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Victorian Auditor-General's Office



Local Government and Economic Development

March 2018

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Local Government and Economic Development

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Victorian Auditor-General's Office

The Hon Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Colin Brooks MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report *Local Government and Economic Development*.

Yours faithfully



Andrew Greaves
Auditor-General

8 March 2018

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Acronyms and abbreviations

ABR	Australian Business Register
Bass Coast	Bass Coast Shire Council
Corangamite	Corangamite Shire Council
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
DELWP	Department of Environment, Land, Water and Planning
GRP	Gross regional product
GSP	Gross state product
LGPRF	Local Government Performance Reporting Framework
LGV	Local Government Victoria
Loddon	Loddon Shire Council
Melton	Melton City Council
RDA	Regional Development Australia
RDV	Regional Development Victoria
RIF	Regional Infrastructure Fund
RJIF	Regional Jobs and Infrastructure Fund
SCMP	Shipwreck Coast Master Plan
Southern Grampians	Southern Grampians Shire Council
VAGO	Victorian Auditor-General's Office
VGC	Victorian Grants Commission
Western BACE	Western Business Accelerator and Centre of Excellence

Audit overview

Victoria is home to a quarter of Australia's population and contributes around 22 per cent to the country's economy. Economic prosperity is important on both a national and local scale, enabling communities to improve their quality of life.

A number of Victorian councils, particularly non-metropolitan councils, have experienced a decline in their economic growth over the past 10 years.

Every community has unique local conditions that affect its development and influence its decisions to facilitate economic development. Local economic development aims to build up the economic capacity of an area to improve the quality of life for residents. Local economic development involves government, business and community sector partners working collectively to create better conditions for economic growth and job creation.

A wide range of variables influence economic development in municipalities. Many of these are beyond the direct control or influence of local governments, such as Commonwealth and state support, international market trends and global economic conditions.

However, local governments can play an important role in facilitating better conditions for economic development within their municipalities. Councils' roles include devising long-term economic development strategies, and developing partnership networks that enable economic development.

In this audit, we assessed whether councils' economic development activities help to improve the economic viability and sustainability of their municipalities. Our focus was on regional and rural councils because they face greater challenges to economic development compared to metropolitan councils. Specifically, we assessed whether councils' actions to improve economic viability and sustainability are strategic and achieve their intended outcomes. The councils we audited were Bass Coast Shire Council (Bass Coast), Corangamite Shire Council (Corangamite), Loddon Shire Council (Loddon), Melton City Council (Melton) and Southern Grampians Shire Council (Southern Grampians).

We also examined the roles of Regional Development Victoria (RDV)—a statutory agency within the Department of Economic Development, Jobs, Transport and Resources (DEDJTR)—and Local Government Victoria (LGV)—part of the Department of Environment, Land, Water and Planning (DELWP)—to assist councils to facilitate local economic development.

Conclusion

In response to recent reviews, councils have taken effective steps towards developing well-aligned economic strategies that complement the government's regional priorities. The audited councils effectively identify and pursue their comparative advantages to facilitate economic development.

However, they frequently fall short of realising their intended economic development outcomes, often due to the following systemic issues:

- Other agencies, such as those providing utility infrastructure and roads, have competing or conflicting priorities when it comes to land use planning.
- Rural and smaller councils in particular lack the resources and relevant skills to access available grants, which they depend on to fund their economic development activities.
- Four-year council plans are at odds with the longer-term view needed for economic development strategies, resulting in poorly aligned and changing priorities.
- There is a lack of targets or benchmarks against which to gauge progress, and poor links between project reporting and outcome monitoring.

Findings

Creating the conditions for local economic development

Given the importance of economic development, all the audited councils identified it as a strategic objective in their 2013–17 council plans.

Economic development strategies

All the audited councils' economic development strategies incorporate some better practice elements of long-term planning. They all have economic development teams of various sizes. These teams were also generally responsible for related activities like tourism, events and agriculture.

Each council's strategy referenced or aligned with state and regional economic development priorities. Four of the five audited councils outsourced the preparation of their economic development strategies because they lacked the resources or skills required for the economic assessment aspect of the strategy. Bass Coast developed an effective strategy in-house, which reflects the council's focus on economic development, despite it being a relatively small council.

Economic assessments and access to information

Economic development strategies are built on assessments of the local economy, including its strengths, weaknesses, opportunities and challenges.

Robust data collection and analysis are essential for economic assessments. Councils could use better data in their economic assessments, especially at the municipality level. For example, councils rely on the Australian Business Register (ABR) to measure business activity. However, councils report that the ABR data can be a poor indicator of business activity as the data includes shelf companies and superannuation funds that are not trading entities. LGV is working with the Economic Development Australia Victorian State Practitioners Network to identify better data sources and indicators to measure councils' economic development performance. Councils' economic assessments also contained limited analysis of their performance against other councils.

Although RDV's data portal provides a wide range of information, the audited councils preferred using other data sources. This was partly due to their lack of awareness, but also because some of this data is available to councils through other sources. However, RDV and councils need to work towards using consistent information across the Victorian local government sector.

Stakeholder engagement

All audited councils developed effective strategic partnerships with relevant stakeholders, which is essential for local economic development.

Councils identified potential partners and consulted with local businesses and representative bodies as part of planning for their economic development strategy. They also identified collaboration with stakeholders as a strategic action in their economic development strategies. For example, Loddon included actions to collaborate with neighbouring councils to develop a settlement strategy to capitalise on growth in a neighbouring council.

The nine recently formed regional partnerships should provide additional avenues for councils to engage with strategic partners. At the time of this audit, it was too early to assess the effectiveness of these partnerships. Assessing the effectiveness of these partnerships in supporting economic development activities will help stakeholders understand whether the partnerships are achieving their intended objectives.

Barriers to economic development

Strategic land use planning is a critical foundation for local economic development. Currently, obtaining planning approvals can be complex. At times, this has significantly delayed councils' economic development initiatives, limiting their ability to facilitate local economic development.

In 2016, the Victorian Red Tape Commissioner reported to the Treasurer of Victoria on administrative problems in the planning approval process. Some of these problems present significant barriers to local economic development. Councils and referral authorities—such as utility providers—often fail to meet statutory time lines which increases time and effort required to facilitate economic development activities.

The audited councils also reported that lengthy and onerous planning approval processes hinder economic development and deter investors from committing to developments. One factor contributing to these delays was that domestic planning applications—for example, building a shed in a backyard—and economically significant local projects are subject to the same planning processes.

There are some fast-track processes available to shorten approval time frames, such as the VicSmart and Smart Planning program initiatives. However, it is too early to determine if these have improved the efficiency of approval processes.

Improving economic viability and sustainability

The long-term nature of an economic development strategy is at odds with the shorter four-year council plan. Councils' failure to address this conflict leads to changing economic development priorities and abandoned actions and initiatives.

Funding the local development actions

Common actions by audited councils to implement their local development strategies include:

- financial support for business and tourism associations
- festivals and other tourism support events
- conferences and field days
- workshops and training
- marketing and promotional materials.

Lack of consistent data for economic development expenditure across audited councils meant we relied on the Victorian Grants Commission (VGC) data on business and economic services as a proxy. In 2015–16, Victorian councils spent \$866 million delivering business and economic services, which includes economic development, tourism, and community development and planning. These services accounted for between 6 and 12 per cent of total council expenditure for most councils. This was in line with what the audited councils spent on these services.

Based on our site visits, interviews and discussions with councils and stakeholders, it is clear that economic development is high on councils' agenda and councils actively allocate resources towards it. However, without actual comparable data it is difficult to ascertain whether this expenditure is sufficient.

Accessing funding for economic development

As part of its 2014 election commitments, the Victorian Government committed \$100 million through the Regional Infrastructure Fund (RIF) to regional cities and \$70 million to rural councils. By December 2017, only \$30 million of the rural council allocation was committed, with \$24.3 million worth of projects in varying stages of approval.

For the four rural councils in this audit, RDV identified \$8.5 million in grants for which councils had either not applied, or had applied but failed to meet the funding criteria as of December 2017. This was for 40 potential projects valued at more than \$46.5 million. One audited council also advised lack of timely RDV feedback as a reason for inability to secure grants.

The lack of available and skilled staff within councils to develop high-quality business cases for grant applications means that rural councils often fail to secure available grants.

LGV works in partnership with the local government sector to improve business and governance practices. Considering LGV's sector-wide view of local governments, it should consider ways of providing further guidance to councils to improve their economic development activities including staff development in this area. Similarly, RDV's role in regional economic development means it is well placed to provide support and guidance to councils to improve their economic development activities.

Use of council powers

The *Local Government Act 1989* (the Act) provides councils with specific powers to meet their mandate, including entrepreneurial powers and the power to declare special rates and charges.

The audited councils made limited use of these powers. They advised that they are reluctant to use incentive-based powers—to defer, waive or apply special rates and charges—particularly when the use of those powers may be perceived as promoting private, as opposed to public, interests.

However, these problems should not prevent councils from using their powers to facilitate economic development. We found some innovative examples of councils using their powers. For example, Corangamite advised that a \$300 000 support fund it established to attract and expand businesses in the area contributed \$9.2 million in direct and indirect benefits to the local economy.

Reviewing the economic development strategy

All the audited councils developed performance measures as part of their council plans or their economic development strategies. However, councils did not clearly align performance of economic development actions with identified strategic outcomes. For example, to achieve its strategic objective of developing new stakeholder relationships, a council may list an action to hold a business seminar. However, the council does not measure whether the seminar actually results in new stakeholder relationships. Actions not linked to strategic performance measures prevent councils measuring progress against their strategic economic development outcomes.

Some of the audited councils lack targets and benchmarks for their economic development outcomes. Although outcomes are not solely dependent on the actions taken by councils, a lack of targets makes it difficult to assess performance and adjust strategies. An exception was Loddon, which had clearly articulated targets for its economic development outcomes.

Recommendations

We recommend that Regional Development Victoria:

1. improve its existing work with councils to assess the deficiencies in councils' funding grant applications and business cases, and provide support and training to develop the requisite skills (see Section 3.2)
2. increase council awareness of the Regional Development Victoria information portal and include further information and guidance to support councils (see Section 2.5)
3. assess the effectiveness of the newly established regional partnerships (see Section 2.4).

We recommend that Regional Development Victoria and Local Government Victoria work with councils to:

4. identify their economic development guidance and training needs, and then provide or facilitate access to appropriate resources (see Section 3.2)
5. identify and collect relevant information for planning and reporting on economic development—including completion of Local Government Victoria's ongoing work with the Economic Development Australia Victorian State Practitioners Network (see Section 2.5).

We recommend that local councils:

6. regularly review alignment between economic development strategies and council plans to improve the continuity of longer term initiatives (see Section 3.4)
7. develop comprehensive performance measures for economic development with clearly articulated targets and benchmarks (see Section 3.4)
8. monitor and report on economic development outcomes and clearly link actions to intended outcomes (see Section 3.4).

Responses to recommendations

We have consulted with DELWP, DEDJTR, Bass Coast, Corangamite, Loddon, Melton and Southern Grampians, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to those agencies and asked for their submissions or comments. We also provided a copy of the report to the Department of Premier and Cabinet.

The following is a summary of those responses. The full responses are included in Appendix A.

DEDJTR, DELWP, Bass Coast, Corangamite and Southern Grampians accepted the recommendations and provided action plans noting their approach to addressing the recommendations.

Loddon broadly supports the recommendations, but also noted there are some limitations in its ability to respond to all the issues identified. Melton stated that it supports the recommendations. Melton also expressed the view that further examination of the issues facing metropolitan councils would improve the relevance of the audit's recommendations.

1

Audit context

Economic prosperity is important to a community's wellbeing. The World Bank describes local economic development as building the economic capacity of a locality to improve its economic future and the quality of life of its citizens. In this process, public, business and community sector partners work collectively to create better conditions for economic growth and job creation.

Every community has unique conditions that affect its development and should shape the design and implementation of a local economic development strategy.

1.1 Local economic development

Victoria's economic context

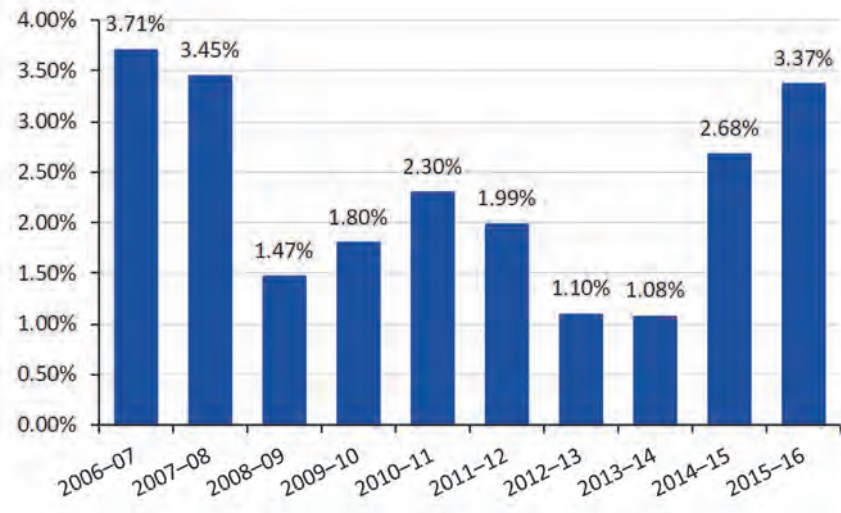
Statewide

Victoria is home to a quarter of Australia's population and contributes around 22 per cent to the Australian economy.

One of the key economic performance measures at the state level is gross state product (GSP). It represents the total value of all goods and services produced in the state during a given year. In 2015–16, Victoria's GSP was \$374 billion.

