2012 FUTURE OF LOCAL GOVERNMENT SUMMIT

"The Ongoing Need for Further Reform" by Dr. Greg Walsh, Chairman, Champions of the Bush.

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Thank you. It is a privilege and pleasure to discuss with you how the inevitable change that will occur in local government over the next decade or so is best shaped and driven. At the outset, let me say that I think that the most effective and enduring change in institutional life is the change that emanates from within. But unfortunately, the history of local government in Australia reveals that change in local government has rarely been driven from within and as a consequence it has fallen to the authority with ultimate constitutional responsibility for local government, that is state government, to impose it.

The process of renewing and reforming the important institution of local government has progressed, but, as you know, only at an incremental and uneven pace in most parts of Australia and New Zealand since the early 1990s. The main reason for this is the same as it is for resistance to innovation and change at all levels of government, everywhere, and at all times. It is best summed up by Niccolo Machiavelli's observation about the difficulties of achieving institutional reform in Europe in the early part of the 16th Century: "There is nothing more difficult and dangerous", he wrote, "or more doubtful of success, than an attempt to introduce a new order in any state". For the innovator has for enemies all those who derive advantages from the old

order of things and only the uncertain support of those who may be the beneficiaries of the unproven new order, which is still to be successfully introduced. One can only imagine how much in furious agreement with Machiavelli are Angela Merkel and other European leaders today, five centuries later, as they struggle to introduce much needed changes to the way that part of the world is governed.

Nevertheless, "difficulty" and "danger" are not in themselves sufficient justification for abandoning the quest for a better way of governing. Indeed, it is hard, even today, to disagree with the remarks of Sir Arthur Salter, a former professor of political theory and institutions at Oxford when he said, albeit, almost eighty years ago in the middle of the Great Depression, that:

"The distinctive task of our age is not to extend scientific achievement but to improve the regulative mechanism of government (including local government) in its widest sense"

On the 9th August 1993, when the first meeting of the Kennett Government's Victorian Local Government Board of Review was convened, it was as if everything else in local communities had changed except the mechanism by which they governed themselves. The great and wonderful advances in scientific, technical and managerial knowledge which, throughout the last 100 years have so radically reshaped and changed the way we work, live and relate to one another, appeared to have almost bypassed the organization of local government itself, both in this state and indeed in most of Australia. In fact, for the most part, the structure of local government in Victoria in August 1993 was generally much as it had been at the end of the First World War. Prior to the 1990s the last major reorganization of local

government in Victoria was the restructure overseen in 1915-16 by the Minister for Public Works, the Hon F W Hagelhorn MLC when eighteen (18) municipalities, mainly "gold rush" boroughs were merged with their neighbours.

Between 1993 and 1997, "the most sweeping local government reforms ever made" (as Professor Brian Galligan from the University of Melbourne described them) were introduced into Victoria. A similar re-organization of local government has now occurred in other states in Australia and in New Zealand or is in the process of occurring.

Nevertheless, the Victorian reforms of the 1990s are now up to 18 years old. Unfortunately, it is now apparent, that in more recent years, the jockey on this Black Cavier of states has eased back in the saddle and Victoria's leadership role in local government reform is now in danger of being overtaken by new models of local government emerging elsewhere. Not the least of these is the bold restructure of local government in Auckland in November 2010. As you know, this has involved the transformation of 38 councils and community boards and 262 elected members into a single metropolitan – wide governing body comprising a mayor and 20 councillors and 21 local boards with 149 local board members. It has been Australasia's largest corporate merger. Such is its apparent success that the central government in New Zealand is in the process of facilitating similar far-reaching change in the structure of local government in Wellington. It would be a pity if this Summit did not fully discuss and evaluate the lessons to be learned from the way the world's third most livable city, Auckland, has restructured itself to better address significant population growth (from 1.5m at present to 2.2m by 2041) and better deal with the associated problems of planning, funding and rolling out upgrades in waste and

sanitary management, transport and other infrastructure across its large and topographically complex urban metropolis.

Putting the reform of local government in metropolitan centres to one side, it is the view of Champions of the Bush that nowhere is the need greater to develop new models of local administration and service delivery than in rural and regional areas. In our view it is time to reignite and regenerate the local government reform process that took hold in Victoria in the 1990s.

