

Local Government in Victoria 2004



*Department for
Victorian Communities*

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Minister's foreword



The *Local Government in Victoria* report gives a snapshot of local government across the State. It is a result of the Government's commitment to promote the role of local councils' and their achievements. The following pages detail the diversity of services provided by local governments, and many of the initiatives that they are taking to build and strengthen their communities.

The State Government values local governments' role in building stronger communities and strengthening democracy.

The first part of the report provides an overview of local government in Victoria. In addition to detail on overall council expenditure and revenues, it discusses some challenges facing local government. This year, the report discusses innovative council programs, council employment patterns, and population projections to 2011.

The second part of the report discusses a range of key indicators, including community satisfaction, levels of revenue and expenditure, and infrastructure measures. These indicators were developed in consultation with Victorian local governments who publish them in their annual reports.

The figures show some very positive trends. All council groups had positive overall operating results in 2004, which is a significant overall improvement since 2001, when two of the five groups had negative operating results. Local government debt levels have remained stable in contrast to previous years when there were rising debt levels. It is also especially pleasing to see the efforts made by small shires to increase their capital expenditure and address their infrastructure needs.

I recommend this report as a valuable resource on local government in Victoria.



Candy Broad MLC
Minister for Local Government

Overview of local government in Victoria

Council newsletters, annual reports, and budget summaries provide extensive information on local government to their communities across Victoria. In considering this information, many councillors, staff and residents ask questions about how their council compares with others.

While acknowledging that there are many differences between councils, the annual *Local Government in Victoria* report has, since its inception in 2001, provided some answers to these questions. It has also given a general overview for people interested in local government in Victoria.

This report demonstrates how local governments form a critical link to the community. Local governments engage and strengthen their communities through their policies, programs, processes and structures. Indications of councils' success in this area are the community satisfaction engagement and advocacy results. The report also provides examples of innovative programs being implemented.

Democracy is strengthened through increased accountability and transparency of information such as is provided in this report for local government.

Local governments are supported by the State Government in a number of ways, including research such as the Community Satisfaction Survey, guidance in areas such as asset management and the development of support tools such as the Asset Management Performance Measures Project.

This report also provides a profile of local governments across Victoria. Victoria has 79 councils, providing a wide range of services to almost five million people. While there are common themes across the sector, there is also considerable variation in how councils provide services to their communities. Key influences behind this variation include the location and size of councils, and the decisions that councils themselves make.

The 31 metropolitan councils have average populations of 115,000 – four times the average of 28,000 for the 48 councils in regional and rural Victoria.

	Number of councils	Average population size	
Inner central	4	75,000	} Metro
Other inner metropolitan	13	119,000	
Outer metropolitan	14	122,000	
Regional cities	11	63,000	} Regional and rural
Large shires	15	28,000	
Small shires	22	11,000	
Total	79	62,000	



As the table opposite shows, there are distinct differences in population size within both the metropolitan and non-metropolitan groups:

- in the metropolitan area, the four inner city councils (Melbourne, Port Phillip, Stonnington and Yarra) have smaller resident populations
- in regional and rural Victoria, the regional cities, with average populations of 63,000, are much larger than large shires (28,000 average) and small shires (11,000 average).

Varying population sizes are one factor in differences between councils' activities. While all councils provide a range of services, there are also differences in emphasis. Broadly:

- the four inner city councils provide services to a greater concentration of business ratepayers
- other metropolitan councils have an emphasis on people services
- regional and rural councils have considerably greater road lengths per person – and associated infrastructure issues – than their metropolitan peers. This emphasis on roads increases the more rural the council is.

These emphases in services are reflected in the expenditure and revenue patterns of the councils, which are discussed below. In addition to these structural emphasises, councils face different challenges stemming from the social and economic development of their community. Key patterns here are the overall growth of population, and of groups within that. This report discusses trends in both overall population and in the over-65-year age group.

Councils can and do make differing decisions on how best to respond to these challenges. Such decisions are reflected in employment patterns across the State, and also in the new initiatives that councils take. The next section highlights some successful council initiatives to provide better services to their communities.

Innovative council programs

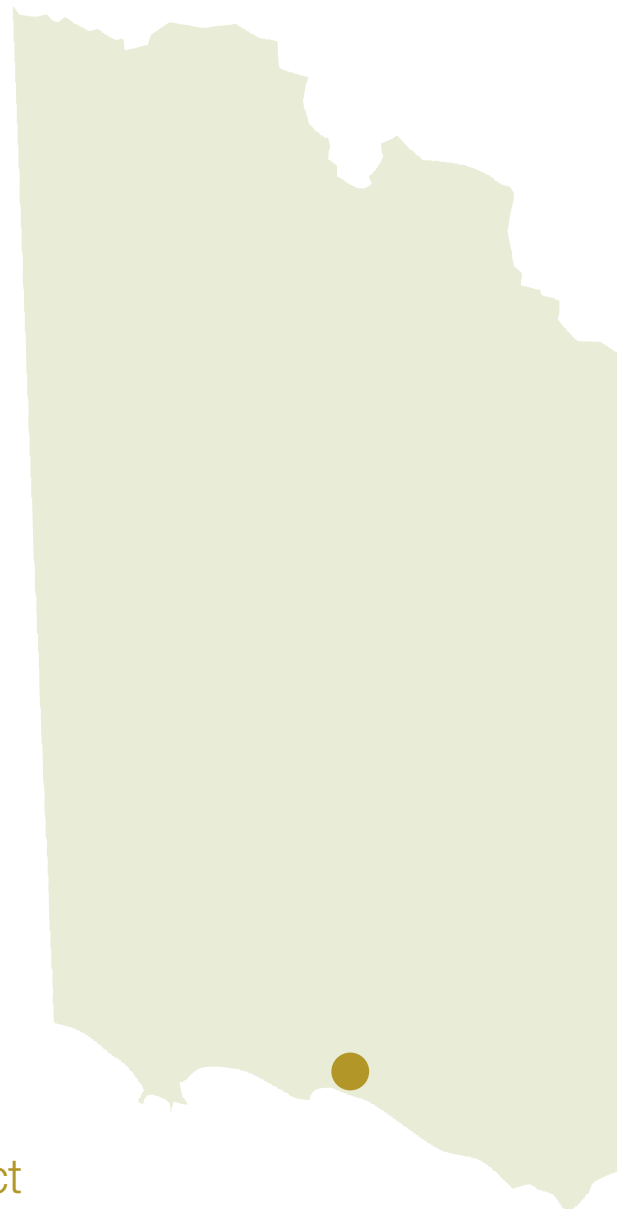
Councils across Victoria deliver a wide variety of programs and, in recent years, many have improved programs through a variety of initiatives. The four examples here were recognised in the National Local Government Awards in 2004.



Migration to Warrnambool Project

National Award for Excellence 2004

Working with community groups, the council provides a stable, safe and welcoming community for refugees to rebuild their lives. The project has successfully settled 15 families since June 2003.





Better Living in Broadmeadows and Dallas (Hume City)

Award for Planning of Ageing Communities 2004

The project builds on local community strengths to improve disadvantaged areas. It involves local social and community development, as well as improved physical infrastructure.



Whittlesea WIRED project

IT Commendation 2004

Using its planning powers, council encouraged developers to install an underground conduit in greenfields estates. Residents and businesses can then use the conduit for easy connection to cable and wiring for telecommunications, data and video services.



Sustainable Tourism in the Geelong Otway region (Greater Geelong)

Tourism Development Award 2004

This regional initiative helps build a long-term tourist industry by emphasising environmental protection, industry profitability, visitor satisfaction and community acceptance. The project sets goals in these areas and measures industry performance.

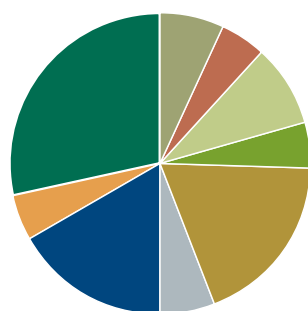
Source: National Office of Local Government.

