RURAL COUNCILS
SUSTAINABILITY
PROJECT

STAGE ONE FINAL REPORT:
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SUSTAINABILITY
PROJECT

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SUSTAINABILITY PROJECT

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1. EXECUTIVE SUMMARY

Within a complex policy environment, Rural Councils Victoria (RCV) is seeking to support its 38 constituent councils to build capacity and improve performance with the assistance of the Victorian State Government through Regional Development Victoria (RDV) and Local Government Victoria (LGV).

The Rural Council Sustainability Project aims to strengthen the sustainability[1] of RCV constituent councils through a two-stage process as further discussed in the introduction of this report. This report concludes the first stage of the project. It summarises key findings from stage Stage One and makes recommendations for Stage Two.

Key findings from Stage One
Discussion paper

The Australian Centre of Excellence for Local Government (ACELG) produced a discussion paper, which acted as a starting point for engagement with RCV constituent councils and stakeholders during the Innovate and Educate Spring Tour. The discussion paper explores the issues that impact the financial and operational sustainability of rural councils. The paper synthesises existing empirical work as a basis for developing shared agreement on the following:

• a detailed portrait of the 38 rural Victorian councils, demographically, spatially and financially

• key areas for building strategic capacity and more effective local government.

The key findings of the discussion paper are as follows:

Demographics

• Some of the 38 rural councils in Victoria are encountering challenges as a result of small populations and demographic change, which impact on their capacity and capability to plan for and adapt to change.[2]

• Some small councils have experienced high population decline from 2006 to 2011.

• With the exception of Mitchell Shire (37 years old), the median age for all local governments reviewed as part of the demographic analysis was above the median age for Victoria at 2011.

Population projections and migration trends

• From 2013 to 2051 the population of Victoria's regions is expected to grow from 1.4 million to 2.2 million.

• Within regional Victoria, population growth will be greatest in the regional centres, areas on the borders of Melbourne, and areas with significant amenity attractors such as coastal or riverfront locations.

• Population projections show significant parts of rural Victoria experiencing no or negligible growth over the coming 20 years.

• In terms of average annual percentage change from 2011 to 2051, population growth is projected to be highest in the Ballarat, Bendigo and Geelong regions.

• In terms of average annual percentage change from 2011 to 2051, population growth is projected to be slowest in the South West, North West, and Shepparton regions.

• Youth migration from regional Victoria to the city is occurring for education and career opportunities and many young people regard 'moving to the big smoke' as a 'rite of passage'.

Local government as a place-based employer

Local government plays a significant role in generating local employment, particularly in small rural communities with small populations and greater distances to regional centres. Discussion between ACELG researchers and key local government stakeholders revealed that, within many RCV councils, there are also significant community expectations about local government's role as an employer of choice, particularly in relation to front of house operations such as the outdoor workforce and home and community care.

[1.] The term sustainability is used here as per the definition in the Victorian Local Government Performance Reporting Framework and Indicators Working Paper (May 2013): *Sustainability is about having the capacity to deliver services, absorb changes and shocks and make decisions in the best interests of the community over the long term. This includes:*
> Meeting the agreed service needs of the community
> Absorbing foreseeable changes and unexpected shocks without having to make disruptive revenue or expenditure adjustments
> Having strong governance and management frameworks in place covering community engagement, planning, monitoring, reporting and decision making.
[2.] Department of Planning and Community Development, Victorian Population Bulletin, 2012

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Financial profile

• Data presented in the Victorian Auditor General's Office (VAGO) report[3] are not adequate to form the basis of assessing the financial situation of constituent councils, although it provides some insights about small councils in Victoria, including that:

- councils' reliance on grant income 'had more than doubled' in the past five years, despite an increase in own-source revenue

- the long-term financial plans of the audited councils 'varied in quality'

- service delivery reviews had focused on identifying 'cost savings' rather than being informed by an 'adequate understanding of community needs'

- changes to the demographic profiles of councils, in particular ageing, represented significant challenges

- payment of defined benefit superannuation entitlements of staff represented a significant financial burden

- adequate support and guidance needs to be provided for these councils, in particular by LGV.

• When combined, data from the VAGO report demonstrate that, overall, the councils are financially sustainable, with the following insights:

- 'Small shires' are the most vulnerable as their ratepayer bases are smaller, making them highly dependent on government funding to maintain their operations, and that 'their reliance on government funding exposes them to the potential for higher financial risks in the future'.

- Of the 38 councils, 36 were assessed as 'Low Risk' in the 'Underlying Result' indicator.

- Several of the indices returning 'Medium' or 'High' risk are explained in the VAGO report as being due to particular circumstances, such as borrowing to cover the defined benefit superannuation funding, timing of natural disaster funding and associated works etc.[4]

• Data and observations from the Whelan Report[5] offer the following insights:

- Twenty-three of the 24 small and very small rural councils are very adversely affected by environmental factors, and 21 of these (88%) are rated as financially vulnerable/very vulnerable.

- Eighteen of the most vulnerable councils – all of which are RCV councils – had a combined operating deficit of $34 million.

- As with the VAGO report, these data are not complete for RCV – only 18 of 38 councils are discussed specifically. Moreover, the calculations do not include capital contributions (i.e. revenue received for capital expenditure) while the methodology used by VAGO included these amounts.

Spatial organisation

• There are many formal networks, collaborations, and partnerships operating amongst Victoria's 79 councils which represent a variety of spatial groupings.

• To some extent, key local government stakeholder organisations including RCV, MAV, RDV and LGV all have differing regional groupings and associated names.

• Whilst RCV, MAV and RDV have five or six defined regional groupings in Victoria, there are eight regional growth planning boundaries in existence, each with associated regional growth plans.

• There are also a number of regional organisations and local government networks operating across the state, consisting of member councils collaborating and working together to achieve common goals and represent local issues at a regional level.

• A number of other informal networks, partnerships, and collaborations are occurring on a project-by-project or issue basis.

[3.] Victorian Auditor General's Office, Organisational Sustainability of Small Councils (Melbourne: Victorian Auditor General's Office, 2013).

[4.] Victorian Auditor General's Office, Local Government: Results of the 2012–13 Audits (Melbourne: Victorian Auditor General's Office, 2013).

[5.] Local Government Financial Sustainability, Focus on Small Rural Councils (2010).

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RCV Innovate and Educate Spring Tour

As part of RCV's Innovate and Educate Spring Tour in October 2014, ACELG presented the findings of the discussion paper in five locations across Victoria, and considered with councillors and staff some of the sustainability challenges and opportunities facing rural areas.

Some of the key challenges identified by rural councils during the Spring Tour included:

• reliance on grants and limited options for own-source revenue

• barriers to embracing new ways of working

• the burdens related to compliance and administrative reporting

• changing demographics

• changing expectations of local government

• preservation of local character.

Rural councils identified a range of opportunities to pursue as part of the next stage of the project. These included:

• shared services, collaboration and resource sharing

• use of debt

• community engagement around service and budget decisions

• development of inter-governmental partnerships

• working with regional cities.

RCV Forum

The culmination of the Stage One engagement process was a presentation and workshop session facilitated by ACELG's Deputy Director at the RCV forum on 22 October 2014.

In particular, the discussion centred on the following key issues:

• barriers and opportunities around shared services, collaboration, and resource sharing

• strategic partnerships

• strategies to improve service delivery and asset and financial management.

Outcomes of the workshop included:

• evidence of councils' desire to do business better and to be respected inter-governmental partners

• evidence of councils' aspirations to develop relationships with each other and the State government, and to engage in resource sharing and shared services – which they appreciate requires strategic leadership

• evidence that rural councils value their role as local employers, are concerned about job losses, and feel that close management is needed to deal with this

• evidence of preparedness by councils to engage with their communities in order to review service levels, and to deliver smarter and more efficient local government.

