Department of Jobs, Precincts and Regions

Analysis of the 2022-23 adopted budgets of Victorian councils

LOCAL GOVERNMENT VICTORIA

VICTORIA State Government | Jobs, Precincts and Regions

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1 Acronyms

AAS	Australian Accounting Standards
COVID-19	Coronavirus (COVID-19) Pandemic
DJPR	Department of Jobs, Precincts and Regions
FinPro	Local Government Finance Professionals
FTE	Full Time Equivalent
FY	Financial Year
FGRS	Fair Go Rates System
LGMFR	Local Government Model Financial Report
LGPRF	Local Government Performance Reporting Framework
LGV	Local Government Victoria
OSR	Own Source Revenue
SRP	Strategic Resource Plan
TCV	Treasury Corporation of Victoria
VAGO	Victorian Auditor-General's Office
VFMC	Victorian Funds Management Corporation

2 Executive Summary

The 2022-23 adopted budgets show that Victorian councils collectively remain in a strong and stable financial position. Budgeted council finances are now returning to pre-pandemic positions, suggesting that the impact of pandemic related facility closures on user fees and other revenue streams is abating. Rates and charges remain the main revenue stream for Victorian councils providing 66% of total revenue in metropolitan councils and only 49% of total revenue in small shire councils. Rural councils continue to be relatively more dependent upon government grants and face greater structural challenges to their financial sustainability. Most councils (75 of 79) are budgeting a 1.75% rate rise in line with the rate cap. With waste costs consistently increasing above the rate of inflation, four councils introduced separate waste charges for the first time in 2022-23. Seventy-seven of the 79 councils now have separate waste charges which means their waste services can be operated on a cost recovery basis. The alternative, of funding waste services through general rates, is less viable in a rate capping environment.

Operating expenses are rising but at a level consistent with historical trends. Employee costs remain the single largest operating expense for most councils and are budgeted to rise 4.46% in total. There will be an estimated 40,610 FTE council staff at 30 June 2023, up 2.4% on the 30 June 2022 estimate, and the figure remains stable in the projections. However staff turnover is occurring at heightened levels across the sector compared to historical trends. This reflects the relative strength of the current employment market and remains a challenge for councils seeking to attract and retain appropriately qualified and experienced staff.

Total planned capital expenditure of $4.15 billion in 2022-23 represents a 0.6% decrease on the prior year but over the 4-year budget projections the collective capital spend of $14.23 billion is up on the previous estimate. The carrying-over of capital works remains common across Victorian councils, reflecting construction delays unforeseen at budget time. Council capital works provide important stimulus for employment and local economies, hence the higher 4-year projections are a positive signal.

Budgeted cash and investments of $5.28 billion against total debt of $1.74 billion shows that councils hold substantial liquid assets and generally have capacity to borrow more if needed. More sophisticated approaches to treasury management present a growing opportunity for some councils to make their operations and balance sheets leaner. The four-year projections show a growing appetite for borrowings, which if prudently managed are a legitimate financing option when managing long-lived infrastructure assets for inter-generational benefit. The Victorian Government’s TCV loans framework provides the option for councils to cost-effectively borrow. With relatively stable and predictable revenue streams, including rates and grants, councils are well placed to consider the strategic use of debt in future.

Overall, the finances of Victorian councils are sound and are projected to remain so over the four year forward projections. External economic factors including rising inflation and conflict in Europe resulting in cost pressures for energy and materials present some level of risk to the sector, but councils have options available to them to mitigate and manage these challenges.

3 Whole of Sector Overview

This report identifies key financial trends across the local government sector based on analysis of the 2022-23 adopted budgets of all 79 Victorian councils. This is the second year that councils have prepared four-year budgets under the *Local Government Act 2020*.

Collectively the local government sector entered the COVID-19 pandemic in a relatively strong financial position based on solid financial performance in recent years. Rates provide a stable, predictable revenue base for councils and are supplemented by substantial recurrent operating and non-recurrent capital grants from the other levels of government. This strong revenue base allowed councils to build significant cash reserves over time.

Following signs of economic recovery councils are budgeting for continued improvements in their adopted budgets for FY 2022-23. This is reflected in a collective budgeted capital works program in excess of $14.2 billion over the next four years ($14.0 billion over four years in the FY 2021-22 budgets). Increased council spending on community assets such as roads, footpaths, drainage and buildings is important as it stimulates employment and local economic activity. Almost 67% of these capital works are funded by council's own source revenue.

Councils in aggregate are budgeting for total revenue of $12.53 billion and total operating expenditure of $10.47 billion during FY 2022-23. Collectively, Victorian councils will generate an accounting operating surplus of $2.05 billion in 2022-23 ($1.96 billion in 2021-22) but an adjusted underlying deficit of $241.42 million ($242.86 million in 2021-22).

An adjusted underlying result removes the revenue from developer contributions and non-recurrent capital grants in order to measure an entity's ability to generate a surplus in the ordinary course of business. This measure provides a truer picture of financial health of a local government. For instance, Wyndham City Council is budgeting for an accounting operating surplus of $144.2 million in 2022-23. Nevertheless, the surplus is the result of considerable revenue from developer contributions ($165.7 million) and non-recurrent capital grants ($15.53 million). Removing the revenue from these sources results in an adjusted underlying deficit of -$37.05 million for Wyndham City Council. An adjusted underlying result is a useful measure of financial performance over time since it excludes items that may fluctuate significantly or not be consistently received. Individually, 7 out of 79 councils are budgeting for an accounting operating deficit whilst 55 out of 79 councils are reporting an adjusted underlying deficit.

Budgeted revenue increased 9.41% in FY 2021-22 due to economic recovery in Victoria after extended periods of lockdown during FY 2020-21. In FY 2022-23 councils are budgeting for an increase of 4.54% in the overall budgeted revenue. Total revenue from rates and charges has increased by 4.62% in adopted budgets for FY 2022-23 (4.8% in 2021-22) after factoring in the rate rise, new property assessments and increases in any charges not covered by the rate cap.

Seventy-five of the 79 councils are proposing a rate rise in line with the 1.75% rate cap. Two councils are proposing to freeze their rates while two councils are proposing a rate rise of between 0% and 1.75%. The details of individual rate rises by council are listed in **Appendix A**. No councils sought a higher rate cap amount for 2022-23. In summary, the rate cap amount as set by the Minister for Local Government remains the guiding basis for determining the actual budgeted rate increases by most councils. It shows that council rate increases are much more closely correlated with the externally made annual rate cap decision. In this scenario internally planned or required expenditure requirements have less influence on rate levels.

COVID-19 lockdowns severely reduced revenue from statutory fees and fines and user fees during both FY 2021-22 and FY 2020-21, especially in metropolitan councils. While revenue from these two sources was budgeted to increase in FY 2021-22, the forecast actual results suggest that many councils will report a negative variance for revenue from these sources. Councils are however optimistic for a return to pre-pandemic levels of revenue in FY 2022-23 and are budgeting for $1.52 billion in revenue from these sources. This is an increase of $88.37 million from FY 2021-22 adopted budgets and $308.22 million from 2020-21 budgets.

Overall budgeted operating expenditure in FY 2022-23 is expected to increase by 4.56% consistent with pre-pandemic increases in recent years. Employee costs, the largest expense for Victorian councils, will increase by 4.46% (4.21% in FY 2021-22). This partly reflects wage growth and moderately higher staff numbers. Enterprise bargaining agreements and relatively stable operating structures have meant that employee costs have grown at a relatively constant rate of over 4 per cent each year since 2016-17. Materials and services expenses will increase by 4.84% (5.74% in FY 2021-22) after a higher rate of increase last year due largely to additional pandemic related costs.

Capital works in FY 2022-23 represent a slight decrease of 0.6% compared to adopted budgets for FY 2021-22. There is a long-term increase of 1.61% in the combined four-year budgets, resulting in planned overall capital works of $14.23 billion over the next four years. This is slightly higher than the $14.0 billion committed in the four-year budgets for FY 2021-22, suggesting a strong pipeline of capital works projects across Victorian councils.

At 30 June 2022, councils collectively are budgeting to manage non-current assets worth $122.9 billion. The sector is also budgeting to employ staff in excess of 40,610 FTE (39,666 FTE in 2021-22) meaning moderate projected growth of 2.4% but a largely stable total workforce over the four-year projections. In 2022-23, budgeted total cash and financial assets of $5.28 billion against budgeted total debt of $1.74 billion indicates that collectively councils remain in a relatively strong and stable liquidity position.

Councils have traditionally had low debt levels. The budgets show an increase in borrowings over the four-year projections. In 2022-23, cumulatively, councils are budgeting to fund 14.58% of their overall capital works through new borrowings. Comparatively, in 2021-22 the percentage of borrowings as a funding source for the overall capital works program was 13.58%. The strategic use of debt is legitimate for entities like councils that manage long-lived infrastructure assets. The Victorian Government making Treasury Corporation of Victoria loans available to councils has provided another cost-effective option for councils wishing to borrow. 41 out of 79 councils are budgeting to carry interest bearing loans of less than $10 million at 30 June 2023 while 22 out of 79 councils remain debt free during the period. Councils carrying debt in excess of $10 million are mostly metropolitan and interface councils.

All 79 councils adopted their 2022-23 budgets by the statutory deadline of 30 June. A table snapshot of the finances of the 79 councils in Victoria from 2022-23 adopted budgets against 2021-22 adopted budgets is available in **Appendix B**.

4 Introduction and context

Section 94 of the *Local Government Act 2020* (the Act) requires that councils prepare a budget for each financial year and the subsequent 3 financial years.[1]

The 4-year budget is council's key medium term resource planning document and supports longer term planning requirements such as the 10+ year financial plan and 10+ year asset plan. Councils must develop a community engagement policy which, amongst other requirements, is capable of being applied in relation to the council's budget and policy development.[2]

This report is focused on the 79 budgets adopted by Victorian councils following community consultation and submissions in accordance with individual council community engagement policies.

The Act also allows for the preparation of a revised budget in specific circumstances[3]. Given the ongoing economic impacts of the coronavirus pandemic and conflict in Europe, it is possible that some councils will issue a revised 2022-23 budget.

4.1 Coronavirus (COVID-19) pandemic

The outbreak of the Delta variant of COVID-19 in Victoria again impacted council finances during the early part of the 2021-22 financial year. Victoria experienced further lockdowns during parts of May, June, July, August and September 2021. Across Victoria, there were mandated closures of key community facilities including libraries and museums, sport and recreation centres, child and family day care, senior citizen centres and leisure and arts facilities. Many community services (e.g. maternal and child health, environmental health, home-based community care) were affected but continued to operate.

Despite the outbreak of subsequent variants of COVID-19 during the early part of 2022, the outlook for the Victorian economy is positive, with the economy forecast to grow by 3.25 per cent in 2022-23.[4] The Victorian State Budget 2022/23 notes that high vaccination rates, a gradual increase in migration and substantial household savings should all support further strong economic growth over the coming year.

The risks to Victoria's economic outlook remain greater than were typical prior to the pandemic. These include ongoing risks relating to the COVID-19 pandemic, and elevated uncertainties relating to the Russian invasion of Ukraine. The uncertainty of future events makes planning and budgeting difficult.

While councils were comparatively more aware of the pandemic impacts when developing their 2022-23 budgets, there remained a level of uncertainty about future events. Councils are better prepared to respond to the financial hardships facing some members of their community, but budgets are also largely prepared based on the assumption of a continued economic recovery.

Councils will be hoping for continued economic recovery to aid in the delivery of their budgeted capital works programs. They will also need to balance maintaining their financial sustainability with continuing to support local communities.

4.2 Financial sustainability of Victorian councils

The finances of Victorian councils prior to COVID-19 were generally considered to be sound. As a result, councils have broadly remained financially resilient during the various stages of the pandemic.

VAGO tabled their report titled "Results of 2020-21 Audits: Local Government" in Parliament in December 2021. The report summarised the results of VAGO's 2020-21 audits and included an assessment of all councils against

1 Section 94(1) of the *Local Government Act 2020* requires all councils to adopt a budget by 30 June each year, or any date fixed by the Minister by notice published in the Government Gazette

2 Section 55(1) and 55(2)(d) of the *Local Government Act 2020*

3 Section 95 of *the Local Government Act 2020*

4 Victorian State Budget 2022/23, Budget Paper No. 2 (Strategy and Outlook)

7 financial sustainability risk indicators. VAGO concluded that generally, Victorian councils continue to be financially sound. The report stated,

"COVID-19 continued to affect the sector's financial performance during 2020–21, but it improved from the previous year. Councils' balance sheets remained relatively strong. Both of these outcomes are partly due to Victorian and Australian Government pandemic-related grants received."[5]

VAGO also made reference to the importance of councils monitoring their adjusted underlying results and the positive impact of Commonwealth Financial Assistance Grants being paid in advance. The report stated,

"With the COVID-19 pandemic continuing to affect the sector's revenue and expenses into 2021–22, it is important that councils monitor their adjusted underlying results over the medium to long term to ensure they are self-sufficient in their ability to deliver services based on the community's needs and expectations. For the last five years, councils have been receiving the Australian Government Financial Assistance Grant to Local Government in advance. Without this advance receipt, the adjusted underlying result would have been even lower.

Despite the uncertain operating and economic environment caused by the pandemic, the sector's overall financial position remains resilient over the short term, with councils continuing to increase cash holdings and having low levels of debt."

4.3 Rising inflation and interest rates

In April 2022, the financial stability review of the Reserve Bank of Australia noted that,

"The global financial systems have functioned well throughout the pandemic. However, Russia's invasion of Ukraine and the resulting sanctions have amplified some existing risks and created others." [6]

The review also noted that,

"Disruptions to supply chains due to the pandemic and the war in Ukraine, as well as sharp increases in energy and other commodity prices, will add to already high inflation. Together, these factors could depress economic growth."

Victorian councils are also expected to be impacted by supply chain issues and inflationary pressures, particularly with regards to delivery of their significant capital works program.

Rising interest rates are likely to impact councils in many ways, with increased returns on cash and term deposits a positive impact, and increased borrowing costs a potential negative. As further discussed in subsequent sections of this report, the sector generally carries relatively low levels of debt on their balance sheets.

4.4 Local Government Act 2020

Victorian councils 2022-23 budgets are prepared under the *Local Government Act 2020*. The Act introduced a requirement for councils to prepare and adopt a 4-year budget. Previously, councils were required to prepare an annual budget and typically included an extract of their 4-year Strategic Resource Plan (SRP) within the budget.

The 4-year budget outlines how resources will be allocated across initiatives, programs, services and capital works. It also provides comprehensive information on planned expenditure, assets, obligations and the budgeted income to be derived from rates, fees and charges, grants, and other revenue.

For the purposes of the detailed analysis in the subsequent sections, the budget year (financial year 2022-23) is the primary focus as it effectively represents the financial plans of councils in the most immediate future.

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[5] Results of 2020-21 Audits: Local Government, VAGO, December 2021

[6] Reserve Bank of Australia, Financial Stability Review – April 2022

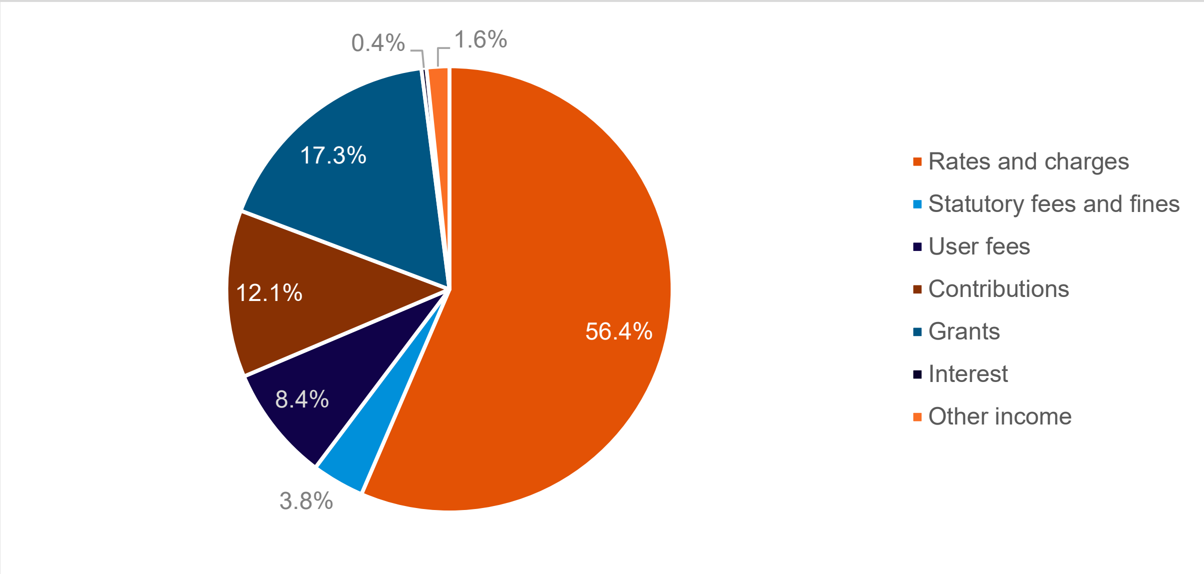
4.5 Budget Analysis

The sections below present commentary on and analysis of the planned revenue, expenditure, cash and financial assets, debt and capital works included in the financial statements of council 2022-23 adopted budgets.

5 Revenue

Councils in aggregate are budgeting for total revenue of $12.53 billion ($11.98 billion in 2021-22). The composition of this total budgeted revenue is shown in ***Figure 1***. The largest revenue items are rates and charges with $7.07 billion ($6.76 billion in FY 2021-22 adopted budgets) representing 56.4% of overall 2022-23 budgeted revenue. Grants of $2.16 billion ($2.2 billion in FY 2021-22 adopted budgets) represent 17.3% of annual budgeted revenue. User fees and contributions are also key sources of revenue for councils, accounting for 8.4% and 12.1% of forecast total revenue, respectively.

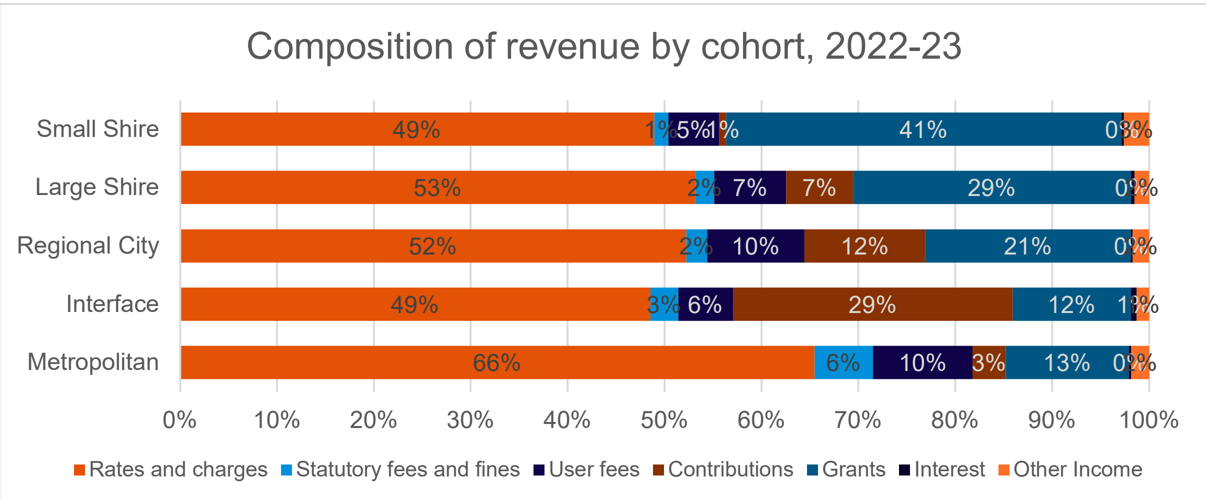
Figure 1 Composition of total 2022-23 budgeted revenue



Source: 2022-23 adopted budgets

The composition of total revenue varies significantly between cohorts, as shown in ***Figure 2***. Small rural councils have a greater dependence on government grants (41% of total revenue) whilst rates and charges represent 49% of total revenue. This reflects the fewer revenue raising options for small rural councils and their significant dependence upon external grant funding.