In explaining this perspective, allow me to briefly profile Champions of the Bush. Champions of the Bush is a private organization funded by a number of companies with substantial investments and assets, principally in regional Victoria, but also in regional New South Wales, regional Tasmania and elsewhere. They include companies like Brown Brothers, Patties Foods, PFD Foods, Tahbilk Wineries, SED Consulting and others. These companies consider they have a vested interest in the well-being of regional Australia including the well-being of other regional businesses and their relationship with local institutions such as local government, water, irrigation and catchment management authorities. To strengthen the capacity of regional business, Champions of the Bush, has established and supervises five chapters of what we call the Regional Executive Forum. These exist in each of the following centres: Ballarat, Bendigo, Traralgon, Wangaratta and Warrnambool. These forums are similar to the metropolitan based CEOs Institute or The Executive Connection or TEC groups that have benefited business leaders in Sydney and Melbourne for many years. The Regional Executive Forums bring together over 50 CEOs or Owners of regional businesses in 5 chapters of about 10. They meet each month to allow themselves to share their knowledge and expertise on a confidential

basis. These businesses collectively employ many thousands of your rate payers across a diverse range of industries including manufacturing, retail and the service sectors. I am pleased to say that two or three local government managers have joined these forums and have found them to be beneficial. It is on the basis of the discussion at these forums and discussion around the Board table at Champions of the Bush that the interest in the need to push for further reform in local government is arising.

Behind this is mounting concern about the longer term international competitiveness of regional industry and the food and beverage industry in particular. As I think you understand, the food and beverage industry is Australia's largest manufacturing industry, much larger than the car industry or the aluminium smelting industry, for example. The food and beverage industry is also Australia's second largest export earning industry behind mining. And it is also an industry in which regional Australia punches well above its weight. Although regional Australia comprises about a third of the nation's population, more than half the total number of food and beverage firms in Australia (excluding agriculture) are based in regional Australia. So while from an urban settlement point of view, Australia is and remains a highly urbanized and centralized society; from the perspective of the largest industry in Australia, it is a society supported by economic activity that is much more diffuse, decentralized and regionally-based than is commonly understood. This is a point that is better understood at local government levels than at state or federal levels. To appreciate the importance of the link between the regional economies (which your local government authorities service) and the food and beverage industry one only has to think for a moment about who the largest

private sector employers are in various regional centres around Victoria: In Ballarat, it is Mars and McCains; in Bendigo it is Hazeldenes; in Warrnambool it Midfields and Warrnambool Cheese and Butter; in Shepparton it is SPC- Ardmona; in Bairnsdale it is Patties Foods; in the Wodonga area it is Uncle Ben's; in Mildura it is Sunbeam Foods and associated packing companies and several well known wineries; in Colac it is CRF; and in smaller centres like Tongala, it is Nestle, in Nhill it is Luv-a-duck; in Milawa, it is Brown Brothers; in Tatura it is Tatura Milk; in Leongatha, Cobram and Koroit it is Murray Goulburn; in Drouin, Stanhope and Cobden it is Fonterra; in the Nagambie area it is Tahbilk and so on. Time does not permit to run down the extensive list of regional centres elsewhere in regional Australia such as Bundaberg or Margaret River that have a similar dependence on the food and beverage industry.

However, as many local government authorities from regional areas here today will understand, the food and beverage industry is struggling and the longer term outlook is far from clear. Some of the largest players in the industry, like Heinze, have closed down their operations in Australia altogether. The Australian management of other large companies such as Mars and Nestle are encountering difficulty attracting funds from their parent companies for plant upgrades and new production platforms in this country - the parent companies preferring to spend this money on their newer operations in Asia or Latin America. As a consequence the international competitiveness of the Australian operations is declining and with it the capacity to export and sell product overseas. Nestle, once a very large earner of export dollars in Australia, is now almost wholly focused on the Australian domestic market. The trend at Mars is similar. Other companies in the

food and beverage industry, such as the dairy companies, who are the largest users of the Port of Melbourne, are finding it increasingly difficult to purchase raw materials in the volume they require to optimize the use of their plant. No more milk is being produced in Australia now than at the end of the 1990s. Milk production in Victoria and throughout Australia has been declining steadily since 2001/2.

The reasons for this are many. They include the impact of drought and climate change, the consequences of diminished irrigation water reserves and soil degradation, and the impact of continuous cuts, over recent decades, in government funded research and development programs and scientific plant and animal research which generally has a lead time of at least 25 years. (Should you be interested in the detail of this I have made available to John Hennessy at the MAV a paper I gave on the issue at an international conference on food security in Taiwan in 2009 entitled: "The Global Food Crisis: an Australian dairy industry perspective" later published in Asia Pac J Clin Nutr 2009: 18 (4) 664-668) But while most of the reasons for the difficulties now being encountered in the food and beverage industry have nothing to do with Local Government, there is one important and growing constraint on the competitiveness of Australia's largest manufacturing industry that does. And this involves the provision of transport infrastructure. As Dr Peter Brain from Melbourne's Institute of Applied Economic and Social Research keeps pointing out to almost anyone who will listen, investment in transport infrastructure in all its forms has been declining in Australia since the 1950s, despite the introduction of public-private partnerships and other financial schemes in the nineties. Again there is not a lot that Local Government can do about this, and if Peter Brain's analysis of the problem is correct, there is not much that other levels of

government can do about it either until we take a more flexible approach to the deregulation of our currency and financial system.

