

# Local government in Victoria 2002



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## Ministerial foreward

As one of my early tasks as Minister for Local Government, I am pleased to present the second annual report on local government in Victoria.

This report presents information across the whole of the local government sector, drawing on the Victorian Local Government Indicators published by each council in its Annual Report. It provides the general public with some basic data, and, over time, will indicate trends across the sector.

This year two new indicators have been included which show councils' spending on their current infrastructure. The introduction of this information highlights the demands on councils to focus more on their role in managing local infrastructure assets – namely their local roads, bridges, drains, footpaths, parks, recreational and cultural facilities and public buildings.

Most councils are already increasing spending on infrastructure asset management and renewal. Many have given infrastructure costs as the key justification for rate increases.

In debates over rate increases, it is important to consider both sides of the picture. People accept that if they want better services, they have to pay for them. If councils are to increase rates by substantial amounts – as the data shows some have done – they also have to be able to demonstrate that ratepayers are getting improvements in services.

Such considerations are an important part of accountability. One of the Bracks Government's key goals in strengthening democracy at the State and local level is to increase accountability and transparency of government to the community. The State Government is assisting local government work towards this goal.

The Local Government and Regional Services Division has been moved to form part of the newly created Department for Victorian Communities. This change emphasises the significant role local government plays, in partnership with the State, in involving people more in the decisions that affect their lives and improving the quality of local planning and service delivery.

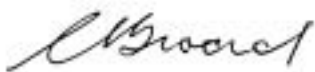


## Ministerial forward cont.

We are working closely with the peak bodies to develop the support that councils need to help them manage their very complex roles. Examples of this support include:

- the good governance project. Funds were provided for a survey of good governance practices across councils
- infrastructure asset management. The Government has already provided \$7.4 million under the Living Libraries Program to fund the upgrade of 27 public libraries across the State. In addition, \$300,000 has been allocated to support councils to improve their infrastructure asset management capacity
- the Government has also provided significant funds for operational purposes. This year the Government has provided a record \$25.17 million in recurrent funding for public libraries, plus an additional \$1.27 million in funding specifically for books and other library resources
- in addition to this the second term Bracks Government will provide an additional \$5 million over four years to boost the volume and quality of book stock in libraries
- for 2001–02, the Government provided \$15.4 million in National Competition Payments to councils. Next year, the Government will continue to provide funding at this level as incentive payments to councils to demonstrate improvement in a number of areas of responsibilities such as service delivery and infrastructure asset management.

I welcome each local government's involvement in the preparation of the *Local Government in Victoria 2002* report, and recommend it to everyone interested in local government.



