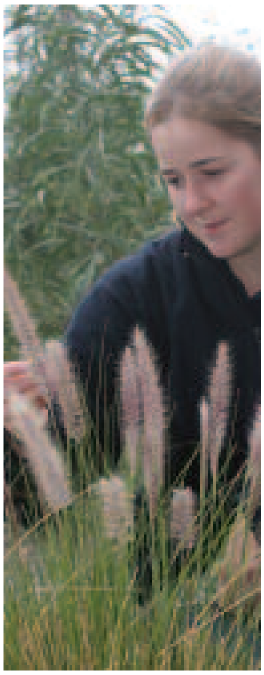
Local Government in Victoria 2005



Department for Victorian Communities

A Victorian Government initiative

Victoria
The Place To Be

Map of Victorian local government areas

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Minister's foreword

I am pleased to present *Local Government in Victoria 2005*. Since its inception in 2001, this report has provided a valuable source of information about local government in Victoria. This yearly report presents a range of information.

The first part of the report provides an overview of key features of local government in Victoria.

The second part highlights some of the actions local governments have taken to support and build stronger communities. We know that stronger communities produce better results to the people who live in them. As the level of government closest to the community, local government has a pivotal role to play in sustaining strong communities. A number of Victorian local government actions in this area have been recognised in nation wide awards and these are outlined in this report.

The final sections of the report discuss the Victorian Local Government Indicators. These indicators were developed in consultation with Victorian local governments and are reported annually in each council's annual report. They include community satisfaction, rates, debts and expenditure as well as operating results and infrastructure renewal.

I am pleased to see that these indicators show that while council's debt levels have remained stable, rates generally rose more slowly in 2005 than in the two previous years. Most councils have used part of these increases for substantial boosts in their capital expenditure.

Candy Broad MLC
Minister for Local Government

Contents

Overview of local government in Victoria

Local government is the third tier of government in Australia. Victoria has seventy nine councils providing governance, leadership and a wide range of services to five million people. While there are common themes across the sector, there are also considerable variations in how councils provide these services to their communities.

One obvious variation is the differences in the size of councils. In area, the smallest council in Victoria is Queenscliffe (8 square kilometres), while the largest is Mildura (22,000 square kilometres). The population range is from 3,250 people (Queenscliffe again) to 210,000 (Casey).

Communities also differ in what they want from their councils. The annual community satisfaction survey, which is discussed in more detail below, asks respondents which services have the biggest impact on their overall opinion of their council[1]. Results differ somewhat between metropolitan and regional councils:

- In metropolitan areas, the greatest influence on opinion for the overall result in 2005 was town planning, followed by local roads and recreational facilities. Economic development and the appearance of public areas were also important.
- Town planning was also a key influence in regional Victoria, but shared top billing with economic development. Local roads were next in importance, with recreational facilities and the appearance of public areas of lesser importance.

Local council responses to such agendas from their communities are influenced by a range of factors, including size, growth, their financial situations and the decisions councils themselves make.

The 31 metropolitan councils have average populations of 116,000, four times the average of 29,000 for the 48 councils in regional and rural Victoria.

	Number of councils	Average population size	Growth rate per year
Inner central	4	76,000	1.8%
Other inner metropolitan	13	119,000	0.1%
Outer metropolitan	14	125,000	2.2%
Regional cities	11	64,000	1.3%
Large shires	15	28,000	1.5%
Small shires	22	11,000	0.6%
Total	**79**	**62,000**	**1.2%**

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

1 Newton Wayman Chong (August 2005) *Annual Community Satisfaction Survey 2005 – Research Results* report for Local Government Victoria, p V

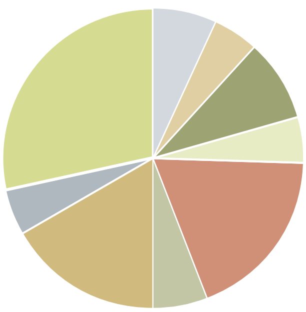
- In the metropolitan area, the four inner city councils (Melbourne, Port Phillip, Stonnington and Yarra) have smaller resident populations, but are seeing considerable growth with inner city development.
- Other inner metropolitan councils have a similar size to the outer metropolitan councils, but the former have stable (and in some cases falling) populations, while many of the latter have to respond to considerable development.
- 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). Both regional cities and large shires are seeing population growth, although this varies within each group. Many small shires have declining populations, although some (especially those near to Melbourne and Geelong) are seeing strong growth.

Councils face differing demands from these variations in population sizes and growth. The following charts give the components of total recurrent council expenditures in 2002-03, showing differences in expenditure emphasis between councils.

The key differences in emphasis on expenditure are:

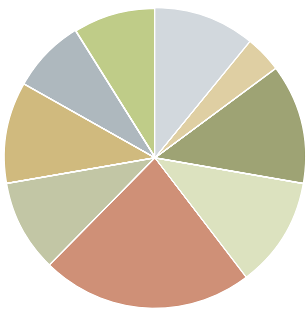
- The four inner city councils provide services to a greater concentration of business ratepayers. With the major Melbourne business centre, these councils spend almost half of their budgets on business services and traffic and street management. They also have small proportions of older people – although, as discussed later in this report, some are seeing strong growth in their numbers of children.
- Other metropolitan councils have an emphasis 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.

Expenditure, four inner central councils



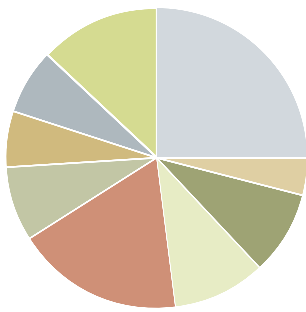
Roads	7%
Governance	5%
Families and Community	9%
Aged Services	5%
Recreation and Culture	19%
Waste Management	6%
Traffic and Streets	17%
Other Infrastructure	5%
Business Services	29%

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%

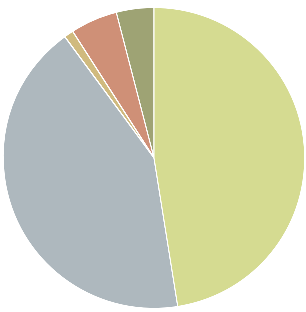
Source: Victoria Grants Commission data, 2002–03 financial year. The data is compiled from each council's data return to the VGC of "total recurrent expenditure"

- Regional and rural councils have considerably greater road lengths per person – and associated infrastructure issues – than their metropolitan peers. Roads comprise 25 per cent of total expenditure for this group and this emphasis increases the more rural the council is, to 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.

The charts below show total recurrent revenues for 2002-03. The key differences in revenue patterns between the council groups are:

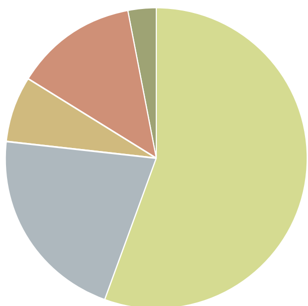
- For all three groups, rates are the most important single source of revenue. However, the rates proportion of total revenues differs, ranging from 55 per cent for other inner metropolitan councils, 47 per cent for the inner four councils and 41 per cent for regional and rural councils.
- The four inner 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. Outer metropolitan councils also receive many assets such as roads as part of new developments.
- 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).

Revenues, four inner central councils



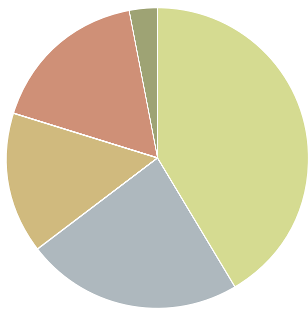
Rates	47%
Charges, fees and fines	42%
General Grants	1%
Specific purpose grants	5%
Other	4%

Revenues, other metropolitan councils



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

Revenues, 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. The data is compiled from each council's data return to the VGC of "total recurrent revenue"

Supporting local communities

Local councils have long played important roles in developing their communities. This occurs across a wide range of activities, from voicing community concerns, helping communities to plan for their future, building community infrastructure such as roads and drainage and providing services that improve community health and welfare.

This section discusses two aspects of this role that were prominent in 2005: community strengthening and services for families and children. In each area, council initiatives were recognised in the National Local Government Awards.

Building active, confident and resilient communities

A Department for Victorian Communities publication argued that

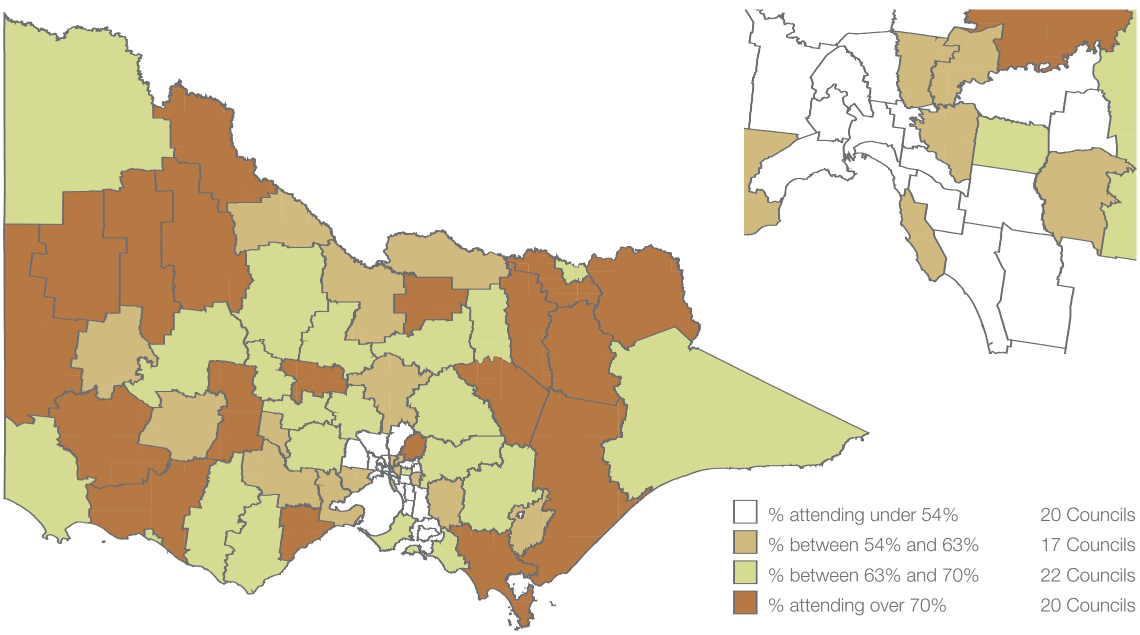
> "stronger communities produce better results for the people who live in them. For example, we now know that in stronger communities young people stay at school longer and are more likely to have a job. We also know that people who participate in activities like volunteering, are likely to be happier and healthier. Conversely, where people are isolated and lack social support, they are at higher risk of disease."[2]

The Department for Victorian Communities (DVC) has recently been studying the pattern of community involvement across Victoria, looking at a range of indicators in four broad categories: a secure future; access to local services and facilities; pleasant local environments; and opportunities to participate.

