Local Government in Victoria Report

2007

Victoria
The Place To Be

Department of Planning
and Community Development

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


Whittlesea
Hume
Nillumbik
Melton
Moreland
Darebin
Banyule
Moonee Valley
Brimbank
Manningham
Yarra
Maribyrnong
Melbourne
Boroondara
Maroondah
Port Phillip
Hobsons Bay
Whitehorse
Stonnington
Knox
Wyndham
Glen Eira
Monash
Bayside
Kingston
Greater Dandenong
Casey
Frankston
Mornington Peninsula

Minister's Foreword

The indicators show how councils are tackling issues of maintaining community assets, as well as balancing trends in expenditure with their revenue raising efforts. Importantly, the community satisfaction indicators show that councils are maintaining better than average satisfaction ratings from their communities.

I am pleased to present the 2007 Local Government in Victoria Report. This report provides local government, policy makers and the community with an overview of the trends in local government performance.

The report presents trends in the sector over a five year period. It provides the reader with a snapshot of the sector's direction and gives context to the numbers. I encourage you to visit the Local Government Victoria website for more comprehensive council data. There, you will find timeseries spreadsheets of the indicators for individual councils. This will provide, for councils in particular, a benchmarking tool for performance comparisons. I envisage that the growth of this resource will eventually incorporate additional information to help conduct analysis of council trends and performance. This will benefit the sector by helping to drive continuous improvement.

The indicators show how councils are tackling issues of maintaining community assets, as well as balancing trends in expenditure with their revenue raising efforts. Importantly, the community satisfaction indicators show that councils are maintaining better than average ratings from their communities.

A financially sustainable local government is central to addressing some key national challenges, particularly those relating to social and economic infrastructure, affordable housing, social inclusion, climate change and indigenous issues. However, some local governments are facing their own individual challenges.

Recent reports from independent bodies such as the Productivity Commission and the Victorian Auditor General have found that some councils are facing significant financial stress particularly in regional and rural areas. Factors that contribute to this include population decline, the effects of drought and the low income base available for raising revenue to deliver services and maintain sizable infrastructure portfolios.

The challenge of financial sustainability requires action in two main areas. Firstly, councils' need to critically review their business practices as an ongoing process. This is needed to control expenditure, better manage assets and,

through innovation and collaboration, maximise efficiencies. The other area of redress is the system of financial support they receive, primarily from the Commonwealth. Over the past 11 years, councils have received a declining share of Commonwealth revenue. However, I look forward to working with the new Federal Government to address this issue.

Both these actions require robust information to develop the right policy solutions. This Report can serve as a starting point for communities, other levels of governments and councils to conduct analysis, express views and inform the debate.

I recommend this report to all with an interest in the future of local government in Victoria.

Richard Wynne MP
Minister for Local Government

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Maintaining Community Assets

Maintaining Community Assets

A key area for assessing local government financial sustainability is how it is addressing the maintenance and renewal of community infrastructure. This report uses three indicators to assess asset management:

- Capital expenditure - which, to assist comparison between councils of different sizes, 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.[2]
- Expenditure on asset renewal - as a percentage of the desired expenditure considered necessary to sustain the assets.
- Expenditure on renewal together with maintenance - as a percentage of the desired level of expenditure on renewal and maintenance.

Chart 1 gives the capital expenditure figures for the five council groupings over the last five years.

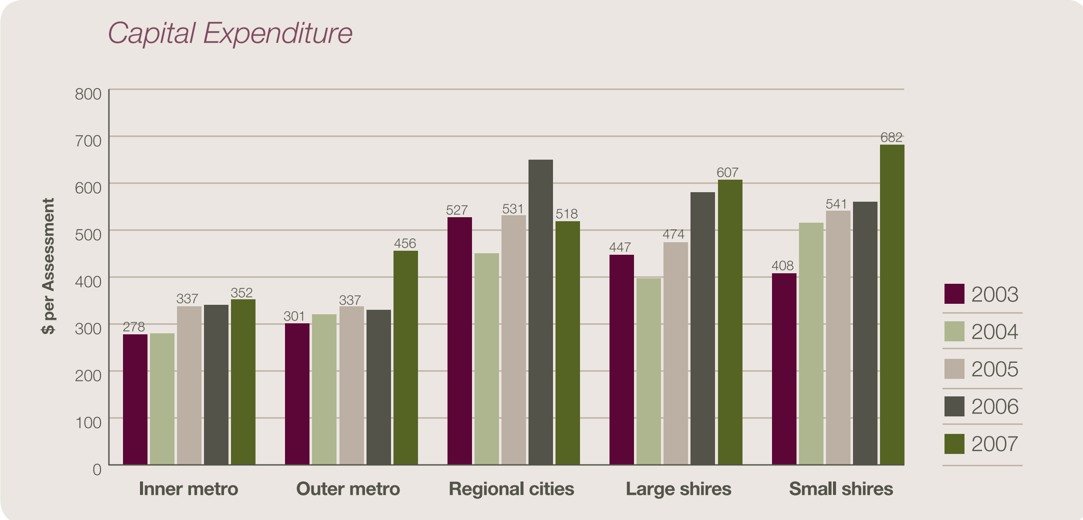
As capital expenditure by its nature includes one off construction of major items such as community centres and swimming pools, expenditure can be up and down from year to year.

