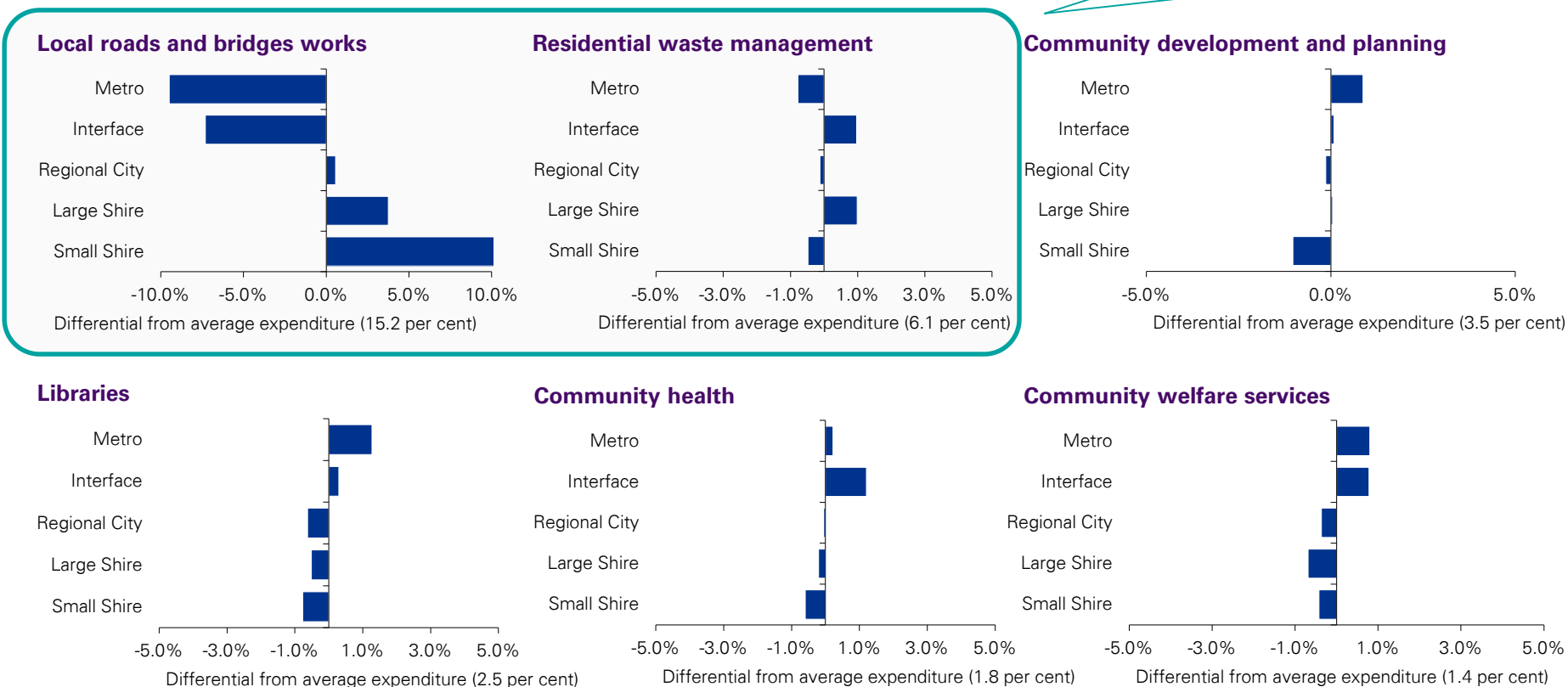
Source: ABS 2017, Government Finance Statistics, 2015-16

**Key:** ■ Small Shire ■ Large Shire ■ Regional City ■ Interface ■ Metro

# Regional and rural councils spend less on average on community planning, libraries, health and welfare services relative to metropolitan and interface area councils

The charts below show how much more or less each council cohort spends on particular services relative to the average across all councils

## Selected core services, % of total expenditure



Sources: Local Government Victoria – data sourced from Victorian Grants Commission

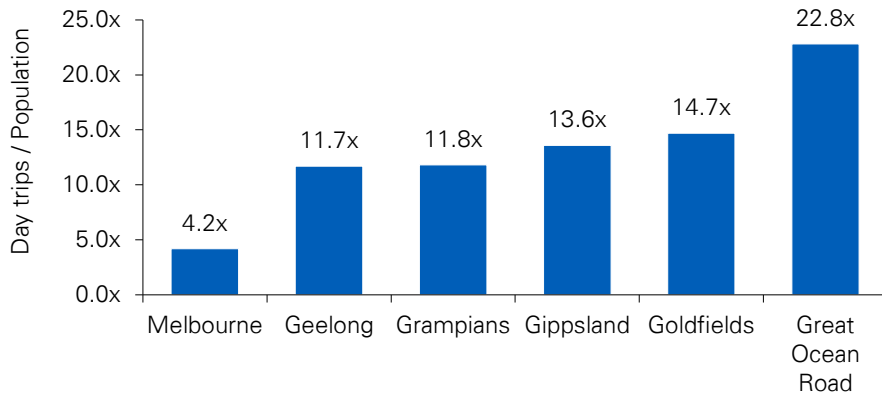


# Specific local factors place additional costs on some regional and rural councils

Place-specific challenges in some regional and rural areas create additional cost pressures and opportunities, including:

- o Higher occurrence of natural disasters such as floods and bushfires.
- o Pressure on facilities from seasonal (holiday) peak crowds – for example coastal/alpine councils or other popular tourist destinations (Chart below)
- o Greater local demand for services in major regional hubs
- o Council areas with critical freight routes

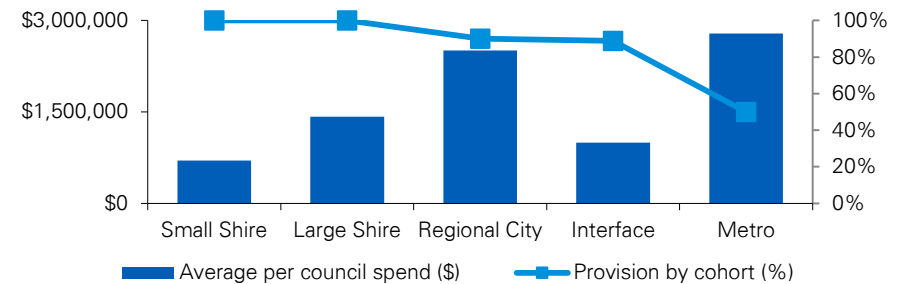
## Day trips as a proportion of local population



Source: KPMG analysis based on Tourism Research Australia, National Visitor Survey and ABS 2017, Regional Population Growth, Australia, Cat. No. 3218.0. Canberra.

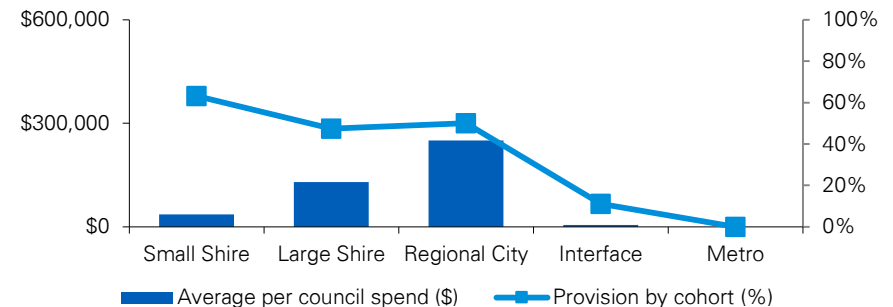
Additional amenities such as airfields, markets and tourism create additional costs for some regional and rural councils, but may also have benefits to the local economy (Charts below).

## Tourism and area promotion spend & provision



Source: Local Government submissions to the Victorian Grants Commission (2015-16)

## Air transport council spend & provision



Source: Local Government submissions to the Victorian Grants Commission (2015-16)

# Growth in expenditure is outpacing growth in available revenue for some key functions delivered by regional and rural councils

A number of rural and regional councils are forecasting declines operating positions over the coming years (as outlined in the financial sustainability section above).

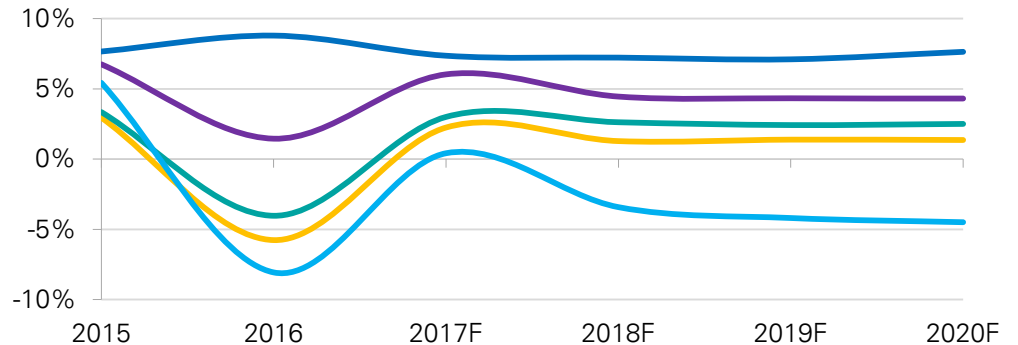
Some rural and regional councils are at risk of not being able to match expenditure on asset renewal with the expected level of depreciation in the coming years. This effects the smallest councils in particular. The asset renewal gap is forecasted to grow in coming years.

Stakeholders engaged through this project have argued that the growth in funding and other revenue sources are falling behind recurrent expenditure for some key services. Noted examples include Maternal and Child Health (MC&H), Public Libraries, Home and Community Care (HACC), Emergency Services, and school crossing supervisors, among others.

Council areas with declining populations are also likely to see their revenue base decline in real terms into the future.

