Local Government in Victoria 2006

Victoria The Place To Be
Department of Planning and Community Development

Victorian Local Government areas

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Authorised by the Victorian Government, 1 Spring Street Melbourne, Victoria 3000

Minister's Foreword

I am pleased to present the *Local Government in Victoria 2006* report. This is the sixth year that this report has provided the community with a valuable source of information about local government in Victoria.

This publication demonstrates the diversity of local governments in Victoria in financial and demographic terms and the challenges they face in managing their significant assets including the road networks for which they are responsible.

The *Local Government in Victoria Report 2006* is the starting point for communities to gain an understanding of how their local government is performing in the context of a diverse local government sector in Victoria. I hope this report serves to encourage individuals to engage with their local council, to find out more about the types of services they provide and how they can participate in democracy at the local level.

Civic participation is just one of the features of a strong community. Local government, as the level of government closest to the community, plays a pivotal role in the building of strong and sustainable 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.

What is pleasing to see is the positive trend occurring in the 11 indicators in the report. Rates have been growing at a slower rate, debt has remained relatively stable and communities have continued to be generally satisfied with the performance of their local governments. Significantly, councils have made substantial increases in their capital expenditure.

I trust you will find the report informative and a valuable resource tool.

Richard Wynne MP
Minister for Local Government

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Overview of local government in Victoria

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.

Such variations frequently stem from the considerable diversity between local councils. For one example, there are major differences in road length: four councils in north-west Victoria each have some 5,000 km of local roads, many more than the four councils of inner Melbourne, which each have some 200 km of local roads.[1] Differences also occur in the local population: in the farming areas across the State, most of the population was born in Australia, and very few people have trouble with English proficiency. In contrast, in three councils in the metropolitan area (Greater Dandenong, Maribyrnong and Brimbank) between 12 and 15 per cent of the population reported in the 2001 Census that they did not speak English "well" or "at all".

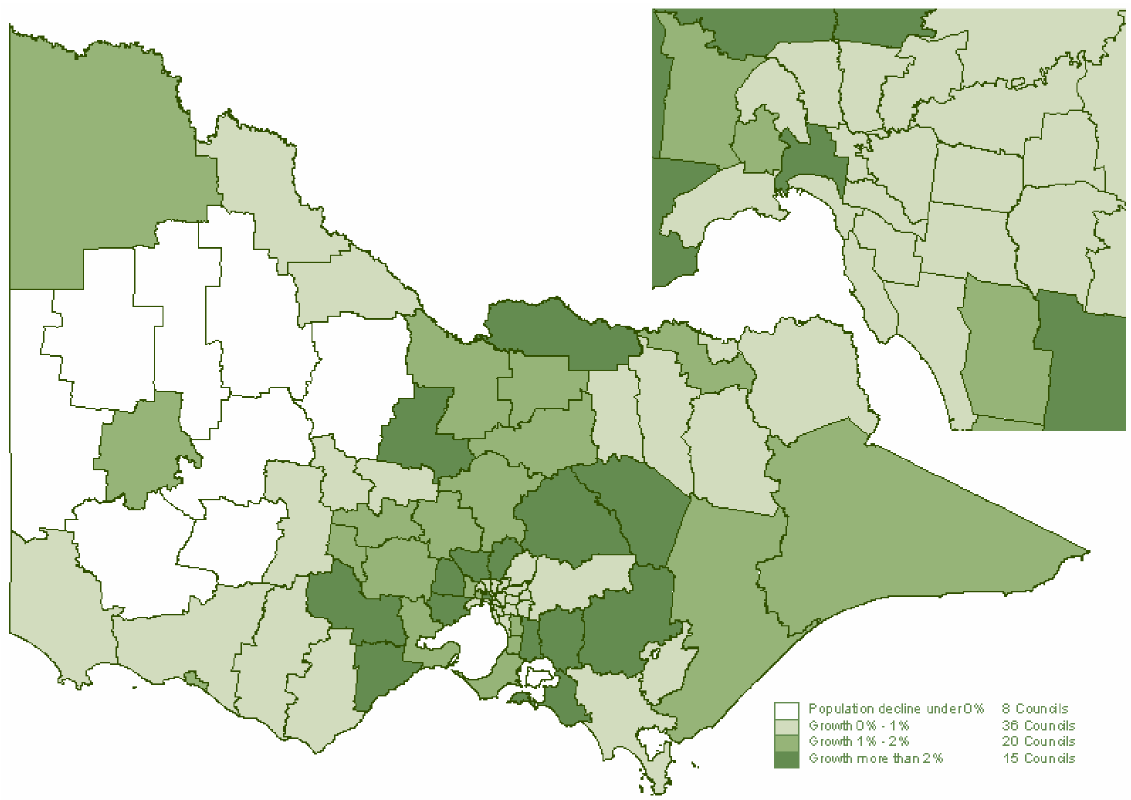
Key differences occur in the size of councils, and the rate at which their populations are changing. In area, the smallest council in Victoria is Queenscliffe (8 square kilometres), while the largest is Mildura (22,000 square kilometres). The population range is from 3,200 people (Queenscliffe again) to 223,000 (Casey). The following table shows the average population size for each group of councils as at 30 June 2006, and the average growth since June 2005.

	No	**Ave size**	**Growth**
Inner Central[2]	4	78,122	1.2%
Other Inner	13	119,894	0.5%
Outer Metro	14	129,565	2.1%
Total Metro	**31**	**118,872**	**1.3%**
Regional cities	11	65,091	1.5%
Large shires	15	29,121	1.6%
Small shires	22	11,517	0.8%
Total Regional & Rural	**48**	**29,295**	**1.4%**

[1] Data from Victoria Grants Commission *Annual Report 2005-06*, roads p89, 91; English proficiency p46, 51; population and growth p48, 53

[2] This report generally uses five groupings of councils: Inner and Outer Metropolitan, Regional cities, Large and Small shires. However, on the expenditure and revenue patterns discussed in this section, the most useful groupings for comparison are three: the inner four councils of Melbourne, Port Phillip, Stonnington and Yarra; all other metropolitan (ie other Inner and all Outer metro councils); and Regional and Rural councils (combining Regional cities and Large and Small shires)

Victorian Councils - % Population Growth 2005-2006



The map shows the pattern of population growth across Victoria.

Victoria's total population grew by 1.4% in the year to June 2006, which was a faster growth rate than in recent years. However, as in earlier years, the pattern of growth varied considerably across the State.

The fastest growing areas were on the outskirts of metropolitan Melbourne, and also the outskirts of Geelong. The biggest component of this growth was young families, with some councils along the southern coast also seeing increased numbers of retirees. In addition, the City of Melbourne saw strong population growth, mostly from students and young workers.

In contrast to these strongly growing areas, a number of councils in western Victoria experienced falls in population in 2006. Broadacre farming areas in particular had population declines, as farms grew in size, and many young people left for educational and job opportunities in towns. Another factor, which meant that regional centres such as Horsham and Warrnambool grew while their neighbours didn't, is a movement of retired farmers into the centres for better services.

Northern and eastern Victoria saw some population increases in 2006. Rural areas in these parts of the state typically have more intensive farming, which creates more job opportunities. In addition, the influence of retirees was felt along the Murray, and in East Gippsland.

Overall, Melbourne councils had similar, if slightly slower, population growth in 2006 than regional Victoria. The rapid growth in many outer suburbs contrasted with fairly stable populations in many metropolitan areas, especially those areas which have ageing residents. The inner-most suburbs saw considerable in-fill development.

These population sizes and trends create differing demands for councils. Some of the challenges across the state include:

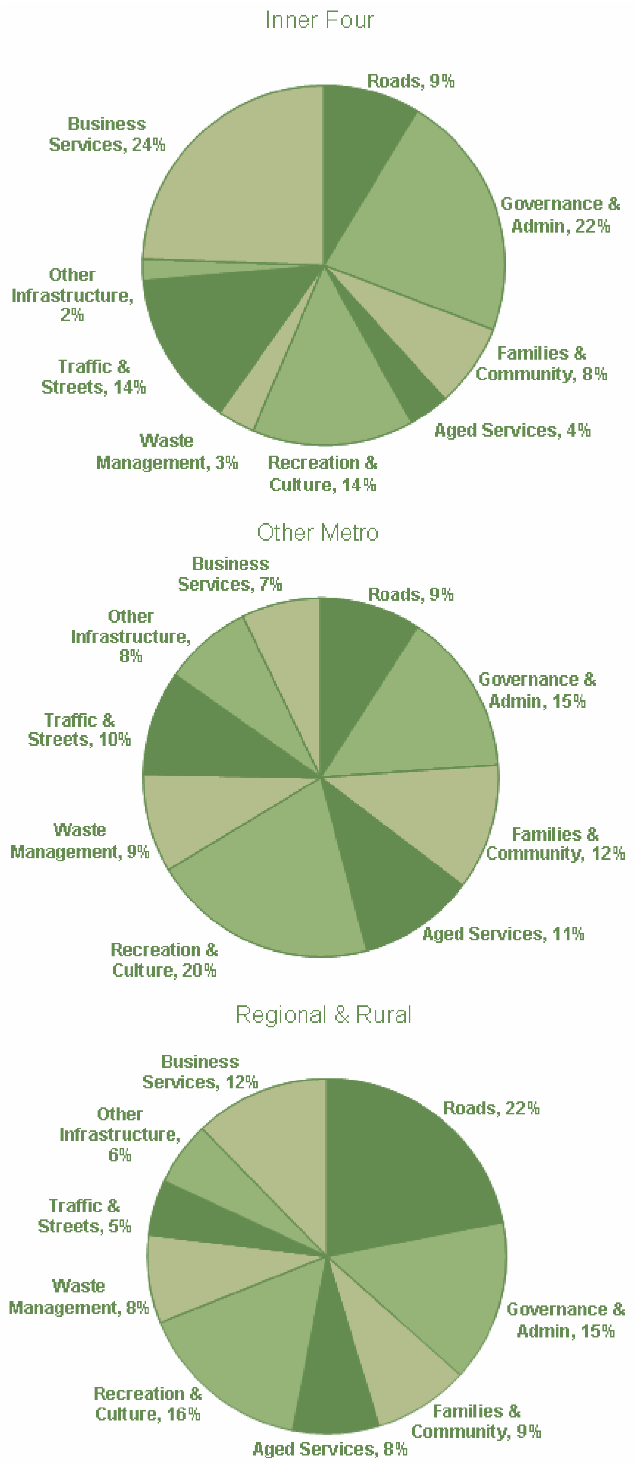
- Rapidly growing areas have to provide additional services and infrastructure for their new populations;
- Communities in areas with static or declining populations are often keen for their local government to address local economic development issues;
- Inner suburbs in Melbourne especially face significant planning issues as pressures for more medium density development can conflict with existing residents' desire to maintain the character of their neighbourhoods.

These challenges to deal with change come on top of existing differences in the types of services councils are expected to provide. The broad parameters can be seen in three council groups:

- The four inner Melbourne councils (Melbourne, Port Phillip, Stonnington and Yarra).
- The other metropolitan councils; and
- The 48 councils in regional and rural Victoria.

The below graphs show the patterns of recurrent council expenditures in 2005-06, showing differences in expenditure emphasis between these three groups of councils.

