Local Government in Victoria 2003
I am pleased to present the Local Government in Victoria 2003 Report, which since its inception in 2001, has established a reputation as a valuable measure to assess the position of local government in Victoria.

The yearly report presents a range of information drawn from across the sector including the Victorian Local Government Indicators published in each council’s annual report.

The 2003 report shows a number of positive trends, including the fact that community satisfaction with local government remains strong, despite increases in rates during the past few years.

Generally, local governments have strengthened their financial positions and demonstrated an ability to cope with financial challenges such as the recent shortfall in the Local Authorities Superannuation scheme.

Most local governments have increased expenditure on capital projects and made progress on addressing issues associated with community demand for infrastructure. In addition, many councils have also improved their asset management and information systems.

However, local governments continue to face significant challenges and this is affecting levels of community satisfaction on some issues in certain areas. For a small number of councils, this has resulted in significant decreases in levels of community satisfaction.

As already noted, most communities experienced significant rate rises last year (above 10 per cent in some inner metropolitan councils and small shires). While the pressures on local governments are understandable, such rate increases are unsustainable in the medium and longer term. As a result, local governments need to ensure that they are offering services that are both responsive to, and affordable by, their communities.

The challenges posed by ageing infrastructure and the demands for new infrastructure remain strong, and most local governments will need to continue to address these issues.
Since June 2002, the State Government has been actively assisting councils to improve their asset management practices through a number of initiatives, including:

- conducting forums to enhance councils asset management capacity
- working with peak local government bodies to deliver initiatives to assist councils with their asset management responsibilities.

The Government has also provided significant funding to local councils for a diverse range of services and infrastructure, including:

- a record $25.8 million for local public libraries recurrent funding as well as an extra $4.6 million to refurbish and upgrade existing library buildings through the Living Libraries Program
- $16.1 million through the Local Government Improvement Incentives Program (LGIIIP).

These initiatives were further supported by changes to the Local Government Act 1989 which require councils to improve their public accountability by:

- improving linkages between planning frameworks and financial reporting
- applying new criteria for any council proposal to levy special rates or charges
- adopting procedures to ensure more transparent decision-making.

The State Government will continue to work in partnership with peak local government bodies and individual local governments for the benefit of our communities. I am encouraged by this year’s report and I look forward to seeing the positive trends continue in 2004 and beyond.

CANDY BROAD MLC
Minister for Local Government
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Overall Satisfaction

Since 1998, local government and the State Government have jointly funded detailed public opinion surveys to gauge residents’ views of their council. Each year, the surveys ask some thirty thousand people, across 78 (of 79) councils, to rate their local government’s performance as: excellent, good, adequate, needs some improvement, or needs a lot of improvement.

The graphs on the following page show the percentages of respondents rating their council performance in three categories as either “excellent or good”, “adequate”, or “needs improvement”.

The graphs show that councils’ performances improved from 1998 to 2000, but have been relatively static since then.

The results for 2003 show a slight decline in “excellent or good” ratings for metropolitan councils (matched by a corresponding increase in the “adequate” rating). However, because of the sampling process, any changes of 2% or less may not be statistically significant, and should be treated with caution.

While the results have not moved significantly in the past two years, it is worth noting that this has been a time when many councils have substantially increased their rates - as is discussed later in this report.

The median residential rate climbed by 6.5% in 2003, following an increase of 9.6% the previous year. The fact that satisfaction ratings have remained stable despite such rate rises suggests that communities are off-setting rate increases against improvements in council services and/or maintenance of infrastructure.
Figure 1. Overall performance 1998 - 2003

- Excellent and Good -

- Adequate -

- Needs improvement -
Respondents’ comments can also be summarised into an ‘indexed mean’, calculated by giving scores between 20 and 100 as shown below:

<table>
<thead>
<tr>
<th>Resident’s rating</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>100</td>
</tr>
<tr>
<td>Good</td>
<td>80</td>
</tr>
<tr>
<td>Adequate</td>
<td>60</td>
</tr>
<tr>
<td>Needs improvement</td>
<td>40</td>
</tr>
<tr>
<td>Needs a lot of improvement</td>
<td>20</td>
</tr>
</tbody>
</table>

An average of all respondents’ comments indicates the council’s overall performance. An indexed mean of 60 would show an overall ‘adequate’ performance by the council.