Figure 1A shows Victoria's annual GSP growth rates since 2006–07.

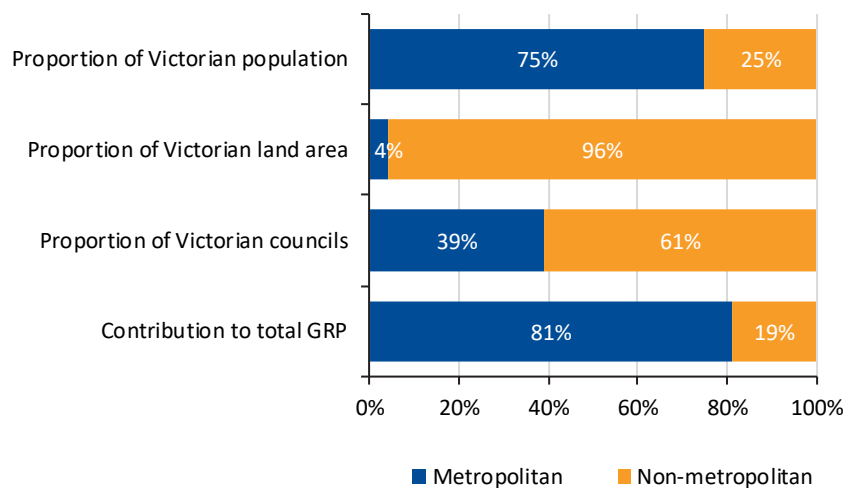
Figure 1A
Victoria's annual GSP growth rates, 2006–07 to 2015–16



Source: VAGO, using RDV data.

Gross regional product (GRP) measures each local government area's contribution to the state economy. Figure 1B shows that the 31 metropolitan councils account for 81 per cent of the state's GRP.

Figure 1B
Councils' contribution to state economy, 2015–16

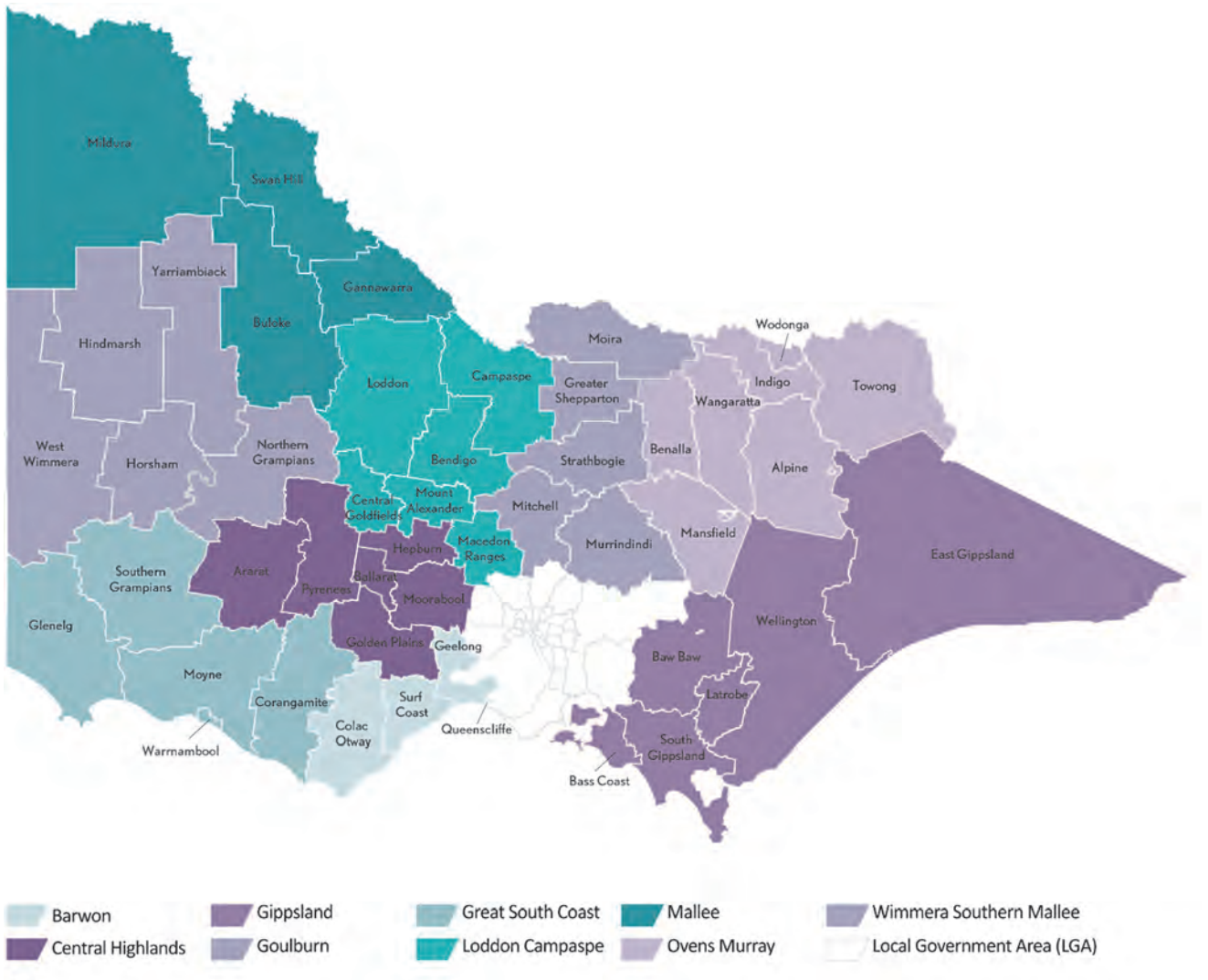


Source: VAGO, based on RDV and Australian Bureau of Statistics data.

Regional and metropolitan partnerships

Victoria’s 79 councils are grouped into 15 partnerships—six metropolitan and nine regional partnerships. Figure 1C shows the nine regional partnership groups.

Figure 1C
Regional partnerships in Victoria



Source: RDV.

Victoria's Regional Statement: Your Voice, Your Region, Your State (Regional Statement) acknowledges the contribution regions make to Victoria's economy and its way of life. The statement introduces the nine regional partnerships—which aim to increase collaboration between communities, industry, businesses and government—to address the most important challenges and opportunities in each region. The partnerships seek to have more regional community views represented in government decision-making.

Figure 1D lists the 15 regional and metropolitan partnership groups.

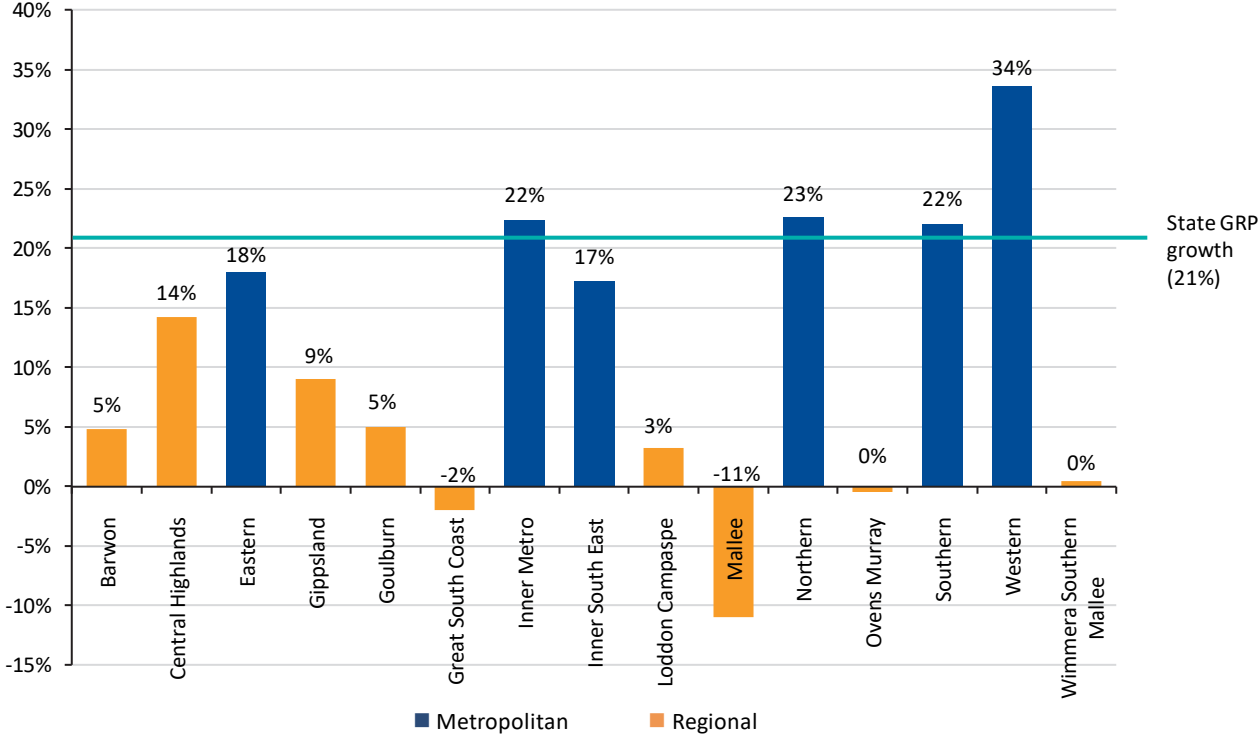
Figure 1D
Metropolitan and regional partnerships in Victoria

Partnerships	Councils
Metropolitan	
Eastern	Knox, Manningham, Maroondah, Monash, Whitehorse, Yarra Ranges
Inner Metropolitan	Melbourne, Port Phillip, Yarra
Inner South East	Bayside, Boroondara, Glen Eira, Stonnington
Northern	Banyule, Darebin, Hume, Moreland, Nillumbik, Whittlesea
Southern	Cardinia, Casey, Frankston, Greater Dandenong, Kingston, Mornington Peninsula
Western	Brimbank, Hobsons Bay, Maribyrnong, Melton, Moonee Valley, Wyndham
Regional	
Barwon	Colac-Otway, Greater Geelong, Queenscliffe, Surf Coast
Central Highlands	Ararat, Ballarat, Golden Plains, Hepburn, Moorabool, Pyrenees
Gippsland	Bass Coast, Baw Baw, East Gippsland, Latrobe, South Gippsland, Wellington
Goulburn	Greater Shepparton, Mitchell, Moira, Murrindindi, Strathbogie
Great South Coast	Corangamite, Glenelg, Moyne, Southern Grampians, Warrnambool
Loddon Campaspe	Campaspe, Central Goldfields, Greater Bendigo, Loddon, Macedon Ranges, Mount Alexander
Mallee	Buloke, Gannawarra, Mildura, Swan Hill
Ovens Murray	Alpine, Benalla, Indigo, Mansfield, Towong, Wangaratta, Wodonga
Wimmera Southern Mallee	Hindmarsh, Horsham, Northern Grampians, West Wimmera, Yarriambiack

Source: VAGO, based on Suburban Development Victoria information.

Economic growth across partnership groups varies, ranging from an average GRP decline of 11 per cent for the Mallee group councils to an average increase of 34 per cent in the Western group, as shown in Figure 1E. The GRP growth for the state in the same period was 21 per cent.

Figure 1E
Average GRP growth of councils by Victorian partnership, 2007–16

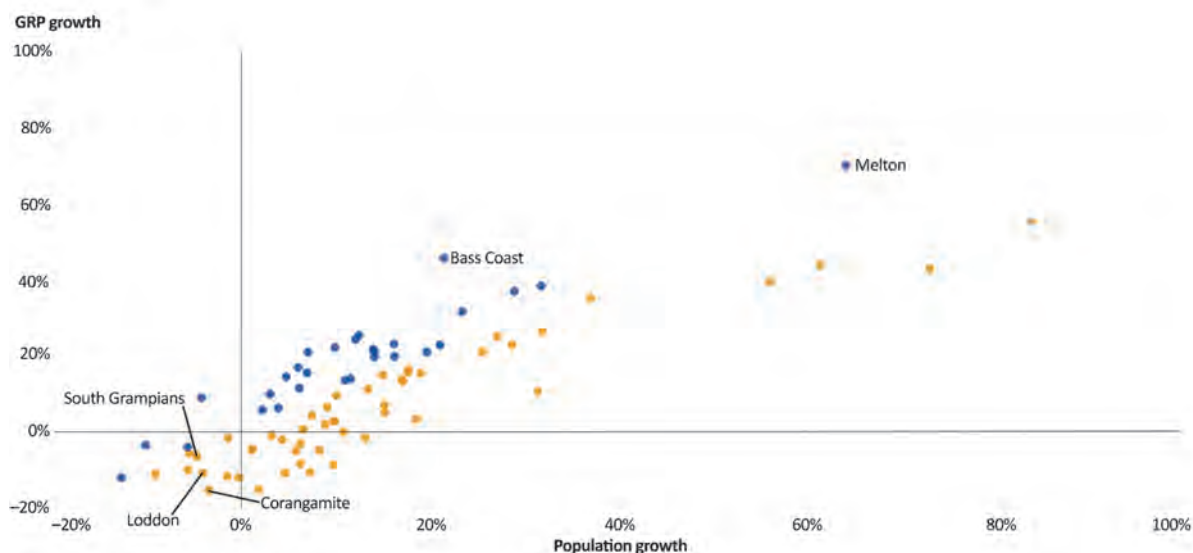


Note: Growth represents average for councils in that partnership. See Appendix A for individual council growth.
Source: VAGO, based on RDV data.

Local councils

A locality’s economic growth keeping pace with—or exceeding—its population growth is a positive indicator of economic development. From 2007 to 2016, GRP has not kept pace with population growth in 50 of the 79 councils. This includes both metropolitan and non-metropolitan local government areas, as shown in Figure 1F.