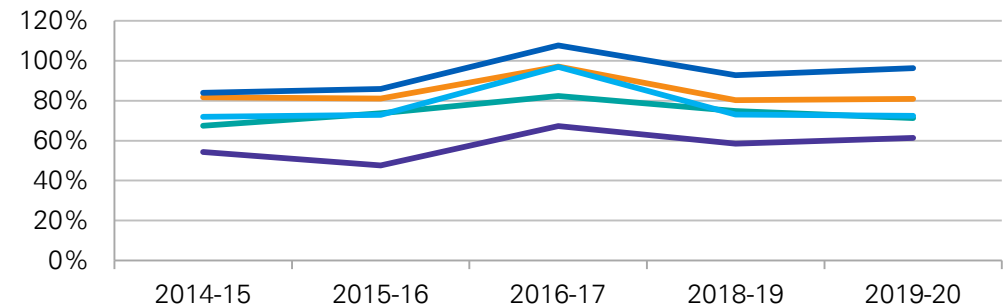
*The decline in underlying result of most council cohorts between the 2015 and 2016 financial years is partly the result of timing of Commonwealth financial assistance grant payments to councils. Half of the 2016 financial year Commonwealth grant payments were paid early and therefore recognised during the 2015 financial year.*

**Underlying result as a percentage of revenue, 2015 - 2020**



Source: Local Government audited financial statements and Strategic Resource Plans

**Asset renewal as a percentage of depreciation expense**



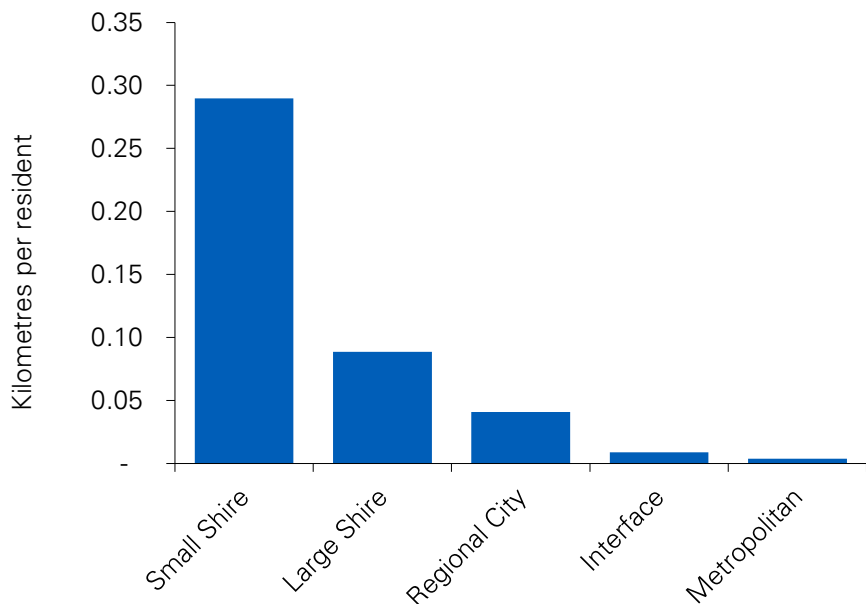
Source: Local Government audited financial statements and Strategic Resource Plans

**Key:** ■ Small Shire ■ Large Shire ■ Regional City ■ Interface ■ Metro

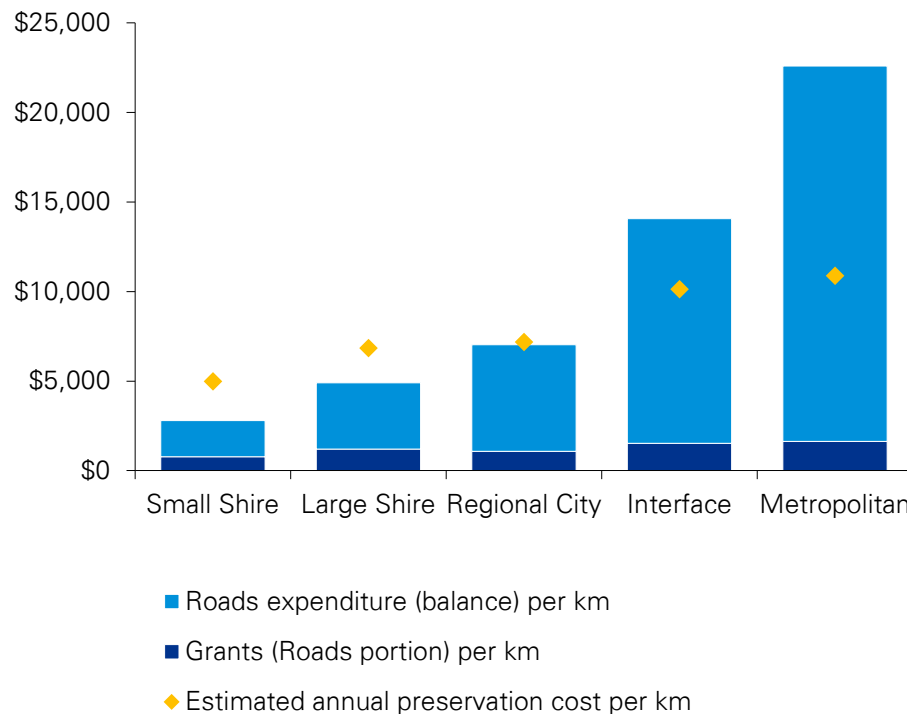
# Small and large shire councils spend relatively less on average per km than their estimated annual preservation cost per km

Road maintenance is a key cost for rural and regional councils, with on average greater than 2,000 km of local roads per council. Regional and rural councils spend relatively less on average per km than their estimated annual preservation cost per km, as shown below. *For further information on expenditure on local roads see Appendix 6.4.2.*

**Road length (km) per capita**



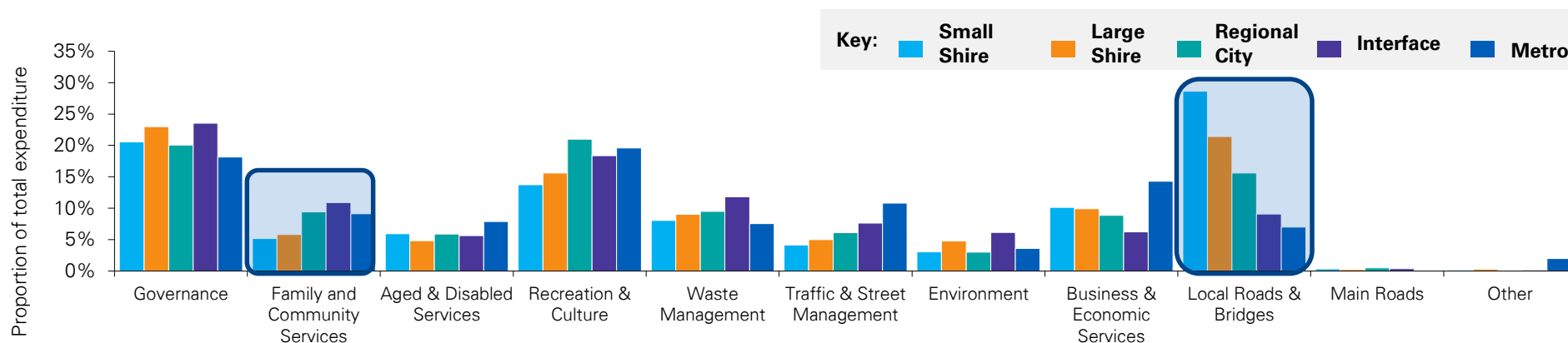
**Expenditure on roads relative to estimated annual preservation costs, per km (2015-16)<sup>1</sup>**



Source: KPMG analysis and Victoria Grants Commission council data

Note: 1) The Victorian Grants Commission (VGC) estimates an average annual preservation costs for given traffic volume ranges (e.g. urban vs rural).

Based on average expenditure, rural and regional councils are spending proportionally more on roads and less on family and community services than urban councils



To gain greater understanding of the challenges faced by R&R councils, 'deep dives' on the Maternal Child Health and Local Roads and Bridges functions are provided in Appendix 6.4

Maternal Child Health

Local Roads and Bridges

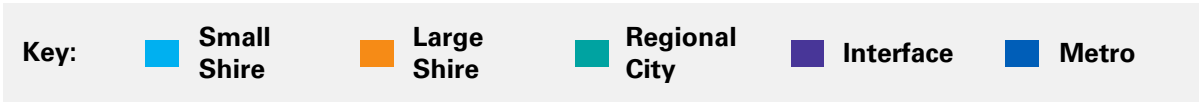
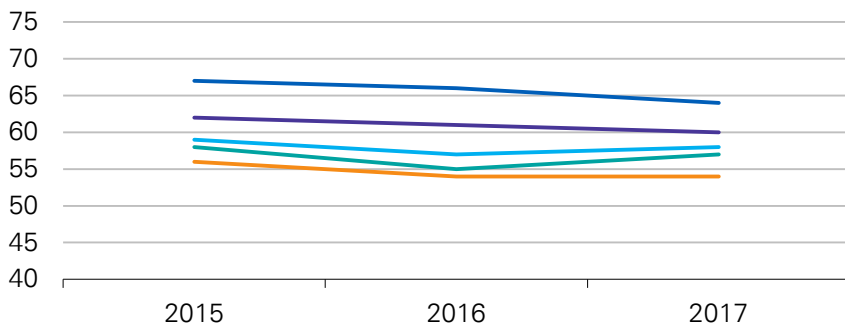
Deep dive analyses of MC&H and Local Roads and Bridges expenditure are provided in Appendix 6.4

# In the absence of detailed service data, satisfaction scores can stand as a proxy for service effectiveness, though with limitations

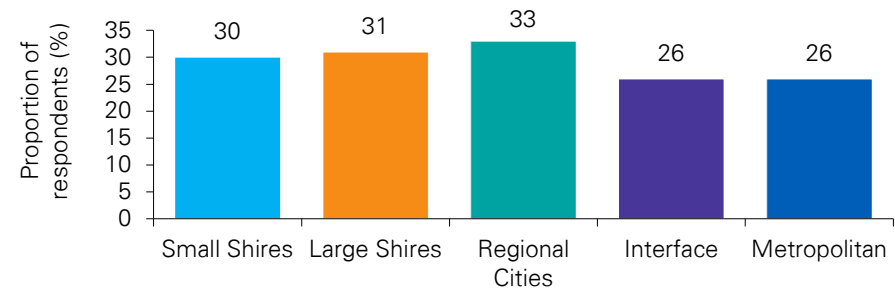
Community satisfaction is often referred to as an indicator of service effectiveness in the absence of more detailed service level output and outcome data. However, satisfaction scores have significant limitations when used to compare across councils as they may not take account of the differing levels of community expectations regarding the scope and quality of services delivered. For example, metropolitan councils are less likely to feel that community consultation and engagement by local councils is extremely important to them and are less reliant on local government for the delivery of key services.

Metropolitan and interface council residents are most satisfied with waste and emergency management, art centres and libraries and recreational facilities. They receive lower performance ratings for planning for population growth, planning permits and parking facilities.

## Community satisfaction of overall council performance, Index score



## Community Consultation and Engagement, Percentage of community members who rated this aspect as 'extremely important'



Rural and regional councils recorded the highest levels of community satisfaction for the following services:

- Arts centres & libraries;
- Appearance of public areas;
- Emergency risk management; and
- Community and cultural services.

Performance was lowest rated for local road resealing, planning permits and weed control.

Large shire councils received the lowest satisfaction ratings of all cohort groups on community consultation and engagement, the condition of load roads, family support services, waste management, environmental sustainability, and roadside slashing and weed control.

Source: DELWP on behalf of Victorian Councils, JWS Research, 2017 Local Government Community Satisfaction Survey



# 3.4 Capability






# Regional and rural councils face challenges attracting and retaining appropriately skilled staff to support effective operations

Sustainable councils need to apply a strategic view of their operations; to have the ability to respond to the diverse and changing needs of different communities; and to take on new functions or deliver improved services in order to meet those needs. This requires strong governance and management frameworks covering community engagement, planning, monitoring, reporting and decision making. Some of the key elements of operational capability include:

- High quality political and managerial leadership;
- Advanced skills in strategic planning and policy development;
- Ability to employ wider range of skilled staff;
- Effective regional collaboration; and
- Credibility for more effective advocacy.

