

# Local Government in Victoria Report



2009



# Map of Victorian local government areas

*“Local government is a distinct and essential tier of government consisting of democratically elected councils having the functions and powers that the Parliament considers are necessary to ensure the peace, order and good government of each municipal district.” Section 74A(1) Constitution Act (Vic) 1975*





# Measuring Performance

*In 2009, local government played an important role tackling two major challenges threatening Victorian communities: the global economic crisis and the devastating February bushfires.*

*In both cases, the responses and outcomes showed what can be achieved when governments and the community work together.*

*Councils also took steps to improve their overall performance for the benefit of their communities.*

*Improvements occurred in fields as diverse as governance, service delivery, asset renewal, and financial management. In all these activities, councils are accountable to those communities.*

*A key part of being accountable is presenting information to the community on how each council is performing. This report presents an overview of performance information for local government in Victoria in 2009. It discusses results from key performance indicators (KPIs) agreed by the sector.*

*Good data on performance can help councils communicate their achievements to the community. This report includes performance data from two successful initiatives recognised in the 2009 National Local Government Awards: Wodonga's recycling program and Port Phillip's community trends reports.*

## Wodonga Sort and Save Centre

Wodonga City Council established the Sort and Save recycling facility at its Kane Road waste transfer station in November 2008. Residents are encouraged to bring unwanted items, including general household bric-a-brac, furniture, sporting goods, hand tools, bicycles, art works and gardening tools to the facility. The centre sorts and dismantles equipment, re-selling items to other members of the community.



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*By June 2009, the centre had successfully diverted some 85 tonnes of material from landfill. On an annual basis it will reduce Wodonga's landfill waste by approximately 10 per cent.*

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As well as its environmental benefits, the centre provides valuable employment and skills development opportunities in partnership with several community organisations. Kalianna Enterprises employs three disabled workers to dismantle goods. Approximately 73 community workers from Corrections Victoria have participated in the program thus far, working onsite and helping residents to empty their trailers. Recovery GAME, a not-for profit agency that employs long term unemployed, has three staff permanently onsite, and the centre also provides part-time employment for three Work for the Dole participants each week. Over the past eight months, 130 unwanted bicycles have been transferred to the workshops at Beechworth prison.

The construction of the centre was also a partnership effort, with Sustainability Victoria contributing \$75,000 towards the Council's construction costs of \$480,000.

The Sort and Save recycling centre won a United Nations Association of Australia World Environment Award in June 2009. Later in 2009, it was a Category Winner in the 2009 National Local Government Awards for Improving Service Delivery through Collaboration, followed by the Waste Management Association of Australia national award for the best small waste transfer station in Australia.



## Minister's Foreword

The Government announced important steps during the year to enhance the operations of local government.

- A new Local Government Investigations and Compliance Inspectorate is now responsible for enforcing the Local Government Act. This will include auditing compliance with governance requirements, and investigating breaches of the Act.
- The Essential Services Commission is working with local government to establish an enhanced performance reporting regime.

Especially in the light of the second initiative, I am pleased to present the Local Government in Victoria Report for 2009. This report provides the reader with a snapshot of the sector's direction and trends over time. This information demonstrates how councils are performing in the areas of finance, asset management and community satisfaction.

The report focuses on Key Performance Indicators for local government – indicators agreed by the Victorian Government and councils.

The key indicators on overall financial performance and asset management show pleasing trends of improving performance by councils. Councils are continuing to put effort into managing their infrastructure assets. Overall community satisfaction ratings for local government are at a consistently high level, although these have plateaued in recent years. Whilst overall satisfaction results continue to be positive, the trends vary at the individual council level and by service area. Further improvements can be achieved.

The Local Government Victoria website contains comprehensive council data including time series spreadsheets used in the preparation of this report. I would encourage you to visit this site to learn more about your council. This data will also provide councils with benchmarking information to enable performance comparisons.

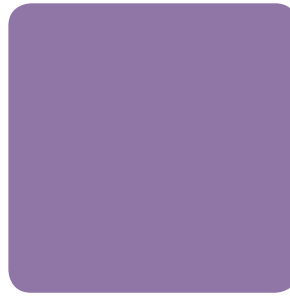
This report will encourage community discussion and provide important reading for all with an interest in local government performance in Victoria.

**Richard Wynne MP**  
**Minister for Local Government**

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## Sustainability of Local Government





## Sustainability of Local Government

In 2009, councils across Victoria implemented the Federal Government's Regional and Local Community Infrastructure Program. Announced in November 2008, this program provided \$800 million to build local community infrastructure in all of Australia's 565 local council areas.<sup>1</sup>

The program has two components:

- \$250 million allocated across all councils (2008-09); and
- \$550 million in the Strategic Projects Component, allocated to specific "shovel-ready" projects submitted by councils (2009-10).

The program was part of measures to tackle the economic downturn by boosting local economic development and supporting jobs in communities around the country. It also aimed to support the sustainability of local government.

From the mid 2000s, many reports noted that councils were facing financial challenges, especially in funding community infrastructure. Over the past three years, the national Local Government

and Planning Ministers' Council and the first meeting of the Australian Council of Local Government supported national frameworks for council asset management and financial management planning. Once such information is available, the Australian Government indicated it would consider additional funding for asset management. In March 2009, the Ministers' Council agreed to accelerate implementation of the frameworks. Each state agreed to introduce a consistent approach by the end of 2009, with substantial progress towards full implementation to occur by the end of 2010.

Victorian councils are well-placed to deliver on these requirements, taking major steps to improve their financial performance and asset management over the past six years. The Auditor-General audits each council's accounts each year. Since 2002-03, the Auditor-General has reported the major trends noted in Chart 1.

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<sup>1</sup> <http://www.infrastructure.gov.au/local/cip/cip800.aspx>

## Impact of the Bushfires

It is pleasing to note that while 19 out of 79 councils were directly affected by the bushfires, the Auditor-General reported that these councils generally had a low risk of financial sustainability concerns. Murrindindi Shire Council experienced the greatest impact of the fires including the loss of an estimated 20 per cent of its housing stock. In recognition of the significant challenges which the Council faces, the State Government provided a \$9.7 million Assistance Package to support the Council over the next four years to help the community rebuild and recover from the fires.

Chart 1 outlines trends in the underlying **operating result**.<sup>2</sup> This measure compares each council's operating revenues (excluding large one-off revenue items) with its operating costs (including depreciation, which reflects the cost of replacing assets). The two key trends are:

- The overall operating result for all councils has improved from a deficit of -1.9 per cent of revenues in 2002-03 to a surplus of 8 per cent of revenues in 2008-09; and
- The number of councils reporting operating deficits has declined dramatically. Fifty councils reported deficits in 2002-03 – this number has fallen to only eight in 2008-09 which is a positive result.

Although the Auditor-General removes some volatility from council accounts in calculating the underlying operating result, results for individual councils can move around from year to year.