Figure 1F
GRP growth and population growth of Victorian councils, 2007–2016



Key:

- Councils whose economies have grown faster than their populations.
- Councils whose economies have grown slower than their populations.

Source: VAGO, based on RDV and Australian Bureau of Statistics data.

For audited councils, economic growth ranged from a decline of 15 per cent in Corangamite to an increase of almost 70 per cent in Melton. Appendix B has economic and population growth data for all 79 councils.

1.2 Frameworks for economic development

Legislative framework

Local Government Act 1989

The powers and accountabilities of local government are set out in the Act. According to the Act, councils' primary objective is to achieve the best outcomes for the local community, taking into account the long-term and cumulative effects of decisions. To achieve this objective, councils must have regard to:

- promoting the social, economic and environmental viability and sustainability of the municipality
- ensuring resources are used efficiently and effectively
- promoting appropriate business and employment opportunities.

Local government also has a number of specific powers that help facilitate economic development. These include entrepreneurial powers, the power to sell or lease land and the power to enter into contracts, which may also be subject to specific conditions and limitations.

Council plans

Strategic planning is an essential aspect of economic development. There are three planning requirements under the Act:

- a council plan which includes strategic objectives, plans and indicators
- a strategic resource plan, which must be included in the council plan and list the resources required to achieve the council's strategic objectives
- a budget, which includes a description of services and funded initiatives.

Figure 1G shows the three mandated planning requirements.

Figure 1G
Council planning requirements



Source: VAGO, based on *Local Government Better Practice Guide: Strategic Resource Plan 2017*, LGV.

LGV, a business unit of DELWP, provides better practice guidelines to help councils develop their council plan, strategic resource plan and budget.

Planning and Environment Act 1987

Land use planning is an effective tool that councils can use to facilitate economic development in their municipality. The purpose of the *Planning and Environment Act 1987* is to 'to establish a framework for planning the use, development and protection of land in Victoria in the present and long-term interests of all Victorians'.

Section 4(b) of the *Planning and Environment Act 1987* lists the objectives of the planning framework, including to 'enable land use and development planning and policy to be easily integrated with environmental, social, economic, conservation and resource management policies at State, regional and municipal levels'.

Regional Development Victoria Act 2012

The *Regional Development Victoria Act 2012* established RDV, a statutory agency within DEDJTR, to facilitate economic and community development in rural and regional Victoria. It also established a Regional Development Advisory Committee and made RDV responsible for administering the Regional Jobs and Infrastructure Fund (RJIF), which distributes grants to support economic development in regional Victoria.

Policy framework

Ministerial Statement on Local Government

The August 2015 *Ministerial Statement on Local Government* (Ministerial Statement) outlined the government's reform agenda for the local government sector. The Ministerial Statement recognised that local government builds local economies and is the government closest to the Victorian community. It also outlines a range of reforms to improve councils' performance, including social procurement policies to support local economies.

Victoria's Regional Statement

In 2015, the government released the Regional Statement, which builds on a number of previous strategies to drive regional economic development. It acknowledges the contribution regional Victoria makes to Victoria's economic strength and commits to delivering a stronger voice for regional communities in government decision-making across all areas of policy and service delivery. The key reform of the Regional Statement was the introduction of nine new regional partnerships across the state to help drive economic development in regional Victoria—as discussed in Section 1.1.

The government developed the Regional Statement in response to the findings of the 2015 *Regional Economic Development and Services Review*.

State Planning Policy Framework

As discussed, strategic land use planning is a critical foundation of local economic development. Each of Victoria's 79 councils has a separate scheme governing land use planning.

Every planning scheme contains the State Planning Policy Framework, which requires planning policies to consider the environmental, social and economic factors necessary for sustainable development, and the Local Planning Policy Framework. Included in the Local Planning Policy Framework is the Municipal Strategic Statement, which:

- identifies long-term direction for land use and development in the municipality
- presents a vision for the community and other stakeholders
- provides the rationale for the zone and overlay requirements and particular provisions in the scheme.

The relevant planning authority—usually the local council—must select the appropriate zones and overlays from the Victorian Planning Provisions for inclusion in their planning scheme.

1.3 Roles and responsibilities

Municipal councils

The local community elects a council to govern the municipal district. Under the Act, councils must have regard to their district's social, economic and environmental viability and sustainability.

Councils' contributions to the Victorian economy are significant, including more than 43 000 employees in the sector, managing over \$84 billion in public assets and spending more than \$7 billion annually on services.

Under the Act, the roles of a council include:

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

Department of Economic Development, Jobs, Transport and Resources

DEDJTR works across many portfolios to increase jobs, investment, exports and opportunities in Victoria. DEDJTR aims to stimulate innovation, competitiveness, confidence and sustainability in Victoria's economy.

Regional Development Victoria

RDV works closely with various Victorian government agencies including local councils to facilitate economic, infrastructure and community development in regional Victoria. RDV aims to strengthen regional Victoria through job creation, better infrastructure and new investment. RDV works with government agencies, including local councils, to:

- support business and industry development
- help new businesses to establish themselves
- assist existing industries to grow and diversify
- build prosperous, stronger regional communities.

RDV also administers the RJIF, which distributes grants to rural and regional businesses, industry groups, government agencies, not-for-profits and community groups to support economic development in regional Victoria.

RDV works with Regional Development Australia (RDA) to facilitate regional engagement and economic development. RDA is a Commonwealth Government initiative that involves all levels of government in supporting regional development.

RDA committees provide independent advice to local, state and Commonwealth government on critical issues affecting each region. They work closely with community leaders to identify funding sources and develop project proposals to support economic growth. Regional strategic plans articulate critical issues facing each region—including the economic context, priorities and actions to achieve the region's vision.

Department of Environment, Land, Water and Planning

DELWP covers Victoria's planning, local government, environment, energy, suburban development, forests, emergency management, climate change and water functions. DELWP lists its mandate as 'supporting Victoria's natural and built environment to ensure economic growth and liveable, sustainable and inclusive communities'. One of DELWP's key outcomes is 'sustainable and effective local government'.

In 2016, the Premier of Victoria created the suburban development portfolio within DELWP. The priorities for the portfolio are to:

- develop a five-year plan that considers the employment, services and infrastructure needs of Melbourne’s fastest-growing
- identify and address local opportunities and priorities by overseeing the development of six metropolitan partnerships
- facilitate and coordinate the state government’s social, economic and environmental investments in Melbourne’s suburbs.

Local Government Victoria

LGV provides policy advice, oversees legislation and works with the Minister for Local Government and Victoria’s 79 local councils to support responsive and accountable local government services. Along with providing policy advice to the minister, LGV oversees the administration of the Act and other relevant legislation.

1.4 Past reviews and inquiries

Past reviews and inquiries into local government and its contribution to economic development have identified the importance of clearly defined outcomes, performance reporting, partnerships, and utilising a range of activities to drive economic development.

Inquiry into Local Economic Development in Outer Suburban Melbourne, 2008

In 2008, the Victorian Parliament released its report *Inquiry into Local Economic Development in Outer Suburban Melbourne*. The report concluded that there is no ‘silver bullet’ solution to generating local economic development. Rather, sustainable jobs and the economic benefits that flow from them generally result from well-researched, carefully planned and adequately resourced programs implemented in partnership with government at all levels. The report made 170 recommendations.

Inquiry into Regional Centres of the Future, 2009

In 2009, the Victorian Parliament released its report *Inquiry into Regional Centres of the Future*. The inquiry sought to identify and consider measures to build on the government’s investment in regional Victoria, through the further development of regional centres. The report identified that regional centres should be places of economic, environmental, social and cultural innovation that enable regional Victoria to meet the challenge of predicted future population growth. The report recommended that government redirect its energy and its funding efforts to regional centres, as a priority.

Inquiry into Local Economic Development Initiatives in Victoria, 2013

In 2013, the Victorian Parliament released its report *Inquiry into Local Economic Development Initiatives in Victoria*. The report concluded that local government is well placed to drive local economic development because of its proximity to the community, local businesses and organisations. However, it found a range of barriers including issues with the Victorian planning system, occupational health and safety compliance issues, a lack of access to skilled workers, ineffective regional collaboration, and insufficient engagement with the private sector. The inquiry found that few local councils have adopted an integrated, whole-of-government approach to economic development.

The report made 43 recommendations, including:

- clarifying the roles of government, the private sector and the community in economic development
- promoting and strengthening collaboration and partnerships
- improving investment attraction and the regulatory environment.

Regional Economic Development and Services Review, 2015

In February 2015, the Minister for Regional Development announced a review of DEDJTR's regional economic development strategy and service delivery model. The aim of the *Regional Economic Development and Services Review* was to identify best practice, evidence-based policy directions to foster regional growth and job creation.

The review developed a new approach to regional governance and service delivery and recommended a new approach to regional development. In response to the review, the government established regional partnerships to increase collaboration between communities, industry, businesses and government. It also recommended 48 policy reforms across transport and planning, industry and innovation, trade and investment, education and skills, and regulation.

1.5 Why this audit is important

Local economic viability and sustainability affects Victorian communities and their wellbeing. Given the important role of local government in facilitating economic development, this audit aims to assist councils and, in turn, their communities by identifying areas for improvement and sharing examples of better practice.

1.6 What this audit examined and how

We assessed whether councils' economic development activities improve the economic viability and sustainability of their municipalities. Specifically, we assessed whether councils' actions to improve economic viability and sustainability are strategic and achieve their intended outcomes. We also assessed the role agencies like RDV and LGV play in providing guidance and support to the local government sector.

Our preliminary analysis, which drew on multiple indicators of economic development, identified economic sustainability and capacity risks in large and small shire councils. The analysis also identified accelerated growth risks for interface councils—the 10 councils surrounding metropolitan Melbourne. We chose five councils to include in this audit that either did well or poorly on the key indicators:

- Bass Coast
- Corangamite
- Loddon
- Melton
- Southern Grampians.

We visited each council and met with members of the council's economic development team and a selection of internal and external partners, including RDV regional offices. We consulted with a range of stakeholders, including industry groups, peak bodies and business owners in each area. We also examined supporting documentation such as economic assessment material, guidelines, strategies, action plans, monitoring reports and available data.

We conducted our audit in accordance with Section 15 of the *Audit Act 1994* and ASAE 3500 *Performance Engagements*. We complied with the independence and other relevant ethical requirements related to assurance engagements. The cost of this audit was \$570 000.

1.7 Report Structure

The remainder of this report is structured as follows:

- Part 2 examines whether councils create the conditions for economic development
- Part 3 examines the outcomes of council actions to improve economic viability and sustainability.

2

Creating the conditions for local economic development

Local governments play a key role in facilitating economic development by attracting businesses and residents to municipalities. They aim to achieve this through strategic long-term actions and plans.

This part of the report focuses on whether the audited councils are creating the conditions for local economic development. We examine whether councils are strategically planning for local economic development and working collectively with strategic partners.

2.1 Conclusion

Overall, the audited councils strategically plan their local economic development activities and actively collaborate with relevant stakeholders. They have developed effective local economic development strategies. These strategies reflect available information, reference regional priorities and provide adequate resources for councils' economic development functions. Councils effectively engage with stakeholders who can influence economic development at the local level.

Councils face barriers to effectively implementing strategic land use planning to create conditions for economic development because of the competing priorities of other agencies, such as providers of utility infrastructure and roads.

2.2 Local economic development

Each community has unique local conditions that affect its economic development. Local conditions influence how attractive an area is to businesses, workers and supporting institutions.

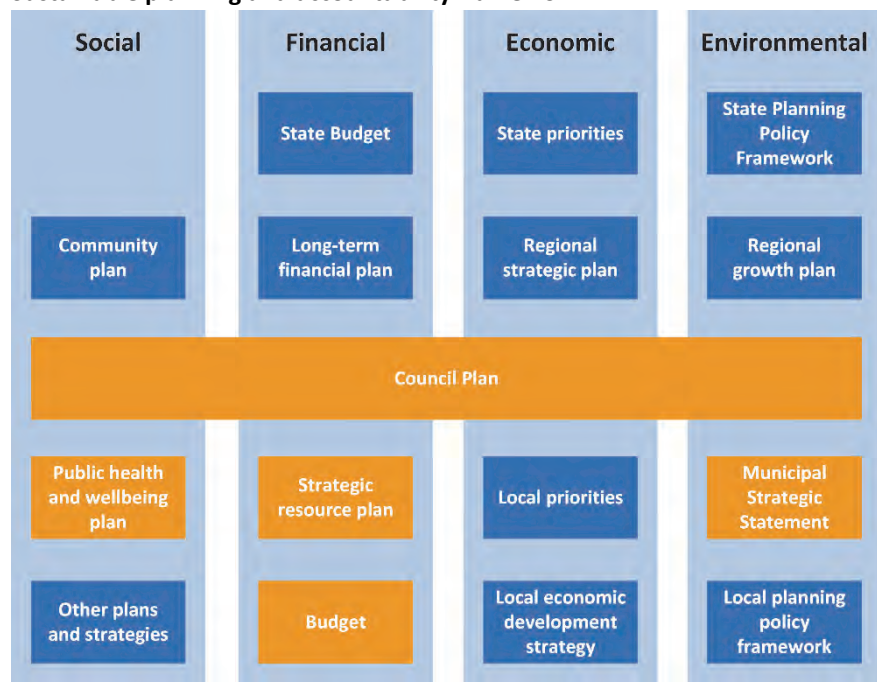
To best respond to these conditions, communities need to build and implement a tailored local economic development strategy. Building a strong local economy through a collaborative, strategically planned process requires councils to understand and act upon their municipalities' strengths, weaknesses, opportunities and threats.

