# Submission by the Victorian Local Governance Association (VLGA)

10 April 2015

John Brumby

Chair – External Advisory Board

Review of Regional Development

Department of Economic Development, Jobs, Transport and Resources

GPO Box 4509

MELBOURNE VIC 3001

Via email: REDS.review@ecodev.vic.gov.au

Dear Mr Brumby,

On behalf of the Victorian Local Governance Association (VLGA), I welcome the opportunity to make this brief submission to the review of regional economic development strategy and service delivery. Please note that these views reflect those of the VLGA organisation and not necessarily of all our member councils.

The VLGA is a peak body for councillors, community leaders and local governments working to build and strengthen local democracy and respond to the governance challenges facing councils in Victoria. The Association does this by working with member councils and partner organisations across three activities: developing local leadership, leading debate on the future of local governance and building community capacity. A description of our activities is attached.

Local governance is the focal point for the VLGA; how councils govern together with their communities to build strong, inclusive and resilient societies. Responsiveness to community needs, the effective delivery of services, efficient use of public resources and fundamentally, democratic participation in local decision making, are the key elements of local governance.

Local government plays a role directly and indirectly in local economic development. Many councils have local economic development strategies and initiatives which seek to support and grow regional and local economies. Indirectly, local government influences the economy through the provision of infrastructure and regulatory services.

The VLGA believes the financial sustainability of local government is a significant challenge for regional policy and service delivery. If left unaddressed, the ability of local government to act as a vehicle for regional and local economic development will be undermined, resulting in less effective regional development and job creation initiatives.

The capacity of local government to contribute to regional growth and job creation faces significant challenges. Regional and rural councils in particular face three key pressures:

* Severe constrains on revenue, including the stagnation of grant revenue, the imposition of rate capping by the state government and constrained community capacity to pay due to low population
* Unfunded responsibilities delegated from state and federal governments
* Rising expectations from the community

As a result of these three pressures, local government is increasingly unable to access sufficient funding to fill its obligations, especially in relation to developing and maintaining the important infrastructure which underpins regional development and job creation.

The VLGA believes future regional policy needs to fully consider the financial sustainability of local government. Small rural councils in particular have limited organisational capacity and face significant financial sustainability challenges. This has been extensively documented, most recently by the Victorian Auditor-General’s on the Organisational Sustainability of Small Councils.[[1]](#footnote-1)

Current government policy on rate capping may have significant unintended consequences for rural councils. Of direct relevance to regional policy is evidence from New South Wales on rate pegging and from rate capping in Victoria in the 1990s. This suggests that councils will be forced to shift increasingly scarce resources to immediate service priorities at the expense of long term investment in economic development and the maintenance and renew of vital local infrastructure.[[2]](#footnote-2) Neglect of infrastructure will compound an already large infrastructure deficit which future generations will have to bear the cost of addressing.

The VLGA advocates for a rate capping framework that ensures the efficient and effective use of public resources via improved community engagement and integrated strategic planning. A more detailed submission will be provided to the Essential Services Commission in coming months.

Rate capping is likely to exacerbate the pressures caused by the declining level of grant funding provided to local government by the commonwealth government via the Financial Assistance Grants. The effect of declining grants is significantly greater for rural and regional councils who are more reliant on this revenue than metropolitan councils. The decline in grants has a direct impact on council’s ability to ensure critical economic infrastructure is available.

If unaddressed, declining financial wellbeing of local government will undermine the sector’s ability to contribute to regional economic development through the delivery of infrastructure and services. The VLGA believes the review must take full consideration of the financial sustainability of local government when forming recommendations on policy directions and service delivery for regional development.

While revenues have remained stagnant, local government’s responsibilities have expanded considerably in recent decades. This has been driven by cost shifting and by community expectations. The VLGA believes coordination between state government agencies and the local government sector is all policy areas requires significant improvement to minimise costs and potential duplication.

In this context, there remain some significant opportunities to better support local government’s contribution to economic growth. The VLGA recommends the following to promote the long term prosperity of regional Victoria:

* Continued state government investment in local government infrastructure above current levels including continued funding for the regional growth fund and specific purpose funding for road and bridge infrastructure
* Expanded support for regional collaboration between councils on service production
* Expanded local government sector capacity building, especially in relation to strategic capacity and community engagement
* Continued support for regional community leadership programs
* Devote new funding to link community investment, social entrepreneurship with local government

We look forward to further opportunities to discuss with the review team the implications of regional policy on Victorian councils and the local communities they serve.

Yours sincerely,



Dr Andrew Hollows

Chief Executive Officer

Victorian Local Governance Association

1. Victorian Auditor-General (2013) *Organisational Sustainability of Small Councils* [*http://www.audit.vic.gov.au/reports\_and\_publications/latest\_reports/2012-13/20130612-small-councils.aspx*](http://www.audit.vic.gov.au/reports_and_publications/latest_reports/2012-13/20130612-small-councils.aspx) [↑](#footnote-ref-1)
2. See VLGA (2014) *Rate capping – lessons from the past* available [www.vlga.org.au/site/DefaultSite/filesystem/documents/Turning%20up%20Volume/TUTV%2015%20Dec%20-%20Rate%20Capping%20Lessons%20from%20History.pdf](http://www.vlga.org.au/site/DefaultSite/filesystem/documents/Turning%20up%20Volume/TUTV%2015%20Dec%20-%20Rate%20Capping%20Lessons%20from%20History.pdf) [↑](#footnote-ref-2)