The research stresses that there is no one measure that gives an overall picture of community involvement and maps a range of measures across Victoria. The following map[3] uses one of these: the percentage of the population that have participated in a community event in the last six months.

This indicator shows higher levels of community activity in rural areas of Victoria than in regional centres, with still lower levels in metropolitan Melbourne. However, there is considerable variation within each group, indicating the important role of local initiatives taken by councils and community organisations.

Map 1: Victorian councils % attending community events in last six months



2 Department for Victorian Communities (DVC, May 2005) *Indicators of community strength at the Local Government Area level in Victoria* Ministers' Foreword

3 DVC 2005 p18

Local government initiatives

Four Victorian council projects to support strong communities won 2005 National Local Government Awards.

The Hume Global Learning Village

The Hume Global Learning Village received the National Award for Excellence in 2005. It is the first example in Australia of a whole-of-community approach to encouraging learning as a key factor in economic development.

The project is a collaboration of Hume City Council, Ford Motor Company, The Age newspaper with other community, education and business groups.

Hume City Council's Council Plan stresses the importance of Lifelong Learning and Employment Opportunities in addressing social and economic disadvantage.

The long term benefits to the council, its community and businesses from this project include:

- The community is offered and given support for, a wide range of learning opportunities.
- Businesses benefit from better communication networks and the opportunity to easily access a raft of information relevant to their business operations, including contact with major corporate partners such as the Ford Motor Company.
- Hume City Council is able to leverage better outcomes for the community through the close collaboration of learning providers and supporters.

Wangaratta Rural City Council Community Meals for Older Women

The ‘Adopt a Friend’ project provides improved access to social and recreational pursuits, combining proven strategies in health promotion, preventative and harm minimisation. The project has a principal focus on older women, including those from culturally diverse communities and tackles social isolation and the risk for some of becoming problem gamblers.

The project centres around nutritious meals in social settings, combined with some gentle stretching exercises. It has achieved improved social connectedness and a sense of belonging leading to increased community participation and networks of friends.

Hobsons Bay City – Yarrabah Aboriginal Community Friendship

Based on the Sister City program adopted by many local councils, Hobsons Bay initiated a ‘friendship’ relationship with the Yarrabah Aboriginal Community in North Queensland. The project aims at promoting learning and understanding between the two councils.

The Yarrabah community visited Hobsons Bay in 2003, with a reciprocal visit to the north in 2004. Hobsons Bay then contributed its resources and expertise to assist the community on two projects: the building of a jetty and the development of a framework for new business and tourism opportunities.

City of Greater Dandenong: Youth Participatory Leadership Program

The Program aims to provide young people with opportunities to build their confidence, attain valuable life skills and participate in their community. It incorporates leadership training, one-on-one mentoring for young people and the development of a youth-driven community project.

Mentors for the young people come from business, community groups and the council. The mentoring centres on particular tasks and skills development. It encourages young people to participate in local business and to develop community support for young people’s ideas and goals.

As well as broad initiatives to support local communities, local government also provides a wide range of services for specific groups in the community. The next section illustrates these services, in discussing services for families and children.

Services for families and children

In the 2002-03 financial year, Victorian councils spent $391 million on services to families and children. This represented 11.5 per cent of total annual expenditure of $3.4 billion. Three major services accounted for much of this expenditure: Maternal and Child Health (including immunisation); Kindergartens; and Child Care.

This section discusses three aspects of these services:

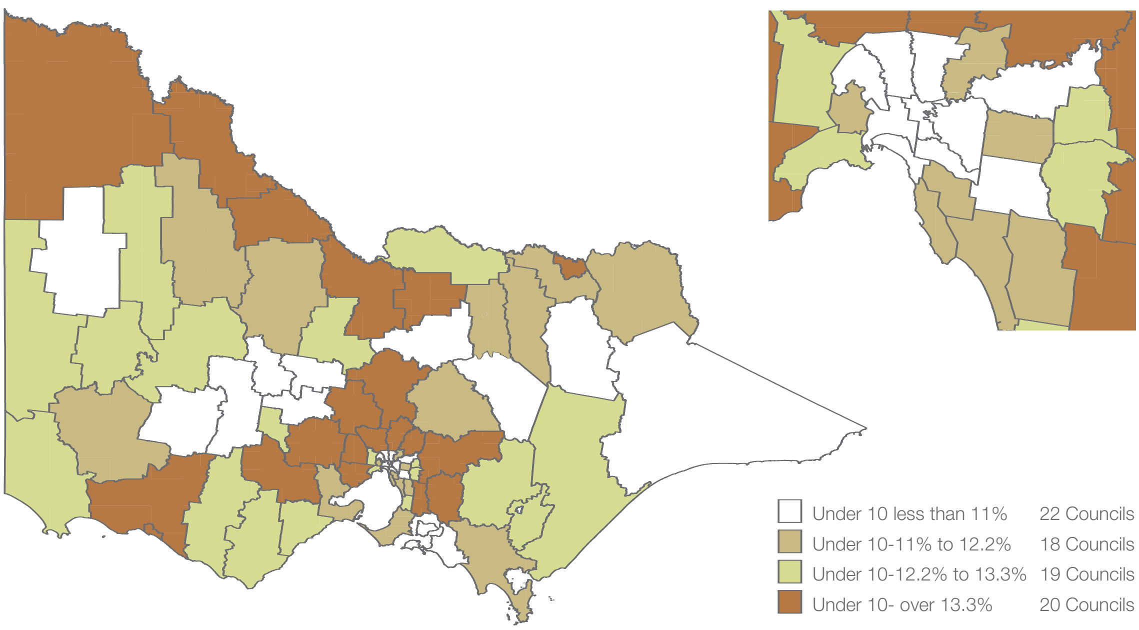
- trends in the numbers of children across Victoria
- local government partnership with the State Government in the new Statewide Plan for Children
- two examples of recent local government initiatives in this area.

Trends in children numbers

In providing services to families and in taking up the challenges of the Statewide Plan for Children, councils have to deal with their local experience of these patterns, not the state-wide experience. The two maps in this section show that the proportions of children vary somewhat across Victoria and that the trends over the next ten years vary dramatically.

The following maps use figures for age groups 0 to 9, based on the Department of Sustainability and Environment's (DSE) population projections.

Map 2: Victorian councils % of population aged under 10 – 2006



Children aged under 10 (ie combining the DSE 0-4 and 5-9 groups) are expected to number 614,000 in June 2006. This will be 12.1 per cent of Victoria's population of 5.08 million.

Map 2 shows the proportion of the population aged under 10 for each council. There are a number of broad patterns at work.

In metropolitan Melbourne:

- The inner suburbs of Melbourne have very low numbers of children. This is primarily due to the concentration in these suburbs of young people in their twenties, both students and young workers. Much of the housing here is flats and apartments – and families with young children generally prefer to have houses with backyards.

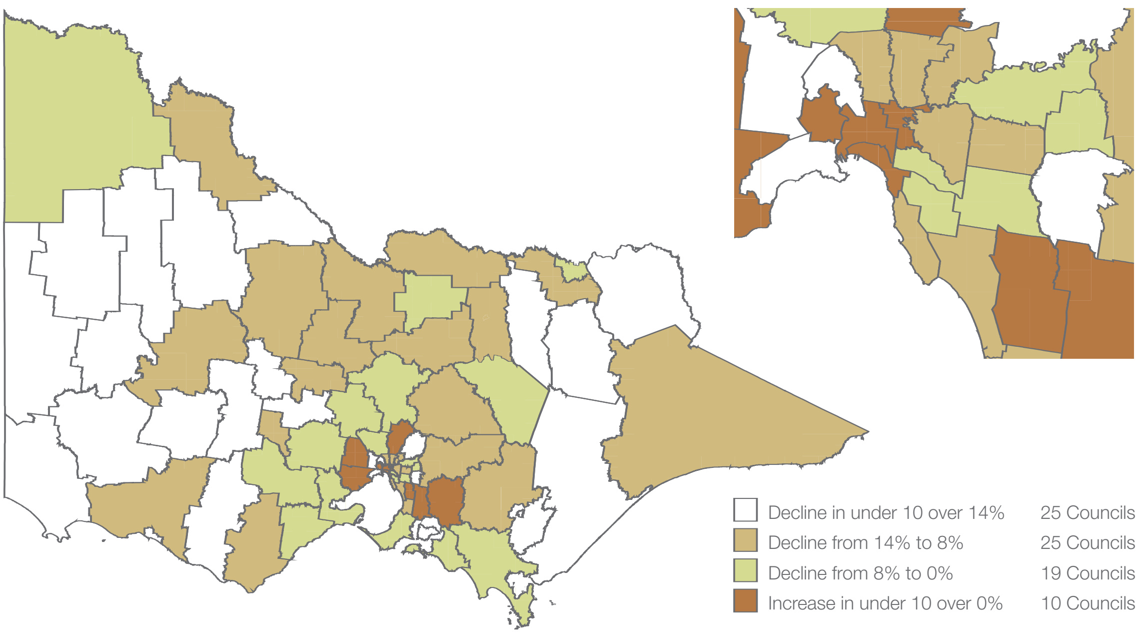
- The next ring of suburbs are also below the State average for children – but here it is because the population is ageing and so has a high proportion of older people.
- The developing suburbs on the urban fringe have many more children, several councils with proportions over 15 per cent.

In regional Victoria

- Many areas with declining or static populations have lower than average proportions of children.
- Councils with stronger population growth, such as along the Murray and near Geelong, attract young families and have higher proportions of children. Coastal councils in western Victoria also have above average proportions of children.
- However, some councils (such as Bass Coast and East Gippsland) have growing populations but low proportions of children. Much of the population growth here is comprised of retirees.

Over the next ten years, to 2016, while Victoria's total population is expected to grow by 10 per cent, the number of children aged under 10 is projected to fall. In 2016, children aged under 10 will be 10.6 per cent of Victoria's population of 5.58 million.