Integrated local economic development

The 2013 *Inquiry into Local Economic Development Initiatives in Victoria* recommended that all local councils implement economic development strategies with clear aims and measurable outcomes.

Figure 2A shows the local government sustainable planning and accountability framework based on the council planning requirements and the key local plans and strategies that guide councils' local economic development activities.

Figure 2A
Sustainable planning and accountability framework



Note: Legislative planning requirements of the *Local Government Act 1989* are in orange.

Note: In 2017, the government amended the State Planning Policy Framework to recognise regional partnerships, with the regional growth plan for each partnership group included in the framework.

Source: VAGO.

The World Bank's local economic development guidance recommends that councils strategically plan, implement and review local economic development. Figure 2B shows this process.

Figure 2B

Local economic development process map



Source: VAGO, using the World Bank's Local Economic Development guidance.

This part of the report discusses the first four steps of this process. We examine the implementation and review of the audited councils' local economic development strategies in the next part of this report.

2.3 Establishing management teams

To effectively design and develop a local economic development strategy, councils need to assign responsibility for economic development. Various actions by different business units will also have an impact on the economic development outcomes of councils.

All audited councils have established teams who are responsible for economic development. Most teams also had responsibility for other related functions, such as events, tourism and agriculture.

We found some economic development actions were a shared responsibility with other business units within the council. Based on council size and our assessment, the number of staff assigned to economic development teams was reasonable.

We found councils use varying governance structures to set up their economic development function. The case studies in Figures 2C and 2D show councils' use of innovative governance structures and management support to resource economic development planning and activities.

Figure 2C

Case study: Creating cross-council groups to support economic development

Southern Grampians established an Integrated Planning and Design Group, which meets on a quarterly basis to discuss progress and issues with any major development projects, including discussions held with referral agency partners.

The group consists of team members from the economic development, planning, infrastructure, recreation and community access teams. To improve planning and coordination, the economic development and planning teams are located within the same directorate.

Strategic partners advised that the process has improved the efficiency of the overall development approval process—which is a key enabler for economic development.

Source: VAGO, based on information provided by Southern Grampians.

Figure 2D

Case study: Creating governance structures to support economic development

In 2010, Melton recognised the need for a different approach to economic development planning and established a new internal governance structure—the Business Growth and Sustainability Unit. Melton also established a Planning and Assessment Committee to provide direction to council on the promotion and sale of land within key business and industrial areas.

Since then, the council has grown from a large shire to a city council. As a result, responsibility for economic development moved to the council’s Engagement and Advocacy Unit.

This demonstrates that the council’s governance structure has responded to a period of significant population growth.

Source: VAGO, based on information provided by Melton.

2.4 Developing partnership networks

Effectively coordinating with stakeholders

Councils need to:

- identify the people and groups with interests in the local economy
- identify the skills and resources that each group brings
- establish collaborative working relationships and supporting structures.

The audited councils all identified internal and external stakeholders. Some examples are shown in Figure 2E.

Figure 2E

Examples of internal and external stakeholders for local economic development

Internal stakeholders	External stakeholders
<ul style="list-style-type: none">• Tourism and events• Strategic and statutory planning• Community planning• Engineering and infrastructure	<ul style="list-style-type: none">• Local and regional businesses• Tourism associations• Other councils• Regional partnership groups (both existing and under new partnership arrangements)• State government agencies• Regional tourism boards• Sector-specific industry groups• Referral agencies (water corporation and utility providers etc.)

Source: VAGO, based on information provided by audited councils.

All audited councils consulted with local business operators and representative bodies in planning their economic development strategy. Methods included visiting business premises, surveys, workshops, information sessions and email requests for feedback. Councillors also attended workshops and provided feedback on the development of the strategy. There was evidence of robust engagement with all relevant stakeholders at the local level.

Figure 2F is an example of a strategic partnership that Bass Coast established to address an identified challenge and priority area in the municipality.

Figure 2F
Case study: Establishing strategic partnerships

Bass Coast identified education as a key challenge to future economic sustainability.

The percentage of 15–19 year olds not engaged in school or employment in Bass Coast was 7.18 according to the last Census, compared to the state average of 5.31 per cent. This is despite the council having higher than average rates of economic and population growth.

One of the economic development performance measures in Bass Coast’s economic development strategy is a reduction in the unemployment rate.

The council developed the *Bass Coast Shire Council Education Plan 2013–17*, which aimed to promote sustainable relationships between education providers, local business, industry and the community. The plan includes the development of an education precinct in Wonthaggi. Bass Coast advised that the state government has now agreed to fund this precinct.

The council’s Education Reference Group, comprising schools, youth services, businesses, community groups, government agencies, sporting clubs and registered training organisations, is driving the education plan. The Bass Coast economic development team also participates in this reference group.

Source: VAGO, based on information provided by Bass Coast.

Planning applications are often the first trigger of local economic development. As part of the planning application process, identifying strategic partners is an important step in progressing new developments and creating conditions for economic development.

All audited councils undertake meetings with potential developers and investors before they submit planning applications. These meetings with strategic partners addressed the issues, risks and opportunities of developments, and identified other potential agencies for councils to consult. These meetings were effective and provided an avenue for all relevant parties to discuss the proposal, making the application process more efficient.

Making strategic partnerships a local priority

The Regional Statement identifies the need for effective collaboration through regional partnerships to achieve shared goals.

Using partnerships strategically to capitalise on regional strengths and jointly address shared challenges can be an effective way for councils to support achievement of their strategic objectives for economic development. This can also strengthen their ability to secure available funding.

All five audited councils identified the need to collaborate with strategic partners in their economic development strategies. For example, Loddon has included actions to collaborate with neighbouring councils to develop a settlement strategy to capitalise on growth in a neighbouring council.

The nine recently formed regional partnerships should provide additional avenues for councils to engage with strategic partners. At the time of this audit, it was too early to assess the effectiveness of these partnerships. Assessing the effectiveness of these partnerships in supporting economic development activities will help stakeholders understand whether the partnerships are achieving their intended objectives.

2.5 Creating an economic development strategy

Economic development strategies

The Act defines ‘strategic objectives’ as the outcomes a council is seeking to achieve over the next four years. These must be included in the council plan. The Act does not mandate the development of an economic development strategy, but it does require the development of strategies to achieve the council plan.

Economic development as a strategic objective of councils

All the audited councils realise the significance of local economic development and identify economic development as a strategic objective in their 2013–17 council plans, as shown in Figure 2G.

Figure 2G
Audited councils’ themes and strategic objectives for economic development

Council	Themes/strategic objectives for economic development
Bass Coast	Economic development—our economy is supported by diverse, local and innovative businesses and employment.
Corangamite	Positioning for economic growth—grow population and support expansion of agriculture and tourism sectors.
Loddon	Grow and diversify our economy—attract investment that introduces new industries, presents opportunity for existing businesses and grows our working population.
Melton	Managing our growth—generate an innovative local economy that stimulates opportunities for investment, business and training.
Southern Grampians	Foster population and economic growth—strong economic performance and an innovative tourism sector.

Source: VAGO, based on audited councils’ 2013–17 council plans.

To achieve their council plan’s strategic objectives for economic development, the audited councils listed supporting strategies, actions and performance measures.

Key elements of a local economic development strategy

The key elements required to create an effective local economic development strategy are:

- vision—agreed economic future for the community
- goals—priority areas and desired outcomes to achieve the vision
- objectives—set performance standards and targets that are time bound and measurable
- programs—collective projects to achieve goals and objectives
- projects and action plans—that describe specific program components that are prioritised, costed, time bound and measurable.

We assessed the economic development strategies of the audited councils against the key elements. The audited councils incorporated all the key elements, except one council, which was missing only one element, as shown in Figure 2H.

Figure 2H
Key elements in audited councils' economic development strategies

Council	Vision	Goals	Objectives	Programs	Projects and action plans
Bass Coast	✓	✓	✓	✓	✓
Corangamite	✗	✓	✓	✓	✓
Loddon	✓	✓	✓	✓	✓
Melton	✓	✓	✓	✓	✓
Southern Grampians	✓	✓	✓	✓	✓

Source: VAGO.

Integrating regional priorities

In collaboration with RDA, RDV has developed regional strategic plans that cover the nine broad RDA regions across Victoria—five regional and four metropolitan. These plans outline the priorities for each region.

Councils need to align their economic development strategies with the government's regional and state priorities if they are to compete for resources—this is a requirement of grant funding from agencies, such as RDV.

All the audited councils met this requirement.

Assessing local economic conditions

Councils need an effective local economy assessment to ensure their economic development strategy creates jobs, spurs economic growth and fosters social development.

Data collection is the first step in an economic assessment, followed by a robust analysis of the relevant data. This includes assessing local strengths and weaknesses to identify opportunities and challenges. The analysis helps create a clear economic development vision and allows prioritisation of activities.

Access to data for informing local economic development

Councils rely on multiple data sources when planning economic development actions and outcomes. Councils use sufficient and appropriate national and state level data to inform their economic development activities. However, there is room for improvement, especially in collecting data at the municipality level.

Council capacity and resources can restrict data collection and analysis. The smaller councils find it more difficult to collect all the relevant data. Southern Grampians also advised that there is a need for consistent interpretation of the available data to ensure all councils use information in a similar way.

Economic data

RDV hosts an information portal on its website, which includes economic data for each local government area. The audited councils were either unaware of the information portal or did not use it. While most of the underlying datasets are available from other sources like the Australian Bureau of Statistics, councils should take advantage of RDV's efforts to collate and present the data. RDV and councils need to work towards using consistent information across the Victorian local government sector.

At the time of the audit, four of the five audited councils subscribed to economic modelling software. They used various economic modelling programs to analyse and interpret data, and to produce supply-chain reports and impact modelling. However, the smallest council in our sample, Loddon, found such software to be too expensive for its needs. Close to the conclusion of our audit, Loddon advised that it has also recently subscribed to an economic modelling software.

As part of our fieldwork, we observed one council apply its economic modelling software to assess a proposal for the construction of a new secondary school. The modelling report was informative and showed the:

- projected number of jobs that the project would create
- industry sectors that these jobs would be in
- flow-on effect for other sectors in the supply chain.

Business activity data

Business activity data is a key information source of local economic activity. Councils access the ABR for business registration data. The audited councils and the Economic Development Australia Victorian State Practitioners Network have raised issues with the usefulness of this data as it requires extensive filtering and data cleansing. The data includes shelf companies and superannuation funds that are not trading entities. Lack of reliable data—especially of actual ongoing businesses—affects the planning and monitoring of economic development. Councils use their own stakeholder networks to work around these challenges.

In 2013, LGV, in consultation with local councils, established economic development indicators for councils as part of the Local Government Performance Reporting Framework (LGPRF). LGV advises that, as economic development is a complex area of activity with many externalities, the indicators are optional and indicative only. Councils use ABR data to report on three of the four indicators in the LGPRF. While these indicators are optional, the limitations of the ABR data highlight potential issues with the robustness of performance reporting to LGV.

In 2015, the Economic Development Australia Victorian State Practitioners Network surveyed its members to understand the performance measures utilised by local government economic development practitioners and to test the LGPRF's proposed performance measures. Forty-one councils responded and the majority reported that using ABR data as a measure of business activity and council's economic development performance was poor or meaningless.

LGV is working with the Economic Development Australia Victorian State Practitioners Network to identify better data sources and indicators to measure councils' economic development performance.

Assessing strengths and weaknesses

Some strategic theoretical frameworks are available to councils to help them undertake effective economic assessments and understand their competitive advantages relative to other councils. Competitive advantages are conditions that allow a municipality to produce goods or services at a lower price or in a more desirable fashion for the community.

Strategic frameworks that councils use to assess their economic context include:

- competitive advantage analysis
- problems or issues analysis
- SWOT—Strengths, Weaknesses, Opportunities and Threats—analysis.

Four of the audited councils outsourced their local economic assessments because of the skill and time required to complete them. Bass Coast developed an effective economic development strategy in-house that had a clearly articulated vision and provided strategic direction for key areas of economic development.

The breadth of the economic assessments were appropriate for the size and complexity of the councils, but there were some areas for improvement. For example, there was limited analysis of how each municipality performed relative to other municipalities, or whether they produced specific goods and services more efficiently or desirably than other municipalities.

We found that councils generally focused on their strengths while planning for economic development, to capitalise on local conditions. For example, Southern Grampians and Loddon both identified a need to focus on agriculture as part of their most recent council plans. To facilitate this, both councils appointed an agribusiness specialist. In the final stages of the audit, Loddon advised that the role is now vacant due to budgetary constraints and council's assessment of its future direction.

2.6 Barriers to economic development

World Bank guidance on local economic development states that municipalities should improve the processes and procedures, and remove the expensive complex regulations, that impact businesses. This will improve the investment climate and make the municipality more appealing to businesses.

The Treasurer of Victoria asked the Victorian Red Tape Commissioner to consult with stakeholders in regional Victoria in 2016. The Commissioner identified red tape issues with the Planning Scheme Amendment approval process, some of which are also significant barriers to economic development:

- Council and referral authorities are not adhering to statutory time lines for determining planning applications.
- Relevant authorities have little regard for, and appreciation of, the commercial implications of poor process, especially regarding the costs, delays and rework imposed on businesses.
- Businesses experience a one-size-fits-all process, with little difference in treatment between simple and complex matters.

The state government is planning to address these issues through its Smart Planning program, a two-year initiative it launched in mid-2016 that aims to remove significant barriers to growth in regional Victoria.

Strategic land use planning

Strategic land use planning is a critical foundation for local economic development. Councils face three main land use barriers to local economic development.