While such increases in investment are welcome, they only tell one part of the story and don’t necessarily explain the breakdown between spending on existing assets compared to new assets.

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

From 2003 to 2007, expenditure was stable (at an already high level) for regional cities, and grew in other council groups by up to 67 per cent for small shires (an average annual increase of 14 per cent).

Chart 1



Maintaining Community Assets (Continued)

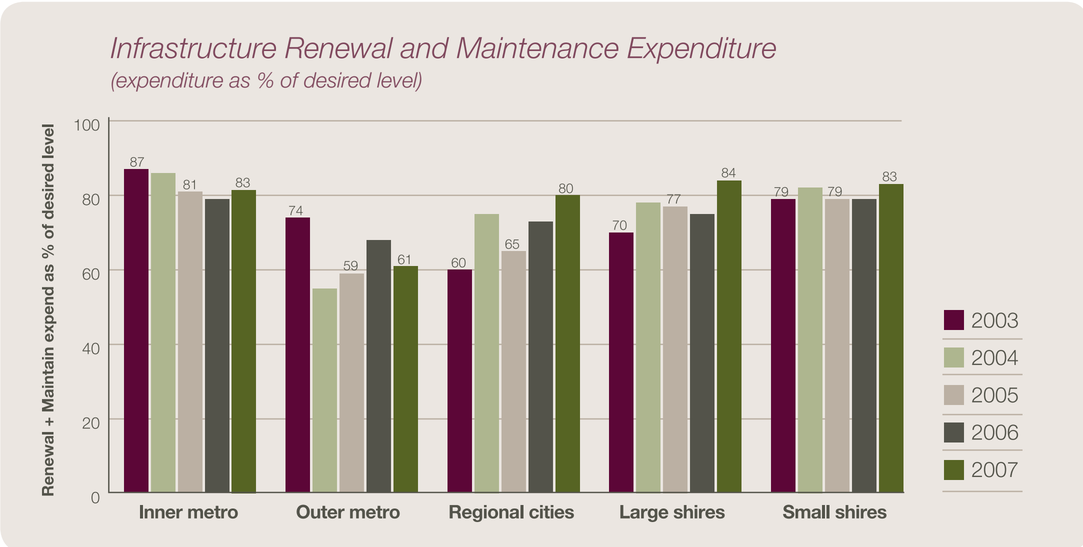
Chart 2 shows expenditure on asset renewal and maintenance compared with desired levels to renew and maintain assets.

Here the trends are more complex. Metropolitan councils show generally slight declines between 2003 and 2007 (despite increases in capital expenditure), while regional and rural councils show good increases, although not always in line with changes in expenditure.

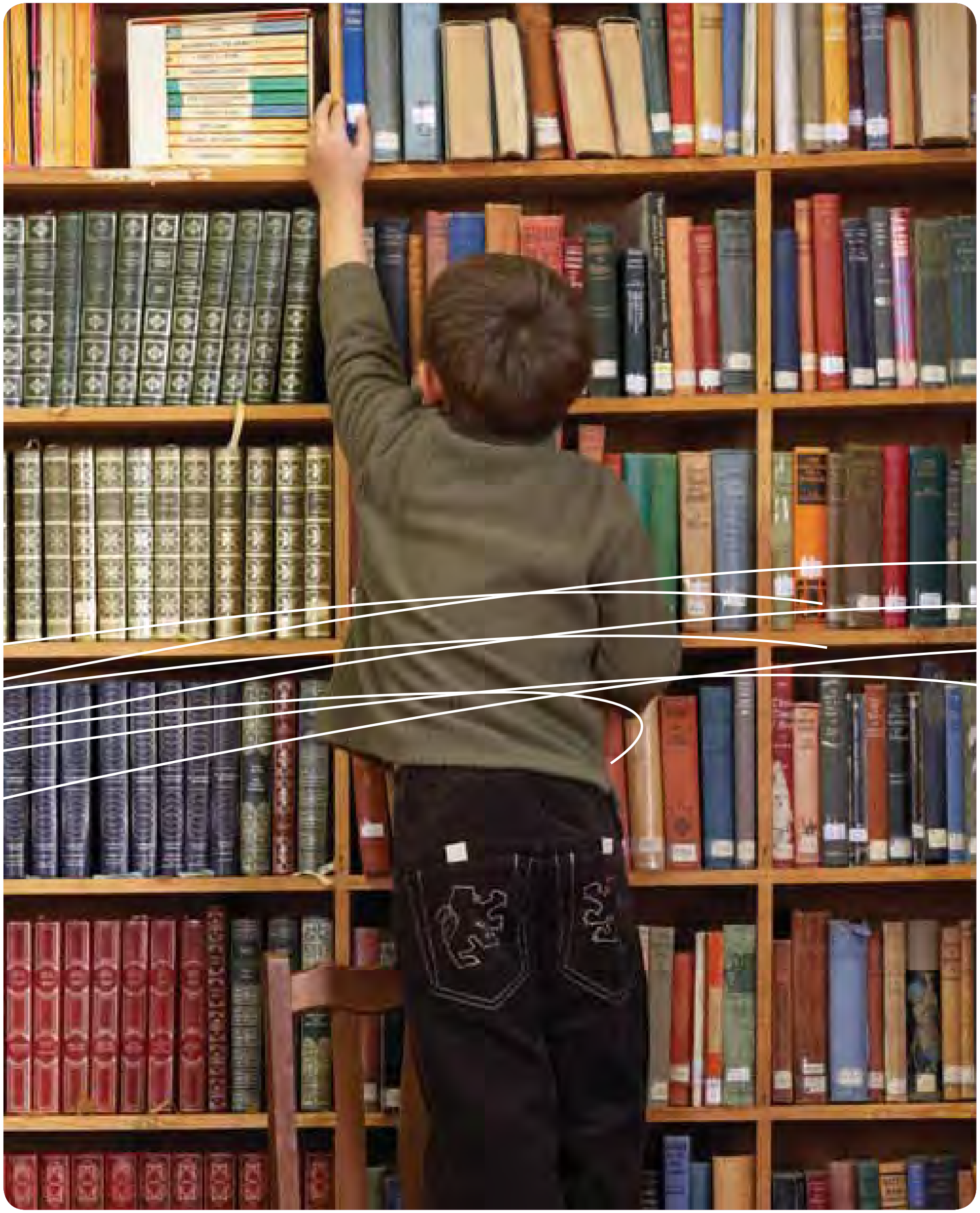
The key reason for these patterns is that a council's view of what is necessary to sustain assets changes as asset management information improves. It can both increase as councils include additional assets or decrease as ways of sustaining assets improve. Variation in the quality of asset information can affect comparability. The Auditor General has recently found considerable variation in the expected life of drainage assets. While more than 60 councils expect drainage assets to last between 80 to 100 years, the life expectancies range from 10 to 200 years.[3]