**Figure 2. Overall satisfaction**

This graph of indexed means for each council group for the past three years suggests overall satisfaction is highest for inner metropolitan councils - and lowest with more remote rural councils.

Each year, the survey asks Victorians to identify the key issues affecting their levels of satisfaction with council.

In metropolitan councils, the key issues consistently identified are the appearance of public areas, town planning, and recreational facilities. In country Victoria the key issues are economic development, town planning and the state of the roads.

The indexed means for individual councils over the past two years typically repeat the story of stability outlined above. Between 2001 and 2003, only four councils had decreases in their indexed mean of 5 points or more - and in most cases these occurred where councils exhibited significant public dissent or disunity.

At the other end of the scale, five councils had increases of 5 points or more in their indexed means between 2001 and 2003. Many of these councils had experienced conflict during 2001, and the improvements since then suggest the councils were taking a more cooperative approach to decision-making.
Advocacy and Engagement

For the past two years, the survey has included questions about residents’ satisfaction with their council’s performance as an advocate with the other levels of government, and in engaging with the community.

The advocacy indicator shows how residents feel they have been represented by their council in dealings with other governments (state and federal) and other external groups.

**Figure 3. Satisfaction with advocacy and engagement**

The graph shows:

- metropolitan councils, regional cities and small shires received similar results for advocacy, with large shires scoring significantly lower ratings
- metropolitan councils and regional cities have slightly lower ratings here than they do for overall satisfaction
- small shires’ results are slightly higher than their rating for overall satisfaction, while those of large shires are virtually equal.
- there was little change in this indicator over last year across all councils

The Community Engagement indicator shows residents’ opinions of their council’s efforts to involve them in decision-making.
The graph shows:
- these ratings are significantly lower than councils receive for advocacy and overall satisfaction
- the results for metropolitan councils are significantly higher than those for regional cities and shire councils
- there was little change in this indicator over last year across all councils

Rural and regional councils typically have a smaller number of people per councillor - and many rural councils pride themselves on the degree of contact they have with their communities.

At first glance, it may appear surprising that rural and regional councils have lower scores on advocacy and engagement than the average scores for councils in Melbourne. However, the gap between metropolitan councils and shires is less (2 or 3 index points) for advocacy and engagement than the gap between the scores for the overall satisfaction figures (5 index points).

This suggests two things:
- the advocacy and engagement figures are influenced by the overall satisfaction levels. Respondents appear to value not just the processes of advocacy and engagement, but the results of those processes; and
- relative to scores on overall satisfaction, the shires do somewhat better comparatively than the metropolitan councils.

Nonetheless, the results for engagement, where three of the five council groups are below the ‘neutral’ mean of 60, suggest some room for improvement. The Community Building initiative, launched in 2004 and involving both State and local governments, is intended to address this issue.
The discussion of financial indicators below shows the impact on local government finances in 2003 of a number of challenges for councils. This section sets part of the context for local government, by discussing some key population trends which impact on council activity.


The first map shows the average annual pattern of population growth across Victoria in the five years, 1998 to 2003. Population trends have a number of impacts on local government, including:

- rapidly growing areas create demands for additional infrastructure and services; while
- areas with declining populations often look to their council to encourage new economic development in the area.

In country Victoria, the map shows stable or slightly falling population numbers in much of western and eastern Victoria. This was more marked in rural areas, with regional centres (such as Warrnambool, Horsham and Wodonga) typically growing faster than their rural hinterland. However, councils on the lower Murray saw some growth from new agricultural developments in the viticulture and orchard industries.

There was stronger growth in north central rural Victoria, with somewhat faster growth in Greater Bendigo and Greater Shepparton than their surrounding rural areas.