Map 3: Victorian councils % change in population aged under 10 – 2006 to 2016



Map 3 shows the forecast percentage changes in the number of children across the State in the next ten years. There are marked variations around the State average decline of 4.2 per cent.

The strongest patterns are:

- The largest falls are in councils facing falling populations, as these councils are ageing considerably and many young families are looking elsewhere for job prospects. This is marked in regional councils in much of western and eastern Victoria and also in some developed areas of Melbourne.
- Areas with stronger population growth are seeing smaller falls in the number of children. In regional Victoria, this occurs in councils such as Mildura, Greater Shepparton, Wodonga and Surf Coast.
- The fastest growing areas around Melbourne will see strong growth in the numbers of children. Both Melton and Cardinia will see 50 per cent increases in their numbers in the next ten years.

- Children's numbers will also increase in central Melbourne, with the City of Melbourne itself seeing a 65 per cent increase and smaller increases in Port Phillip and Yarra. This reflects a pattern of young professional couples who have lived in inner suburbs for a while wishing to stay in those suburbs once children arrive.

Big ideas for small kids

Local Government has played a major role in the first year of the Government's Statewide Plan for children. Announced in December 2004, the Statewide Plan aims to better integrate education, health and child care services for children and young families.

Launching the Plan, Premier Steve Bracks said the Government would be working closer with local government and

> "will give effect to this approach by strengthening the role of Municipal Early Years Plans and sharing best practice in this area through the Statewide Plan for Victoria's Children. Greater local control over children's services will be achieved through local councils, not another level of government bureaucracy."[4]

Local government initiatives

The diversity of experience and trends outlined above creates challenges for local government, both in traditional family and children's services and in the new State Plan. Two good examples of responses in the children's services area from councils were recognised in the national Local Government Awards in 2005. Hume City Council won the Health Services Award for its Child Safety Video and the St Arnaud Children's Precinct, run by Northern Grampians Shire Council, won the Valuing and Promoting Quality Child Care Award.

Hume City Council child safety video

As part of a child safety program, Hume offers first-time parents a video/DVD "Guide to Baby Safety". The 20 minute presentation gives tips to assist with important purchase decisions and offers hints for nursery furniture, child car restraints and around the home.

The video was developed by the council's child safety program with input from a wide range of specialist safety agencies and local health professionals. The Department of Human Services contributed funding for the project and childbirth educators are now using the video right across Victoria.

Northern Grampians Shire St Arnaud children's precinct

Council community consultation in the St Arnaud area identified lack of access to child care as a key constraint on economic development, both for farm-based families and for encouraging more skilled and professional employment. The Council tackled this constraint jointly with the State Department of Human Services and local community groups.

The precinct opened in February 2005 with funding from all levels of government and the community. A key part of the precinct, the 'Children's Hub' includes a 30 place long day care facility, a maternal and child health centre, specialist children's services, outside school hours coordination, family day care coordination and a 45 place preschool.

The precinct has created direct jobs for 10 staff and has provided wider benefits to parents and the business community. A community favourite in the 'one-stop children's shop' is the ability to place a child into preschool with the availability to transfer into child care.

4 Government response to Premier's Children's Advisory Committee Report *Joining the Dots: A New Vision for Victoria's Children* 16 December 2004

Community satisfaction levels

A community's judgement is a central indicator of how well a council is operating. Since 1998, local government and the State Government have jointly funded detailed public opinion surveys to gauge residents' views of their councils. The surveys ask some thirty thousand 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 five years, the indexed means for the five groups of councils have been:

Overall satisfaction with council performance

All groups of councils have maintained averages above the 'adequate' level over the past five years and the figures show remarkable stability over this period. There can be small year-to-year movements, as seen for example in the drop in the mean for inner metropolitan councils in 2004, which was reversed in 2005. Such variations are not uncommon in statistical series and are not statistically significant.

In 2005, one third (33 per cent) of respondents said that they have seen recent improvement in their council's performance. This compares with the 10 per cent of respondents who believe they have seen deterioration in performance – a healthy balance in favour of improvement. These figures also indicate continuous ongoing improvement, as this performance measure takes account of increasing expectations[5].

There has been some variation between the groups, with higher ratings for inner metropolitan councils (an indexed mean averaging 69) and lower ratings for large shires (62) and small shires (63). These overall results reflect differing opinions on performance in key service areas.

5 Newton Wayman Chong (August 2005) *Annual Community Satisfaction Survey 2005 - Research Results* report for Local Government Victoria, p II.

In four major areas, the proportion of metropolitan respondents happy with their council's performance was higher than that in regional Victoria:

- local roads and footpaths (65 per cent satisfied for metropolitan compared with 50 per cent for regional)
- recreational facilities (84 per cent for metropolitan compared with 78 per cent for regional)
- waste management (86 per cent for metropolitan compared with 80 per cent for regional)
- economic development (79 per cent for metropolitan compared with 70 per cent for regional).

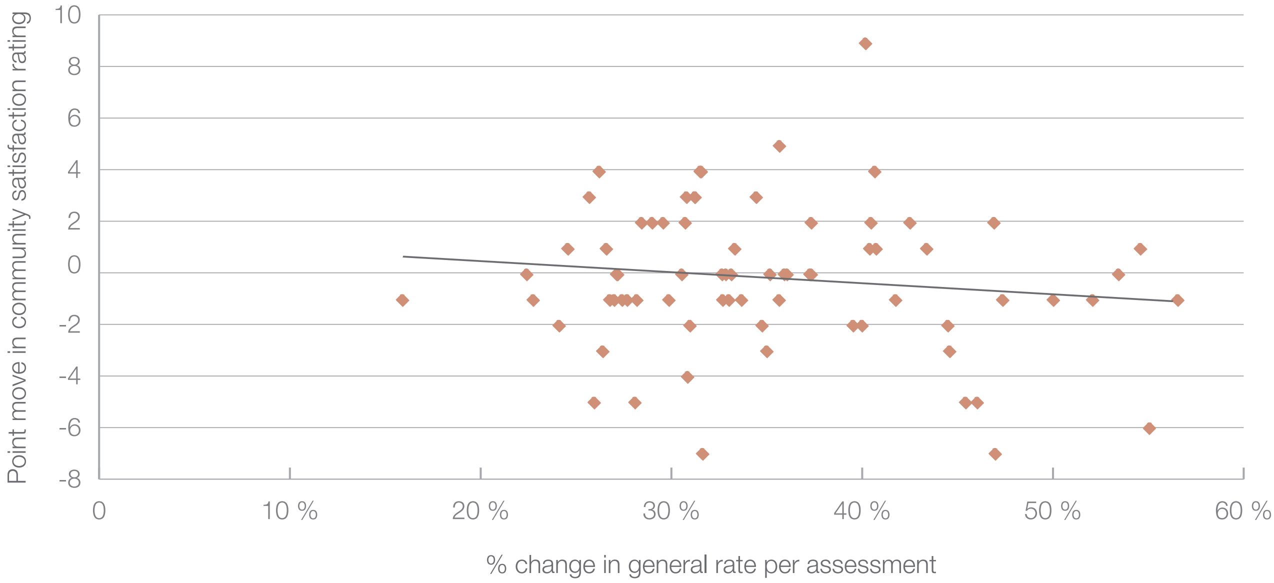
In some other areas, satisfaction was somewhat higher amongst regional respondents, although the differences were smaller:

- health and human services (88 per cent for regional and 86 per cent for metropolitan)
- appearance of public areas (81 per cent for regional and 77 per cent for metropolitan)
- traffic management and parking facilities (69 per cent for regional and 65 per cent for metropolitan)
- enforcement of By-laws (81 per cent for regional and 78 per cent for metropolitan)[6].

As with the overall ratings, these patterns have remained fairly stable in recent years. To see what factors have influenced any changes that have occurred in the satisfaction ratings over the five years requires looking in more detail at the figures.

The starting point is to note that there is little relationship between movements in the satisfaction rating and the extent to which the council has increased rates.

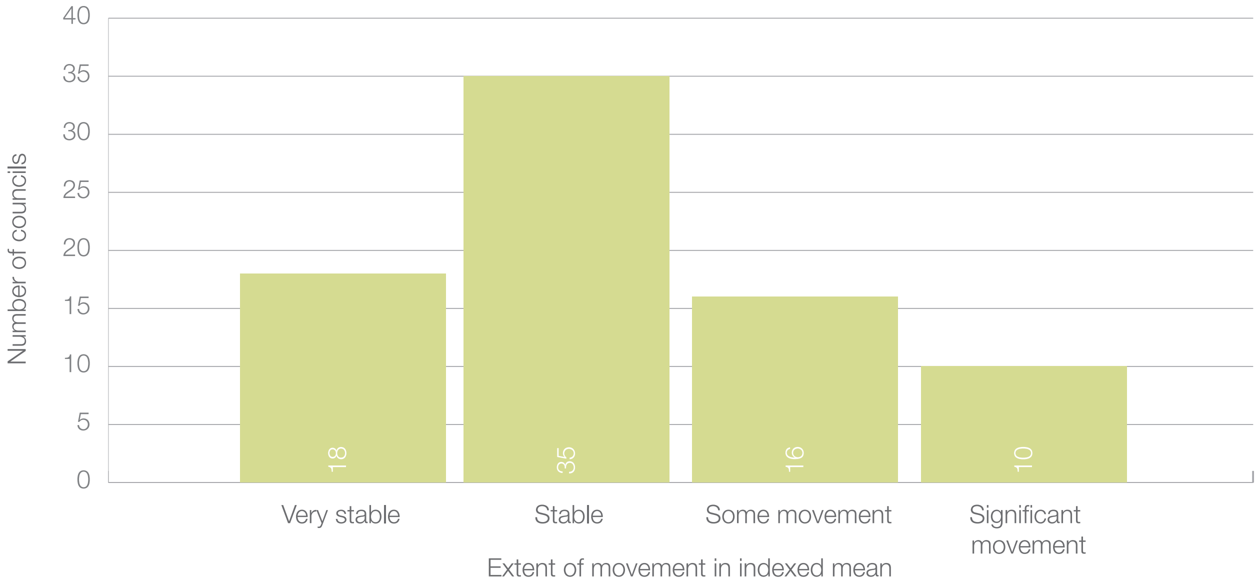
Increases in rates and changes in community satisfaction 2001 to 2005



This graph maps each council's movement in its indexed mean from 2001 to 2005 against the percentage change in its general rate per assessment over those years. The trend line shows there is some relationship between the two, but the variation around the line indicates that the relationship is not at all strong. Some councils with large rate increases did see falls in community satisfaction – but others also with large rate rises increased their satisfaction ratings.