Expenditure Patterns 2005-06



Source: Victoria Grants Commission data, 2005-06 financial year. The data comes from each council's data return to the VGC of 'total recurrent expenditure', and excludes both capital and one-off or non-recurrent expenditure.

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 40 per cent of their budgets on business services and traffic and street management. They also have smaller proportions of older people, at 10 per cent of the population or less.
- Other metropolitan councils have an emphasis on people services. Over 40 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 have larger numbers of older people (often 15 per cent of the population) and spend more on aged services, while family services are more significant in the new outer suburbs, where around 15 per cent of the population are children aged less than 10.
- Regional and rural councils have considerably greater road lengths per person – and associated infrastructure issues – than their metropolitan peers. Roads comprise 22 per cent of total expenditure for this group (compared with 9 per cent across all Melbourne councils) and this emphasis increases the more rural the council is, reaching 45 per cent for some small shires. In comparison with other metropolitan councils, regional and rural councils also spend more of their budgets on business services such as saleyards. Many of these councils, especially in the more rural areas, have ageing populations, some with 20 per cent aged over 65.

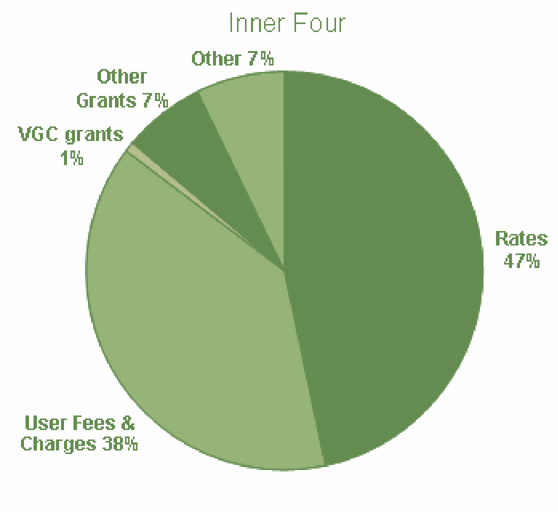
The second set of charts show, for the same groups of councils, recurrent revenues for 2005-06. There are three key sources of revenue for councils: rates; user fees and charges; and grants from State and Commonwealth Governments. The relative importance of these sources varies between the groups:

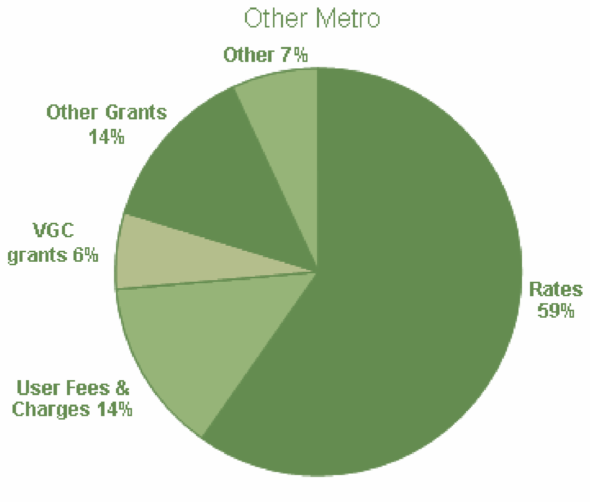
- Rates are taxes on property in the council's area, and include elements such as rates on property values, municipal charges for each property, and waste management charges (both the municipal and waste management charges cannot exceed levels specified in the Local Government Act). In total, these rates are the most important source of revenue for all three groups. However, the rates proportion of total revenues differs, ranging from 59 per cent for other metropolitan councils, to 47 per cent for the inner four councils and 46 per cent for regional and rural councils.
- User fees and charges include fees for services such as family day care and aged services such as meals on wheels. They represent 14 per cent of revenues for other metropolitan councils, and 18 per cent for regional and rural councils. The group with the highest proportion from this category is the four inner Melbourne councils (38 per cent of total revenues), where car parking fees and fines being especially important.

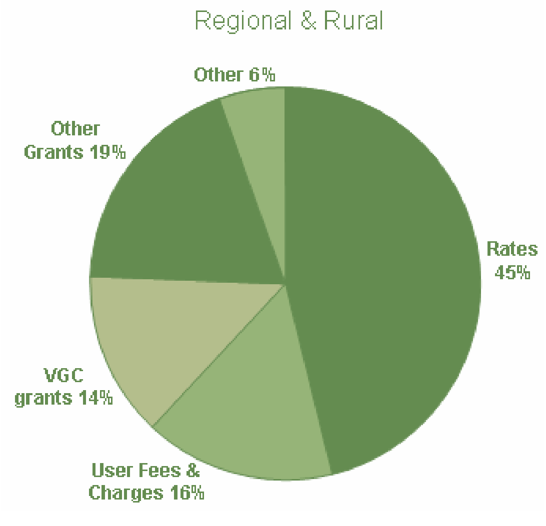
- Grants from State and Commonwealth Governments, with two broad types:
  - Financial Assistance Grants, administered through the Victoria Grants Commission (which are not tied to any specific purposes); and
  - Specific Purpose Payments (which are tied to specific programs, often for human services, and frequently require some matching expenditure from councils and/or from service users).
- Financial Assistance Grants (termed 'VGC grants' in the charts) comprise part of Commonwealth tax-sharing arrangements. They are allocated by the VGC after assessing councils' relative need levels and length of road networks. Regional and rural councils receive higher general grant payments, because of both extensive road networks and smaller revenue raising capacity from their property bases. The inner four councils, with strong property bases and short road networks, receive minimal general grants.
- Specific Purpose Payments (SPPs, termed 'other grants' in the charts) provide 14 per cent of total revenues for other metropolitan councils, with SPPs for aged services being the most significant grants in the middle ring of suburbs and family services important in outer suburbs. They provide 19 per cent of revenues in regional and rural Victoria
- Councils also receive some other revenues, with outer metropolitan councils for example receiving assets such as roads as part of new developments.

Source: Victoria Grants Commission data, 2005-06 financial year. The data comes from each council's data return to the VGC of 'total recurrent revenues', and excludes both capital and one-off or non-recurrent revenues.

Revenue Patterns 2005-06







Community Strengthening

Local councils in Victoria play a major role in assisting and strengthening their local communities.

The Victorian population health survey, conducted by the Department of Human Services in 2005,[3] found that good social networks have a range of benefits. People with strong social networks generally:

- Feel more secure
- Enjoy better health
- Sense more control over their life
- Feel more valued; and
- Are more involved in civic life.

To achieve such benefits, many councils are introducing initiatives in this area, both by themselves and in partnership with the State Government's community strengthening program. The projects aim at goals expressed in the Government's April 2005 social policy strategy *A Fairer Victoria*, and a number of other publications. Key goals are to work with people and organisations at a local level to find practical solutions to local problems – and by doing so both address those problems and improve people's social networks.

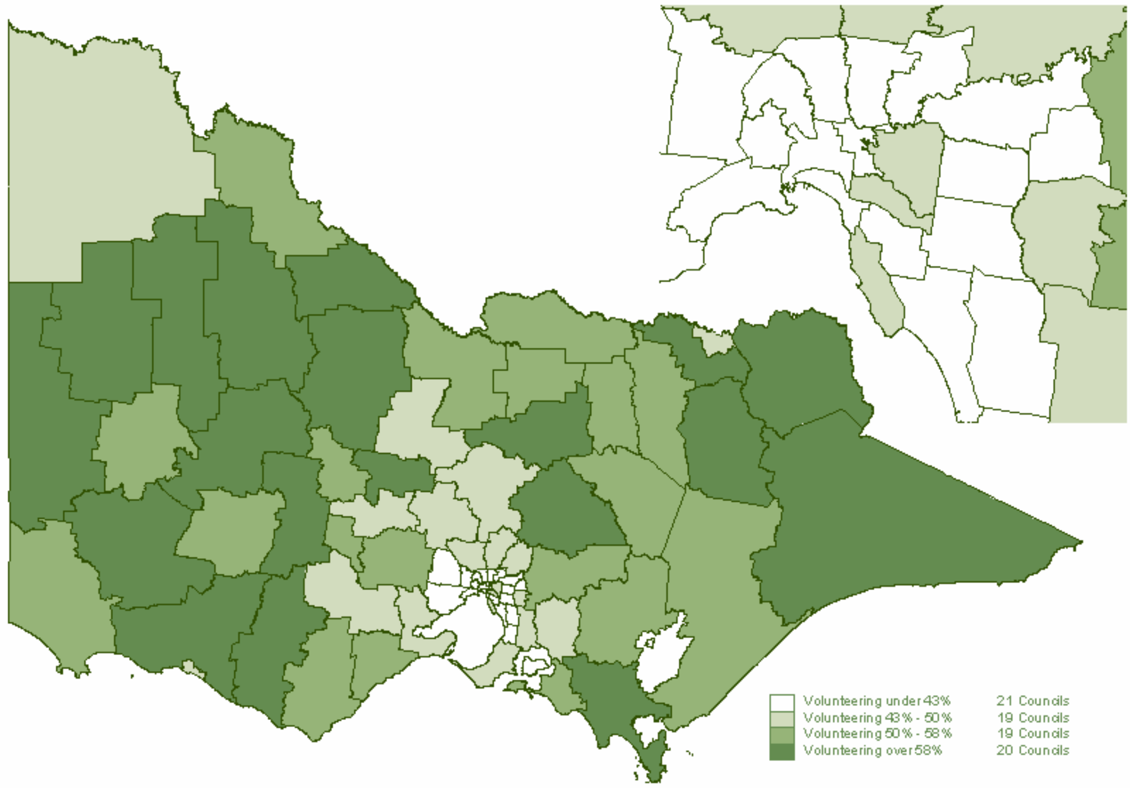
Examples of projects which receive State Government support include:

- The Community Building Initiative, which brings local residents together with government and community agencies to plan for and address local needs, build local leadership and foster community networks; and
- Community Renewal projects, which target communities facing a number of difficulties such as falling employment, poor access to services and/or run down community facilities.

One important element in community activity is the extent of volunteering.[4] Volunteers play critical roles in a wide range of projects, and both local and State government projects try to encourage and assist the success of volunteer involvement.

[3] See www.dvc.vic.gov.au and links to 'Building stronger communities.'
This site also provides much of the background for the following discussion
[4] See June 2006 *Indicators of Community Strength: a framework and evidence*

Victorian Councils - % Adults Volunteering Regularly or Sometimes



Source: Department for Victorian Communities (DVC, May 2005)
Indicators of community strength at the Local Government Area level in Victoria

The map shows the proportion of adults in each local government area that regularly or sometimes volunteer for community projects and organisations.
The map shows the highest volunteer presence is in rural Victoria. This reflects involvement in both well-known organisations such as the Country Fire Authority (which has almost 60,000 volunteers across Victoria) and Landcare groups, and other groups such as local sporting clubs and community organisations. Some services which are provided by commercial firms in Melbourne or regional centres do not have a sufficiently large market in rural areas – and if they are provided, they rely on volunteers from the community.

A second pattern indicated in the map is that volunteering is generally higher in areas with larger numbers of older people.