Recommendations and options for Stage Two

Based on Stage One activities and engagement outcomes, ACELG suggests the following focus areas and processes for building the strategic capacity of RCV councils. We understand that there is a significant amount of diversity across the 38 rural councils in terms of the challenges faced, as well as capacity, resourcing, and uptake of shared service planning and delivery, as well as other forms of collaboration.

Self-assessment and analysis

As there are differences within the 38 rural councils in terms of the level of capacity building needs and their progress in addressing each of the areas identified for building strategic capacity, we suggest that it is necessary to collect some additional data across RCV constituent councils in order to further explore areas for future facilitation and support, and to ensure the capacity building initiatives are well targeted to the needs of individual councils. This assessment and analysis could potentially be in the form of an online survey, supplemented with some targeted in-depth telephone interviews with council staff and elected members.

Improving service delivery

Stage One revealed that there are significant opportunities to build the capacity of some RCV councils around service delivery and levels of service.

A service delivery review is one way to drive more efficient use of resources whilst providing services to meet the needs of the community. Establishing a review process builds the capacity of both staff and the community to think critically and systemically about current and future service needs. It can also lead to innovation in service provision and helps build a culture of continuous improvement within local government.

There is an opportunity to build on, and share learnings from existing work that is already occurring around the State – including existing ACELG research – to:

• build the capacity of RCV councils to undertake service reviews

• establish a set of tailored guiding principles for RCV council service reviews

• provide guidance on understanding the community and engaging around service levels

• develop improvement frameworks, processes, method and tools

• foster an organisational culture of improvement

• report on efficiency and effective provision of services.

It is envisaged that the methodologies would be varied, and may include some desktop research, data gathering, workshops and training sessions with council staff, as well as benchmarking and reporting. Outputs may include case studies, manuals, tools, templates and tailored training for rural councils.

Shared services, collaboration and resource sharing

It is clear from the outcomes of Stage One that there is an impressive number of rural councils already engaging in shared services, resource sharing and collaboration. LGV continues to support councils across Victoria to explore business efficiency and improve economic, social and environmental outcomes by collaborating together.

Stage One of the RCV Sustainability Project revealed that there is an opportunity for rural councils to further build capacity around shared services, collaboration and resource sharing, and to build on and share learnings from existing work that is already occurring around the State, particularly amongst rural councils, in the following key areas:

• case studies and knowledge sharing from existing arrangements in Victoria and nationally

• cost–benefit assessments of shared service arrangements

• guidance with determining what services to share and the initiatives on which to collaborate

• guidance regarding the scale of service sharing or collaboration, including in working with regional cities

• governance models and frameworks for shared services

• monitoring and evaluating shared service initiatives.

It is envisaged that the methodology would be varied, and may include desktop research, surveys, stakeholder interviews, focus groups and workshops. Outputs may include case studies, manuals, tools, templates and tailored training for RCV councils.

Improving asset and financial management

Further work should be undertaken to assess the potential of the councils to operate in a financially sustainable manner and the associated implications. An appropriate starting point requires councils to be confident about the longer-term implications of their 'business as usual' base case. Firstly, this requires being satisfied that existing data used by councils for financial and asset management planning are reliable and consistent. Secondly, it is important to understand what capacity may exist to vary existing financial strategies (for example to increase own-source revenue or to make better use of debt) and what impact this could have on financial sustainability. Reliable information would allow informed decisions to then be made as to the potential for resource sharing and shared services to assist in overcoming longer-term financial challenges and/or the extent to which changes in service levels (or additional external financial support) may be needed. Methodologies for Stage Two may include desktop research, surveys, stakeholder interviews, focus groups and workshops.

Bringing it all together – a more systematic approach

While a number of councils are well on their way to addressing many of the issues outlined in this paper, the approaches taken tend to be ad hoc and largely in response to sporadic opportunities rather than as part of a strategic approach to reviewing council business in an environment of change. RCV could consider seeking a partnership with the State government to continue to develop a framework to assist rural councils build a systematic business modernisation program. The process would include an assessment of the potential to collaborate and partner with neighbouring councils and others. Such an approach would require the dedication of resources to assist rural councils to work through this process in a systematic and strategic way. The provision of appropriate resources and incentives will be an important factor in achieving the outcomes desired, due to the complexity of the issues involved.

2. INTRODUCTION

Within a complex policy environment, Rural Councils Victoria (RCV) is seeking to support its 38 constituent councils to build capacity and improve performance with the assistance of the Victorian State Government through Regional Development Victoria (RDV) and Local Government Victoria (LGV).

RCV is striving to support elected members and senior staff of rural councils to demonstrate their leadership in embracing opportunities within local and across regional boundaries, manage the changing demands and expectations of stakeholders, and maximise triple bottom line sustainability.
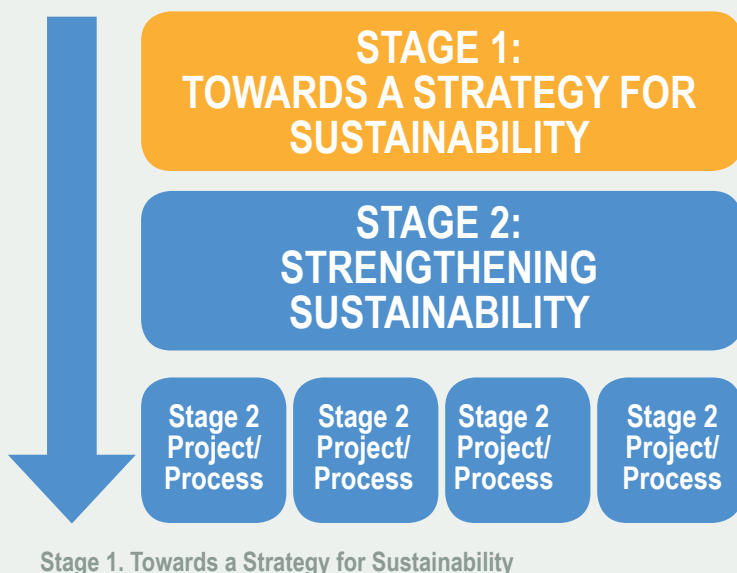
The Rural Council Sustainability Project aims to strengthen the sustainability[6] of RCV constituent councils through a two-part process as show in Figure 1 below.

Figure 1: Rural Council Sustainability Project methodology

The Australian Centre of Excellence for Local Government (ACELG) has been engaged by RCV to conduct the first stage of this project. A critical first step in building strategic capacity to address sustainability is the process of developing sector agreement on the key issues and challenges that are to be addressed. This will ensure there is common understanding, and will facilitate agreement on the key steps to be taken to address the issues and challenges.

This report summarises the activities and findings of Stage One of the project, including:

• results of the six workshops with constituent councils as part of the RCV Spring Tour

• a portrait of the 38 rural Victorian councils demographically, spatially and financially

• identification of key areas for building strategic capacity and more effective local government

• a proposed framework for implementation of Stage Two of the RCV Rural Council Sustainability Project.

**STAGE 1:
TOWARDS A STRATEGY FOR SUSTAINABILITY**

**STAGE 2:
STRENGTHENING SUSTAINABILITY**

| Stage 2 Project/ Process | Stage 2 Project/ Process | Stage 2 Project/ Process | Stage 2 Project/ Process |

Stage 1. Towards a Strategy for Sustainability

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6. The term sustainability is used here as per the definition in the Victorian Local Government Performance Reporting Framework and Indicators Working Paper (May 2013):
   Sustainability is about having the capacity to deliver services, absorb changes and shocks and make decisions in the best interests of the community over the long term. This includes:
   Meeting the agreed service needs of the community
   Absorbing foreseeable changes and unexpected shocks without having to make disruptive revenue or expenditure adjustments
   Having strong governance and management frameworks in place covering community engagement, planning, monitoring, reporting and decision making.

3. STAGE ONE KEY ACTIVITIES AND OUTCOMES

This section provides a summary of the activities and outcomes of Stage One of the RCV Sustainability Project.