6 Newton Wayman Chong 2005, pVI

Movements in satisfaction ratings 2001 to 2005



A more fruitful avenue of analysis is to note that on the above graph most councils saw very little movement in their overall ratings, being clustered between movements up or down of +2 to –2 points on the indexed mean. This impression is illustrated further in the graph above:

The chart groups councils into four categories:

- 18 councils were very stable, meaning their indexed mean moved by less than 1 or 2 points over this period[7]
- 35 councils were stable, with a difference of between 3 and 5 points between their lowest score in any year and their highest score in any year
- 16 councils saw more extensive movement, with differences of between 5 and 7 points between their lowest score in any year and their highest score in any year
- only 10 councils saw significant movement, with differences greater than 7 points (the council with the largest movement saw its rating improve dramatically, from 55 in 2001 to 71 in 2004).

The ten councils seeing major movements included six small shires, two large shires, one regional city and one inner metropolitan council. There were two distinct movements in this group:

- For two councils, Benalla and Mansfield, satisfaction ratings climbed considerably after the splitting up of the former shire of Delatite, which had suffered from discontent between the two areas.
- Most other councils saw major drops in community satisfaction in one, or sometimes two years, followed by recoveries in subsequent years. These changes tended to be associated with either the council:
  - facing financial difficulties, which it subsequently worked its way out of
  - experiencing major internal disputes and disaffection.

These factors also influenced more detailed ratings of community satisfaction.

7 The graph was generated based on the more rigorous method of analysing standard deviations, with very stable less than 1.0, stable 1.0 to 2.0, some movement 2.0 to 3.0 and significant movement a standard deviation above 3.0. These groups correspond well with the more descriptive categories given in the text.

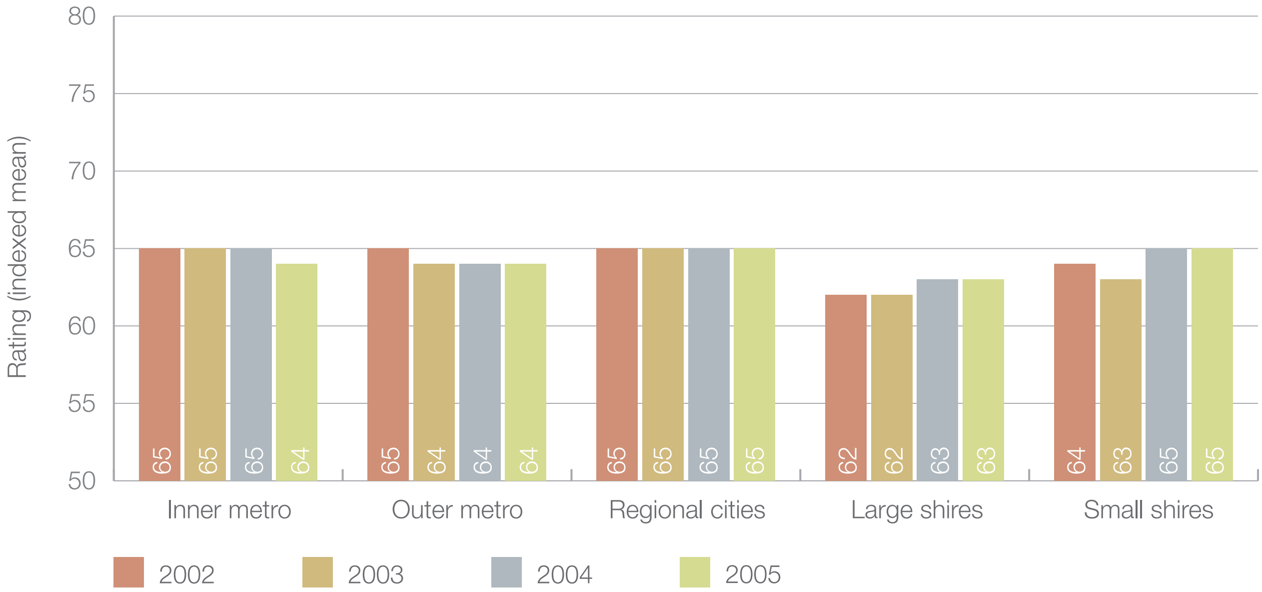
Advocacy and engagement

For the past four 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).

The following graphs show the indexed means for residents' responses since 2002.

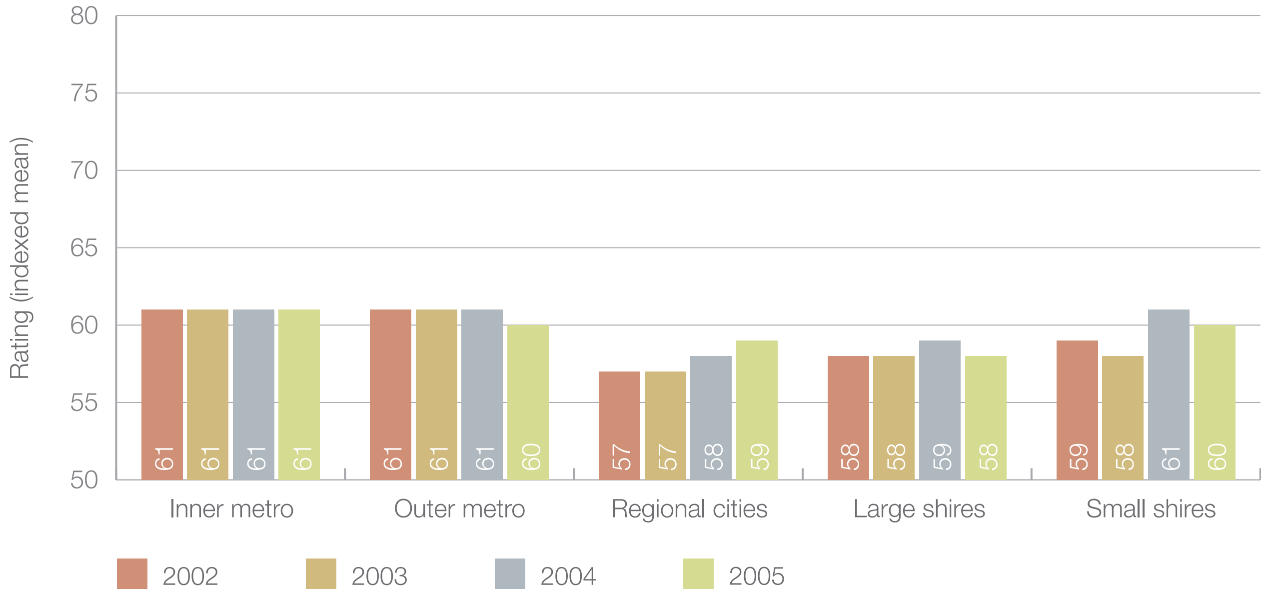
Satisfaction with council performance on advocacy



In advocacy:

- Inner and outer metropolitan councils and regional cities, have had ratings consistently at the 64-65 level, with minimal movement over these four years.
- Large and small shires have seen slight improvements, up to 63 for large shires and up to 65 for small shires.
- In comparison with the results for overall satisfaction, over these four 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
  - small shires received advocacy ratings which were slightly higher than those they received for overall satisfaction.

Satisfaction with council performance on engagement



For engagement, the graph shows:

- Metropolitan councils receive higher ratings for engagement by their residents than those in regional cities and country Victoria.
- However, the ratings have been stable over the four years for metropolitan councils, while they have improved somewhat for regional cities and both large and small shires.
- With the exception of regional cities, broad 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 larger in regional Victoria (engagement five to six points lower than advocacy), but also exists for metropolitan councils (gap of four points).

Some differences are reported in the absolute levels of satisfaction for the different ratings of overall satisfaction, advocacy and engagement. However, it appears that any movements between years are similar in the three measures – and this applies to individual councils as well as the group results.

This suggests that residents' ratings for advocacy and engagement are strongly linked to their overall satisfaction levels and overall perceptions of the council.

Trends in performance

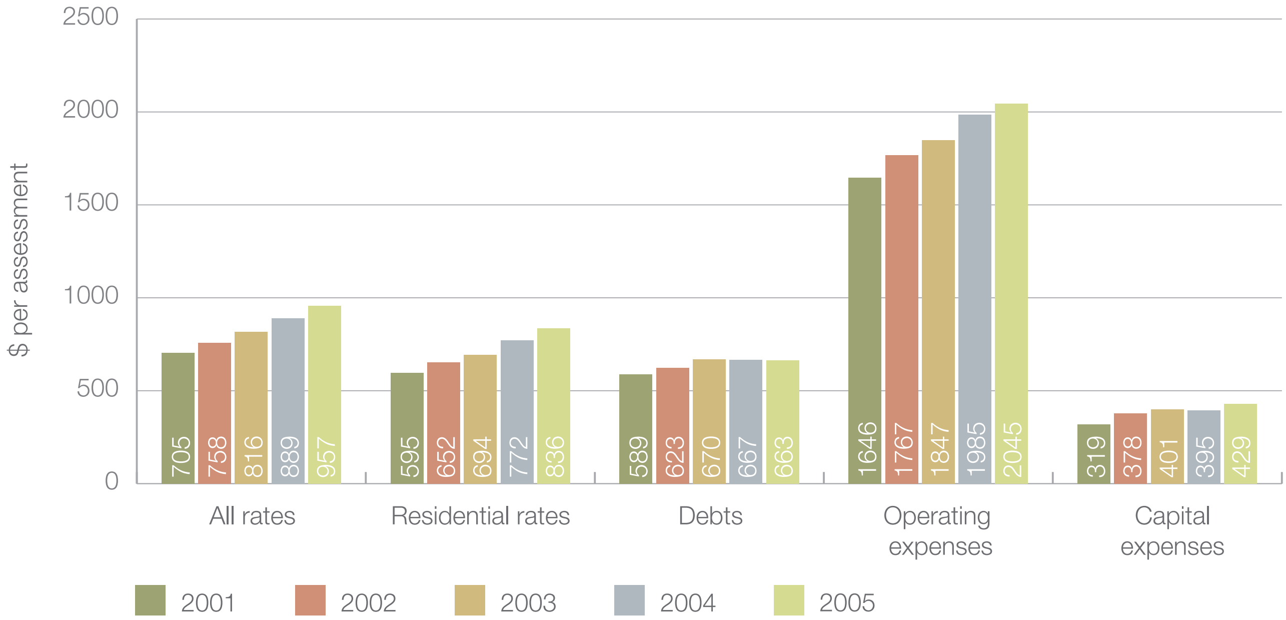
Since 2001, councils have reported eleven key indicators in their Annual Reports. Three of these are the community satisfaction measures discussed above. This section discusses the other indicators for the five council groups. It starts with five key financial indicators, then the infrastructure measures and finally the overall operating results.