A majority of councils have increased expenditure in comparison to the need to renew and maintain assets.

Chart 2



3 Auditor General *Local Government: Results of the 2006-07 Audits p15*



Patterns of Expenditure

Patterns of Expenditure

There are considerable variations in expenditure patterns between councils within Victoria, such as [4]:

- Local roads: four councils in north-west Victoria each have about 5000 km of local roads, many more kilometres than the four councils of inner Melbourne, which each have about 200 km of local roads.
- Residents with poor English proficiency: virtually nil in many farming areas, but up to 15 per cent in three councils in the metropolitan area (Greater Dandenong, Maribyrnong and Brimbank);
- Land area, ranging from Queenscliffe (8 sq km) to Mildura (22,000 sq km)
- Population size, ranging from 3200 people (Queenscliffe) to 223,000 (Casey); and
- Population change, ranging from small declines in some rural shires to annual growth of 9-10 per cent in Melton and the City of Melbourne.

These variations contribute to differing challenges for councils across the state, such as:

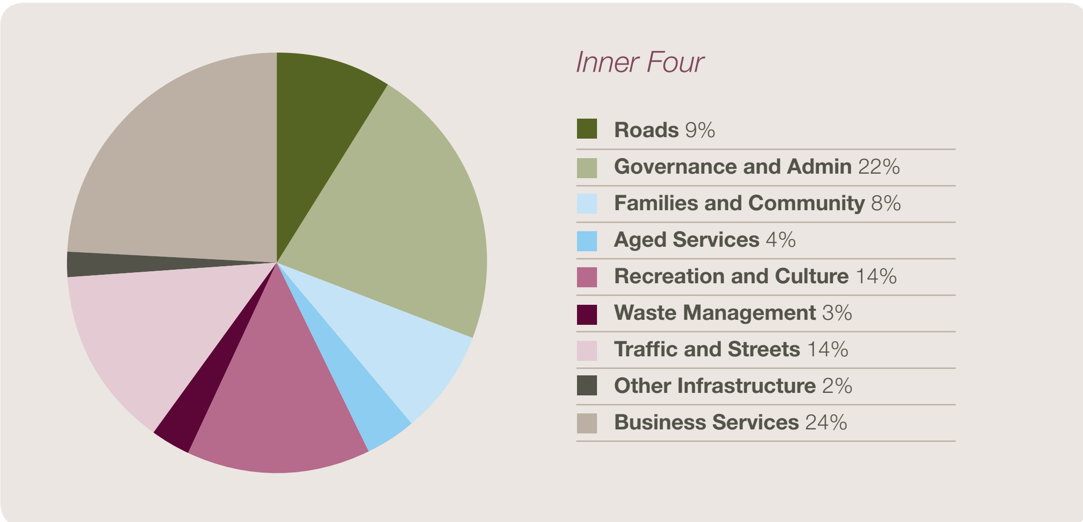
- **Chart 3a** shows that the Four Inner City councils provide services to a greater concentration of business ratepayers. Within the major Melbourne business centre, councils spend almost 40 per cent of their budgets on business services and traffic and street management.
- Rapidly growing areas in Outer Metro areas (**Chart 3b**) have to provide additional services and infrastructure for their new populations. 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.

4 Data from Victoria Grants Commission Annual Report 2006-07, roads p91, 93; English proficiency p48, 53; population and growth p50, 55

- **Chart 3c** illustrates that roads comprise 21 per cent of total expenditure for Regional and Rural councils (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. Many of these councils, especially in the more rural areas, have ageing populations, some with 20 per cent aged over 65.