Candy Broad MLC  
Minister for Local Government

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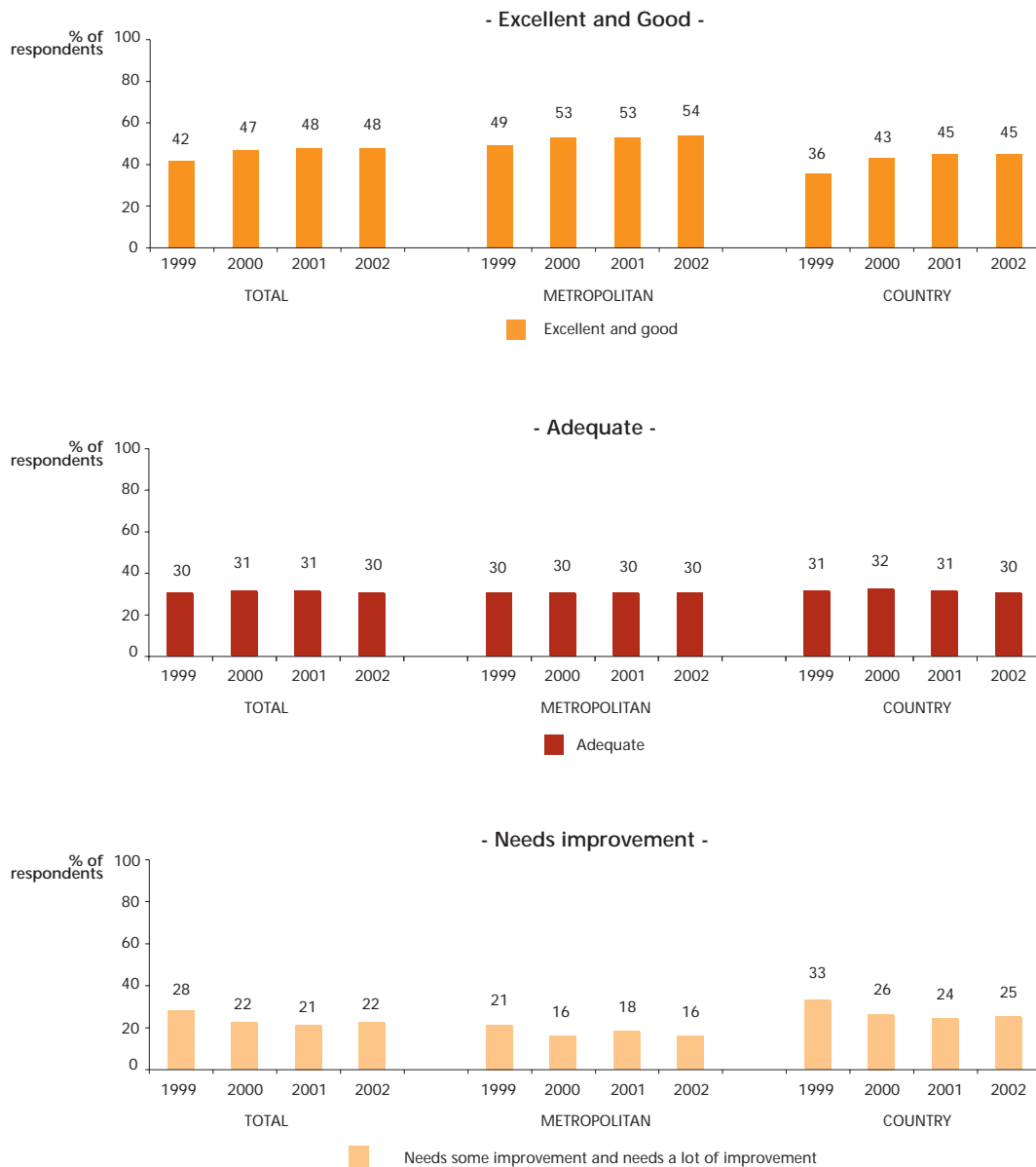
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# Community satisfaction

## Overall performance

Since 1998, the Government and councils have jointly funded detailed public opinion surveys of residents' views. Figure 1 shows the percentages of residents rating their council's overall performance as excellent and good, adequate or needing improvement for the last four years.

**Figure 1. Overall performance - percentages**



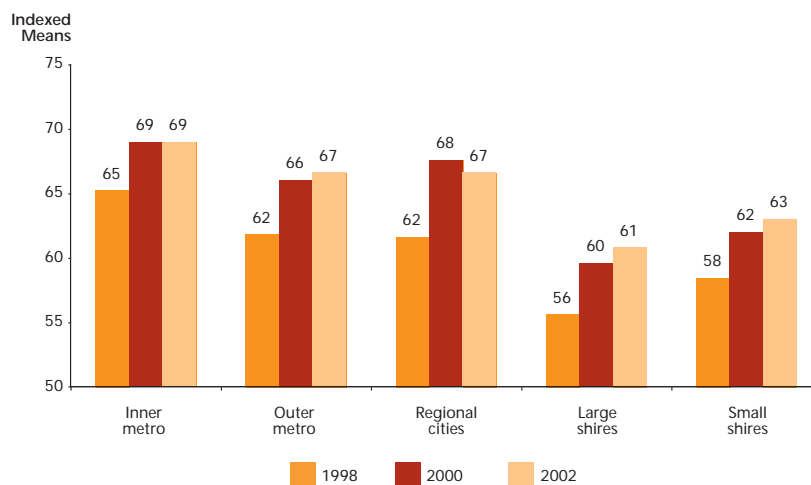
## Community satisfaction cont.

Each year, almost 30,000 people in 75 of the 78 councils across Victoria<sup>1</sup>, are asked whether their council's performance has been: excellent; good; adequate; needs some improvement; or needs a lot of improvement.

An alternative way of looking at the results is to calculate the 'indexed mean' which combines all the views into one figure. This is done by allocating scores of 20 through 60 to 100 for 'needs considerable improvement' to 'adequate' to 'excellent'.