Analysis and consultation undertaken as a part of this project has highlighted the following key observations regarding the link between operational capacity and the long-term sustainability of regional and rural councils:

## Key findings:

	Page
 <p>Finding 21: Regional and rural councils face challenges attracting and retaining skilled, professional and knowledgeable staff. This is particularly the case for councils located further from metropolitan areas, or where staff are required for specific strategic and specialist roles</p>	75-76
 <p>Finding 22: Asset management and planning were cited as particular areas where there is low institutional knowledge in regional and rural councils</p>	76
 <p>Finding 23: While commitments to 'continuous improvement' and 'innovation' are in effect in many regional and rural councils, these councils face challenges redirecting staff from operational functions to more strategic and specialist areas given expectations of service delivery and available capacity</p>	76
 <p>Finding 24: Regional and rural councils are more at risk than metropolitan and interface councils in the event of staff losses, particularly for skilled/technical roles due to the limited workforce pool</p>	75
 <p>Finding 25: Rural and regional councils cited a tension between balancing local priorities with regional issues and a lack of collaboration pathways as barriers to regional collaboration, noting a reliance on relationships of executive leadership to build regional alliances and strategic partnerships</p>	76



# Regional and rural councils face a number of capability constraints

Local government plays a significant role in generating local employment, particularly in small rural communities with small populations and greater distances to regional cities and metropolitan areas. Local government sustainability is reliant on an experienced management team and appropriately qualified staff, often required to fill specialist and technical roles. The following pages provide a summary of key issues and barriers faced by rural and regional councils with respect to staff capacity and capability.

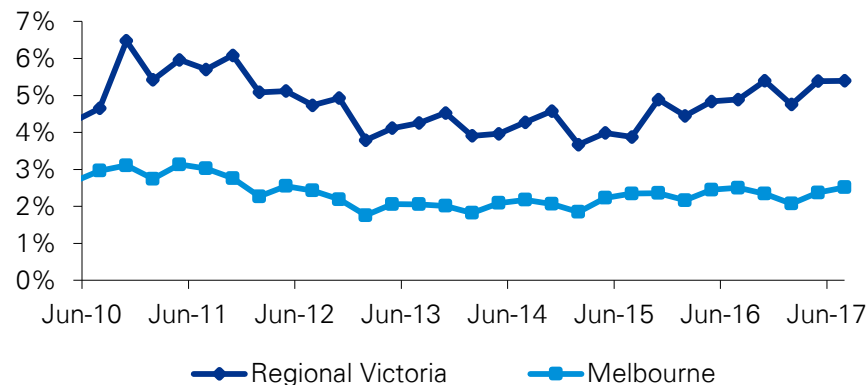


Adapted from Victorian Public Service Commission, Organisational capacity

**Resourcing**

- Councils noted in consultations difficulties in attracting skilled and professional staff, and people with the ability to "think strategically".
- Regional and rural councils are more at-risk than metropolitan and interface councils in the event of staff losses, particularly for skilled/technical roles due to the limited workforce pool.<sup>1</sup>

Vacancies, % of total employment – (managers and professionals)<sup>2</sup>



Sources: (1) ACELG 2015, Rural Council Sustainability Project, (2) KPMG analysis based on ABS 2017, Labour Force, Australia, Detailed Quarterly and Department of Employment, Labour Market Information Portal

# Regional and rural councils face a number of capability constraints

**Training is available to councils however consultations noted requests for more tools and standard templates**

Sustainable councils require a number of specialist capabilities, including qualified staff with skills in engineering, grant management, and finance, among others.

Asset management was cited as an area where there are limitations around institutional knowledge in regional and rural councils.<sup>1</sup>

**Knowledge  
and  
training**

**Business  
practices**

Barriers to embracing new ways of working.

- Insufficient staff resources to undertake council business
- Organisational and cultural resistance to change
- Some stakeholders reported limited levels of trust and willingness to collaborate between some councils

**Commitments to 'continuous improvement' and 'innovation' are in effect in many councils but many regional and rural councils struggle to redirect staff from functional to more strategic areas<sup>2</sup>**

**Regional and rural councils face high community expectations for service delivery, particularly in 'thin markets' (where there is absence of alternative providers)**

There are a diverse range of service requirements across communities. Due to this, in some cases there is a lack of clarity as to which services can be delivered with private / NGO support. For example, immunisation, youth programs, MCH, property maintenance for disadvantaged and meals on wheels all cited<sup>2</sup>

**Governance  
and  
accountability**

Source: (1) VAGO 2014, *Asset Management & Maintenance By Councils* (2) ACELG 2015, *Rural Council Sustainability Project*



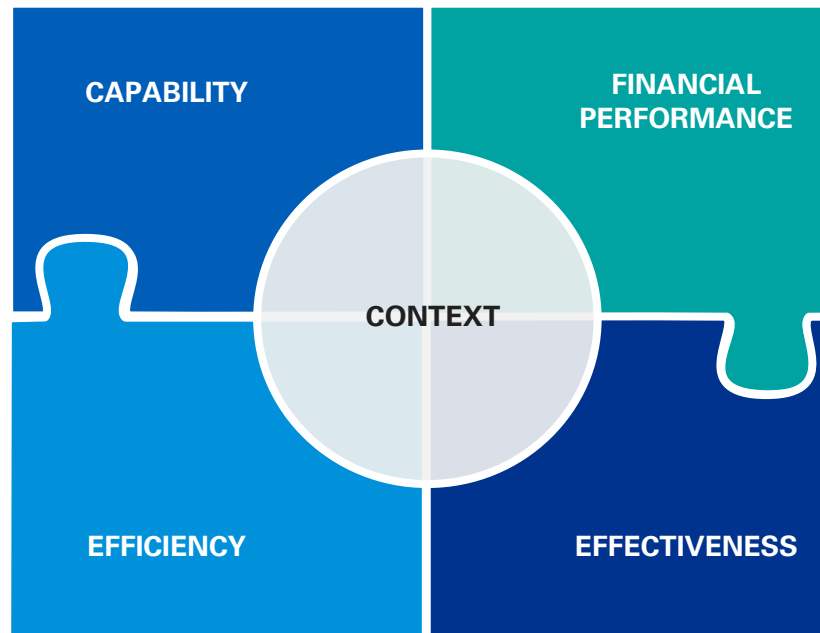
## 3.5 Summary

What does this mean for the future sustainability of rural and regional councils?

# The long term sustainability of rural and regional councils will be determined by the performance and interactions of a range of factors

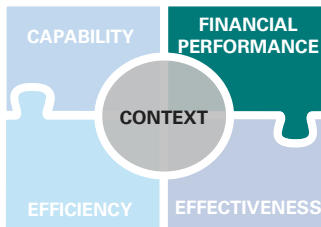
As has been outlined throughout this report, **rural and regional council sustainability is influenced by an individual LGA's context, as well as the operating domains of capability, efficiency, effectiveness and financial performance.** These domains can influence sustainability both directly, or through how they interact with another or multiple other domains.

While each rural and regional council has an individual sustainability projection, the following summary focuses on the common sustainability challenges that are projected for each rural and regional council cohort – Small Shires; Large Shires; and Regional Cities.



# The ongoing sustainability of rural and regional councils will be challenged by projected financial pressures and demographic changes, particularly in small and large shires

## **Constrained revenue of rural and regional councils may struggle to meet future service level expectations**



Small and large shire councils are expected to become more reliant on external funding sources to maintain infrastructure and deliver services. Small shire councils face particular financial pressures in maintaining a break-even operating position.

Population growth will be minimal for small shire councils and is forecast to decline in many of the LGAs in Victoria's west. These councils will face challenges in maintaining revenue raising capacity in the future.

Small Shires will continue to be dependent on government funding to deliver their services, however, they will likely need to revisit how they deliver their services in order to achieve financial sustainability, (i.e. a breakeven or surplus result).

### **In 2015-16, 31 of 48 regional and rural councils generated an adjusted operating deficit<sup>1</sup>, of which 16 were Small Shires. More than half of all rural and regional councils are expected to be operating in deficit in 2021**

Of the 19 Small Shires, 16 were loss making in FY16. As a cohort, 15 of 19 Small Shires are expected to still remain loss making by FY21, despite a forecast increase in projected government funding required for this cohort.

Both Large Shire and Regional City council cohorts are forecasting an improvement in performance (i.e. a turnaround from a deficit to a surplus) and reduced government funding by FY21. However, 10 councils are still projected to record a deficit. The improvement in performance is likely to be due to larger and growing populations which will allow them to improve their economies of scale, unlike the Small Shires.

Over time the gap in financial performance between the small councils and large/regional councils is anticipated to widen with small shires expected to become relatively less well off.

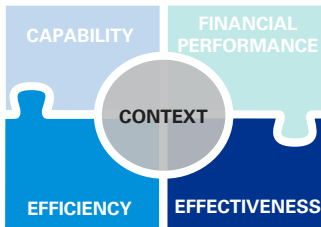
Small shire councils are forecasting deficits as a cohort, which increases reliance on government support and places pressure on the ability to maintain assets and deliver services, particularly those with a large asset maintenance funding gap (in 2015/16, ten out of 19 small shire councils had expenditure asset renewal below the level of depreciation on those assets).

Source: KPMG analysis of Local Government audited financial statements

Notes: (1) Adjusted result/underlying surplus (deficit) excludes revenue from Non Recurrent Capital Grants and developer capital contributions, both cash and non cash. (2) Note the composition of loss making councils (in terms of which specific councils are in deficit) in the Large Shire cohort change between FY16 and FY21.

# Council sustainability will also face issues due to cost disadvantages in the delivery of services and infrastructure, and increasing and changing service expectations

## ***Cost disadvantages often stem from low economies of scale, large distances and pressure on infrastructure***



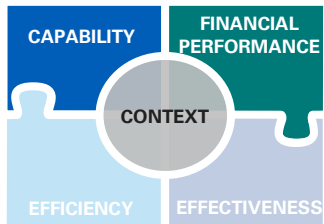
Specific local factors place additional costs on the delivery of services and infrastructure for some regional and rural councils. For example: councils in remote areas; councils that service seasonal (holiday) peak crowds; and councils with critical freight routes

Small and large shire councils have lower populations spread across larger areas compared to other Victorian councils. These councils face relatively larger service delivery costs per unit and are often under pressure to fill a 'market gap' for services (in absence of alternative providers)

Rural and regional councils face relatively higher unit costs in maintaining assets and in the delivery of some services. Large council areas with large lengths of roads and dispersed populations drive up costs in core functions of rural and regional councils

Based on average expenditure, rural and regional councils are needing to spend proportionally more on roads and less on family and community services than metropolitan councils. Without intervention, this trend is expected to continue.

## ***The outlook for services is challenged by financial, demographic and capability gaps***



Growth in expenditure is outpacing growth in available revenue for some key functions delivered by regional and rural councils, placing additional pressure on rural and regional councils to consider the type and level of services provided

Across Victoria, the population is ageing which will impact the scope and mix of expected services of rural and regional councils. This is expected to be most notable in small shires, where persons over 65 are forecast to equal one third of the population by 2031.