All councils deliver a broad range of services but the emphasis does differ, most starkly in expenditure on roads. For example Buloke in north-west Victoria has 740 km of roads for every 1000 residents, while Port Phillip in inner Melbourne has 2.5 km.

Chart 3a: Expenditure Patterns, Inner Four



Patterns of Expenditure (Continued)

Chart 3b: **Expenditure Patterns, Outer Metro**

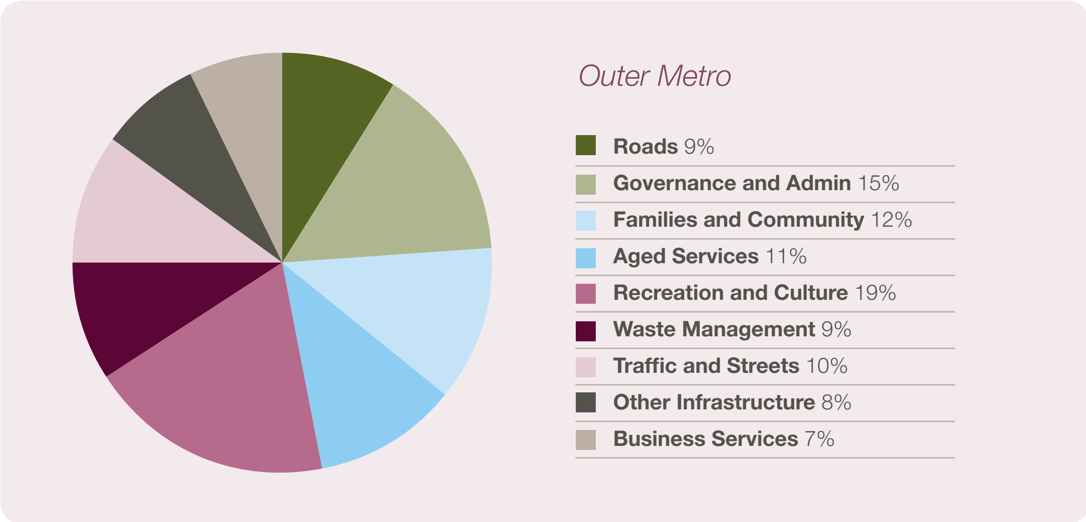
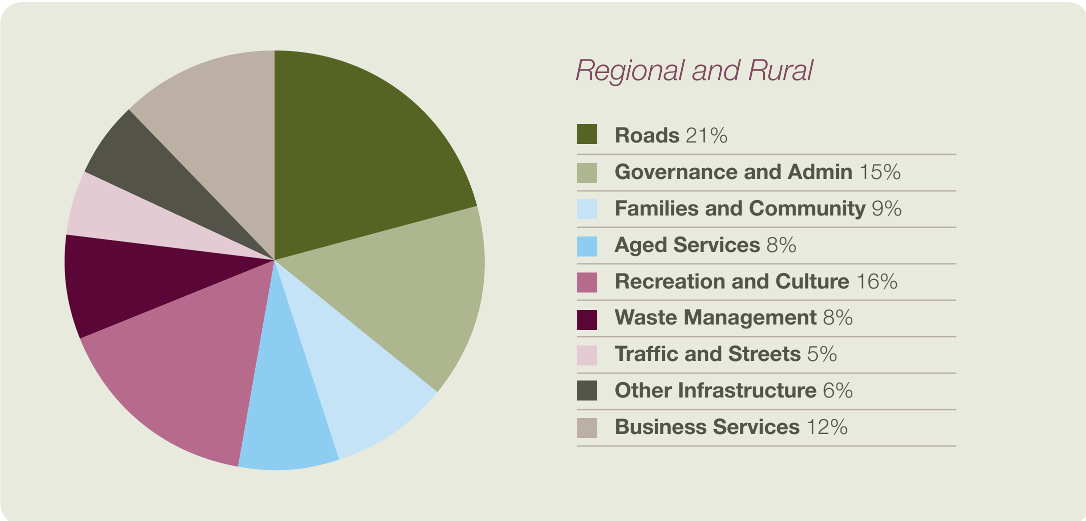


Chart 3c: **Expenditure Patterns, Regional and Rural**



Patterns of Revenues

Patterns of Revenues

The Productivity Commission recently noted that "Capital city councils have the highest fiscal capacity, followed by urban developed councils. Local governments in remote areas have the lowest fiscal capacity".[5] Councils in remote areas typically have the greatest lengths of road to look after as well.

It is noteworthy that in setting their house in order, Victorian councils have had the strongest increases in revenues between 1998-99 and 2005-06 of any State.[6] Rate rises can be controversial – and the final group of indicators discuss how communities have responded.

Structural variations also affect the emphasis in revenue collection for each group of councils. The following charts show the patterns of council revenues. Across Victoria, rates contribute almost half of revenues, with grants from Commonwealth and State governments providing another 20 per cent. Service fees and developer contributions are also both significant. Within these overall patterns, emphases differ for the three broad groups of councils:

- The four councils in inner Melbourne raise significant revenues from car parking and other charges, and receive very few grants from Commonwealth or State Government. Their reliance on rate revenues is similar to the State average, at 47 per cent
- Outer metropolitan councils have the highest reliance on rates in their revenue base (59 per cent), although some councils in outer Melbourne also receive significant revenue from developer contributions.
- Regional, and especially rural, councils receive the highest proportion of revenue grants from Commonwealth and State Governments. As a consequence, they have a lower contribution from rates (45 per cent overall, and much less than this for some smaller councils). As noted by the Productivity Commission report, councils with a high reliance on Commonwealth and State Government grants generally have a lower fiscal capacity to address challenges by themselves.