If all residents were neutral about their council – or if the numbers of positive views equalled the number of negative views – the indexed mean would be 60. As shown below, the mean figures are greater than this, and have been growing in recent years. This indicates that communities overall are positive about their councils' performance and are seeing improvements over time.

**Figure 2. Overall performance – indexed means**



Figures 1 and 2 show differences between the ratings in metropolitan and regional cities on one hand and rural councils on the other<sup>2</sup>. This may be linked to differences in the key issues for residents. Across Victoria, the three key issues influencing residents' views of local government are: roads; town planning; and economic development. Of especially high concern in rural areas is the state of local roads and, to a lesser extent, economic development. Parking is a growing issue of concern for urban residents.

<sup>1</sup> At least 350 people are surveyed in each local government area. Many councils, in addition to the joint government/council survey, undertake other performance surveys. The three councils that do not participate in the general survey all conduct their own surveys.

<sup>2</sup> Because of the sample size of the surveys, some variation in the numbers can be expected. To be significant, a movement in the indexed mean should be more than two points.

## Community satisfaction cont.

### Recent changes

Despite such differences, there have been improvements in overall community views of local government, as shown in both graphs. However, most of this increase occurred up to 2000 – since then, the figures have been fairly stable.

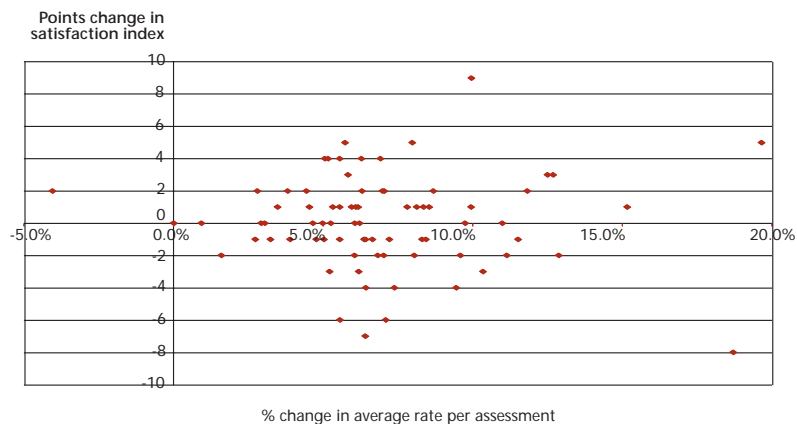
There are several possible contributing factors to this 'plateau' in views of local government:

- councils made improvements to their performance up to 2000, but since then have maintained that performance rather than improving further
- resident expectations of local government performance have increased, so while performance has improved, views of performance have not improved as much
- while councils have improved performance in some aspects, residents have been critical of other aspects, such as rate increases.

It is not easy separating these factors – and indeed the strength of each is likely to vary between councils. Figure 3 suggests that a number of factors may be at work. Each point on the graph indicates the combination for a council of:

- its percentage increase in average rates per assessment from 2000–01 to 2001–02, with
- the point change in that council's overall community satisfaction index in the same two years.

**Figure 3. Changes in rates and satisfaction levels 2000–01 and 2001–02**



The graph shows no clear relationship between the two factors:

- one council reduced average rates per assessment – but the two-point increase in its community satisfaction index was the same as for many other councils which increased rates substantially
- only four councils had major (-6 per cent or greater) falls in community satisfaction – but their rate increases were similar to councils with significant improvements in community satisfaction
- four other councils increased their community satisfaction score by five points or more. These councils increased their rates by 6 per cent, 8 per cent, 10 per cent and 20 per cent.



## Community satisfaction cont.

These results suggest that communities have a sophisticated understanding of local government. A substantial rate rise could be tolerated if residents see a major improvement in services or infrastructure. On the other hand, a more modest rate rise could lead to a decrease in support, especially if it is accompanied by little change in performance, or by public disagreements on council about direction.

### New survey indicators

In addition to asking people about their satisfaction with overall performance (shown above), the survey asks people about council performance in a number of specific areas. The Local Government in Victoria 2001 report reported only the overall community satisfaction rating. This year's report introduces two new measures from the community surveys. Both consider aspects of councils' local governance role in:

- advocacy on behalf of its community
- engaging the community.