People's willingness to volunteer is also affected by how worthwhile they feel their contribution is, and how welcome they are made. Councils and other community groups play a big role in creating positive environments to encourage people to volunteer.

The following six Victorian council projects were recognised in the 2006 National Awards for Local Government.[5] All use community resources, interest and involvement, to help develop better outcomes for the community.

Swan Hill Healthy Minds Network
Winner, National Award for Merit, 2006 National Awards for Local Government

The Swan Hill Healthy Minds Network was set up in August 2004 to help with such problems as depression, mental illness and suicide in the Swan Hill region. The key aim was to increase awareness of mental health, and of the services available to tackle problems.

The Network has established and promoted a range of contact numbers, available 24 hours per day, 7 days a week. These initial contact points assist people requiring immediate support. They are staffed by qualified people who can provide confidential advice, and are able to refer to a local agency for ongoing assistance. A complementary strategy is to de-stigmatise mental illness through the support of the agencies.

In collaboration with the District Hospital, the Mallee Division of General Practice, and year 11 students from the two local colleges, the Network developed posters and a DVD to publicise the project.

Campaspe Community Development Program
Winner, National Award for Innovation, 2006 National Awards for Local Government

Operating over the past three years, the Program encourages local communities to develop blueprints for their area's future. Local Community Plan Groups, representing 10 communities and 100 localities cross the Shire have considered the various issues facing their area, and set out broad projects to tackle the problems. Local initiatives have included responses to water industry reform, local health service reviews, improved public transport access, access to broadband, and an integrated approach to tourism planning.

A key feature is engaging many members of the community: more than 10 per cent of the Shire's population has contributed to the development of the local plans.

The Shire has incorporated these local plans and project proposals into its planning and budget processes. Over the past three years, the Council has contributed more than $600,000 to the planning processes and implementing recommended projects.

[5] For information on these awards, see www.dotars.gov.au/local/awards/index

Golden Plains Health Planning Forum
Commendation, Health and Well Being Category, 2006 National Awards for Local Government

Golden Plains has a rapidly growing population, but until 2003 had minimal health planning and provision. In consequence, there was poor coordination of services across the Shire, with duplication of services in some areas, and service gaps in other, especially more remote areas. This contributed to poor health outcomes for residents.

The council approached the State Department of Human Services, which provided a manager and funding for the project. The Planning Forum meets quarterly, bringing together fifteen departments and agencies involved in the area to coordinate health service delivery. The project has already led to improved health outcomes.

Darebin Interfaith Council
Winner, Strength in Diversity Category, 2006 National Awards for Local Government

Darebin City set up the Interfaith Council in June 2005 to encourage collaboration, comprehension and dialogue between groups of different faiths. The initiative followed community consultation by the council, which indicated strong support for better inter-faith communication.

The Council has a membership of over 100 religious leaders, and is facilitated and resourced by the Council. As well as providing a forum for discussion of mutual issues, the Council has shared information and experience. It has also allowed the council to access previously hard to reach segments of the local community.

Moyne Shire: Hawkesdale and District Family Services Centre.
Commendation, Strong and Resilient Communities Category, 2006 National Awards for Local Government

A review of early childhood services in 2002 found that Hawkesdale suffered from poor facilities, isolation and fragmentation. The Shire and a group of local mothers developed plans for a new purpose-built children's centre.

The council, assisted by an Australian Government grant and a very generous private donation, funded the project. The centre was officially opened in February 2006.

Bayside Youth Documentary project
Commendation, Youth Engagement Category, 2006 National Awards for Local Government

In the lead up to the 2005 Bayside Film Festival, professional filmmakers worked with 200 year nine students through schools and youth groups to make short documentary films. Over a four month period, students developed investigation and expression skills. The project lead to 27 short documentary films screened throughout the festival, with a finale showcasing twelve films in the Youth Documentary Awards.

Community Satisfaction Levels

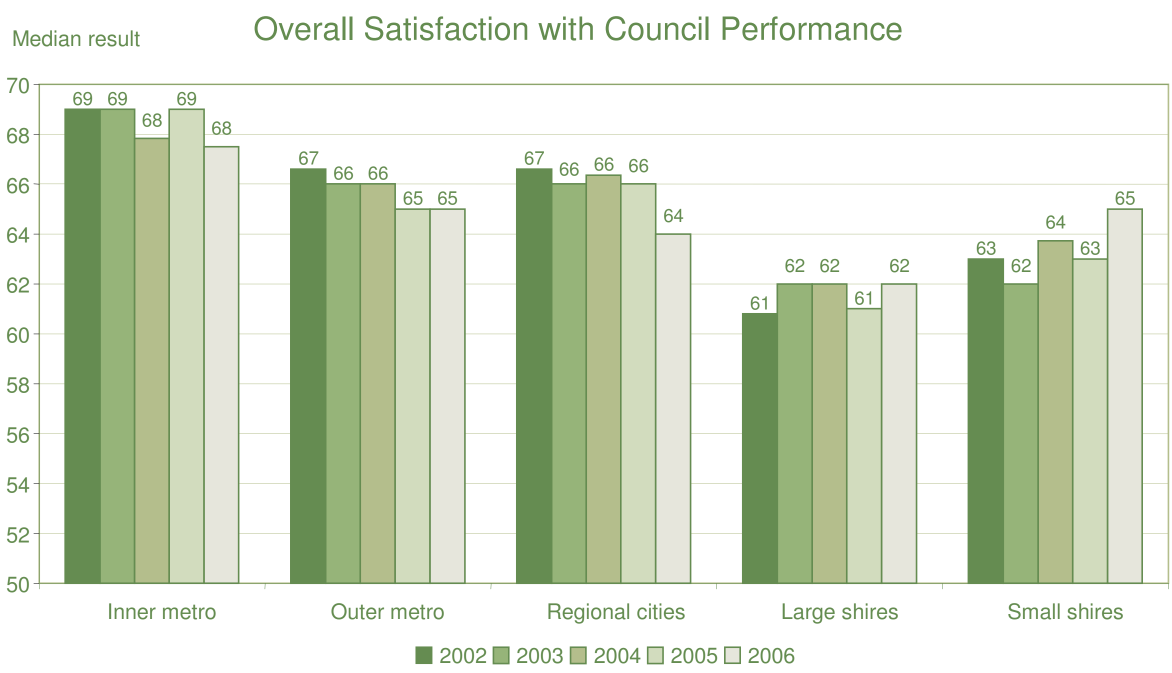
A central indicator of how well a council is operating is its community's assessment of that council's performance. Since 1998, local government and the State Government have jointly funded detailed annual public opinion surveys to gauge residents' views of their councils. The surveys ask some thirty thousand people, across nearly all councils, to rate their council's performance.

This and subsequent sections discuss results in five council groups: inner and outer metropolitan, regional cities, large and small shires. Using these groups indicates some of the diversity in council experiences across Victoria, and some of the factors underlying differing results. The Appendix to this Report gives detailed results for each council and the council group it is allocated to.

The public opinion survey uses a five point scale: excellent, good, adequate, needs improvement, or needs a lot of improvement. The following graphs combine the responses to give an overall score on a scale from 20 to 100. On this scale, if everyone in one council area felt performance was 'adequate', the council would receive 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 many 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:



All groups of councils have maintained averages above the ‘adequate’ level over the past five years. As the graph shows, there can be small year-to-year movements in these figures – such variations are not uncommon in statistical series and are not statistically significant. For this reason, while both the Inner metro and Large shire groups have seen movements up or down of 1 point, their satisfaction levels are essentially stable.

However, over the five years, some trends are appearing for the three other groups:

- Both Outer metro and Regional cities have had slight falls in their satisfaction ratings; while
- Small shires have seen some improvement. The state of rural roads was a particular area of concern in Small shires five years ago, and this improvement in satisfaction may reflect the capital works programs these councils have put in place since then.

The survey also asks residents to nominate which are the most important issues for them in deciding how satisfied they are with their council. In order, the three big issues were: Town Planning; Economic Development (this being especially strong in regional Victoria); and Roads.

In 2006, more detailed analysis of the satisfaction data revealed some differences between metropolitan and regional respondents.[6] Metropolitan residents were happier with their councils’ performance in four major areas:

- local roads and footpaths (65 per cent satisfied[7] for metropolitan compared with 51 per cent for regional)
- recreational facilities (83 per cent for metropolitan compared with 79 per cent for regional)
- waste management (84 per cent for metropolitan compared with 80 per cent for regional)
- economic development (76 per cent for metropolitan compared with 69 per cent for regional).

6 Wallis Consulting (May 2006) *Local Government Community Satisfaction Survey 2006* - Research Results report for Local Government Victoria, pVI. These categories group Inner and Outer metropolitan into ‘metropolitan’, and Regional cities, Large and Small shires into ‘regional’.

7 ‘Satisfied’ in this context means the combined percentage answering ‘excellent’, ‘good’ or ‘adequate’.

In three other areas, satisfaction was somewhat higher amongst regional respondents:

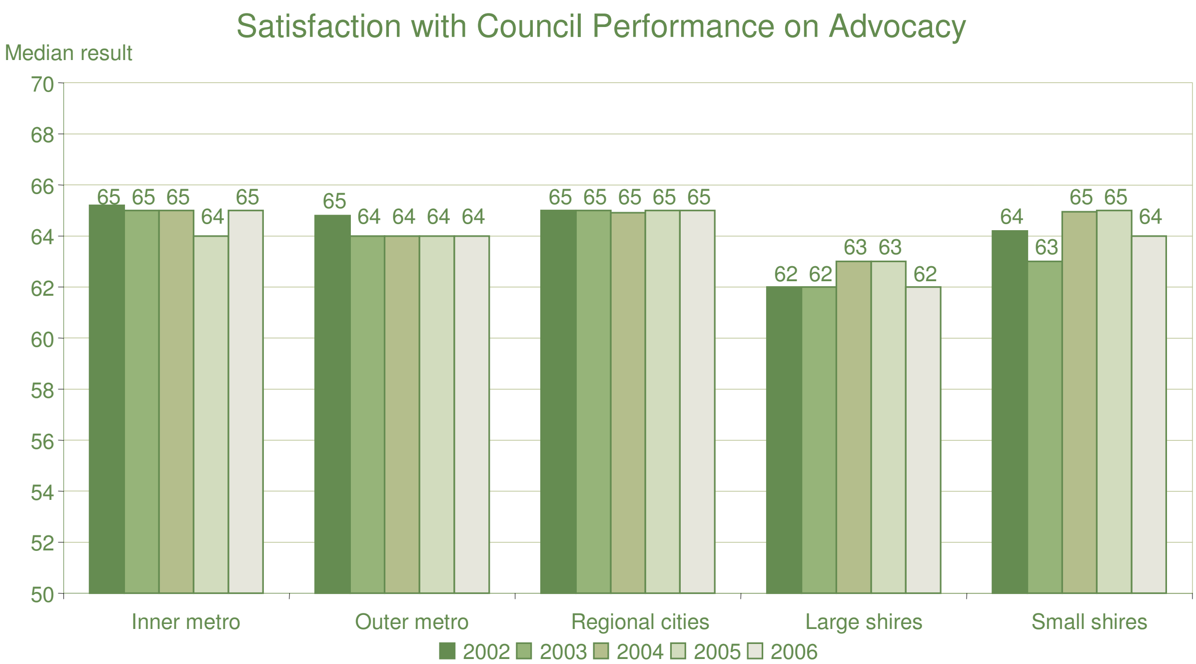
- health and human services (89 per cent for regional and 85 per cent for metropolitan)
- appearance of public areas (81 per cent for regional and 76 per cent for metropolitan)
- traffic management and parking facilities (70 per cent for regional and 63 per cent for metropolitan).