Key financial indicators

The five key financial indicators are: total rates; residential rates; the level of liabilities (referred to below as 'debts'); 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'. The discussion uses median values for each group.[8]

All councils

Key indicators – all councils



The above chart shows the five indicators for the last five financial years across all councils in Victoria:

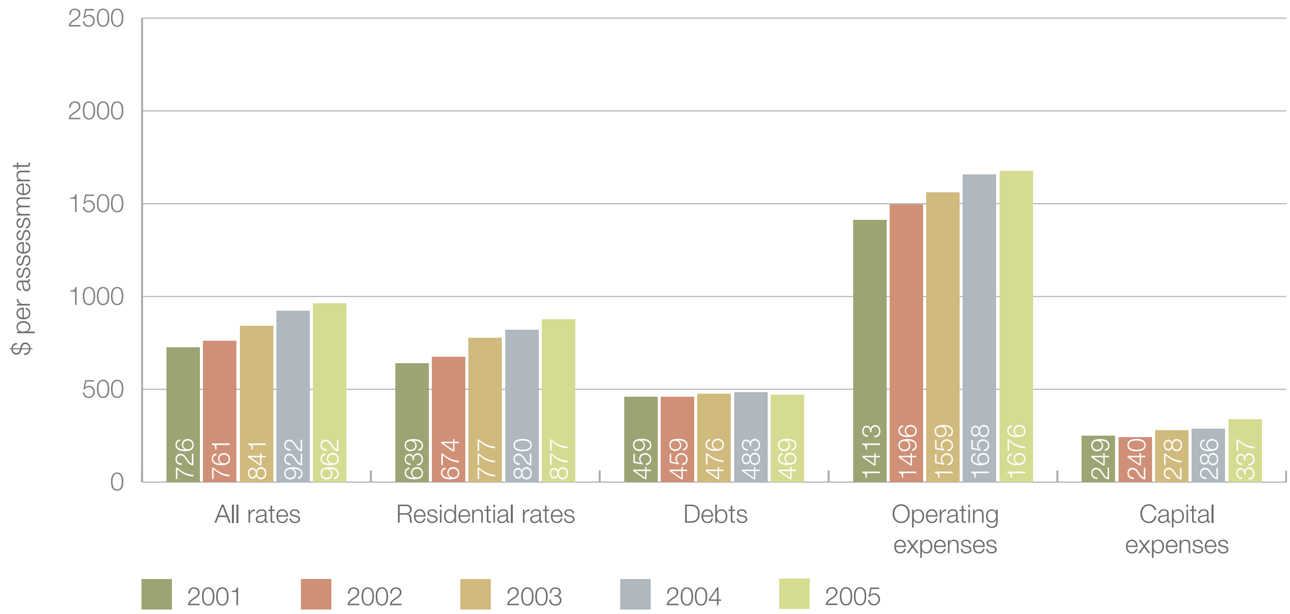
8 The median value is the midpoint of each group. For this analysis, it is a more accurate measure of 'typical' experience than a mean or average value, as the latter can be influenced more by unusual movements in the figures for one or more councils.

- Median rates and charges increased by $68 (7.6 per cent) in 2005[9]. This was a smaller increase than the 9.0 per cent rise in 2004, but was similar to the percentage increases in 2002 and 2003. There were marked differences between council groups. Outer metropolitan councils and small shires both increased rates by 12 per cent, while inner metropolitan councils, regional cities and large shires saw much smaller increases of 4 or 5 per cent.
- Median residential rates increased from $772 in 2004 to $836 in 2005. This increase of $64 was slightly higher in percentage terms (8.3 per cent) than the figure for overall rates. There were fewer differences between the council groups, with increases of 7 per cent for both inner and outer metropolitan councils, 9 per cent for both regional cities and large shires and 10 per cent for small shires.
- Council debts per assessment were stable in 2005, declining slightly from $667 to $663. This pattern differed across the council groups: debt fell for inner metropolitan and small shires, increased by 5 per cent for both outer metropolitan and regional cities and grew more strongly, by 17 per cent, for large shires.
- Council operating expenses per assessment went above $2,000, climbing by 3 per cent. Inner metropolitan, outer metropolitan and regional cities saw modest growth (between 1 and 4 per cent) on this measure, while large shires and small shires saw stronger growth (13 per cent and 7 per cent respectively). With the exception of large shires, all of these figures were smaller than the increases experienced in 2004.
- Capital expenditure continued its broad increase seen over recent years, as discussed in the infrastructure section below. The median figure for all councils grew by 9 per cent to $429 and this expenditure is 34 per cent up on the figure for 2001. Inner metropolitan, regional cities and large shires all saw strong increases (of between 17 and 25 per cent each) on this measure. Outer metropolitan councils saw little change on last year (which had been 10 per cent up on 2003), while small shires saw a decline of 8 per cent, after a very strong 30 per cent increase in 2004.

9 For ease of presentation, '2005' refers to the data included in councils' Annual Reports for 2005, which give the results for the 2004-05 financial year. Similarly, '2004' refers to figures for 2003-04, and so on.

Inner metro councils

Key indicators – inner metro councils



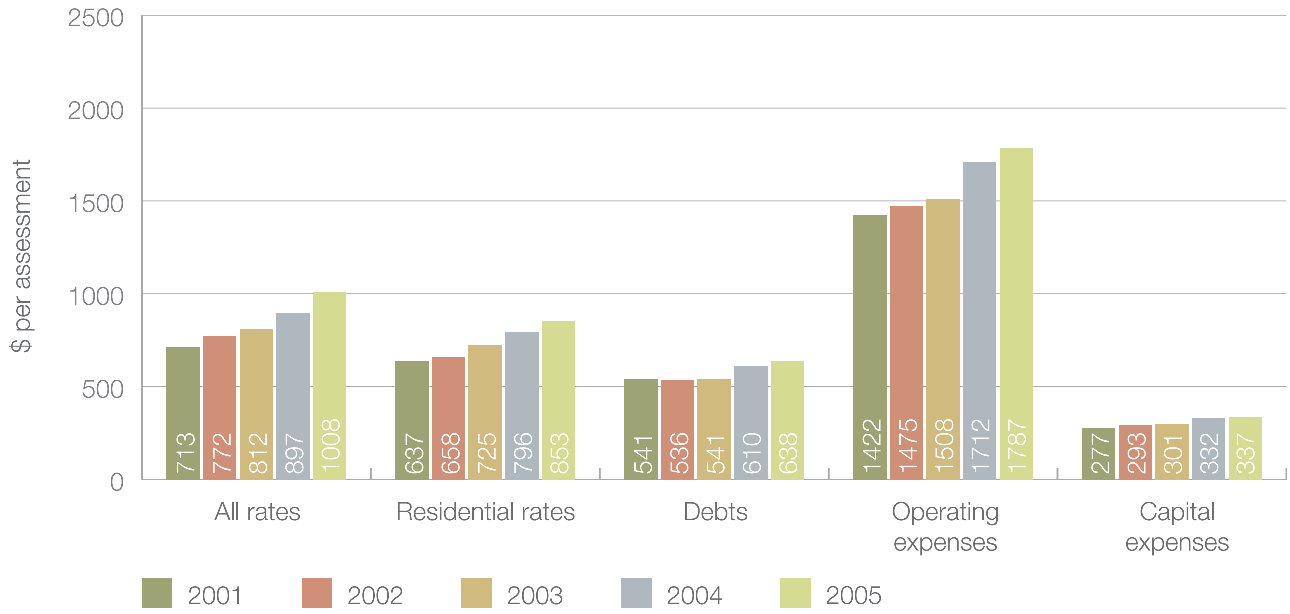
Over the four years to 2005, inner metropolitan councils have increased their operating expenditure by 19 per cent, with capital expenditure growing even more strongly, by 36 per cent. To fund this expenditure, councils have increased rates by 32 per cent (residential rates by 37 per cent), but have kept the level of debts stable.

In 2005:

- Median rates and charges increased by $40 (4 per cent), a slowing after rises of 10 per cent rise in each of 2003 and 2004. Residential rates also increased, but by 7 per cent in 2005, following a 6 per cent increase in 2004.
- Debts decreased by a marginal $14 (3 per cent). This indicator has changed little over the last four years.
- Operating expenditure, at $1676 in 2005, increased by $18 (1 per cent), a marked slowing after increases of 4-6 per cent in each of the previous three years.
- Capital expenditure increased strongly, to $337 (18 per cent). This indicator has seen a cumulative growth of $88 (36 per cent) since 2001.

Outer metro councils

Key indicators – outer metro councils



After a substantial rise in operating expenditure in 2004 (up $204 per assessment, or 14 per cent), outer metropolitan councils had slower growth in this measure in 2005 – up $75, or 4 per cent. Capital expenditure also saw muted growth in 2005 – up 1 per cent after a 10 per cent rise the previous year.