3.1 Discussion paper

ACELG produced a discussion paper which acted as a starting point for discussion and engagement with RCV constituent councils and stakeholders during the Spring Tour – a series of events arranged by RCV to showcase innovation within constituent councils. The discussion paper explores the issues that impact the financial and operational sustainability of rural councils. The paper synthesises existing empirical work as a basis for developing shared agreement on the following:

• a detailed portrait of the 38 rural Victorian councils, demographically, spatially and financially

• key areas for building strategic capacity and more effective local government.

The key findings of the discussion paper are summarised below.

3.1.1   Demographics and workforce data

The demographic data are based on data from the Australian Bureau of Statistics (ABS) 2006 and 2011. The full analysis provides a high level overview of key demographic characteristics for each of the 38 councils, comparing changes between 2006 and 2011.

Demographics

• Some of the 38 rural councils in Victoria are encountering challenges as a result of small populations and demographic change which impact on their capacity and capability to plan for and adapt to change.[7]

• Large councils generally experienced higher population growth rates than small councils from 2006 to 2011.

• Some small councils have experienced significant population decline from 2006 to 2011.

• With the exception of Mitchell Shire (37 years old), the median age for constituents in all local governments reviewed as part of the demographic analysis was above the median age for Victoria at 2011.

Population projections and migration trends

• From 2013 to 2051 the population of Victoria's regions is expected to grow from 1.4 million to 2.2 million.

• Within regional Victoria, population growth will be greatest in the regional centres, areas on the borders of Melbourne, and areas with significant amenity attractors such as coastal or riverfront locations.

• Population projections show significant parts of rural Victoria experiencing no or negligible growth over the coming 20 years.

• In terms of average annual percentage change from 2011 to 2051, population growth is projected to be highest in the Ballarat, Bendigo and Geelong regions.

• In terms of average annual percentage change from 2011 to 2051, population growth is projected to be slowest in the Warrnambool and South West, North West, and Shepparton regions.

• Youth migration from regional Victoria to the city is occurring for education and career opportunities and as many young people regarding 'moving to the big smoke' as a 'rite of passage'.

Local government as a place-based employer

Local government plays a significant role in generating local employment, particularly in small rural communities with small populations and greater distances to regional centres. Discussion between ACELG researchers and key local government stakeholders revealed that within many RCV councils there are also significant community expectations about local government's role as an employer of choice, particularly in relation to front of house operations such as the outdoor workforce and home and community care.

[7.] Rural Councils Victoria, Rural Migration Trends and Drivers (Melbourne: Municipal Association of Victoria, 2012).

3.1.2 Financial profile

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

• Data presented in the VAGO report[8] are not adequate to form the basis for assessing the financial situation of constituent councils, although they provide some useful insights about small councils in Victoria, including that:

 - councils' reliance on grant income 'had more than doubled' in the past five years, despite an increase in own-source revenue.

 - the long-term financial plans of the audited councils 'varied in quality'

 - service delivery reviews had focused on identifying 'cost savings' rather than being informed by an 'adequate understanding of community needs'

 - changes to the demographic profiles of councils, in particular ageing, represented significant challenges

 - payment of defined benefit superannuation entitlements of staff represented a significant financial burden

 - adequate support and guidance needs to be provided for these councils, in particular by LGV.

• When combined, data from the VAGO demonstrate that, overall, small councils in Victoria are financially sustainable, with the following useful insights:

 - Of the 38 councils, 36 were assessed as 'Low Risk' in the 'Underlying Result' indicator.

 - Several of the indices returning 'Medium' or 'High' risk are explained in the VAGO Report as being due to particular circumstances, such as borrowing to cover the defined benefit superannuation funding, timing of natural disaster funding and associated works etc.

 - 'Small Shires' are the most vulnerable as their ratepayer bases are smaller, making them highly dependent on government funding to maintain their operations, and that 'their reliance on government funding exposes them to the potential for higher financial risks in the future'.[9]

• Data and observations from the Whelan Report[10] offer the following useful insights:

 - Twenty-three of the 24 small and very small rural councils are very adversely affected by environmental factors, and 21 of these (88%) are rated as financially vulnerable/very vulnerable.

 - Eighteen of the most vulnerable councils – all of which are RCV councils – had a combined operating deficit of $34 million.

 - As with the VAGO report, these data are not complete for RCV – only 18 of 38 councils are discussed specifically. Moreover the calculations do not include capital contributions (i.e. revenue received for capital expenditure) while the methodology used by VAGO included these amounts.

8. Victorian Auditor General's Office, Organisational Sustainability of Small Councils.
9. Victorian Auditor General's Office, Local Government: Results of the 2012–13 Audits.
10. Local Government Financial Sustainability, Focus on Small Rural Councils (2010).

3.1.3 Spatial organisation

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

• There are many formal networks, collaborations, and partnerships operating amongst Victoria's 79 councils, which represent a variety of spatial groupings.

• To some extent, key local government stakeholder organisations including RCV, MAV, RDV and LGV all have differing regional groupings and associated names.

• Whilst RCV, MAV and RDV have five or six defined regional groupings in Victoria, there are eight regional growth planning boundaries in existence, each with associated regional growth plans.

• There are also a number of regional organisations and local government networks operating across the State, consisting of member councils collaborating and working together to achieve common goals and represent local issues at a regional level.

• A number of other informal networks, partnerships, and collaborations are occurring on a project-by-project or issue basis.

3.2 RCV Innovate and Educate Spring Tour

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

ACELG's Deputy Director presented at a series of five events throughout October 2014 in the following locations:

• Hamilton

• Wedderburn

• Beaufort

• Benalla

• Warragul.

ACELG presented the findings of the discussion paper at these events, and in doing so discussed with councillors and staff some of the sustainability challenges and opportunities facing rural areas. At the workshops, we heard about the innovative work that is already occurring between councils and across boundaries in rural and regional Victoria. The following projects and initiatives were discussed:

• Lighting the Regions Project between Central Goldfields, Hepburn, Pyrenees, Loddon, Swan Hill, Gannawarra, Mount Alexander, Greater Bendigo, Buloke, Ararat, Northern Grampians, Hindmarsh, Horsham, Yarriambiack, West Wimmera and Mildura Councils and the Central Victoria Greenhouse Alliance and Wimmera Mallee Sustainability Alliance.

• A joint bituminous road resealing contract between Northern Grampians, Horsham, West Wimmera, Hindmarsh and Yarriambiack Shires.

• Appointment of a single WorkCover agent – attracting a strong field that resulted in highly competitive bids for better services – between Buloke, Campaspe, Central Goldfields, Gannawarra and Loddon Shires.

• Alpine, Indigo, Towong and Wangaratta are working together to identify shared service opportunities geared by Towong's successful rates delivery partnership with Indigo.

• Collaborations between local governments and other agencies, for example Southern Grampians Shire Council working with Health Services to provide better co-ordination and more efficient aged care and support services.

It was clear that RCV councils value their role as major employers of choice in rural areas and place particular emphasis on the importance of ground staff and front of house staff such as home and community care workers, customer service, and maintenance. There are some fears of job losses and concerns around attracting and retaining quality staff in some rural areas.

3.2.1 Reactions to discussion paper

Generally speaking, the discussion paper was well received by RCV councils and key stakeholders. Those participating in the Spring Tour workshops agreed the paper presented an accurate depiction of the current state of play in rural councils and many said they appreciated the fact that the available data had been compiled into an easy-to-read paper that would be of value in informing their decision-making into the future.

3.2.2 Key challenges

Some of the key challenges identified by rural councils during the Spring Tour included:

• reliance on grants and limited options for own-source revenue
• barriers to embracing new ways of working
• the burdens related to compliance and administrative reporting
• changing demographics
• changing expectations of local government
• preservation of local character.

Reliance on grants and limited options for own-source revenue

Some rural councils felt that, unlike metropolitan councils, they were increasingly relying on grants given the limited availability of own-source revenue. There was some discussion around fees and charges, debt, and the capacity of citizens in rural council areas to pay increased rates, fees and charges. Workshop participants noted that a number of councils had used debt to service defined superannuation benefit scheme payments. Ageing community facilities and council assets were also cited as major challenges facing rural councils.