Advocacy and engagement

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

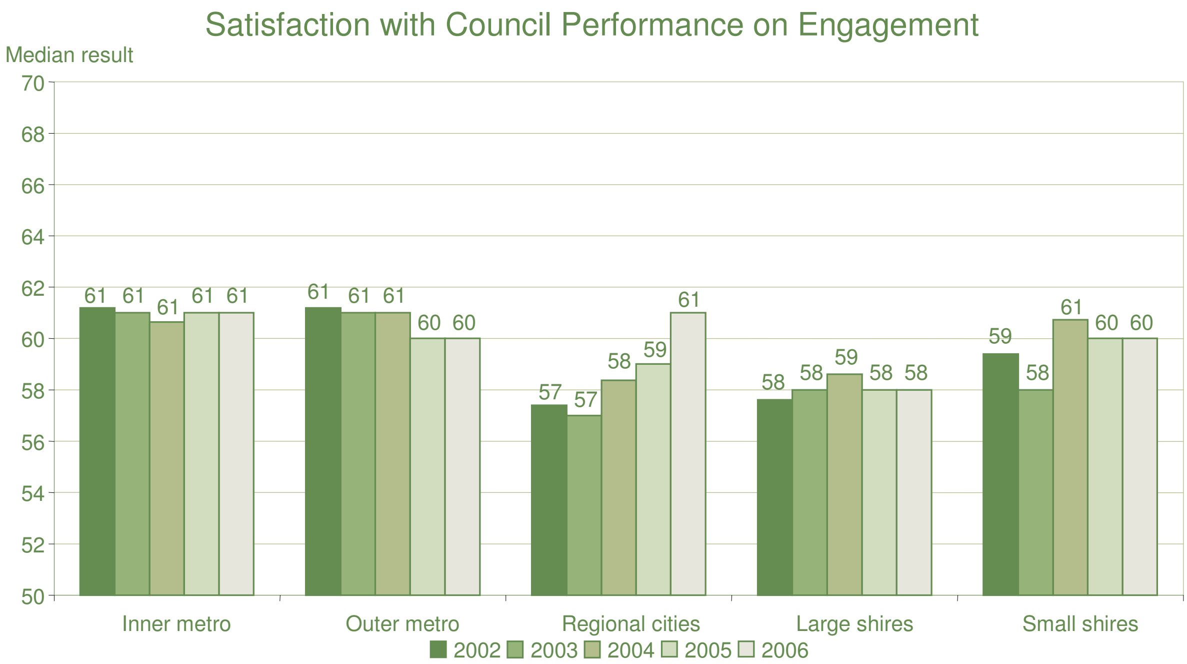
- As an advocate and representative in dealings with other levels of government (and external groups).
- In engaging with the community (involving residents in decision making).

The following graphs show the median results for residents' responses since 2002.



The advocacy results are essentially stable across these five years, with Large shires being the only group below the general 64-65 rating. In comparison with the results for overall satisfaction, over these years:

- Inner metropolitan councils consistently received advocacy ratings of some four points lower than they did for overall satisfaction
- Earlier in the period, both Outer metropolitan councils and regional cities had advocacy ratings below the overall satisfaction results. However, with the recent falls in the overall results, those and the advocacy ratings are now fairly similar;
- Large shires had similar ratings for the two measures across these years; while
- Small shires received advocacy ratings which were slightly higher than those they received for overall satisfaction – and this gap has also narrowed in 2006.



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). The engagement graph also shows:

- Ratings for metropolitan councils, and for Large shires, have been largely stable across these years;
- In contrast, both Regional cities and Small shires have seen improvements in their ratings. The regional cities movement contrasts with stability on advocacy, and a slight decline in overall satisfaction levels.
- With the exception of Regional cities, broad council ratings for engagement seem to move similarly with those for advocacy.

Some differences are reported in the absolute levels of satisfaction for the different ratings of overall satisfaction, advocacy and engagement. However, (and again with the exception of Regional cities) 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 most residents' ratings for advocacy and engagement are strongly linked to their overall satisfaction levels and overall perceptions of the council.

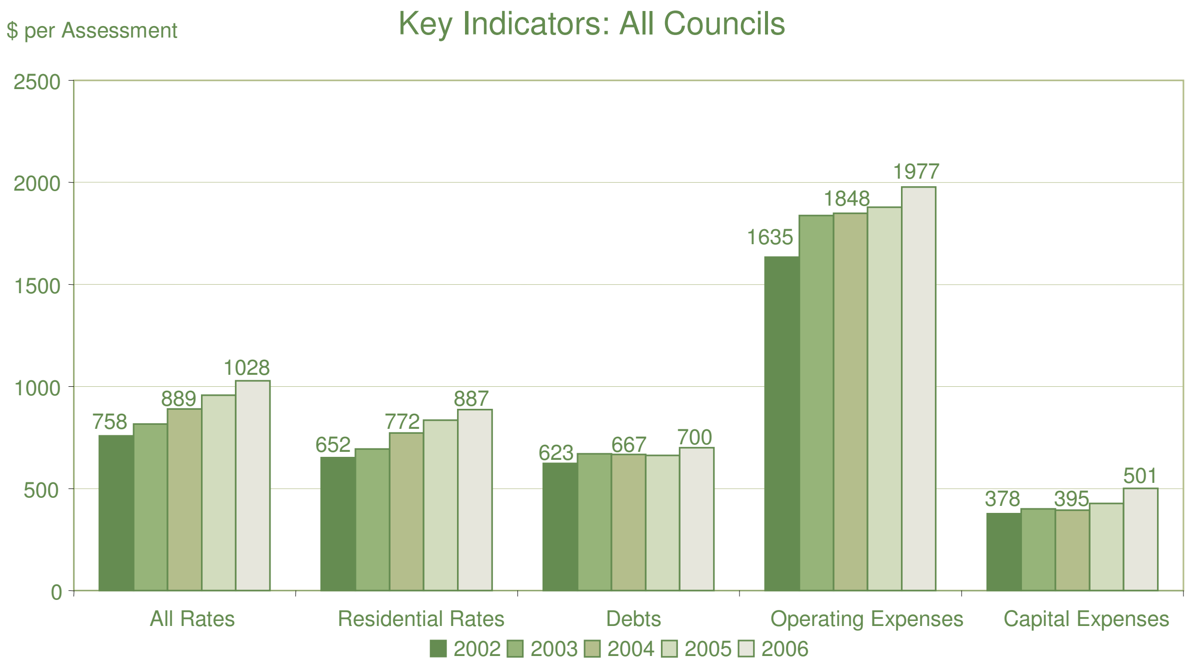
In the late 1990s, councils, peak organisations and the State Government discussed various ways of improving council accountability to their communities. These discussions reached agreement on eleven key indicators, and since 2001 councils have published these indicators in their Annual Reports. The community satisfaction measures discussed above are the first three indicators. 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.[8]

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.[9]

[8] More details on the use of these indicators are given in the introduction to the data attachment at the end of this report.

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



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

As councils make their revenue raising decisions after considering operating and capital expenditure needs for the forthcoming year, the expenses figures are discussed first. In total in 2006, operating expenses grew on average by 5 per cent, and capital expenses by 17 per cent, and to fund these increases council increased median rates by 7 per cent and debts by 6 per cent. In detail:

- Council operating expenses[10] per assessment reached $1,977 in 2006,[11] up 5.2 per cent on 2005. Inner metropolitan, outer metropolitan and regional cities saw growth similar to the overall average, while Large shires had a slightly larger rise, at 8 per cent, and Small shires a smaller movement, at 2 per cent.
- 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 16.9 per cent in 2006 to $501, and this expenditure is 33 per cent up on the figure for 2002. Regional cities, Large and Small shires all saw strong increases (of between 13 and 22 per cent each) on this measure. Metropolitan councils saw little change on last year (which had been 18 per cent up on 2004 for Inner metropolitan).

[10] See the following section for discussion of this indicator in 2006, and a change to the methodology to provide more accurate comparisons from year to year.
[11] For ease of presentation, '2006' refers to the data included in councils' Annual Reports for 2006, which give the results for the 2005-06 financial year. Similarly, '2005' refers to figures for 2004-05, and so on.

- Median rates and charges per assessment increased by $71 (7.4 per cent) in 2006. This was at the lower end of the range of increases over the past five years (from 7.5 to 9.0 per cent annually). There were some differences between council groups, although in most cases a large increase in this measure in 2006 followed a small increase in 2005 (for example, Small shires had a 6 per cent increase in 2006, after 12 per cent in 2005), or vice versa (Regional cities had a 10 per cent increase in 2006 after 5 per cent in 2005). This variability in year-to-year movements may simply stem from the methodology used,[12] and suggests that a better picture is gained from looking at the longer term trends.
- Median residential rates increased from $836 in 2005 to $887 in 2006. This increase of $51 was slightly less in percentage terms (6.1 per cent) than the figure for overall rates. There was less variation between the council groups, with the range from 4 per cent for regional cities to 9 per cent for Inner metro and Small shires.
- Council debts per assessment rose to $700 in 2006 (up 5.6 per cent), after three years of stability at the $660-670 level. This pattern also differed across the council groups: debt fell slightly for Large shires, while increasing by 11 per cent for Small shires (once again, both of these movements reversed the respective changes in 2005).

Assessing the indicators

Two aspects of the indicators require some comment this year:

- A change in the reporting of operating expenditure; and
- Some concerns expressed by councils over the use of indicators 'per assessment'.

Operating Expenses

In previous years, the total operating expenditure reported by councils each year has typically included some non-recurrent items. For example, if a council sold a large property asset, it included the total receipts for this asset in operating revenues, and also included the cost of the asset (either original cost or current valuation) as an expenditure item.

[12] As noted in the footnote above, the median figure is used here in preference to the mean or simple average. However, one downside of the use of medians in smaller data sets (such as for the five groups of councils) is that there can be this variability from year-to-year.

There has been some concern that such treatment of non-recurrent items produces a misleading picture for public sector accounts. Consequently, changes have been made to accounting reporting, making a clearer distinction between recurrent operating expenses and non-recurrent items (which are now reported ‘below the line’). Local government is moving towards this approach, although it appears from an analysis of operating expenses reported in Annual Reports and the data returns to the Victoria Grants Commission that this trend is not yet completed for all councils.

Nonetheless, because most councils did change their reporting in the 2005-06 financial year, to exclude the non-recurrent items, many reported operating expenses that were lower in 2005-06 than they were in 2004-05. Thus, the change in the accounting reporting can give a misleading impression of changes between the years.