Council expenditure and revenue patterns

Councils' annual operating expenditure patterns reflect their structural emphases:

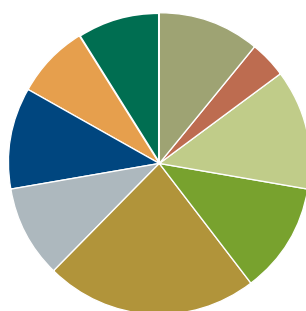
- with the major Melbourne business centre, the four Melbourne central councils spend almost half of their budgets on business services and traffic and street management. These councils also have a low expenditure on aged services – typically, they have small numbers of over-65-year-olds
- other metropolitan councils, especially those overwhelmingly residential in nature, spend most on people services. Almost 50 per cent of these budgets are allocated to Family and Community, Aged Services, and Recreation and Culture. Within such services, older suburbs closer to the centre of Melbourne spend more on aged services, while family services are more significant in the new outer suburbs
- roads are more significant in regional Victoria, comprising 25 per cent of total expenditure – and this figure is even higher, at 34 per cent, for small shires. In comparison with other metropolitan councils, regional and rural councils also spend more of their budgets on business services such as saleyards.

Expenditure, four inner central councils



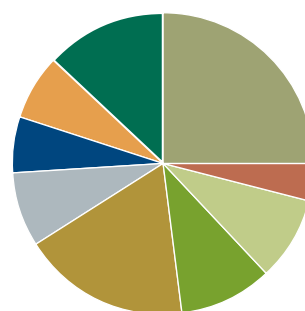
Roads	7%
Governance	5%
Families and Community	9%
Aged Services	5%
Recreation and Culture	19%
Waste Management	6%
Traffic and Streets	17%
Other Infrastructure	5%
Business Services	29%

Expenditure, other metropolitan councils



Roads	11%
Governance	4%
Families and Community	13%
Aged Services	12%
Recreation and Culture	23%
Waste Management	10%
Traffic and Streets	11%
Other Infrastructure	8%
Business Services	9%

Expenditure, regional and rural councils



Roads	25%
Governance	4%
Families and Community	9%
Aged Services	10%
Recreation and Culture	18%
Waste Management	8%
Traffic and Streets	6%
Other Infrastructure	7%
Business Services	13%

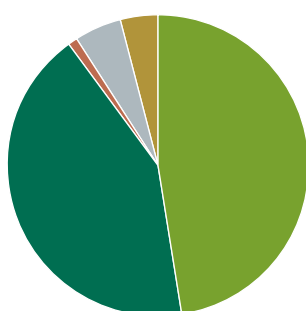
Source: Victoria Grants Commission data, 2002–03 financial year.



The pattern of annual revenues also differs between the groups of councils. As indicated in the pie charts below:

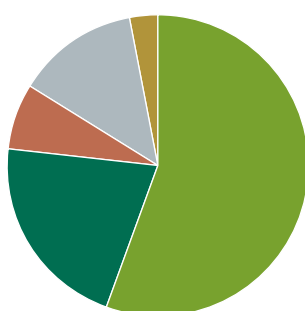
- for all three groups, rates are the most important single source of revenue. However, the rates proportion of total revenues differs, ranging from 55 per cent for other metropolitan councils, 47 per cent for the inner four councils, and 41 per cent for regional and rural councils
- the 'four inner Melbourne' councils receive 42 per cent of their revenues from charges, fees and fines, with car parking fees and fines being especially important. These councils' receive lower allocations of:
 - General Grants (which are not tied to any specific purposes)
 - Specific Purpose Grants (which are tied to specific programs, and frequently require some matching expenditure from councils)
- 'other metropolitan' councils have received larger Specific Purpose Grants, with aged services being the important tied program in the middle ring of suburbs, and family services important in outer suburbs. These councils have less scope to raise fees and charges
- 'regional and rural' councils receive higher General Grant payments, because of both extensive road networks and smaller property bases. They also receive significant Specific Purpose Grants. In consequence, these councils have the lowest reliance on rates (for some remote rural councils, this reliance falls as low as 30 per cent).

Revenue, four inner central councils



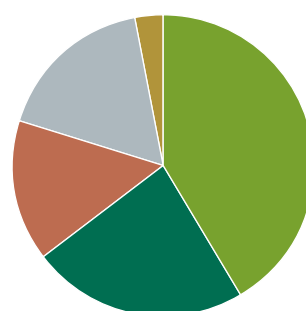
■ Rates	47%
■ Charges, fees and fines	42%
■ General Grants	1%
■ Specific purpose grants	5%
■ Other	4%

Revenue, other metropolitan councils



■ Rates	55%
■ Charges, fees and fines	21%
■ General Grants	7%
■ Specific purpose grants	13%
■ Other	3%

Revenue, regional and rural councils



■ Rates	41%
■ Charges, fees and fines	23%
■ General Grants	15%
■ Specific purpose grants	17%
■ Other	3%

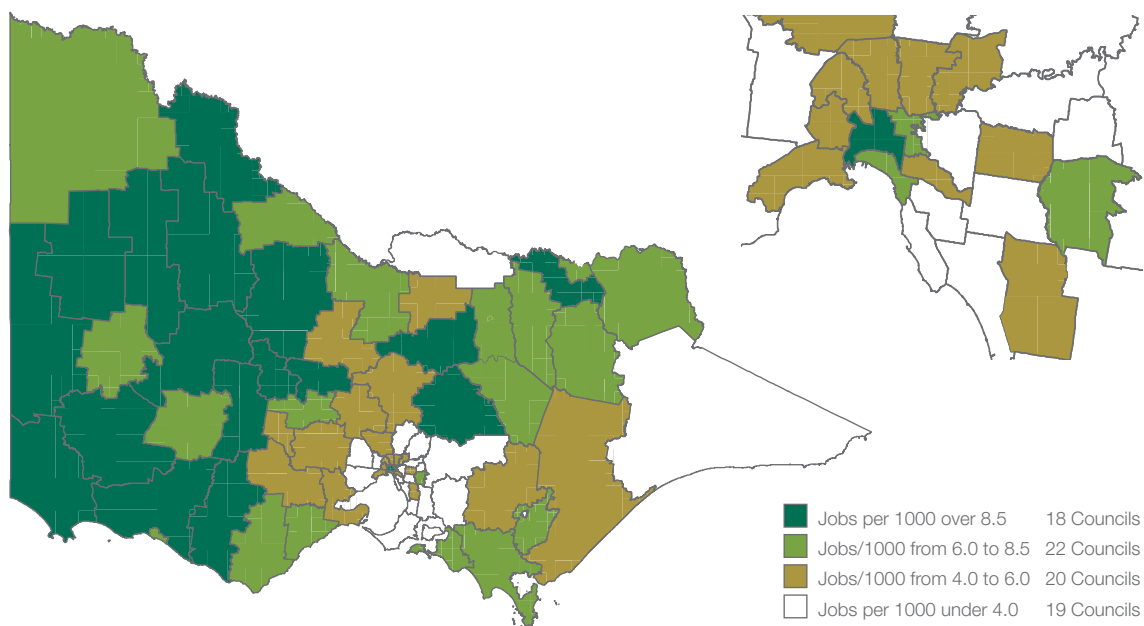
Source: Victoria Grants Commission data, 2002–03 financial year.

Council employment patterns

Local councils employ 1.5 per cent of Victorian workers. In June 2002, 34,600 people (13,000 men and 21,600 women) worked for local government in Victoria, half of them (and 66 per cent of women employees) working part time. Adjusting for the amount of time worked by part-time staff, local government employed 24,300 Effective Full-time equivalent staff (EFTs).

The pattern of employment differed considerably across Victoria. The map below shows each council's EFTs per 1,000 population.

Victorian councils 2002 council direct employment per 1000 population



Source: Victoria Grants Commission and Australian Bureau of Statistics data.