For example, Indigo Shire Council reported that its 2008-09 operating result was boosted by some \$1 million as Financial Assistance Grants were paid earlier than usual.<sup>3</sup>

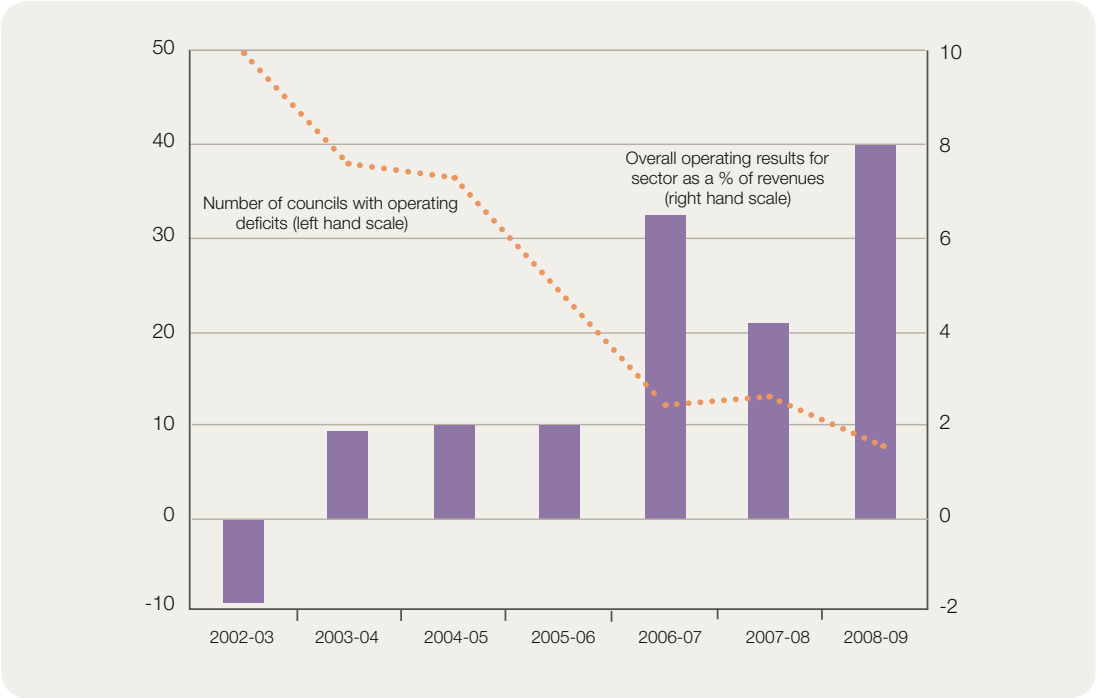
While such variations do occur, Chart 1 shows a strongly positive overall trend. These strong results reflect several factors:

- Nearly all councils have increased rates significantly in recent years;
- Most councils have also put considerably more investment into their capital works programs; and
- Many have pursued a variety of measures to improve productivity.

Improvements in capital and operating efforts are an important part of the story. Chart 2 shows, however, that there is no simple relationship between rate increases and improving operating results. Chart 2 shows the 3 year increases in rates for each council and also the changes in operating results. Across all councils, operating results have improved by a median 6 per cent of revenues. However, as indicated in Chart 2, there is considerable variation between councils on rate increases and their operating results.

**Chart 1: Overall Operating Result for sector as a percentage of Revenues**

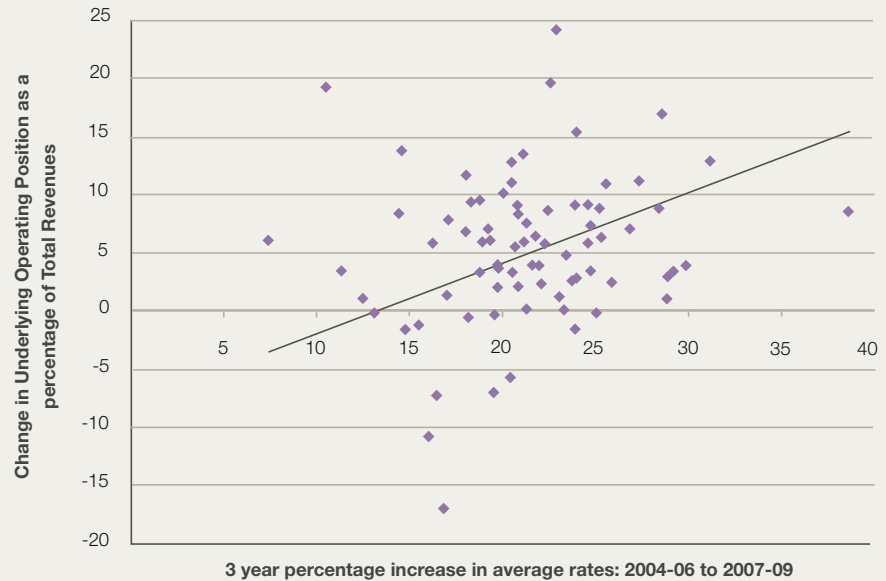
The number of councils reporting operating deficits has declined dramatically. Fifty councils reported deficits in 2002-03 – this number has fallen to only eight in 2008-09 which is a positive result.



Source: Auditor-General Local Government: Results of the 2008-09 Audits, November 2009.

- 2 Auditor-General Local Government: *Results of the 2008-09 Audits* November 2009 p28. This is one of five key measures the Auditor-General has reported since 2003-04. The others are: liquidity (sufficient working capital to meet short-term commitments); the self-financing ratio (sufficient free operating cash flows); indebtedness (being not overly reliant on debt to fund capital programs), and any investment gap (if the council has been replacing assets at a rate consistent with the rate at which they are being consumed). The 2009 report added a sixth measure: the renewal gap, comparing the depreciation level with spending on existing assets through renewing, restoring, and replacing existing assets.
- 3 Indigo Shire *Annual Report 2008-09* p50

**Chart 2: Victorian Councils: increases in average rates and changes in underlying operating position, 2004-06 compared with 2007-09**



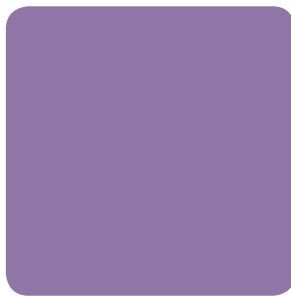
Source: Auditor-General data for underlying operating results, Victorian Local Government indicators data for increases in average rates. To minimise the impact of annual variability, the chart compares three year averages for both rate increases and changes in operating result.

The comparison shows major variations between councils, and there is only a very weak statistical relationship between rate increases and changes in the operating result.<sup>4</sup> Several councils who increased their rates by 15 – 20 per cent over three years actually saw their operating results deteriorate, while some with smaller rate rises succeeded in improving the operating result. Taking outlying examples, one council increased its rates by 10 per cent and improved its operating result by 19 per cent, while another council, despite increasing its rates by 17 per cent, saw a deterioration in its operating result by 17 per cent. Clearly, while rate increases can assist councils improve their operating results, other factors are also at work. Initiatives such as improvements in productivity and better procurement practices play a role.

This variability between different councils' performance occurs in many of the Key Indicators discussed in this report. It also occurs in movements in community satisfaction ratings, which are discussed in the next section.



<sup>4</sup> The standard statistical test for a relationship between two variables is the R2 measure, which varies between 0.0 (no relationship) and 1.0 (very strong relationship). The data in Chart 2 has a R2 statistic of a very small 0.03.