Lack of public utility infrastructure

While councils can create the conditions for economic development, they rely on strategic partners to plan and fund public infrastructure like water and sewerage services, roads and electricity. The cost of such public infrastructure is significant. The councils rely on private investors and referral agencies, such as VicRoads, Parks Victoria, catchment management authorities, the Environmental Protection Authority and water corporations.

Councils advised that they are not able to progress developments if the referral agencies have competing priorities when it comes to the timing of public infrastructure delivery. RDV and councils advised that the referral agencies might agree to supply the infrastructure ahead of time, but at a higher cost. This puts rural councils in particular at a disadvantage, because the costs of the project could become too high.

There is an opportunity here for improved communication and more collaboration between councils and referral agencies. Regional partnership arrangements provide the opportunity for key strategic partners to collaborate on regional priorities. However, there is currently limited involvement from referral authorities in these.

Extended time frames for development approvals

Consistent with the Victorian Red Tape Commissioner's findings, council staff and stakeholders reported that the time taken to get feedback or approval from referral agencies on proposed developments is a problem. For some projects, councils may be required to seek feedback from 10 or more referral agencies, which can take considerable time.

Lengthy planning approval processes deter investors from committing to investments. One key issue delaying approval processes is that domestic planning applications—for example, a shed in a backyard—and economically significant local projects are subject to the same planning processes.

There are limited fast-track processes available to shorten approval time frames. The Geelong and Latrobe Valley Authorities—regional planning bodies that the government established in response to declining economic conditions—introduced some arrangements to fast-track development applications. In addition, DELWP expedites some low-risk planning permit applications through VicSmart, which is a more streamlined assessment process. When an application qualifies for VicSmart, councils must make a determination within 10 business days. However, VicSmart does not capture all simple proposals and is not well integrated into the planning system. The state government's Smart Planning program aims to address planning delays as well as improve and broaden VicSmart.

Figure 2I and 2J provide case studies of some challenges that councils face in pursuing economic development initiatives.

Figure 2I

Case study: Shipwreck Coast Master Plan

Parks Victoria's Shipwreck Coast Master Plan (SCMP) aims to promote sustainable tourism on the Shipwreck Coast, a 28-kilometre stretch along the state's south-west coast that includes the Twelve Apostles. The implementation of the SCMP, for which Corangamite is a project partner, demonstrates how relying on referral agencies and extended approvals processes can delay economic development in local government areas.

The SCMP provides a strategic plan for the future economic development of Corangamite by improving infrastructure and visitor accommodation. A 2010 Tourism Opportunity Study showed that 85 per cent of visitors to Corangamite did not stay overnight, partly due to a lack of available accommodation. In 2011, a council review identified opportunities to develop accommodation in the region but noted that the planning framework was a potential barrier to this.

After the release of the SCMP in 2015, the Minister for Environment announced an immediate investment in the area with a partnership between Parks Victoria and Wannon Water to build a \$4.4 million sewer pipeline—to connect the visitor site at the Twelve Apostles to Wannon Water's sewage treatment facilities at Port Campbell.

Although Parks Victoria and Wannon Water have progressed planning for the project, construction of the sewer pipeline has not yet commenced.

In 2016, an investor proposed an eco-tourism resort at Princetown, a site that the SCMP identified for development. Outcomes expected from the development include 21 jobs during construction and 78 ongoing jobs once operational. The council has issued a conditional planning permit for the proposal. However, at the time of this report, the proposal was yet to obtain a works approval from the Environment Protection Authority in relation to on-site waste treatment.

Source: VAGO, based on information from Corangamite.

Figure 2J

Case study: Hamilton Structure Plan

The Southern Grampians' Hamilton Structure Plan, finalised in 2011, plans for future growth in Hamilton. It is an example of a council liaising effectively with a referral agency.

For rural councils, a lack of available reticulated sewerage is a barrier to attracting investors. For example, a cafe relying on septic tanks may need to limit its seating due to planning restrictions, making the business unviable. However, the council is dependent on a referral authority to resolve these issues. Wannon Water, not Southern Grampians, is responsible for developing plans to connect residents and businesses to the sewerage system.

When developing the Hamilton Structure Plan Southern Grampians sought input from community and business groups as well as government and sector agencies, including Wannon Water. The council advises that the plan will allow Wannon Water to better plan where to place sewerage infrastructure in Hamilton.

Source: VAGO, based on information from Southern Grampians.

3

Improving economic viability and sustainability

The Act states that the primary objective of a council is to endeavour to achieve the best long-term outcomes for the local community, including by:

- promoting the social, economic and environmental viability and sustainability of the municipal district
- ensuring that resources are used efficiently and effectively
- promoting appropriate business and employment opportunities.

This part of the report assesses whether councils are implementing and reviewing their economic development strategy and whether council actions are achieving their intended outcomes.

3.1 Conclusion

Councils have dedicated significant resources and undertaken many actions to implement and review their economic development strategies. However, the four-year council plans are at odds with the longer-term economic development strategies. This often results in poorly aligned and changing priorities.

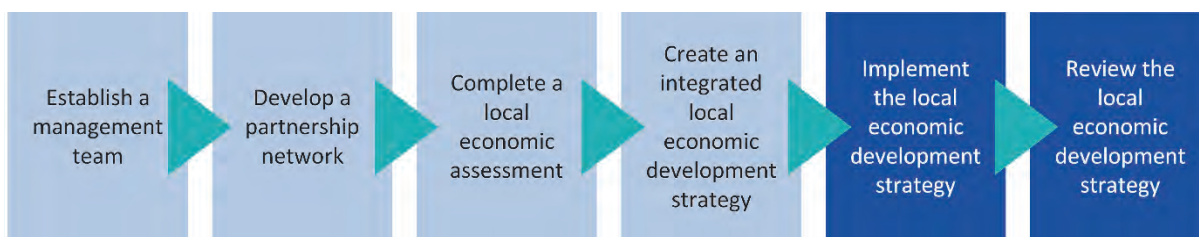
Economic development in rural and smaller councils is dependent on state government grants. The lack of staff skilled in developing robust business cases has resulted in rural councils failing to secure available grants. This has resulted in missed opportunities for economic development in these areas.

Councils have sufficient strategic performance measures for economic development in their economic development strategies and council plans, but these lack targets and benchmarks. Councils monitor and report on project actions, but as these do not link to strategic performance measures, they do not allow councils to measure their progress against their strategic economic development outcomes.

3.2 Implementing the local economic development strategy

In Part 2 of this report we discussed the first four steps of the World Bank’s local economic development process, which focuses on strategic planning. The final two steps in the process are highlighted in Figure 3A.

Figure 3A
Local economic development process map



Source: VAGO, using the World Bank’s Local Economic Development guidance.

Implementing the local economic development strategy requires councils to identify and allocate the resources—financial and human—needed to support its delivery, and to develop individual project action plans.

Funding economic development actions

We examined the economic development budgets for the five audited councils, and found that the budgets mostly comprise funding for business support activities including:

- financial support for business and tourism associations
- festivals and other tourism support events
- conferences and field days
- workshops and training
- marketing and promotional materials.

In rural councils, economic development budgets also provide for the management of saleyards, airports and caravan parks.

Councils prioritise budgets based on their municipality’s identified strengths. For example, Bass Coast identifies tourism as its key strength and allocates the majority of its economic development budget to deliver its tourism and events activities. These include:

- working with event partners
- supporting regional tourism boards
- providing grants to facilitate events
- operating visitor information centres.

Expenditure on economic development

Councils have different structures for categorising economic development activities and expenditure. For example, some councils' economic development expenditure includes tourism expenditure, while others do not. It is therefore difficult to identify exactly how much councils spend on economic development.

VGC allocates financial assistance grants from the Federal Government to local councils in Victoria. To do this, VGC collects data from a range of sources, including directly from councils.

Lack of consistent data for economic development expenditure, across audited councils, resulted in the audit team relying on VGC data on business and economic services as a proxy.

According to VGC data, in 2015–16, Victorian councils spent \$866 million on business and economic services including:

- community development and planning
- building control
- tourism and area promotion
- community amenities
- non-road transport (for example, ferries)
- markets and saleyards
- administration of mining and manufacturing industries
- business undertakings (for example, management of industrial estates, commercial properties and businesses).

Our analysis of the VGC data indicates that in 2015–16, councils spent an average of 9.3 per cent of their total expenditure on business and economic services. Melbourne City Council spent 50.6 per cent of its total expenditure on these services, which was the highest of any council. The majority of councils—62 out of 79—spent between 6 and 12 per cent, and the audited councils spent between 6 and 10 per cent of their total expenditure, as shown in Figure 3B.

Figure 3B
Expenditure on business and economic services for audited councils, 2015–16

Council	Business and economic services total expenditure (\$m)	Percentage of total council expenditure (%)
Southern Grampians	3.8	9.78
Bass Coast	6.77	9.55
Corangamite	3.03	7.63
Loddon	1.86	7.00
Melton	8.28	6.38

Source: VAGO, based on VGC.

The expenditure above does not account for any revenue that councils receive as part of their economic development activities—such as income generated by Southern Grampians in operating their saleyards. Inclusion of such revenue is likely to reduce net expenditure on economic development.

Without actual comparable data, it is difficult to ascertain whether this expenditure is sufficient. Based on our site visits, interviews and discussions with councils and stakeholders it is clear that economic development is high on councils’ agenda and councils actively allocate resources towards it.

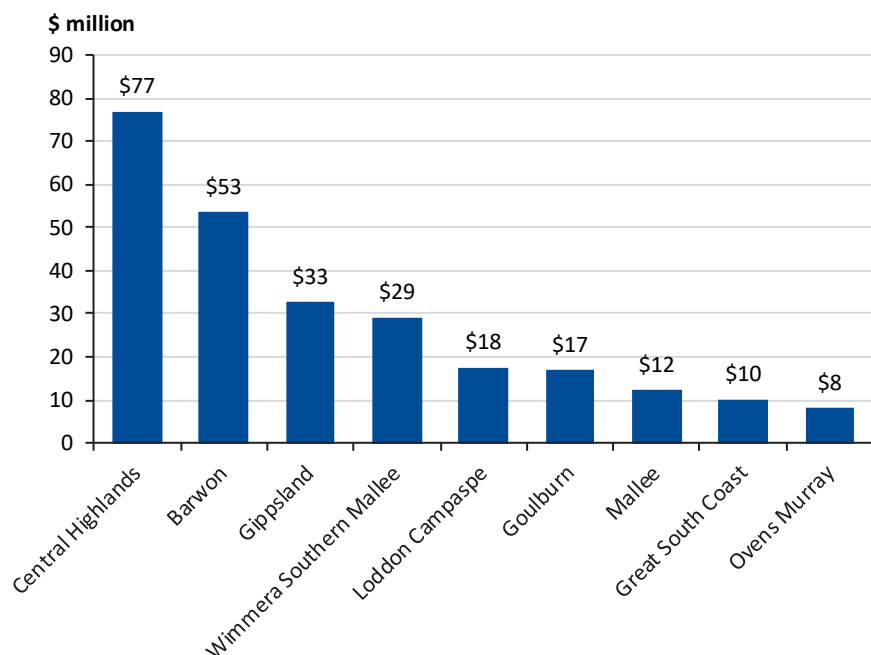
Accessing regional funding opportunities

One of the opportunities that exists for regional councils to promote economic development in their municipality is to access funds from the RJIF. The RJIF, administered by RDV, is the Victorian Government’s overarching regional development package. It focuses on major projects, employment and communities. There are three streams within RJIF:

- RIF
- Regional Jobs Fund
- Stronger Regional Communities Plan.

By 31 December 2017, the RJIF had contributed \$317.6 million towards 467 projects in regional city and rural councils. Of these, 265 projects were in rural councils. Figure 3C shows RJIF funding, by the nine regional partnership groupings.

Figure 3C
Approved RJIF grants by regional partnership, 31 December 2017



Note: The RJIF was officially launched in July 2015.

Source: VAGO, using information from RDV.

Each partnership group includes at least one regional city. Collectively, Ballarat City Council and Geelong City Council received 47 per cent of the RJIF allocation to regional and rural councils.

Figure 3D provides a case study showing how councils can use grant funding to support economic development.

Figure 3D

Case study: Using grant funding to facilitate economic development

In 2016, Bass Coast received \$160 000 in funding from the RDV Planning for Growth initiative. The purpose of the funding was to undertake strategic planning for Wonthaggi. This funding enabled the council to:

- rezone areas around Wonthaggi
- make a Development Contribution Plan to provide for future infrastructure
- provide additional planning tools and facilitate planning scheme amendments
- undertake a discrete rural land study.

The funding facilitated economic development and resulted in positive outcomes for the community which included:

- clarifying strategic land use in the municipality
- securing open space and pathways
- identifying future community infrastructure needs
- releasing residential land
- developing the Wonthaggi Education Precinct concept
- creating an environment for commercial expansion, including the expansion of existing retail stores and securing large anchor tenants to the area.

Source: VAGO, based on information provided by Bass Coast.

Failing to take advantage of available funding

One of the three RJIF streams is the RIF. The RIF invests in major infrastructure projects to create or enhance the conditions for economic growth in regional Victoria and build diversified, resilient and sustainable regional economies. The RIF provides funding under four program streams:

- visitor economy
- productive and liveable cities and centres
- enabling infrastructure
- rural development.

As part of its 2014 election commitments, the Victorian Government committed \$100 million in RIF funding to regional cities and \$70 million in RIF funding to rural councils. By December 2017, only \$30 million of the rural council allocation was committed, and \$24.3 million worth of projects were in varying stages of approval. In contrast, regional cities have accessed all of their allocated RIF funding.