5 Productivity Commission *Assessing Local Government Revenue Raising Capacity* Draft Research Report, December 2007 p59

6 Productivity Commission, p29 notes that average annual growth in real total revenue per person ranged between 0.1 per cent in New South Wales and 4.5 per cent in Victoria.

> *"Many councils are highly dependent on grants. Even if councils were to increase their own-source revenue by an average of about 10 per cent, a significant number of councils, particularly rural and remote would remain dependent on grants from other levels of government to meet their current expenditure."*
> *Productivity Commission*

Chart 4a **Revenue Patterns, Inner Four**

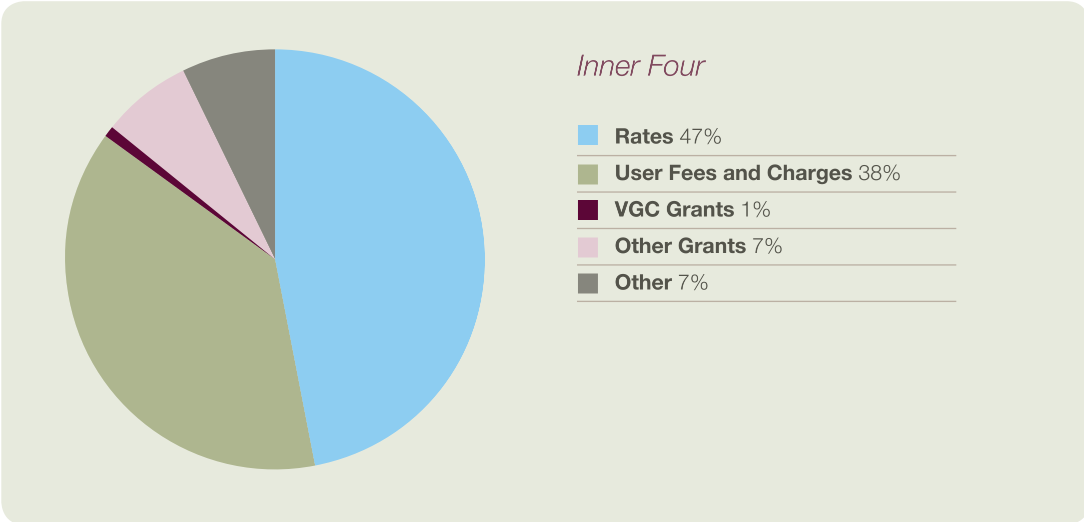
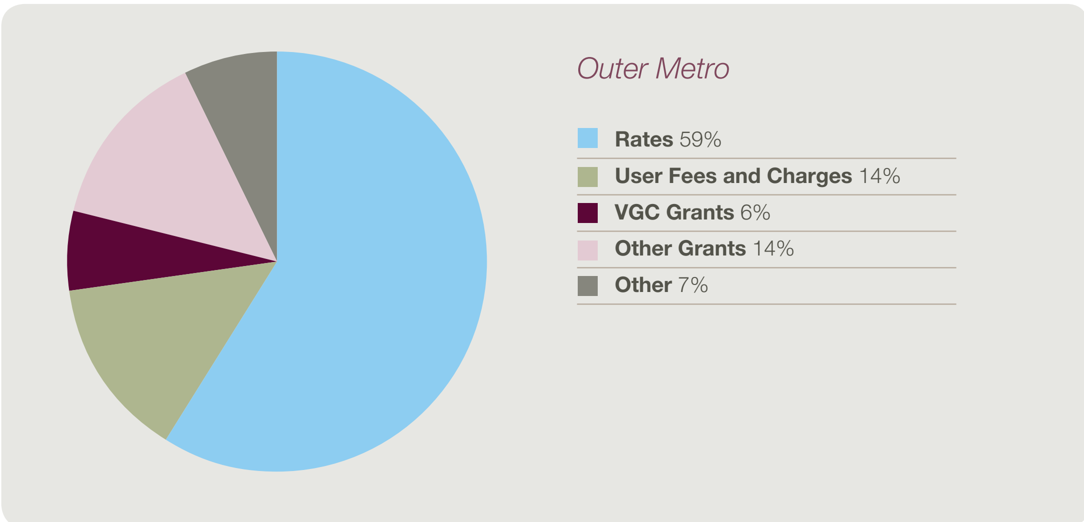
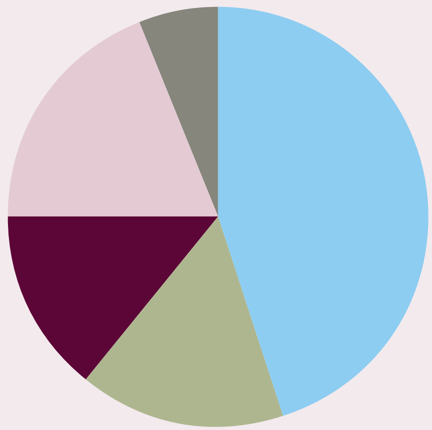