## Residents' Views on Council Performance

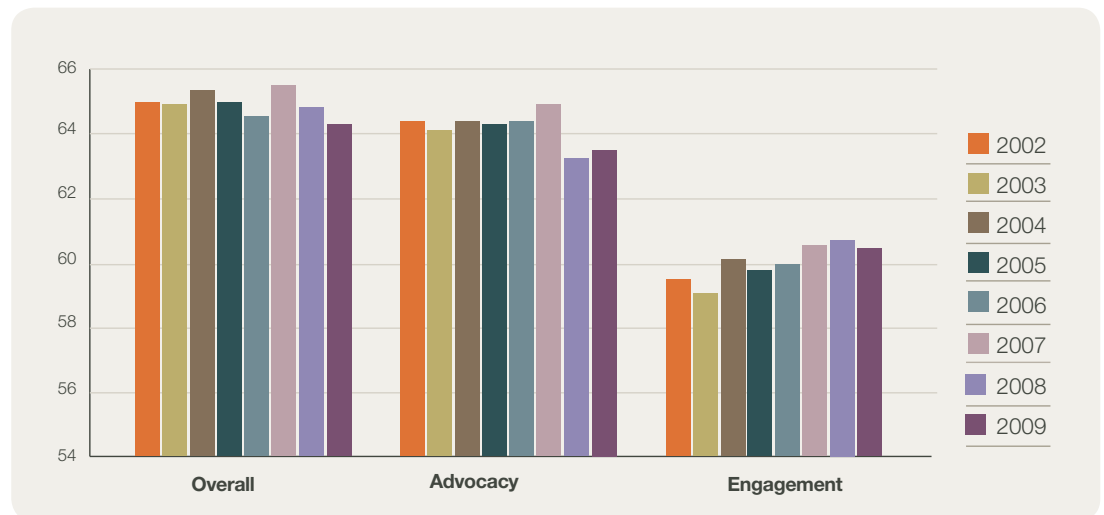
# Residents' Views on Council Performance

The changes in satisfaction ratings are measured by annual resident satisfaction surveys, conducted since 1998. From 2002, three measures from this annual survey have been used in the Key Performance Indicators: overall satisfaction with council performance, satisfaction with council advocacy and councils' engagement with the community.

Trends in satisfaction ratings for all councils are shown in Chart 3.

**Chart 3: Satisfaction ratings with Victorian councils 2002-2009**

*For both overall satisfaction and for advocacy, councils receive above average ratings. The ratings for engagement showed improvement in the early 2000s, and have been stable about the average rating for the last three years.*







The results in Chart 3 are based on annual surveys of some 350 people in each local government area. The ratings use an indexed scale from 20 to 100 – a result above 60 on this scale indicates that the number of people happy (or very happy) with their council's performance is greater than the number dissatisfied.

As with any survey of this size, there can be some minor movements up or down each year. The general pattern in Chart 3 is that, for both overall satisfaction and for advocacy, councils receive above average ratings. The ratings for engagement showed improvement in the early 2000s, and have been stable about the average rating for the last three years.

A key point about these movements is that, like many other measures, they vary between councils. If we look at the figures for the five council groups, differences appear. In 2009, three of the five council groups had similar satisfaction ratings to their levels five years ago. However, there have been slight declines in ratings for Inner Metro and Regional City councils.

A more detailed investigation of the movements for individual councils shows somewhat greater variation again. Over the five years, there have been significant declines (of five or more points) in just nine councils: three Inner Metro, two Regional Cities, and four Large Shires.

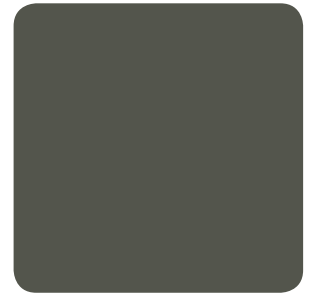
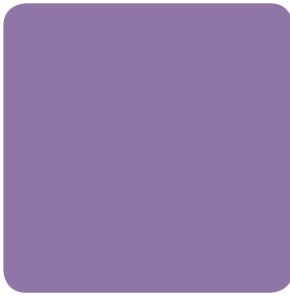
As well as looking at general satisfaction ratings, the survey also assesses the influence of particular council services on resident satisfaction. Over the past eight years, *increases* in relative importance have occurred in:

- Town Planning (for all councils, with this element considered the most important in overall satisfaction with councils); and
- Enforcement of Local Laws (for all councils).

*Decreases* in relative importance have occurred in:

- Recreational facilities (for all councils);
- Appearance of public areas (especially for country councils); and
- Local roads and footpaths (for all councils).

In total, it seems further improvements in some areas, and for some councils, are needed.



## Council Expenditure and Revenue Patterns



## Expenditure Patterns

Victoria has 79 local councils which represent and serve very different communities. The considerable variations between councils within Victoria include:<sup>5</sup>

- Land area, ranging from Queenscliffe (8 sq km) to Mildura (22,000 sq km);
  - Road lengths, with Buloke in the north west having 5,168 kms for 7,051 people, while Port Phillip in inner Melbourne has 211 kms for 93,752 people;
  - Population size, ranging from 3,200 people (Queenscliffe) to 238,000 (Casey);
  - Population change, ranging from small declines in some rural shires to annual growth of 8 per cent in metropolitan fringe Melton; and
  - Residents with poor English proficiency and recent arrivals in Australia: virtually nil in many farming areas, but 16 per cent in Maribyrnong and Brimbank, and 25 per cent in Greater Dandenong.
- The four Inner Melbourne councils, in Melbourne's central business area, have larger than average numbers of business ratepayers. Chart 4a<sup>6</sup> shows that these councils spend 42 per cent of their budgets on business services (such as building control, tourism and area promotion and markets) and traffic and street management.
  - The other metropolitan councils (excluding the inner four) are dominated by residential areas, and consequently have a focus on people services. Chart 4b indicates 42 per cent of these budgets are allocated to Family and Community, Aged Services and Recreation and Culture. The demographics vary a little across Melbourne: older suburbs closer to the centre of Melbourne have larger numbers of older people (often 15 per cent of the population) so councils spend more on aged services, while family and community services are more significant in the newer outer suburbs, where around 15 per cent of the population are children aged less than 10.

These variations contribute to differing challenges for councils across the state. In response, council expenditure patterns differ. Key features, which are reasonably stable from year to year, are shown in the following charts:

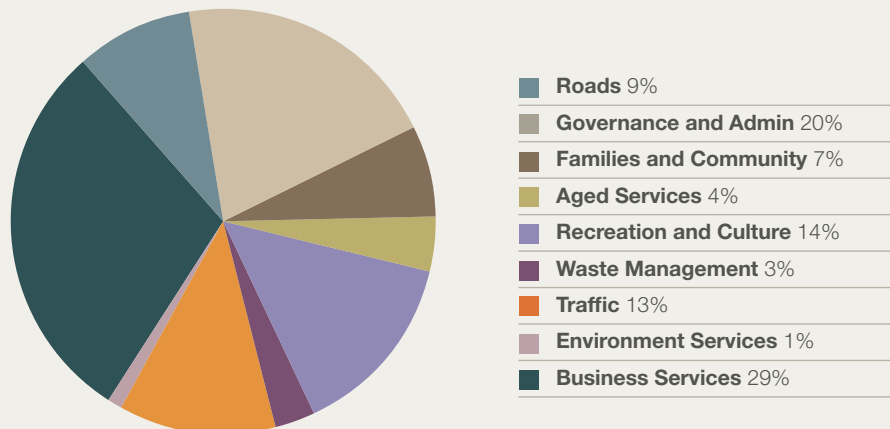
<sup>5</sup> Data from Victoria Grants Commission (VGC) *Annual Report 2008-09*

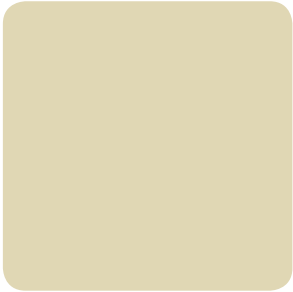
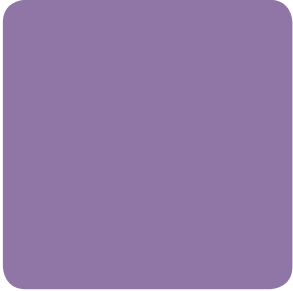
<sup>6</sup> Chart 4, and Chart 6, is based on unpublished VGC data for the 2008-09 financial year. Chart 4 uses 'recurrent expenditure', which is expenditure as reported in council operating statements. It includes depreciation, but excludes capital expenditure.