Barriers to embracing new ways of working

Some of the barriers to embracing new ways of working were also discussed. These included organisational and cultural challenges, such the need to build trust between councils; resistance to change; and insufficient staff resources to develop new ways of working.

Compliance and administrative reporting burden

The burden of administration, regulations and reporting to the State government were also cited as key time and resource challenges. Councils discussed issues associated with an ageing and declining population, attracting quality staff and elected members, and a fear of future job losses due to local government reform in all its guises. Resourcing for highly skilled and strategic roles was identified as a particular challenge for some.

Changing expectations

The changing expectations of local government to be more than a traditional provider of municipal services was also cited as a challenge. Communities increasingly expect local government to become involved in a wider range of activities, and this requires the adoption of a more strategic focus, development of new partnerships with state and federal governments and business partners, and more sophisticated engagement with the community and other stakeholders. Councils struggling to retain staff to fulfil traditional service delivery functions also find it difficult to resource these new roles and recruit skilled staff.

Preservation of local character

Finally, some council representatives spoke about the need to preserve the rural character of their areas which is so highly valued by citizens, while at the same time responding to development pressure from nearby urban centres.

3.2.3 Key Opportunities

Rural councils identified a range of opportunities to pursue as part of the next stage of the project. These included:

• shared services, collaboration and resource sharing

• use of debt

• community engagement around service and budget decisions

• development of inter-governmental partnerships

• working with regional cities.

Shared services, collaboration and resource sharing

Rural councils suggested that there were significant opportunities to demonstrate strategic leadership by working together to collaborate and share resources with other councils. Opportunities for shared services that were raised several times during the workshops included payroll, human resources, and other back of office functions. The opportunity to share specialised staff, such as planners and compliance officers across councils was also cited. The need for a common IT system and other common platforms was identified as a significant opportunity to support more collaborative ways of working.

Some participants expressed a desire to build capacity around shared services, including deciding the services on which to share or collaborate, how to do so, and what the costs and benefits of these arrangement might be. There was an emphasis on documenting and sharing existing arrangements, including governance models and case studies from Victoria and other states and territories.

Use of debt

Some rural councils indicated a level of hesitance towards debt, and would like further guidance on the responsible use of debt, particularly to fund infrastructure projects. They recognised that leadership was required to deliver good financial and asset management practice, and would also like to further build capacity around better use of fees and charges.

Community engagement

The issue of community engagement was raised in the context of assessing levels of service and the need to work with the community to develop an understanding around budget and service decisions. There was an acknowledgement that this may involve engaging communities in difficult discussions, but that tough decisions needed to be taken in order to secure sustainability.

Development of inter-governmental partnerships

The importance of local governments being good inter-governmental partners, able to advocate for themselves, and able to work with state and federal governments was recognised by some as being very significant. Some participants suggested that there may be opportunities to fund experienced project officers in regional areas to build capacity and provide support for rural councils keen to explore new ways of working. RCV was seen as being well-placed to play a role in this regard.

Working with regional cities

Participants noted that regional centres are set to grow, presenting challenges and opportunities for surrounding shires. The challenges included possible further declines in population as citizens seek new employment, education and recreational opportunities. The opportunities included the potential to play a role as a provider of lifestyle opportunities in partnership with regional centres. Either way, RCV councils expressed a desire to work more constructively with regional cities to ensure the opportunities are realised, and the risks are minimised.

3.3 RCV Forum

The culmination of the Stage One engagement process was a presentation and workshop session facilitated by ACELG's Deputy Director at the RCV forum on 22 October 2014. The workshop provided an important opportunity to share the findings of the five RCV Spring Tour workshops, and to discuss sustainability strategies for the next stages of the project. In particular, the discussion centred on the following key issues:

• barriers and opportunities around shared services, collaboration, and resource sharing

• strategic partnerships

• strategies to improve service delivery and asset and financial management.

Outcomes of the workshop included:

A desire to do business better and develop partnerships

It was evident that RCV councils aspire to develop relationships with each other and the State government, and to engage in resource sharing and shared services – which they appreciate requires strategic leadership.

Concern about job losses

It was evident that rural councils value their role as local employers, are concerned about job losses, and feel that close management is needed to deal with this.

Review of service levels

Rural councils are prepared to engage with their communities in order to review service levels, and to deliver smarter and more efficient local government.

3.4 Issues to address prior to Stage Two
3.4.1 Amalgamation

Throughout Stage One, the issue of council amalgamation was raised several times, despite the clear message throughout the Spring Tour from state government representatives that amalgamation is not on the agenda. Whilst many Victorian rural councils have embraced strategic thinking and innovation across a wide range of council functions, we understand challenges lie ahead in achieving an industry-wide shift that will deliver substantial productivity gains and allow rural councils 'to get on the front foot' alongside the State government's local government reform program. These challenges will inevitably involve changes in industry structure, though not necessarily through amalgamations. Achievements can be made through changes in the way services are managed and delivered, including greater collaboration and linkages with organisations in the private, public and education sector.

Throughout Stage One, the importance of retaining local leadership and local representation was raised as a key issue. The discussion paper also explored the importance of local government as a place-based employer, particularly within smaller rural areas which are more likely to employ people living within the local government area than their regional and metropolitan counterparts.

It is important at this stage to confirm that amalgamation does not fall into the aims or scope of this sustainability project, but rather the focus is on what councils can do within local and across regional boundaries to manage the changing demands and expectations of stakeholders and maximise triple bottom line sustainability.

3.4.2 Cost shifting

Throughout the Spring Tour workshops participants spoke about the impact of cost shifting. As a sphere of government in its own right, local government can and should not be quarantined from shifts in the division of responsibilities between the three levels of government which become necessary from time to time. These may arise as a response to changing community needs or priorities, changing models of practice, or the emergence of new delivery methodologies made possible by technological or other advances.

The Victorian State–Local Government Agreement sets out the principles to guide state-local government relations, and Part 4 of the agreement addresses the arrangements to apply when local government is to administer or enforce new laws or introduce new or revised legislation. Specifically, clauses 10 and 11[11] state:

10. Where the Victorian Government intends for local government to administer or enforce new primary legislation, or new or revised regulation, the relevant lead department shall, subject to exceptional circumstances, consult with local government in accordance with the Victorian Guide to Regulation. In doing so, the relevant department shall consider the impacts of the regulation on local governments, including any cost and resource impacts on local governments of administering the regulation.

11. The State commits to consultation other than in exceptional circumstances with local government on any material change to funding agreements that impact on local government. It recognises the importance of the resources available to, and the capability of local government, to effectively administer and enforce state regulation.[12]

While it is important to ensure that the inevitable shifts in responsibility and funding are properly planned and negotiated, the partnership agreement provides the framework to deal with these negotiations and it is therefore beyond the scope of the Rural Council Sustainability project to address this issue.

11. Victorian State-Local Government Agreement, September 2014.
12. Victorian State–Local Government Agreement (Melbourne: Department of Transport, Planning and Local Infrastructure, State Government of Victoria, 2014).

4. A PROPOSED FRAMEWORK FOR STAGE TWO

4.1   The approach

It is clear from the issues canvassed in the discussion paper, the discussions with councillors and senior staff during the Spring Tour workshops, and the RCV Forum that rural councils accept that a more strategic approach is required to the way they conduct business. Changing times in the local government sector generally, and in rural councils in particular, require the development and adoption of new business models. Changing community and stakeholder needs, the introduction of new technologies, and the changing expectations of state and federal governments all point to the need for change. State and federal governments are taking an increased interest in local government as evidenced by the introduction of the new performance reporting framework, various VAGO reviews, and the funding programs of LGV and RDV.