Figure 2 Composition of aggregated council budgeted revenue by cohort, 2022-23



Source: 2022-23 adopted budgets

Interface councils are recipients of significant developer contributions (both monetary and gifted assets) of 29% of total revenue and also receive 12% of total revenue by way of government grants. General rates and charges contribute 49% of the total revenue in this cohort.

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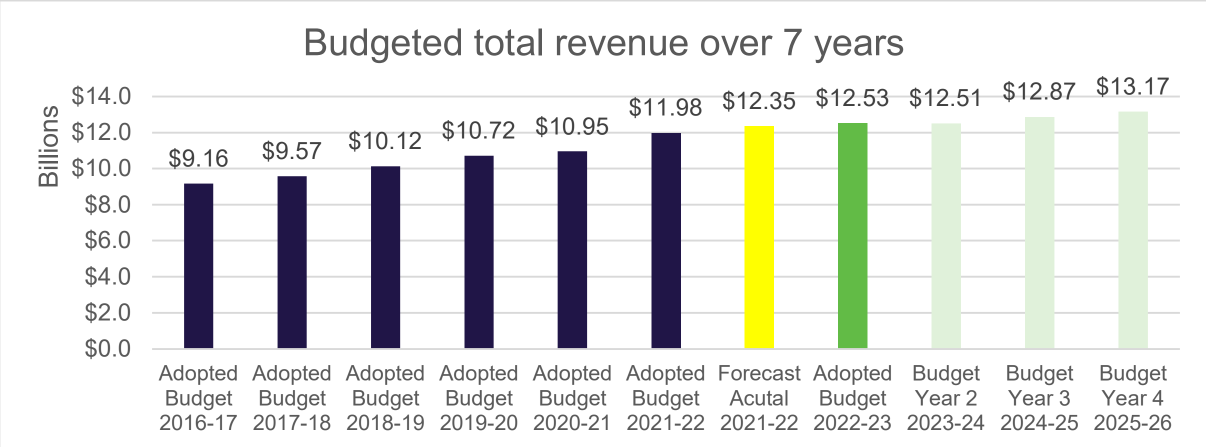
Figure 2 shows that 66% of metropolitan council revenue is raised through rates and charges. The proportion of revenue raised by rates and charges for all other cohorts is lower. Across all five cohorts at least half of total revenue is generated through their own-source revenue (OSR) streams of rates and charges, statutory fees and fines and user fees.

Council OSR was negatively impacted by COVID-19, particularly in metropolitan councils. However, the total budgeted revenue from statutory fees and fines and user fees in FY 2022-23 of $1.52 billion ($1.43 billion in FY 2021-22) is closer to the pre-pandemic level ($1.2 billion in FY 2020-21 and $1.45 billion in FY 2019-20).

Figure 2 also shows the extent of reliance on revenue from user fees and statutory fees and fines in the metropolitan cohort (16%) and regional cities (12%). Large shires (9%). Small shires (6%) and interface councils (9%) are relatively less reliant on these revenue streams.

Figure 3 shows total budgeted revenue over the past 7 years from adopted budgets (2016-17 to 2022-23). Growth in total revenue exceeded $411 million in 2017-18, $549 million in 2018-19 and $593 million in 2019-20. The 2020-21 budgets, which were the first budgets prepared during the early stages of the pandemic, included lower growth in total revenue of only $238 million. The 2021-22 adopted budgets projected total revenue growth of $1.03 billion as relatively more was known about pandemic impacts and government support. Forecast actual results for 2021-22 (included in the 2022-23 budgets) show a forecast growth in revenue of $1.4 billion exceeding the budgeted growth. This growth trend continues in 2022-23 budgets, which show total revenue growth of $550 million compared to 2021-22 budgeted total revenue. **Figure 3** also shows that beyond 2022-23 councils have budgeted for a slow-down in total revenue growth over the next 4 years.

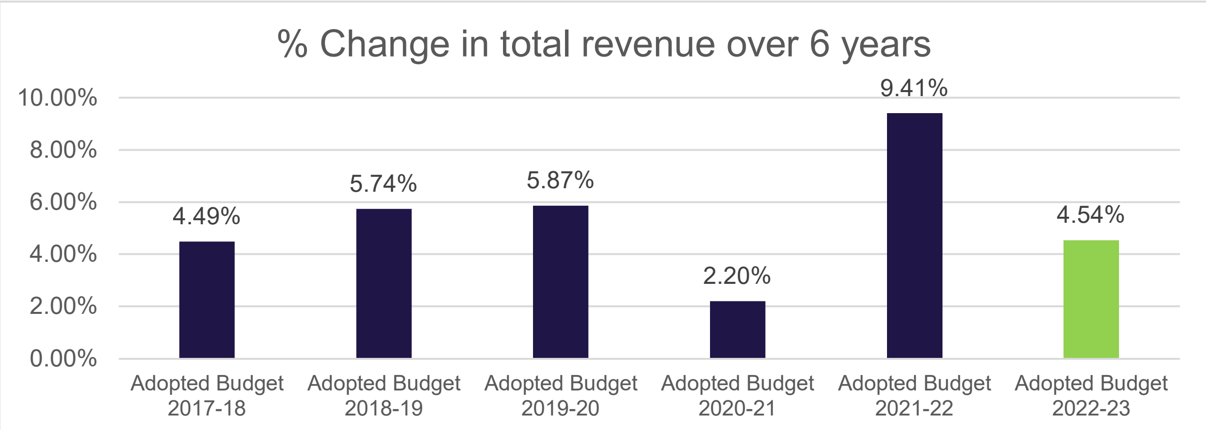
Figure 3 Budgeted total revenue 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

The change in the rate of growth in total revenue between 2016-17 and 2022-23 is shown in percentage terms in **Figure 4**. While the 2022-23 rate of growth is lower when compared to the rate of growth in 2021-22, councils are budgeting for a return to pre-pandemic levels of revenue growth.

Figure 4 Percentage change in budgeted total revenue 2016-17 to 2022-23

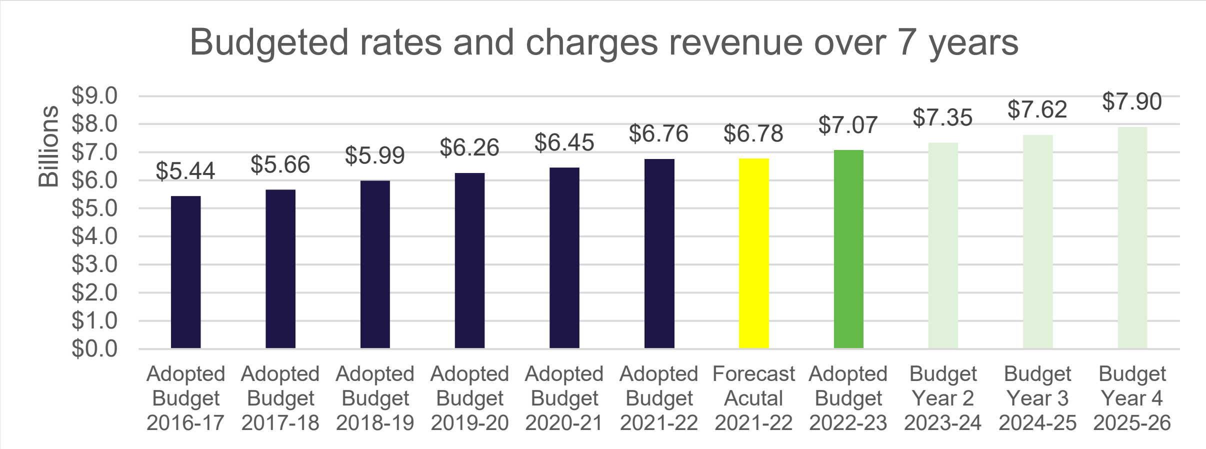


Source: 2016-17 - 2022-23 adopted budgets

5.1 Rates and charges

Rates and charges remain the primary revenue stream for Victorian councils. Councils are budgeting for total rates and charges revenue of $7.07 billion ($6.76 billion in 2021-22). **Figure 5** shows that the forecast actual rates and charges revenue for 2021-22 is $6.78 billion.

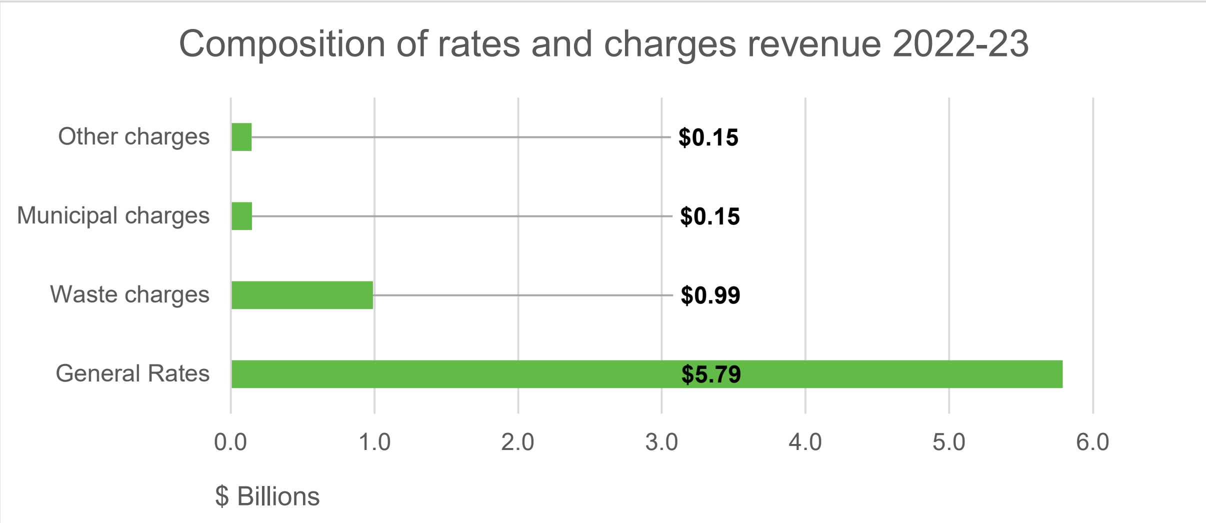
Figure 5 Budgeted rates and charges revenue 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

It is important to note that in referring to 'rates and charges' in this context it includes general rates, municipal charges and waste charges. **Figure 6** shows the composition of budgeted rates and charges revenue in FY 2022-23. $5.79 billion (85.7%) of total rates and charges revenue was budgeted to be raised through general rates, while the rest was budgeted to be raised through waste, municipal and other charges.

Figure 6 Composition of rates and charges revenue – FY 2022-23

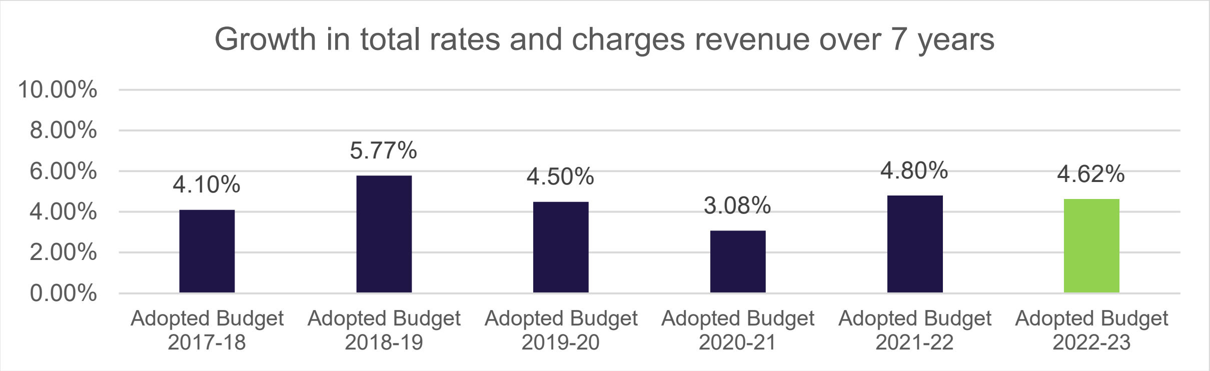


Source: 2022-23 adopted budgets

The growth in rates and charges revenue since FY 2016-17 is due to a combination of the rate increase allowed under the FGRS rate cap, the growth in waste charges and the growth in the number of rateable assessments.

Figure 7 shows the rate of growth in budgeted rates and charges revenue between 2016-17 and 2022-23. The additional revenue budgeted for 2022-23 from rates and charges is $312.39 million which represents a 4.62 per cent increase on the total from 2021-22 adopted budgets.

Figure 7 Growth in budgeted rates and charges revenue 2016-17 to 2022-23

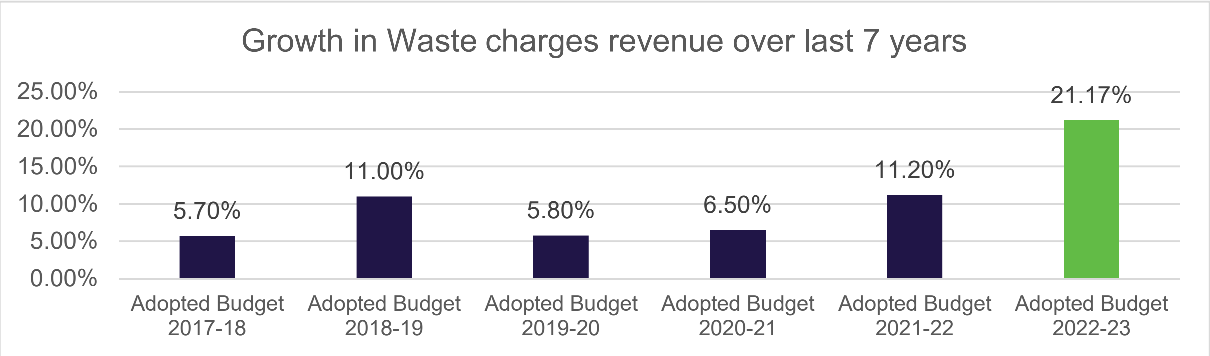


Source: 2016-17 - 2022-23 adopted budgets

Figure 8 shows the rate of growth in budgeted waste charges between 2016-17 and 2022-23. The increase in budgeted waste charges revenue over the last five years has been substantially higher than both budgeted general rates revenue and consumer price index increases. Budgeted waste charges revenue grew 5.7% in 2017-18, 11.0% in 2018-19, 5.8% in 2019-20, 6.50% in 2020-21 and 11.2% in 2021-22. For 2022-23 budgeted waste charges will increase by 21.17%. This includes four councils that have levied a waste charge for the first time (Banyule, Darebin, Melbourne and Port Phillip). When these Councils are excluded for a year on year comparison the annual increase in garbage charges for Councils that levied a charge in 2021-22 is 9.45%.

The main driver of increased waste charges in recent years was the change in China's policy in 2018 to stop the import of low quality mixed recyclable materials. This led to increased costs of waste management domestically. More recently, inflationary pressures as well as service expansion and upgrades have resulted in increases in waste charges.

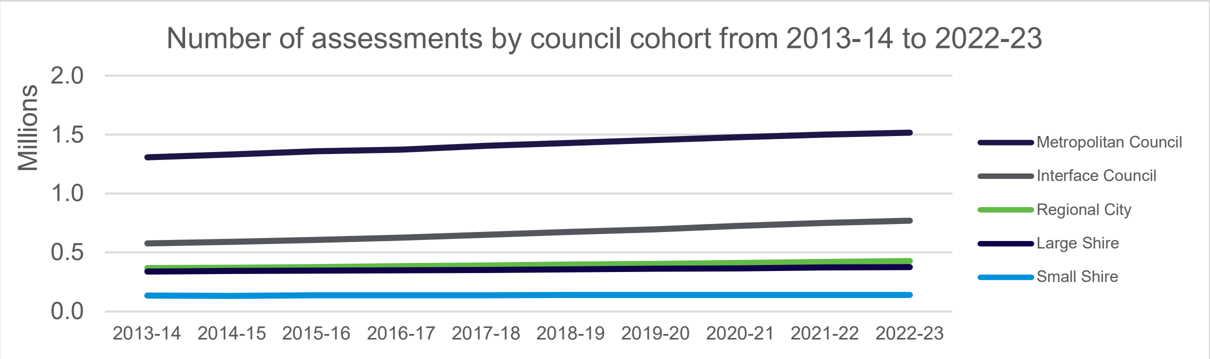
Figure 8 Growth in budgeted waste charges revenue 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

Figure 9 shows the increasing trend in new rateable properties (assessments) from 2013-14 to 2022-23 by cohort. The steady growth in assessments is also reflected in the percentage increase in total rates and charges revenue in **Figure 7** above.

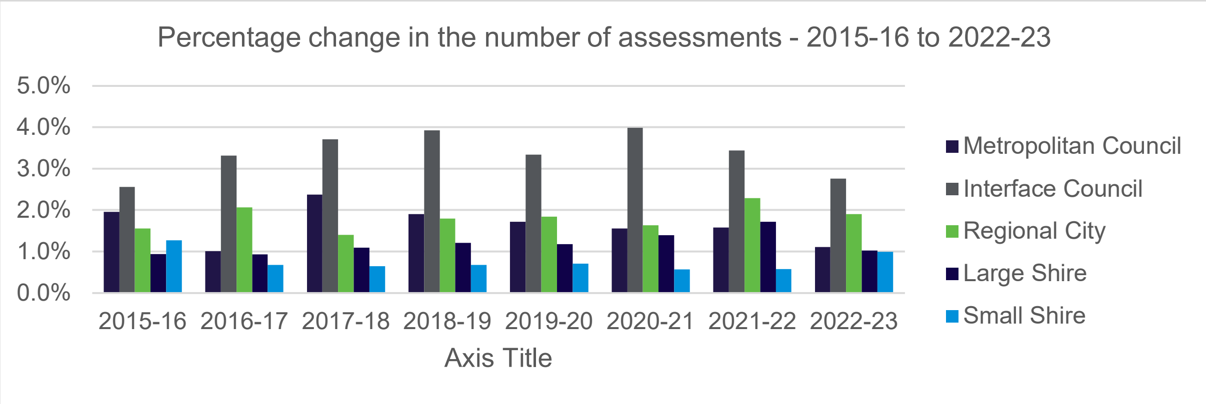
Figure 9 Number of assessments by council cohort from 2013-14 to 2022-23



Source: 2013-14 - 2022-23 adopted budgets

The collective growth in the number of assessments has averaged around 2% per annum over the past eight years. **Figure 9a** shows the change in number of assessments between 2015-16 and 2022-23 by cohort. The higher rates of growth in the number of assessments in the Interface councils is evident.

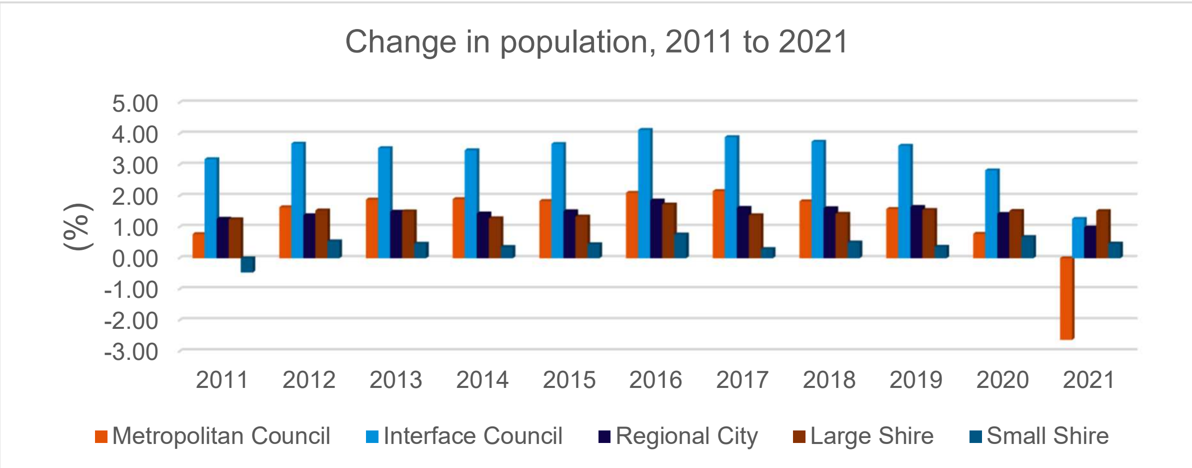
Figure 9a Percentage change in assessments by council cohort from 2013-14 to 2022-23



Source: 2014-15 - 2022-23 adopted budgets

The average growth in local government assessments is broadly consistent with Victoria's population growth between 2011 and 2020, which also averaged an increase of 2% per annum. The sharp decline in population growth in Metropolitan Melbourne in 2021 reflects the impact of travel restrictions at the height of pandemic.