- Regional and Rural councils, as indicated in Buloke's figures above have greater road lengths. They consequently spend an average of 21 per cent of expenditure on roads – and this emphasis increases the more rural the council is, reaching 45 per cent for some small shires. These expenditures compare with a 9 per cent average for Melbourne councils. Many Regional and Rural councils, especially those in the more rural areas, and in retiree locations, have ageing populations, some with 20 per cent aged over 65.

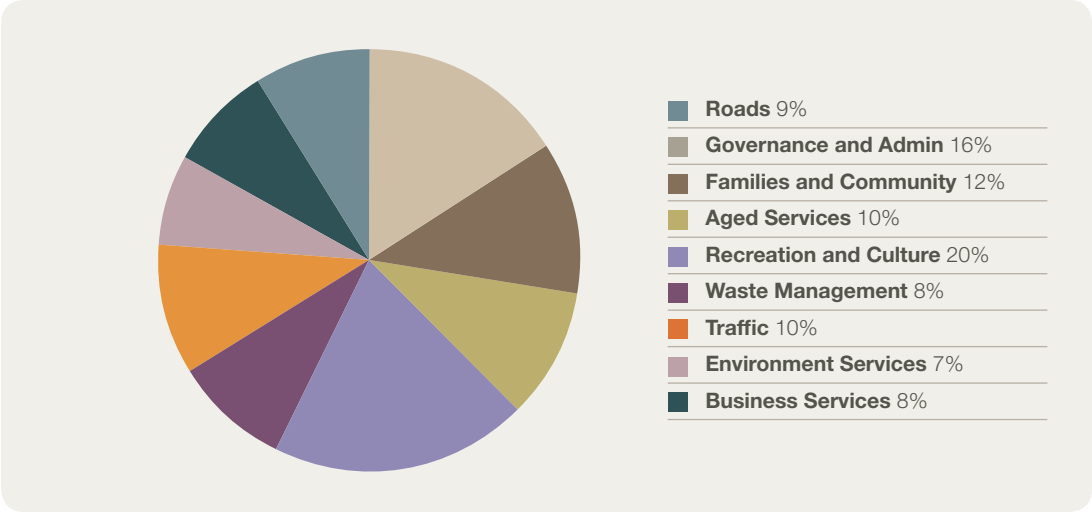
**Chart 4a: Recurrent Expenditure, Inner Four Councils**

*These councils spend 42 per cent of their budgets on business services (such as building control, tourism and area promotion and markets) and traffic and street management.*

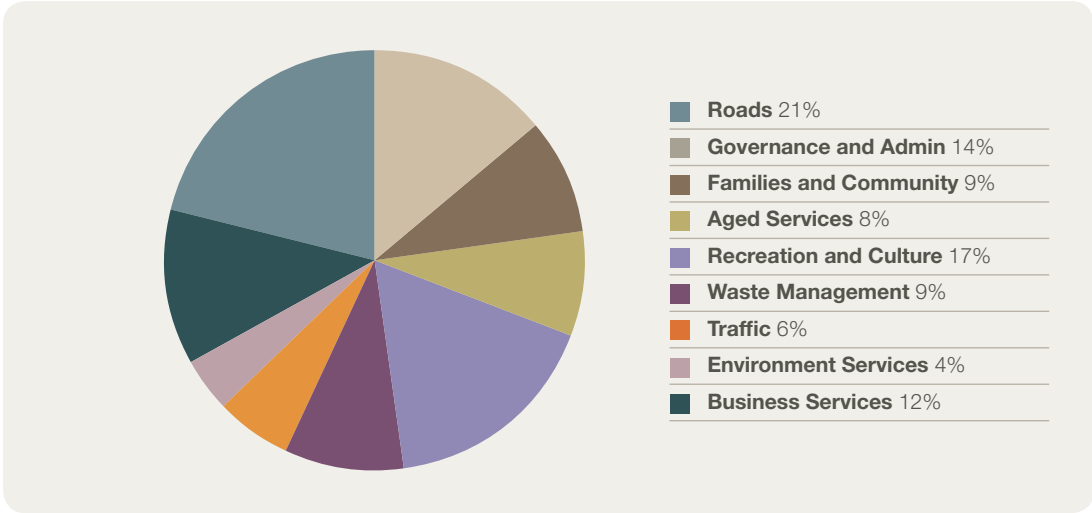




**Chart 4b: Recurrent Expenditure, All Other Metro Councils**



**Chart 4c: Recurrent Expenditure, Regional and Rural Councils**



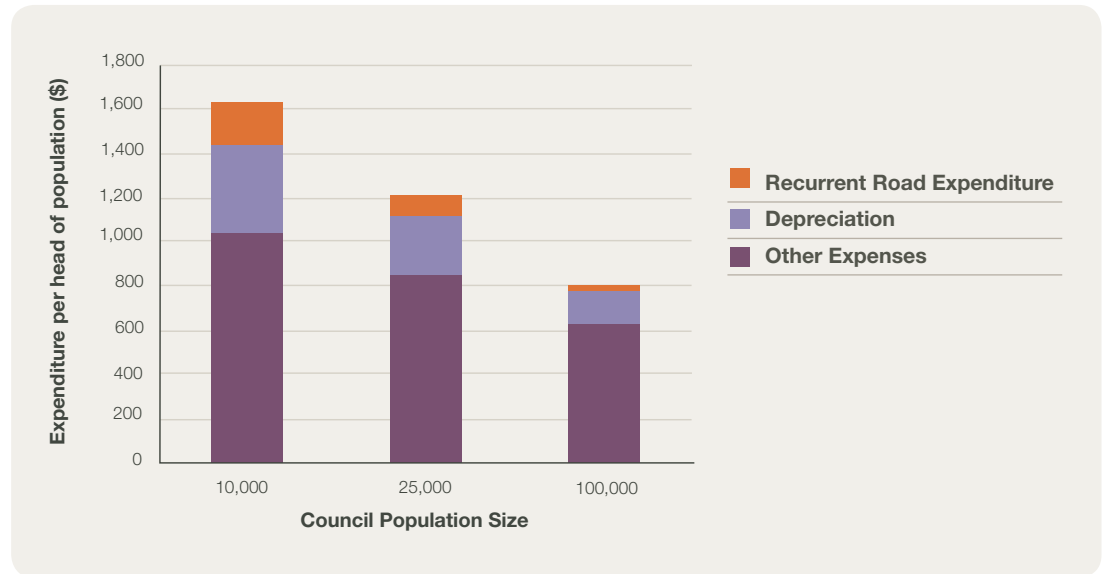
Council expenditure differs not only in its allocation between service areas, but also its sheer size. As Chart 5 shows, a typical council of 10,000 residents spends in total twice as much per resident as a council with a population of 100,000.<sup>7</sup>

**Chart 5: Council Size and Average Expenditure Per Head**

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*A typical council of 10,000 residents spends in total twice as much per resident as a council with a population of 100,000.*

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<sup>7</sup> The typical expenditure figures are calculated from the trend lines for each of the three expenditure areas, per head, compared with council population size. Due to the unusual expenditure patterns of the inner four Melbourne councils, these are excluded from this exercise.