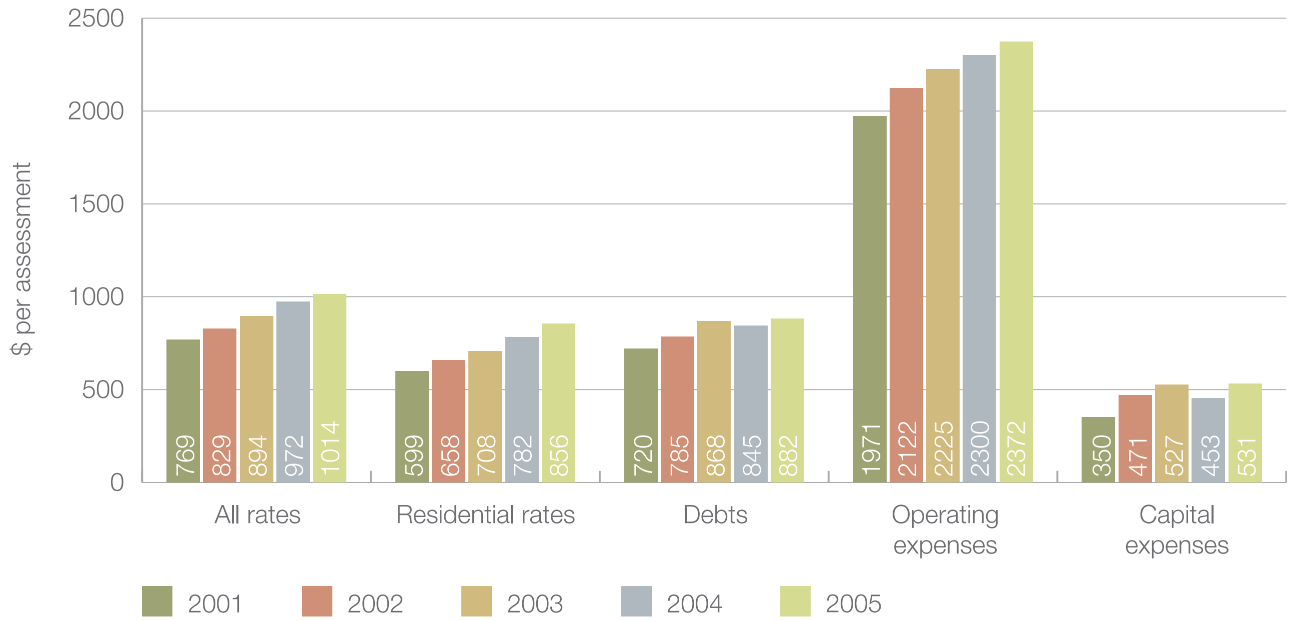
Over the four years to 2005, outer metropolitan councils have increased their operating expenditure by 26 per cent, with capital expenditure growing by 22 per cent. To fund this expenditure, councils have increased rates by 41per cent (residential rates by 34 per cent) and have increased debts per assessment moderately (up 18 per cent over the four years).

In 2005:

- Median rates and charges increased by $111 (12 per cent), broadly similar to the 11 per cent rise in 2004. Residential rates also increased, but by 7 per cent in 2005, following a 10 per cent increase in 2004.
- Debts increased by a marginal $28 (4 per cent), after a more substantial increase of 13 per cent last year.
- Operating expenditure, at $1,787 in 2005, increased by 4 per cent on the previous years.
- Capital expenditure increased slightly, to $337 (1 per cent). This indicator has seen a cumulative growth of $60 (22 per cent) since 2001.

Regional cities

Key indicators – regional cities



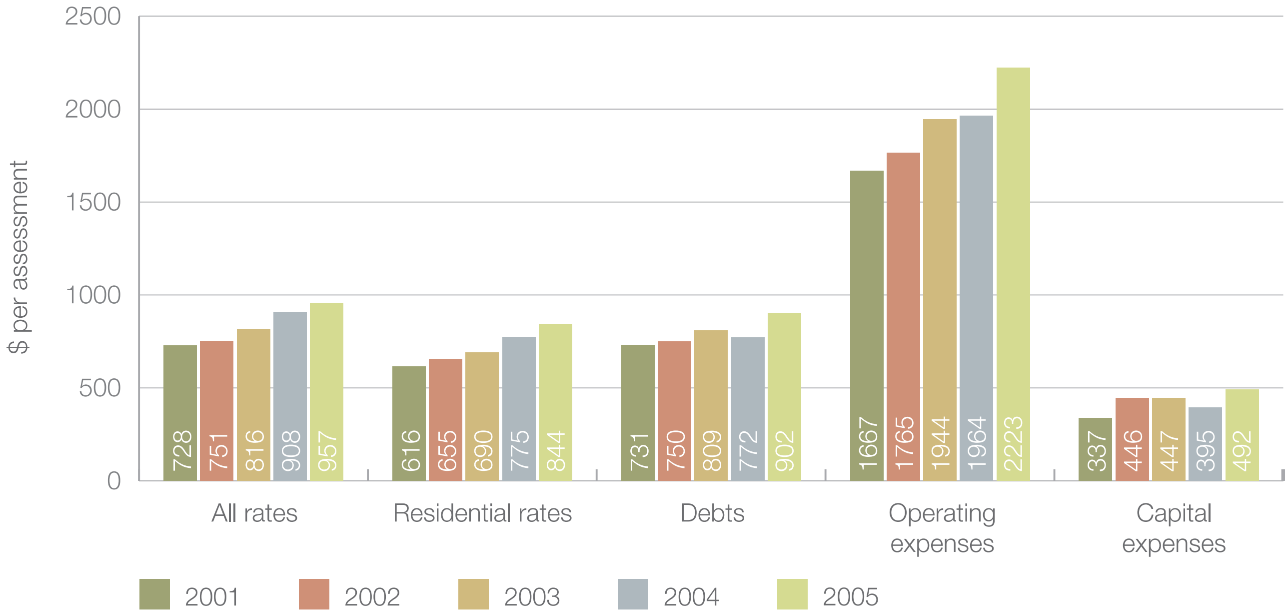
Regional cities have long had the highest operating expenditure per assessment of any council group and this continued in 2005. In the four years to 2005, regional cities increased their operating expenditure by 20 per cent, with capital expenditure growing a very substantial 52 per cent. To fund this expenditure, the councils have increased rates by 32 per cent (residential rates by 43 per cent) and have also increased debts per assessment (up 22 per cent over the four years).

In 2005:

- Median rates and charges were $1,014, an increase of $41 (4 per cent), which was half the 8 per cent annual increase experienced over the three previous years. Residential rates also increased, but by 10 per cent in 2005, following a 10 per cent increase in 2004.
- Debts increased by $37 (4 per cent), after a slight decline in 2004.
- Operating expenditure, at $2,372 in 2005, increased by 3 per cent on the previous year.
- Capital expenditure increased strongly, to $531 (up 17 per cent). This indicator has seen a cumulative growth of $181 (52 per cent) since 2001.

Large shires

Key indicators – large shires



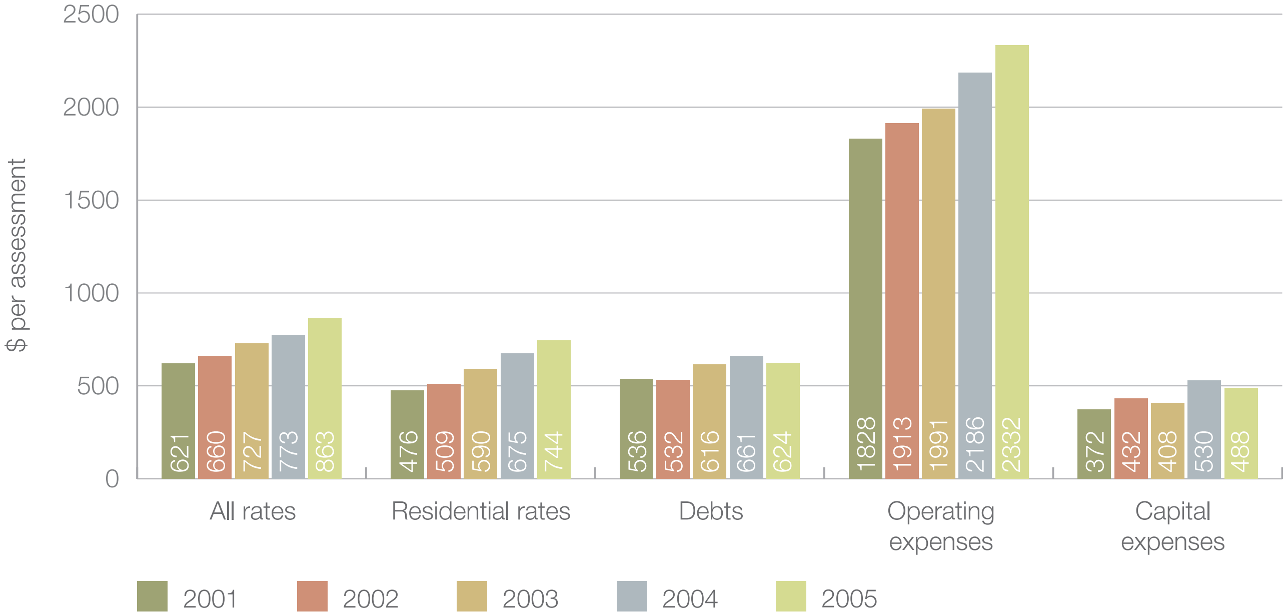
Large shires saw the largest increases in operating expenditure in 2005 – up $259 or 13 per cent. While this came after minimal growth in 2004, regional shires have seen the strongest increases in operating expenditure, at 33 per cent compared to 24 per cent for all councils. Regional shires have also increased capital expenditure strongly, up by 46 per cent since 2001. Much of the funding for these expenditure increases has come from 32 per cent increases in rates, 37 per cent increases in residential rates and a 23 per cent increase in the level of debts per assessment.

In 2005:

- Median rates and charges were $957, an increase of $49 (5 per cent), which was half the 11 per cent increase in 2004. Residential rates also increased, to $844, which was up by 9 per cent in 2005, following a 12 per cent increase in 2004.
- Debts increased by $131 (17 per cent), after a 5 per cent decline in 2004.
- Operating expenditure, at $2,223 in 2005, increased by 13 per cent on the previous year.
- Capital expenditure increased strongly, to $492 (up 25 per cent). This indicator has seen a cumulative growth of $155 (46 per cent) since 2001.

Small shires

Key indicators – small shires



Small shires also saw significant increases in operating expenditure in 2005 – up $146 or 7 per cent. Like the large shires, this group saw above average increases in operating expenditure since 2001, at 28 per cent. Small shires have also increased capital expenditure strongly, up by 31 per cent since 2001. These expenditure increases have been funded from 39 per cent increases in rates, 56 per cent increases in residential rates and a 16 per cent increase in the level of debts per assessment.

In 2005:

- Median rates and charges were $863, an increase of $90 (12 per cent), which was much higher than the 6 per cent increase in 2004. Residential rates also increased, to $744, which was up by 10 per cent in 2005, following increases of 14 per cent and 16 per cent in the two previous years.
- Debts decreased by $38 (6 per cent), after a 7 per cent increase in 2004;
- Operating expenditure, at $2,332 in 2005, increased by 7 per cent on the previous year.
- Capital expenditure fell, to $488 (down 8 per cent). However, this followed a 30 per cent increase in 2004. This indicator has seen a cumulative growth of $116 (31 per cent) since 2001.