Figure 9b Percentage change in population from 2011 to 2020



Source: ABS estimated residential population (ERP) by LGA (ASGS 2020), 2001 to 2021

Supporting ratepayers

Victorian councils 2020-21 budgets included strong support for local communities, including measures such as economic recovery packages, direct business and community support and rate waivers. The 2022-23 budgets have largely been prepared on the assumption that communities and businesses, to a large extent, have recovered from the extended lockdown periods in 2020 and 2021.

The *Local Government Legislation Amendment (Rating and Other Matters) Act 2022* (Amendment Act) received Royal Assent on 9 August 2022. The Amendment Act delivers the first phase of reforms arising from the 2020 Local Government Rating System Review and recommendations of the 2021 Victorian Ombudsman's 'Investigation into how local councils respond to ratepayers in financial hardship'

The Act makes changes to the arrangements for unpaid rates and charges, consideration of ratepayers facing financial hardship, service rates and charges and special rates and charges. The Act also introduces a new public benefit criteria for councils to offer rate rebates and concessions.

The reforms introduced by the Amendment Act will enhance consistency across the sector. They will also strengthen the ability of Victorian councils to balance their own financial sustainability with ensuring the burden of rates falls fairly amongst all ratepayers.

5.2 Fair Go Rates System

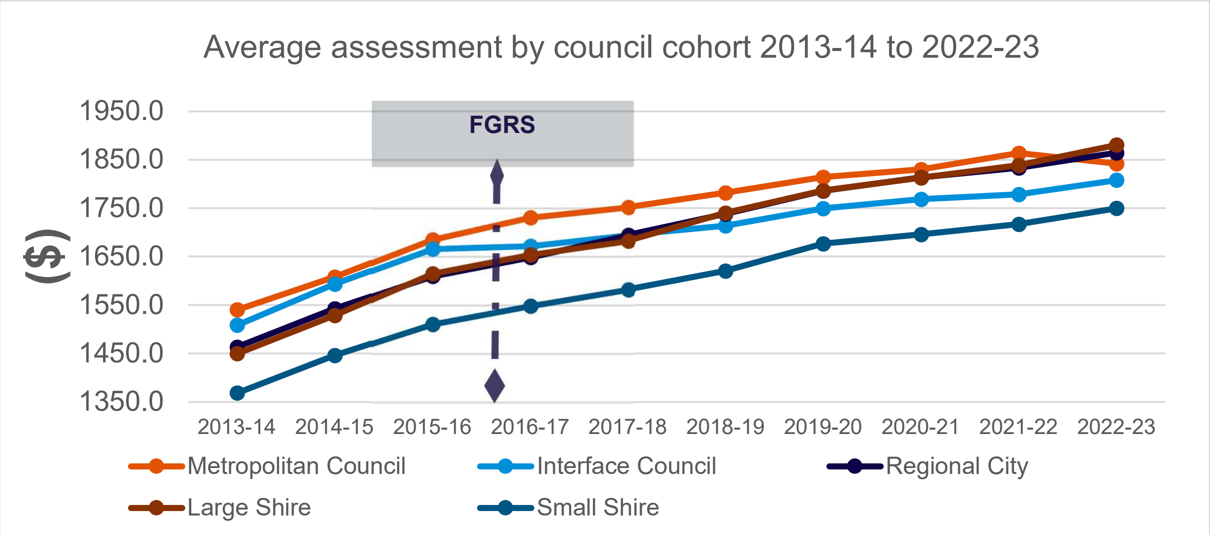
The Fair Go Rates System (FGRS) was introduced in the 2016-17 financial year and caps council rate rises. The Victorian Government set the rate cap for 2022-23 at 1.75 per cent. The cap applies to general rates and municipal charges but does not currently apply to service charges (commonly levied to cover the cost of waste and recycling).

Average Assessments

An indicator of the change in rates and charges over time is the calculation of an average assessment by cohort as shown in **Figure 10**. The average assessment represents the total (by cohort) of general rates and municipal charges divided by the total number of assessments. When considered over time this calculation of the average amount raised per assessment can be used to measure the change in rates and charges.

Figure 10 shows the average assessment has risen steadily in all council cohorts between 2013-14 and 2022-23. It also shows that following the introduction of the Fair Go Rates System (FGRS) in 2016-17 the original trajectory of the year-on-year increase of the average assessment has flattened for all council cohorts, showing the effect of the rate cap.

Figure 10 Rate rises from 2022-23 adopted budgets by council cohort



Source: 2013-14 - 2022-23 adopted budgets

For 2022-23 most councils (75 of 79) are proposing a rate rise in line with the 1.75 per cent rate cap. Two councils are proposing to freeze their rates while two councils are proposing a rate rise of between 0 and 1.75 per cent. The adopted rate rises are summarised by cohort in **Figure 11**. The data indicates that the rate cap is – for almost all councils – the primary determinate of rate increases. Council rate levels do not therefore appear driven by actual planned or anticipated revenue requirements.

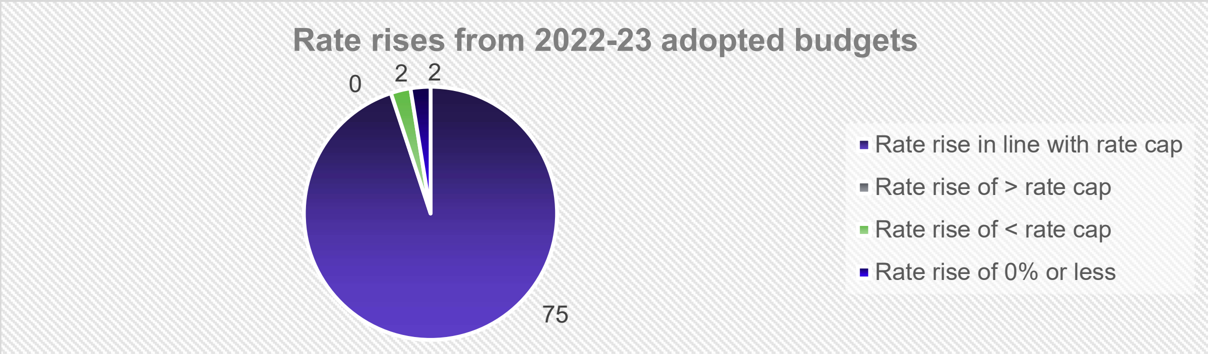
Figure 11 Rate rises from 2022-23 adopted budgets by council cohort

	Overall	Metropolitan	Interface	Regional City	Large Shire	Small Shire
Adopted rate rise of 1.75% (rate cap)	75	21	9	8	19	18
Adopted rate rise of > 1.75%	0	0	0	0	0	0
Adopted rate rise of < 1.75%	2	1	0	1	0	0
Adopted rate rise of 0%	2	0	0	1	0	1
Adopted rate rise of < 0%	0	0	0	0	0	0
	79	22	9	10	19	19

Source: 2022-23 adopted budgets

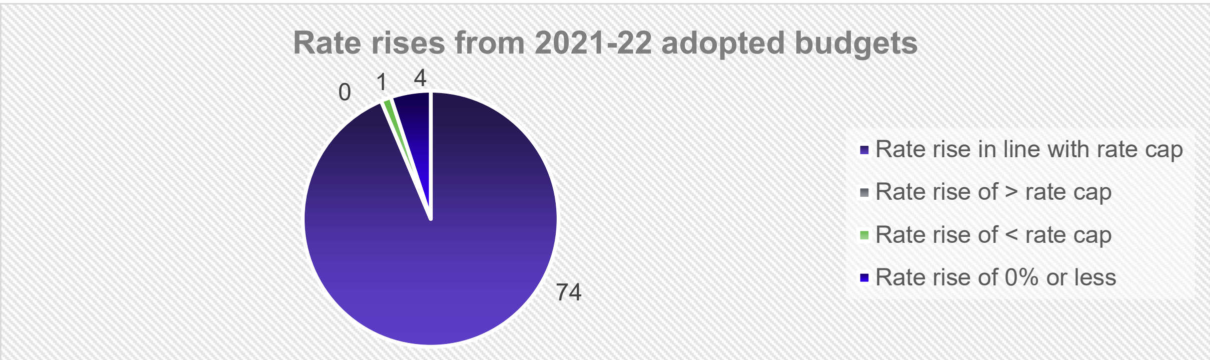
Figure 12a below presents the rate rise data in a pie chart, allowing comparison with the rate rises in 2021-22 adopted budgets in **Figure 12b** and adopted budgets for 2020-21 in **Figure 12c**. The 2020-21 adopted budgets, mainly prepared during the second wave of the COVID-19 outbreak in Victoria, reflect the many council decisions to freeze their rates (17 councils adopted a rate rise of zero per cent or lower). In 2021-22 and 2022-23 budgets, fewer Victorian councils have adopted a rate increase lower than the rate cap. No councils have sought to raise rates beyond the rate cap in 2022-23.

Figure 12a Rate rises in 2022-23



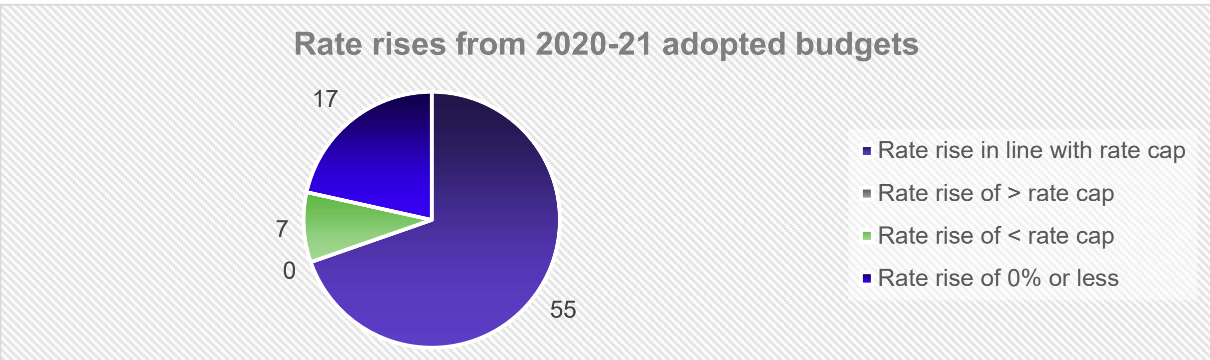
Source: 2022-23 adopted budgets

Figure 12b Rate rises in 2021-22



Source: 2021-22 adopted budgets

Figure 12c Rate rises in 2020-21



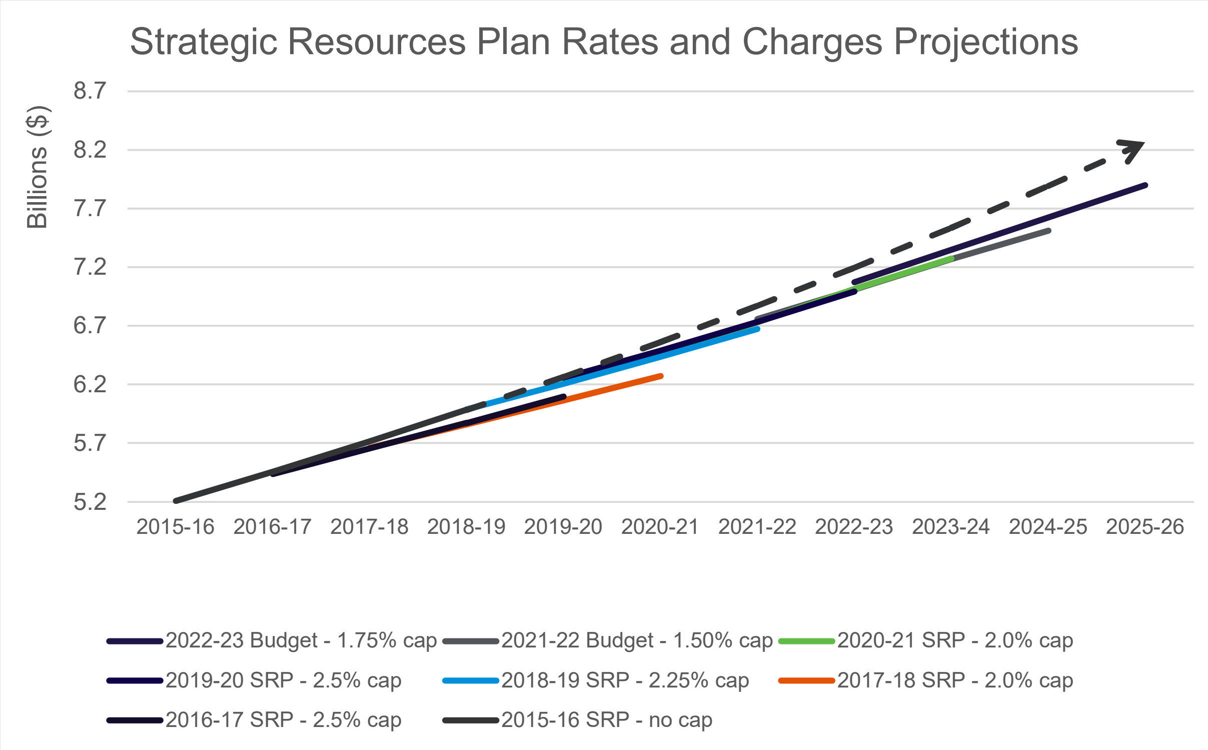
Source: 2020-21 adopted budgets

In the 2020-21 financial year, most Victorian councils offered some form of rates and charges relief to select groups of ratepayers, however the approach and processes varied in line with local priorities.

The *Local Government Act 1989* allows councils to defer or waive rates and charges. Councils can also offer rebates and concessions within the legislative parameters.

2022-23 is the seventh year since the implementation of FGRS. **Figure 13** demonstrates that in the forward projections of councils for the first 6 years there is a trend of lower growth in forecast income from rates and charges as compared to 2015-16 (prior to cap) projections. The dotted line represents the projected increase in rates and charges based on 2015-16 budget projections.

Figure 13 SRP Projections



Source: Council adopted budgets 2015-16 to 2022-23

Municipal charges

Some councils may declare a municipal charge to cover some of the administrative costs of the council. In 2022-23 the budgeted total to be collected is $147.48 million, an increase of $2.5 million or 1.73 per cent on 2021-22 levels. In 2022-23 municipal charges are being levied by 37 councils, six of which are metropolitan councils. The municipal charge – where used - is included in the rate cap calculation.

Waste charges

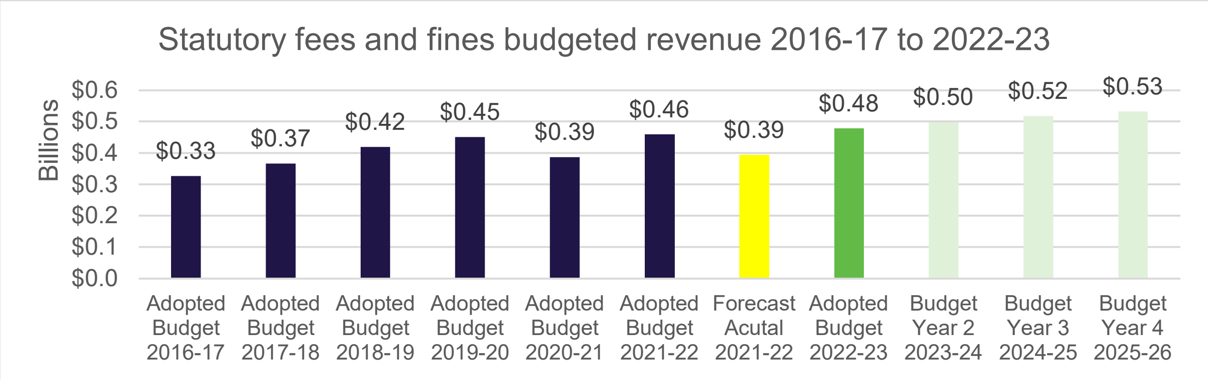
Service charges are most commonly raised in relation to waste services. Service charges are not currently subject to the capping provisions of the FGRS. Across the sector there is a great diversity in waste service charges. The revenue collected by way of waste charges can also be determined by the service level chosen by the ratepayer (for example choosing to pay an additional fee for a larger waste bin). Any comparisons should therefore be mindful of the increased service offerings of some councils in response to the needs of their community.

In 2022/23, separate waste charges are levied by 77 of the 79 councils. This effectively means that the waste services provided by the remaining 2 councils are funded by way of general rates. Over recent years most councils have moved towards the introduction of separate waste charges. This allows waste services to be delivered on a ‘cost recovery’ basis and means the revenues associated with waste services are not constrained by the rate cap. In 2022-23 the budgeted total to be collected through service charges is $989.27 million.

5.3 Statutory fees and fines and user fees

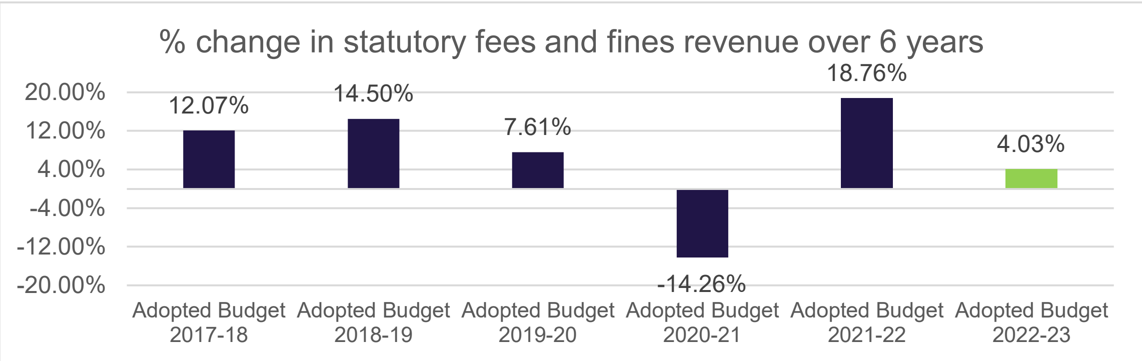
Statutory fees and fines include items such as building and planning fees, animal registrations, infringements and permits. **Figure 14a** shows that total budgeted revenue from statutory fees and fines for 2022-23 is $477.86 million (459.34 million in 2021-22). This represents an increase of $18.5 million or 4.03 per cent as shown in **Figure 14b**. The forecast actual revenue from this revenue steam for 2021-22 of $394 million is lower than the original budgeted amount. This is mainly attributable to the Victorian lockdowns as a result of the outbreak of the Delta variant of COVID-19 during the first few months of FY 2021-22. Councils are budgeting a continued recovery in fees and fines revenue in 2022-23 with budgeted revenue expected to return to pre-pandemic levels.