To avoid such a misleading picture, and to ensure comparability across the five years of operating expenses discussed in this report, the operating expenses for all councils have been reviewed back to 2001-02, and adjustments made to exclude any non-recurrent items in each year. Because of the change in reporting, and the adjustments, the results are not consistent with the data for earlier years included in previous issues of *Local Government in Victoria*.

In addition, to ensure a consistent basis between councils in compiling the State-wide figures this year, the results used for some councils for 2005-06 have been adjusted from those published by those councils in their Annual Reports. However, the operating expenses data for each council reported in the Appendix to this report is the same data that each council reported in their Annual Report.

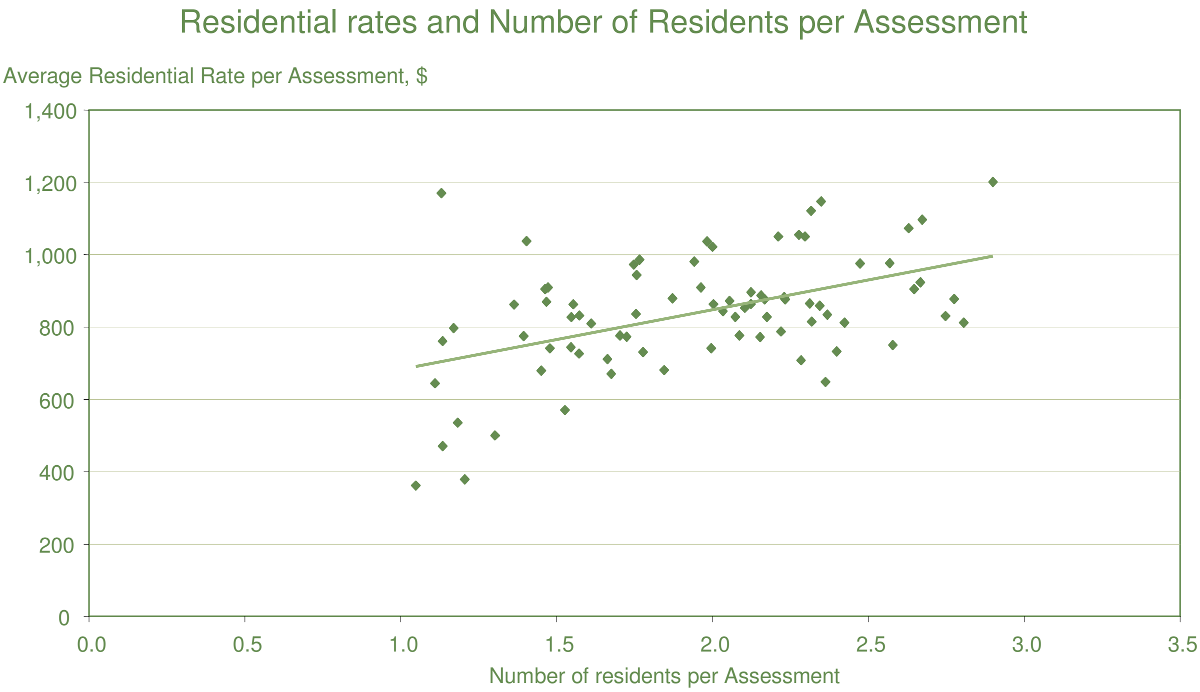
Per Assessment Indicators

As noted in the overview of local government, the size of councils in Victoria varies widely, from 3,000 to 217,000 population. This diversity was an important issue in the discussions in the late 1990s with local government and peak bodies during the development of the local government financial indicators. The key concern was to use indicators that would allow reasonable comparisons across all councils. The strongest support in these discussions was for indicators presented ‘per assessment’ – or for each property in each local council area.

It was always intended that the measures chosen would give a broad indication of local government performance. The overview documented considerable variation in the types of services provided by councils, and the revenue bases which they can draw upon. Broad indicators cannot hope to allow for all such variation – rather, they are a starting point for comparisons and discussions.

In addition, the results can vary depending on which indicators and methodology are used. For example, Nillumbik Shire in Melbourne's north-east outskirts, strikes residential rates per assessment of $1,322, which is the highest in the State. However, on a per head of population basis their residential rates are $425 and if the comparison uses rates per $ of valuation, their result is 0.00298. If a different basis is chosen, the rankings change.

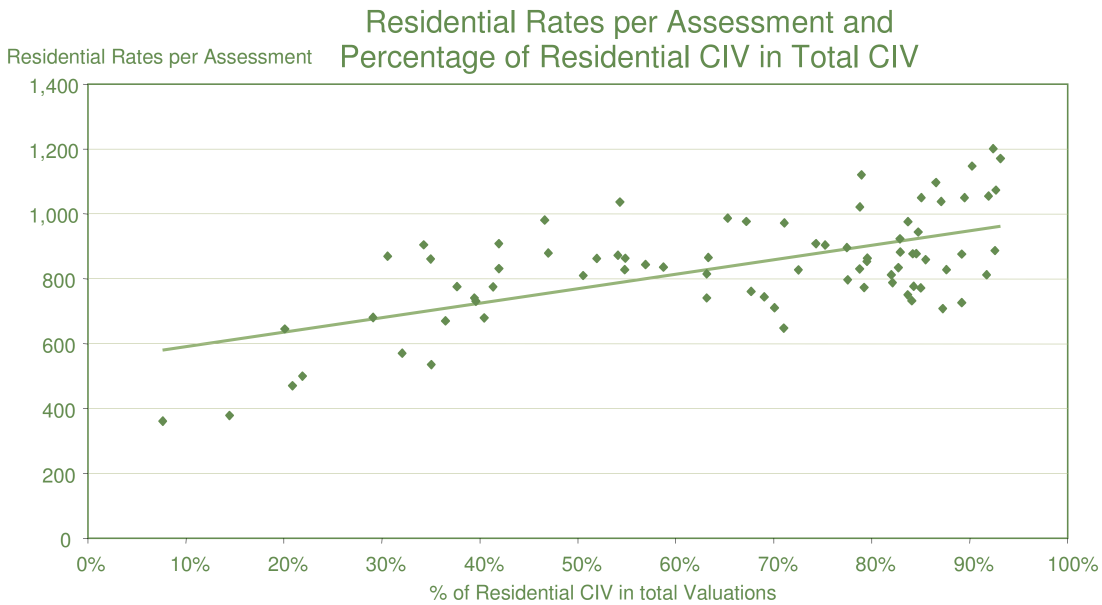
In terms of their rankings compared with other councils, councils with a high number of people relative to the number of assessments will do better if a measure based on population is used, while other councils will have better apparent results from the use of the per assessment measures. The range is shown in the following graph, which compares for each council its residential rate per assessment and the average number of people per assessment.



The trend line in this graph shows that there is a positive relationship between the number of residents per assessment and the average residential rate. This is to be expected. Councils provide services both to properties (such as roads and waste management) and to people (such as human services). For two councils with similar numbers of properties, but different population sizes, the council with the larger population will have to provide more human services – and strike higher rates per property to fund these.

But while this factor exists, there are still good grounds for using the number of assessments rather than the number of people in the indicators. Councils with predominantly residential properties may prefer the use of per person measures. However, such measures will lead to distorted results for councils with substantial numbers of other properties: commercial and industrial; farm properties; and even holiday homes.

The second graph shows the extent of other properties in total council valuations – and the relationship with residential rates per assessment.



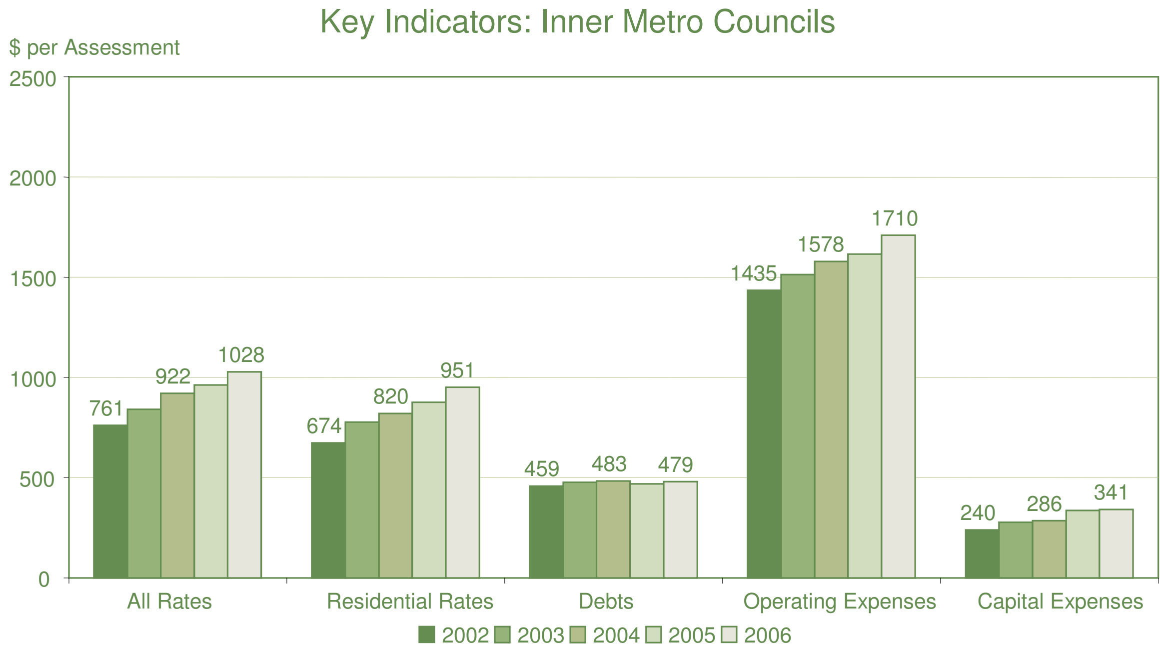
The graph shows there are a significant number of councils with predominantly residential properties – where total residential valuations account for 80 per cent or even 90 per cent of total valuations. However, there are many others with much lower residential proportions. The graph also indicates that residential rates per assessment are higher in predominantly residential councils. This again is not surprising – councils with wider property bases can raise rates from all properties, while predominantly residential councils have to rely on rates on residential properties.

Having acknowledged these distinctions, two other points should be borne in mind:

- The trend lines in the above graphs show there is indeed some relationship between the level of residential rates and the numbers of residents per assessment, or the residential share in total CIV. However, in both cases the trend line slopes gently upwards, indicating that other factors are also at work.
- In addition, and again in both graphs, there is a wide variation of experience around the trend lines. Even if the level of rates raised is compared solely with similar councils in terms of population numbers and valuation profile, some councils strike higher rates than others.

In summary, it is correct that indicators based on different methods will give differing comparisons between councils. Nonetheless, it appears that the current presentation of indicators per assessment is the most appropriate way of comparing councils across Victoria. Bearing in mind the qualifications, these indicators and comparisons between councils should be considered as a starting point in looking at council performance, and for commencing discussion about the relationship of each council's rates with the services it provides for its community.