Sustaining infrastructure

Infrastructure provided by local government plays a major role in supporting the community. Local roads, drainage systems, parks and buildings, to mention but four, all enhance social and economic activity.

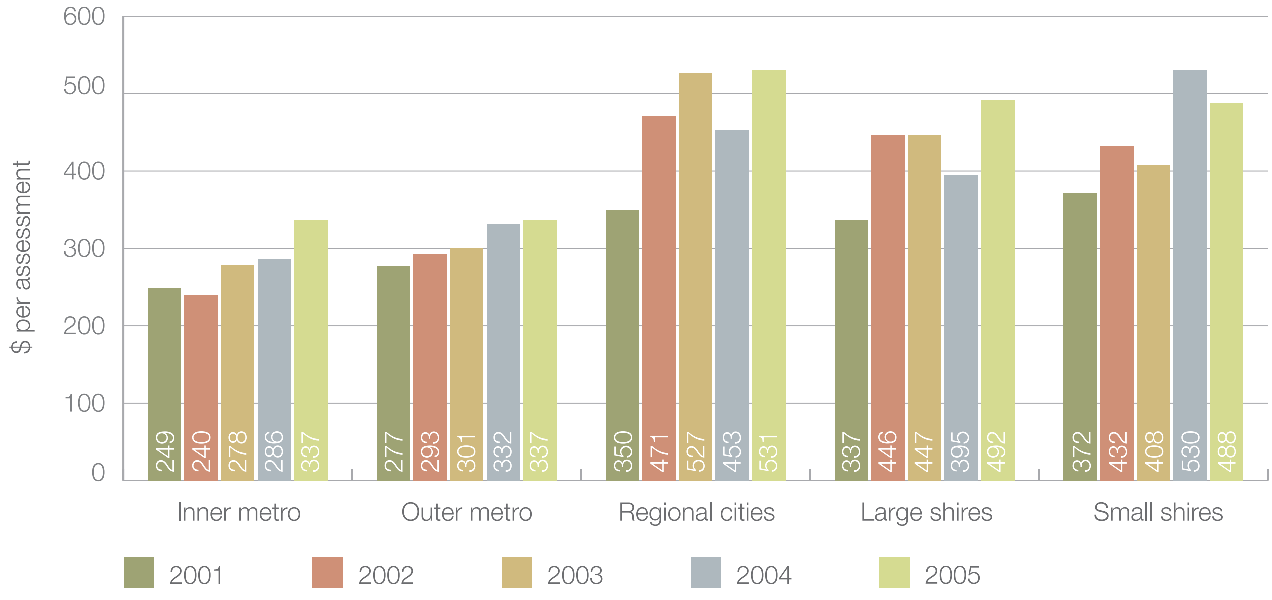
Since the early 1990s, concern has been growing that such infrastructure assets are not being fully maintained. Starting from community responses such as complaints over poor road conditions, the scope of the problems became clearer with the introduction of accrual accounting, which required councils to value all their assets and allow for annual depreciation.

Further information came with a major State Government-funded infrastructure report in the late 1990s[10] and a 2003 Commonwealth House of Representatives Committee report highlighted the difficulties councils across Australia face in maintaining infrastructure assets[11].

In recent years, Victorian councils have made considerable progress in addressing these concerns. Responses have taken two major forms:

- Improvements in council systems and processes to create more accurate asset registers and asset management plans[12].
- Significant increases in capital expenditure, indicated in the following graph.

Capital expenditure



10 *Facing the Renewal Challenge* Department of Infrastructure 2000

11 House of Representatives Standing Committee on Economics, Finance and Public Administration *Rates and Taxes: A Fair Share for Responsible Local Government* (referred to as the Hawker report), especially chapter 4

12 The Hawker report commended the Step Asset Management Plan developed by the Municipal Association of Victoria and a group of councils, as a model for councils in other States.

Because capital expenditure includes many major items, such as community centres and swimming pools, expenditure can be 'lumpy' and jump around considerably from year to year. Despite some variations in particular years due to this, the graph overall shows strong growth in capital expenditure by all groups of councils.

In summary, this chart shows

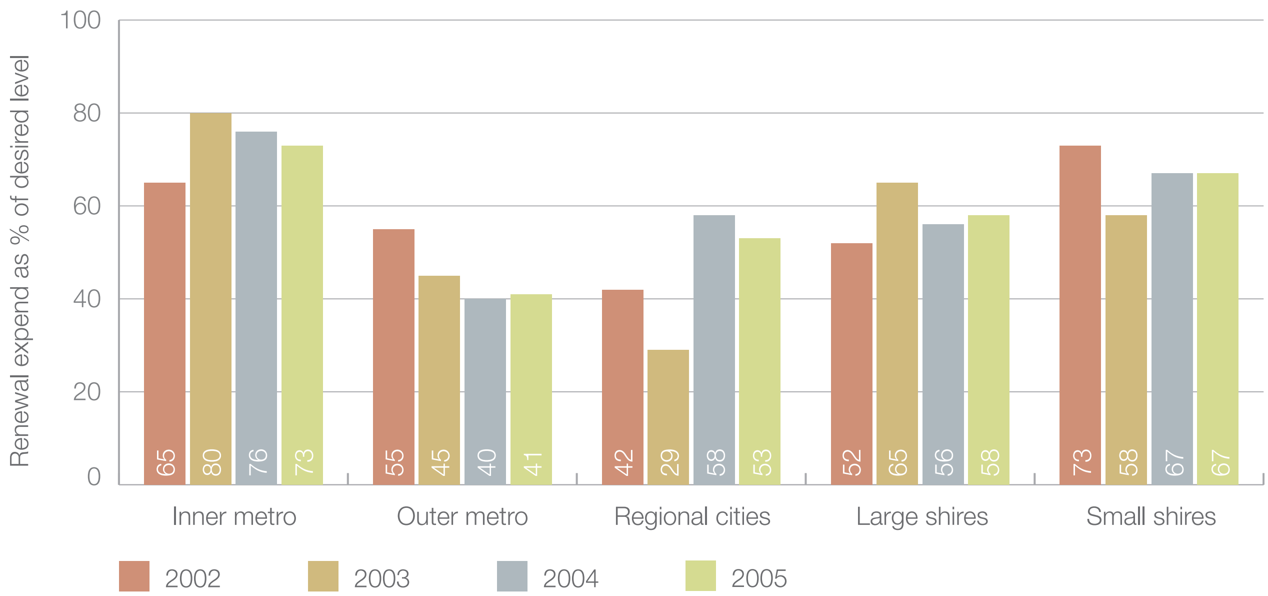
- Capital spending per assessment grows with distance from central Melbourne, with regional and rural councils spending significantly more per assessment than the metropolitan councils. This result generally matches the pattern of road lengths across the State – although regional cities have higher spending than shires in most years.
- Over the five years, capital spending has increased in each council group, although with some variations:
    - metropolitan councils have seen modest growth in capital spending, up by 36 per cent for inner metropolitan and 22 per cent for outer metropolitan
    - regional cities and large shires both saw growth around 50 per cent
    - small shires increased their capital expenditure by 31 per cent.

This gives an encouraging picture – councils are spending more on their capital assets. But it is also necessary to consider how this actual expenditure compares with the desired level to sustain assets. Councils report two measures of this in their Annual Reports:

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

The following graphs compare the results for the five council groups over the last four years.

Infrastructure renewal (expenditure as % of desired level)



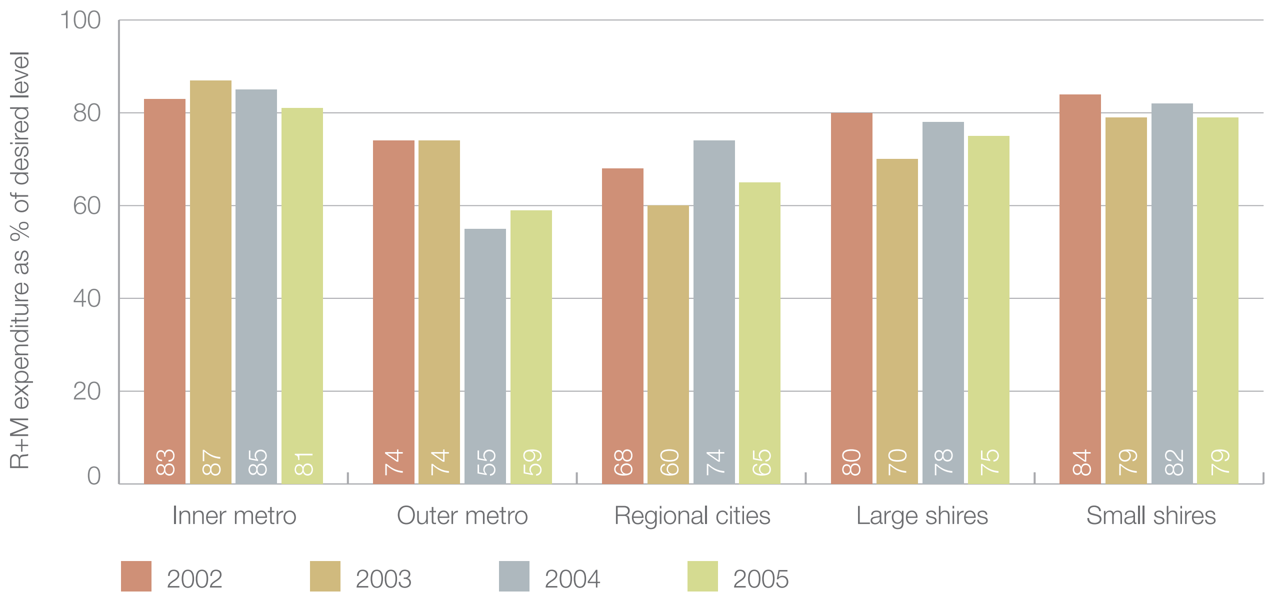
The infrastructure renewal statistics show divergent results from the capital expenditure figures. For example, the renewal results for regional cities moved about from year to year, falling from 42 per cent in 2002 to 29 per cent in 2003 and then recovering strongly to 58 per cent in 2004, before falling slightly to 53 per cent in 2005. In contrast, capital spending by these councils showed a strong increase in 2003 (when the renewal percentage fell), followed by a decline in 2004 (when the renewal percentage rose strongly).

Such conflicting patterns occur in other groups as well – and the results for individual councils can vary dramatically from year to year. While overall capital expenditure has risen strongly, the renewal percentage across all councils has remained close to 60 per cent across these four years.