Figure 14a Statutory fees and fines budgeted revenue 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

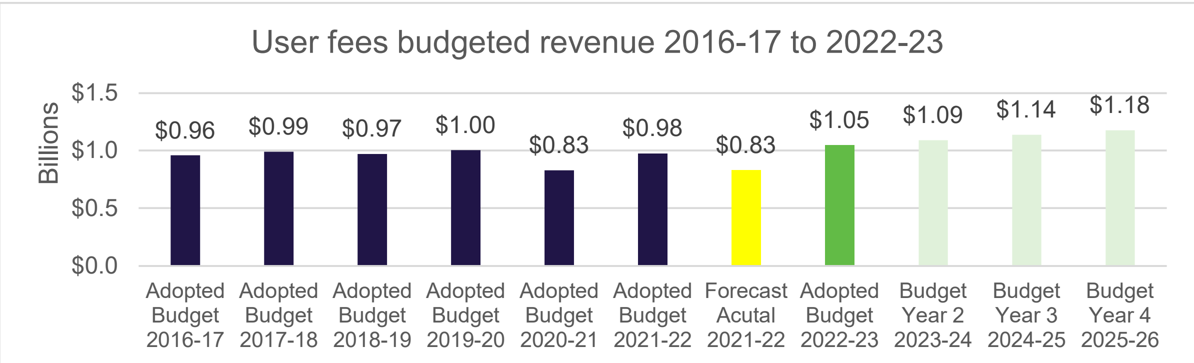
Figure 14b Percentage change in statutory fees and fines budgeted revenue 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

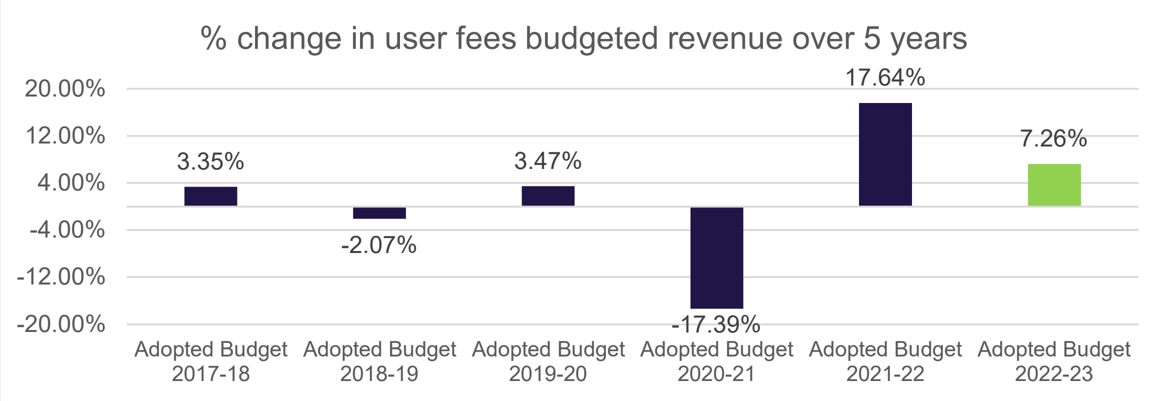
User fees include parking fees, charges for use of leisure and recreation centres, childcare and children's program costs and fees related to aged and health services. **Figure 15a** shows that total budgeted revenue from user fees for 2022-23 is $1.05 billion ($975.64 million in 2021-22). This represents an increase of $70.85 million or 7.26 per cent as shown in **Figure 15b**.

Figure 15a User fees budgeted revenue 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

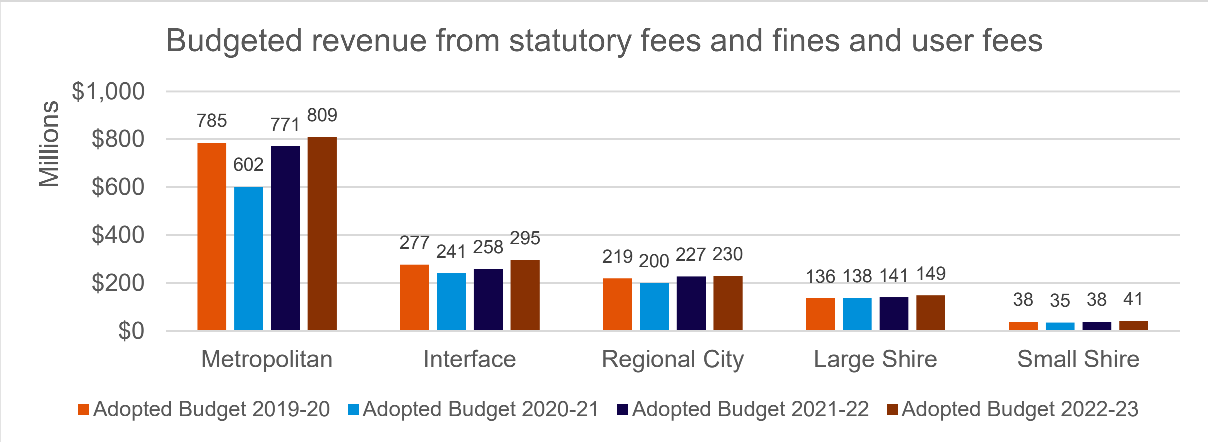
Figure 15b Percentage change in user fees budgeted revenue 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

Revenue generated through statutory fees and fines and user fees represents a significant component of Own Source Revenue (OSR). This is most significant for metropolitan councils who have made investments in aquatic and leisure centres. **Figure 16** highlights the budgeted recovery in 2022-23 after the revenue reduction impact in the previous financial years, particularly for metropolitan councils. **Figure 16** represents the 2022-23 budgeted revenue from both statutory fees and fines and user fees by council cohort against previous budgets.

Figure 16 Council budgeted revenue from statutory fees and fines and user fees by cohort



Source: 2016-17 - 2022-23 adopted budgets

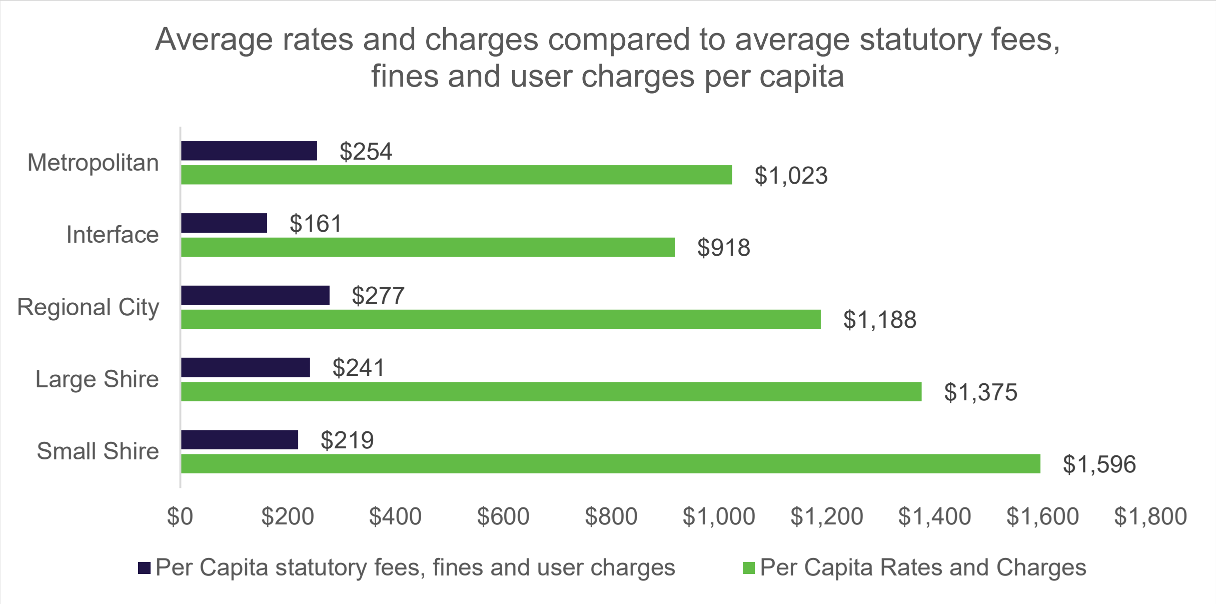
The budgeted revenue from statutory fees and fines and user fees in FY 2020-21 collectively reduced by $238.9 million when compared to adopted budget FY 2019-20. This significant dip in revenue coincided with periods of extended lockdown in Victoria during the first and second waves of COVID-19. Adopted budgets for FY 2022-23 continue the trend of recovery observed in the 2021-22 budgets with a collective increase of $89.37 million from these revenue sources across the sector compared to the previous budget. Indeed, all cohorts are projecting an increase in revenue from these sources.

The 2021-22 budgets were prepared mainly before the outbreak of the Delta variant of coronavirus in Victoria and therefore did not factor in adverse impacts of extended periods of lockdown. It is expected that the closure of council facilities and associated slowdown in economic activity due to COVID-19 will result in negative variances in actual to budget comparisons.

Revenue from statutory fees and fines and user fees represented 13.6% of total revenue in 2019-20 (pre-pandemic) but this falls to only 12.16% in 2022-23.

Figure 17 shows the per capita distribution of rates and charges revenue against statutory fees, fines and user charges. It highlights the relatively higher dependence of small shires on revenue from rates and charges on a per capita basis. The gap in relation to combined per capita income from statutory fees and fines and user fees and charges between council cohorts is noticeably narrow as compared to per capita rates and charges.

Figure 17 Average per capita revenue by cohort



Source: 2022-23 adopted budgets

5.4 Grants

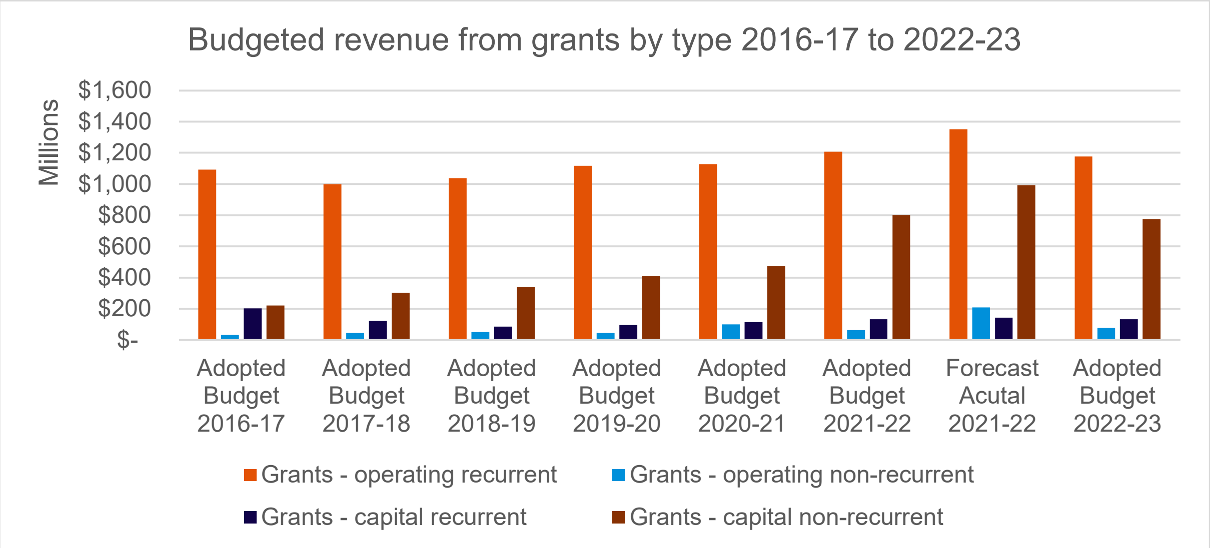
Total budgeted revenue from grants for 2022-23 is $2.16 billion ($2.2 billion in 2021-22). This represents a decrease of approximately $43 million or 2 per cent. **Figure 18** shows the budgeted revenue from grants between 2016-17 and 2022-23 by type of grant. It is worth noting that the forecast actual grants revenue for FY 2021-22 is in excess of $2.69 billion which is $489.5 million more than the original budgeted grants for FY 2021-22.

Effectively, the additional grants revenue surpassed the shortfall of revenue from council's own revenue sources and enabled the sector to collectively report a surplus financial result despite the economic impacts of COVID-19. Overall grant revenue remains relatively stable, particularly recurrent operating grants which are the primary source of grant funding for councils.

The forecast actual results for 2021-22 in **Figure 18** indicate a significant increase in non-recurrent operating grants and a $145.8 million or more than double increase in non-recurrent capital grants. This largely reflects the economic stimulus and support packages introduced by other tiers of government in response to the pandemic. The Victorian Government's $1.7 billion *Economic Survival Package* and $2.7 billion *Building Works Package,* which provided additional financial support to Victorian councils, are examples of the increased support since FY 2020-21.

The Commonwealth Government has brought forward the payment of 75 per cent of the 2022-23 Financial Assistance Grants (FAGs). This early payment was made to states and territories on 12 April 2022. Collectively, Victorian councils receive over $600 million in FAGs funding annually.

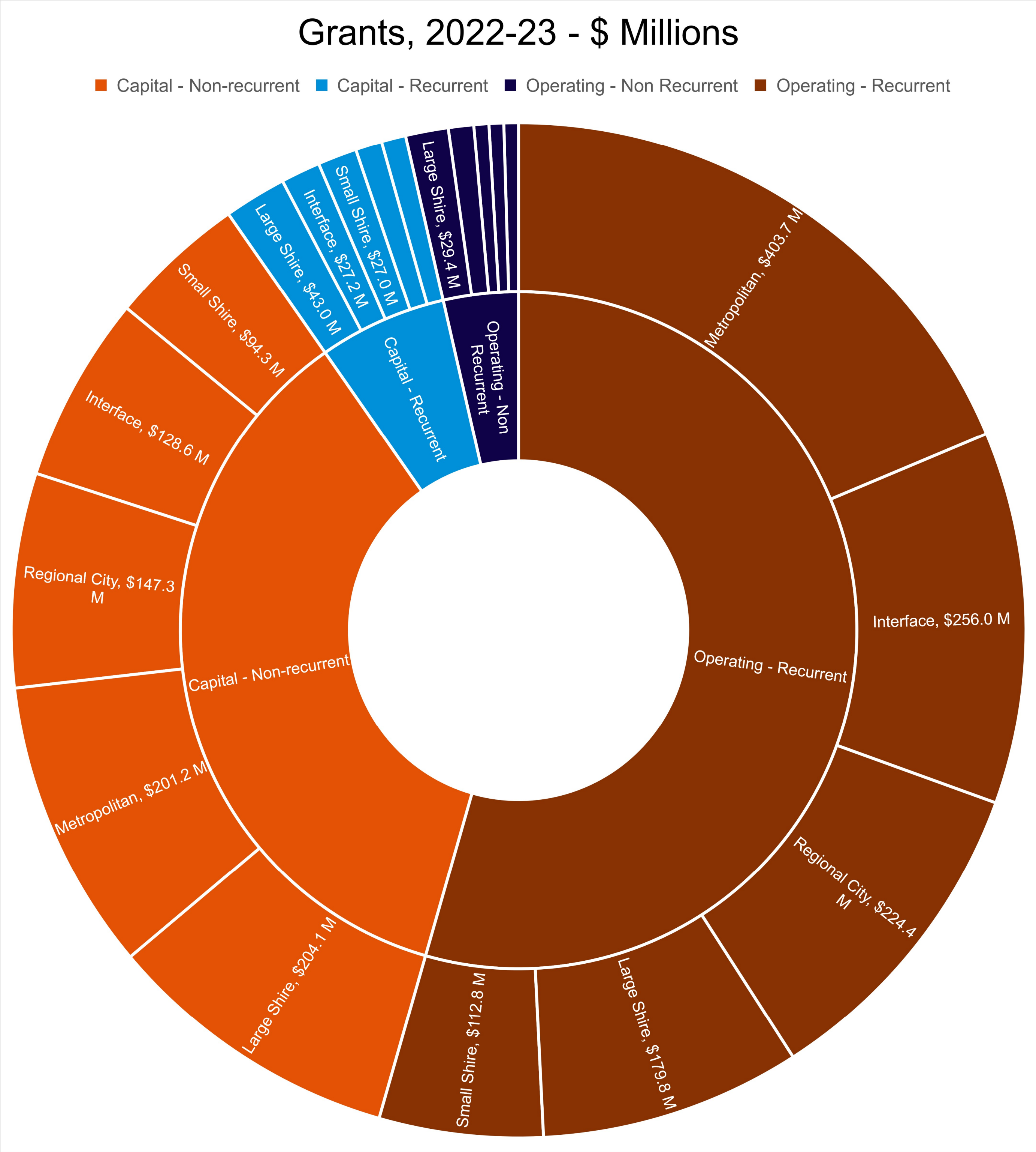
Figure 18 Budgeted revenue from grants by type 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

Small and large rural councils have a greater dependency on government grants. When combined with relatively lower population levels this means that 'grants per capita' in small and large rural councils are far greater compared to metropolitan and interface councils. **Figure 19** below shows the distribution of the grant types by council cohort.

Figure 19 2022-23 Budgeted revenue from grants by cohort

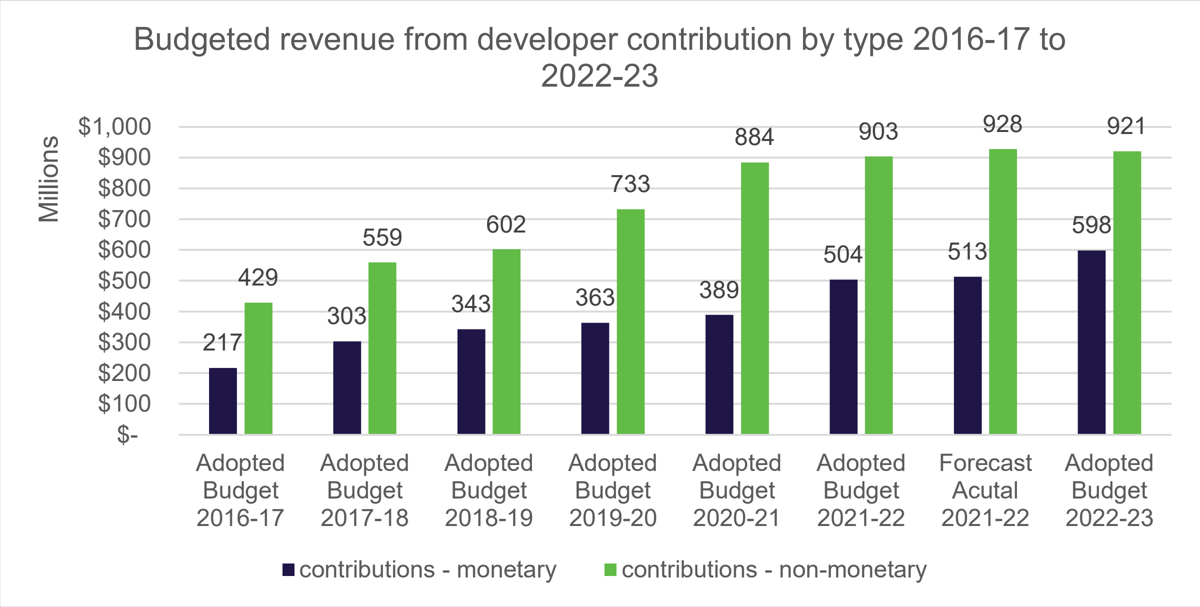


Source: 2022-23 adopted budgets

5.5 Contributions

Contributions represent cash provided by developers to councils as part of the planning process to ensure valuable community assets are funded and constructed. In some circumstances developers construct community assets such as roads, footpaths and drainage on behalf of council and transfer ownership back to council upon finalisation. These gifted assets are known as non-monetary contributions and are required to be recognised as revenue upon receipt. **Figure 20** shows the budgeted revenue from contributions between 2016-17 and 2022-23 broken down by monetary and non-monetary contributions. Total budgeted revenue from contributions for 2022-23 is $1.5 billion ($1.4 billion in 2021-22). This represents an increase of approximately $111.78 million or 8 per cent.

Figure 20 Budgeted revenue from contributions by type 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

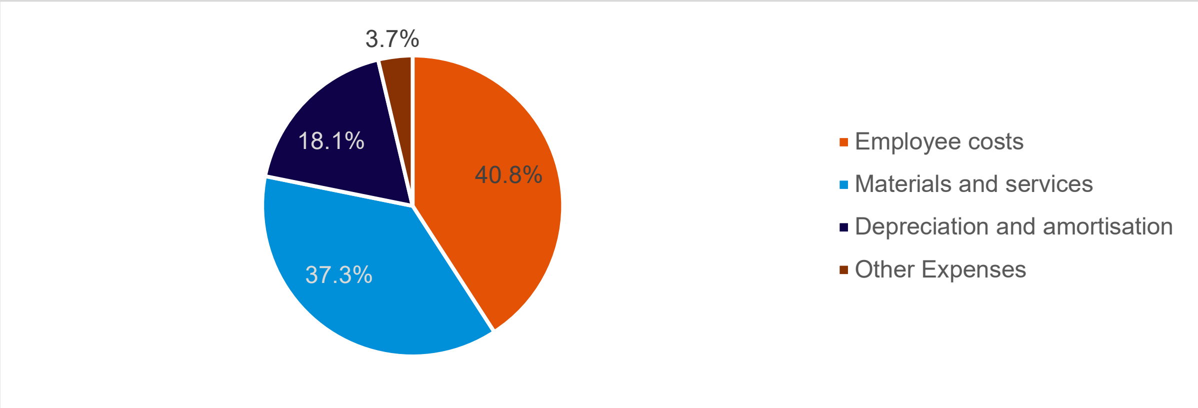
Of the total $920.74 million in budgeted revenue from gifted assets in 2022-23, $676.58 million or 73 per cent is from interface councils. Similarly, $321.69 million or 54 per cent of the budgeted revenue from monetary contributions is from interface councils. These budget estimates are clearly based on continued growth and development in these municipalities and largely follow the trend of increases over time since 2016-17.