Council employment per 1,000 population is highest in the west of Victoria, and also reasonably strong in the north-east. It is lower in Gippsland, and most metropolitan councils also have low council employment figures (although Melbourne itself has the State's highest EFT figure). Across regional Victoria, employment figures are generally higher in more remote and rural councils, and lower in regional centres.

This map reflects structural features as well as decisions that councils themselves make about the best way of providing services to their communities.

Higher EFT figures in rural councils are primarily due to road crews employed directly by the councils to maintain the extensive road networks. Some small councils employ five or more EFTs per 1,000 population on roads – which is more than the total employment EFTs for most metropolitan councils. With fewer roads to maintain per head of population, metropolitan councils do not need as many workers.

In addition to the level of road works, the map also reflects employment practices. Most metropolitan and regional centre councils have fewer direct employees, as most of their roads expenditure is undertaken by contractors. In contrast, some remote rural councils have found that there are fewer contractors available in the bush – and this lack of competition has led to a higher reliance on council workforces.

Councils have made differing decisions on direct employment versus contracting in other areas as well. On the above map, the two lowest EFTs per 1,000 in regional Victoria are Moira and East Gippsland. In addition to contracting for most road works, both councils have assisted local health bodies to provide Home and Community Care services (HACC). Child-care centres are also run by outside bodies, often by parent-run committees of management. Other councils employ considerable numbers directly in HACC and council-run child-care centres.

Some councils have taken specific initiatives which also affect the figures. Some directly run regional tourism facilities, and these increase council employment totals.

Challenges from population growth and ageing

Over the 10 years from 2001 to 2011, Victoria's total population is expected to grow by 11 per cent, from 4.80 million to 5.33 million. According to the Government's population projections,¹ key features of this growth are:

- growth coming roughly equally from natural increase (births less deaths) and from international immigration
- an overall ageing of the population
- the number of households growing faster than population – so average household size is falling.

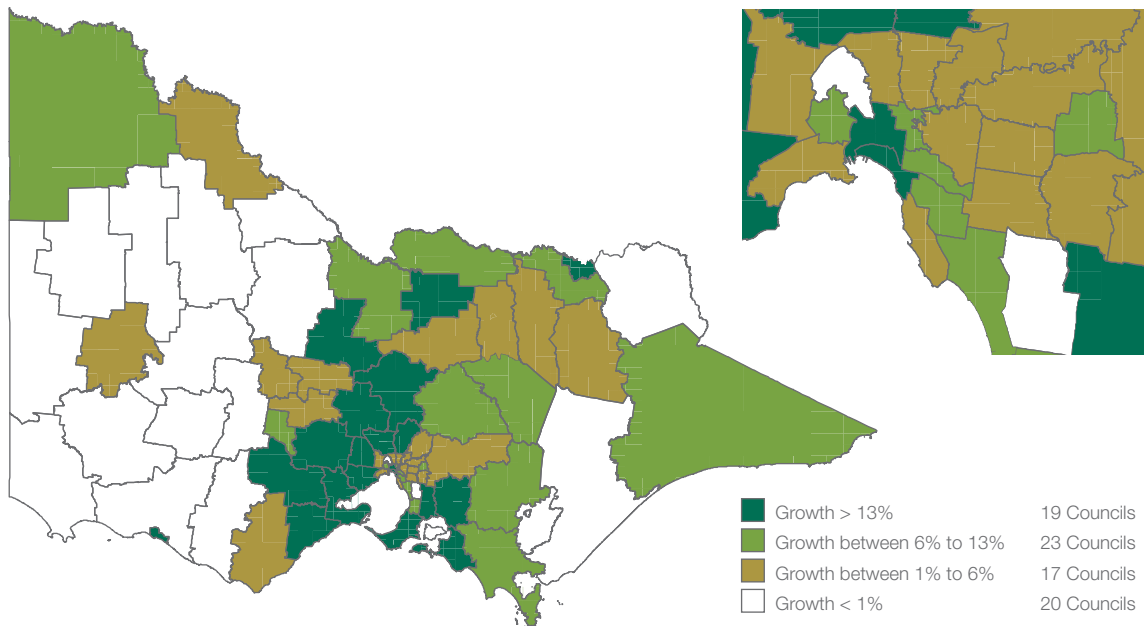
Projected growth patterns differ across Victoria, with some key features being:

- Melbourne has stronger population gain through natural increase as its population is younger than regional Victoria
- Melbourne gains nine out of every 10 overseas migrants to Victoria. Most of these are young adults, aged 18 to 30
- Melbourne attracts young people from interstate; regional Victoria is a net loser of people interstate
- regional Victoria (especially those areas near to Melbourne) historically gains population from Melbourne.

¹ Department of Sustainability and Environment (DSE) *Victorian Population Projections 2004*.



Victorian councils % change in total population, 2001-11



The above map shows the impact of these factors on the projected changes for individual council populations from 2001 to 2011.

In regional Victoria:

- shire councils in western Victoria are expected to suffer significant declines in their populations. The major part of this trend comes from younger people moving for education or work to regional centres, Melbourne, and interstate
- rural shires in northern and eastern Victoria are expected to experience varied growth (some growing slowly, some remaining stable) that is generally higher than similarly remote areas in the west
- however, some rural shires expect higher population growth rates, for three main reasons:
 - those enjoying significant economic growth, for example from the expansion of grape-growing districts
 - those attracting retirees
 - areas close to Melbourne, attracting commuters seeking more rural lifestyles
- generally, regional centres have higher population growth than the rural councils nearby.

In metropolitan Melbourne:

- the highest rates of population growth are expected to be in developing outer suburbs to the west, north and south-east – and also in the centre of town. Strong elements in the central growth in Melbourne are young students and professionals, together with arrivals of recent immigrants. Growth in the outer suburbs is due more to young couples and families moving there from established suburbs
- generally, there is expected to be slow or modest population growth in inner metropolitan suburbs.

Council planning looks at changes in both total population and different age groups. This is especially important for the two groups drawing most heavily on council services – young children, and people aged over 65.

The numbers of people aged over 65 differ across Victoria. The highest proportions of the 'over-65s' are found in three areas:

- rural areas
- retirement areas along the coast
- the middle ring of suburbs around Melbourne, between the young workers and students in the inner suburbs and young families in outer suburbs.

Regional centres, and rural councils that have enjoyed recent development, typically have younger population profiles than the more remote rural councils.

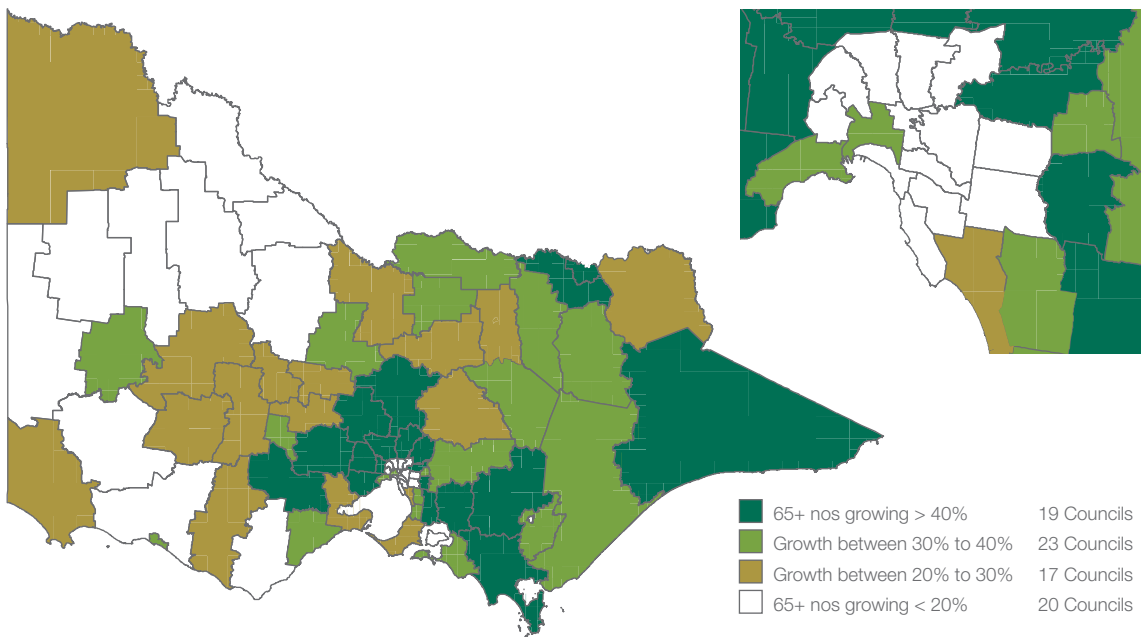
The lowest proportions of 'over-65s' occur in the rapidly developing outer suburbs of Melbourne, and also in the centre of Melbourne.