Chart 5 also shows that the extent of the difference between councils varies between three expenditure areas: recurrent road expenses, depreciation and other expenses.

- A council of 10,000 residents averages \$1,044 per head on expenses other than depreciation and recurrent roads, 66 per cent more than the \$630 spent by a council of 100,000 residents. This reflects both economies of scale in delivering services, and the fact that most smaller councils are in remote rural areas, often facing higher service costs.
- The expenditure gap is bigger in depreciation, with the council of 10,000 residents (\$388 per head) spending 2.5 times that of the council of 100,000 residents (\$142 per head). This difference is primarily due to the much greater road length per head in the smaller rural councils; and

- In recurrent road expenses, the expenditure gap is even bigger again, with a council of 10,000 residents (\$200 per head) spending six times as much as the council of 100,000 residents (\$32 per head).

These differences in expenditure mean that smaller councils have to raise more revenues per head. However, the scale of the problem is lessened by differences in the sources of councils' revenues – especially the pattern of government grants.



## Revenue Patterns

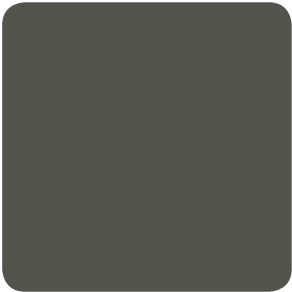
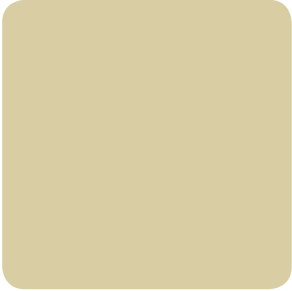
Chart 6 shows the differences between the council groups in revenue sources. Across Victoria, rates contribute just over half of revenues, with grants from Commonwealth and State Governments providing another quarter.<sup>8</sup> Service fees and developer contributions are also significant. Within these overall patterns, emphases differ for the three broad groups of councils:

- The four councils in inner Melbourne raise some 40 per cent of their revenues from car parking and other charges – a proportion that has increased slightly over the past ten years.<sup>9</sup> These councils receive a relatively low proportion of recurrent revenue from Commonwealth and State Government grants. At 47 per cent, their reliance on rate revenues is slightly less than the state average.
- All other metropolitan councils have the highest reliance on rates in their revenue base. Rates now contribute 58 per cent of the total, up significantly from 48 per cent ten years ago. Some councils in outer Melbourne also receive significant revenue from developer contributions.
- Regional, and especially rural, councils receive the highest proportion of revenue grants, with 34 per cent of income coming from government grants. This figure has increased from 29 per cent ten years ago. The contribution from rates has also increased for this group, from 41 per cent to 46 per cent – both lower figures than the state average.

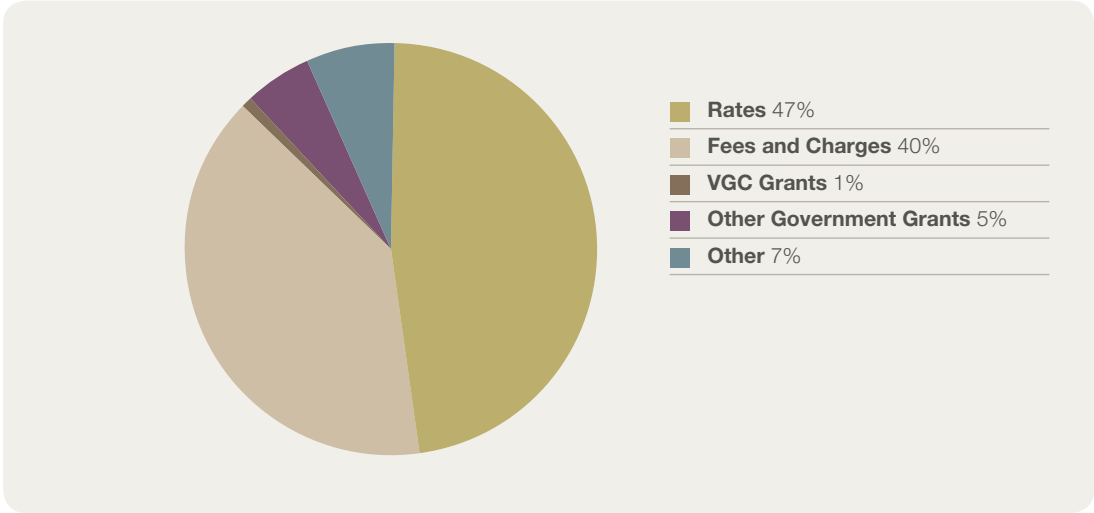
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8 This proportion is higher than usual in 2008-09. As noted above, some government grants were paid earlier than usual in June 2009, and hence were included in the revenue figures for 2008-09

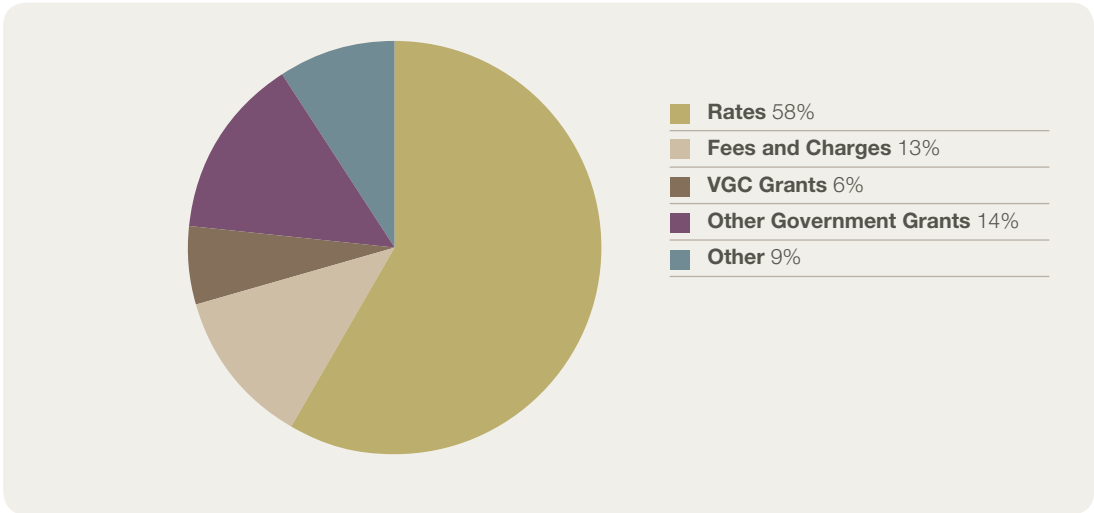
9 This and following comparisons are based on the results for 1999-2000 reported in *Local Government in Victoria 2002*, p8