6 Expenditure

Councils are budgeting for total operating expenditure of $10.475 billion in 2022-23 ($10.1 billion in 2021-22) resulting in an operating surplus across the sector of $2.05 billion ($1.96 billion in 2021-22).

Figure 21 shows the composition of council budgeted total expenditure for 2022-23. Employee costs ($4.28 billion or 40.8%) are the largest cost to councils followed closely by materials and services ($3.91 billion or 37.3%). Another significant expenditure item is depreciation ($1.9 billion or 18.1%). Depreciation is the allocation of the cost of an asset over its useful life and reflects the consumption of the asset (i.e. wear and tear) over time. Depreciation is a significant expense of local government due to the asset intensive nature of the sector, particularly fixed assets such as roads, bridges, drains and buildings.

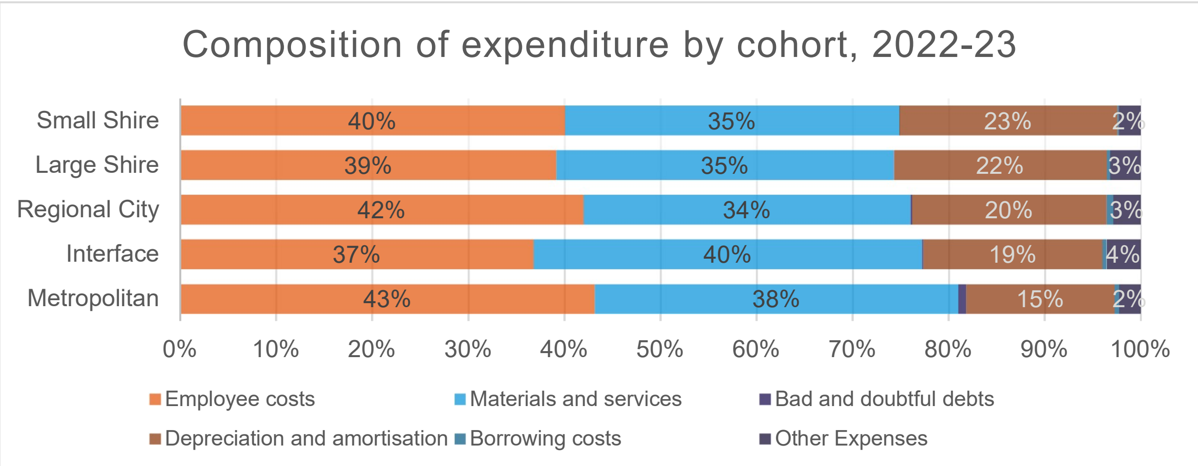
Figure 21 Composition of total 2022-23 budgeted expenditure



Source: 2022-23 adopted budgets

Figure 22 shows the composition of total expenditure by cohort. It highlights that depreciation expense is a greater challenge for rural and regional councils. While the small shires spend on depreciation and amortisation[7] is a lower absolute figure than that in metropolitan councils, it accounts for a significantly larger proportion of their total expenditure (23% in small shires against 15% in metropolitan councils). This can be primarily attributed to small shires having much larger road networks relative to their overall asset maintenance responsibilities.

Figure 22 Composition of expenditure by Council Cohort 2022-23

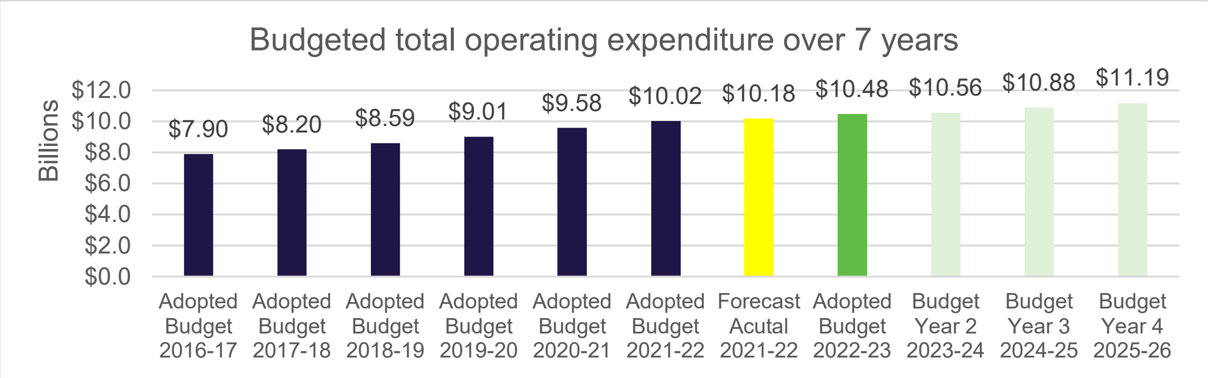


Source: 2022-23 adopted budgets

[7] Amortisation refers to the same concept as depreciation but in relation to intangible assets (those without physical substance) such as software licences. It represents a relatively small proportion of depreciation and amortisation expenditure.

Figure 23 shows total budgeted operating expenditure over the past 7 years from adopted budgets (2016-17 to 2022-23). Total operating expenditure has grown each year since 2016-17. Growth was in excess of $297 million in 2017-18, $391 million in 2018-19, $419 million in 2019-20, $570 million in 2020-21 and $442.8 million in $2021-22. The 2022-23 adopted budgets show an increase in operating expenditure of $456.4 million.

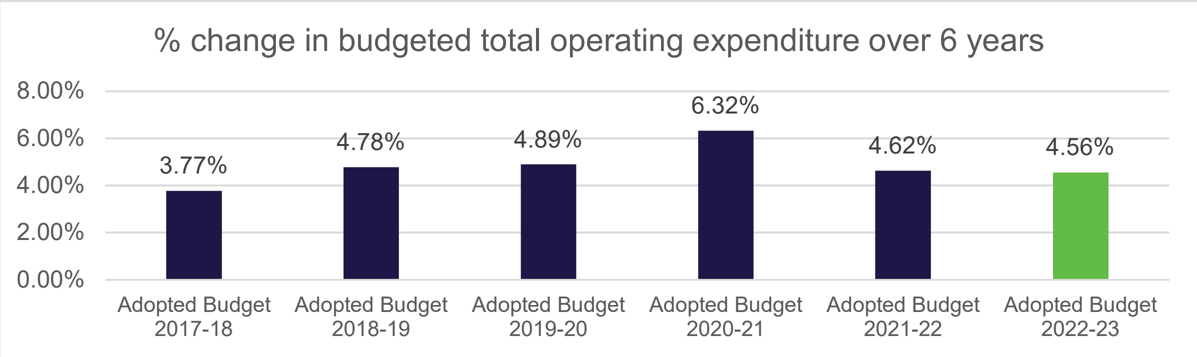
Figure 23 Budgeted total operating expenditure 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

The rate of growth in operating expenditure in percentage terms is shown in **Figure 24**. It shows that collectively councils plan to increase their operating expenditure by 4.56 per cent in 2022-23. This continues the six-year trend of incremental percentage increases in total budgeted operating expenditure.

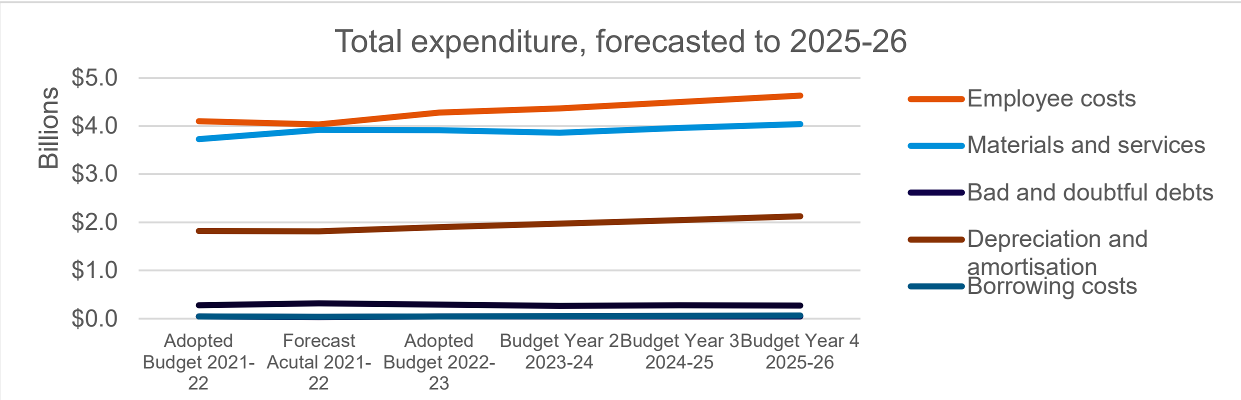
Figure 24 Percentage change in budgeted total operating expenditure 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

Figure 25 shows the future forecasts for budgeted expenditure by type. It shows that employee costs, materials and services and depreciation expenses are projected to incur modest increases over the four-year budget period. Other expenses and borrowing costs have been forecast to decline moderately or remain constant.

Figure 25 Total expenditure forecasted to 2024-25

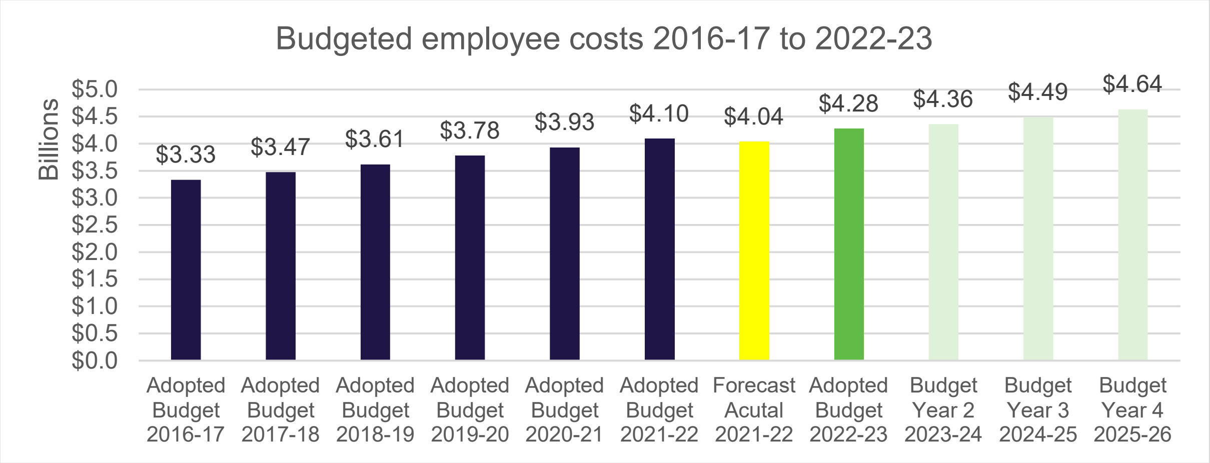


Source: 2022-23 adopted budgets and 2021-22 adopted budgets

6.1 Employee costs

Employee costs primarily consist of salaries and wages, but also include on-costs such as superannuation, insurance and leave entitlements. **Figure 26** shows employee costs are budgeted to rise to $4.28 billion in 2022-23, an increase of $182.8 million on 2021-22.

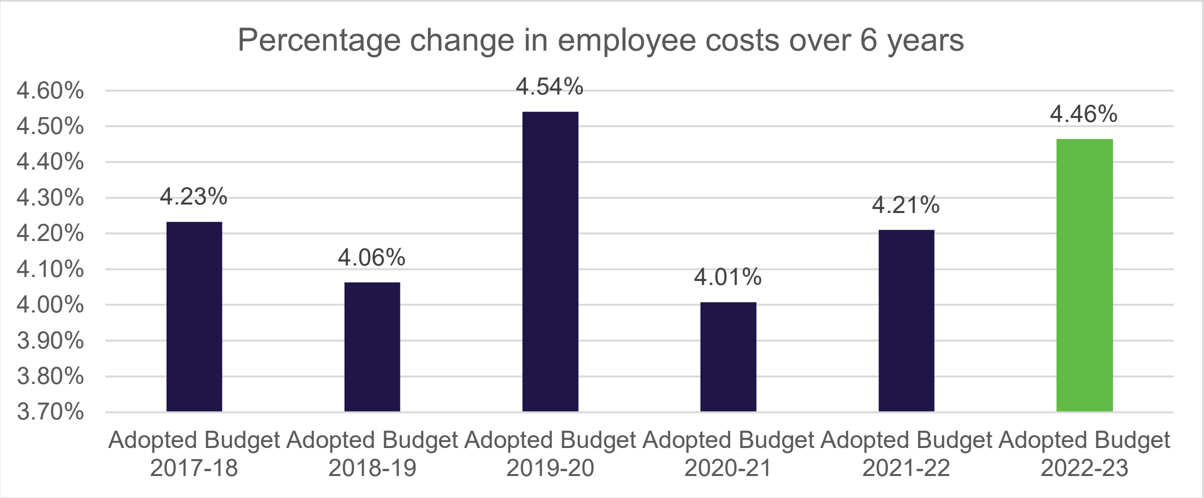
Figure 26 Budgeted employee costs 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

The rate of growth in employee costs is shown in **Figure 27**. Employee costs have grown at a relatively constant rate of over 4 per cent each year since 2016-17. The rate of growth remained steady at 4.46% in 2022-23.

Figure 27 Percentage change in employee costs 2016-17 to 2022-23

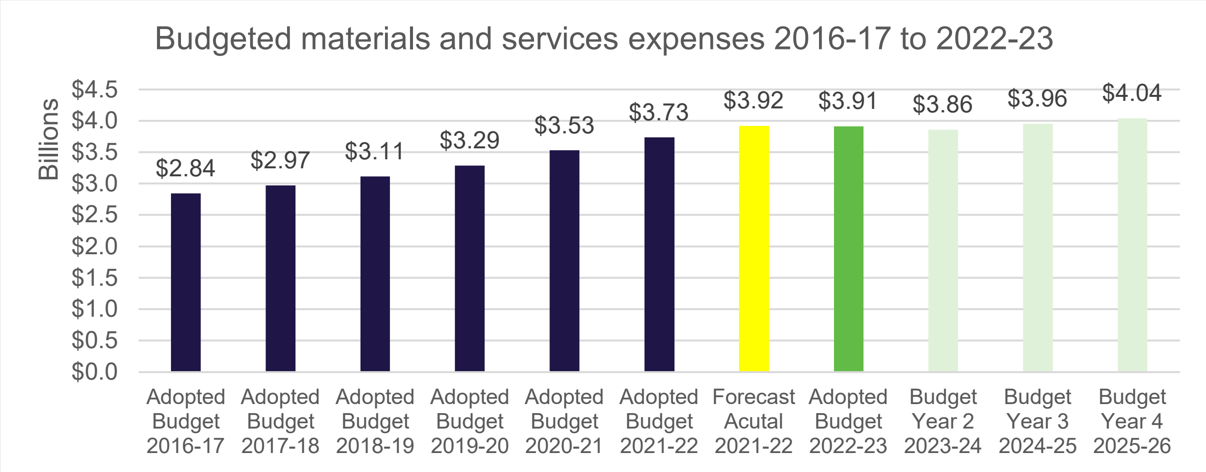


Source: 2016-17 - 2022-23 adopted budgets

6.2 Materials and services

Materials and services expenditure commonly include items such as contract payments (for example for waste management, open space services, city works and building maintenance) as well as expenditure on motor vehicle costs, insurance, utilities, office administration and rental costs. **Figure 28** shows materials and services are budgeted to rise to $3.91 billion in 2022-23, an increase of $180.64 million from 2021-22.

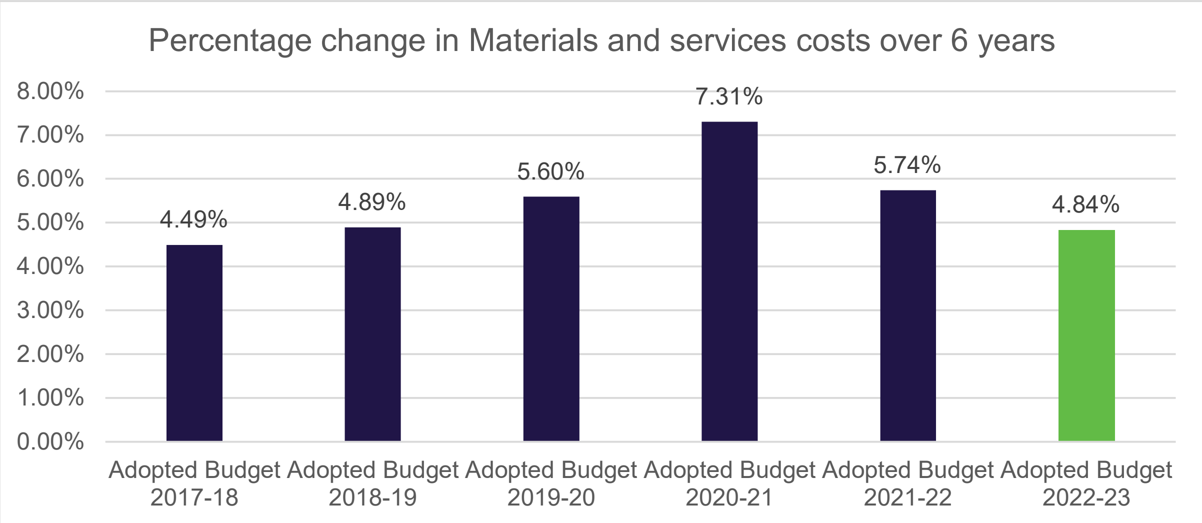
Figure 28 Budgeted materials and services expenses 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

The rate of growth in materials and services expenditure is shown in **Figure 29**. The rate of growth for 2022-23 is 4.84 per cent in 2022-23, which is lower than the rate of growth in adopted budgets 2021-22.

Figure 29 Percentage change in materials and services expenses 2016-17 to 2022-23

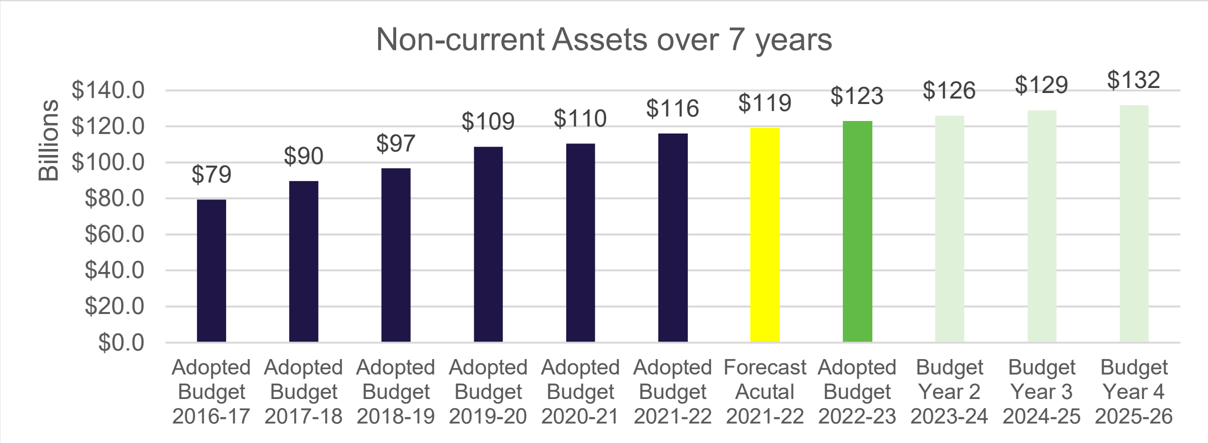


Source: 2016-17 - 2022-23 adopted budgets

6.3 Depreciation and amortisation

Depreciation (and amortisation) is a significant expenditure item due to the asset intensive nature of the local government sector. Councils are responsible for maintaining and renewing their infrastructure, property, plant, and equipment to service their communities and meet public demand. Such infrastructure is identified as a 'non-current' asset. Councils are responsible for managing total non-current assets valued in excess of $123 billion, out of which $70.41 billion represent depreciable assets, largely roads. **Figure 30** below indicates councils are budgeting to increase their non-current assets by $7 billion or 6% as compared to FY 2021-22. There has been a steady growth in the sector's asset base in recent years which has slowed moderately due to the pandemic.