Such population changes can create challenges for councils. For example:

- rapidly growing areas create demands for additional infrastructure and services
- areas with declining populations often look to their council to encourage economic development in the area
- ageing populations seek different services from their councils.



Victorian councils % change in over 65s, 2001-11



Community satisfaction levels

A central indicator of how well councils are operating is how they are judged by their communities. Since 1998, local government and the State Government have jointly funded detailed public opinion surveys to gauge residents' views of their council. The surveys ask some 30,000 people across nearly all councils, to rate their council's performance.

The survey uses a five-point scale: excellent, good, adequate, needs improvement, or needs a lot of improvement. This scale is averaged (to an 'indexed mean') by rating these categories from 100 down to 20, with an 'adequate' performance receiving a rating of 60. Thus, a council average above 60 means residents overall have a favourable view of their council – while an average below 60 indicates more residents feel there is room for improvement.

Overall satisfaction

The central question of the survey measures residents' overall satisfaction with their council. Over the past four years, the indexed means for the five groups of councils have been:

Overall satisfaction





This chart of indexed means for each council group suggests:

- all groups of councils have maintained averages above the 'adequate' level of 60 for the past four years
- overall satisfaction is highest amongst inner metropolitan councils, with outer metropolitan councils and those in regional cities enjoying slightly lower levels of overall satisfaction. Satisfaction among residents in shire councils is lower still
- overall satisfaction has been relatively static across most groups since 2001. Each group has seen some changes, but these have generally been very small. However in 2004:
 - an improving trend in overall satisfaction is evident for small shires. This may be related to additional investment in infrastructure
 - the slight fall for inner metro councils is not statistically significant. It is difficult to know why this fluctuation has occurred – it could be just a normal fluctuation in the sample data.

The survey also asks which services have the biggest influence on residents' attitudes to their council. These differ slightly between metropolitan and regional and rural councils:

- in metropolitan areas, the strongest driver for the overall result was the appearance of public areas, slightly ahead of local roads, and recreational facilities. Economic development and town planning processes were also important
- the same five issues were also the most important drivers in regional Victoria, but with a different emphasis. Here, economic development was the most important factor, ahead of town planning and then local roads.

While the overall picture of resident satisfaction shows a fairly stable situation, this is not always the case with individual councils. Over the past four years:

- seven councils have increased their overall satisfaction index by five points or more between the 2001 and 2004 surveys; while
- another seven councils have experienced drops in their satisfaction rating by five points or more *in one year* during the period.

Where councils have suffered considerable falls in their satisfaction levels, these generally affected not only their overall satisfaction measure, but also responses on advocacy and engagement. It is also worth noting that there seems little correlation with specific council decisions such as major increases in rates.

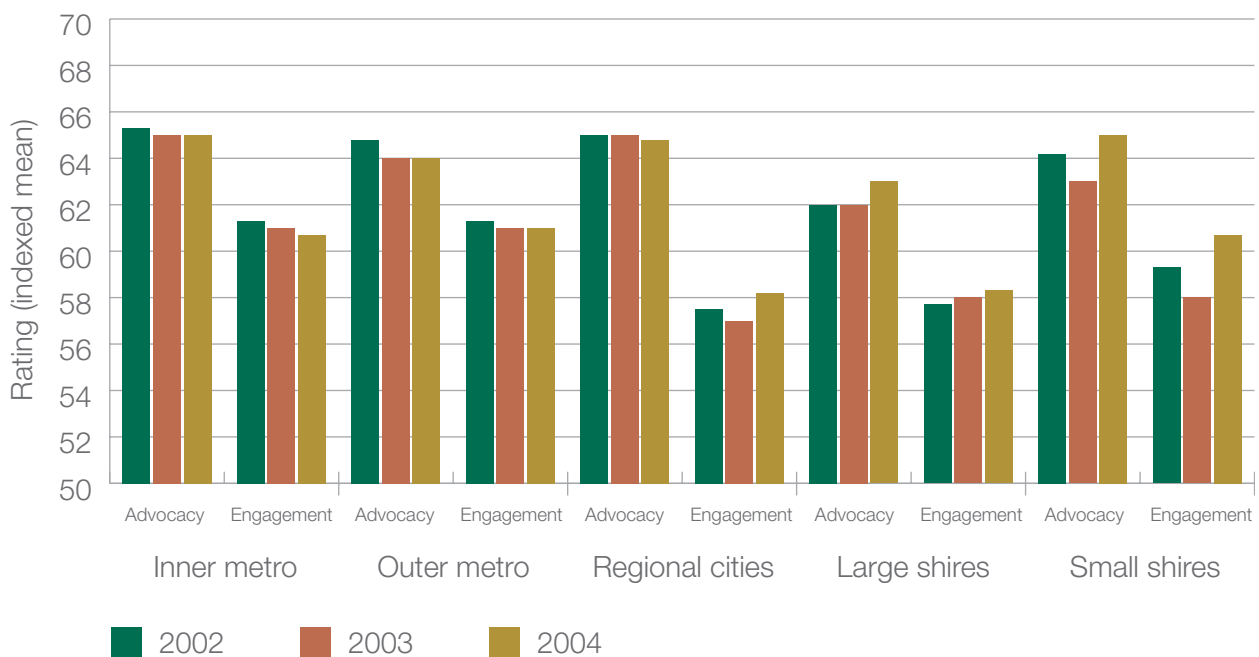
Community satisfaction levels

Advocacy and engagement

For the past three years, the survey has included questions about residents' satisfaction with two specific aspects of their council's performance:

- as an advocate and representative in dealings with other levels of government (and external groups)
- in engaging with the community (involving residents in decision making).

Satisfaction with advocacy and engagement





In terms of advocacy, the graph shows:

- metropolitan and regional cities received similar results for advocacy, with small shires slightly lower and large shires receiving lower ratings
- the figures for metropolitan and regional cities have been fairly stable for the three years
- although starting from a lower base, both large and small shires had improvements in their advocacy rating in 2004.

In comparison with the results for overall satisfaction, over these three years:

- metropolitan councils consistently received advocacy ratings of some four points lower than they did for overall satisfaction
- regional cities and large shires received similar ratings for overall satisfaction and advocacy; while
- small shires received advocacy ratings which were slightly higher than those they received for overall satisfaction.

In terms of engagement, the graph shows:

- metropolitan councils generally have received higher ratings for engagement by their residents than those in regional cities and country Victoria
- however, the ratings have been stable over the three years for metropolitan councils, while they have improved somewhat for regional cities and small shires. Small shires experienced a particularly strong improvement in 2004, their rating on this measure now matches the rating of metropolitan councils
- council ratings for engagement seem to move similarly with those for advocacy
- residents typically express less satisfaction with their councils on engagement than on advocacy. This gap is largest for regional cities (engagement seven points lower than advocacy), but also exists for all shires (gap of five to six points) and metropolitan councils (gap of four points).

While there are differences in the absolute levels of satisfaction reported in the different ratings, it appears that any movements between years are similar in the three measures.