**Chart 6a: Revenue Patterns: Inner Four Councils**

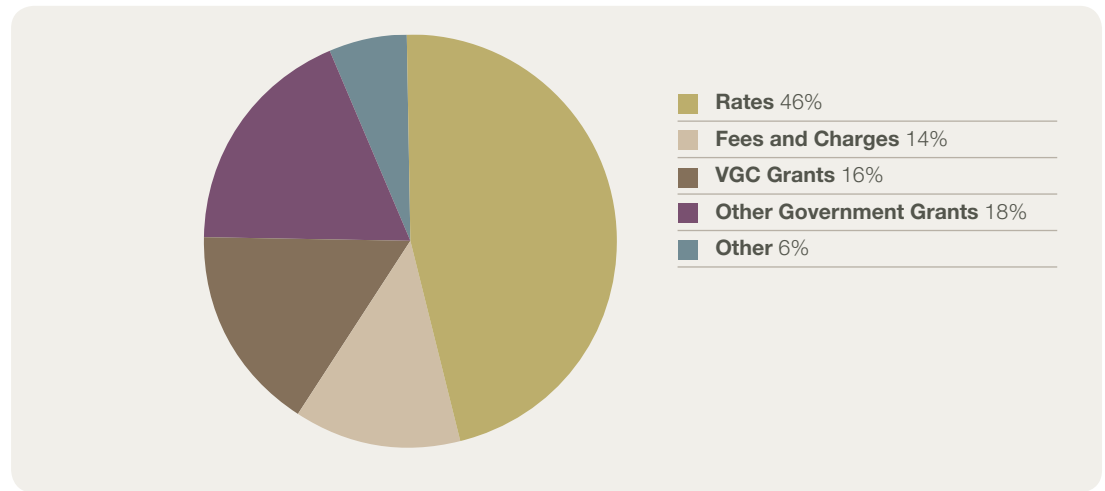


**Chart 6b: Revenue Patterns: All Other Metro Councils**



**Chart 6c: Revenue Patterns: Regional and Rural Councils**

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The discussion of expenditure, and Chart 5, noted that smaller councils have much higher average expenditures per head than larger councils, with a council of 10,000 residents spending twice as much per head as a council of 100,000 residents. To fund this expenditure, the smaller councils have to raise significantly higher revenues per head.

The impost on the community from this necessity is lessened somewhat by the pattern of government grants. A typical council of 10,000 residents receives

some \$672 per head in government grants: 3.5 times the \$189 per head grants received by a council of 100,000 residents.<sup>10</sup> When this is taken into account, the smaller council has to raise an average of some \$1,154 in revenues from its own sources – 60 per cent more than the \$733 raised by the council of 100,000.<sup>11</sup> However, as recently noted by the Productivity Commission<sup>12</sup>, councils with a high reliance on Commonwealth and State Government grants generally have a lower fiscal capacity to address challenges by themselves.

10 This demonstrates for Victoria a point the Productivity Commission report found across Australia – the weighting of grants to the smaller and more remote councils. See Commission *Assessing Local Government Revenue Raising Capacity* April 2008, finding 3.4, p xxxvi

11 As with Chart 5, the typical revenue figures are calculated from the trend lines for each revenue source. As before, the inner four Melbourne councils, with unusual revenue patterns, are excluded from this exercise.

12 Productivity Commission *Assessing Local Government Revenue Raising Capacity* April 2008

## Port Phillip Community Pulse Survey: Identifying Key Trends

In the 2009 National Local Government Awards, the City of Port Phillip won the Health and Wellbeing Category. The City's program recruited hundreds of community members to plan, implement and evaluate dozens of projects to improve the health of the community.

The City launched its Health and Wellbeing Plan in November 2007, with a key emphasis on community data collection and assessment of long-term trends. This builds on the success of the Community Pulse, which has been gathering data for nearly eight years covering the four pillars of sustainability - social, environmental, economic and cultural. The data reflects key issues that the community has described as important, many of which are included in the City's Community Plan 2007–2017.

There is now sufficient data to indicate some medium-term trends. In social connections, 59 per cent of Port Phillip residents now feel they regularly talk to five or more local residents – up from 51 per cent in 2002. The City has encouraged this trend by supporting organised street parties – whose numbers increased from 18 in 2003-04 to 24 in 2008-09.

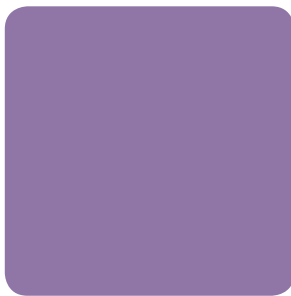
Data is also collected on environmental issues. In the City's own garbage collections, the proportion of recycling to total waste has increased in the last decade, climbing from 33 per cent in 1998/99 to 41 per cent in 2008/09. Another indicator of environmental health is the penguin population on the St Kilda breakwater, which has been monitored by Earthcare St Kilda twice monthly since 1998. The number of breeding sites grew from 71 in 1998/99 to 170 in 2008/09, although the latest figure is down from a peak of 221 in 2005/06.



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*Port Phillip City Council's Community Pulse Survey has been gathering data on key community issues over the past eight years.*

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Financial trends since 2002

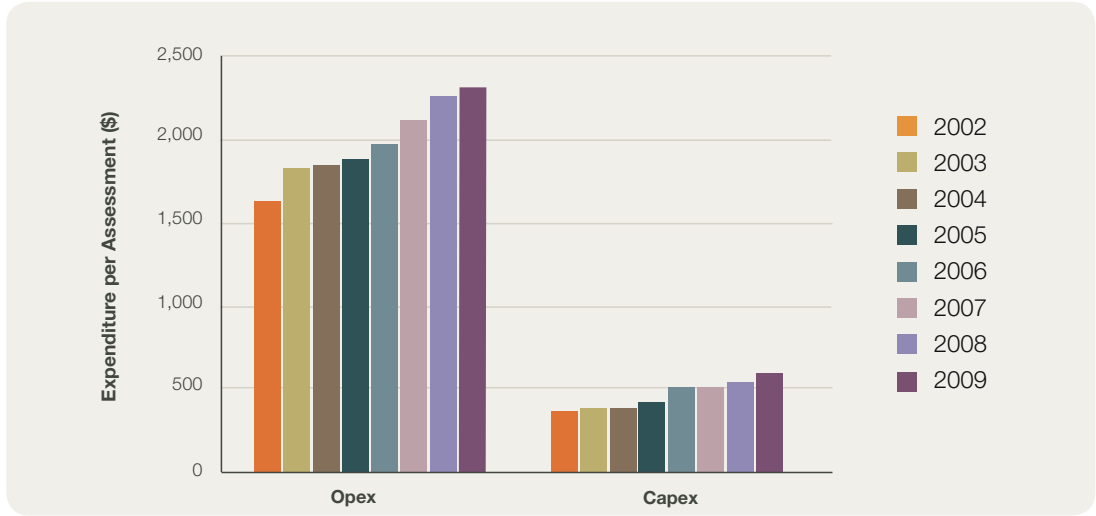


# Expenditure

The Key Indicators collected by councils and published in this report use two measures of council expenditure: operating expenditure (Opex) and capital expenditure (Capex).