Chart 4b **Revenue Patterns, Outer Metro**



Patterns of Revenues (Continued)

Chart 4c: Revenue Patterns, Regional and Rural



Movements in Rates and Other Key Indicators

Movements in Rates and Other Key Indicators

Chart 5 shows operating expenditure for all Victorian councils increasing by an average 3.5 per cent each year from 2003 to 2007 and capital expenditure growing more strongly at 6 per cent each year. To fund this expenditure, councils increased all rates over the same period by an average of 8 per cent each year and maintained their levels of debt. These movements compare with Australian-wide average annual movements in the Consumer Price Index of 2.7 per cent, in Average Wages of 4.5 per cent, and in road construction costs of 5.9 per cent. [7]

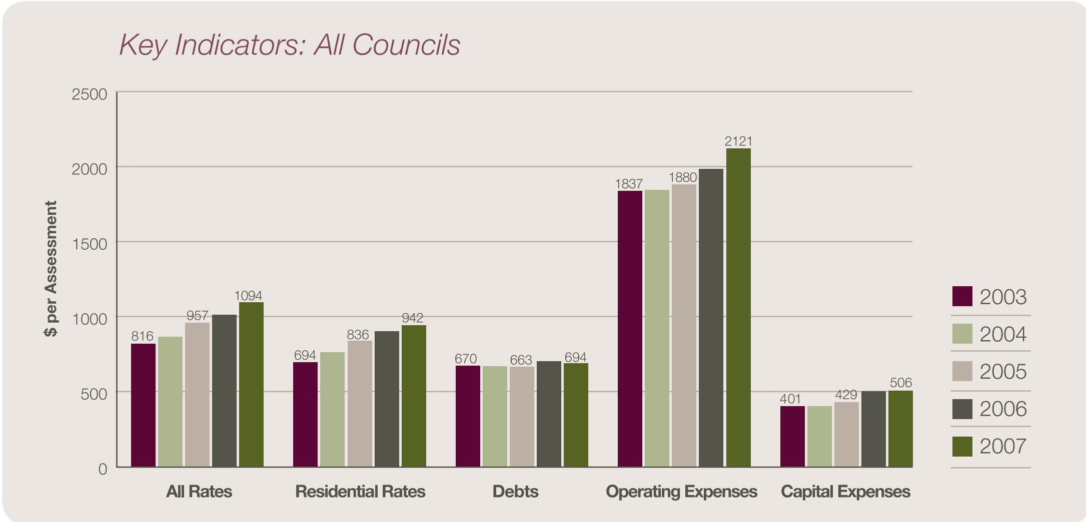
Between 2006 and 2007:

- Median rates and charges increased by $78 per assessment (8 per cent), slightly faster than in 2005 or 2006 (average 7 per cent).
- Debts have been fairly stable over the previous three years.
- Operating expenditure, at $2,121 per assessment in 2007, increased by $144 per assessment (7 per cent), faster than the 2 per cent average increase over the previous three years.
- Capital expenditure increased slightly, to $506 per assessment (up 1 per cent). This indicator has seen a cumulative growth of $105 per assessment (26 per cent) since 2003.

7 Data from Consumer Price Index Australian Bureau of Statistics 6401.0, Average Weekly Earnings (for full time adult employees, all earnings) ABS 6302.0, and Bureau of Transport and Regional Economics road construction and maintenance price index, from www.btre.gov.au/statistics

The key indicators show both the increases in council operating and capital expenditure over the past five years, and trends in the major sources of revenue – rates.

Chart 5



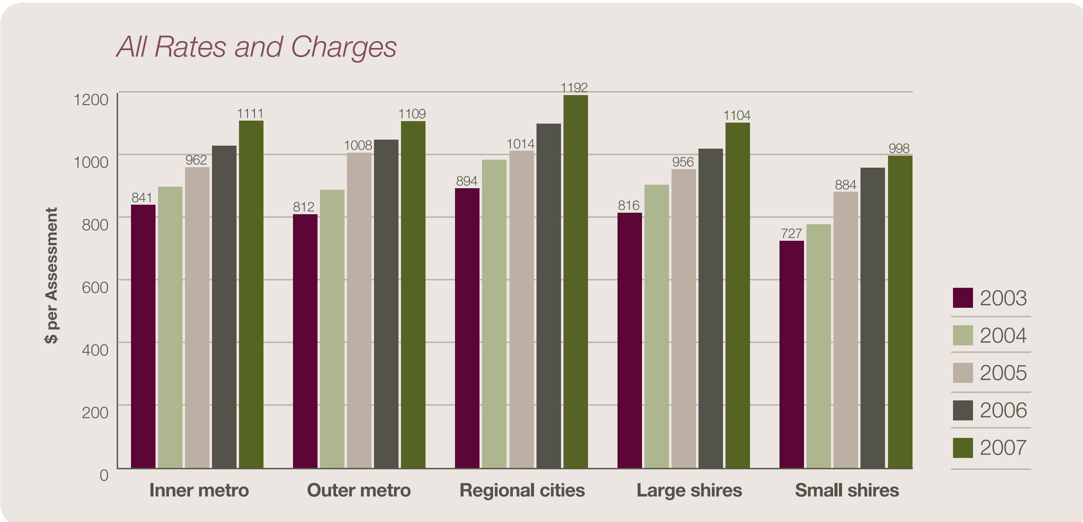
Movements in Rates and Other Key Indicators (Continued)

The previous section discussed how some of the differences between councils affect their revenue and expenditure patterns. This is illustrated in **Chart 6** by comparing the trends in total rates for each council group.