The strongest growth was, however, on the urban fringe of Melbourne, with rapid growth in councils such as Mitchell, Macedon Ranges and Moorabool. There was also strong growth in the “Seachange” areas in the Surf Coast and Bass Coast.
Within Melbourne, the outer fringe councils also experienced increased development. Melton had the fastest growth rates in the State, at 9% annually, with strong increases also recorded in Casey, Whittlesea, Hume and Wyndham. Most of the developed metropolitan councils had minimal or limited growth, although new inner urban developments saw very strong growth in the City of Melbourne, and some growth in Port Phillip.

Demand for council services also differs depending on the profile of the population. The following maps, based on 2001 Census information, show the proportion of the population in each council area born in Australia, and born in Asia.

Map 2. Victorian councils percentage of population born in Australia 2001

In most of country Victoria, more than 90% of the population was born in Australia - and in many western Victorian councils this figure is above 95%. Alpine and Latrobe councils recorded the lowest Australian-born percentages in country Victoria, with 85%.

However, closer to Melbourne (and Geelong) the proportion of populations born overseas climbs considerably, reflecting the patterns of post-war migration and subsequent settlement. Within Melbourne, most councils have less than 80% born in Australia. In the inner suburbs, most councils have Australian-born proportions of 70% or less, although Bayside (77%) and Boroondara (74%) are somewhat higher. The lowest proportions of Australian-born are in Brimbank, Melbourne and Greater Dandenong - with the last of these the only council with less than 50% of its population born in Australia.
A strong component of recent migration to Australia has come from Asia, and the following map shows the proportion in the 2001 Census born in Asia.

**Map 3. Victorian councils percentage of population born in Asia 2001**

This map is in many ways a mirror image of the previous one. Those areas with high proportions of Australian-born tend to have very low numbers of Asian-born. For most councils (and for all councils outside Melbourne), less than 2% of the population was born in Asia. However, in Melbourne, a number of councils have more than 10% of their population born in Asia. For two, Melbourne and Monash, the numbers reflect students attending universities, but for others the numbers reflect longer term residents. Greater Dandenong and Manningham both have high proportions, as do Maribyrnong and Brimbank in the western suburbs.

Such variations in the local population can affect the types of services requested from councils - and also influence how councils interact with their communities. In early 1999, four councils prepared a report for the Victoria Grants Commission on *The costs of providing services to Multicultural Communities*. This study looked at costs across Aged and Family services, and Health and Welfare, considering aspects such as:

- culturally-specific Meals on Wheels
- providing information (and library resources) in community languages
- ensuring family-run food outlets understand new Food Act provisions; and
- planning for community development with diverse cultures.

All councils face challenges in providing appropriate services to their communities. The population patterns across Victoria can add to the complexities of these challenges.
Local councils in Victoria provide a diverse range of services to their communities, ranking from community facilities, to roads infrastructure, to planning and development, to social services. The patterns of services vary across the State, influenced by the specific needs of particular communities, by policy decisions of individual councils, and by the availability of alternative services.

The varying influences can and do produce a patchwork across the State. For example, while rural councils are generally responsible for much greater road lengths than metropolitan councils, many also provide economic infrastructure such as saleyards - and some provide aged care facilities as there are no such private facilities in particular areas.

All of these activities have implications for the overall pattern of services - and for the need for revenues to support those services. The main expenditure areas in 2001-02 are shown in the graph:

**Figure 4. Main expenditure areas (total expenditure $3.6 billion)**

![Council Expenditure and Revenues Graph](image)

Source: Victoria Grants Commission data

The percentages differ across the council groups:

- large and especially small shires have extensive networks of roads - and their expenditure on roads is a much higher proportion of the total than for other councils
- rural councils also tend to spend comparatively more on business and economic services - many for example run saleyards
- predominantly residential councils in metropolitan and regional cities spend higher proportions on social services such as family and community and aged care - and also spend on recreational and cultural facilities
To fund such services, councils draw on four major sources of income:

**Figure 5. Sources of operating revenues 2000-01**

![Pie chart showing sources of operating revenues]