Figure 30 Value of non-current assets 2016-17 to 2022-23

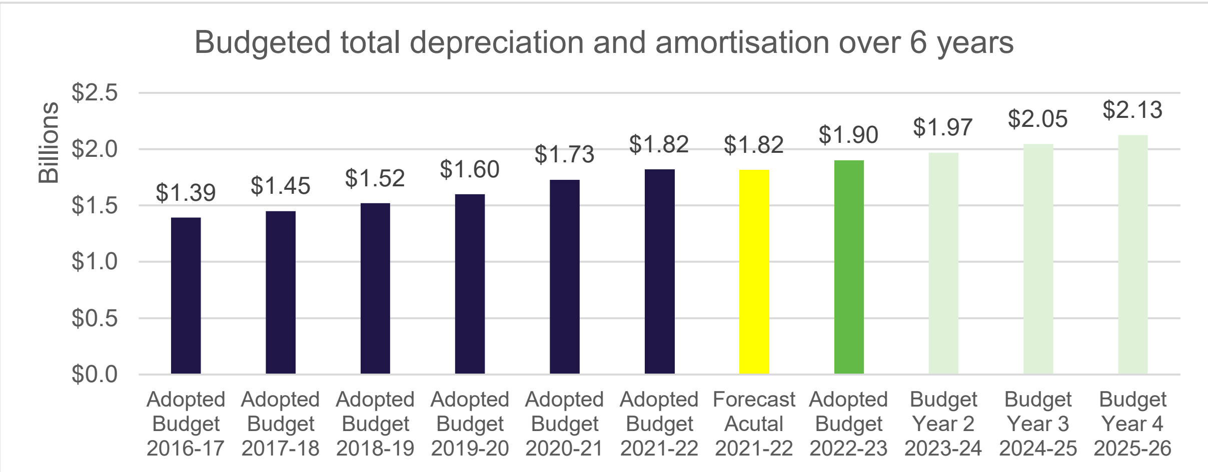


Source: 2016-17 - 2022-23 adopted budgets

Due to changes to accounting requirements under Australian Accounting Standard **AASB 16: Leases** from 1 July 2019 councils are expected to incur increased depreciation and amortisation expenses. This is due to the recognition and amortisation of right of use assets, representing an entity's right to use a leased asset. This change effectively results in the reclassification of former 'operating leases' as 'finance leases' (resulting in the recording of both a lease asset and a lease liability on the balance sheet that were not previously recognised).

Figure 31 shows depreciation and amortisation expenditure is budgeted to rise to $1.90 billion in FY 2022-23, an increase of $80.13 million on the 2021-22 adopted budget.

Figure 31 Depreciation and amortisation 2016-17 to 2022-23

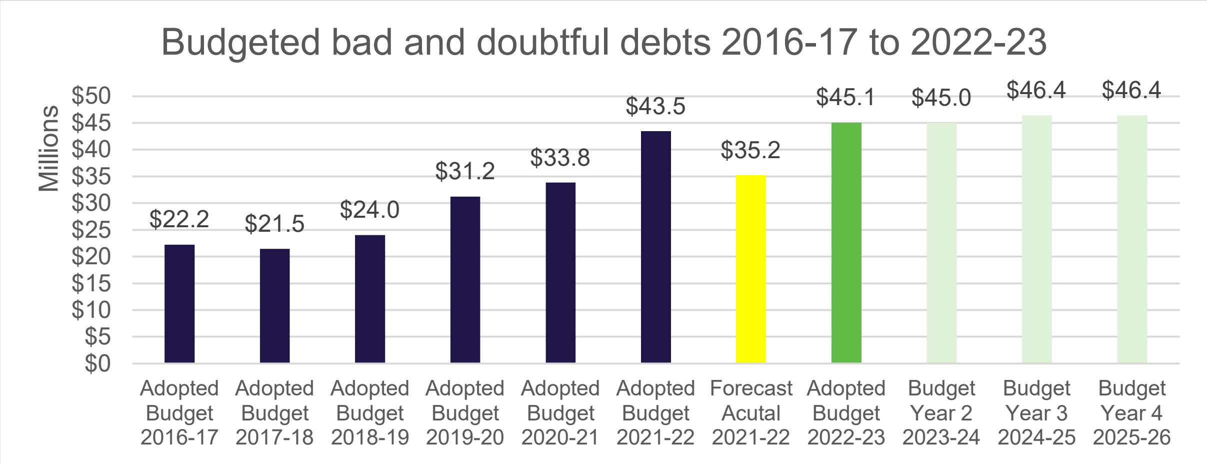


Source: 2016-17 - 2022-23 adopted budgets

6.4 Bad and doubtful debts

Figure 32 shows bad and doubtful debts expenditure is budgeted to be $45.1 million in 2022-23, an increase of $1.65 million or 3.79 per cent on 2021-22. The forecast actual expenditure for 2021-22 is $35.2 million which is lower than originally budgeted. While in absolute dollar terms these costs are not a large proportion of total council expenditure, they nevertheless provide an indication of the general economic conditions facing local government in Victoria. Councils must continue to monitor and manage the level of their rates debtors and bad debts to ensure their finances remain robust. This is especially the case for unpaid rates and charges which continue to remain as a charge on the property. Where property rates and charges remain unpaid for 3 years or more, the property in question should be sold in accordance with the legislation to recover the debt.

Figure 32 Budgeted bad and doubtful debts 2016-17 to 2022-23



Source: 2016-17 - 2022-23 adopted budgets

7 Overall Performance and Result

7.1 Accounting operating results

The planned financial performance of Victorian councils is publicly reported in the financial statements included within the budget. These financial statements are prepared in accordance with the Australian Accounting Standards (AAS). The Comprehensive Income Statement reports the net amount of budgeted revenues and operating expenses, known as the accounting operating result. When revenues exceed operating expenses the council is budgeting an accounting operating surplus. When operating expenses exceed revenues the council is budgeting an accounting operating deficit.

Collectively, Victorian councils are budgeting to generate an accounting operating surplus of $2.05 billion in 2022-23. The forecast actual accounting operating surplus in FY 2021-22 is estimated to be $2.17 billion, while the accounting operating surplus in the adopted budgets for FY 2021-22 was $1.96 billion. Cumulatively, all cohorts are generating accounting operating surpluses according to the adopted budgets for FY 2022-23.

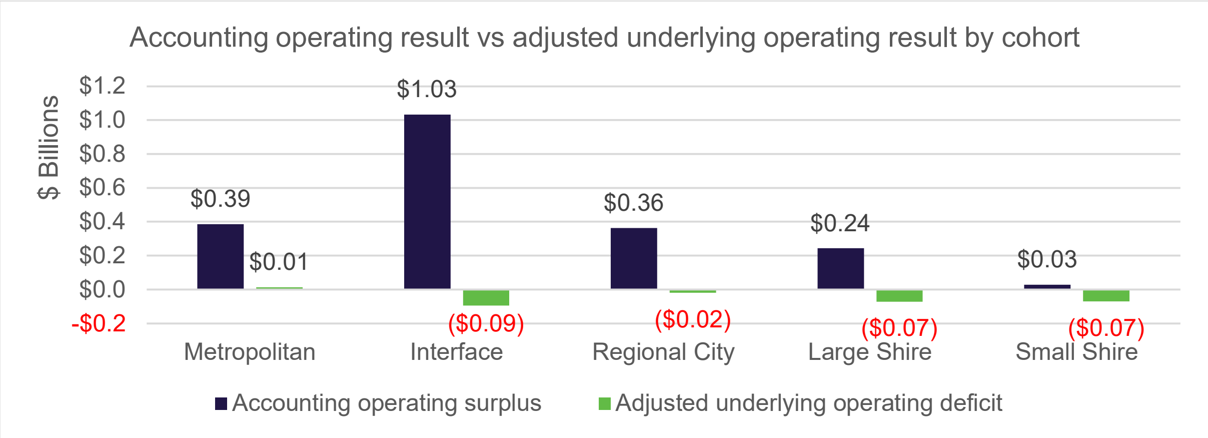
However, some items included in council accounting operating revenue do not represent cash or are not considered recurrent in nature. Gifted assets (developer contributions)[8] and non-recurrent capital grants[9] are examples. **Figure 33** shows that Interface councils are projecting an accounting operating surplus of $1.03 billion largely due to significant revenue generated in the form of gifted assets (developer contributions) which must be included in accounting operating revenue in accordance with AAS.

The concept of an adjusted underlying operating result is another useful way to consider council financial performance.

7.2 Adjusted underlying operating results

VAGO introduced the notion of an adjusted underlying operating result as part of their overall assessment of a council's financial sustainability. VAGO use a suite of seven financial sustainability indicators to assess council financial sustainability risks. The adjusted underlying operating result removes the revenue from developer contributions and non-recurrent capital grants in order to measure an entity's ability to generate a surplus in the ordinary course of business. As shown in **Figure 33** the favourable results in the form of accounting operating surpluses are in sharp contrast to the adjusted underlying operating deficits being budgeted by all 5 cohorts cumulatively.

Figure 33 Budgeted accounting operating result (surpluses) & adjusted underlying operating result (deficits) by cohort



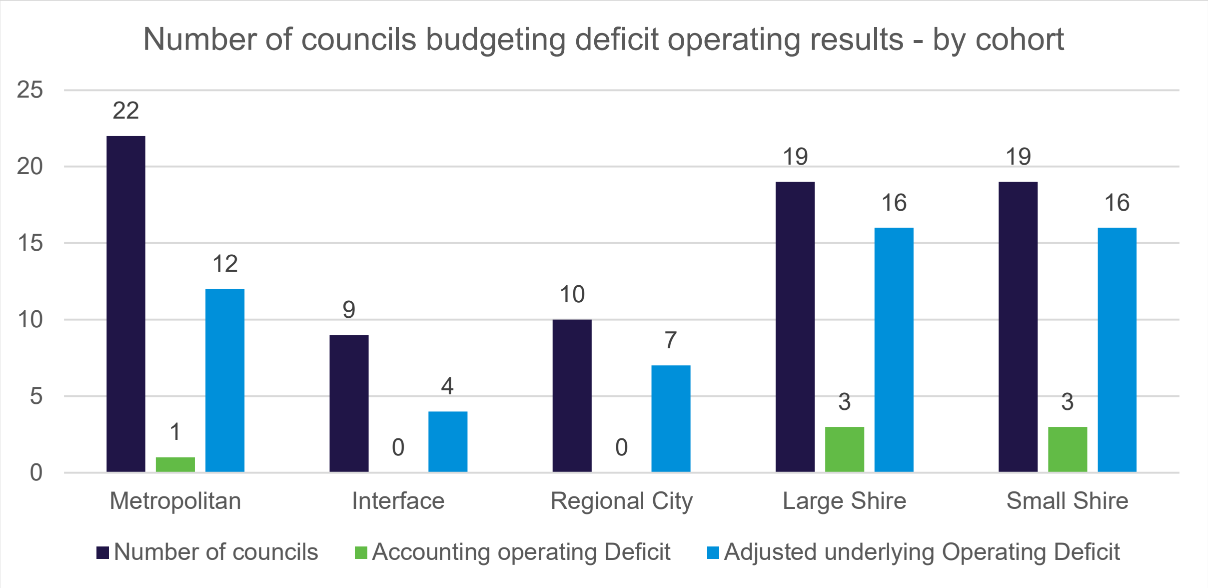
Source: 2022-23 adopted budgets

[8] Development contributions can be received as a cash contribution to council to build an asset into the future or by way of a non-cash contribution. A non -cash contribution may comprise gifted assets such as completed roads, drainage works or community facilities that may have been previously planned for by the council. These 'gifted assets' must be reflected as revenue in the year in which council receives them.

[9] Capital grants received from State or Commonwealth Governments must commonly be treated as operating revenue in the year of receipt however the expenditure does not appear in the operating result. The expenditure will result in the replacement of the current asset cash (or investments) with the infrastructure asset roads (or community facilities) depending on the nature of the asset.

Figure 34 below compares the number of councils reporting an accounting operating deficit and an adjusted underlying operating deficit by cohort.

Figure 34 Number of councils reporting accounting operating deficit and adjusted underlying operating deficit by cohort 2022-23



Source: 2022-23 adopted budgets

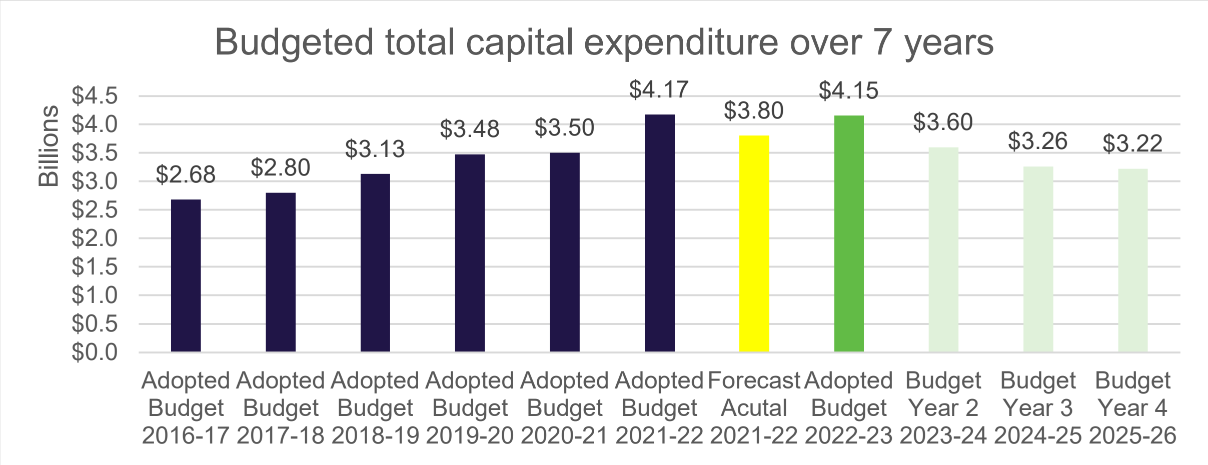
Overall, 55 out of 79 councils are projecting an adjusted underlying operating deficit. The total cumulative adjusted underlying operating deficit for the sector amounts to $241.42 Million ($242.86 million in FY 2021-22 Adopted Budgets). In VAGO's most recent report on 2020-21 local government audits the small, large and interface council cohorts all reported negative adjusted underlying results of below zero (a deficit). This indicates a greater risk to a council's ability to generate a surplus in the ordinary course of business. The metropolitan and regional city cohorts recorded small positive adjusted underlying results (a surplus). To remain financially sustainable councils ideally need to record small adjusted underlying surpluses over the medium to long term.

8 Capital Works

The management and maintenance of assets owned by the councils is one of the most significant activities undertaken by any council. In the adopted budgets for FY 2022-23, the local government sector is collectively budgeting for total non-current assets valued at $122.9 billion at the end of FY 2022-23 ($115.9 billion in adopted budget FY 2021-22). The sector has budgeted for combined capital expenditure of $4.15 billion in 2022-23. This is a slight decrease of $24.84 million on the $4.17 billion budgeted in 2021-22, as shown in **Figure 35**.

Councils have projected that 67% of the four-year capital works program of $14 billion will be funded through rates and other own-source revenue.

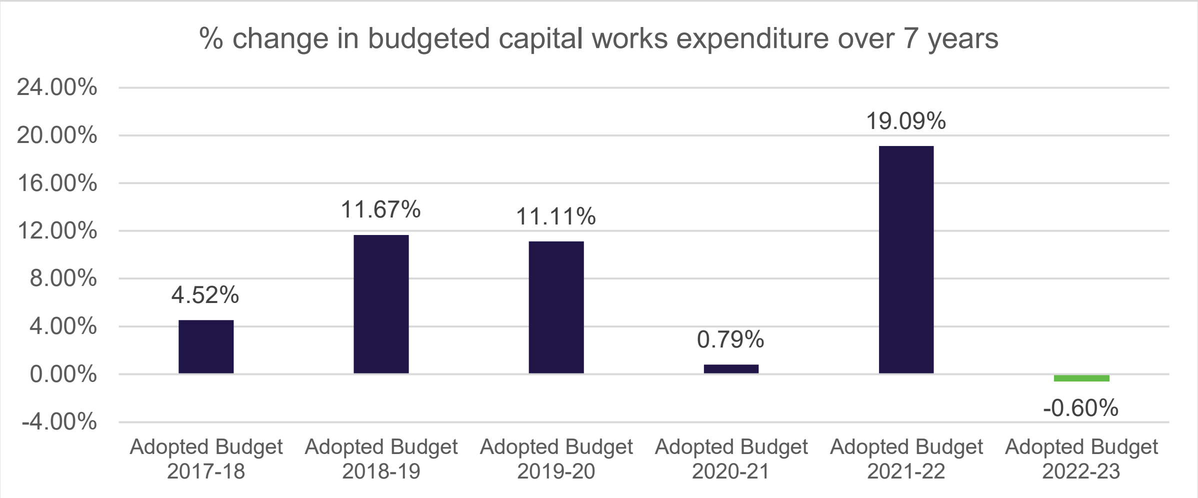
Figure 35 Budgeted Capital expenditure trend from 2016-17 onwards



Source: 2016-17 - 2022-23 adopted budgets

Figure 36 below shows a decrease in capital works expenditure in adopted budgets for 2022-23 following a substantial increase of 19.09% in adopted budgets for 2021-22. This may reflect that some councils opted to defer 2020-21 capital works due to facing increased pressure on their revenue streams as well as increased operating costs as a result of the COVID-19 pandemic. The impact of global supply chain issues and conflict in Ukraine on the delivery of 2022-23 budgeted capital works remains to be seen.

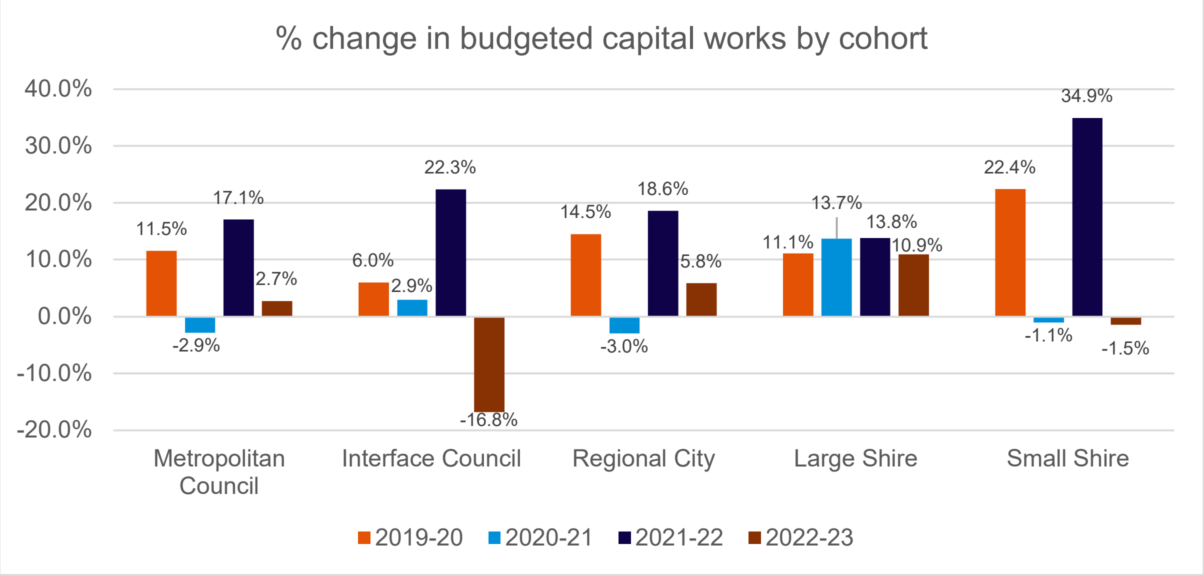
Figure 36 Budgeted capital expenditure trend from 2016-17 onwards



Source: 2016-17 - 2022-23 adopted budgets

Figure 37 below further analyses the rebound in capital works expenditure by council cohort. It compares the percentage change in budgeted capital works expenditure by cohort in FY 2022-23 adopted budgets with previous budgets. The level of increase/decrease of capital works for all council cohorts apart from large shire councils collectively fluctuated due to the political and economic uncertainty in recent years. The capital works program for Interface councils saw a sharp increase in the FY 2021-22 budget followed by a 16.8% decline in FY 2022-23. This decline is consistent with a tapering off in the substantial non-recurrent capital grants available during 2021-22.