Regional and rural councils face challenges attracting and retaining skilled, professional and knowledgeable staff. This is particularly the case for councils located further from metropolitan areas, or where staff are required for specific strategic and specialist roles

Looking ahead, regional and rural councils will struggle to deliver on their community mandates without continued government support and/or a change in policies and community expectations

### Looking ahead, rural and regional councils face...

Reduced ability to invest for the long term (assets, service delivery, etc.)

Increased dependency on government for financial support (small and large shire councils only)

Continued difficulty attracting and retaining skilled, professional and knowledgeable staff (particularly for specialist roles)

EFFICIENCY & EFFECTIVENESS

FINANCIAL PERFORMANCE

CAPABILITY

### Meanwhile, rural and regional communities may suffer...

Lower standards of service relative to regional cities and metropolitan areas

Deterioration in infrastructure performance (roads, bridges, water, etc.)

Reduced breadth and scope of service delivery –

- less choice in services
- less service for the vulnerable

### KPMG proposed reform options

REFORM THEME	REFORM OPTION
STATE-LOCAL GOVERNMENT ALLIANCE	1. Sustainable service delivery
	2. Funding model
OPERATIONAL TRANSFORMATION	3. Regional service delivery
	4. A modern digital strategy
	5. Small shires stabilisation
STRONGER LOCAL GOVERNANCE	6. Building local capacity
	7. Innovative community engagement





# 4. Reform Options

# To achieve rural and regional council sustainability, a range of barriers will need to be overcome

As rural and regional councils are important contributors to the liveability, productivity and wellbeing of regional and rural communities, ensuring their long term sustainability is critical. Indeed, as stated in the Victorian Government's Regional Statement and validated through consultations, rural and regional councils are thought to be the 'backbone' of rural and regional communities.

To design a suite of recommended reform options, KPMG has drawn on the results of data analysis, key findings from desktop research, international best practice, key findings from the consultation program and emerging trends in many operational areas. Particular focus has been placed on identifying the barriers and other factors that currently stand in the way of councils achieving long term sustainability.

Key identified barriers included.

- **Financial pressures and constraints:** limited capacity to increase own-source revenue, limited community capacity to pay increased rates, fees, or charges, increasing expectation of service delivery; increasing cost base
- **Relatively higher infrastructure and service delivery costs:** regional and rural councils face relatively higher unit costs in maintaining assets and in the delivery of some services. Large council areas with large lengths of roads and dispersed populations drive up costs in core functions of rural and regional councils.
- **Capability constraints and operational capacity issues:** Regional and rural councils face challenges attracting and retaining skilled, professional and knowledgeable staff. This is particularly the case for councils located further from metropolitan areas, or where staff are required for specific strategic and specialist roles.
- **Contextual factors:** Small and large shires face the burden of maintaining relatively large stocks of infrastructure (particularly roads) per head of population and benefit from limited economies of scale and additional costs associated with low population density. A number of the examined LGAs are also facing either stagnant population growth or a projected decline in population, coupled with challenges arising from a rapidly ageing population in parts of rural and regional Victoria.

**The Victorian Local Government Performance Reporting Framework provides an established definition for local government sustainability**

## Sustainability

*Local governments having the capacity to meet the agreed service and infrastructure needs of their community and absorb foreseeable changes and unexpected shocks into the future.<sup>1</sup>*

Source: (1) Department of Environment, Land, Water and Planning (DELWP), 2012, *Local Government Performance Reporting Framework*

# Overcoming barriers will require a range of short, medium and long term reforms

This report is intended to present a range of options to help overcome barriers to rural and regional council sustainability for consideration by the State Government. As previously mentioned, in designing this suite of recommended reform options, KPMG has drawn on the results of data analysis, key findings from desktop research, international best practice, key findings from the consultation program and emerging trends in many operational areas. This report, including its recommended options, also draw on a number of previous reports, submissions, and consultations which have previously put forward suggestions to address council sustainability challenges.

In addition, KPMG has taken into account recent policy changes and investments at the State Government level (such as the Victorian Infrastructure Plan) which will assist in addressing some of the issues/barriers to sustainability. For example:

- The \$1.5b Regional Rail Revitalisation Program;
- \$530.6 million to maintain and upgrade rural and regional roads and bridges and undertake planning work towards future road improvements; and
- Investments to increase digital connectivity across Victoria, including the \$45m Connecting Regional Communities Plan, the regional network development plan, funding for fixing mobile blackspots and the Regional Rail Connectivity project.

Reform options have been designed with the goal of long term council sustainability in mind, together with the long term wellbeing of the communities they serve. Therefore options include actions, investments and policy changes that will need to be implemented in the short (1-2 years), medium (3-5 years) and long term (5+years). In addition, while some reform options are discrete, others involve a longer term program of work that would be delivered progressively over time. Costing information contained here is indicative only and in most cases refers to the initial establishment costs of the reform options, rather than the total cost of full reform roll out. These costs are still subject to detailed design of the reform options and agreement on the underpinning assumptions and resource implications.

It should also be noted that it is unlikely that all councils currently will have the capacity, whether due to a lack of expertise, funding or other critical inputs, to effectively engage with all of these recommendations immediately or effectively. In selecting options for implementation, it will be vital to give consideration to what additional support will be required to enable councils to effectively implement or engage with recommendations intended to boost their sustainability.

These reform options should also be read with consideration of the risks and other impacts that may surround their implementation. Local governments are, for example, a major employer in regional areas, so consideration would need to be given to ensuring that achieving operational efficiencies at a council level does not cause a net harm to communities by disrupting employment opportunities in rural and regional areas. As mandatory council amalgamations have been ruled out by the State Government at this stage, mandatory amalgamations have not been considered in developing these options and have not been the subject of analysis as part of this body of work.

# Rural and regional councils sustainability reform package

The high level framework below summarises the structure of the proposed reform package.

## VISION

**VICTORIA'S RURAL AND REGIONAL COUNCILS ACHIEVE LONG-TERM SUSTAINABILITY, BUILDING VIBRANT, LIVEABLE AND PRODUCTIVE RURAL AND REGIONAL COMMUNITIES**

## KEY OUTCOMES



**LONG TERM FINANCIAL SUSTAINABILITY**



**EFFICIENT & EFFECTIVE COUNCIL OPERATIONS**



**QUALITY SERVICES & INFRASTRUCTURE**

## REFORM THEMES



**State-Local Government Alliance**

*Partnering to support long-term planning and re-aligning funding arrangements for a sustainable future for local governments*



**Operational Transformation**

*Strategically seeking performance improvements through a modern digital strategy, regional service delivery, and easing short-term financial pressures*



**Stronger Local Governance**

*Strengthening leadership and strategic capacity, reinforcing council capability and establishing local government as an employer of choice*

# The proposed reform options provide different benefits over the short, medium and long term

REFORM THEME	REFORM OPTION	SHORT TERM	MEDIUM TERM	LONG TERM
STATE-LOCAL GOVERNMENT ALLIANCE	<b>1. Sustainable service delivery</b>	<ul style="list-style-type: none"> <li>Improved understanding of service delivery requirements and future needs</li> </ul>	<ul style="list-style-type: none"> <li>Service delivery is sustainable</li> </ul>	<ul style="list-style-type: none"> <li>Services that better meet the needs of residents</li> </ul>
	<b>2. Funding model</b>	<ul style="list-style-type: none"> <li>Better understanding of future funding needs</li> <li>Funding available to sustain short term service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Better understanding of all aspects of funding.</li> </ul>	<ul style="list-style-type: none"> <li>Funding that is aligned to future community needs</li> </ul>
OPERATIONAL TRANSFORMATION	<b>3. Regional service delivery</b>	<ul style="list-style-type: none"> <li>More effective and efficient shared services trialled in parts of Victoria</li> </ul>	<ul style="list-style-type: none"> <li>More effective and efficient services universal across Victoria</li> </ul>	<ul style="list-style-type: none"> <li>Financial benefits transferred to residents via infrastructure and services</li> </ul>
	<b>4. A modern digital strategy</b>	<ul style="list-style-type: none"> <li>Better IT architecture to serve council needs going forward</li> </ul>	<ul style="list-style-type: none"> <li>State-wide system to improve and standardise customer service</li> </ul>	<ul style="list-style-type: none"> <li>State-wide system to improve and standardise customer service</li> </ul>
	<b>5. Small shires stabilisation</b>	<ul style="list-style-type: none"> <li>Funding available to overcome barriers to operational transformation and stabilise services in thin markets</li> </ul>	<ul style="list-style-type: none"> <li>Transition to more sustainable operations</li> </ul>	<ul style="list-style-type: none"> <li>Reduced R&amp;R council reliance on grant funds</li> </ul>
STRONGER LOCAL GOVERNANCE	<b>6. Building local capacity</b>	<ul style="list-style-type: none"> <li>Enhanced resources, training and knowledge transfer</li> </ul>	<ul style="list-style-type: none"> <li>Greater capacity across the Local Government workforce</li> </ul>	<ul style="list-style-type: none"> <li>Services that better meet the needs of residents</li> </ul>
	<b>7. Innovative community engagement</b>	<ul style="list-style-type: none"> <li>Improved community engagement, particularly in hard to reach rural and regional areas</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced ability to respond and advocate for community needs</li> </ul>	<ul style="list-style-type: none"> <li>Services that better meet the needs of residents</li> </ul>

# Summary of proposed reform options

REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
STATE-LOCAL GOVERNMENT ALLIANCE	<b>1. Sustainable service delivery</b>	1.1 Support Service Delivery Planning for each rural and regional council; Analyse Plans to develop benchmarking & other analytical tools	Develop	Analyse	
	<b>2. Funding model</b>	2.1 Undertake a taxation and funding model inquiry to support rural and regional council sustainability.	Inquiry	Review	
		2.2 Address short term critical services funding gaps	Fund availability		
OPERATIONAL TRANSFORMATION	<b>3. Regional service delivery</b>	3.1 Regional Service Delivery model development and implementation	Pilot	Implementation	
	<b>4. A modern digital strategy</b>	4.1 Support collaboration and innovation through enabling back office transformation	Design	Implementation	
	<b>5. Small shires stabilisation</b>	5.1. Establish a <i>Stabilisation Fund</i> for infrastructure needs to maintain productivity and liveability in rural Victoria, focused on at-risk small shires and at-risk communities	Fund availability		
STRONGER LOCAL GOVERNANCE	<b>6. Building local capacity</b>	6.1 Improve knowledge and capability of council staff	Establish	Implementation	
		6.2 Support development of workforce plans for each rural and regional councils	Establish	Implementation	
		6.3 Develop a program and support for councillors to better equip councillors with the knowledge and tools to meet community expectations	Establish	Implementation	
	<b>7. Innovative community engagement</b>	7.1 Establish a fund to help local governments identify innovative ways to efficiently and effectively engage with the community	Fund availability		



# 4.1 State-Local Government Alliance

Summary of proposed reform options



# Reform option 1 - Sustainable service delivery: Overview



## Key Outcome:

**LONG TERM FINANCIAL  
SUSTAINABILITY**

**Determining a sustainable level of service delivery is critical to long term financial planning in local government. This includes developing a deeper understanding of services that will need to be provided in future based on local priorities, and re-aligning operational capacity and funding to meet these needs.**

### What is this reform option?

This reform options seeks to improve the sustainability of local councils through long-term service delivery planning. This will involve the development of 10 Year Service Delivery Plans at the council level, which will enable benchmarking and other analytical tools and identify key areas of concern for the ongoing sustainability of local councils in rural and regional areas. Local communities should be engaged in the development of the plans to identify local priorities. Rural and regional councils will require financial support to develop plans, particularly in elements related to forecasting future service delivery needs and costs, and assessing the implication for the scope of services that can be provided. The 10 Year Plans should also feed into a funding review and help to re-align future service delivery with funding arrangements for improved financial sustainability.