The election of a new State government also suggests that rural councils need to be ready to respond to and embrace further change. The complex challenges and issues facing rural councils suggest that a restructuring package might be required to assist small rural local governments in changing the way they do business. The possible emergence of a new governance model for rural councils in New South Wales is also a policy development worth watching as a possible model for rural councils in Victoria. A strong case could be developed for a funding package to be drawn and constitute similar initiatives to those already instigated by LGV, but within a broader strategic framework developed as part of Stage Two of this project. A significant investment in this process is warranted given the extent of the adjustment required.

Based on Stage One activities and engagement outcomes, we suggest a number of focus areas and processes for building the strategic capacity of RCV councils. These are detailed in the following pages, and include:

• self-assessment and analysis

• improving service delivery

• shared services, collaboration and resource sharing

• improving asset and financial management.

There is a significant amount of diversity across the 38 rural councils in terms of the challenges faced, as well as capacity, resourcing and uptake of shared services.

[11.] Victorian State-Local Government Agreement, September 2014.
[12.] Victorian State–Local Government Agreement (Melbourne: Department of Transport, Planning and Local Infrastructure, State Government of Victoria, 2014).

This means support can and should occur at a number of different scales, and whilst initial tools, training and templates can be developed for discretionary use by all RCV constituent councils, it is envisaged that, in the long-term, there is a need for targeted regional facilitation and capacity building. This may be in the form of a pilot program, or engaging experienced regional facilitators to support targeted RCV councils. Whilst a top-down approach may be useful for some councils, we also appreciate that more hands-on guidance and support on the ground may be required.

The focus areas identified are not mutually exclusive, and present a framework of options for RCV to consider for the short- and medium-term. It is envisaged that discrete project proposals may fall out of each focus area based on further discussion between RCV, RDV and LGV, and an initial survey and self-assessment by rural councils.

We are also aware there are concurrent projects and funding opportunities aimed at strengthening the sustainability of Victoria's councils, such as LGV's collaborative procurement projects, and the MAV Future of Local Government project. It will be important in Stage Two to ensure RCV is offering targeted support for rural councils, making the most of existing funding opportunities, and working closely with key stakeholder organisations to ensure projects operate effectively, with discrete aims and objectives, and are consistent with the other initiatives underway at the time.
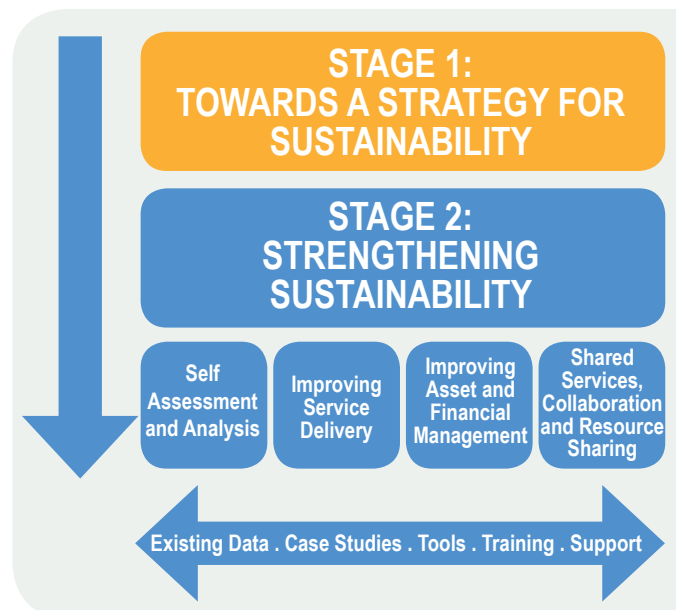

Figure 2: Suggested approach for Stage Two of the Rural Council Sustainability Project

Each of these project areas is outlined in further detail in the following sections.

4.2   Self-assessment and analysis

As there are differences within the 38 rural councils in terms of the level of capacity building needs and their progress in addressing each of the areas identified for building strategic capacity, we suggest that it is necessary to collect some additional data across RCV constituent councils in order to further explore areas for future facilitation and support, and to ensure that the capacity building initiatives are well targeted to the needs of individual councils. For example, some councils may need one-on-one support in one area, but be well-advanced in addressing another. Others may benefit from top-down training and development programs, or tools and guides to assist in addressing the issues identified. This assessment and analysis need not be complex and could potentially be in the form of an online survey, supplemented with some targeted in-depth telephone interviews with council staff and elected members. The aim of this preliminary data collection would be to:

• document how services are currently delivered and what the challenges are

• document good practice that is occurring across the focus areas to include in case studies

• flesh out some of the cultural and organisational barriers identified in Stage One

• identify councils that may require more ground-level support and facilitation.

Interviews could be targeted across different subgroups of councils, including size, remoteness, those participating in shared services, and those participating in LGV's Procurement in Practice program.

4.3   Improving service delivery

Local government delivers a range of internal and external services to meet the needs and wants of communities:, including internal services such as strategic planning, human resources, finance and information technology; and external services such as waste collection, childcare services, parks maintenance, and development application processing.[13] In meeting these expectations, local governments face twin pressures of increasing financial constraints and the need to deliver a wide range of environmentally and socially responsible services.

Local governments are under increasing financial pressure, with an often widening gap between revenue and expenditure. At the same time, they are expected to be environmentally and socially responsible and provide a wide range of quality services.

4.3.1 Service reviews and reviewing levels of service

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

Service delivery reviews are an ongoing process to ensure local government is delivering what the community needs in the best possible way. Establishing a review process builds the capacity of both staff and the community to think critically and systemically about current and future service needs. It also leads to innovation in service provision and helps build a culture of continuous improvement within local government.

The key outcomes of service delivery reviews include:

• better alignment of services with community needs and a more engaged community

• higher quality service provision

• cost savings and sometimes income generation

• increased efficiency in the use of often limited resources

• identification of opportunities for partnerships and networks with other local governments and service providers

• increased capacity of staff to respond to changing needs of the community

• staff who work more cooperatively across departments

• a more systemic approach to understanding future community needs.

Reviews should be seen as part of 'business as usual' – a continuous improvement process which is integrated with local government corporate and strategic planning, asset management and community engagement.

ACELG has recently published Service Delivery Review: A How to Manual for Local Government, a resource that will assist councils assess the services they provide for local communities.

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13. SallyAnn Hunting, Roberta Ryan and Tim Robinson, Service Delivery Review: A How To Manual for Local Government (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2014).

Reviewing levels of service

A report on the financial sustainability of Australian councils prepared for the Australian Local Government Association identified a mid-case national estimate for infrastructure renewal backlog of $14.6 billion, and an average annual funding gap of $3.1 million per council. Without reforms, 35% of councils may not be sustainable. The revenue shortfall was estimated at 9% of required revenue in 2004/05.

The report stated that '[f]or financial sustainability, this 9% funding gap must be covered over the medium term. This appears best achieved through a combination of initiatives including:

• 'Further increases in efficiency

• Higher user charges, and

• Further support from other spheres of government.' [14]

The combination of further increases in efficiency – including 'savings', reducing levels of service, and increasing user charges by local governments – will impact the community. Engaging the community in discussions on financial sustainability and service levels of service options is essential. Local governments will be better able to meet infrastructure service needs in the medium- to long long-term in an acceptable manner through community engagement.

Councils are expected to develop mechanisms to define the levels of service they expect to provide to their communities. Specifically, the Local Government and Planning Ministers' Council's framework for financial sustainability encourages councils to:

• 'Establish service delivery needs and define service levels in consultation with the community

• Establish quality and cost standards for services to be delivered from assets; and

• Regularly review their services in consultation with the community to determine the financial impact of a reduction, maintenance or increase in service.'[15]

Levels of service statements articulate the standard of service that the delivering organisation intends to meet. Levels of service can be defined according to customer expectations, and/or resource allocations indicating a certain technical standard of service delivery.[16]

Engaging the community in difficult decisions around service levels

A service delivery review is an important tool within local government because it provides the processes and templates to help align council services with broader strategic priorities, and helps assess trade-offs between cost and desired levels of service. Getting targeted sections of the community involved in establishing service levels by determining how much they are prepared to pay for particular services will set mutually accepted standards and prompt community buy in for achieving these goals. Engaging the community in this targeted way also builds understanding in the community regarding the balance between cost and service provision, and what happens to the overall budget if local government 'dials up' or 'dials down' the service, thereby making changes to service levels more politically acceptable. In addition, service reviews provide an opportunity for councils to assess whether or not the services provided are still wanted by the community, and if so whether they are the most appropriate provider.