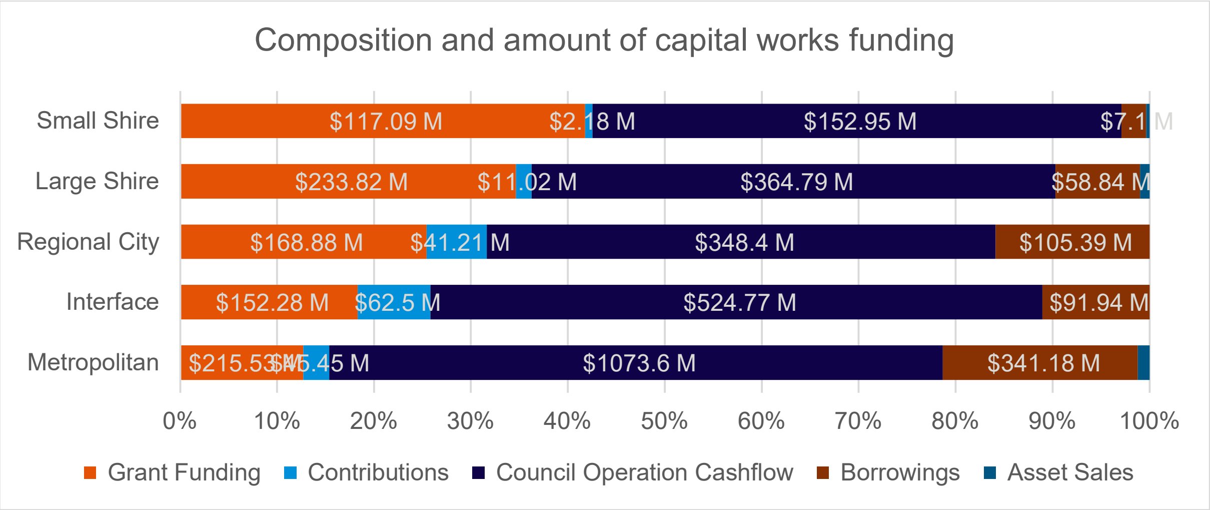
Figure 37 Change in budgeted capital works compared to previous year



Source: 2022-23 adopted budgets and 2019-20 adopted budgets

Council's operating cashflow remains the major source of funding for capital works across all council cohorts as illustrated by **Figure 38** below. However, in the case of small and large shires, there is a higher reliance on grants to carry out the budgeted capital works. Metropolitan councils and regional cities are relying comparatively more on new borrowings to fund some of their capital works.

Figure 38 Composition and amount of capital work funding



Source: 2022-23 adopted budgets

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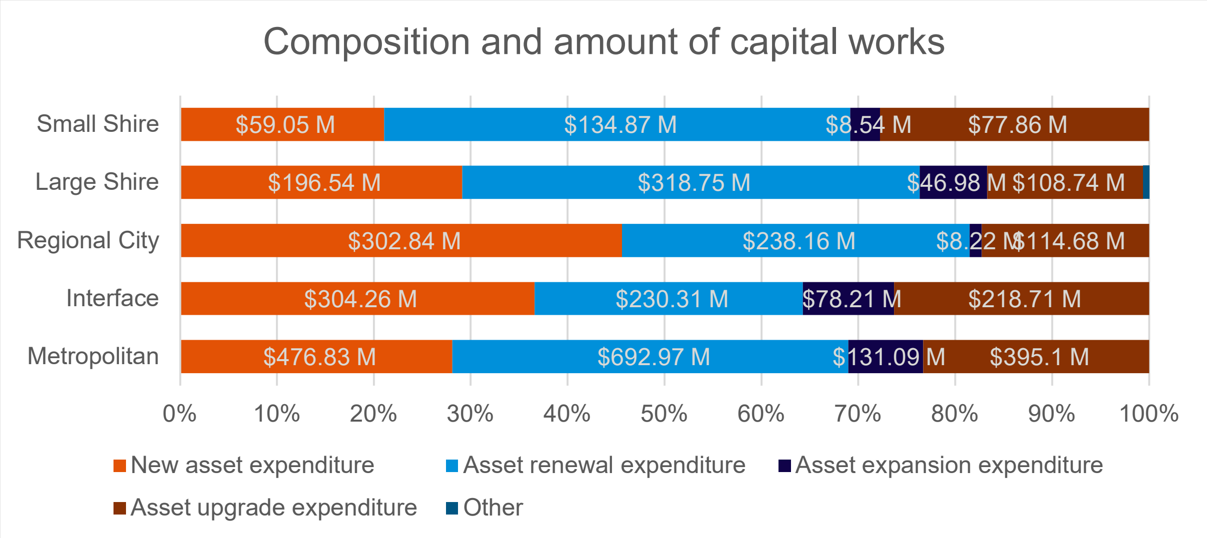
Figure 39 below illustrates that new asset expenditure and asset renewal expenditure are the significant components of overall capital works for all cohorts.

Figure 39 Composition and amount of capital work

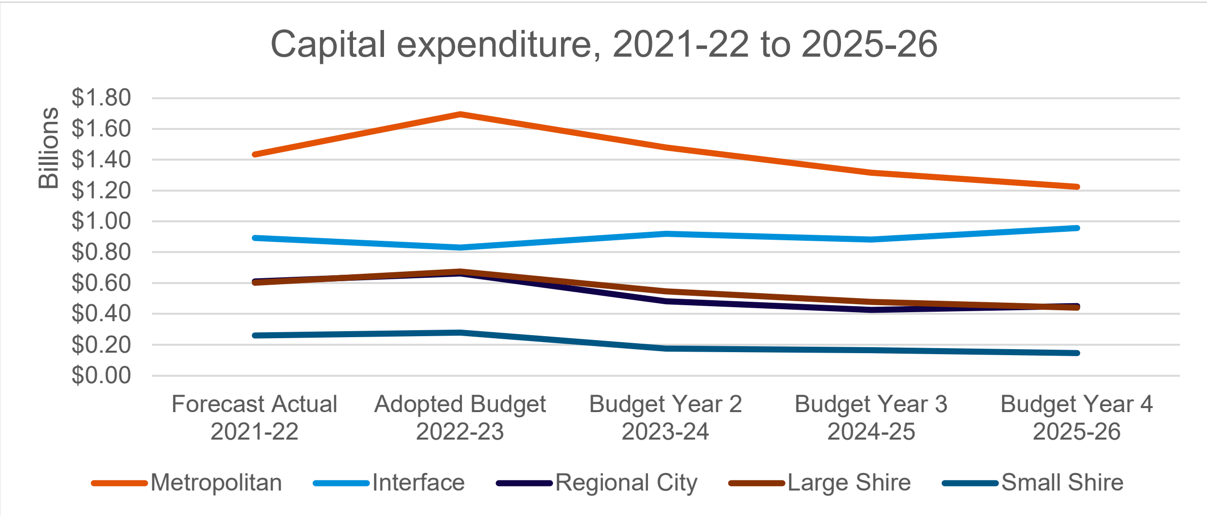


Source: 2022-23 adopted budgets

Over the next three years (FY 2023-24 to FY 2025-26), 39.9% of the overall capital works of $10.08 billion are expected to be delivered by metropolitan councils, while just 19.3% are expected to be delivered by large and small rural councils. These figures include road construction and maintenance, which constitutes the largest responsibility of rural and regional councils. Metropolitan, interface and regional cities together account for 80.7% of capital works while their combined population comprises 87.9% of the Victorian total. In contrast, the 38 large and small rural councils are projected to deliver 19.3% of capital works expenditure for just 12.1% of the population due to geographically larger areas with much greater road networks.

Figure 40 below shows the forecast changes to council capital expenditure over the next four years by council cohort. Decreases in capital expenditure over the next four years can be matched to decreased forecasts in capital grant funding, which is not in line with historical outcomes. Interface councils receive large developer contributions including gifted assets. These gifted assets are not reflected in the capital expenditure forecasts shown below.

Figure 40 Budgeted capital expenditure trend from 2021-22 onwards

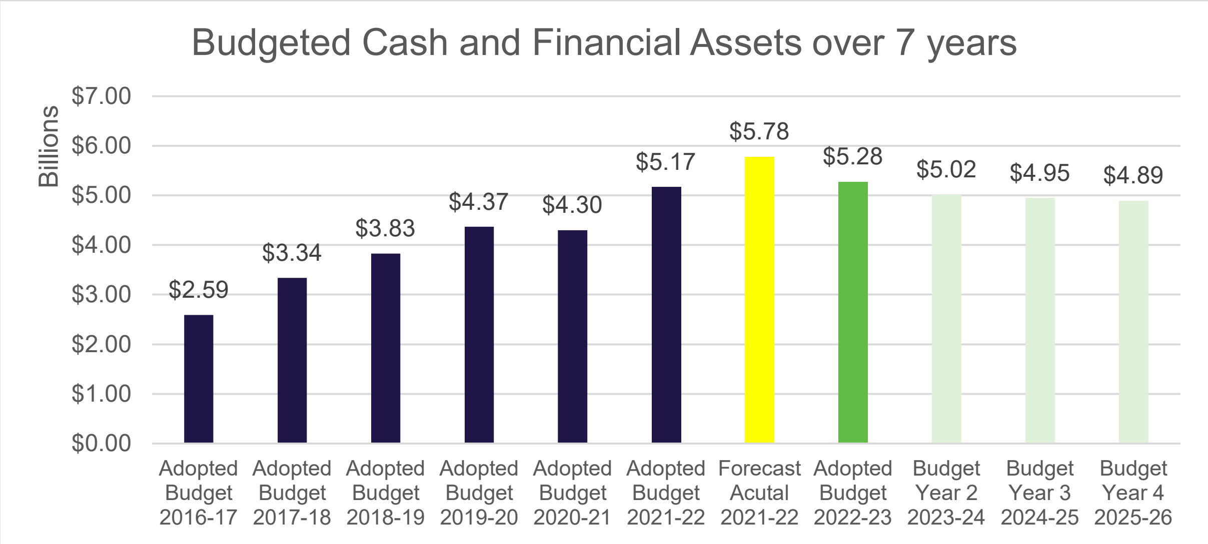


Source: 2022-23 adopted budgets

9 Cash and borrowings

The sector is budgeting to hold cash and investments of approximately $5.28 billion at 30 June 2023. The sector's forecast actual cash and investments at 30 June 2022 was $5.78 billion. **Figure 41** below shows a healthy increase in cash and financial assets over the last 5 years and further strengthens the sustainability of the sector in the short term.

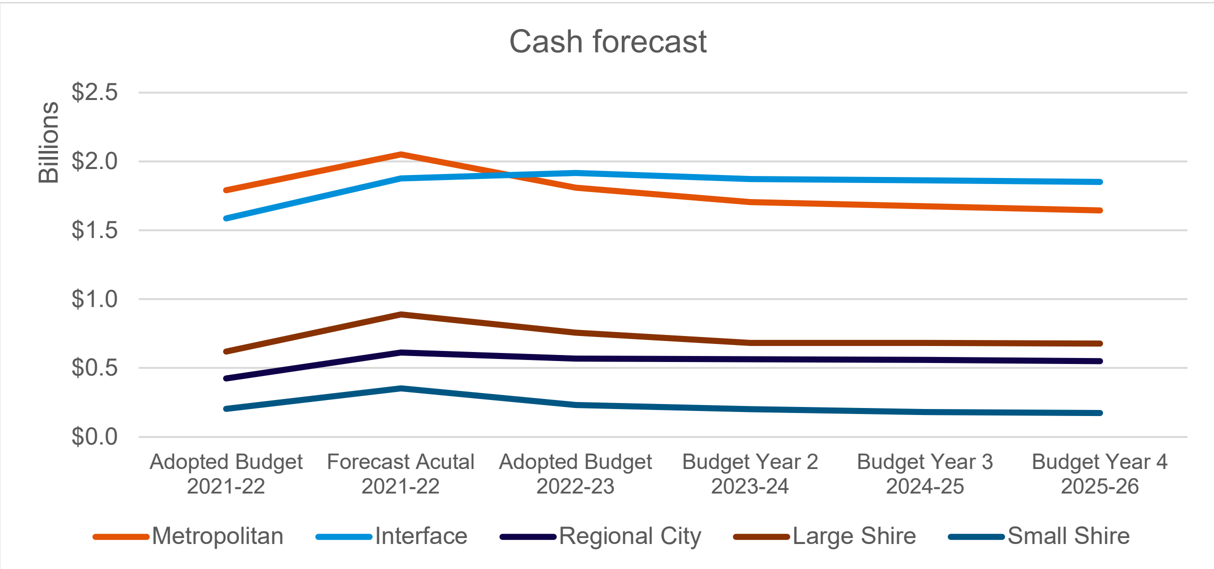
Figure 41 Budgeted cash and financial assets 2016-17 onwards



Source: 2016-17 - 2022-23 adopted budgets

These forecast actual levels of cash and investments may have been positively impacted in some instances by the advance receipt of Commonwealth grant funds. **Figure 42** below shows cash and financial assets forecast for the next 4 years by individual cohorts. The trend shows councils forecasting a slight decline in cash and investments in all cohorts except Interface Councils in 2022-23 but the cash balances are relatively stable in future years.

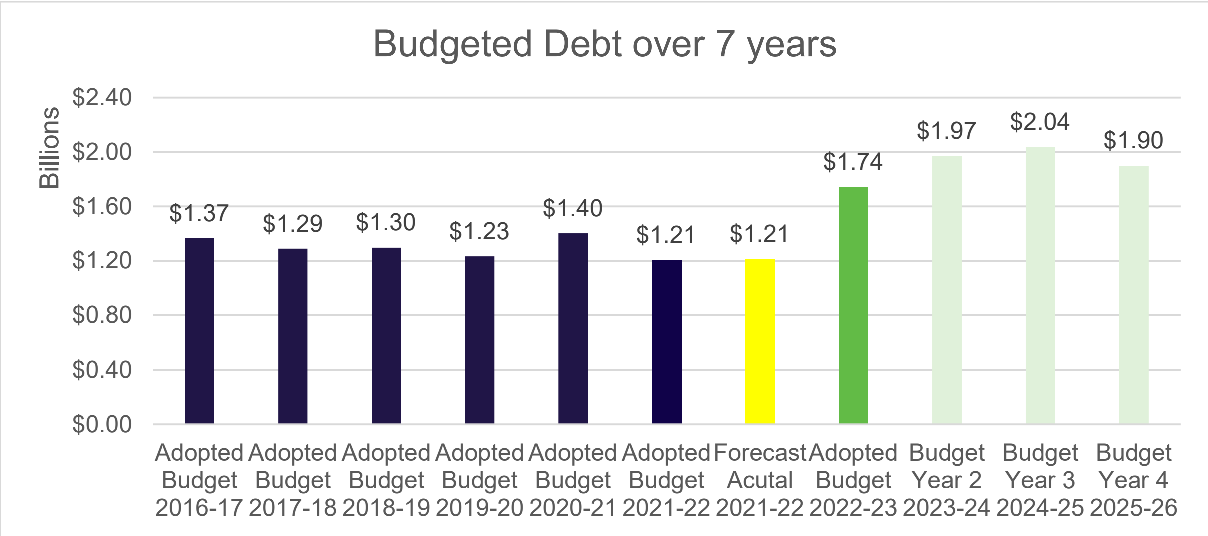
Figure 42 Budgeted cash and financial assets 2021-22 onwards



Source: 2022-23 adopted budgets

A review of the past 6 years of adopted budgets shows over an 11.2% decline in debt for the sector in FY 2021-22 forecast actual compared to FY 2016-17 adopted budget. Councils have however budgeted for increasing debt in FY 2022-23 adopted budgets as shown in **Figure 43** below. This can partly be attributed to the adverse impact of the pandemic on council's own source revenue. In 2021, the Victorian Government also approved the Treasury Corporation of Victoria (TCV) to become a direct lender to councils. The TCV loans framework allows Victorian councils to achieve interest cost savings by being able to access low-interest loans financed through TCV.

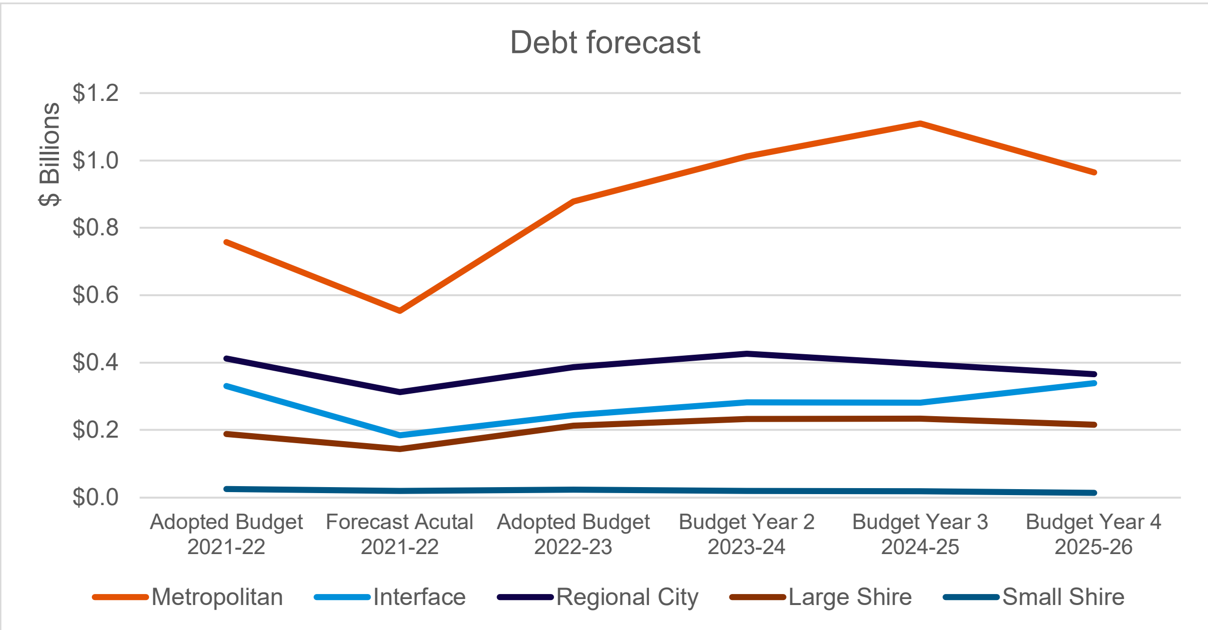
Figure 43 Budgeted debt 2016-17 onwards



Source: 2016-17 - 2022-23 adopted budgets

Figure 44 below shows a steady increase in debt for metropolitan councils over the next four years as compared to the forecast actual for FY 2021-22. It should be noted that approximately 57.6% of the metropolitan cohort borrowings for FY 2022-23 pertain to planned debt at just five metropolitan councils: Melbourne, Brimbank, Knox, Boroondara and Stonnington. Significant borrowings in larger metropolitan councils can distort debt forecasts. Interface councils, regional cities and large shires are also projecting increased levels of debt at the end of FY 2025-26 while small shires are projecting a slight decrease at the end of FY 2025-26 as compared to forecast actual for FY 2021-22.