### Why is this reform important?

Consultations indicated that, over time, the role of local government has changed and councils have taken on a number of additional responsibilities, either to meet a local need, or to fill a gap in State Government or private service delivery by acting as a “last resort” provider. The services provided by local government will continue to change as demographic changes occur across councils, such as ageing and population growth or decline. There was also a common concern among stakeholders and council members of a lack of understanding around the costs of service delivery.

The development of 10 Year Service Plans will help with the realignment of resources to ensure an efficient and effective delivery of services. This will ultimately help to build more financially sustainable councils in the long-term, who are better prepared to deliver services to the community. While councils already prepare service plans, moving to a comprehensive and rigorous 10 year plan would help project longer term capacity requirements and harmonise service planning with the 10 year duration of the asset management and financial plans that are likely to be required under the Local Government Act.

### What is the role of LGV in this reform?

LGV should play a key role in developing a panel of providers that local councils can engage for the development of their 10 Year service plans. Following the development of these plans, LGV should undertake a detailed analysis of the plans to identify any key areas of concern for rural and regional councils’ ongoing sustainability, and develop benchmarking and other analytical tools.

# Reform option 1 - Sustainable service delivery: Key components

This option is the key reform option under the *State-Local Government Alliance* reform theme, and has three key components. The inquiry into taxation should begin in the short term, in order for the full funding review outcomes to be implemented in the medium term. The development of Service Delivery Plans should begin as soon as possible, with analysis of the completed plans to then occur in the medium term. The 10 Year Plans can also feed into the full funding review outlined in 2.1. Establishing a fund to address short term critical service gaps is also proposed, in order to help prevent service levels in 'at-risk' councils (particularly small shires) deteriorating in the short term.

REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
STATE-LOCAL GOVERNMENT ALLIANCE	<b>1. Sustainable service delivery</b>	1.1 Support Service Delivery Planning for each rural and regional council; Analyse Plans to develop benchmarking & other analytical tools	Develop	Analyse	
	<b>2. Funding model</b>	2.1 Undertake a taxation and funding model inquiry to support rural and regional council sustainability.	Inquiry	Review	
		2.2 Address short term critical services funding gaps	Fund availability		

**Following the completion of the 10 Year Plans, LGV should analyse the plans to identify further insights**

# 1 - Sustainable service delivery

## 1.1 Support Service Delivery Planning for each rural and regional council; Analyse Plans to develop benchmarking & other analytical tools

### Timing of key steps in reform option:



<b>RATIONALE</b>	Local Governments currently face challenges projecting future service needs, service delivery costs and funding requirements. The plans will allow for better council planning, including identifying new own-source revenue options and the identification of future funding gaps. While councils already prepare service plans, moving to a 10 year plan would help project longer term capacity requirements and harmonise service planning with the 10 year duration of the asset management and financial plans that will be required under section 89 of the draft revisions to the Local Government Act.
<b>DESCRIPTION</b>	<p>The State Government should support the development of 10 Year Service Delivery Plans for each rural and regional council. The plans should map out services to be provided by the council over the next 10 years, and expected revenue (including from grants, rates, and other sources). They should also consider changing demographic factors in each council, including ageing population, population growth or decline, and how these may impact on service delivery and revenue. Consultation with the community needs to be undertaken to identify local priorities.</p> <p>Rural and regional councils will require financial support to engage a qualified provider to assist in the development of the plans, particularly in elements related to forecasting future service delivery needs and costs, and assessing the implication for the scope of services that can be provided. This will involve developing a panel of providers, and establishing a fund for the delivery of this work. Small Shires could be given preference to develop their plans first, as they often face the most pressing sustainability challenges.</p> <p>When the plans have been developed, LGV should conduct analysis to identify patterns and future challenges that may require attention including predicted future funding gaps. LGV should use the results for benchmarking and to develop more analytical tools. The plans and LGV analysis will feed into the full funding review outlined in component 2.1.</p>
<b>LEAD</b>	LGV will lead this reform option.
<b>SUPPORT</b>	Local Governments to provide information required to develop 10 Year Service Plan, a panel of providers will be required to develop the plans in cooperation with local government.
<b>LGV'S ROLE</b>	LGV should play a key role in developing a panel of providers that local councils can engage for the development of their 10 Year Strategic Plans as well as providing financial support to Councils to undertake the plans. Following the development of these plans, LGV should undertake a detailed analysis of the plans to identify any key areas of concern for rural and regional councils' ongoing sustainability, and develop benchmarking and other analytical tools.

# Reform option 2 - Funding Model: Overview



## Key Outcome:

**LONG TERM FINANCIAL SUSTAINABILITY**

**Reviewing the model for council funding is critical to ensure the ability of local government to sustainably deliver services in the longer term. Short term financial support is necessary to help maintain services for residents in rural and regional LGAs until longer term reforms can take place.**

### What is this reform option?

This option would require an inquiry to be undertaken into the impacts of State taxation on rural and regional council sustainability, to determine whether there is a need for tax reform to improve sustainability. The results of the inquiry will feed into a further review of state-local government funding arrangements, including rates, VGC, and other Departmental grants programs. In the short term, there would also be a short term funding made available to councils to assist them in maintaining key services until the sustainability dividend of other reform options can be realized.

### Why is this reform important?

There was a strong view across council groups that the existing funding arrangements were no longer in line with the services that councils deliver and are expected to deliver. Existing funding arrangements were seen as having a strong focus on state priorities and were not considered sufficiently flexible to meet unique local priorities. Both community and council groups considered the current rates system inequitable, as it is based on delivery of property-based services. Both council and community stated the need for a review of the rates formulas to improve the equity of the system as councils now deliver many social and wellbeing services. There was also a desire among some councils to develop innovative sources of own-source revenue.

An examination of funding arrangements, with a view to realignment, will help to ensure an effective and efficient allocation of resources. This will ultimately help to build more financially sustainable councils in the long-term, who are better prepared to deliver services to the community. While councils already prepare service plans, moving to a comprehensive and rigorous 10 year plan would help project longer term capacity requirements and harmonise service planning with the 10 year duration of the asset management and financial plans that are likely to be required under the Local Government Act.

In the short term, financial assistance to help at-risk shires maintain key services is an important mechanism to help support the delivery of services to residents in these shires who may be dependent on council services that would otherwise be at risk due to a lack of available funding at the council level.

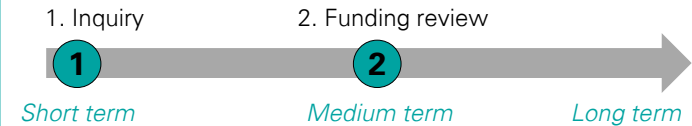
### What is the role of LGV in this reform?

LGV should lead the funding review and administer the service delivery funding.

## 2 - Sustainable service delivery

### 2.1 Undertake a taxation and funding model inquiry to support rural and regional council sustainability.

#### Timing of key steps in reform option:



<b>RATIONALE</b>	There was a strong view across council groups that the existing funding arrangements were no longer in line with the services they deliver. Grants funding is seen to be too inflexible and focused on state rather than local priorities. Rates, as a property-based tax, is seen to be inequitable, as councils have moved away from solely delivering property-based services to deliver community wellbeing services.
<b>DESCRIPTION</b>	<p>Under the new Local Government Bill (which is yet to be introduced), the Minister is proposed to have the power to call for an inquiry into matters of significant importance. The first component in this reform is to set up an inquiry into the impacts of taxation on rural and regional council sustainability. This should include analysis of existing Commonwealth, State and local taxes and their arrangements with local government, better practice models and the possibility of further supporting rural and regional councils via the extension of horizontal fiscal equalization (HFE) principles.</p> <p>Upon completion of the inquiry, a full review should be undertaken of all funding arrangements. The review should consider key findings from the 10 Year Service Plans developed in component 1.1, and should include a review of:</p> <ul style="list-style-type: none"> <li>• Rates, including calculation methodologies and equity considerations</li> <li>• User fees and charges</li> <li>• The Victoria Grants Commission, including financial assistance grants distribution formulas, and a review of the minimum grants requirement</li> <li>• Other departmental grants programs, including consideration of ongoing costs associated with grants to build a new asset, the positioning of grants to focus on state rather than local priorities and needs, and the use of untied grants.</li> </ul> <p>Based on the findings of the review, funding arrangements should be re-aligned to meet the costs of the services that councils need to provide over the coming 10 years.</p>
<b>LEAD</b>	LGV should lead the inquiry and the subsequent review.
<b>SUPPORT</b>	Local Governments should assist by providing information and data as required for the inquiry and funding review.
<b>LGV'S ROLE</b>	LGV should facilitate links between state and local government for the purposes of information sharing during the inquiry. LGV should lead the funding review including providing any relevant analysis from the 10-year plans.

## 2 - Sustainable service delivery

### Timing of key steps in reform option:



### 2.2 Address short term critical services funding gaps

<b>RATIONALE</b>	Rural and regional councils, particularly those in the Small Shires cohort, are facing financial constraints that affect their ability to provide high quality and consistent services to the community. For example, in the aged-care sector, some local councils are expected to provide this service as a “last-resort” provider where no private or state government service exists, but receive no additional funding to do so. While the 10 Year Service Plans and Funding Model Review will go some way to address these issues in the longer term, a short-term fund will help to ease some of the immediate services funding gaps.
<b>DESCRIPTION</b>	<p>The Victorian Government should create a short-term fund to provide financial assistance to rural and regional councils (with a focus on small shires or those in financial distress) for the provision of critical human services. These may include aged care, child and maternal health, or other services. It will not be available to use in funding infrastructure.</p> <p>This fund would be created in the short term, and is intended to be available to support at-risk shires with funding gaps for service delivery. The criteria for funding would be tightly defined to ensure that it is only used to support at-risk shires, rather than to enable councils to commence new services (which are likely to be defunded once this short term funding expires). Aged care services for example would only be funded if the council is already providing aged care services, is acting as a provider of last resort for those services (there being no other local providers), and where the council otherwise cannot afford to continue to provide the service.</p>
<b>LEAD</b>	LGV
<b>SUPPORT</b>	DELWP, DTF
<b>LGV'S ROLE</b>	LGV will administer the service delivery fund and make determinations on whether or not to pay out of the fund in response to grant requests from individual councils.