4.3.2 Understanding the community and community governance

Knowing the community's needs and wants is a prerequisite to service provision. The 'community' in this sense includes individuals, community groups and businesses who are either based locally, or who otherwise use the local government services. When assessing community needs, those of the under-represented and hard-to-reach groups should be given special consideration, as should the future needs of the community.[17]

The process of 'understanding' the community also involves evaluating whether or not the community has sufficient capacity to determine and articulate what services it needs. Not all communities or community members may understand the range and levels of services provided by their local government, and may also not be in a position to be able to think about the future. As such, the community may require additional information, knowledge and training to be able to contribute effectively.

Community governance is about local government working with a broad range of other government and community stakeholders to determine preferred futures, and to facilitate shared decisions and joint action to achieve agreed outcomes, including the quality of the local environment and how communities access the services they need.[18] For service delivery, this means involving the community in making decisions about services, including service levels, how the service is provided, and how the annual budget is allocated to specific services.[19]

14. Institute of Public Works Engineers Australasia (IPWEA), Level of Service and Community Engagement, Practice Note No. 8 (Sydney: IPWEA, in press).

15. Local Government and Planning Ministers' Council (LGPMC) 2009, Local Government Financial Sustainability Nationally Consistent Frameworks, Framework 2: Asset Planning and Management (Canberra: LGPMC, 2009), 5.

16. IPWEA, Level of Service and Community Engagement.

17. Hunting, Ryan and Robinson, Service Delivery Review.

18. Peter McKinlay, Stefanie Pillora, Su Fei Tan and Adrienne von Tunzelman, Evolution in Community Governance: Building on What Works (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2011).

19. Hunting, Ryan and Robinson, Service Delivery Review.

4.3.3 Recommendations for Stage Two

Stage One revealed that there are significant opportunities to build the capacity of some RCV councils around reviewing service delivery and levels of service. Some rural councils spoke of the challenges involved in meeting the changing expectations and needs of the community, financial constraints borne from declining revenues, and the need to engage with the community to facilitate shared decisions and joint action.

We suggest that there is an opportunity to build on, and share learnings from existing work that is already occurring around the State and existing ACELG research to:

• build the capacity of RCV councils to undertake service reviews

• establish a set of tailored guiding principles for RCV council service reviews

• provide guidance on understanding the community and engaging around service levels

• develop improvement frameworks, processes, method and tools

• foster an organisational culture of improvement

• report on efficiency and effective provision of services.

It is envisaged that the methodologies would be varied, and may include some desktop research, data gathering, workshops and training sessions with council staff, benchmarking, and reporting. Outputs may include case studies, manuals, tools, templates and tailored training for rural councils.

4.4 Shared services, collaboration and resource sharing

Shared services are a means through which local governments can share costs and resources in order to achieve greater efficiency in service delivery and improve service quality.

The VAGO Shared Services Audit defines shared services as where two or more councils jointly provide:

• **External services** – services that councils provide to the local community, such as Meals on Wheels, waste collection, and community and library services

• **Back office functions** – functions that support external services, such as IT, finance, legal, payroll, and human resources

• **Procurement** – the purchase of goods and services.

The VAGO Shared Services Audit aimed to assess the effectiveness, efficiency and economy of shared service initiatives undertaken by councils. The audit sought to identify common barriers to the take-up and implementation of shared services by councils, and how effectively these have been addressed, and also to better understand the factors underpinning success and failures in shard service initiatives.[20]

4.4.1 Types of shared services

Whilst most councils undertake shared services, some services in local government are better suited to a shared arrangement.[21] Existing initiatives primarily relate to procurement and external service delivery. The main areas of expected growth in shared services are procurement and back office functions, which provide a significant opportunity to realise cost savings and other benefits.

In particular, procurement, finance and Information Communication Technology (ICT) involves relatively less tailoring or customisation, meaning the shared service arrangements can be more streamlined, less costly, and comparatively faster to implement.[22]

Shared services literature indicates that targeting back office or transactional services, where there is mutual benefit, provides opportunities for more efficient use of resources and potential for economies of scale.[23] Needs-driven shared service arrangements, as opposed to a mandated approach, provide some flexibility in the design or modelling of shared service arrangements.

Initiatives need to have appropriate governance arrangements and effective project management. In Victoria there is significant scope for improvement in measuring the achievement of expected benefits.

20. Victorian Auditor General's Office, Shared Services in Local Government (Melbourne: Victorian Auditor General's Office, 2014).
21. Ibid.
22. Ibid.
23. Ibid.

4.4.2 Benefits of shared services

Several studies have identified key drivers behind councils electing to share a service or services. They may be grouped as follows:

• **Economies of scale** – Traditionally, in the commercial environment, the bulking together of a resource, product or service has resulted in cost savings through economies of scale.

• **Economies of scope** – Shared services and collaboration provide important opportunities for local governments to capture economies of scope (where an organisation increases its critical mass in order to be able to do things it otherwise could not) and enhance its strategic capacity.

• **Improved service quality** – Sharing a service with others can result in the provision of greater access and better quality of services.

• **Organisational development** – The sharing of services can be the catalyst for bringing different employee groups together to work on joint projects and assist in upskilling and transference of experience between groups at different levels in the organisation.

• **Increased strategic capacity** – The concept of 'strategic capacity' infers taking the organisation to a higher level of capability in terms of resources, skills, knowledge and innovation, and building economies of scale and scope to plan and act more strategically and effectively.[24]

4.4.3 Challenges of shared services

Challenges may include the time costs of engaging in collaborative arrangements in addition to existing responsibilities; the lack of startup and ongoing funds to support collaborative arrangements; the need for leadership and commitment at the top level; the need for an organisational culture that is willing to embrace and see the benefit of shared activities with other councils; the need for arrangements to have strong strategic direction supported by a business plan and service level arrangements; governance challenges associated with arrangement design, membership, size and decision making; staff parochialism and job security concerns; and need for legislative change to better facilitate collaborative arrangements.

4.4.4 LGV projects and the Victorian Auditor General's Office report on shared services

The 2012 and 2013 Procurement in Practice projects led by LGV have resulted in several successful collaborative procurements across a number of areas, including Bituminous Road Resealing and Workcover agent procurement. Some of these initiatives were discussed during the RCV Spring Tour. According to data collected by LGV, these projects resulted in cost savings and better provision of services, and helped participating councils develop best value tools and best practice strategies to undertake further work.

Collaborations over the three programs have included the following initiatives and groupings of councils:

• Golden Plains, Pyrenees and Hepburn Shires' joint feasibility study for the conversion of heavy fleet to biodiesel shows each council will be able to reduce heavy vehicle emissions by around 170 tonnes by working together.

• Banyule, Boroondara, Knox, Maroondah, Monash, Whitehorse, Nillumbik, Yarra Ranges and Manningham Councils identified joint opportunities in tree pruning and line marking.

• Kingston, Bayside and Glen Eira Councils reviewed their major parks services to improve contract management and make budget savings.

• Buloke, Campaspe, Central Goldfields, Gannawarra and Loddon Shires appointed a single WorkCover agent, attracting a strong field that resulted in highly competitive bids for better services.

• Northern Grampians, Horsham, West Wimmera, Hindmarsh and Yarriambiack Shires have sought to reduce asset management costs through their joint bituminous road resealing contract.

• Alpine, Indigo, Towong and Wangaratta Councils are working together to identify shared services opportunities, geared by Towong's successful rates delivery program on behalf of Indigo.