Inner metro councils

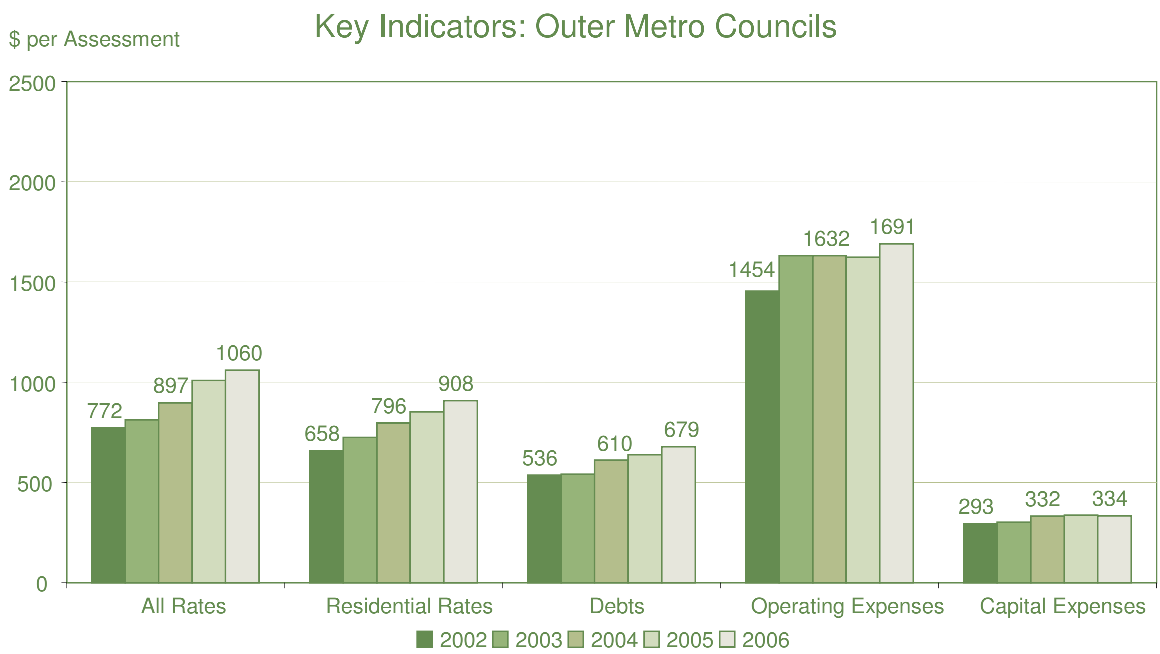


Over the five years to 2006, inner metropolitan councils increased their operating expenditure by 19 per cent, with capital expenditure growing even more strongly, by 42 per cent. To fund this expenditure, councils have increased rates over the same period by 35 per cent (residential rates by 41 per cent), but have kept the level of debts largely stable.

Between 2005 and 2006:

- Median rates and charges increased by $66 (7 per cent), slightly faster than in 2005, but slower than the rises of 10 per cent in each of the two previous years. Residential rates also increased, but by 8 per cent in 2006, following a 7 per cent increase in 2005.
- Debts increased by a marginal $10 (2 per cent). This indicator has changed little over the last four years.
- Operating expenditure, at $1,710 in 2006, increased by $95 (6 per cent), a faster rate than the increases of 2-6 per cent in each of the previous three years.
- Capital expenditure increased slightly, to $341 (1 per cent). This indicator has seen a cumulative growth of $92 (42 per cent) since 2002.

Outer metro councils

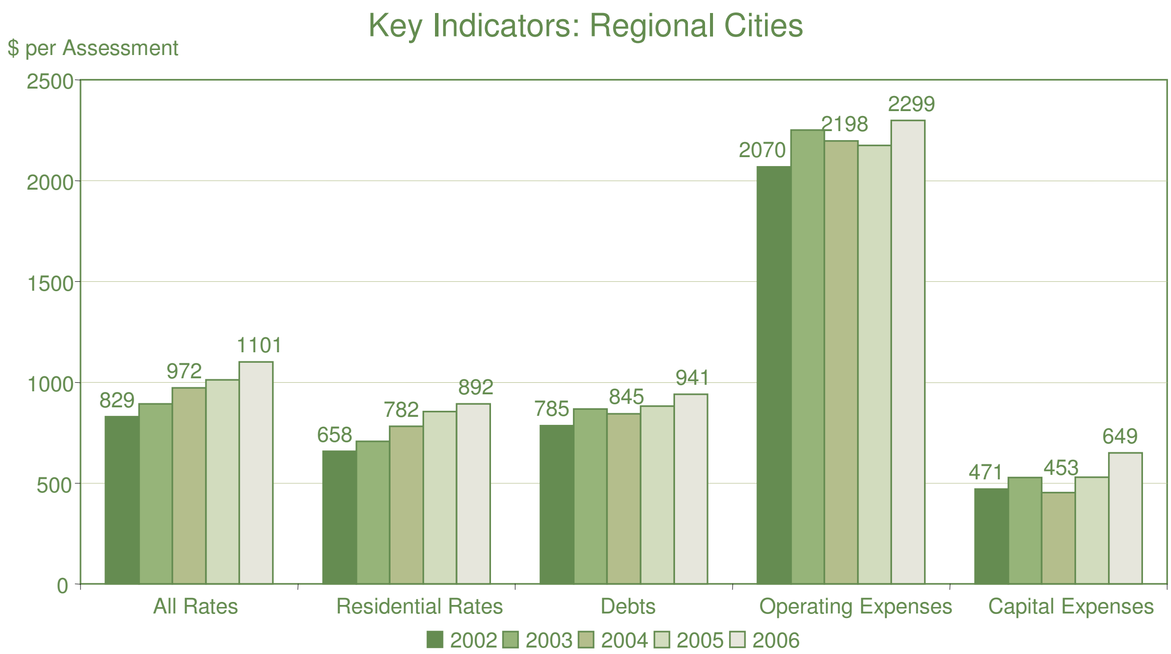


Outer metropolitan councils increased their operating expenditure by 16 per cent over the five years to 2006, and increased capital expenditure by a similar 14 per cent. To fund this expenditure, councils have increased rates by 37 per cent (residential rates by 38 per cent), and increased the level of debts by 27 per cent.

Between 2005 and 2006:

- Median rates and charges increased by $52 (5 per cent), considerably less than the rises of 10-12 per cent in 2004 and 2005. Residential rates also increased, but by 7 per cent in 2006, following a 7 per cent increase in 2005.
- Debts increased by $40 (6 per cent).
- Operating expenditure, at $1,691 in 2006, increased by $68 (4 per cent), after being stable in each of the previous two years.
- Capital expenditure was stable, at $334. This indicator has seen a cumulative growth of $57 (14 per cent) since 2002.

Regional cities

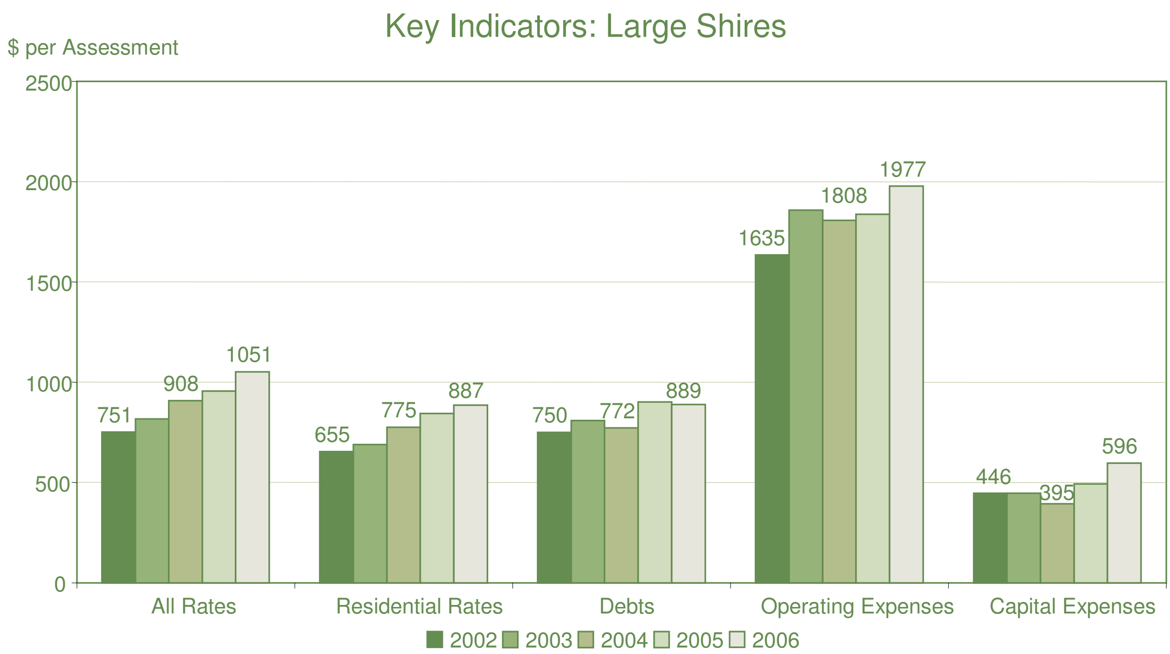


Regional cities have the highest operating expenditure per assessment of any council group, and increased this by 11 per cent over the five years to 2006. Capital expenditure grew more strongly, by 38 per cent. To fund this expenditure, these councils increased rates by 33 per cent (residential rates by 36 per cent), and increased the level of debts by 20 per cent.

Between 2005 and 2006:

- Median rates and charges increased by $87 (9 per cent), slightly faster than in 2005, but similar to the rises of 8-9 per cent in each of the two previous years. Residential rates also increased, but by 4 per cent in 2006, following a 10 per cent increase in 2005.
- Debts increased by $59 (7 per cent), climbing to $941 from $785 in 2002.
- Operating expenditure, at $2,299 in 2006, increased by $123 (6 per cent), after being stable for the two previous years.
- Capital expenditure increased significantly, to $649 (22 per cent). This indicator has seen a cumulative growth of $178 (38 per cent) since 2002.