#### **Advocacy**

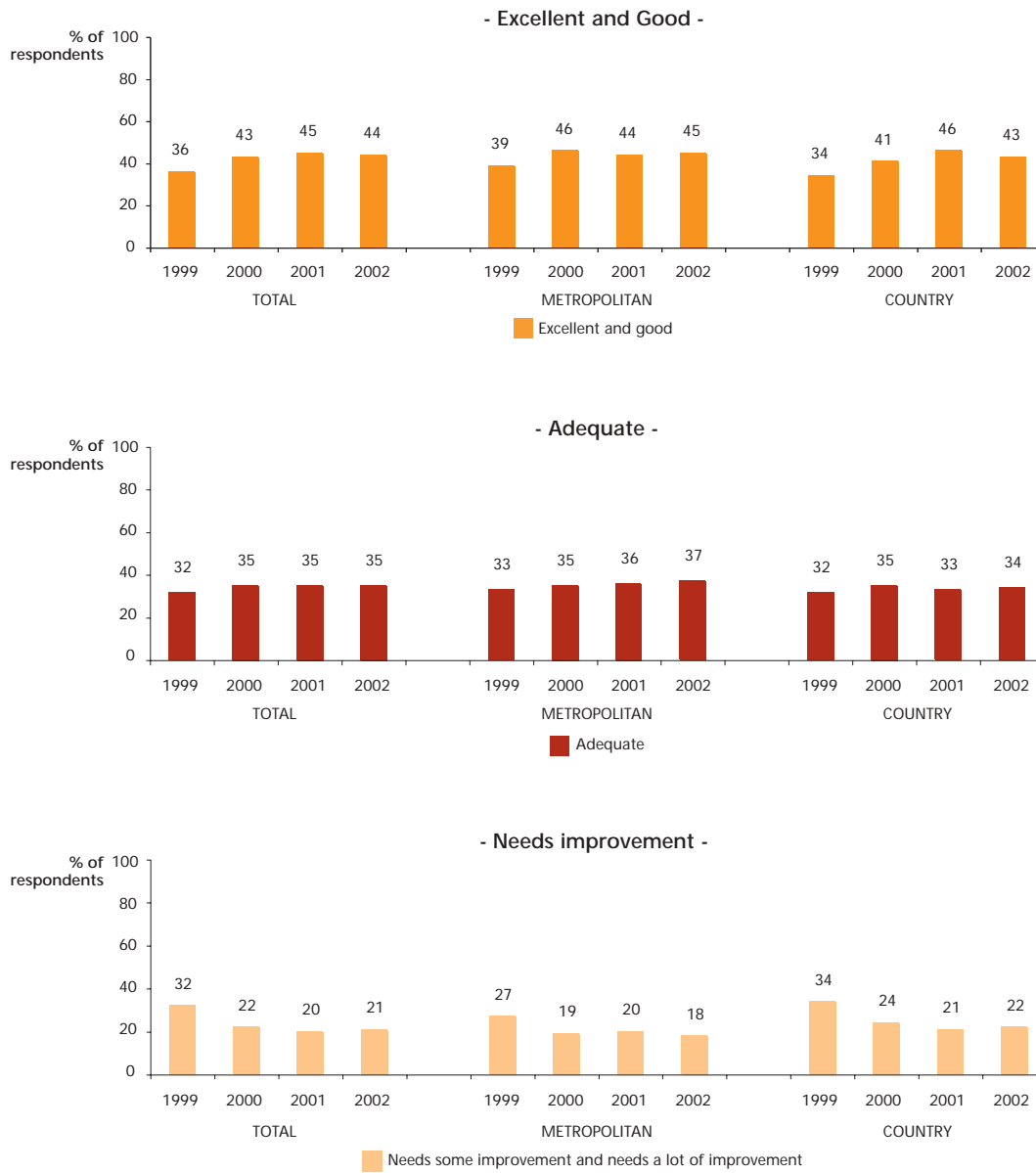
Advocacy considers how well local government represents its community in dealings with State and Commonwealth Government, and with other external bodies and groups. While this measure is reported in this report for the first time, the question has been included in the local government survey since 1998.

As shown in Figure 4, these responses are slightly less favourable for councils than the overall satisfaction, but they show similar trends:

- about 33 per cent of residents rated performance 'adequate' in each year
- the percentage giving good ratings for advocacy increased from 36 per cent in 1999 to a plateau of 43-45 per cent in the following years (for the overall performance ratings, the increase was from 42 per cent to 47-48 per cent)
- there has been a corresponding drop in the percentage seeing a need for improvement
- there is little difference between the ratings in metropolitan and country areas for advocacy (compared with significantly higher overall satisfaction in the metropolitan councils).