Two main factors appear to be behind these apparently divergent results. Both reflect changes in how councils are measuring the two parts of the equation: actual expenditure on renewal; and the desired amounts necessary to sustain assets.

- Council's capital expenditure can be on renewing existing assets, upgrading or expanding those assets, or occasionally on building new assets. In some cases, if community use of an asset changes, it may make sense not to renew that asset, but to replace it with another asset more in line with current community needs. Further, it can at times be difficult to allocate expenditure between 'renewal' and 'upgrades or expansion' – and council expenditure figures can vary reflecting this difficulty.
- Council's views of what is desired to sustain their assets change as the information from the asset management systems improves. The desired level of expenditure can change either way. It may increase as councils include additional assets, or decrease as ways of sustaining assets improve - for example, if a road is expected to last 60 years rather than 50 years, the annual depreciation level will fall and thus the amount required to renew or sustain the asset.

Infrastructure renewal and maintenance (expenditure as % of desired level)



Victorian councils are amongst international leaders in trying to ascertain the relationship between actual and desired expenditure to sustain assets using these two measures of asset renewal. In complex areas, any innovative measurement techniques take a while to bed down as participants become used to the measures and improve the quality of the data they are collecting and using.

Thus, while the renewal graph shows some variations and no clear overall trend, there are some strong positives in councils' performance on infrastructure management. Capital expenditure is increasing strongly and councils are putting considerable effort into improving their asset management systems and data. Both augur well for councils' custodianship of community assets.

The following graph extends the above performance data on the renewal percentage by looking at renewal plus maintenance.

The renewal plus maintenance figures are higher than for just renewal. These also see some volatility and the State-wide median has seen a decline over the four years, from 80 per cent to 72 per cent. Once again, these figures have been affected by changes in councils' asset management and collection of data.

Support to improve asset management

A collaborative approach has been established in Victoria between the Department of Victorian Communities (DVC), local government peak bodies MAV and LGPro, the Auditor General and the Valuer General, to provide support to local government to improve asset management. A number of workshops have been held to bring together senior managers, asset managers and accountants to develop common understanding of the tasks. In addition, three further guidelines will be published in early 2006:

- ***Accounting for non-current physical assets*** – a guide for accountants updating 2003 Guidelines in the light of new international financial reporting standards.
- ***Fair value asset valuation methodologies*** – to assist valuers in the valuation of assets.
- ***Condition Assessment Guidelines*** – to assist engineers in applying condition assessment results to valuations and remaining life – closing the gap between established condition practice (purely engineering) and established asset accounting (purely accounting).

These will accompany two other initiatives assisting councils in this area:

- ***Model financial statements 2006*** – examples of the financial disclosures required for the year ended 30 June 2006 financial accounts.
- ***Investment guidelines*** – information for councils on how to rank projects and assess impacts on the council's future financial position.

Operating results

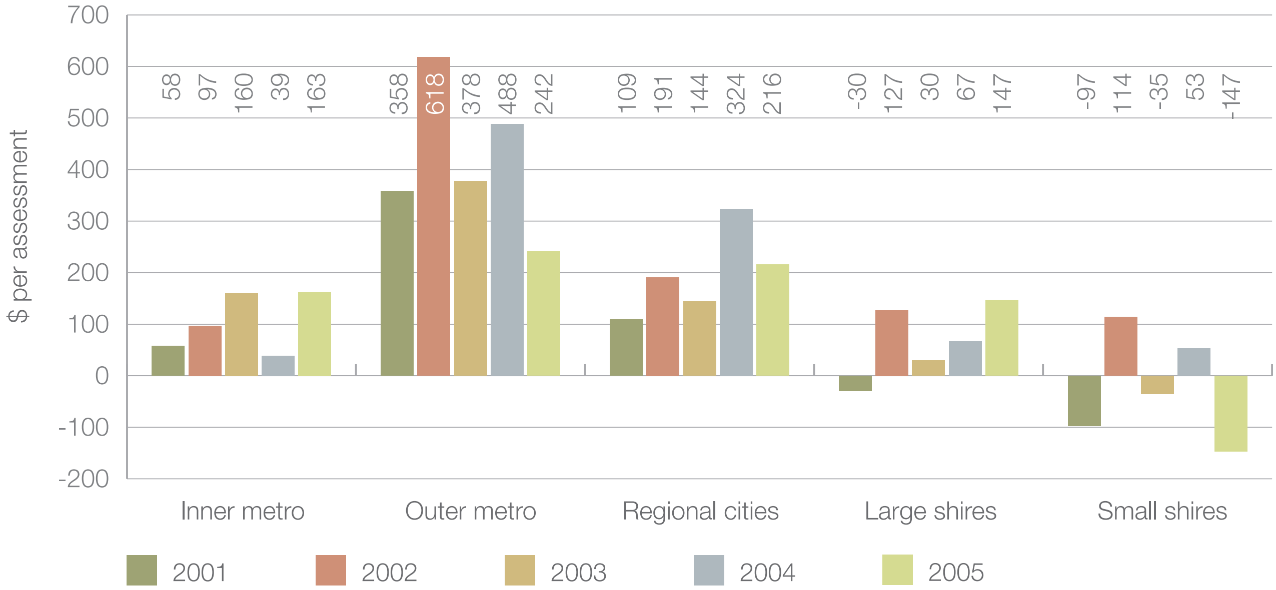
The operating result measure gives an overall picture of each council's financial health. It is the net result of all revenues and expenses, as well as any changes in the values of assets and liabilities.

One off or irregular financial changes can complicate annual comparisons of overall operating results. Thus:

- in 2002, most councils saw 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
- in 2004, many councils again revalued assets, giving better 2004 results for most councils compared with 2003.

For 2005, the graph shows increases in the operating result for two groups of councils (inner metropolitan and large shires), declines but still positive results for outer metropolitan and regional cities and a decline into negative territory for small shires.

Operating results



However, there are problems with using this approach to measuring local governments' results because local governments are 'not-for-profit' organisations. The objective of local governments is not to generate large operating surplus for their shareholders, like private companies, but to maximise the provision of services to the community. For local governments reducing expenditure, which would boost the operating result, is not always a good thing, especially if this is achieved by cutting services.

The Auditor-General has completed a more accurate analysis of council's operating results by adjusting the results of all local governments on a uniform formula. In his Report on Public Sector Agencies, the Auditor General commented on the results of local government audits for the year ended 30 June 2005[13]. He noted the sector's overall financial performance appears to be improving, as "the gap between expenditure and revenue seems to be widening" (with revenue being the larger amount).

"However, as in previous years, local governments' reported operating results in 2004-05 were distorted by the accounting standard requirement to recognise as revenue non-current assets that were either 'contributed' to them as part of development activity, or recognised for the first time ('found' assets). The significant upward trend in total revenue this year can be largely attributed to these factors."

The Auditor General adjusted the reported results "for these large and generally one-off distortions" and reported that the adjusted operating result for the sector in 2004-05 was a positive balance of $95.2 million, rather than the reported result of $745 million. This adjusted operating result for 2005 compared with a similar figure of $76.2 million in 2004. This means that overall more funds have been generated from operations to contribute to capital projects.

As has been outlined in this report as well, the Auditor General found considerable variation in experience amongst councils. He provided the following data on those councils reporting underlying operating deficits.

Financial year	Number of councils reporting underlying deficits	Combined underlying deficit of these Councils
2002-03	50	$152.9 million
2003-04	33	$114.4 million
2004-05	36	$73.5 million

13 Auditor General's *report on Public Sector Agencies* (December 2005) chapter 14

These figures from the Auditor General confirm the general picture from the above graph of trends in operating results – that local government finances are generally improving over time. This demonstrates that generally local governments are moving towards finding real solutions to issues such as the infrastructure funding gap. It also demonstrates improvement in councils' financial management, also reflected in their improved reporting to the community.

The Auditor General analysed four other financial measures and found that these too show a generally improving picture. Local government financial liquidity and investment to depreciation ratios both improved, self-financing "remained about the same" while the indebtedness measure showed local governments had a similar ability to repay debt as they did last year.

While these indicators are not directly comparable with the indicators used in this report, being based on different definitions, they are telling the same story of improvement in local government financial performance.

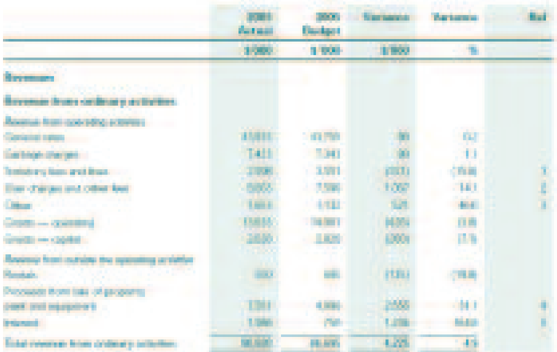
Improvements in financial reporting to local communities

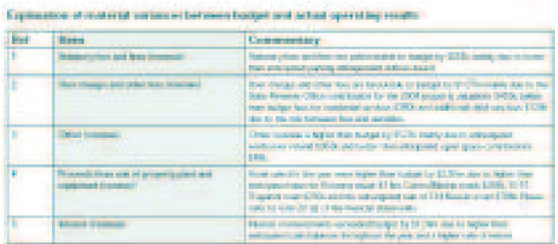
In 2004, amendments to the *Local Government Act 1989* included the introduction of a set of four 'standard statements' in each of the Council Strategic Resource Plan, the Budget and the Annual Report. These statements provide easy comparison between council initial plans and actual results together with audited explanations of significant differences arising in the Annual Report to enhance councils' accountability to their communities.

The importance of these standard statements is that now anyone can see what council actually did, compared to what they said that they would do and why things changed / what happened.

The performance of local government in Victoria in this area was recognised in the 2005 Australasian Reporting Awards (ARA). The Awards "provide the opportunity for organisations to benchmark their Annual Reports against the ARA criteria which are based on world-best practice"[14]. Four Australian councils received Gold Awards in the Local Government Division in 2005. Three of these councils were from Victoria: Glen Eira, Knox and Moreland City Councils.

Examples of the standard statement and variation report from the award-winning Glen Eira Annual Report are included below.





Extracts from City of Glen Eira Annual Report, P166, 168

14 *2006 Australasian Reporting Awards: Call for Entries and Criteria Handbook* p1.

Local Government Victoria
Department for Victorian Communities
Melbourne, Victoria