Overall, this suggests that residents' ratings for advocacy and engagement are strongly linked to their overall satisfaction levels. That is, respondents appear to value not just the processes of advocacy and engagement, but also their results.

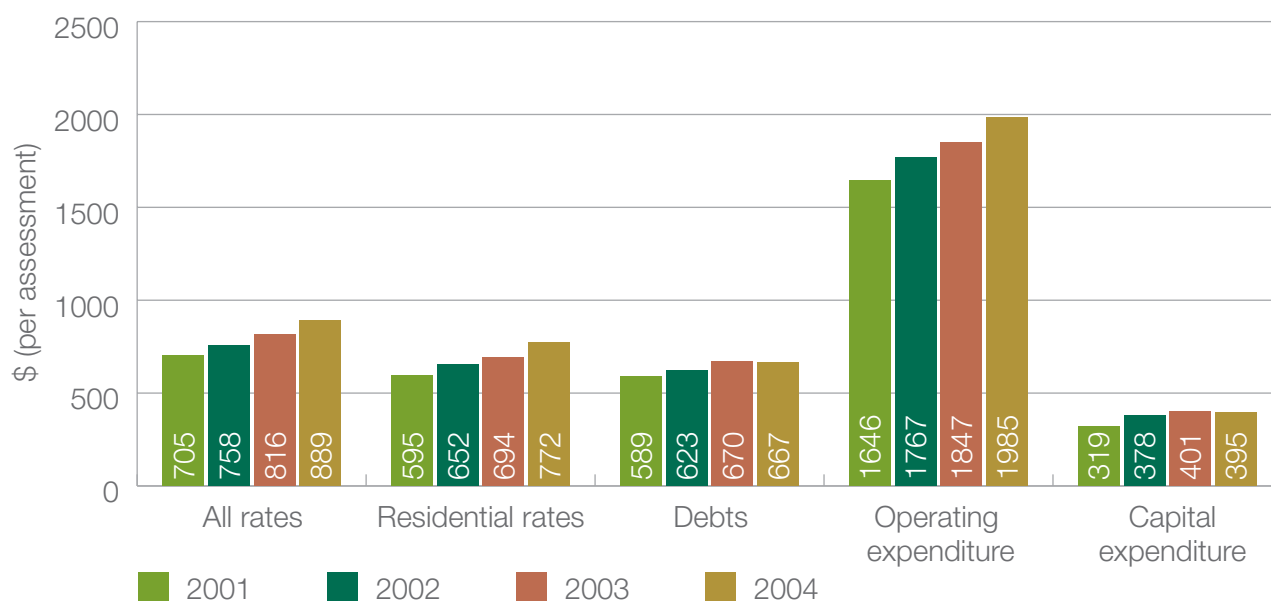
Key indicators and trends

Since 2001, councils have reported five key financial indicators in their annual reports: total rates; residential rates; the level of liabilities; operating expenditure; and capital expenditure. To assist comparison, each of the measures is expressed in terms of the number of rateable properties in the council area – or ‘per assessment’.

This section brings these indicators together for the five council groups. The discussion uses median values for each group².

All councils

Key indicators – all councils



² The median value is the midpoint of each group. For this analysis, it is a more accurate measure of ‘typical’ experience than a mean or average value, as the latter can be influenced more by unusual movements in the figures for one or more councils.



The bar chart shows the key indicators for the past four financial years across all councils in Victoria:

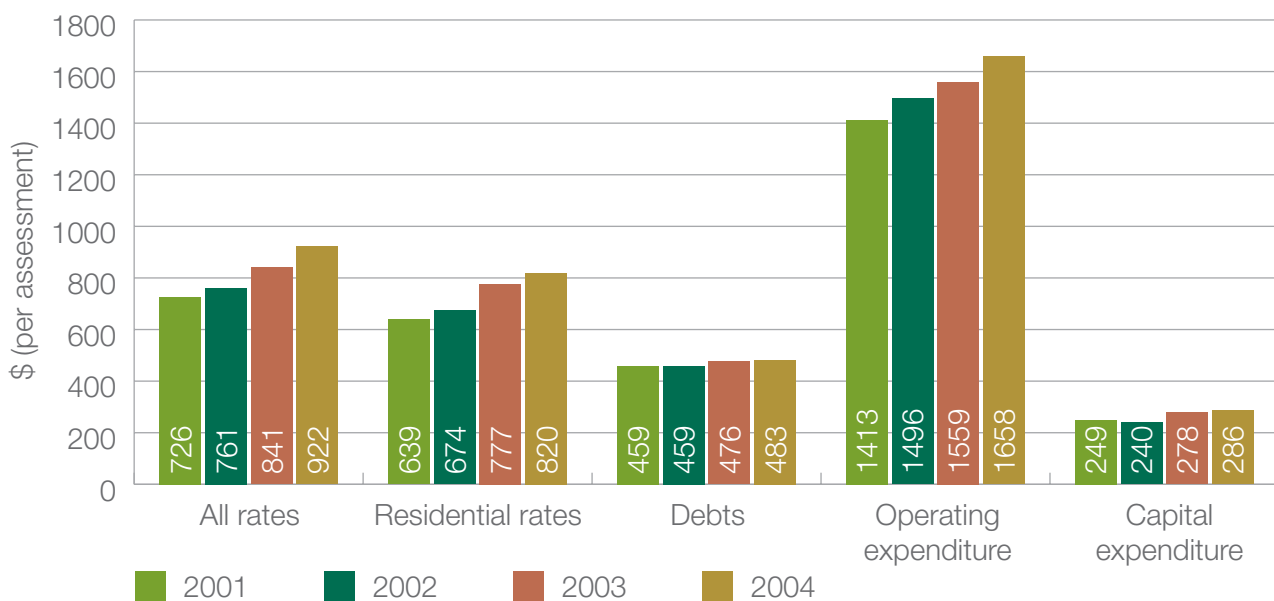
- median rates and charges increased by \$73 (9.0 per cent) in 2004,³ which was a larger increase than the 7.5 per cent and 7.7 per cent of the two previous years. Inner and outer metropolitan councils and regional cities experienced increases of close to this average (9.6 per cent, 10.5 per cent and 8.8 per cent respectively); variation was recorded in country areas with rates rising in large and small shires by 11.3 per cent and 6.3 per cent respectively
- these increases were driven by increases in median residential rates, which rose, across the State, by \$78 (11.2 per cent). Rises here increased with the remoteness of the council, with inner metropolitan councils and small shires lifting residential rates by 5.6 per cent and 13.3 per cent respectively. Overall, this increase was also larger than in previous years: 6.4 per cent in 2003 and 9.7 per cent in 2002
- council debts per assessment were stable in 2004, which contrasted with previous years, where debts increased by 7.5 per cent and 5.8 per cent respectively. There was much variation about the 2004 median, with outer metropolitan councils and small shires experiencing debt levels rising by some 10 per cent, while in large shires and regional cities, debt levels fell somewhat
- operating expenses rose by \$138 (7.5 per cent), matching the substantial increases of previous years 4.5 per cent in 2003 and 7.3 per cent in 2002. There was substantial variation about this median, with rises of 10 per cent or above for outer metropolitan councils and small shires, contrasting with little movement for large shires
- After substantial growth in the previous two years, capital expenditure fell by \$6 (-1.5 per cent). The overall fall was driven by drops of more than 10 per cent in regional cities and large shires, and occurred despite a 3 per cent rise in this indicator for inner metropolitan, a 10 per cent rise for outer metropolitan councils, and a 30 per cent rise for small shires.

The Federal Government's 'Roads to Recovery' program continued to play a major role in 2003–04 for many councils, providing funds to assist council spending on roads in both operating (maintenance) and capital works. Council funding per assessment from this program ranged from \$10 for inner metropolitan councils to \$97 for small shires.

³ For ease of presentation, '2004' refers to the data included in councils' annual reports for 2004, which give the results for the 2003–04 financial year. Similarly, '2003' refers to figures for 2002–03.