- Rates: 51.4%
- Charges, fees and fines: 24.0%
- Specific Purpose Grants: 9.7%
- General Grants: 10.9%
- Other: 4.0%

**Source**: Victoria Grants Commission data

To meet their expenditure needs, councils raise revenues as shown above. Again, there are some variations between different councils:

- large and small shires tend to raise smaller proportions (often around 40%) from rates, relying comparatively more on general grants
- councils on the developing fringe of Melbourne have significant revenues from donated assets associated with new developments. Their revenue share from rates is slightly above 50%
- a small number of inner Melbourne councils have extensive car parking revenues - again, their reliance on rates is about 50%
- other predominantly residential councils, in both metropolitan and regional cities groups, tend to rely more on rates as a revenue source, with many receiving 60% of revenues from rates.

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1 Note: these figures differ a little from those published in last year’s Local Government in Victoria report. That report used Australian Bureau of Statistics data for 1999-2000, and the ABS no longer publishes that series. The primary difference between the two data sets is that the above figures are solely Operating Revenues, while the ABS data also included funding for capital such as loans. Consequently the ABS “other revenues” category was larger than shown in the above graph.
Council Rate Increases

Within these broad patterns, the experience of individual councils varies considerably. This reflects differences in:

- the situations facing councils (such as the population patterns discussed above), and
- how councils respond to, and manage, those situations.

A key indicator of these differences is recent rate increases. As is discussed below, the median rate per assessment increased by 7.4% in 2002/03. However, this varied considerably across councils, as is shown in the following graph.

Figure 6. Rate increases by council group

There was a wide distribution about the median of 7.4%:

- 18 councils imposed rate increases of less than 5%, with both inner and outer metropolitan councils prominent in this range
- 24 councils had increases between 5% and 7.4%, with both large and small shires being well represented here
- 19 councils had increases between 7.4% and 10%, with a fairly even spread from the council groups, and
- 18 councils had increases of more than 10%. This range included numerous councils from the inner metropolitan, regional cities and small shires.
Last year, the median council operating expenditure increased by 7.3%. This was largely due to three factors:

- increasing council attention on infrastructure, affecting both operating (for maintenance works) and capital expenditure (for renewal or expansion projects)
- increases in service costs with contract renewals and a new Enterprise Bargaining Agreement with council staff, and
- pressures from increases in insurance premiums.

These factors continued in 2003 when median expenditure increased by 4.5%. However, the biggest single influence pushing up council costs was a levy struck by the Local Authorities Superannuation fund. The following discussion looks first at this, and then turns to the infrastructure question.

Superannuation

All councils, as employers, have to contribute to superannuation for their employees. Of council staff in Victoria, some 9,500 belong to a Defined Benefit superannuation fund run by Local Authorities Super (see Appendix for more details on this fund). This fund, which guarantees certain levels of pension payments, has been hard hit by the poor performance of investment markets between 2000 and December 2002.

Early in 2003, the trustee of the fund advised councils of a shortfall of $127 million in the fund, and struck a one-off levy from each council to make up this shortfall. This levy represented between $40 and $80 per rateable property² for most councils.

While the LAS levy is to be paid off over ten years, it had three impacts on council accounts in 2002/03:

- under the Australian Accounting Standards, councils have to report liabilities in their Statement of Financial Performance as an expense in the year they are incurred. Consequently, councils have reported the entire levy amount in their operating expenditure for 2002/03. However, this amount distorts comparisons with figures for earlier years. Consequently the operating expenditure figures in the following discussion have been revised from councils’ original data by deleting the LAS levy component.

- for most councils, the levy has caused an increase in the council’s liabilities, either as a debt to Local Authorities Super, or (where the council has taken a bank loan out to pay off the levy) as a debt to the bank. This is included in the discussion of debts later in this report.

- the levy also has an impact on the operating result. The operating result already includes the impact of one-off measures such as asset revaluations. It is consequently reasonable here to include the whole amount of the LAS levy, and not make the adjustments made for operating expenditure.