Most groups saw rate increases of around the state-wide average of 8 per cent each year, although the absolute levels differed a little. The two council groups with access to other strong sources of income raised slightly less in rates. The first council group is the inner metro which reflect the business and car parking charges in the inner-most suburbs. The second is small shires, which have average rates, some $100 lower than the general figure, which reflects the lower average income and property values in rural areas.

While absolute levels of rates differ somewhat between council groups, the trend of increases in rates has been common across Victoria.

Chart 6



How are Communities Responding?

How are Communities Responding?

Any council – especially around annual budget time – has to make choices between services provided to the community and how much the community is prepared to pay in rates and charges.

In a submission to the Productivity Commission inquiry, the Local Government Association of Tasmania argued:

> *Some councils have achieved remarkable success and acceptance of double-digit rate increases on the basis of being able to explain fully to the community the reasons for the increases and the resulting benefits that will flow. Communities are generally more willing to pay if they understand the basis of the costs and the benefit that will accrue as a result of increased funding.* [8]

The Victorian Local Government Indicators include three measures of community satisfaction, assessed in annual surveys conducted by nearly all councils and Local Government Victoria. The three measures are:

- Overall satisfaction with your council's performance;
- Satisfaction with council performance on advocacy with other levels of government and community representation; and
- Satisfaction with how much council is engaging the local community.

8 Productivity Commission, p xxxi: submission 42, p9

Chart 7 shows the average ratings across all Victorian councils for the three measures. An 'average' rating produces an index of 60, so councils have consistently been rated above average on overall satisfaction and advocacy across these years – and received an 'average' rating for engagement.

Since 2002, responses have generally improved on all three measures. Slight declines in the ratings in some years, such as 2003 and 2005, have been followed by increases in subsequent years. While the three measures have differing absolute levels, the trends in each have been very similar, which suggests that they are all affected by general community views of each council.

Across Victoria since 1998 there has been a 17 per cent increase in respondents rating councils as "excellent, good and adequate".

Chart 7

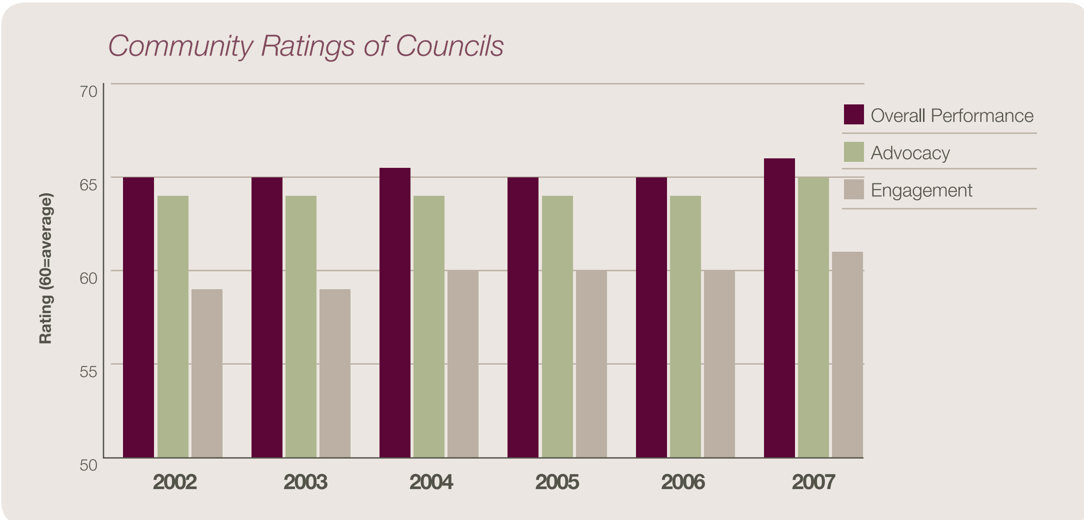
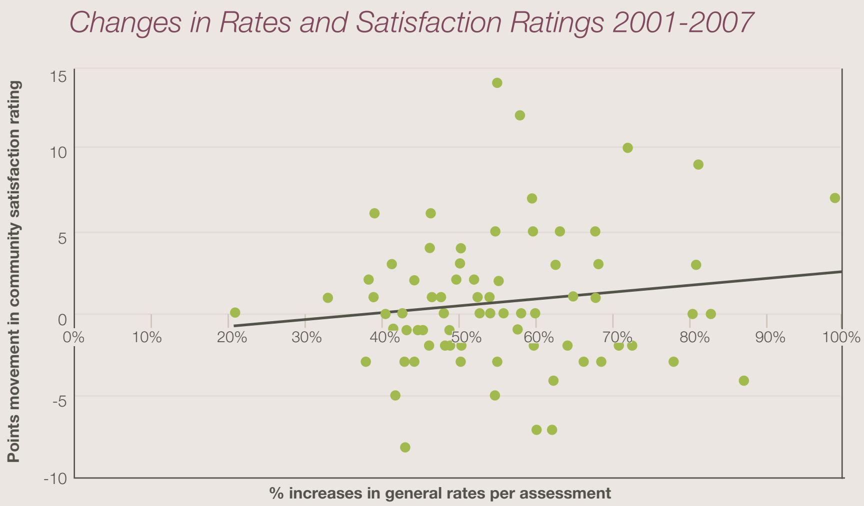


Chart 8 shows the relationship between rate increases and the community's overall satisfaction rating of the council over the 2001 to 2007 period. There is considerable diversity between councils, and no effective relationship between rate increases and changes in community satisfaction[9]. Indeed, councils with similar levels of rate increases have seen widely disparate changes in satisfaction. The next section looks at influences affecting trends in satisfaction ratings.