Large shires

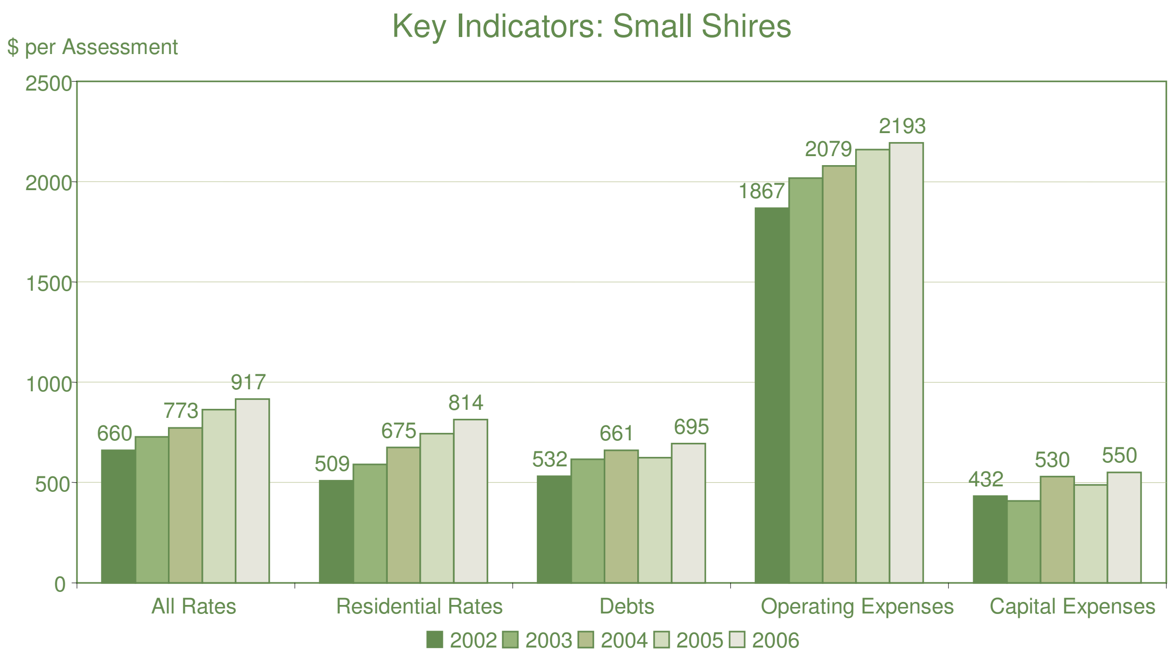


Large shires had the largest increase in operating expenditure of any group in 2006. Over the five years to 2006, they increased operating expenditure by 21 per cent, and capital expenditure more strongly, by 34 per cent. To fund this expenditure, Large shires increased rates by 40 per cent (residential rates by 35 per cent), with a smaller increase in the level of debts, by 19 per cent.

Between 2005 and 2006:

- Median rates and charges increased by $94 (10 per cent), faster than the 5 per cent in 2005, but similar to the rise in 2004. Residential rates also increased, but by 5 per cent in 2006, following a 9 per cent increase in 2005.
- Debts decreased by $13 (-2 per cent), but this followed a substantial increase in debts in 2005. Overall, median debts per assessment have increased to $889 from $750 in 2002.
- Operating expenditure, at $1,977 in 2006, increased by $139 (8 per cent), after being largely stable for the two previous years.
- Capital expenditure increased significantly, to $596 (up 21 per cent). This indicator has seen a cumulative growth of $150 (34 per cent) since 2002.

Small shires



Small shires had a comparatively small increase in operating expenditure in 2006. Over the five years to 2006, operating expenditure increased by 17 per cent, with capital expenditure again growing more strongly, by 27 per cent. To fund this expenditure, these councils increased rates by 39 per cent (residential rates by 60 per cent), and increased the level of debts by 31 per cent.

Between 2005 and 2006:

- Median rates and charges increased by $54 (6 per cent), less than the 12 per cent in 2005, but similar to the rise in 2004. Residential rates also increased, but by 9 per cent in 2006, following a 10 per cent increase in 2005.
- Debts increased by $71 (11 per cent), but this followed a fall in debts in 2005. Overall, median debts per assessment have increased to $695 from $532 in 2002.
- Operating expenditure, at $2,193 in 2006, saw only a small increase ($33, or 2 per cent) since 2005, after increases of 3-4 per cent for the two previous years.
- Capital expenditure increased significantly, to $550 (up 13 per cent). This indicator has seen a cumulative growth of $118 (27 per cent) since 2002.

Improving infrastructure

Victoria has a road network of 160,000 km (excluding minor roads and tracks in parks and forests). Local government is responsible for 138,000 km (86 per cent) of this network, managing sealed and unsealed roads, footpaths, bicycle paths, nature strips, drains and bridges, traffic signals, street lighting and other related physical assets. These assets comprise about half the value of non-current assets of councils, which are valued in total at some $43.5 billion in 2005-06.[13]

In a 2002 review *Management of roads by local government*, the Auditor General stressed the importance of the task:

> Ongoing management and maintenance is vital to optimise the useful life, capability and utilisation of infrastructure assets. For roads, councils have to be aware of the condition of their road infrastructure and undertake the necessary repairs and works to ensure the long-term sustainability of the asset.[14]

This general overview of road management was supplemented by detailed study of the asset management processes at nine councils. Audit noted that its analysis supported the findings of other studies, such as a sector-wide study sponsored by the Municipal Association of Victoria in 2001.

From these studies, Audit concluded

> at the present time the practices of the sector as a whole have not yet reached a level that meets accepted best appropriate practice or properly meets the long term needs of the community. Moreover, the sector is unable to determine with any degree of certainty (and nor was Audit) the overall condition of road assets or whether they will reach their optimum useful lives.[15]

Audit also noted that a strong basis existed to improve this effort. The report recognised the efforts made by Local Government Victoria and the Municipal Association of Victoria “to help councils improve their performance. We believe there has been some success, albeit from a low base. We noted councils were eager to learn more about best practice and displayed a genuine desire to improve.”[16]

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[13] Auditor General (February 2007) *Results of financial statement audits for agencies with 30 June 2006 balance dates*, p 126
[14] Auditor General (2002) *Management of roads by local government* Performance audit report, June, p3
[15] Auditor General 2002, p4
[16] Auditor General 2002, p4

This interest and commitment to improve performance has shown some strong progress in the years since Audit's report. Victorian councils' responses have taken three major forms:

- Improvements in council systems and processes to create more accurate asset registers and asset management plans;[17]
- Initiatives to improve the effectiveness of maintenance programs; and
- Significant increases in capital expenditure.

By 2007, Audit reports significant improvement in council systems and asset information. However,

> The local government sector continues to process significant adjustments to infrastructure asset balances. . . the level of adjustments processed again in 2005-06 indicates that issues around the completeness and accuracy of infrastructure assets still exist in a large number of councils.[18]

Support for better asset management

The Audit report recommended a joint approach by councils, peak bodies and Local Government Victoria to improve asset management practices. Since then, these bodies, together with the Auditor General and the Valuer General, have developed a number of collaborative projects to support improvements in asset management.

These projects produced three guidelines published in early 2006:[19]

- 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; and
- 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).

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[17] The Hawker report (House of Representatives Standing Committee on Economics, Finance and Public Administration (2003) *Rates and Taxes: A Fair Share for Responsible Local Government* especially chapter 4) 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

[18] Auditor General 2007 p137-8

[19] For these and other resources to assist councils in this area, see www.localgovernment.vic.gov.au and follow links to Publications and Resources/Resources

These accompanied 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; and
- Investment guidelines – information for councils on how to rank projects and assess impacts on the council's future financial position.

The peak bodies (Municipal Association of Victoria and LGPro) held a number of workshops to bring together senior managers, asset managers and accountants to explain these guidelines and improve common understandings of the tasks.

Improving effectiveness of assets

Alongside improving asset management systems, Councils have also reviewed the effectiveness of their road programs.

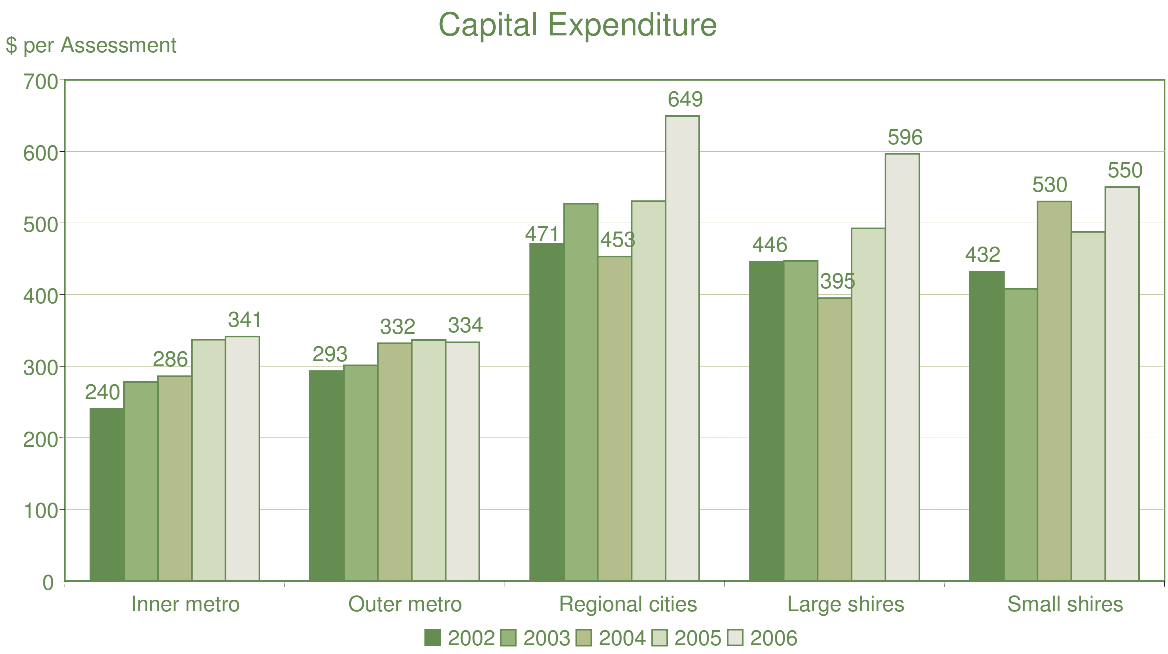
An example of innovation in how well road funds are spent is the Latrobe City Council Retroreflectivity of Road Signs Project. This project won a Commendation in the 2006 National Awards for Local Government, in the Asset Management section.

Road signs are an essential part of the transport infrastructure, guiding, informing, warning and controlling road and pedestrian traffic. However, unless properly maintained, signs can fade to the point where drivers and other road users have difficulty seeing them. In particular, the nighttime luminance of signs (retroreflectivity) can diminish considerably – despite the sign looking perfectly functional by day.

Latrobe City pioneered the Australia development and use of a new testing procedure for retroreflectivity. This uses a portable test unit, enabling scientific daytime testing of signs for night time performance. Signs that fail the tests can be identified more readily, and replaced, hence improving road safety.

Capital expenditure

Even with improvements in asset management, and in the effectiveness of road programs, tackling the condition of local roads also requires capital expenditure. Responding to this challenge, councils have significantly increased their total capital expenditure over the past four years, as shown in the next graph.