² Usual council parlance is “per (rateable) assessment”. This wording is used below.
Infrastructure

An ongoing challenge for local government is managing its physical asset base. In December 2000, Local Government Victoria published a report *Facing the Renewal Challenge*, which argued that councils needed to improve their information and management systems for assets. In June 2002, the Auditor General published a special report *Management of Roads by Local Government*. This report noted that councils differed considerably in how they collected and managed information on roads, as well as on the amounts they spent on maintaining and renewing this critical infrastructure.

New indicators were introduced in 2002 to measure how councils are performing in this area. The first of these looks at spending on capital renewal, and the second on capital renewal combined with maintenance. Both indicators start from an estimate of the desired level of capital expenditure for each council calculated from the current replacement cost for each infrastructure asset divided by its years of useful life. For example, the desired expenditure for a park bench with a five-year life would be 20 per cent of its value (that is, value divided by five); while for a road with a 50-year life, the desired level would be 2 per cent of its value (that is, value divided by 50). The two indicators show actual expenditure compared with the desired level, as measured by this estimate.

Across all councils, the median 2003 figures for both renewal (59%) and renewal plus maintenance (78%) are below the desired level and, indeed, both have fallen slightly since last year. As the graph shows, there is considerable variation across council groups on these measures, with inner metro councils having the highest result on renewal and maintenance, but regional cities having an especially low result on the renewal measure.

Figure 7. Expenditure on asset renewal as a percentage of that required

The above graph shows expenditure on asset renewal (R) and renewal + maintenance (R + M) as a percentage of desired levels. The graph shows that expenditure was slightly lower last year. This is somewhat surprising in view of the following graph, which shows median capital expenditure per group for the last three years.
From this graph:

- two groups of councils (inner metro and regional cities) increased median capital expenditure strongly
- two other groups (outer metro and large shires) maintained expenditure, after an increase the previous year, and
- only small shires saw a decrease in capital expenditure in 2003 - but this was still less than the increase which occurred in 2002.

So if, overall, councils are increasing capital expenditure, why is achievement against the desired levels deteriorating slightly? This question is most acute for regional cities, where the figure for asset renewal fell from 42% to 29% of the desired level, despite a 12% increase in capital expenditure from $471 to $527 per assessment.

The answer to this conundrum appears to lie in the second part of the tasks urged on councils: to both improve asset management and to improve information. As councils improve their asset information systems, and get better details on the condition and cost of their assets, it seems that the size of the task grows.
A further qualification on the capital expenditure data is shown in the following graph, which shows the change in individual councils’ capital expenditure since last year.

**Figure 9. Percentage change in council capital expenditure from 2001/2 to 2002/3**

One third of the councils in Victoria (26) saw little change in their capital expenditure this year. However, other councils saw some major shifts - some seeing big increases, while others had big decreases.

An important factor here is the fact that big capital projects are ‘lumpy’ in nature. One metropolitan council, with an extensive capital works program, had a fall in its capital expenditure this year because it completed a major swimming pool/leisure centre in 2001/02. Another, a rural council, had a substantial increase in 2002/03 because of the start of construction on civic facilities.

While such variations will always occur in the statistics, both Local Government Victoria and the Municipal Association of Victoria are working with councils to improve asset management and information. In December 2003, the Government published a report *Accounting for Infrastructure Assets*, and a policy overview *Sustaining Local Assets*. In November 2003, a Federal Parliamentary report *Rates and Taxes* commended the MAV’s STEP program, which assists especially smaller councils improve infrastructure management.
The chart shows data for the last three financial years across Victoria. The changes from 2002 to 2003, when compared with the change from 2001 to 2002, show the following patterns (all measures ‘per assessment’):

- median rates and charges increased by $56 or 7.4%, a similar increase to that over 2001/2002 ($55, 7.8%). The figures for this indicator were extremely varied, ranging from outer metropolitan councils, where rates only increased by 5.2% (relative to 8.2% over 2001/2002), to inner metropolitan councils, where rates increased by 10.5% (following an increase of only 4.8% over 2001/2002).