Inner metro councils

Key indicators – inner metro councils



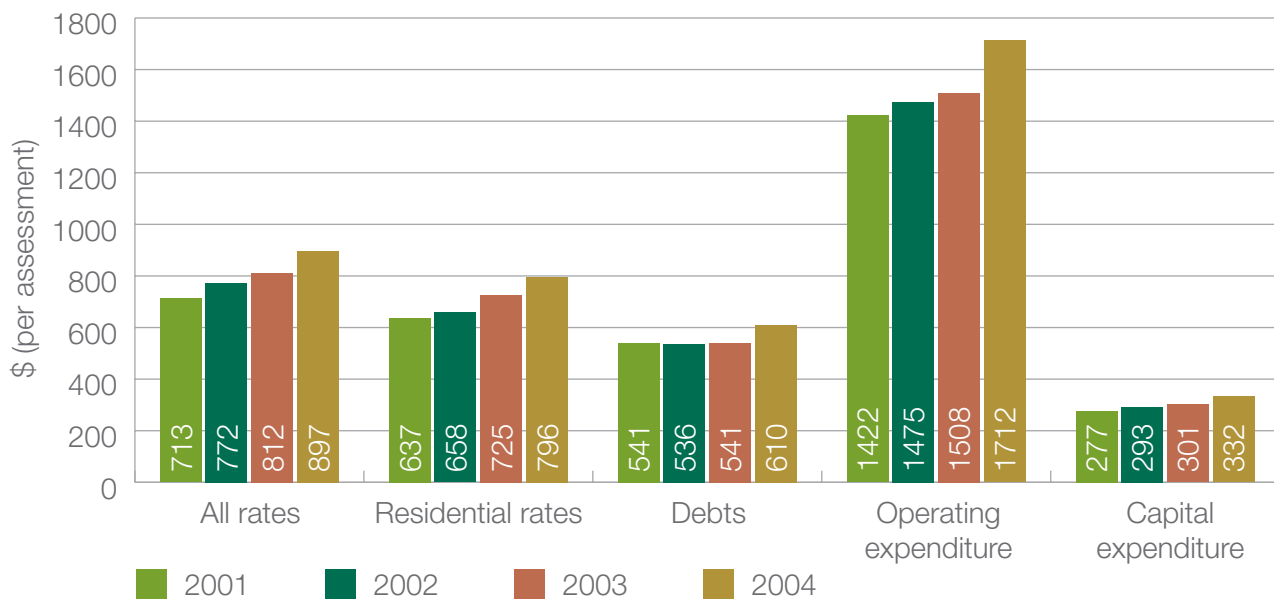
Over the three years to 2004, operating expenditure in inner councils has grown strongly, resulting in significant increases in rates. Capital expenditure has had more muted growth, while the level of debt has been fairly stable:

- median rates and charges increased by \$81 (9.6 per cent), following a similar 10 per cent rise in 2003, and a 5 per cent rise the previous year. Residential rates also increased, but by 5.6 per cent in 2004, following a 15 per cent increase in 2003
- debts increased by a marginal \$7 (1.5 per cent). This indicator has changed little over the last four years
- operating expenditure increased by \$99 (6.3 per cent). This indicator has shown an upward trend over the last four years, increasing by 4 per cent in 2003, after increasing by 6 per cent in 2002
- capital expenditure increased slightly, to \$286 (2.9 per cent). This indicator has however seen a cumulative growth of \$37 (14.9 per cent) since 2001
- the inner metropolitan councils received the lowest levels of funding from the roads to recovery program – a median of \$10 per assessment.



Outer metro councils

Key indicators – outer metro councils

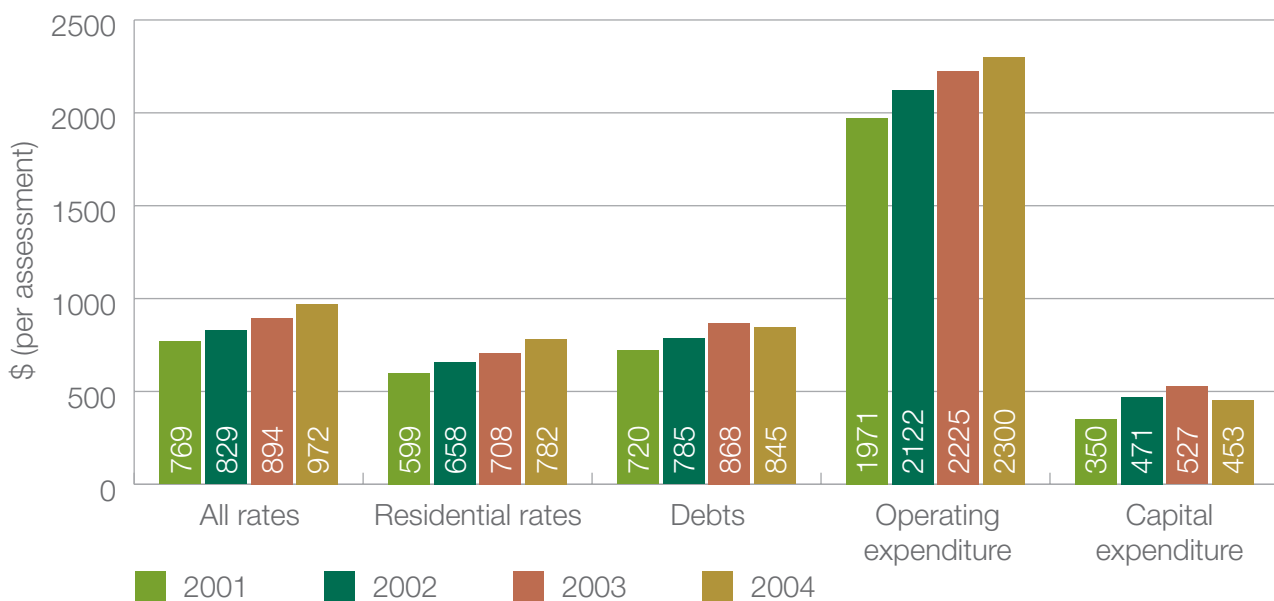


Outer metropolitan councils experienced a marked rise in operating expenditure in 2004, and capital expenditure also moved upwards. As with other councils, overall and residential rates grew strongly, and the debt levels of this group of councils grew slightly:

- median rates and charges increased by \$85 (10.5 per cent), a rise larger than the 5 per cent the previous year and 8 per cent in 2002. Residential rates increased by slightly less than the overall figure, by 9.8 per cent
- debts increased by \$69 (12.8 per cent), which contrasted with the negligible changes in the previous two years
- operating expenditure rose by \$204 (13.5 per cent), which dwarfed increases in this indicator in the two previous years (it rose by 2.2 per cent in 2003 and by 3.8 per cent in 2002)
- capital expenditure rose by \$31 (10.3 per cent), a rise which was slightly larger than the 2 per cent and 4 per cent figures of the two previous years
- roads expenditure was assisted by the Roads to Recovery program – outer metropolitan councils received a median of \$16 from this program.