Chart 7 shows the growth in both council operating and capital expenditure since 2002. To provide easy comparison between councils, these and the following figures are expressed per rateable property (or 'assessment'<sup>13</sup>). The chart shows the council median value across Victoria.<sup>14</sup>

**Chart 7: Victorian Councils 2002-2009: Median Operating and Capital Expenditure per Assessment**



- 13 As discussed in *Local Government in Victoria 2007*, the comparison between councils changes somewhat if other comparators are used: for example, results per head of population rather than per assessment. No indicator can give the full picture, and council patterns differ across the state. The per assessment figures are used here as they have been agreed by the sector and give the best overall basis for comparison.
- 14 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.

## Revenues

Between 2002 and 2009, median council operating expenditure has grown by 42 per cent, or by 5.1 per cent each year. Operating expenditure has increased the fastest in Large and Small Shires, with Inner Metro and Regional Centres both seeing slightly slower growth over these years of approximately 32 per cent. The rate of growth has slowed slightly in recent years, with average growth of 4.6 per cent across the last two years.

Capital expenditure has recently grown faster than operating, a trend welcomed in the Auditor-General's reports discussed earlier. Councils have responsibility for a range of community assets, including roads, drainage, parks and gardens and community buildings. In recent years, councils have been placing an increased emphasis on these assets. Median capital expenditure is up by 61 per cent since 2002, an annual average of 7.1 per cent. Inner Metro and especially Small Shires have seen the biggest expansion of capital spending, while Regional Centres and Large Shires, which already had the largest capital expenditure in 2002, have experienced slightly slower growth.

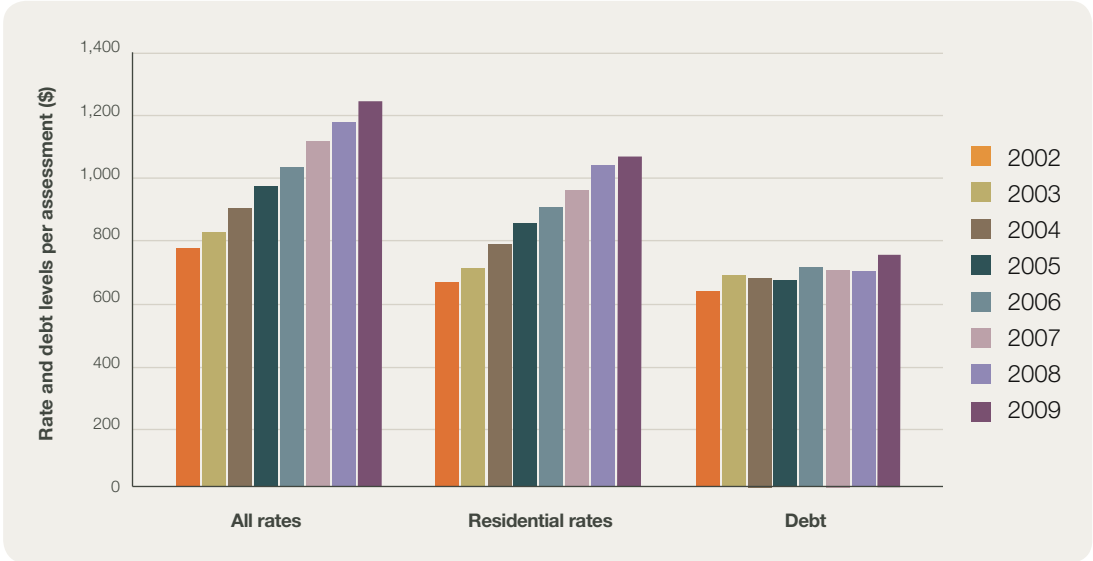
The Key Indicators examine three measures of council revenues: overall rates, residential rates, and changes in debt levels.

To fund the expenditures shown in Chart 7, Victorian councils have been increasing rate levels over the past seven years – and have also drawn on slightly more debt. Chart 8 shows median overall rates, residential rates and debt levels per assessment.



**Chart 8: Victorian Councils 2002-2009: Median Rates and Debt Levels**

*The rate of growth has slowed recently with rate increases averaging some 6 per cent in 2008 and 2009*



Since 2002, councils have increased median rates by 7.1 per cent per year. Residential rates have also increased by this percentage. Increases have been similar across the state with little difference between the council groups. As with the pattern for operating expenditure, the rate of growth has slowed recently with increases averaging some 6 per cent in 2008 and 2009.

After several years of stability, the median debt level<sup>15</sup> for councils increased slightly in 2009. Once again, the pattern varies between councils, with some repaying debts. For those councils increasing debt levels, the primary driver appears to be major capital projects that require additional funding.

<sup>15</sup> The accounting term for this measure is 'liabilities', which extends beyond debts to obligations councils have to fund in future years. However, for most councils the vast majority of these liabilities are indeed debts owed, and this term is used for ease of reference.



## Maintaining Community Assets

Chart 7 indicated that councils have been strongly increasing their capital expenditure in recent years. Chart 9 compares this expenditure with council estimates of what is necessary to renew and maintain their assets. The Key Indicators measure this in two ways:

- Expenditure on asset renewal – as a percentage of the desired expenditure considered necessary to sustain the assets; and
- Expenditure on renewal together with maintenance – again as a percentage of the desired level of expenditure on renewal and maintenance.

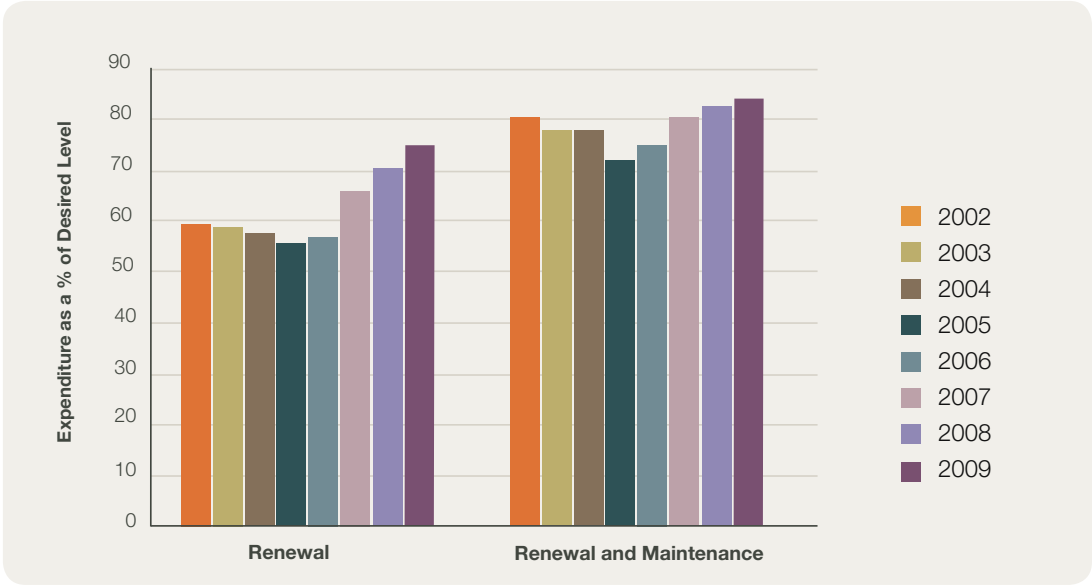
Chart 9 does not show the same strong growth as the capital expenditure figures – indeed, both these measures experienced declines in the ratios from 2002 to 2005. The key reason for these patterns is that a council's view of what is necessary to sustain assets changes as asset management information improves. It can both increase as councils include additional assets or decrease as ways of sustaining assets improve.