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24. David Somerville and Melissa Gibbs, Legal and Governance Models for Shared Services in Local Government (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2012).

Following the success of these projects, LGV will facilitate and provide funding to another round of collaborative procurement projects. LGV has invited joint proposals from groups of councils for initiatives which:

• provide innovative solutions to procurement or shared service delivery which will improve the economic, social and environmental sustainability of participating councils

• invest in more socially, economically and environmentally sustainable technologies, facilities and services

• support councils to reduce waste and reduce landfill

• support innovators in the waste management and recycling industry

• remove logistical and systemic obstacles to recovering commercial value from otherwise abandoned material.

Successful groups of councils will be provided with funding of up to $75,000 to develop a business case or feasibility study, with the group to match 50% of the funded amount by in kind services. The assessment of proposals is currently taking place.

The phased approach of the development of a fully costed business case followed by an implementation plan is consistent with the recommendations of the VAGO report Shared Services in Victorian Local Government published in 2014.[25]

4.4.5 Recommendations for Stage Two

It is clear from the outcomes of Stage One and advice from LGV that quite a number of rural councils already engage in shared services, resource sharing and collaboration. We understand that LGV continues to support councils across Victoria in exploring business efficiency and improving economic, social and environmental outcomes through collaboration.

Stage One of the RCV Sustainability Project revealed that there is an opportunity for rural councils to further build capacity around shared services, collaboration and resource sharing. We suggest that there is also an opportunity to build on and share learnings from existing work in the following key areas:

• case studies and knowledge sharing from existing arrangements in Victoria and nationally

• demonstration of costs and benefits of shared service arrangements

• guidance with deciding what services to share, or the initiatives on which to collaborate

• guidance on the scale of collaboration, including working with regional cities

• governance models and frameworks for shared services

• monitoring and evaluating shared service initiatives.

It is envisaged that methodologies at this stage would be varied, and may include desktop research, surveys, stakeholder interviews, focus groups and workshops. Outputs may include case studies, manuals, tools, templates and tailored training for RCV councils.

4.5 Improving asset and financial management

Victorian councils manage around $73 billion worth of physical infrastructure assets and spend over $2 billion annually to maintain, renew or replace them. Poor asset management can lead to deteriorating or failing assets, reduced levels of service, higher council rates, and an increased financial burden on future ratepayers.[26]

Councils should ensure that there is a close match between the assets they have and their operational condition, as well as the uses to which those assets are put. They also have legislative obligations to manage financial risks and to ensure that their asset management decisions take into account economic circumstances. This is especially important in an environment where reliance on sources of revenue such as government grants cannot be assured.[27]

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

• 'Better asset renewal planning and practice

• Higher quality asset management plans, more effective implementation of these plans, and better linking of service levels and standards to these plans

• Further developing asset management information systems that are integrated with other corporate information management systems

• Recruiting and developing skilled and competent staff to manage assets, and

• Improving the monitoring, evaluation and reporting on asset management.'[28]

25. Local Government Victoria, Expression of Interest: Sustainable Business Capacity Projects (Melbourne: Department of Transport, Planning and Local Infrastructure, State Government of Victoria, 2014).
26. Victorian Auditor General's Office, Asset Management and Maintenance by Councils (Melbourne: Victorian Auditor General's Office, 2014).
27. Ibid.
28. Ibid.

The VAGO report suggests that in recent years some Victorian councils have improved their asset management practices by applying available asset management guidance, self-assessing their asset management performance annually, and developing asset management systems, frameworks, strategies and plans. Whilst this has provided a foundation on which to build more advanced asset management practices, there is still substantial room for improvement.

Generally speaking, experience in other states suggests that most rural councils have at least some capacity to reduce forecast asset management expenditure demands and improve financial sustainability projections through:

• Reviews of warranted affordable service levels from assets. It is often possible for example to reduce maintenance levels and extend the useful lives of local government infrastructure assets (with some deterioration in average service levels generated) without adversely impacting on whole of life annualised asset related costs[29]

• Implementing actions and strategies that reduce costs of service delivery and improve efficiency

• Ensuring outlay projections included in asset management plans as warranted are consistent with amounts included in long-term financial plans and that the long-term financial plans also are based on maintaining or where necessary improving financial sustainability. (Achievement of this dual objectives often may necessitate reviews of service levels and financial strategies),[30] and

• Ensuring that accounting information (and therefore financial reports that are generated) is based on asset useful life, fair value, residual value and basis of depreciation that is consistent with optimal asset management and affordable preferred service levels. (It is not unusual elsewhere to find useful life assumptions for example being based on 'what we'd like to do' or 'what is general recommended practice' rather than 'what is reasonable and cost effective in our circumstances'.

4.5.1 Rating strategies, fees and charges

Financial sustainability assessments of individual councils often give weight to the proportion of operating revenue generated that is 'own-source', the rationale being that such revenue is reasonably 'controllable' whereas ongoing income from grants is less certain. This is generally the case, but one must also distinguish between grants that are secure and ongoing compared to those that are short-term and discretionary. The Commonwealth Government's Financial Assistance Grants often represent the largest source of grants for small rural councils and can represent a larger share of total operating income than rate revenue. The Commonwealth parliament would need to enact legislative change for this program to be discontinued or significantly varied. (The Commonwealth's 'Local Government (Financial Assistance) Act and associated National Principles allow the Commonwealth to suspend annual escalation of the quantum of available grants should it determine circumstances so warrant as it has done for the 2014/15 – 2016/17 period).

It is in the interests of all councils to ensure they are making responsible and effective use of their own-source revenue raising powers. Whilst it is recognised that average income levels are typically lower in rural compared with urban areas, rural councils nevertheless need to be satisfied that:

• Their rating and other fee and charge levels are appropriate, taking into consideration both the communities' capacity to pay and comparative rates set by other councils.

• The structure of the council's rating and charging system is reasonable, taking into consideration equity and other relevant considerations, for example by satisfying themselves that any concessional rating differentials that are applied can be justified.[31] Councils should regularly review the basis and structure of their rating strategy. Even if a council considers that some sections of its community cannot afford to pay higher rates it is sometimes possible to generate more revenue from some classes of ratepayers that can afford to pay more without adversely impacting on those who can't.

29. This issue was explored by ACELG associate, John Comrie, in various work undertaken for the New South Wales Independent Local Government Review Panel. See, for example John Comrie, Roadmap to Financial Sustainability for Local Governments in NSW (Sydney: Independent Local Government Review Panel, 2013).

30. Institute of Public Works Engineers Australasia, Long Term Financial Planning, Practice Note No. 6 (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2012).

31. A discussion of local government rating theory and associated legislative frameworks in Australian jurisdictions is included in John Comrie, In Our Hands, Strengthening Local Government Revenue for the 21st Century (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2013). The working paper also discusses local government financial circumstances and challenges, and concludes that many councils have more capacity to determine their own financial destiny than is often widely recognised.

32. The general issues described in this section are discussed in detail in John Comrie, Debt is Not a Dirty Word: The Role and Use of Debt in Local Government (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2014). The Working Paper discusses the topic from an Australia-wide perspective. It includes legislative provisions and data regarding the Victorian local government sector, but not specific information regarding rural Victorian councils.

4.5.4 Recommendations for Stage Two

Further work should be undertaken to assess the capacity of councils to operate in a financially sustainable manner. An appropriate starting point requires councils to be confident about the longer-term implications of their 'business as usual' base case. Firstly, this requires being satisfied that existing data used by councils for financial and asset management planning are reliable and consistent. Secondly, it is important to understand what capacity may exist to vary existing financial strategies, for example to increase own-source revenue or to make better use of debt, and what impact this could have.

Reliable information would allow informed decisions to then be made as to the potential for resource sharing and shared services to assist in overcoming longer-term financial challenges and/or the extent to which changes in service levels or external financial support may be needed.

Methodologies for Stage Two may include:

• desktop research

• surveys

• stakeholder interviews

• focus groups and workshops.