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 of capital expenditure shows

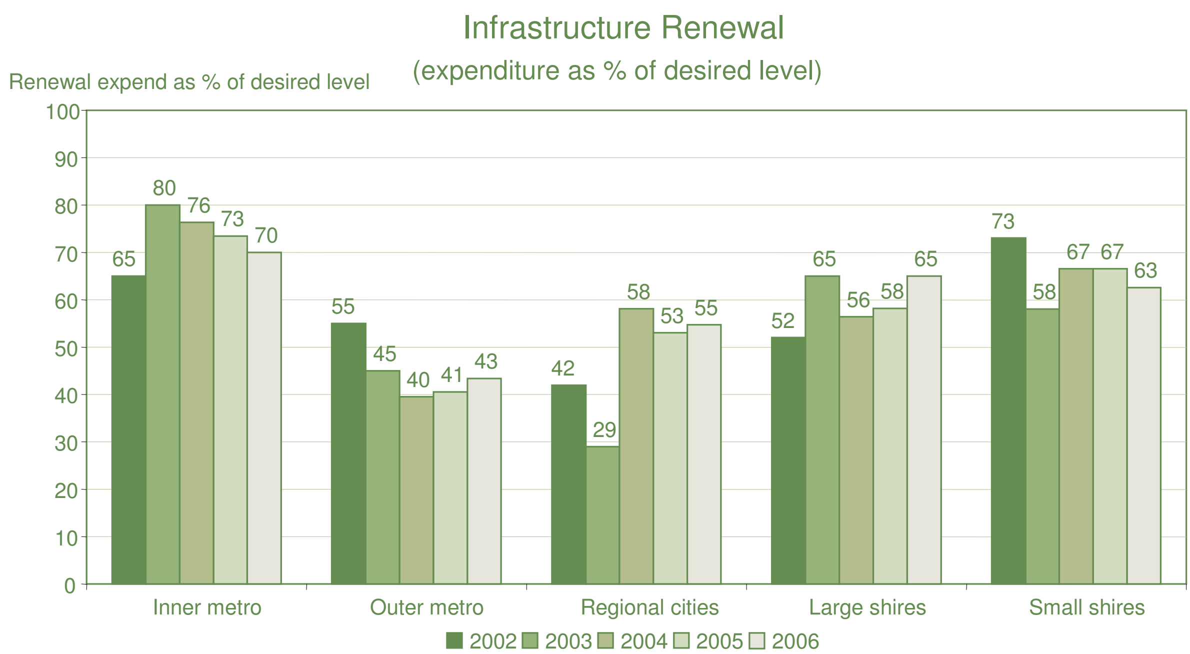
- Capital spending per assessment grows with distance from central Melbourne, with regional and rural councils spending significantly more per assessment than the metropolitan councils. This result generally matches the pattern of road lengths across the State – although, probably due to greater lengths of more expensive urban roads, 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:
  - Inner metropolitan councils had the strongest percentage increase, at 42 per cent;
  - Outer metropolitan councils had more modest growth in capital spending, up by 14 per cent. By 2006, the two metropolitan groups had similar capital spending per assessment.
  - Regional cities and large shires both saw growth around 35 per cent
  - Small shires increased their capital expenditure by 27 per cent.

This gives an encouraging picture – councils are spending more on their capital assets. However, the key test is whether councils are doing enough to at least maintain the current condition of their road network. The level of expenditure required to maintain the current condition is described as the 'desired' level of expenditure. Each council assesses what its desired level is after considering the current condition and age of the roads, and other factors such as traffic volumes, and climatic and soil conditions.

Once councils have assessed their 'desired' level of expenditure, this can be compared with the level of actual expenditure on the 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 five years.



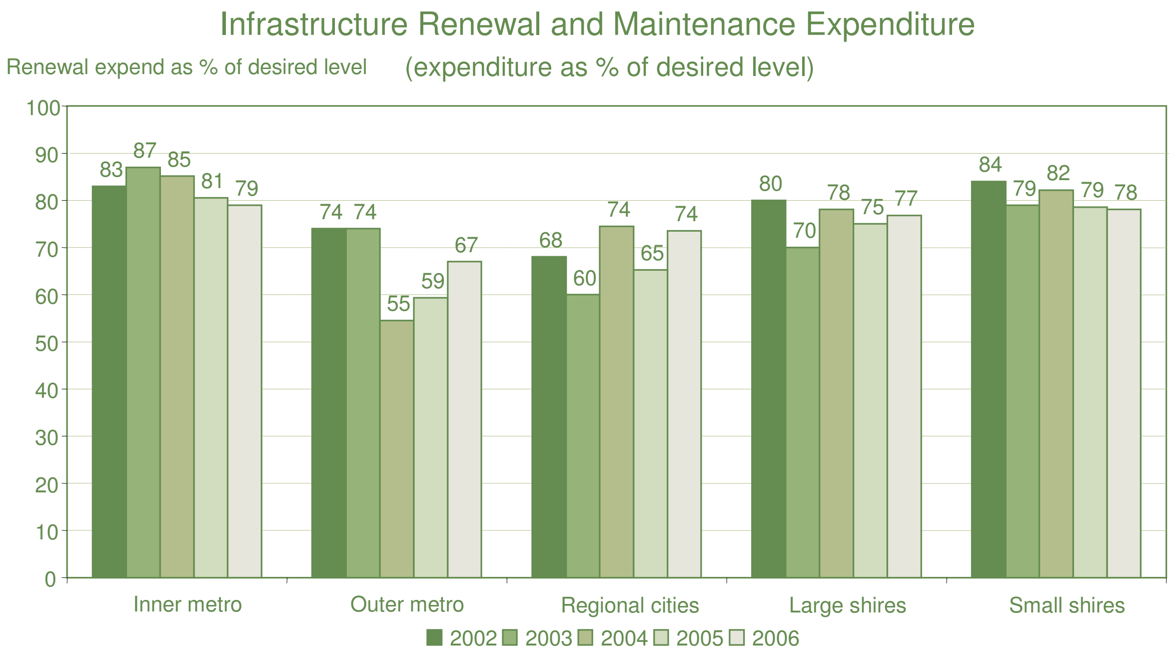
The infrastructure renewal statistics show divergent results from the capital expenditure figures. For example, the renewal results for Regional cities moved about from year to year, falling from 42 per cent in 2002 to 29 per cent in 2003 and then recovering strongly to 58 per cent in 2004, before stabilizing at 53-55 per cent in 2005 and 2006. 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), and strong growth in spending in 2005 and again in 2006 (when the renewal percentage was stable).

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 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.
- Councils' views of what is necessary 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, this will reduce both the annual depreciation level will fall and the amount required to renew or sustain the asset.

The above graph indicates that the percentage of expenditure compared to the desired level has remained stable, or fallen slightly, over the past few years. The previous graph showed how much councils have increased their capital expenditure in these years, so this comparative measure indicates that the desired level to maintain assets has also increased.



This pattern is also apparent in the second graph, which shows expenditure on renewal and maintenance as a percentage of the desired levels.

The renewal plus maintenance figures shown in this graph 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 74 per cent. Once again, these figures have been affected by changes in councils' asset management and collection of data.

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. The issues were noted in the 2005 Auditor General's report

> This year, we again observed a number of large adjustments to infrastructure asset balances. Local governments wrote-on to their statements a total of $370.2 million of assets that they controlled but that they had not included in their asset registers. They also wrote-off $80.2 million of assets. They wrote-off some road assets because they transferred control of them to the state government. However, other write-offs and most of the write-ons were due to asset records not being complete or accurate.

> We are concerned that local governments continue to make such significant adjustments. While these adjustments help to improve the accuracy of asset records, local governments need to pay greater attention to ensuring that their records of all significant assets are complete and accurate.[20]

As noted above, the Auditor General's February 2007 report noted further improvement, but still some way to go in resolving these issues. Nonetheless, this discussion has shown some strong positives in councils' performance on infrastructure management. Councils are putting considerable effort into improving their asset management systems and data, innovative management projects are under way, and capital expenditure is increasing strongly. All three show good improvements in councils' custodianship of community assets.

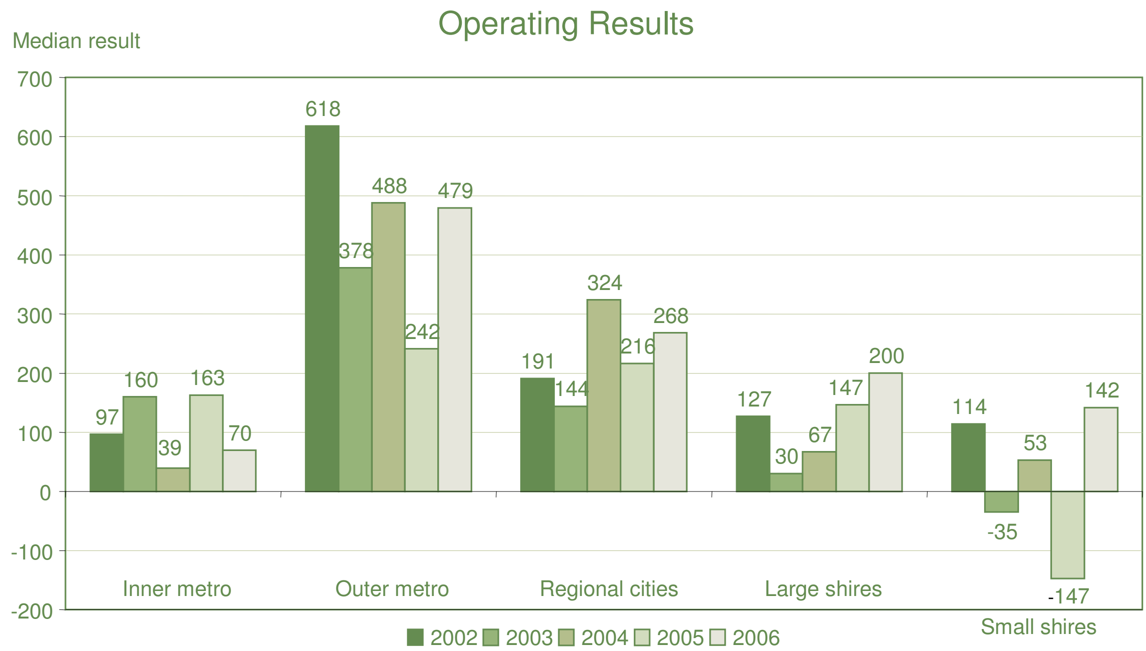
Operating results

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:

- On even years, when councils conduct their biennial property revaluations, the revaluations also affect councils' own property assets. Many councils saw stronger operating results in 2002, 2004, and 2006 as a result.
- 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

For 2006, the graph shows improvements in the operating result for four groups of councils, with only Inner metropolitan councils seeing a decline from the level in 2005. Across the State, the median operating result was $194 per assessment – a substantial increase on the $147 in 2005.

[20] Auditor General (December 2005) *Report on Public Sector Agencies* section 14.3.3



In his December 2005 Report on Public Sector Agencies,[21] the Auditor-General provided a more accurate analysis of council's operating results by adjusting the results of all local governments on a uniform formula. Commenting on the results of local government audits for the year ended 30 June 2005, the Auditor General noted the sector's overall financial performance appears to be improving.

> 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 (ie 2005) can be largely attributed to these factors.

The Auditor General adjusted the reported results "for these large and generally one-off distortions". In his reports for the 2004-05 and 2005-06 financial years, the Auditor General found significant improvement in the surpluses reported by local government. 50 councils reported underlying deficits in 2002-03, and this has consistently fallen since then, with only 23 councils reporting underlying deficits in 2005-06.[22]

[21] Auditor General (December 2005) *Report on Public Sector Agencies* Chapter 14
[22] As the Auditor General's February 2007 report noted (p128) "the indicators before 2004-05 were based on superseded accounting standards and, therefore, will not be directly comparable with more recent results." Nonetheless, the improving trend is clear.

These figures from the Auditor General confirm the general picture from the above graph of trends in operating results – local government finances are generally improving over time, with improvements in asset management, financial management, and reporting to the community.

The Auditor General analysed four other financial measures and found that these too show a generally improving picture. Over the four years 2002-03 to 2005-06, local government financial liquidity, indebtedness and investment to depreciation ratios all improved, while the self-financing ratio remained about the same.

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.

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