# 4.2 Operational Transformation

Summary of proposed reform options



# Reform option 3 - Regional service delivery: Overview



## Key Outcome:

**EFFICIENT & EFFECTIVE  
COUNCIL OPERATIONS**

**Regional service delivery has the potential to create significant financial savings for local governments, supporting their achievement of ongoing sustainability, together with facilitating the provision of more integrated, coordinated services to support vibrant and productive rural and regional communities.**

### What is this reform option?

This reform options seeks to improve the sustainability of local councils through the implementation of a network of regional service delivery models.

It has two key phases: the first will involve the State Government supporting a regional service delivery pilot program, designed to test a range of different regional service delivery models, potentially including new delivery entities, to achieve efficiency and effectiveness. The pilot will be monitored throughout its operation and evaluated at the end of the pilot period. In the second phase, using the lessons and outcomes from the pilot to instruct a final design, a network of appropriate regional service delivery models will be delivered across rural and regional Victoria using a financial incentive model.

### Why is this reform important?

Regional service delivery has the potential to create significant financial savings for local governments, supporting their achievement of ongoing sustainability, together with facilitating the provision of more integrated, coordinated services to citizens.

There are a number of existing examples of shared service delivery across local governments but, for many councils, negotiating collaborative agreements remains challenging. Consultation to date suggests that regional service delivery is often only pursued between councils where there are existing positive relationships between relevant councillors and/or senior executives. Bringing individual councils together to pursue regional service delivery will help all councils, regardless of existing relationships, to benefit from the financial savings and efficiency benefits of greater economies of scale. This may be of particular benefit to small Shires.

In addition, providing councils with an opportunity to communicate and collaborate in such a setting may help to catalyse additional partnership and advocacy opportunities, along with collaborative efforts towards the achievement of regional priorities.

### What is the role of LGV in this reform?

As the key State Government conduit to local government, LGV should lead the coordination and support of the establishment, operation, and evaluation of the regional service delivery models during the pilot phase. It is expected that LGV's role would continue during full implementation but would likely be scaled back in favour of enabling the regional members to take the leadership role.

# Reform option 3 - Regional service delivery: Key components

Regional service delivery is the first reform option under the *Operational Transformation* reform theme, and has two phased initiatives.

The first is a pilot of regional service delivery across rural and regional Victoria. This pilot should be implemented as soon as possible in the short term, with the trial regional service delivery models to be in operation for a minimum of 2 years. On completion of the pilot, and on the basis of the evaluation of its outcomes, design and implementation of the preferred network of regional service delivery models, potentially involving new delivery entities, will be undertaken.

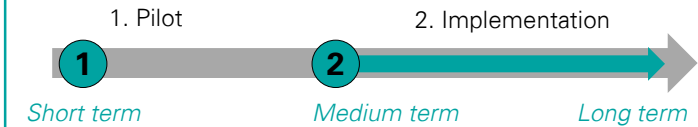
REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
OPERATIONAL TRANSFORMATION	<b>3. Regional service delivery</b>	3.1 Regional Service Delivery model development and implementation	Pilot	Implementation	
	<b>4. A modern digital strategy</b>	4.1 Support collaboration and innovation through enabling back office transformation, with a view to Services Vic alignment	Design	Implementation	
	<b>5. Small shires stabilisation</b>	5.1. Establish a <i>Stabilisation Fund</i> for infrastructure needs to maintain productivity and liveability in rural Victoria, focused on at-risk small shires and at-risk communities	Fund availability		

Outcomes and lessons from the Pilot will inform the final design of the model(s) to be used during the implementation phase

# 3 - Regional service delivery

## 3.1 Regional Service Delivery model development and implementation

### Timing of key steps in reform option:



<b>RATIONALE</b>	Regional service delivery has the potential to create financial savings for local governments, supporting their achievement of ongoing sustainability, together with facilitating the provision of more integrated, coordinated services and/or infrastructure for citizens. A network of regional service models can also increase collaboration between member councils and facilitate better working relationships with relevant state government agencies.
<b>DESCRIPTION</b>	<p>This reform option seeks to improve the sustainability of local councils by incentivising the implementation of a network of regional service delivery models. It has two key phases: the first will involve the State Government supporting a regional service delivery pilot program, designed to test a range of up to 3 different regional service delivery models, potentially including new delivery entities, to achieve efficiencies in service delivery; the second phase will begin with evaluating the pilot, and on the basis of its outcomes and lessons, will then involve the full implementation of a network of regional service delivery models across rural and regional Victoria.</p> <p>In the pilot, regional boundaries used to organise councils may align with the Regional Partnership boundaries, or could be based on other council groupings as appropriate. The pilot could use joint entities, collaborative shared services arrangements or other appropriate models. Ideally the same or similar model would be tested in more than one location/group, so that outcomes and results could be compared during the evaluation of the pilot. For example, if the nine Regional Partnership areas were to be used as a basis for regional groupings, three different approaches might be tested in 3 geographic regions each.</p> <p>While the specific and initial areas of focus would need to be determined by the regions themselves, the pilot is likely focus on tasks such as back-end council functions, shared infrastructure and/or bulk procurement of standard materials.</p>
<b>LEAD</b>	LGV
<b>SUPPORT</b>	RDV and DTF will be key partners for LGV from a State Government perspective, on the basis of their technical and sector expertise as well as facilitation of potential alignment with Regional Partnerships processes. Rural and regional local councils will also play a critical support role.
<b>LGV'S ROLE</b>	As the key State Government conduit to local government, LGV should lead the coordination and support of the establishment, operation, and evaluation of the regional service delivery models during the pilot phase.

# Reform option 4 - A modern digital strategy: Overview



## Key Outcome:

**EFFICIENT & EFFECTIVE  
COUNCIL OPERATIONS**

**A modern digital strategy leading to shared IT platforms will improve communications and knowledge sharing between councils and improve engagement and opportunities for co-production with the community**

### What is this reform option?

This option would see Councils develop a sector IT strategy, leading to the implementation of common IT platforms. This will require first understanding existing IT systems, contracts, and investments, and developing new systems that will minimise the challenges of transitioning to new systems. A qualified provider should be engaged to understand the existing systems and design a new shared platform(s) that will meet the needs of different council cohorts including small shires.

The new system should consider modern ways to engage with the community, delivering a new and engaging customer experience and creating opportunities for co-production with the community. This may be through Services Victoria, or through a new platform designed for local governments.

### Why is this reform important?

New technologies and digital tools are changing the way citizens, businesses and councils interact, gain access to information and services, and organise their work. For example, mobile and web technologies are providing opportunities for citizens and businesses to self-serve or to interact with councils electronically. The automation of services (e.g. issuing of rates notices) is reducing transaction times for both citizens and councils.

However, ageing, inappropriate and inefficient IT technology and systems are a key and increasing barrier to council sustainability. Common deficiencies in council IT architecture include: unnecessarily numerous systems, ageing technology, systems that are not connected/integrated both internally and externally, and fragmented and duplicated data. In many cases, systems are highly customised to suit individual circumstances, but are far from best practice and are often only supported by a small number of vendors who dominate the market, resulting in a higher costs of maintenance. The current systems and environment also make it hard for councils to take advantage of modern technology. Big data and data analytics could enable councils to analyse large amounts of data and to use patterns and trends in this data to improve productivity and service delivery. In addition, new methods of storing data and accessing software services are reducing the need to invest in fixed hardware and software that is both expensive to buy and costly to maintain.

While noting that connectivity remains an issue in rural and regional Victoria, councils have a major role to play in enhancing their digital infrastructure and capabilities to ensure they benefit from new technologies. This may include improvements to digital connectivity where possible (e.g. public Wi-Fi) or the provision of digital support to those people who are unable or unwilling to use new technologies. The digital channels that rural and regional councils use to engage and transact with citizens needs to be transformed - in terms of the number and type of services available online and the experience for the citizen.

### What is the role of LGV in this reform?

LGV should support the design and implementation of a new common IT platform, and play a key role in liaising between the provider and rural and regional Councils. LGV should also make any arrangements between DTF, DPC and DEDJTR as required.

# Reform option 4 - A modern digital strategy: Key components

A modern digital strategy is the second reform option under the *Operational Transformation* reform theme, and has two phased initiatives. The first is the design of the new digital system which should begin as soon as possible in the short term. On completion of the design stage, implementation should commence immediately, noting that full implementation across all rural and regional councils may not be achieved until the long term.

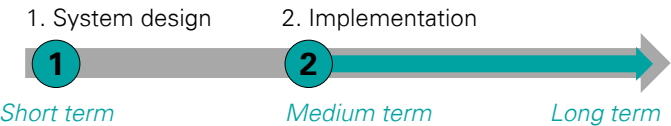
REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
OPERATIONAL TRANSFORMATION	<b>3. Regional service delivery</b>	3.1 Regional Service Delivery model development and implementation	Pilot	Implementation	
	<b>4. A modern digital strategy</b>	4.1 Support collaboration and innovation through enabling back office transformation	Design	Implementation	
	<b>5. Small shires stabilisation</b>	5.1 Establish a <i>Stabilisation Fund</i> for infrastructure needs to maintain productivity and liveability in rural Victoria, focused on at-risk small shires and at-risk communities	Fund availability		

While the design phase may occur in the short term, implementation may take several years

# 4 - A modern digital strategy

## 4.1 Support collaboration and innovation through enabling back office transformation

### Timing of key steps in reform option:



<b>RATIONALE</b>	Ageing, inappropriate and inefficient IT technology and systems are a key and increasing barrier to council sustainability, however at the same time new technologies and digital tools are changing the way citizens, businesses and councils interact, gain access to information and services, and organise their work. By modernizing technology, councils will transform the way they communicate with their communities and share information with each other.
<b>DESCRIPTION</b>	<p>LGV should support rural and regional councils to develop a common set of IT principles (based on better practice) and a starting 'target state IT architecture' that they could work towards. LGV could then work with councils to assess options to partner, co-design and/or co-develop the transition to new technology systems for the respective back-office functions. The delivery and support models for this new technology environment would need to take into account the required scalability for a multi-council platform and focus on a common and standard set of services.</p> <p>The design phase will require the development of a transition plan that may be different for each council, including developing a strong understanding of existing systems. The transition plan would take into account contractual arrangements and recent system investments and provide a view of how and when a transition should occur. In the long term, councils will be transitioned onto common platforms all based on the agreed guiding principles. These systems should be suitable for the needs of each council cohort including Small Shires.</p> <p>As part of the modernization process LGV should assist councils to deliver a new customer experience. Consideration should be given to this need when designing the new IT architecture in order to drive a consistent citizen experience across councils. In the long term, the opportunity to leverage Service Victoria as the primary method for engaging with citizens through a digital channel should be considered.</p>
<b>LEAD</b>	LGV: Design of this option would likely require management by LGV together with coordination and input from a service provider
<b>SUPPORT</b>	DTF; Local Governments to provide information on their existing IT platforms and record keeping practices to ensure that the transition to a new digital platform will be as smooth as possible.
<b>LGV'S ROLE</b>	LGV should facilitate the engagement of a suitably qualified provider to undertake the design and implementation, and play a key role in liaising between the provider and rural and regional Councils.