It is likely to be particularly useful to work closely with a small 'case study' sample of councils to assess the potential impact of various actions. Outputs may include case study reports, manuals, tools, templates and tailored training for RCV councils.

4.5.2 Sustainable use of debt

Debt is not a substitute for income, but many councils across Australia-wide could be making greater use of debt in order to finance affordable, service generating infrastructure, and in recovering such costs on an inter-generationally equitable basis. If a council is realistically able and committed to achieving financial sustainability over time it does not need to fear making use of debt as required to help finance asset acquisition and renewal. Many councils are averse to greater use of debt and in the past this has been a key reason why they have struggled to accommodate warranted asset renewal outlays. Local government service provision is asset intensive; councils should therefore gauge the extent to which it is appropriate in their circumstances to borrow. They may also have capacity to generate cost savings and reduce interest rate risk exposure by putting in place better debt and investment management practices.[32]

4.5.3 Responding to the new Performance Reporting Framework

The new Performance Reporting Framework recently introduced by LGV is designed to ensure that all councils are measuring and reporting on their performance in a consistent way. All councils will need to report results as part of their 2014–15 annual report by the end of September 2015[33]. There may be opportunities for RCV constituent councils to work together to improve their capacity to respond to the new framework.

[32.] The general issues described in this section are discussed in detail in John Comrie, Debt is Not a Dirty Word: The Role and Use of Debt in Local Government (Sydney: Australian Centre of Excellence for Local Government, University of Technology, Sydney, 2014). The Working Paper discusses the topic from an Australia-wide perspective. It includes legislative provisions and data regarding the Victorian local government sector, but not specific information regarding rural Victorian councils.

[33.] "Council performance reporting," Department of Transport, Planning and Local Infrastructure, State Government of Victoria, accessed November 26, 2014, http://www.dtpli.vic.gov.au/local-government/strengthening-councils/council-performance-reporting.

5 SUMMARY OF OPTIONS AND RECOMMENDATIONS FOR STAGE TWO

Based on Stage One activities and engagement outcomes, we suggest the following focus areas and recommendations for building the strategic capacity of RCV councils. We understand that there is a significant amount of diversity across the 38 rural councils in terms of the challenges faced, as well as capacity, resourcing and uptake of shared services.

5.1 Self-assessment and analysis

We suggest that it is necessary to collect some additional data across RCV constituent councils to supplement the consultation completed to date, and further explore areas for future facilitation and support. This assessment and analysis could potentially be in the form of an online survey, supplemented with some targeted in-depth telephone interviews with council staff and elected members.

5.2 Improving service delivery

Stage One revealed that there are significant opportunities to build the capacity of some RCV councils around service delivery and levels of service. There was recognition that local governments are under increasing financial pressure, with a widening gap between revenue and expenditure.

A service delivery review is one way to drive more efficient use of resources whilst providing services to meet the needs of the community. Establishing a review process builds the capacity of both staff and the community to think critically and systemically about current and future service needs. It also may lead to innovation in service provision and helps build a culture of continuous improvement within local government.

We suggest there is an opportunity to build on and share learnings from existing work that is already occurring around the state, and ACELG's research, tools and manuals to:

- Build the capacity of RCV councils to undertake service reviews
- Establish a set of tailored guiding principles for RCV council service reviews
- Provide guidance on understanding the community and engaging around service levels
- Develop improvement frameworks, processes, method and tools
- Foster an organisational culture of improvement, and
- Report on efficiency and effective provision of services.

It is envisaged that the methodologies would be varied, and may include some desktop research, data gathering, workshops and training sessions with council staff, benchmarking and reporting. Outputs may include case studies, manuals, tools, templates and training tailored for rural councils.

5.3 Shared services, collaboration and resource sharing

It is clear from the outcomes of stage one, that there are a number of rural councils already engaging in shared services, resource sharing and collaboration. We understand LGV continues to support councils across Victoria to explore business efficiency and improve economic, social, and environmental outcomes by collaborating together.

Stage One of the RCV Sustainability Project revealed that there is an opportunity for rural councils to further build capacity around shared services, collaboration and resource sharing. There is an opportunity to build on and share learnings from existing work that is already occurring around the State, particularly targeted to rural councils, in the following key areas:

• case studies and knowledge sharing from existing arrangements in Victoria and nationally
• demonstration of cost benefit of shared service arrangements
• guidance with deciding what services to share, or what initiatives to collaborate on
• guidance with what scale to share or collaborate on, including working with regional cities
• governance models and frameworks for shared services
• monitoring and evaluating shared service initiatives.

It is envisaged that the methodology for this stage would be varied, and may include desktop research, surveys, stakeholder interviews, focus groups and workshops. Outputs may include case studies, manuals, tools, templates and tailored training for RCV councils.

5.4 Improving asset and financial management

Further work should be undertaken to assess the capacity of councils to operate in a financially sustainable manner. An appropriate starting point requires councils to be confident about the longer-term implications of their 'business as usual' base case. Firstly, this requires being satisfied that existing data used by councils for financial and asset management planning are reliable and consistent. Secondly, it is important to understand what capacity may exist to vary existing financial strategies, for example to increase own-source revenue or to make better use of debt, and what impact this could have. Reliable information would allow informed decisions to then be made as to the potential for resource sharing and shared services to assist in overcoming longer-term financial challenges and/or the extent to which changes in service levels or external financial support may be needed.

Methodologies for Stage Two may include:

• desktop research
• surveys
• stakeholder interviews
• focus groups and workshops.

It is likely to be particularly useful to work closely with a small 'case study' sample of councils to assess the potential impact of various actions. Outputs may include case study reports, manuals, tools, templates and tailored training for RCV councils.

5.5 Bringing it all together – the need for a more strategic approach

A number of rural councils are well on their way to addressing many of the issues outlined in this paper. Councils have received assistance for collaborative procurement and shared services projects by the State government through LGV. There have been a series of three funding rounds aimed at aligning capacity, strategy and sustainable outcomes commencing in 2012, with the most recent call for expressions of interest closing in December 2014.

While there have been many positive gains thus far, the approaches taken tend to be ad hoc and largely in response to sporadic opportunities rather than as part of a strategic approach to reviewing council business in an environment of change. The approach to date has tended to be ad hoc and largely in response to opportunities as they arise from time to time, rather than a strategic approach to reviewing council business an environment of change.

RCV could consider seeking a partnership with the State government to continue to develop a framework and process map to assist rural councils in adopting a systematic and strategic business modernisation program. The process would build on progress to date and be directed towards addressing the particular challenges and opportunities of each rural council, setting out a clear path forward tailored to each organisation. The process would include an assessment of the potential to collaborate and partner with neighbouring councils and other organisations operating in relevant fields, such as the health sector in relation to the delivery of Home and Community Care (HACC) services.

Such an approach would require the dedication of resources to assist rural councils to work through the process in a systematic and strategic way. The provision of appropriate resources and incentives will be an important factor in achieving the outcomes desired through complex organisational change processes, while at the same time providing for councils to carry on with day-to-day service commitments, and in recognition of the complexity of the exercise, which would include organisational change strategies, planning and implementation tasks. Incentives to encourage groups of councils to enter into the strategic process on a regional basis might also be considered.

6 CONCLUSION

Through a discussion paper and consultations with RCV councils, LGV, RDV, MAV and the RCV executive committee, Stage One of the RCV Sustainability Project has sought to develop a common understanding of the key issues and challenges faced by RCV councils. Rural councils are willing and prepared to do all they can to ensure their long-term sustainability, but they know they can't do it alone – they want to build on the Victorian State-Local Government Agreement and work in partnership with the State government to ensure they have the strategic capacity to provide good governance and quality services to rural communities.

This Stage One project has culminated in the following recommendations for rural councils and the Victorian State Government:

• recognition of the strategic nature of the industry reform now required, and the breadth and depth of the challenge, particularly for small councils

• the allocation of a meaningful industry support package, informed by the framework, for addressing the issues and challenges set out in this paper.

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Further information

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