For the four rural councils in this audit, RDV identified \$8.5 million in grants for which councils had either not applied, or had applied but failed to meet the funding criteria as of December 2017. This was for 40 potential projects valued at more than \$46.5 million.

RDV is working to identify the reasons why some councils do not apply for grants, and why applications often fail to meet the criteria. Most of the audited councils and RDV suggest that a lack of staff with skills and experience in developing business cases is a possible factor. However, Southern Grampians advises that inadequate and delayed feedback from RDV is another reason for the under-utilisation of grants.

While RDV is willing to assist councils in determining the most appropriate funding stream to meet their project requirements, RDV considers that it is councils' responsibility to make sure they sufficiently resource and position themselves to compete for project funding.

Staff capacity and capability

Having sufficient and appropriately trained staff is important for an effective economic development strategy and enables councils to better access available grants.

In all audited councils, there were dedicated economic development staff. The number of staff varied based on the size of the councils. For example, Loddon—the smallest council in our sample—had fewer than two full-time-equivalent team members responsible for economic development.

Economic development staff undertook varied learning and development activities. Most of the councils had accessed courses or training provided by:

- the Municipal Association of Victoria
- Economic Development Australia
- Rural Councils Victoria.

Regional teams also attended industry sector conferences, the Regional Living Expo and agribusiness-related field days and events.

Skills based training was less evident in economic development staff learning and development plans. As discussed earlier, a lack of appropriate skills or resources means most of the audited councils have outsourced the formulation of their economic development strategies. Only two of the five councils had sent teams on business case writing workshops. However, we did find that three of the five councils had supported staff to complete business degrees.

LGV works in partnership with the local government sector to improve business and governance practices. Considering LGV's sector-wide view of local governments, it should consider ways of providing further guidance to councils to improve their economic development activities, including staff development in this area. Similarly, RDV's role in regional economic development means it is well placed to provide support and guidance to councils to improve their economic development activities.

3.3 Innovative approaches to economic development

Councils can use a combination of their statutory powers and other innovative methods to drive local economic development.

Attracting investment and population growth

We found some innovative examples of councils promoting economic development, which are discussed in the case studies in Figure 3E and 3F.

Figure 3E

Case study: Facilitating business by providing useful information

Southern Grampians completed an agricultural land use capability study, using \$40 000 provided under the state government's Victorian Adaptation and Sustainability Partnership. It conducted the study in partnership with a local university and the local catchment management authority. The project outcomes are a series of Geographic Information System maps on cropping, pastures and horticulture. The project is ongoing, and the council is progressively uploading the maps onto its website.

By collecting this information, the council can:

- attract potential investors looking for specific soil types to grow crops
- provide diversification information for existing farm businesses, particularly in response to changing climate conditions.

Source: VAGO, based on information provided by Southern Grampians.

Figure 3F

Case study: Facilitating local businesses

In 2012, Melton obtained \$14.6 million in Commonwealth Government funding to establish the Western Business Accelerator and Centre of Excellence (Western BACE), in partnership with a major developer and a number of educational institutions. The project partners contributed a further \$5 million.

Completed in May 2015, the Western BACE includes a 'business accelerator' — a space for local small businesses to establish themselves before moving out into the Melton community.

Melton advised that, to date, the business accelerator has supported 634 business owners. The centre also includes a youth program to help unemployed young people to gain relevant qualifications, which has assisted 223 people since its inception.

Melton considers continued development of the Western BACE central to the council's economic development strategy.

Source: VAGO, based on information provided by Melton.

Use of council powers to promote economic development

The Act provides councils with 'the power to do all things necessary or convenient to be done in connection with the achievement of its objectives and the performance of its functions'.

The Act also specifies powers that councils may use including:

- entrepreneurial powers
- the power to make local laws
- the power to invest and to declare special rates and charges
- the power to grant a rebate and concession.

The current review of the Act is considering the scope of these powers.

The case study in Figure 3G is an example of a council using its investment powers to facilitate economic development.

Figure 3G

Case study: Facilitating business by providing financial support

To drive economic activity and business growth, and to address its council plan's strategic objective to support business attraction and expansion, Corangamite established a \$300 000 support fund in 2014–15. The fund provided five-year unsecured loans with interest set at the consumer price index.

The council invited expressions of interest and, in its first year, received 17 project submissions requesting a total of \$2.7 million. The council estimated that these submissions had an economic value of \$19.8 million if fully funded. The council assessed the submissions based on 12 unweighted criteria, including increased employment, adding value to the local industry, and matched funding.

Three project submissions were successful in the first round and received shared funding of \$250 000. The second round provided \$250 000, and the third \$100 000. In total, \$600 000 has been allocated to nine projects, with around half of the loan amount repaid. The funding supported start-up businesses, refurbishments and business expansions. The council advised that the program supported around 26 full-time-equivalent jobs and contributed \$9.2 million in direct and indirect benefits to the local economy.

The funding also assisted preliminary ideas to progress—for example, seed funding for concept development activities led to additional funding from the state government.

Source: VAGO, based on information provided by Corangamite.

Reluctance to use incentive-based powers in certain circumstances

The audited councils advised that they are generally reluctant to use incentive-based powers—to defer, waive or apply special rates and charges—particularly when using those powers may be perceived as promoting private, as opposed to public, interests.

Councils were also mindful of how existing businesses may perceive this incentive-based support for new prospective investors. Councils prefer that investors choose to invest in their area because of recognised opportunities. Bass Coast advised that smaller councils have less capacity to use their incentive powers.

However, these problems should not deter councils from exploring how they can use their powers innovatively to facilitate economic development, while also mitigating potential risks.

3.4 Reviewing the economic development strategy

Under section 3D of the Act, a council is responsible for establishing strategic objectives and monitoring their achievement.

Outcomes of economic development activities

Economic development strategies are long-term in nature, but the council plan—which an incoming council uses to identify its vision for the municipality—only covers four years. This creates an inherent inconsistency as councils’ economic development priorities change over time.

For example, the incoming Corangamite council has discontinued the support fund discussed in Figure 3G, ‘due to the risks involved’. Similarly, Southern Grampians developed a 10-year economic development strategy with more than half of its actions dedicated to industries that have growth potential or the capacity to stimulate growth in the region. One such industry targeted as part of this strategy was the equine industry. The council initiated many of the actions and undertook an industry study that indicated the sector had modest growth opportunities and ‘promising compounding benefits’. However, since then, the council changed its priorities and the focus has moved away from the industry.

Economic development performance measures

General indicators of local economic development include population growth, increasing GRP, increasing jobs and businesses and, where local economies depend on tourism, increasing visitors. We expected councils to monitor economic development measures that confirm the achievement of these objectives.

All the audited councils included economic development outcomes and measures in either their council plans or their economic development strategies, but the number and quality of these measures varies. Figure 3H shows the number of performance measures for each of the five audited councils.

Figure 3H
Council performance measures for economic development

Council	Number of measures
Bass Coast	9
Corangamite	6
Loddon	7
Melton	101
Southern Grampians	87

Source: VAGO, based on information provided by the audited councils.

Both Melton and Southern Grampians link their performance measures to specific actions rather than strategic objectives. For example, Melton’s performance measures include holding an annual information session for local businesses and completing specific research tasks. Similarly, Southern Grampians included feasibility assessments and rebranding as performance indicators in its action plan. While these measures help the councils to achieve specific actions, they do not measure what these activities achieved and how the council is performing against overall strategic objectives.

In contrast, the performance measures for Loddon, Bass Coast and Corangamite reflect broader strategic objectives. Loddon and Corangamite both have a performance measure for population growth. Bass Coast identified a reduction in the unemployment rate as one of its nine performance measures.

Setting targets for economic development

While the information on economic development measures—like economic growth and number of jobs—is readily available to councils through various sources, the audited councils do not include any benchmarks, targets or trend data for these measures. Although all councils included performance measures in their council plan, only two councils had targets. Where there are no targets, reporting cannot identify if the council’s performance is in line with expectations. This means councils cannot know if they are on track to achieve their intended outcomes, particularly by the end of the four-year council term.

In an example of better practice, Loddon adopted strategic performance measures and targets that provide high-level indicators of achievement, alongside the output measures in the action plan. These indicators are measurable and linked to accessible data, as shown in Figure 31.

Figure 31
Loddon strategic performance targets, 2015–2019

Performance measure	Target
Residents and counting (a stabilised population)	7 500
Increase in the proportion of residents who are 0–14 years old (the rural average)	1 per cent
Increase in the proportion of working-age residents	2 per cent
GRP (5 per cent increase in real terms on the 2014 value)	\$408 million
Residents in the workforce (a ratio that matches that of rural Victoria)	43 per cent
Employment diversity index (a distribution of jobs across industry sectors that is moving towards the rural average of 0.85)	0.80
Connectivity score—level of access to features that are attractive to prospective new residents (moving towards the rural average of 7.4)	7.0

Source: VAGO based on Loddon’s Economic Development Strategy 2015–2019.

Having such clear expectations of economic development helps focus the economic development activities of councils. As discussed earlier, a range of internal and external factors influence these measures, and councils may not always achieve the targets they set for themselves. However, setting clear targets means councils can effectively analyse their performance and identify the factors affecting council performance—whether internal or external.

Monitoring and reporting on economic development measures

Although councils have developed performance measures as part of their council plan or their economic development strategies, there was a lack of meaningful reporting on economic development outcomes. Councils monitored and reported on economic development actions, but these actions do not provide any sense of achievement of the strategic economic development outcomes. For example, the actions could include holding a business seminar or any other event. However, councils did not clearly document how these actions linked to and supported economic development.

Two of the five councils use a monitoring system to track and report on their progress against actions in the council plan. This system monitors progress to date, which area is responsible, and produces ‘traffic light’ reporting on progress. However, the system mostly focuses on action items rather than the actual achievement of economic development indicators.

While all council teams met regularly and reported qualitatively on progress against their economic development actions, there was a lack of outcome-based monitoring. For example, one council only reported against two measures for economic development:

- number of visitors to the visitor information centre
- number of new Australian Business Numbers within the city.

Limited monitoring of outcomes means councils do not have an evidence-based view of the effectiveness of their economic development strategies. It also means they do not understand which of their actions are helping to achieve the desired results.

Local Government Performance Reporting Framework—economic development measures

In 2015, LGV implemented the LGPRF in response to the recommendations of the 2012 VAGO audit *Performance Reporting by Local Government*.

The economic development indicators in the LGPRF are:

- participation in business development activities
- delivery of planned business development activities
- cost of economic development service
- change in number of businesses.

The economic development indicators in the framework are optional, and none of the audited councils report on these to LGV. Three of the four indicators rely on data from the ABR, which councils consider problematic for reporting purposes, as discussed in Section 2.5. The indicators are limited to business support activities, are not outcome-oriented and lack the strategic insight to benchmark council performance across the state.

Even though councils differ in their nature—especially with respect to economic development—access to benchmarked data would enable councils to assess how well placed they are. The councils would then be able to filter information relating to councils of similar size or circumstances to help achieve better outcomes and shared learning.

Appendix A

Audit Act 1994 section 16— submissions and comments

We have consulted with DELWP, DEDJTR, Bass Coast, Corangamite, Loddon, Melton and Southern Grampians, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to those agencies and asked for their submissions or comments. We also provided a copy of the report to the Department of Premier and Cabinet.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

DELWP	52
DEDJTR.....	54
Bass Coast.....	57
Corangamite	58
Loddon.....	60
Melton	63
Southern Grampians.....	65

RESPONSE provided by the Secretary, DELWP



Department of Environment,
Land, Water and Planning

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delwp.vic.gov.au

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31 / 35 Collins Street
MELBOURNE VIC 3000

Ref: SEC013451



Dear Mr Greaves *Andrew,*

PROPOSED PERFORMANCE AUDIT REPORT LOCAL GOVERNMENT AND ECONOMIC DEVELOPMENT

Thank you for your letter dated 16 February 2018 providing the Department of Environment, Land, Water and Planning (DELWP) with the proposed performance audit report *Local Government and Economic Development*.

Local governments have an important role supporting local economic development and delivering the essential services and infrastructure that makes much economic activity possible. I recognise that the nexus between the actions of a local government and economic development is a complex process involving many factors. Despite this mitigating context, the performance audit report is an important contribution to improving understanding of this area of public policy.

I note that DELWP has responsibility for achieving Recommendation 4 (in concert with Regional Development Victoria) and Recommendation 5. Please find attached the actions the Department proposes to take to acquit these recommendations.

I welcome your staff following up periodically with DELWP to monitor our progress in implementing Recommendations 4 and 5. Please contact Gerry Smith, Director Sector Innovation, Performance and Resilience, Local Government Victoria for any assistance you require. Gerry may be contacted on 9948 8505 or by email at gerry.smith@delwp.vic.gov.au.

DELWP has appreciated the opportunity to be consulted to inform this audit.

Yours sincerely

John Bradley
Secretary

11/3/18

Encl.

Any personal information about you or a third party in your correspondence will be protected under the provisions of the *Privacy and Data Protection Act 2014*. It will only be used or disclosed to appropriate Ministerial, Statutory Authority, or departmental staff in regard to the purpose for which it was provided, unless required or authorized by law. Enquiries about access to information about you held by the Department should be directed to foi@delwp.vic.gov.au or FOI Unit, Department of Environment, Land, Water and Planning, PO Box 500, East Melbourne, Victoria 8002.