- median residential rates and charges also increased over 2002/2003, by $42 or 6.5%; however this was lower than the increase over 2001/2002 ($57, 9.6%). This smaller jump was reflected in the figures for regional cities and large shires, but metropolitan and small shires councils saw their rates increase by significantly more this year than they had over the previous year; most significantly, inner metropolitan councils experienced residential rates increases of 15.3% (after a rise of only 5.5% over 2001/2002).

- council debts increased by $47 or 7.5%, a larger rise than that over 2001/2002 ($34, 5.8%). Apart from regional cities, whose debts increased by similar levels over the two years, all council groups saw a faster rise in their debt this year. The most extreme case of this was small shires which, after a slight decrease (by 0.8%) in debt in 2001/2002 saw an increase in 2002/2003 by 15.9%.

- after adjustment for the effects of the superannuation shortfall, operating expenses increased by $80 or 4.5% in 2003, a smaller increase than the previous year ($121, 7.3%). This decline in the rate of increase was reflected in most groups (inner metro 4.2% compared with 5.9% in 2002, small shires 4.1% compared with 4.6%), with the exception of large shires, which saw a higher rate of increase (10.1% in 2003, compared with 5.9% in 2002).

- capital expenditure, whilst increasing by $23 or 6.2%, experienced a substantially smaller rise than that over 2001/2002 ($59, 18.4%). Apart from inner metropolitan councils, where this indicator increased by 15.8% over 2002/2003 having fallen over 2001/2002 (by 3.5%), this trend was reflected across Victoria. Most notably, capital expenditure increased by a marginal 0.9% in large shires (following an increase of 31.6% over 2001/2002), and fell by 5.4% in small shires (following an increase of 16.0% over 2001/2002).

A key element for many councils in increasing levels of operating and capital expenditure over 2001/2002 and 2002/2003 was the Federal Government’s ‘Roads to Recovery’ program. This program funds both maintenance (included in the operating expenditure figures of councils) and new capital works for roads. In terms of funding per assessment, councils receive a constant annual injection from the program; this ranges from $10 for inner metropolitan councils to $97 for small shires. These figures are noted in the following analysis.
The chart shows data for the last three financial years. The changes from 2002 to 2003, when compared with the change from 2001 to 2002, show the following patterns:

- Median rates and charges increased by 10.5%, driven by a 15.3% rise in median residential rates; both of these increases were more significant than those over the previous year (4.8% and 5.5% respectively).
- There was a $17 increase in debts per assessment, compared with a median $50 per assessment for the Local Authorities Super levy. Some councils in this group have substantial cash reserves (stemming in many cases from the proceeds of selling electricity businesses in the mid 1990s), and could pay the levy without borrowing additional funds. Excluding the levy, it seems these councils reduced other debt somewhat, following a minimal change in the previous year.
- The rise in operating expenditure of 4.2% was slightly smaller than the increase over the previous year (5.9%).
- Increased revenues from rates also financed increased capital expenditure, which rose by 15.8%; this was a significant turnaround as this indicator fell over the previous year (by 3.5%).
- The inner metro councils received the lowest levels of funding from the Roads to Recovery program - a median of $10 per assessment.
The chart shows data for the last three financial years. The changes from 2002 to 2003, when compared with the change from 2001 to 2002, show the following patterns:

- median rates and charges increased by 5.2%, a rise smaller than last year’s (8.2%); median residential rates rose by 10.2%, a significant increase compared to the rise over the previous year (3.3%)
- there was an increase of $28 in debts per assessment. However, the Local Authorities Super levy for this group of councils was $57 per assessment, so without this figure there would have been a similar reduction in debt to that seen last year (of -$28)
- the rise in operating expenditure (2.3%) was slightly smaller than the increase in the previous year (3.7%)
- capital expenditure stabilised since last year, falling by 0.3%; this change contrasted with the previous year’s large increase of 9.2%
- roads expenditure was assisted by the Roads to Recovery program - outer metropolitan councils received an average of $16 from this program
Regional Cities