# Reform option 5 - Small Shires Stabilisation: Overview



## Key Outcome:

**OPERATIONAL  
SUSTAINABILITY**

**An infusion of funding will help councils under immediate financial pressure to stabilise their finances and maintain infrastructure, which will help support vulnerable Victorians until the benefits of longer term reforms can be realised.**

### What is this reform option?

This fund would be available to provide short term financial assistance to rural and regional councils (with a focus on small, at-risk shires) for the following purposes:

- Repair, upkeep, or renewal of critical infrastructure which the council does not presently have the financial capability to reasonably maintain;
- Maintenance of assets on Crown Land which council is realistically required to maintain due to community demands (pending a permanent funding arrangement); and
- Fund connectivity solutions (such as the provision of WiFi in community centres) in LGAs facing significant connectivity and black spot issues.

### Why is this reform important?

The consultation and data analysis process revealed that rural and regional councils (particularly in small shires) are in many cases facing significant immediate financial pressure. Key identified causes of this pressure included the high burden of maintaining large (on a per capita basis) capital stocks, the upkeep of facilities on unrated Crown Land and the funding of services like aged care in situations where the council had become a 'provider of last resort.' While this report recommends solutions that address each of these barriers, they are not expected to resolve them in the short term.

Findings also suggested that a number of communities face immediate connectivity issues (including the presence of unreliable internet and phone connections) that are a barrier to business activity and the health of these communities. While the Victorian Government is actively working to resolve these issues, in the short term, there was an identified need in some cases for council to provide connectivity options (for example, through making reliable WiFi available in public buildings).

This stabilisation fund is intended to provide grants to rural and regional councils (particularly small shires) to help them address these immediate infrastructure challenges in the short term, until the benefits of other reforms and State Government programs to be felt.

### What is the role of LGV in this reform?

LGV will be responsible for managing the fund established by this reform option, establishing criteria, receiving submissions and making decisions on when to approve grants from the fund.



# Reform option 5 - Small Shires Stabilisation: Key components

A small shires stabilisation fund is the third reform option proposed under the *Operational Transformation* reform theme. It entails the establishment of a fund to support small shires with a defined number of challenges that hinder operational improvements and community prosperity. It would be established in the short term and phased out as the benefits of other reforms begin to be realised.

REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
OPERATIONAL TRANSFORMATION	<b>3. Regional service delivery</b>	3.1 Regional Service Delivery model development and implementation	Pilot	Implementation	
	<b>4. A modern digital strategy</b>	4.1 Support collaboration and innovation through enabling back office transformation	Design	Implementation	
	<b>5. Small shires stabilisation</b>	5.1 Establish a <i>Stabilisation Fund</i> for infrastructure needs to maintain productivity and liveability in rural Victoria, focused on at-risk small shires and at-risk communities	Fund availability		

The fund will only be available for a period of 2-3 years

# 5 - Small Shires Stabilisation

## 5.1 Establish a Stabilisation Fund for infrastructure needs to maintain productivity and liveability in rural Victoria, focused on at-risk small shires and at-risk communities

### Timing of key steps in reform option:

#### 1. Stabilisation Fund



<b>RATIONALE</b>	<p>The consultation and data analysis process revealed that rural and regional councils (particularly in small shires) are facing significant immediate financial pressure. Key causes of this pressure were said to include the high burden of maintaining large (on a per capita basis) capital stocks, the upkeep of facilities on unrated Crown Land, poor digital infrastructure and maintenance of care and other health facilities. While this report recommends solutions that address each of these barriers, they are not expected to resolve them in the short term. While the majority of reforms proposed in this document are intended to increase the sustainability of rural and regional councils in the longer term, consultations emphasised the need for additional support to be provided to at-risk councils in the short term until the benefits of these reforms can be fully realised.</p>
<b>DESCRIPTION</b>	<p>The State Government should consider creating a fund to provide short term financial assistance to rural and regional councils (with a focus on small, at-risk shires) to address infrastructure renewal challenges. Some examples of projects that may be funded under this option include:</p> <ul style="list-style-type: none"> <li>• Repair, upkeep, or renewal of critical infrastructure where the council does not presently have the financial capability to reasonably maintain</li> <li>• Addressing key connectivity infrastructure gaps (such as the provision of WiFi in community centres) in LGAs facing significant connectivity and black-spot issues</li> <li>• Maintenance of assets on Crown Land which councils are required to maintain</li> </ul> <p>The fund would assist local governments to reduce their infrastructure backlogs only in the short term, with a requirement for more sustainable financial planning practices to address this issue in the long term (see option 2.2). To receive funding, councils must demonstrate that they have a backlog of infrastructure that is critical to community wellbeing in their council area, and cannot be funded through existing funds and grants programs or own-source revenue.</p>
<b>LEAD</b>	LGV
<b>SUPPORT</b>	DELWP, DTF
<b>LGV'S ROLE</b>	LGV will administer the stabilisation fund and make determinations on whether or not to pay out of the fund in response to grant requests from individual councils.



# 4.3 Stronger Local Governance

Summary of proposed reform options

# Reform option 6 - Building local capacity: Overview



## Key Outcome:

**OPERATIONAL  
SUSTAINABILITY**

**Building the capacity of councils and their staff is a vital element of enabling local government to adopt the reforms and improvements that are needed to guarantee sustainability.**

### What is this reform option?

- The creation of long term workforce plans for each rural and regional council to help them project their workforce needs and identify any current or projected shortfalls in particular skills or capabilities;
- Improved induction and development program for elected councillors; and
- Implementation of a number of reforms intended to help address council capability and skill constraints, including graduate cadetships in rural and regional councils (funded by the State Government), and staff exchanges with the VPS.

### Why is this reform important?

Through the consultation process, both council and community members identified a lack of skills and capability among councillors and council staff as a key barrier to service delivery and sustainability. Areas of perceived shortage included strategic planning and asset management skills. Without these skills, stakeholders felt that councils often lacked the ability to effectively plan for sustainability and were left with less room in their budgets as a result of a failure to plan long term or to effectively manage assets. Equipping councils with improved capabilities will likely enhance their ability to effectively engage with the State Government and regional bodies, and to effectively implement practices like regional service delivery and asset management.

### What is the role of LGV in this reform?

LGV will provide a facilitative and supportive role for councils and the Municipal Association of Victoria (MAV) in their efforts to improve councillor capacity, helping MAV develop a more rigorous induction and development program and helping drive the policy changes needed for the other reforms.

# Reform option 6 - Building local capacity: Key components

Building local capacity is the first reform option under the *Strong Local Governance* reform theme, and has three key components. The first is to support the development of workforce plans for each rural and regional council which should begin as soon as possible in the short term. The following two components include supporting MAV to develop a more rigorous induction and development program for councillors, and improving the knowledge and skills of council staff through graduate cadetships, secondment programs, and an improved State-Local entitlement transfer process. Each of these proposed reforms would begin establishment in the short term and continue implementation out over the longer term.

REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
STRONGER LOCAL GOVERNANCE	6. Building local capacity	6.1 Improve capacity of council staff	Establish	Implementation	
		6.2 Support development of workforce plans for each rural and regional councils	Establish	Implementation	
		6.3 Develop a program of support for councillors to better equip councillors with the knowledge and tool to optimise their roles.	Establish	Implementation	
	7. Innovative community engagement	7.1 Establish a fund to help local governments identify innovative ways to efficiently and effectively engage with the community	Fund availability		

These programs should continue into the long term after they have been successfully established

# 6 - Building local capacity

## 6.1 Improve capacity of council staff

### Timing of key steps in reform option:



<b>RATIONALE</b>	<p>The consultation process confirmed the importance of making expertise in technical areas available to councils wherever possible, particularly in the areas of budgeting, financial management, and asset management. Supporting the ability of councils to access specialist staff on an exchange basis would provide a short term option to address skill requirements. Improving the mobility of employee entitlements would provide a mechanism to source employees from the VPS on a more permanent basis, while cadetships will provide councils a way to introduce young graduates into local government where they can be developed to meet council workforce needs.</p>
<b>DESCRIPTION</b>	<p>This reform option includes a suite of initiatives intended to help councils improve the knowledge and skills of their staff in order to meet the workforce needs projected in their workforce plans. This would involve 4 key initiatives:</p> <ul style="list-style-type: none"> <li>• <b>Reform to increase the mobility of employee entitlements between state and local government:</b> Amending state and local government policies and procedures to allow for state government employees to more easily transfer to employment with local government while maintaining their benefits (and vice-versa) to improve mutual access to valuable skills and experience.</li> <li>• <b>Establishment of graduate cadetships in local government, funded by the State Government:</b> Creating state government funded graduate positions in rural and regional councils, with a focus on creating positions that will attract graduates into small and large shires.</li> <li>• <b>Supporting 12 month exchanges of staff with specialist expertise :</b> Support arrangements for the year long exchange of staff with key expertise and technical skills into council workforces, including from the VPS .</li> <li>• <b>Extension of the FAST program:</b> LGV’s Finance and Accounting Support Team is intended to provide expert financial advice and support to rural councils on a project-by-project basis. The program should be provided additional resources to scale up its efforts as part of the wider effort to address knowledge and skill shortages in councils.</li> </ul>
<b>LEAD</b>	LGV
<b>SUPPORT</b>	DELWP, DTF, VPSC
<b>LGV’S ROLE</b>	LGV will continue to administer the FAST program and will help drive the remaining reforms.

# 6 - Building local capacity

## 6.2 Support development of workforce plans for each rural and regional councils

### Timing of key steps in reform option:

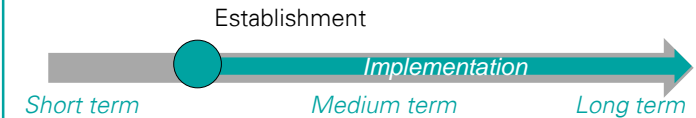


<b>RATIONALE</b>	Long term workforce plans will help identify the long term capability needs of a council, and help inform actions that may be required to enhance skills and capability requirements. This is a key enabler for councils and will support the other reform options proposed. The creation of a panel of providers and associated grant funding is proposed to help councils to develop workforce plans to identify and support their capability requirements.
<b>DESCRIPTION</b>	<p>This option would see councils develop workforce plans which forecast their workforce requirements over the short, medium, and long term, potentially leveraging work that is already underway in this area through the LGPro program. These plans would include identification of the skills and expertise that will be required by the council in order to meet its desired service delivery targets and other operational requirements.</p> <p>The plans will also feature, where necessary, a plan on how to guarantee that workforce requirements are met over the life of the plan. This may include a succession planning strategy for key roles, a recruitment and training strategy, or a description of other ways in which key roles can be filled other than through recruitment (secondment of staff or contracting out etc.)</p> <p>In recognition of the fact that a majority of local councils are likely to require support to create these plans, LGV will create a panel of professional service providers who have expertise in the creation of plans of this type. Rural and regional councils would then be provided a grant to engage the services of one of these providers to assist in the creation of the workforce plan.</p>
<b>LEAD</b>	Individual councils will be responsible for creating their workforce plans.
<b>SUPPORT</b>	LGV and the panel of service providers they assemble will play a supporting role in creating these plans. LGV will also leverage LGPro which is funded to design and pilot a workforce program and planning model that could form an input into these proposed plans.
<b>LGV'S ROLE</b>	LGV will assemble a panel of service providers with the expertise required to assist local governments in putting together their workforce plans. LGV will also oversee the grants intended to allow councils to engage these service providers for this purpose.