RESPONSE provided by the Secretary, DELWP—continued



Department of Environment,
Land, Water and Planning

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LOCAL GOVERNMENT AND ECONOMIC DEVELOPMENT

Management Action Plan – Department of Environment, Land, Water and Planning

Rec #	Potential Audit Recommendation (based on provisional draft)	Actions in response to recommendation	Date of completion
4	Identify their (council's) needs in regards to economic development guidance and training and then provide or facilitate access to appropriate resources	DELWP will provide support to Regional Development Victoria to identify councils' needs in regard to further economic development guidance and training, and to identify additional resources required.	30 November 2018
5	Identify and collect relevant information for planning and reporting on economic development – including completion of LGV's work with Economic Development Australia – Victoria's State Practitioners Network	A review of the Local Government Performance Reporting Framework indicators will be undertaken to determine the feasibility and value of including economic development indicators. This review will be reported to the Minister for Local Government for consideration by 30 November 2018.	30 November 2018

Any personal information about you or a third party in your correspondence will be protected under the provisions of the *Privacy and Data Protection Act 2014*. It will only be used or disclosed to appropriate Ministerial, Statutory Authority, or departmental staff in regard to the purpose for which it was provided, unless required or authorized by law. Enquiries about access to information about you held by the Department should be directed to foi@delwp.vic.gov.au or FOI Unit, Department of Environment, Land, Water and Planning, PO Box 500, East Melbourne, Victoria 8002.



RESPONSE provided by the Secretary, DEDJTR



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Jobs, Transport and Resources

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Ref: BSEC18000146

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

**AUDITOR GENERAL'S PERFORMANCE AUDIT REPORT ON LOCAL GOVERNMENT AND
ECONOMIC DEVELOPMENT**

Thank you for your letter of 16 February 2018 providing the proposed Performance Audit Report Local Government and Economic Development and the opportunity to provide this response.

The Department of Economic Development, Jobs, Transport & Resources remains committed to working with Local Government to build on its capacity to drive economic development for the benefit of Victoria.

The department sees its network of Regional Victorian Government Business Offices and the newly established Regional Partnerships as key to driving economic development particularly in regional areas, and working with Local Government to achieve this end.

The attached table provides the department's response to your specific recommendations.

Yours sincerely

Richard Bolt
Secretary

13 /2018



RESPONSE provided by the Secretary, DEDJTR—continued

Department of Economic Development, Jobs, Transport & Resources response to VAGO’s audit recommendations

<p>1. improve on their existing work with councils to assess the deficiencies in councils' funding grant applications and business cases, and provide support and training to develop the requisite skills</p>	<p>DEDJTR supports this recommendation.</p> <p>RDV has an extensive regional network established over many years which works with councils on the development of grant applications and business cases.</p> <p>RDV’s open ‘pipeline’ grants model enables RDV staff to work with councils to develop comprehensive and high-quality applications and business cases when applying for grant funding. This approach provides an opportunity to further strengthen the quality of rural and regional council applications and business cases.</p> <p>In line with this recommendation, RDV will explore with rural and regional councils strengthening support through:</p> <ul style="list-style-type: none"> • Economic development practitioner networks involving all local councils within regional partnership areas; • Economic development forums to review economic development priorities and pipelines at local and state government level; • Increased guidance for individual councils with lower economic development capability. <p>Scheduled completion date 30 June 2019</p>
<p>2. increase council awareness of the Regional Development Victoria information portal and include further information and guidance to support councils</p>	<p>RDV supports this recommendation.</p> <p>The RDV information portal provides interactive and easy access to data, reports and links that can be used to support economic development activities.</p> <p>RDV is committed to raising the awareness and profile of its information portal with rural and</p>

RESPONSE provided by the Secretary, DEDJTR—continued

	<p>regional councils and will seek to do so through the proposed economic development practitioner networks and other awareness-raising opportunities as they arise.</p> <p>Scheduled completion date 30 June 2019</p>
<p>3. assess the effectiveness of the newly established regional partnerships</p>	<p>RDV supports this recommendation.</p> <p>RDV will monitor the effectiveness of the regional partnerships in engaging rural and regional councils and the impact of councils on regional priorities and investment.</p> <p>Local government is represented on the Regional Partnerships by the CEOs of each LGA in the region. The Partnerships provide an opportunity for local government to work collaboratively with a range of partners including State Government to progress a broad range of regional priorities.</p> <p>Scheduled completion date 30 June 2019</p>
<p>4. identify their needs in regards to economic development guidance and training and then provide or facilitate access to appropriate resources</p>	<p>RDV supports this recommendation.</p> <p>Through the establishment of economic development practitioner networks within regional partnership areas RDV will work with DELWP to facilitate access to appropriate resources around economic development.</p> <p>Scheduled completion date 30 November 2018</p>
<p>5. identify and collect relevant information for planning and reporting on economic development—including completion of LGV's ongoing work with Economic Development Australia —Victorian State Practitioners Network</p>	<p>RDV supports this recommendation.</p> <p>RDV will work with DELWP to implement this recommendation and support DELWP's broader support to local government's economic development activities.</p> <p>Scheduled completion date 30 November 2018</p>

RESPONSE provided by the Mayor, Bass Coast



1 March 2018

Mr Sheraz Siddiqui
Acting Director Performance Audit
Victorian Auditor General's Office
Level 31, 35 Collins Street,
MELBOURNE VIC 3000

Dear Sheraz

Economic Development, Local Government Performance Audit Report

On behalf of Bass Coast Shire Council, I confirm that the facts outlined in the Audit Report of Local Government and Economic Development are correct and have represented the context fairly.

In relation to the recommendations of the audit, Council accepts the recommendations and provides the following response:

- Recommendations 4 and 5 – Council's Economic Development team and other relevant staff will continue to work closely with Regional Development Victoria staff to facilitate access to appropriate resources.
- Recommendations 6, 7 and 8 – Council already has clear alignment and regular reporting to Council in relation to key strategic documents such as the Phillip Island and San Remo Visitor Economy Strategy 2035, Growing Tourism. Council sets clear Economic Development performance measures through its Council Plan, 2017 – 2021, and will continue to participate in work being undertaken to develop common Economic Development performance indicators. Council will ensure there is clear monitoring and reporting of Council's Economic Development outcomes and that actions are clearly linked to intended outcomes.

I thank the Victorian Auditor General's Office for the opportunity for Bass Coast Shire Council to participate in this Economic Development audit.

Yours sincerely

Cr Pamela Rothfield
Mayor

Ref: ED18/28748

RESPONSE provided by the Chief Executive Officer, Corangamite



Our Ref. D/18/10220

28 February 2018

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3001

Dear Mr Greaves

Re: Performance Audit Report Local Government and Economic Development

Thank you for your further letter dated 16 February 2018 to the Mayor, Cr Beard, providing the proposed report on the Local Government and Economic Development.

There were three recommendations directly relevant to Council. These are:

Recommendation 6

- Regularly review alignment between economic development strategies and Council plans to improve the continuity of longer term initiatives (see section 3.4).

Recommendation 7

- Develop comprehensive performance measures for economic development with clearly articulated targets and benchmarks (see section 3.4).

Recommendation 8

- Monitor and report on economic development outcomes and clearly link actions to intended outcomes (see section 3.4).

Please find attached **Table 1** outlining Council's response and actions in relation to the recommendations.

Should you have any further questions, please do not hesitate to contact Ian Gibb, Director Sustainable Development, on 0409356448 or by email ian.gibb@corangamite.vic.gov.au.

Yours sincerely

Andrew Mason
Chief Executive Officer

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RESPONSE provided by the Chief Executive Officer, Corangamite—continued

Table 1:

Recommendation	Management Response	When
6) Regularly review alignment between economic development strategies and Council plans to improve the continuity of longer term initiatives.	<i>Accept Recommendation.</i> The Economic Development Strategy is currently reviewed at the time the Council Plan and Annual Action Plan are prepared.	Annually
7) Develop comprehensive performance measures for economic development with clearly articulated targets and benchmarks.	<i>Accept Recommendation.</i> It is noted that development of comprehensive performance measures for economic development is a sector wide issue and should be progressed in conjunction with Local Government Victoria and peak local government bodies, including through further refinement of the Local Government Performance Reporting Framework indicators relating to economic development.	Annually
8) Monitor and report on economic development outcomes and clearly link actions to intended outcomes.	<i>Accept Recommendation.</i> Economic development outcomes are considered at the time of reporting on progress against Council Plan actions, and in the preparation of Council's Annual Report.	Annually

RESPONSE provided by the Mayor, Loddon



PP:lh
Doc ID:286111

Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31/35 Collins St
MELBOURNE VIC 3000

Dear Mr Greaves

Re: Proposed Performance Audit Report Local Government and Economic Development

Thank you for your letter of 16 February 2018 inviting Loddon Shire Council to provide submissions or comments to be included in the above report. Loddon Shire is pleased to have been invited to participate in this audit and is appreciative of the collaborative relationship that characterised our involvement with the VAGO audit team. We look forward to seeing the recommendations in the Report being adopted and to the outcomes facilitating improvements in local government economic development performance in regional Victoria.

I should note that on page 33, the report notes that Loddon found economic modelling software to be too expensive for our needs. This statement was correct at the time our staff were interviewed, however, since that time Loddon Shire has purchased the REMPLAN software for our use. A further change in Loddon's circumstances is that Council has fully expended its financial allocation on the agribusiness position since the original drafting of the report. This role is currently not filled and consideration is being given to how the functions that this position was responsible for undertaking are to be handled in the future.

The responses to the recommendations are as follows:

That Regional Development Victoria:

- 1. improve on their existing work with councils to assess the deficiencies in councils' funding grant applications and business cases, and provide support and training to develop the requisite skills (see Section 3.2)**

Response: In previous correspondence on the draft recommendations, Loddon commented that, even with sufficient training and support, there is simply not always enough internal resourcing available to do this work in-house along with other responsibilities. Support for outsourcing this work may be of more value to small councils.

The VAGO Audit response to our comment was: "Internal resourcing is at the discretion of councils and our audit found that councils put in economic development resources depending on their priorities. Our audit also found that although economic development teams helped drive the agenda numerous other staff supported the ED function in other directorates like tourism etc.

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RESPONSE provided by the Mayor, Loddon—continued

Councils should use our recommendation to RDV to leverage whatever support they require to have a positive outcome from the recommendation."

The description of the "numerous other staff that support the ED function" is not our experience at Loddon, and we emphasise the reality that staff resources in small rural councils are already spread thinly across several functions and do not have the capacity to increase workloads, regardless of the skills they have developed.

- 2. increase council awareness of the Regional Development Victoria information portal and include further information and guidance to support councils (see Section 2.5)**

Response: This recommendation is supported, particularly wherever additional guidance from RDV can assist councils.

- 3. assess the effectiveness of the newly established regional partnerships (see Section 2.4).**

Response: This recommendation is supported but it will require a coordinated approach across the State with clear objectives for any review that is undertaken and a commitment from the State Government at the highest levels.

That Regional Development Victoria and Local Government Victoria work with councils to:

- 4. identify their needs in regards to economic development guidance and training and then provide or facilitate access to appropriate resources (see Section 3.2)**

Response: Supported.

- 5. identify and collect relevant information for planning and reporting on economic development—including completion of LGV's ongoing work with Economic Development Australia — Victorian State Practitioners Network (see Section 2.5)**

Response: This recommendation is supported. However, we would like to note that current data provision and reporting requirements placed on councils has added a significant workload across our organisation. Any new data collection obligations placed on councils for reporting to other bodies need to be carefully considered in terms of how onerous it will be for councils to resource. We would also like to reiterate our reservations regarding an expectation that empirical evidence can be provided in a report that clearly establishes a nexus between economic development efforts at the local level and outcomes that are attributable to those efforts. The work undertaken by Essential Services Commission in recent years has demonstrated how difficult it is to create meaningful measures for economic development activity at a Council level. This work needs to be considered when identifying any new indicators.

RESPONSE provided by the Mayor, Loddon—continued

That local councils:

6. **regularly review alignment between economic development strategies and Council plans to improve the continuity of longer term initiatives (see Section 3.4)**

Response: Agreed. Loddon Shire will consider how to structure and review its next Economic Development Strategy and associated actions so that it not only aligns with the current Council Plan, but sets up a mechanism to re-align priorities and actions with reviews to the Council Plan and other changes, e.g. regional plans and initiatives. Loddon's current Economic Development Strategy extends to 2019, so these considerations are being noted now in preparation for its review. Loddon Shire has recently purchase corporate planning and reporting software which can support the regular review of economic development strategies.

7. **develop comprehensive performance measures for economic development with clearly articulated targets and benchmarks (see Section 3.4)**

Response: The recommendation for councils to be able to assess whether they are being effective in their efforts is supported, although we note the issue with economic development is that it is difficult to create a nexus between inputs/effort and outcomes as outlined in Recommendation 5 above. We also note that Recommendation 5 refers to identification and collection of relevant information for planning and reporting, which should assist in developing reliable and relevant performance measures. Loddon Shire's existing Economic Development Strategy can be input into the new corporate planning and reporting software immediately to enable monitoring and reporting against performance measures identified in the Strategy.

8. **monitor and report on economic development outcomes and clearly link actions to intended outcomes (see Section 3.4).**

Response: This recommendation is supported, noting that there will be some actions that will be difficult to report progress on in the short to mid-term. The new corporate planning and reporting software supports monitoring and reporting. The Strategy can be input immediately for regular monitoring and reporting.

Should your office require any further information please contact Lynne Habner, Manager Executive and Commercial Services on (03) 5494 1200.

Yours sincerely



Cr Cheryl McKinnon
Mayor

27 February 2018

RESPONSE provided by the Mayor, Melton

Our Ref: D Hogan/dh

ECM: 4542673

28th February 2018

Victorian Auditor-General's Office
Mr Andrew Greaves,
Auditor-General
Level 31, 35 Collins Street
MELBOURNE VIC 3000

To the Auditor General,

Re: Response to report: Local Government & Economic Development

Thank you for the opportunity to respond to VAGO report 'Local Government & Economic Development'.