**Figure 13. Key indicators - regional cities**

The chart shows data for the last three financial years. The changes from 2002 to 2003, when compared with the change from 2001 to 2002, show the following patterns:

- median rates and charges increased by 7.8%, a similar jump to that of the previous year (7.7%); residential rates increased by 7.6%, a smaller rise than that seen in the previous year (9.8%)
- the rise in debts per assessment of $77 was similar to that in the previous year ($71). However, the debt increase in 2003 was almost entirely due to the Local Authorities Super levy, at a median $76 per assessment for this group of councils.
- the rise in operating expenditure of 4.7% was less than that in the previous year (7.8%)
- the rise in capital expenditure of 11.9% was significantly smaller than the increase in the previous year (34.6%)
- regional cities received a median $43 per assessment from the Roads to Recovery program.
The chart shows data for the last three financial years. The changes from 2002 to 2003, when compared with the change from 2001 to 2002, show the following patterns:

- median rates and charges increased by 7.9%, a larger rise than in the previous year (4.0%); residential rates increased by 5.4%, a similar rise to that in the previous year (6.2%)
- the rise in debts per assessment of $60 was larger than the small rise in the previous year - however all of this increase in 2003 was due to the $68 per assessment for the Local Authorities Super levy
- the rise in operating expenditure of 10.1% was significantly larger than that in the previous year (5.9%)
- capital expenditure remained unchanged (a rise of 0.9%) after a substantial increase (31.6%) in the previous year
- large shires received a median $69 per assessment from the Roads to Recovery program.
The chart shows data for the last three financial years. The changes from 2002 to 2003, when compared with the change from 2001 to 2002, show the following patterns:

- median rates and charges increased by 10.2%, a rise that was larger than that over the previous year (6.3%); median residential rates increased by 15.8%, a significantly larger rise compared to the previous year (6.9%)
- the rise in debts per assessment of $85 was larger relative to the slight fall over the previous year. The major contribution here was made by the Local Authorities Super levy, which had a median amount of $79 per small shire.
- the rise in operating expenditure of 4.1% was similar to that in the previous year (4.6%)
- the fall in capital expenditure of 5.4% contrasted significantly with the rise in this indicator over the previous year (of 16.0%)
- Expenditure on roads (maintenance and capital) is a significant part of both operating and capital expenditure for small shires. Small shires received a median $97 per assessment from the Roads to Recovery program.
The operating result is the financial “bottom line” for councils. It gives the net result of all operating revenues and expenses, as well as additions to asset values such as donated assets and revaluations, and increases in liabilities such as occurred with the Local Authorities Super levy.

Last year’s report noted a major apparent improvement in the operating results from 2001 to 2002 (shown again in the above graph). However, this was predominantly due to significant revaluations of assets - the underlying movement in local government finances was less pronounced.

In 2003, the headline figures, included in the above graph, deteriorated compared with 2002 for four of the five groups of councils. However, this masked what are in fact very encouraging results for councils.

As noted, the 2002 results appeared very strong due to asset revaluations. For most councils, this appeared to be much less of a factor in 2003, so some decline was to be expected.

The operating result for 2003 includes the LAS levy, which is a one-off. If this were excluded from the figures, to give a picture of the underlying trend, two groups (inner metro and regional cities) had better results in 2003 than in 2002, and there was only a small difference between 2002 and 2003 for large shires. These occurred despite the boost to 2002 figures from asset revaluations.

If the 2002 result is treated as unusual, due to the asset revaluations, and the 2003 results are compared with 2001, all groups of councils saw impressive improvements between 2001 and 2003. The underlying figure (excluding the LAS) for 2003 was an increase on 2001 of $130-150 per assessment for inner metro, large shires and small shires, an increase of $110 per assessment for regional cities, and $80 per assessment for outer metro councils.
All employers in Australia have to contribute to superannuation for their employees. For most employees, these contributions are paid into accumulation funds where each employee’s balance is calculated from the contributions plus the fund’s investment performance.