But local government does have an important role to play in the provision of local roads and bridges that food and beverage companies and other regional businesses use and rely on to access raw materials and markets. And, just as importantly, local government also has a critical role to play in renewing and improving the amenity and appeal of the cities and towns that employees of regional businesses live in.

In this regard, the persistent problem a significant number of councils have in closing their infrastructure renewal gap or, in responding effectively to the pressures of population growth and the need to source funds to supply infrastructure into new residential growth areas is a concern to Champions of the Bush. Also of concern is the apparent growing reliance of many rural and regional councils on annually increasing rates and charges at two to three times or up to five times the rate of CPI increases over an extended period of time in order to address these problems. In saying this, it is understood by your stakeholders that local government is the recipient of cost shifting and other operating cost pressures that often fall outside the capacity of individual CEOs and councils to manage. But, on the other hand, this is true for all businesses and especially for those involved in the production of food. Farmers, for example, who now commonly pay in excess of $10,000 in rates annually, are exposed to the most variable operating cost pressures of any business in my view. These largely take the form of the vagaries and unpredictability of the weather. Moreover, farmers are also at the receiving end of cost shifting by some of the most influential cost shifters in the world. However, as price takers they are unable to deal with this through passing the problem on in the form

of increased prices for what they produce. They simply must absorb it, and become more efficient by finding new ways of doing business or sell out to the neighbor next door. As a co-owner of four farms in the Western District of Victoria I know the problem very well. Indeed at this moment I am selling one of these farms simply because it is no longer affordable. There is nothing unusual about this in business, and it is not an unreasonable expectation that the business of local government should be approached in much the same way.

It is also understood that rates and charges represent only a small proportion of the total amount of money collected by government at all levels. But justifying an annual hike in rates and charges this way is a bit like the shoplifter appealing for leniency from the magistrate on the grounds that he knows someone else who is taking more.

So what is to be done?

In the last analysis the critical issue for all local government authorities in rural and regional areas is that of "capacity"; and not only the capacity to raise own source revenue, deliver services and renew and improve infrastructure and amenity, but also the capacity of the communities that councils serve to pay the rates and charges that are levied. In the view of Champions of the Bush, the first thing that needs to be done is for local government generally and those that monitor and regulate it including the Auditor General and the Minister for Local Government to focus much more attention on this second aspect of capacity – the community's capacity to pay. In this regard Champions of the Bush commends the outstanding work of Merv and Rohan Whelan and the development of their concept of "sustainable capacity" in local

government. Indeed, it is submitted that this is a superior and more useful concept to the concept of "financial sustainability" that is currently used by the Auditor General in Victoria to monitor and measure local government performance. The AG's concept leaves the community's capacity to pay out of the picture and only focuses on a council's capacity and willingness to raise rates and charges in a monopolistic context and control costs in order to maintain its sustainability.

Champions of the Bush urges the Auditor General in Victoria and other states to review and broaden their concept of "financial sustainability" as it is applied to local government and to take account of the ground breaking work of the Whelans in this regard. Indeed, in the case of Victoria, COTB would like to see the AG apply this concept in the proposed review of local government which is currently scheduled for 2014/15, but bring it forward to 2012/13.

The <u>second</u> thing to be done, in our view, is for the Minister for Local Government in Victoria to breathe new life back into the reform process in this state by strategically using her power under the Act to appoint an independent panel to investigate the "sustainable capacity" of local government in specific areas and regions and to advise her on structures and processes that would increase the "sustainable capacity" of local government in those areas and how she might effectively incentivize and facilitate the formation of these. This may or may not involve the merger of adjoining councils. Champions of the Bush understands that there are circumstances in regional areas where the simple amalgamation of neigbouring councils would reduce sustainable capacity, not increase it. We also understand that, in these circumstances, other options need to be considered. I am looking

forward to the forthcoming presentation on the Wellington, Blayney and Cabonne Strategic Alliance in this respect.

The <u>third</u> and final thing to be done is to do more of what you are doing today and tomorrow. As I said at the outset, the best kinds of reforms are those reforms that emanate from within. This Summit is a vital step in that process and the Champions of the Bush congratulates the MAV in arranging it, but also reminds you of Machiavelli's advice about the fate of innovators in institutional life.

Thank you for listening.