There is virtually no relationship between how much councils increased rates from 2001 to 2007 and the change in their community satisfaction rating.

Chart 8



9 The trend line in Chart 8 shows a very weak increase in satisfaction as rates grow. However, there is basically no relationship between the variables: the correlation R2 is 0.02 (1.00 indicates a strong relationship, 0.00 no relationship).

Changes in Satisfaction Levels

Changes in Satisfaction Levels

Chart 9 compares satisfaction ratings with increases in capital spending by councils. Here there is a relationship, with satisfaction increasing with more capital spending, but again there is considerable variation between councils. Some councils that doubled their capital spend in the 2001-07 years had big increases in satisfaction, while others saw little change and still others had small declines.

To understand some of the influences, the survey asked residents to nominate the most important issues for them in deciding how satisfied they are with their council. Key issues for residents differ between metropolitan and regional respondents[10]. Metropolitan residents were happier with their councils' performance in the areas of: local roads and footpaths, recreational facilities, waste management and economic development. Regional respondents gave higher ratings for health and human services, appearance of public areas, and traffic management and parking facilities.

But the key drivers for changes in satisfaction seem to occur not for particular groups of councils but rather at the individual council level. Of the 74 councils participating in all the surveys:

- more than half (39) saw little change in their overall rating (movement up or down of 2 or less points)
- 16 saw declines in satisfaction, with 5 declining by 5 points or more
- 19 attained increases in satisfaction ratings, 12 of these increases by 5 points or more.

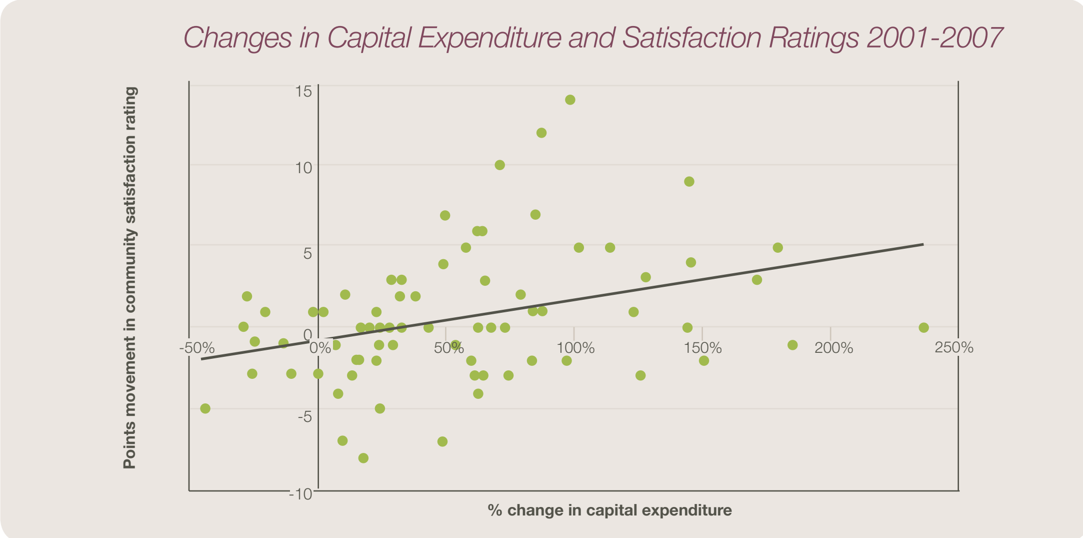
Chart 10 illustrates the movements of four councils since 2001. Council A has maintained high ratings across this period, with small movements down and up. Council B has gradually improved its ratings, while Council C saw a major decline in 2003 and Council D saw a major improvement between 2001 and 2004.

Where ratings change, these experiences seem typical – improvements occur gradually, while declines are often abrupt. For those councils experiencing big declines, a key factor is often dissension and disputes within the council. If the council can resolve those disputes, it can then rebuild community confidence, as Council C did after 2003.

10 Wallis Consulting Local Government Community Satisfaction Survey 2006 - Research Results report for Local Government Victoria, May 2006, p vi. These categories group Inner and Outer metropolitan into 'metropolitan', and Regional cities, Large and Small shires into 'regional'.

There is a small indication that an increase capital expenditure can have a positive effect on community satisfaction – but there is considerable variation between councils.

Chart 9



While most councils have seen broadly stable satisfaction ratings over these years, some volatile local issues and disputes can have significant ramifications for community satisfaction scores.

Chart 10

Information About your Council and the Indicators

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 **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.

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