Prior to the early 1990s, many employees in government and large private sector firms were members of defined benefit funds. In such funds, each employee’s retirement benefit is calculated from their final salary, with adjustments for inflation. From year to year, marked differences can occur between the fund’s liabilities (determined by movements in salaries, and in inflation) and the fund’s assets (determined by movements in investment performance).

Most defined benefit funds are now closed to new members - but existing members still contribute and receive benefits on the old rules. In July 2003, some 9,544 long-serving local government employees (and 6,440 retirees) are members of the Local Authorities Super Defined Benefit Fund. 3 Every defined benefit fund in Australia is required by law to have a financial health check-up, in the form of an actuarial investigation, at least once every three years. In June 2000, the net assets in the Local Authorities Super Defined Benefit Fund were slightly in surplus. Despite a better performance than many comparable funds, the fund was hit hard over the next 30 months by the poor performance of international investment markets. By December 2002 the fund’s assets were $127 million less than its liabilities.

Due to this shortfall, in early 2003 the trustee of Local Authorities Super called on employers (councils) for additional funding. The trustee asked employers to provide the funds over ten years, and gave a range of payment options. Councils could choose to pay instalments, adjusted each year by investment performance, or pay a lump sum (which in most cases was funded through a bank loan taken out by the council).

The fund, with this additional funding commitment, is now in a sound financial position. The trustee has assured employers that they will gain from any benefits resulting from future favourable performances, regardless of their chosen payment option (by instalments or one lump sum).

Impacts on Councils

Local Authorities Super advised councils in early 2003 of their share of the $127 million funding requirement. This varied between councils depending on:

- the total number of employees of the council. Larger councils typically have more employees than smaller councils - although the figures are affected by the extent to which the council relies on external contractors for services
- the proportion of the council staff that are members of the Defined Benefit fund rather than the accumulation fund.

There is some variation between councils, even of similar sizes, due to differences in the above factors. More generally, the levy has generally had a bigger impact on smaller councils than on larger councils. As noted in the discussion of population trends earlier in this report, councils in rural and regional Victoria (generally the smaller councils) have slower growth rates than many larger metropolitan councils. This tends to mean a more stable workforce - and a higher proportion in the Defined Benefit fund.

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3 Information in this and following paragraphs taken from Local Authorities Super Fund Members’ Report 2003, p7
This can be illustrated by the extent of the levy per assessment for the five council groups - and its impact on the operating expenditure figures.

<table>
<thead>
<tr>
<th></th>
<th>2003 Operating Expenditure</th>
<th>% change since 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original LAS levy (excl LAS)</td>
<td>Original Excl LAS</td>
</tr>
<tr>
<td>Inner metro</td>
<td>1,609 50 1,559 7.6%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Outer metro</td>
<td>1,565 57 1,508 6.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Regional cities</td>
<td>2,301 76 2,225 8.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Large shires</td>
<td>2,012 68 1,944 14.0%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Small shires</td>
<td>2,070 79 1,991 8.2%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Figure 17. Impact of LASB levy on operating expenditure

While the LAS levy is to be paid off over ten years, it had three impacts on council accounts in 2002/03:

1. Under the Australian Accounting Standards, councils have to bring liabilities into their Statement of Financial Performance as an expense in the year they are incurred. Consequently, councils reported the entire levy amount in their operating expenditure for 2002/03. As shown in the above table and graph, this gave some large apparent increases in operating expenditure in 2002/03. However, as the levy is being paid off over ten years, this treatment distorts any comparisons with earlier (and subsequent) years. Consequently the figures in the text above have been revised from councils’ original data by deleting the LAS levy component.

2. For most councils, the levy is an increase in the council’s liabilities, either as a debt to Local Authorities Super, or (where the council has taken a bank loan out to pay off the levy) as a debt to the bank. This is included in the discussion of debts in this report.

3. The levy also has an impact on the total operating result. The operating result already includes the impact of one-off measures such as asset revaluations, so it is reasonable to include the whole amount here, and not make any adjustments.
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