In relation to the investigation into Melton City Council, we are of the opinion that this report is a fair and reasonable treatment of the information and facts gathered within the timelines of reference. Council has no significant issues or objections to the overall content and findings.

It is however the opinion of Council, while noting the rationale posited by VAGO, that the inclusion of additional metropolitan Councils, many of whom do indeed confront very significant economic challenges, would have likely significantly improved the reliability of the data, findings and recommendations for broader state-wide application.

Council agrees to the recommendations, which are very much aligned with the focus of our current Council Plan 2017-2021 and the strategic purpose of our Economic Development & Tourism unit, redefined following a restructure in July 2016.

To respond more specifically;

- Recommendation six, to "regularly review alignment between economic development strategies and Council plans to improve the continuity of longer term initiatives."

To date, consecutive Melton City Council Plans have been consistent in their economic development focus, primarily targeting local employment, innovation, business investment and tourism. This allows confidence that subordinate economic development strategies have long term alignment and currency as purposefully designed. Internal reviews to ensure the strategic alignment of Council activity currently occur periodically, and will continue to do so as recommended.



Cr Bob Turner
Mayor
Coburn Ward Councillor

**A thriving community
where everyone belongs**

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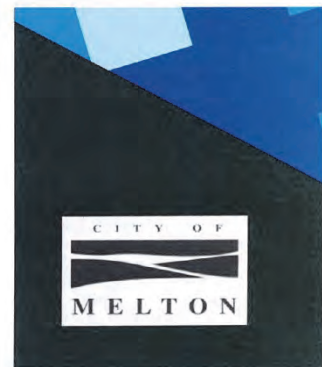
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RESPONSE provided by the Mayor, Melton—continued

- 2 -

- Recommendation seven, to “develop comprehensive performance measures for economic development with clearly articulated targets and benchmarks.”

Council currently articulates performance indicators across a range of economic development strategies and actions, but can continuously improve targets and benchmarking. Council will work to further develop the range of applicable metrics and measures of success accordingly. This work will be immediate and ongoing, as measures of success change over time, and as new initiatives and actions are pursued.

- Recommendation eight, to “monitor and report on economic development outcomes and clearly link actions to intended outcomes”.

The single most difficult and expensive challenge to Economic Development teams is reporting on outcomes of Council investment. Understanding the extent to which a Council influenced micro or macro-economic outcomes is extremely difficult to accurately report. Most readily available economic statistics are relatively blunt measures, comprised a multitude of input factors, and usually limited in application to a municipal or localised region. Nonetheless, Council will commit additional resources to fulfil this ambition. Certainly, linking actions to intended outcomes is an easier task, and Council currently makes every effort at Council Plan and Economic Development strategy level to achieve this.

In conclusion, the strategic purpose of our Economic Development & Tourism unit is to “stimulate the local economy to build community pride and prosperity”. Notwithstanding the extent to which we are already pursuing the recommendations of this VAGO report, we will strive to further deliver on the principles and objectives of the recommendations.

Council wishes to commend VAGO for the professional and collaborative manner in which they conducted this review, and for the opportunity to provide comment and feedback at every step of the way. Councils, and our communities, will benefit from this work.

Yours sincerely,



Cr. Bob Turner
MAYOR

RESPONSE provided by the Mayor, Southern Grampians



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F/17/487
D/18/16422

2 March, 2018

Mr Andrew Greaves
Auditor General
VAGO
Level 31/35 Collins Street
Melbourne VIC 3000

Dear Mr Greaves,

RE: LOCAL GOVERNMENT AND ECONOMIC DEVELOPMENT AUDIT

Thank you for the opportunity to participate and comment on the Audit report on Local Government and Economic Development

Council's response to the recommendations and proposed actions and timeframes is as follows:

Regularly review the alignment between economic development strategies and Council Plans to improve the continuity of longer term initiatives.

Southern Grampians Shire Council's Council Plan has been informed by the Council's adopted Economic Development strategy and progress on strategies is reviewed and reported on regularly.

Timeframe: This is undertaken on a regular and ongoing basis.

Monitor and report on economic development outcomes and clearly link actions to intended outcomes.

Council currently produces an economic scorecard annually. This is developed using statistics from a variety of State and Federal sources.

Timeframe: The aims of Council's strategies are reviewed against this scorecard annually on a continuing basis.

Develop comprehensive performance measures for economic development with clearly articulated targets and benchmarks

RESPONSE provided by the Mayor, Southern Grampians—continued

Council reviews its performance measures annually. As noted in Council's submission to the draft report, economic indicators are not necessarily true indicators of Council's performance but caused by external factors. Southern Grampians Shire Council's strategies and targets will be established in this context.

Timeframe: A review of its benchmarks will occur in the 2018/19 financial year. Targets will be established and measured using the economic score card.

Thank you for the opportunity to participate in this audit. Southern Grampians has a detailed and integrated approach to economic development and welcomed the opportunity to share its experiences.

Yours sincerely,



CR MARY-ANN BROWN
MAYOR

Appendix B

Growth in population and gross regional product—Victorian councils

Figure B1
Victorian councils' population and GRP growth

Council	Population growth 2007–16 (%)	GRP growth 2007–16 (%)	GRP tracking with population growth
Alpine	1.82	-15.20	No
Ararat	3.03	9.87	Yes
Ballarat	17.78	16.39	No
Banyule	6.98	15.46	Yes
Bass Coast	21.56	45.63	Yes
Baw Baw	27.28	25.07	No
Bayside	11.62	13.91	Yes
Benalla	1.16	-4.52	No
Boroondara	9.95	22.17	Yes
Brimbank	16.24	23.09	Yes
Buloke	-9.20	-11.17	No
Campaspe	1.10	-4.69	No
Cardinia	61.72	43.81	No
Casey	37.21	35.15	No
Central Goldfields	4.34	-2.14	No
Colac-Otway	3.25	-1.02	No
Corangamite	-3.50	-15.36	No
Darebin	15.05	14.95	No
East Gippsland	10.88	-0.06	No
Frankston	14.18	21.04	Yes
Gannawarra	-5.75	-10.02	No
Glen Eira	14.16	19.68	Yes
Glenelg	-1.54	-11.69	No
Golden Plains	28.83	22.81	No
Greater Bendigo	16.32	19.79	Yes
Greater Dandenong	21.14	22.79	Yes
Greater Geelong	17.08	13.75	No
Greater Shepparton	9.91	2.72	No

Figure B1
Victorian councils' population and GRP growth—continued

Council	Population growth 2007–16 (%)	GRP growth 2007–16 (%)	GRP tracking with population growth
Hepburn	11.03	13.51	Yes
Hindmarsh	-5.58	-5.71	No
Hobsons Bay	10.11	9.56	No
Horsham	4.76	14.46	Yes
Hume	31.94	38.33	Yes
Indigo	6.57	0.62	No
Kingston	13.19	-1.69	No
Knox	6.16	11.47	Yes
Latrobe	4.62	-10.80	No
Loddon	-4.16	-10.93	No
Macedon Ranges	19.08	15.38	No
Manningham	7.08	20.92	Yes
Mansfield	15.27	5.01	No
Maribyrnong	29.10	36.92	Yes
Maroondah	12.14	24.24	Yes
Melbourne	73.42	42.84	No
Melton	64.45	69.96	Yes
Mildura	7.29	-10.61	No
Mitchell	32.04	26.43	No
Moira	5.79	-5.04	No
Monash	14.01	21.69	Yes
Moonee Valley	15.23	7.03	No
Moorabool	23.56	31.55	Yes
Moreland	19.76	20.94	Yes
Mornington Peninsula	13.49	11.25	No
Mount Alexander	8.91	1.95	No
Moyne	6.03	16.91	Yes
Murrindindi	2.21	5.77	Yes
Nillumbik	3.92	6.26	Yes
Northern Grampians	-4.28	8.94	Yes
Port Phillip	18.66	3.38	No
Pyrenees	9.79	-8.68	No
Queenscliffe	-5.74	-4.07	Yes
South Gippsland	9.81	2.78	No
Southern Grampians	-4.79	-6.42	No
Stonnington	17.20	13.17	No
Strathbogie	8.29	-4.83	No
Surf Coast	31.60	10.60	No

Figure B1**Victorian councils' population and GRP growth—continued**

Council	Population growth 2007–16 (%)	GRP growth 2007–16 (%)	GRP tracking with population growth
Swan Hill	-0.32	-12.02	No
Towong	-1.44	-1.67	No
Wangaratta	6.28	-3.16	No
Warrnambool	9.13	6.45	No
Wellington	6.28	-8.50	No
West Wimmera	-12.83	-12.04	Yes
Whitehorse	12.51	25.32	Yes
Whittlesea	56.37	39.40	No
Wodonga	17.75	15.62	No
Wyndham	84.27	55.21	No
Yarra	25.70	21.03	No
Yarra Ranges	7.49	4.27	No
Yarriambiack	-10.22	-3.54	Yes

Note: The audited councils are highlighted in blue.

Source: VAGO, based on Australian Bureau of Statistics and RDV data.

Appendix C

Expenditure on business and economic services

Figure C1
Victorian councils' expenditure on business and economic services, 2015–16

Council	Expenditure on business and economic services (\$)	Percentage of total council expenditure
Alpine	3 330 032	13.74
Ararat	2 297 380	8.69
Ballarat	17 761 310	11.93
Banyule	12 047 000	9.57
Bass Coast	6 774 278	9.55
Baw Baw	4 698 134	6.95
Bayside	6 861 106	7.19
Benalla	1 577 052	5.77
Boroondara	12 401 185	7.01
Brimbank	7 902 466	4.53
Buloke	1 346 657	6.27
Campaspe	11 685 069	15.91
Cardinia	5 909 963	6.02
Casey	12 087 893	5.08
Central Goldfields	1 792 979	6.90
Colac-Otway	4 039 614	9.07
Corangamite	3 025 115	7.63
Darebin	8 315 489	5.91
East Gippsland	9 276 330	10.64
Frankston	5 145 596	3.74
Gannawarra	1 928 279	7.97
Glen Eira	7 346 730	4.98
Glenelg	4 890 933	8.99
Golden Plains	5 423 000	14.70
Greater Bendigo	19 810 035	11.52
Greater Dandenong	13 290 564	7.88
Greater Geelong	18 854 238	6.07
Greater Shepparton	12 145 243	9.77
Hepburn	3 036 316	11.11
Hindmarsh	1 780 196	10.48

Figure C1
Victorian councils' expenditure on business and economic services, 2015–16—
continued

Council	Expenditure on business and economic services (\$)	Percentage of total council expenditure
Hobsons Bay	10 497 538	9.29
Horsham	4 576 778	10.15
Hume	13 782 070	6.31
Indigo	6 065 629	19.98
Kingston	13 946 926	8.24
Knox	9 187 802	6.42
Latrobe	7 433 783	6.50
Loddon	1 856 682	7.00
Macedon Ranges	6 201 666	9.39
Manningham	8 898 153	8.28
Mansfield	1 835 471	10.07
Maribyrnong	5 971 549	5.29
Maroondah	8 564 185	7.53
Melbourne	293 712 000	50.59
Melton	8 278 120	6.38
Mildura	9 795 410	10.85
Mitchell	4 023 539	7.00
Moira	3 467 920	6.95
Monash	11 987 319	7.86
Moonee Valley	8 137 653	5.87
Moorabool	4 398 795	10.29
Moreland	13 942 155	8.60
Mornington Peninsula	19 075 649	10.07
Mount Alexander	3 089 543	9.64
Moyne	6 789 393	14.97
Murrindindi	3 223 062	10.38
Nillumbik	4 985 000	6.47
Northern Grampians	2 879 424	8.98
Port Phillip	25 417 292	13.66
Pyrenees	2 209 201	11.65
Queenscliffe	2 318 067	23.50
South Gippsland	4 889 184	8.29
Southern Grampians	3 798 945	9.78
Stonnington	9 184 095	6.73
Strathbogie	1 702 471	6.82
Surf Coast	5 692 658	9.48
Swan Hill	7 465 905	15.08
Towong	2 121 476	16.43

Figure C1
Victorian councils' expenditure on business and economic services, 2015–16—
continued

Council	Expenditure on business and economic services (\$)	Percentage of total council expenditure
Wangaratta	2 659 873	4.85
Warrnambool	6 472 039	9.72
Wellington	4 259 066	5.94
West Wimmera	1 414 794	7.80
Whitehorse	9 738 835	6.44
Whittlesea	11 845 382	6.65
Wodonga	5 447 744	9.55
Wyndham	13 254 881	4.63
Yarra	12 032 086	7.48
Yarra Ranges	9 381 186	5.86
Yarriambiack	1 806 933	8.49

Note: The audited councils are highlighted in blue.

Source: VAGO, based on Victorian Grants Commission data.

Auditor-General's reports tabled during 2017–18

Report title	Date tabled
V/Line Passenger Services (2017–18:1)	August 2017
Internal Audit Performance (2017–18:2)	August 2017
Effectively Planning for Population Growth (2017–18:3)	August 2017
Victorian Public Hospital Operating Theatre Efficiency (2017–18:4)	October 2017
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2016–17 (2017–18:5)	November 2017
Results of 2016–17 Audits: Water Entities (2017–18:6)	November 2017
Results of 2016–17 Audits: Public Hospitals (2017–18:7)	November 2017
Results of 2016–17 Audits: Local Government (2017–18:8)	November 2017
ICT Disaster Recovery Planning (2017–18:9)	November 2017
Managing the Level Crossing Removal Program (2017–18:10)	December 2017
Improving Victoria's Air Quality (2017–18:11)	March 2018

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