Regional cities

Key indicators – regional cities



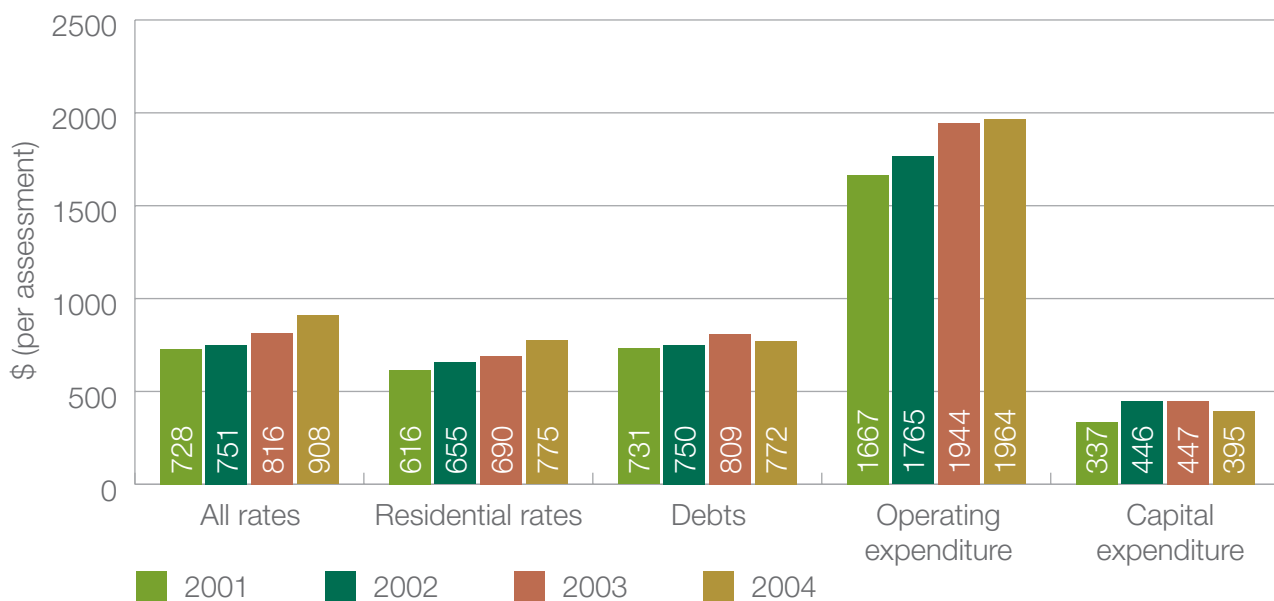
While regional cities have the highest operating costs per assessment of the five council groups, the percentage increase in 2004 was lower than for most. However, capital expenditure fell for this group:

- median rates and charges increased by \$78 (8.8 per cent), following increases of 8 per cent in each of the two previous years. Residential rates climbed by \$74 or 10.4 per cent, following rises of 8 per cent and 10 per cent in the previous two years
- debts decreased by \$23 (-2.7 per cent), which arrested the previous trend of steady 10 per cent increases
- operating expenditure increased by \$75 (3.4 per cent), which was a smaller increase than in previous years (5 per cent in 2003 and 8 per cent in 2002)
- capital expenditure decreased by \$74, arresting the trend of substantial increases of 12 per cent in 2003 and 35 per cent in 2002
- roads expenditure was assisted by the Roads to Recovery program – regional cities received a median of \$43 from this program.



Large shires

Key indicators – large shires

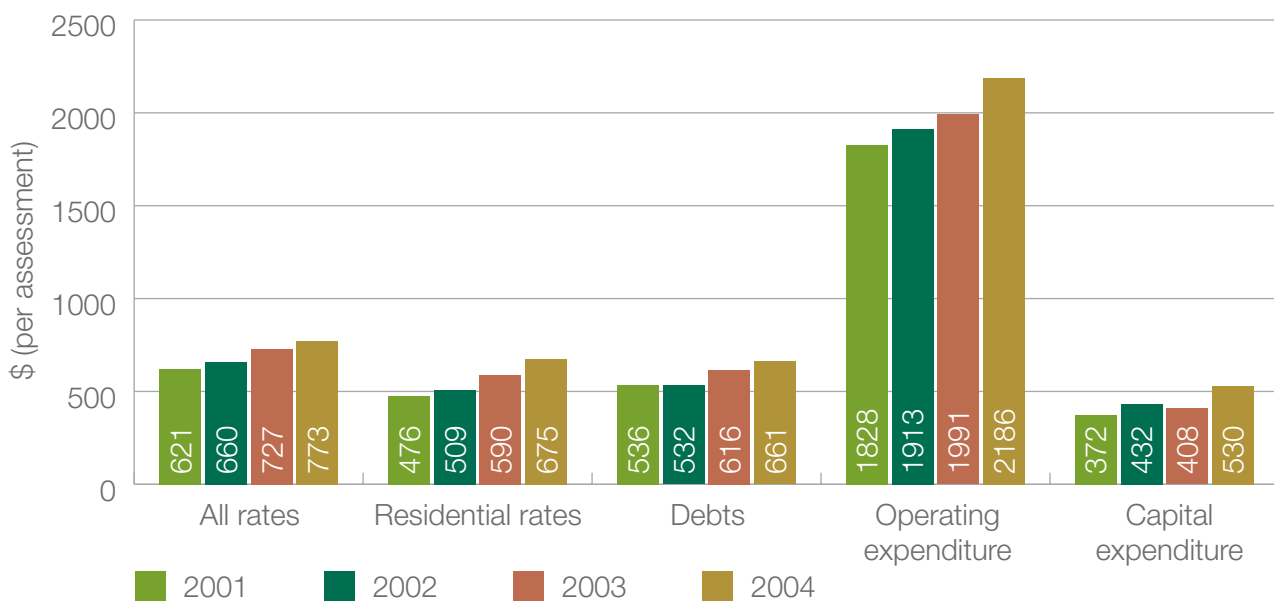


Following a big increase in 2003, large shires experienced little change in operating expenditure in 2004, and the level of capital expenditure fell. However, rates increased substantially:

- median rates and charges increased by \$92 (11.3 per cent), continuing the upward trend of this indicator (increases of 9 per cent in 2003, and of 3 per cent in 2002). Residential rates showed a similar trend, increasing by \$85 or 12.4 per cent, following increases of 6 per cent in each of the two previous years
- debts fell by \$37 (-4.6 per cent), this arrested an upward trend, with an 8 per cent increase in 2003 and a smaller 3 per cent increase in 2002
- operating expenditure rose minimally, by \$20 (1.0 per cent). This followed increases of 10 per cent in 2003 and 6 per cent in 2002
- capital expenditure fell by \$52 (-11.6 per cent), after no change in 2003 and a 33 per cent increase the previous year
- roads expenditure was assisted by the Roads to Recovery program – outer large shire councils received a median of \$69 from this program.

Small shires

Key indicators – small shires



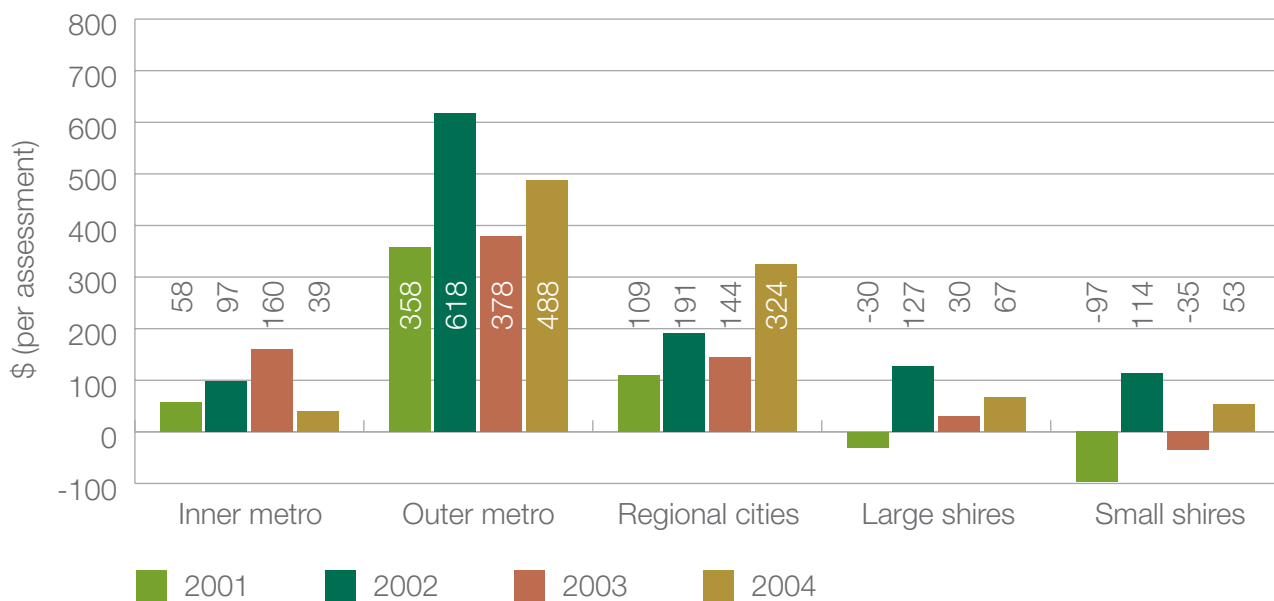
In small shires there were major increases in both operating and capital expenditure in 2004, and this spending was funded by substantial increases in rates, and a small increase in debt:

- median rates and charges increased by \$46 (6.3 per cent), following rises of 10 per cent in 2003 and 6 per cent in 2002. Rises in residential rates were considerably higher than the overall figure, with a \$85 or 14.4 per cent rise in 2004, following 16 per cent and 7 per cent increases in 2003 and 2002 respectively;
- debts increased by \$45 (7.4 per cent), a smaller rise than the 16 per cent seen in 2003 (following a negligible fall in 2002)
- operating expenditure rose by \$195 (9.8 per cent), substantially more than the 4 per cent increases in each of the two previous years
- capital expenditure rose by \$122 (30.0 per cent), continuing a major, climb in this measure
- roads expenditure was assisted by the Roads to Recovery program – outer large shire councils received a median of \$97 from this program.

Operating results



Operating results



The operating result is the financial 'bottom line' for councils. It is the net result of all operating revenues and expenses, as well as changes in the values of assets and liabilities.

The measure gives an overall picture of each council's financial health. However, because it is a comprehensive measure, it is the starting point for more detailed analysis. Annual comparisons of overall operating results can be complicated by one off or irregular financial changes. Thus:

- in 2002, most councils had strong increases in their results, but for many this was associated with substantial revaluations of council assets
- in 2003, in contrast, all councils' results suffered from a levy struck by the Local Authorities Superannuation Fund to repair a shortfall in the fund's finances.

The graph for 2004 shows:

- all council groups experienced positive overall operating results in 2004, which is a significant overall improvement since 2001, when two of the five groups had negative operating results
- with the exception of inner metro councils, the other four groups had significant improvements in 2004 compared with 2003
- several councils revalued their assets in 2004. However it appears that the effect on their operating results was less than in 2002. This could however simply be due to smaller revaluations in 2004 compared with 2002.

Infrastructure

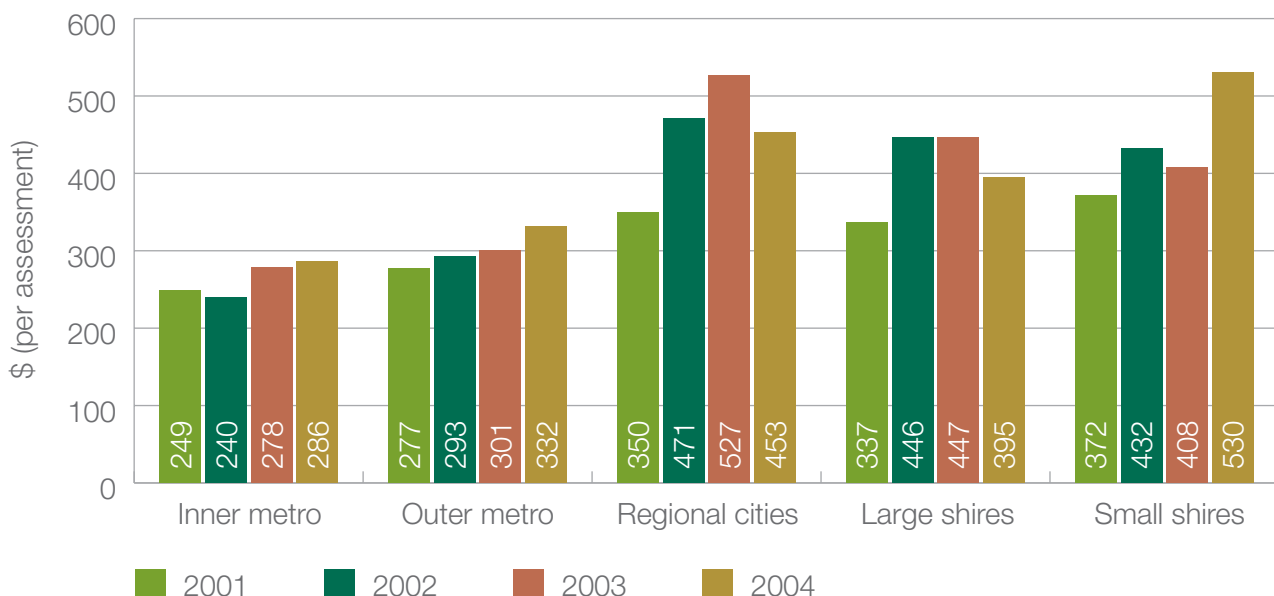
Councils have long been providing infrastructure to their communities – indeed, historically, many councils developed out of earlier Roads Boards. As noted above in the discussion of current council expenditure patterns, road costs still comprise 25 per cent of total expenditure for regional and rural councils.

The past 15 years have seen several developments in council management of their infrastructure:

- growing community concern about the state of assets – especially in situations where assets were seen to be deteriorating
- from the early 1990s, with the introduction of accrual accounting (rather than cash accounting), councils had to record all their assets on their balance sheet, and allow for annual depreciation in their operating results
- in the late 1990s, the State Government commissioned a detailed infrastructure study asking councils to estimate what maintenance and renewal would be required in future
- more recently, the Government, peak bodies and councils have been working together to improve systems and processes to create more accurate asset registers and asset management plans.

While capital expenditure overall has fallen slightly for the past year, since 2001, councils have been increasing their total capital expenditure in response to these developments. This is shown in the following bar chart, which brings together the data from the council groups discussed above.

Capital expenditure





Overall, this chart shows

- capital spending per assessment grows with the distance from central Melbourne, and regional and rural councils spend significantly more than the metropolitan councils. This result generally matches the pattern of road lengths across the State – although regional cities have higher spending than shires in most years
- over the four years, capital spending has increased in each council group, although there are some variations:
 - metropolitan councils have experienced modest growth in capital spending
 - regional cities and large shires had significant growth to 2003, but both had declines in spending in 2004; while
 - small shires have had the strongest growth across these four years, with a noticeable increase in 2004.

This gives an encouraging picture – councils are spending more on their capital assets. However, it is also necessary to consider how this expenditure compares with the level required to sustain assets. Councils report two measures of this in their annual reports:

- the level of expenditure on asset renewal, presented as a percentage of the expenditure considered necessary to sustain the current assets
- the level of expenditure on renewal, together with maintenance, again as a percentage of the desired level.

The graph compares the results for the five council groups over the past three years.

Expenditure on asset renewal, and renewal and maintenance



These figures show some volatility between the years with, for example the renewal results for regional cities falling from 42 per cent in 2002 to 29 per cent in 2003 and then recovering strongly to 58 per cent in 2004. Not only are these figures volatile – but the trend also conflicts with that in capital spending, which for these councils showed a strong increase in 2003, followed by a decline in 2004.

Such patterns occur in other groups as well – and the results for individual councils can vary dramatically from year to year.

The key to this picture appears to be that council views of what is required to sustain their assets change as their information and asset management systems improve. The sustainability requirements can change either way – increasing as councils include additional assets, or decreasing as ways of sustaining assets improve (and costs decline).

While this factor gives qualification to the figures, the graph does provide an overall picture:

- most council groups have experienced improvement in the renewal proportion from 2002 to 2004 – although the outer metropolitan group is a marked exception
- there has been less movement in the renewal plus maintenance proportion, which has been fairly stable in the 70–80 per cent range for most groups.

A range of programs now exists to assist councils to make further improvements in their asset information and management systems.

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