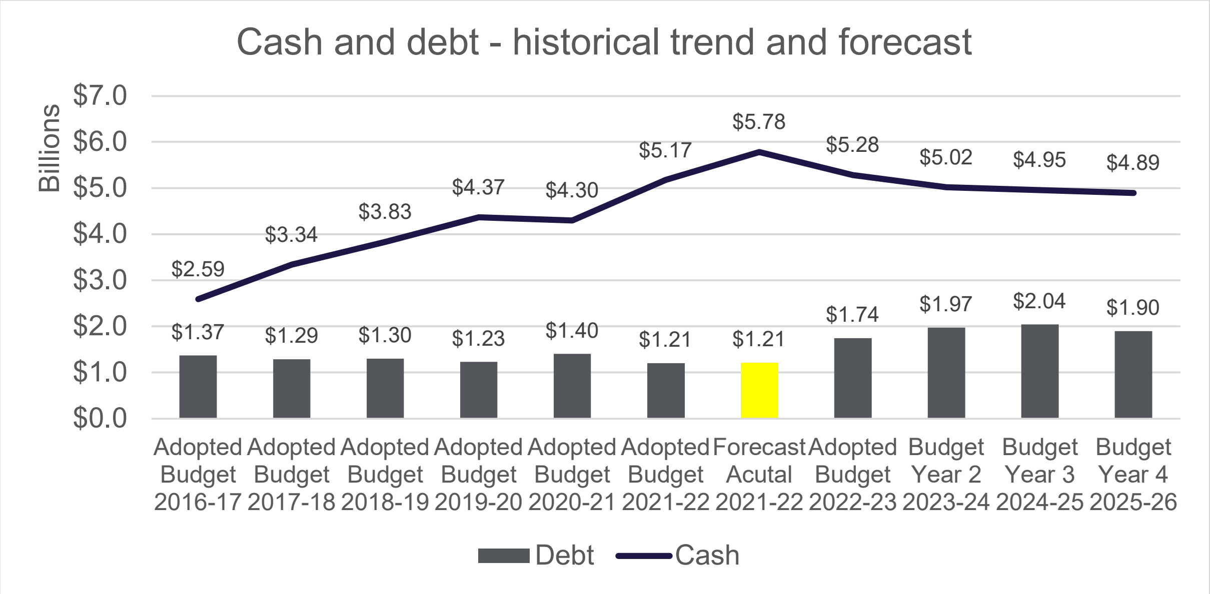
Figure 44 Budgeted debt 2021-22 onwards by Cohort



Source: 2022-23 adopted budgets

In addition to the adjusted underlying operating result, liquidity and indebtedness are other key indicators used by VAGO to assess the financial sustainability of Victorian councils. In their most recent report on 2020-21 local government audits, VAGO's report noted that with the exception of the regional city cohort, all councils recorded a decrease in their indebtedness ratio during 2020–21. Each council's ability to fund services in the short term must be balanced against meeting the community's longer-term needs, particularly for infrastructure. Each council's approach to funding its asset program, whether through debt or its cash reserves, will depend on its unique circumstances. **Figure 45** below presents the comparison of budgeted debt and available cash and financial assets from 2016-17 onwards along with forward forecasts from 2022-23 onwards. Collectively councils remain in a relatively strong and stable liquidity position.

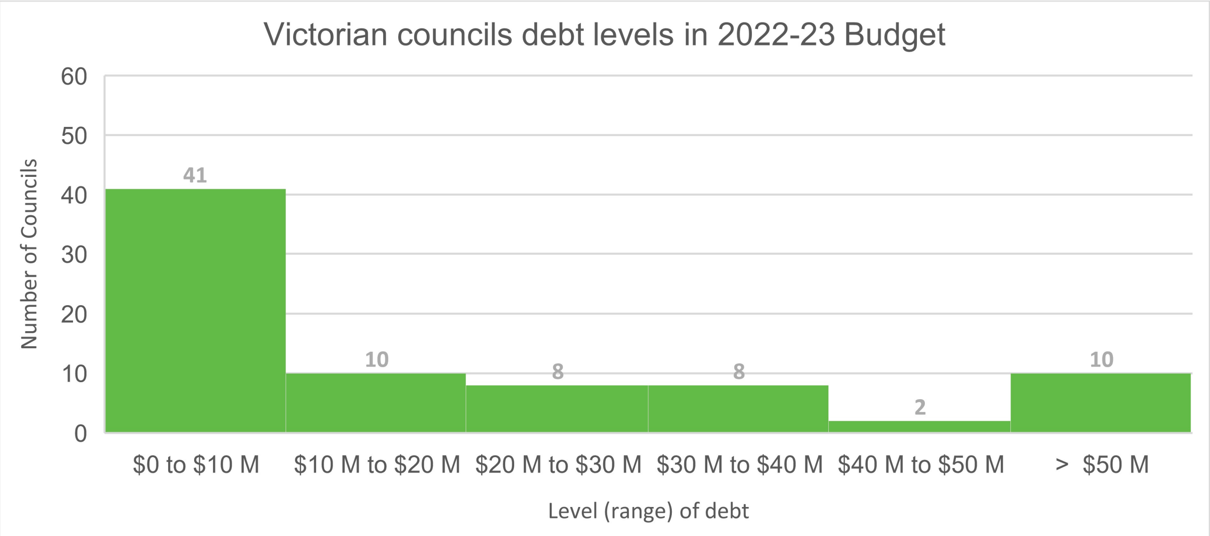
Figure 45 Budgeted cash and debt 2016-17 onwards



Source: 2022-23 adopted budgets

Overall, the majority of Victorian councils are budgeting for very low or no debt at the end of the financial year 2022-23. **Figure 46** below shows the number of councils with progressively increasing levels of debt from nil to over $50 million of interest-bearing debt on the balance sheet.

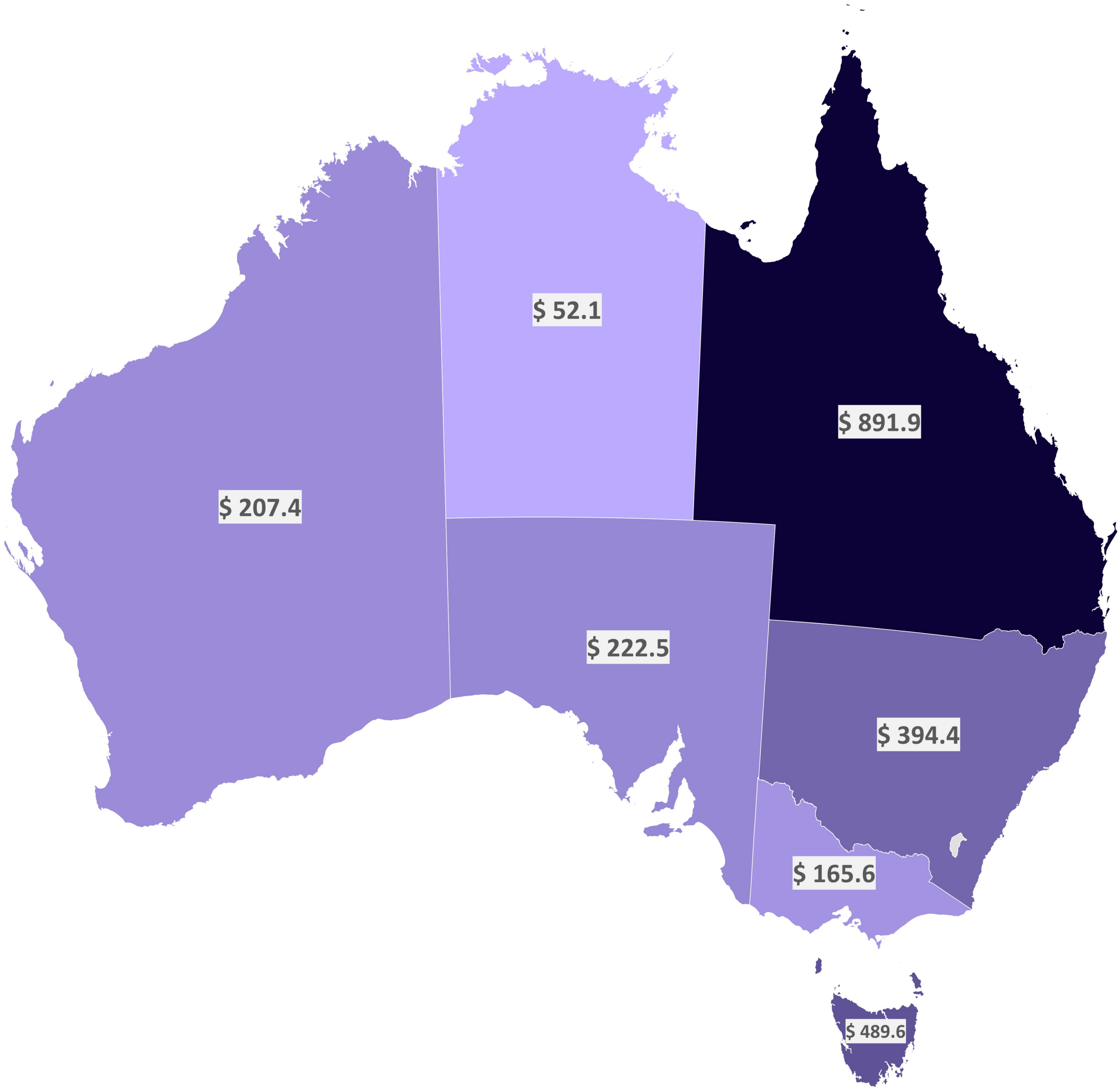
Figure 46 Victorian councils debt levels in 2022-23 Budgets



Source: 2022-23 adopted budgets

Collectively, Victorian councils carry significantly less per capita debt on their balance sheet as compared to Local Government Areas in the other states and territories. **Figure 47** below shows per capita debt in councils for Victoria and other states and territories across Australia.

Figure 47 Per Capita debt by Local Government Sector (2020-21)



Source: Financial data: Australian Bureau of Statistics, Government Finance Statistics, 2020-21; Australian Bureau of Statistics, National, state and territory population December 2021

10 Conclusion

Victorian councils remain well placed to meet the economic challenges of the pandemic and the impacts of conflict in Europe on the global economy. The sector has generally budgeted for an economic recovery in FY 2021-22 which has continued in adopted budgets for FY 2022-23. Individual revenue streams are budgeted to be similar to pre-pandemic levels, if not better. The sector collectively entered the pandemic in a relatively strong financial position based on solid financial performance results in recent years. Councils are generally well placed to respond to future challenges in the shape of new outbreaks of coronavirus or even a global recession.

The previous adopted budgets for FY 2021-22 included a double digit increase in capital works to cover some deferrals and reductions due to COVID-19. Collectively, Victorian councils have budgeted a strong $4.14 billion worth of capital works in 2022-23 which will continue to deliver jobs and stimulate local economies.

The 2022-23 adopted budgets are premised on a return to pre-pandemic levels of revenue from statutory fees and fines and user fees. These are important own source revenue streams for councils, particularly metropolitan councils. The reduction in these revenue streams due to facility closures during the Victorian lockdowns impacted previous council budgets. However, this loss of income was more than offset by additional support grants made available to the sector by the Commonwealth and Victorian governments.

As revenue challenges continue, councils will look to alternative revenue streams to supplement their finances. New borrowings in addition to the grant funding from the Commonwealth and State government may be an option to continue to deliver on council capital works programs. The existing strong liquidity position of the sector would help councils sustain debt repayments in the short term and access to Treasury Corporation of Victoria loans make the increased use of debt finance a relatively cost-effective option.

Sound financial planning and management can help councils continue to adapt in these challenging times. The development of 10+ year Financial Plans under the *Local Government Act 2020* allows councils to engage with their communities on trade-offs and future financial decisions. The economic impacts of the global pandemic as well as the volatile situation in Europe continue to lead to uncertainties at all levels of government in Australia. However Victorian councils have options due to the relative strength of their finances.

11 Glossary

Act	means the *Local Government Act 2020*
Adopted budget	means a budget adopted by a council in accordance with the Act
Annual report	means a report of the council's operations of the previous financial year and contains a report of operations, audited financial statements and an audited performance statement
Australian Accounting Standards (AAS)	means the accounting standards published by the Australian Accounting Standards Board
Budget	means a plan setting out the services and initiatives to be funded for the budget year (and subsequent 3 financial years) and how they will contribute to achieving the strategic objectives specified in the council plan
Council plan	means a plan setting out the medium-term strategic objectives, strategies, strategic indicators and resources reflecting the vision and aspirations of the community for the next four years
Financial statements	means the financial statements and notes prepared in accordance with the *Local Government Model Financial Report*, Australian Accounting Standards and other applicable standards as they apply to the general purpose financial reports and statement of capital works, included in the annual report
Financial year	means the period of 12 months ending on 30 June each year
Forecast actual	means an estimate of the result at 30 June based on the latest available actual data
Rates and Charges	means general rates, municipal charges and service charges (most commonly referred to as waste, garbage or recycling charges) as defined in the relevant Act.
Regulations	means the *Local Government (Planning and Reporting) Regulations 2020*
Revised budget	means a budget changed after being adopted by a council and treated in accordance with the provisions in the Act in relation to revised budgets.
Strategic resource plan	means a plan of the financial and non-financial resources for at least the next four years required to achieve the strategic objectives in the council plan.[10]
Underlying operating result	Means the net result that demonstrates a council's ability to generate a surplus from its ordinary activities by excluding any revenue received which funds capital expenditure (such as non-recurrent capital grants, monetary and non-monetary developer contributions).

[10] The strategic resource plan is no longer a requirement under the *Local Government Act 2020* and is effectively replaced by four-year budgets from 2021-22.

12 Appendices

12.1 Appendix A: Council groupings and adopted rate increases

COUNCIL	VLGCG GROUPING	ADOPTED RATE INCREASE FY 202122
Banyule City Council	Metropolitan	1.75%
Bayside City Council	Metropolitan	1.75%
Boroondara City Council	Metropolitan	1.75%
Brimbank City Council	Metropolitan	1.75%
Darebin City Council	Metropolitan	1.75%
Frankston City Council	Metropolitan	1.75%
Glen Eira City Council	Metropolitan	1.75%
Greater Dandenong City Council	Metropolitan	1.75%
Hobsons Bay City Council	Metropolitan	1.75%
Kingston City Council	Metropolitan	1.75%
Knox City Council	Metropolitan	1.75%
Manningham City Council	Metropolitan	1.75%
Maribyrnong City Council	Metropolitan	1.75%
Maroondah City Council	Metropolitan	1.75%
Melbourne City Council	Metropolitan	1.75%
Monash City Council	Metropolitan	1.75%
Moonee Valley City Council	Metropolitan	1.69%
Moreland City Council	Metropolitan	1.75%
Port Phillip City Council	Metropolitan	1.75%
Stonnington City Council	Metropolitan	1.75%
Whitehorse City Council	Metropolitan	1.75%
Yarra City Council	Metropolitan	1.75%

COUNCIL	VLGCG GROUPING	ADOPTED RATE INCREASE FY 202122
Cardinia Shire Council	Interface	1.75%
Casey City Council	Interface	1.75%
Hume City Council	Interface	1.75%
Melton Shire Council	Interface	1.75%
Mornington Peninsula Shire Council	Interface	1.75%
Nillumbik Shire Council	Interface	1.75%
Whittlesea City Council	Interface	1.75%
Wyndham City Council	Interface	1.75%
Yarra Ranges Shire Council	Interface	1.75%

COUNCIL	VLGCG GROUPING	ADOPTED RATE INCREASE FY 2022-23
Ballarat City Council	Regional City	1.75%
Greater Bendigo City Council	Regional City	1.75%
Greater Geelong City Council	Regional City	1.75%
Greater Shepparton City Council	Regional City	0%
Horsham Rural City Council	Regional City	1.75%
Latrobe City Council	Regional City	1.75%
Mildura Rural City Council	Regional City	1.75%
Wangaratta Rural City Council	Regional City	1.75%
Warrnambool City Council	Regional City	1.75%
Wodonga City Council	Regional City	1.50%

COUNCIL	VLGCG GROUPING	ADOPTED RATE INCREASE FY 202122
Bass Coast Shire Council	Large Shire	1.75%
Baw Baw Shire Council	Large Shire	1.75%
Campaspe Shire Council	Large Shire	1.75%
Colac Otway Shire Council	Large Shire	1.75%
Corangamite Shire Council	Large Shire	1.75%
East Gippsland Shire Council	Large Shire	1.75%
Glenelg Shire Council	Large Shire	1.75%
Golden Plains Shire Council	Large Shire	1.75%
Macedon Ranges Shire Council	Large Shire	1.75%
Mitchell Shire Council	Large Shire	1.75%
Moira Shire Council	Large Shire	1.75%
Moorabool Shire Council	Large Shire	1.75%
Mount Alexander Shire Council	Large Shire	1.75%
Moyne Shire Council	Large Shire	1.75%
South Gippsland Shire Council	Large Shire	1.75%
Southern Grampians Shire Council	Large Shire	1.75%
Surf Coast Shire Council	Large Shire	1.75%
Swan Hill Rural City Council	Large Shire	1.75%
Wellington Shire Council	Large Shire	1.75%

COUNCIL	VLGCG GROUPING	ADOPTED RATE INCREASE FY 202122
Alpine Shire Council	Small Shire	1.75%
Ararat Rural City Council	Small Shire	0%
Benalla Rural City Council	Small Shire	1.75%
Buloke Shire Council	Small Shire	1.75%
Central Goldfields Shire Council	Small Shire	1.75%
Gannawarra Shire Council	Small Shire	1.75%
Hepburn Shire Council	Small Shire	1.75%
Hindmarsh Shire Council	Small Shire	1.75%
Indigo Shire Council	Small Shire	1.75%
Loddon Shire Council	Small Shire	1.75%
Mansfield Shire Council	Small Shire	1.75%
Murrindindi Shire Council	Small Shire	1.75%
Northern Grampians Shire Council	Small Shire	1.75%
Pyrenees Shire Council	Small Shire	1.75%
Borough of Queenscliffe	Small Shire	1.75%
Strathbogie Shire Council	Small Shire	1.75%
Towong Shire Council	Small Shire	1.75%
West Wimmera Shire Council	Small Shire	1.75%
Yarriambiack Shire Council	Small Shire	1.75%

12.2 Appendix B: Snapshot of 2022-23 adopted budgets for all 79 councils in Victoria

	ADOPTED BUDGETS FY2021-22	ADOPTED BUDGETS FY2022-23	DIFFERENCE	%
Rates and charges	$6,759,563,000	$7,071,956,000	$312,393,000	5%
Statutory fees and fines	$459,340,000	$477,856,000	$18,516,000	4%
User fees	$975,638,000	$1,046,495,000	$70,857,000	7%
Developer contributions	$1,406,917,000	$1,518,697,000	$111,780,000	8%
Grants	$2,204,773,000	$2,161,722,000	-$43,051,000	-2%
Other income	$177,724,000	$251,638,000	$73,914,000	42%
Total income	**$11,983,955,000**	**$12,528,364,000**	**$544,409,000**	**5%**
Employee costs	$4,095,733,000	$4,278,580,000	$182,847,000	4%
Materials and services	$3,731,573,000	$3,912,217,000	$180,644,000	5%
Depreciation and amortisation	$1,820,412,000	$1,900,540,000	$80,128,000	4%
Other expenses	$371,496,000	$384,304,000	$12,808,000	3%
Total expenses	**$10,019,214,000**	**$10,475,641,000**	**$456,427,000**	**5%**
Accounting surplus/(deficit)	**$1,964,741,000**	**$2,052,723,000**	**$87,982,000**	**4%**
Adjusted underlying surplus / (deficit)	**-$242,858,000**	**-$241,423,000**	**$1,435,000**	**-1%**
Total cash and financial assets	**$4,625,244,000**	**$5,278,423,000**	**$653,179,000**	**14%**
Total non-current assets	**$115,909,448,000**	**$122,917,069,000**	**$7,007,621,000**	**6%**
Total debt	**$1,713,943,000**	**$1,743,932,000**	**$29,989,000**	**2%**
Total capital works expenditure	**$4,171,572,000**	**$4,146,732,000**	**-$24,840,000**	**-1%**
Total employees	**39,666**	**40,610**	**944**	**2%**

Source: 2022-23 adopted budgets and 2021-22 adopted budgets

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