# 6 - Building local capacity

## 6.3 Develop a program and support for councillors to better equip councillors with the knowledge and tools to optimise their roles.

### Timing of key steps in reform option:



### RATIONALE

This option seeks to help councillors build and develop their expertise in fields that consultations identified as important to their roles. Greater councillor expertise in strategic planning and understanding of asset management principles were both identified as examples of functions where a development focus would help to optimise council performance. An expanded induction and development program would give more councillors an opportunity to access and refine these skills and enhance the strategic decision-making function of councils.

### DESCRIPTION

This option would identify skills and knowledge critical to the effective operation of councils and offer training and development programs to councillors that are intended to ensure that they are well equipped with these skills for their time in office. Potential areas of focus include strategic planning, asset management, and principles of effective governance.

The reform envisages that the induction training and ongoing development programs currently offered by the Municipal Association of Victoria and LGA being enhanced. This option would see MAV develop additional training to be included in the induction training process which would cover key knowledge areas. These training units would be designed and administered in a manner that seeks to assure a uniform, minimum baseline of knowledge among training attendees and which would also provide a mechanism by which lessons regarding best practice could be passed on to next generations of Councillor.

Ongoing development opportunities may be required to keep re-elected councillors up to date with current best practice in certain areas.

### LEAD

Municipal Association of Victoria will take the lead role in developing the revised induction program.

### STEP SUPPORT

LGV

### LGV'S ROLE

LGV will provide a supporting role in MAV's development of the revised induction and development program.



# Reform option 7 - Innovative community engagement: Overview



## Key Outcome:

**OPERATIONAL  
SUSTAINABILITY**

**Effective community engagement underpins the ability of local councils to effectively identify and meet the changing needs of their community and to take advantage of opportunities to cooperate and co-produce with community on service delivery.**

## What is this reform option?

This option would create a fund, available in the short and medium term, to provide grants to local councils seeking to undertake innovative forms of community engagement. The criteria underpinning these grants would place an emphasis on the potential benefits of the engagement and would prioritise small and large shires where engagement is likely to be more difficult or costly owing to lower population densities.

Better community engagement could feed into the development of the 10 Year Service Plans by helping to identify local priorities.

## Why is this reform important?

Consultation with both councils and community identified community engagement as key to ensuring that councils were able to identify the services their community needed, predict the capabilities the councils needed to ensure those services were effectively delivered, and to find opportunities to collaborate with community and community organisations (including through co-production or delivery of services). This was seen as particularly important against a backdrop of an ageing rural and regional population and community needs changing as a result. Despite this importance, councils identified a difficulty in finding funds for community engagement activities when this came with the opportunity cost of not being able to fund non-discretionary activities like vital infrastructure maintenance or the paying of salaries. This reform would equip the councils who face the greatest difficulty engaging with their communities with the resources they need to do so in the short-medium term.

## What is the role of LGV in this reform?

LGV will be responsible for managing the fund established by reform option 3.2.1 and making decisions on when to approve grants from the fund.

# Reform option 7 - Innovative community engagement: Key components

Driving innovative community engagement is the second component of the reform options seeking to create stronger local governance in rural and regional councils. This component has only one constituent reform proposal, the creation of a fund to help local governments implement innovative ways to efficiently and effectively engage with their community. This proposal is intended to help rural and regional councils where discretionary funds available for community engagement may be limited, to none the less be able to make the most of opportunities to engage the local community. This fund should be established in the short term and maintained into the early medium term until the benefits of other reform options can begin to positively impact the resources available to rural and regional councils.

REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
STRONGER LOCAL GOVERNANCE	6. Building local capacity	6.1 Improve capacity of council staff	Establish	Implementation	
		6.2 Support development of workforce plans for each rural and regional councils	Establish	Implementation	
		6.3 Develop a program of support for councillors to better equip councillors with the knowledge and tool to optimise their roles	Establish	Implementation	
	7. Innovative community engagement	7.1 Establish a fund to help local governments identify innovative ways to efficiently and effectively engage with the community	Fund availability		

# 7 - Innovative community engagement

## 7.1 Establish a fund to help local governments identify innovative ways to efficiently and effectively engage with the community

### Timing of key steps in reform option:



### RATIONALE

As previously stated, both councils and community identified community engagement as key to ensuring that councils were able to identify and deliver the services required by their communities. It was also seen as a means by which council could leverage community to assist in service delivery. Despite this, council and community participants both reflected that the status of engagement as a discretionary expense meant that in shires where financial pressures were acute, funding for engagement activities were seldom available (which indirectly meant that council was less capable of meeting future service demands and was exposed to greater sustainability pressures over time). The creation of dedicated grants for innovative community engagement would both incentivise council to think of new ways to engage with their communities, and help remove the opportunity costs of engagement activities.

### DESCRIPTION

This option would see LGV create a fund which could be used to provide grants to councils requesting funds for community engagement activities, with the focus being on supporting engagement activities that were innovative, responsive to changing conditions/service demands (as a result of the general ageing of the community for example), or which were being undertaken by councils that would normally face higher costs for community engagement activities. Examples of councils which may fit this latter category include small and large shires with low population densities that make consulting with community an expensive or travel heavy prospect.

Grants would be decided on a project by project basis and would only be available in the short-medium term.

### LEAD

LGV

### SUPPORT

Councils would be encouraged to develop innovative community engagement proposals which could, where successful, be passed on as lessons learned to other councils.

### LGV'S ROLE

LGV will administer the fund and make determinations on its distribution.



# 4.4 Implementation of proposed reforms

Recommended enabling actions

# Implementation of proposed reforms

**Key benefits:** Achievement of intended outcomes of the sustainability reform program

## Recommended enabling actions:

### A. Sustainable Rural & Regional Councils Strategy

<b>DESCRIPTION</b>	To communicate the package of reforms to the local government sector and other key stakeholders, LGV would lead the development of a Sustainable Rural and Regional Councils Strategy. This Strategy could be released by the Minister and would be made available on the DELWP (LGV) website. The timing of release would likely coincide with budget announcements in May 2018.
<b>RATIONALE</b>	To ensure the local government sector and other key stakeholders are clear as to what State Government will change or invest in, a short strategic document would help to communicate key reforms, timing, lead responsibilities etc. It would also be able to clarify next steps.  In addition, such a document would be an efficient way of thanking those who participated in consultations leading to this point.
<b>LEAD</b>	LGV
<b>SUPPORT</b>	Rural and Regional Councils Sustainability Reform Program Steering Group
<b>TIMING</b>	Short term
<b>COST</b>	TBC pending existing LGV priorities

### B. A dedicated Project Management Unit in LGV

<b>DESCRIPTION</b>	LGV would create a dedicated Project Management Unit to drive and monitor the delivery of all initiatives committed to as part of the Rural and Regional Councils Sustainability Reform Program. This Unit would work across State and Local Governments to ensure actions are implemented and evaluated over time
<b>RATIONALE</b>	A reform program of this size and scope will required dedicated resources to ensure it remains on track, both in terms of time and budget.
<b>LEAD</b>	LGV
<b>SUPPORT</b>	Relevant state government agencies, peak bodies and local government as relevant
<b>TIMING</b>	Short term
<b>COST</b>	TBC, pending ability to realign existing staff



# 5. Summary & next steps

# With targeted reforms, rural and regional councils can work towards the achievement of long term sustainability

Local councils are an essential players in the ongoing sustainability of Victoria's rural and regional areas, with a unique understanding of local needs and priorities. They are important contributors to the liveability and productivity of regional and rural communities through their role in the provision of services, infrastructure, local governance and leadership, as well as in the facilitation of community wellbeing.

Through a comprehensive regional consultation process, as well as analysis of existing council data, it was found that rural and regional councils face a number of unique challenges. These include ongoing financial sustainability, capability challenges, and operational challenges, that we seek to address through short, medium, and long term reform options aligning to three key themes:



The proposed reforms will contribute to three key outcomes designed to improve the sustainability of rural and regional councils into the future:



Together, these outcomes work to achieve the overall vision for the Rural and Regional Councils Sustainability Reform Program, namely:

## VISION

**VICTORIA'S RURAL AND REGIONAL COUNCILS ACHIEVE LONG-TERM SUSTAINABILITY, BUILDING VIBRANT, LIVEABLE AND PRODUCTIVE RURAL AND REGIONAL COMMUNITIES**

# Summary of proposed reform options

REFORM THEME	REFORM OPTION	KEY COMPONENTS IN REFORM OPTION	Short Term	Medium Term	Long Term
STATE-LOCAL GOVERNMENT ALLIANCE	<b>1. Sustainable service delivery funding model</b>	1.1 Support Service Delivery Planning for each rural and regional council; Analyse Plans to develop benchmarking & other analytical tools	Develop	Analyse	
	<b>2. Funding model</b>	2.1 Undertake a taxation and funding model inquiry to support rural and regional council sustainability.	Inquiry	Review	
		2.2 Address short term critical services funding gaps	Fund availability		
OPERATIONAL TRANSFORMATION	<b>3. Regional service delivery</b>	3.1 Regional Service Delivery model development and implementation	Pilot	Implementation	
	<b>4. A modern digital strategy</b>	4.1 Support collaboration and innovation through enabling back office transformation	Design	Implementation	
	<b>5. Small shires stabilisation</b>	5.1. Establish a <i>Stabilisation Fund</i> for infrastructure needs to maintain productivity and liveability in rural Victoria, focused on at-risk small shires and at-risk communities	Fund availability		
STRONGER LOCAL GOVERNANCE	<b>6. Building local capacity</b>	6.1 Improve knowledge and capability of council staff	Establish	Implementation	
		6.2 Support development of workforce plans for each rural and regional councils	Establish	Implementation	
		6.3 Develop a program and support for councillors to better equip councillors with the knowledge and tools to meet community expectations	Establish	Implementation	
	<b>7. Innovative community engagement</b>	7.1 Establish a fund to help local governments identify innovative ways to efficiently and effectively engage with the community	Fund availability		



# Next steps

**This report represents a summary of the findings and recommended reform options identified during Phase 1 of the Rural and Regional Councils Sustainability Reform program.**

Using this report, LGV and the project's Steering Group will endorse a set of reform options to progress to Phase 2.

In Phase 2, KPMG will develop a business case that examines the chosen reform options, including detailing the costs and benefits of each option to build a case for investment. As part of the business case, KPMG will build an assessment framework to support the identification of priorities.

During the final stage of the project, KPMG will prepare a final report for LGV, summarising key findings from both Phases 1 and 2, as well as including the key reform recommendations developed as part of the business case.



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