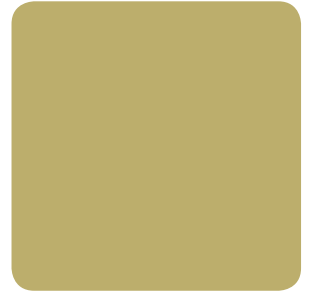
Early this decade, councils put considerable effort into improving asset management information. Chart 9 indicates that this reassessment led to increases in estimates of the size of the renewal task. However, since 2005 both measures have seen strong increases, linked to the further expansion of capital expenditure.

All five council groups experienced similar patterns: a stable or slightly falling renewal figure between 2002 and 2005, and then good growth in expenditure as a percentage of the desired level after 2005. Comparing the groups, Outer Metropolitan councils have below average figures for renewal and renewal plus maintenance. Many of these councils are growing quickly, and so more of their capital expenditure is on new assets rather than renewing older assets. In contrast, Large and Small Shires, which typically have little population growth, have fewer new projects and slightly above average figures for renewal expenditure.

**Chart 9: Victorian Councils 2002-2009: Renewal and Renewal plus Maintenance as proportions of Desired Levels**

*Since 2005, both expenditure on renewal and maintenance of assets has increased.*





Assisting Councils to  
Improve Performance



## Assisting Councils to Improve Performance

Local government in Victoria has produced some strong positive results in 2009, despite some daunting challenges. Asset management and operating results have seen solid improvement. However, there is still some way to go in achieving full renewal of assets – and the achievements thus far have been underpinned by rate increases substantially above the rate of inflation. Further, some councils have seen recent falls in overall satisfaction ratings.

The Victorian Government is working with councils to improve local government sustainability and performance. Such improvements require:

- Addressing structural issues (such as the inherent financial pressures on small councils with extensive road networks); and
- Supporting local government's own capacity to respond to its challenges.

This section outlines five initiatives that Victoria is implementing to support local councils and improve governance.

### *Asset Management Initiatives*

Initiatives to improve council management of infrastructure over the past decade have included:

- The Step Program, developed by the Municipal Association of Victoria (MAV), which sets out several steps in understanding the current and desired performance of assets, the financial implications, and the development of an asset strategy;
- The Asset Management Performance Measures Project, a data collection and reporting tool developed by Local Government Victoria to enable councils to measure their own performance in the management of infrastructure assets. The methodology enables councils to collect data on asset conditions and usage, using current replacement cost and economic lives. This will provide information, for council's purposes, about the rate at which assets are being consumed, renewed and expanded; and
- A five-year project managed by the MAV and Australian Road Research Board which monitors more than 160 roads across Victoria to assess conditions and rates of deterioration. New models will better reflect the performance of local roads in various environments, different traffic volumes and road pavements, covering both sealed and unsealed roads.

### *Councils Reforming Business (CRB)*

The Victorian Government originally announced funding of \$4.7 million for two years of the Councils Reforming Business (CRB) initiative in the 2007 State Budget. Following a range of positive outcomes from the first phase of the initiative, the 2009 Budget allocated funding for a further two years.

In collaboration with the MAV, the initiative encourages councils to work together to improve services, reduce costs and cut red tape.

Following a consultation and development phase in 2007-08, five streams started in September 2008:

- Procurement;
- Better Practice Local Laws;
- EasyBiz Phase II;
- Shared Services Program; and
- Local Action on Affordable Housing.

Phase 2 is focusing on practical programs that support collaborative and sustainable reform in local government.

### *Local Government Reform Fund projects*

In mid 2009, the Commonwealth Government announced funding of \$25 million for a new Local Government Reform Fund (LGRF). The Commonwealth invited states and local government to submit proposals in two areas:

- Assisting councils to improve financial and asset planning and management, along the lines discussed above; and
- Improving council operations through greater regional cooperation and collaboration.

*Victoria, together with the MAV and local councils, has requested funding for seven projects in the above areas. These build on successes already achieved through the Council Reforming Business and Reducing the Regulatory Burden (RRB) programs. A further proposal establishes a national pilot project for standardised assessment processes for heavy vehicle route freight data.*



### *Improving Council Governance*

On 13 August 2009, the Victorian Government announced a major restructure of local government functions. The changes included:

- The separation of Local Government Victoria's two roles of policy leadership and enforcement of the Local Government Act; and
- The development by the Essential Services Commission of a performance assessment and benchmarking regime for local government.

In the administrative changes, Local Government Victoria continues to work with local government to develop policy for the sector. A new Local Government Investigations and Compliance Inspectorate, headed by a Chief Municipal Inspector, takes responsibility for enforcement of the Act. This will include auditing compliance with governance requirements, and investigating breaches of the Local Government Act.

*The Minister for Finance released the Terms of Reference for the development of a performance framework on 15 October 2009. The Essential Services Commission is looking at a number of issues, including the appropriate framework for performance monitoring, suitable indicators to be used, and implementation aspects. The Commission will provide its final recommendations to the government in June 2010 and produce a prototype performance report by January 2011.*



### *Legislative changes*

The Victorian Government introduced significant reforms during 2008-09 to enhance good local governance. Amendments to the Local Government Act included:

- Specifying common principles of conduct for all Councillors;
- Establishing mechanisms to deal with Councillor misconduct; and
- Clarifying conflict of interest principles.

Councils are now required to include specific principles of Councillor conduct in their codes of conduct. Failures to comply with the principles or with the code of conduct may be reviewed by a Councillor Conduct Panel, established from lists of suitable people maintained by the MAV. If a panel finds the principles have been breached, it may require a Councillor to take various steps, or, in cases of serious misconduct, refer the matter to the Victorian Civil and Administrative Tribunal.

Extensive conflict of interest requirements came into operation in December 2008. The Act now includes precise definitions of what constitutes conflicts of interest. The reforms extended the concept of conflicts to beyond purely financial matters, and also expanded the scope of meetings and activities subject of the provisions. The government has given a commitment to review the application of these provisions after one full year of operation.



## Further Information

Do you want to see how your council is performing against the 11 Local Government Indicators?

The indicator data for each council, and for council groups, from 2005 are available on the Local Government Victoria website **[www.localgovernment.vic.gov.au](http://www.localgovernment.vic.gov.au)** by following the links to 'Publications and Resources' and then 'Data, Directories and Surveys'. You can also find out more here about the indicators and how they are calculated.

Other reports referred to in this publication are also available on line:

The Wallis Consulting Group's report *Local Government Community Satisfaction Survey 2009* can also be found at **[www.localgovernment.vic.gov.au](http://www.localgovernment.vic.gov.au)**, following the links to 'Publications and Resources' and then 'Data, Directories and Surveys'.

The Auditor-General's report *Local Government: Results of the 2008-09 Audits* is available from **[www.audit.vic.gov.au](http://www.audit.vic.gov.au)**

Information about the Councils Reforming Business initiative is available on the Local Government Victoria website at **[www.localgovernment.vic.gov.au](http://www.localgovernment.vic.gov.au)**

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