# Community satisfaction cont.

Figure 4. Advocacy



## Community satisfaction cont.

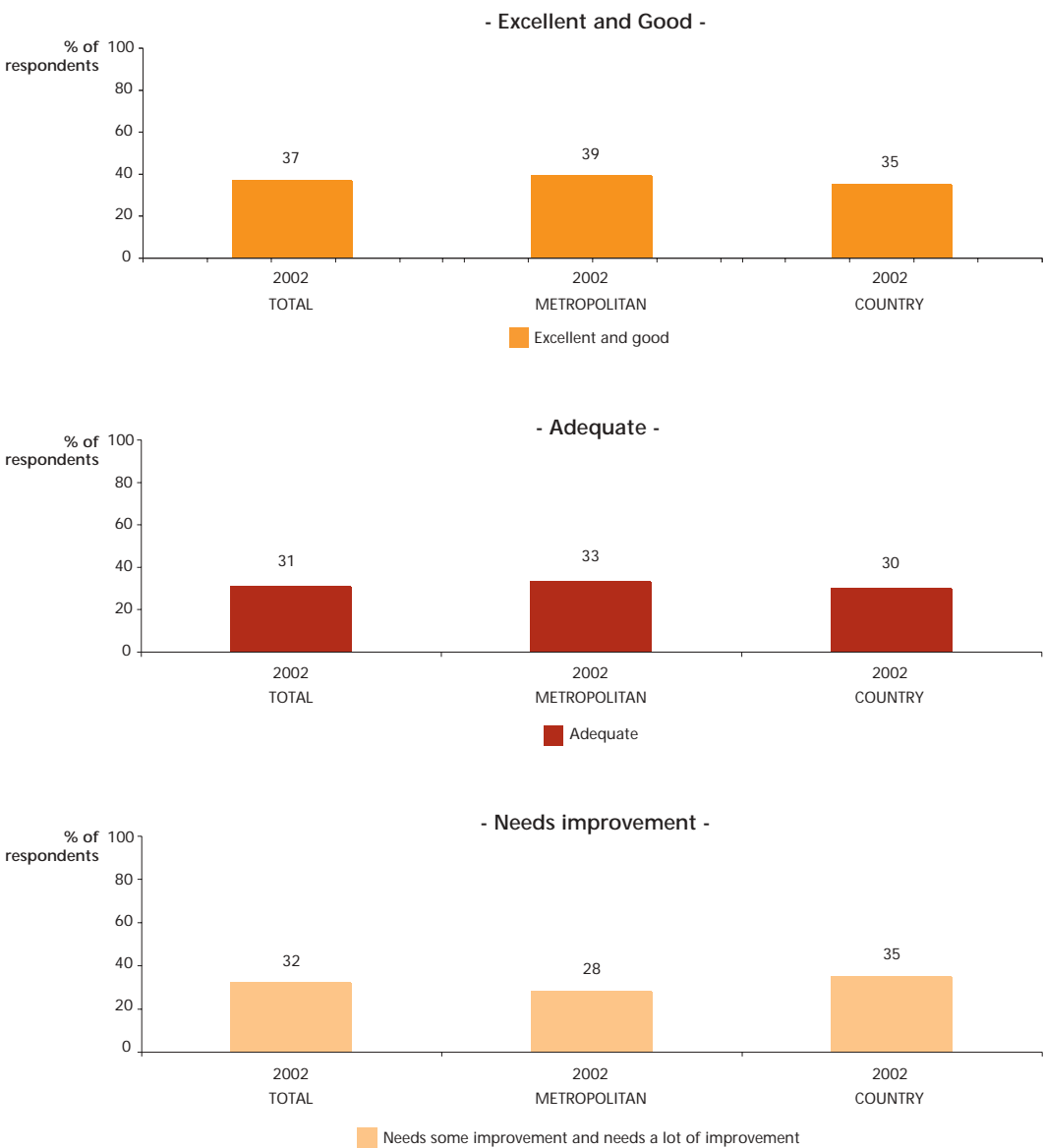
### Community engagement

The second new governance measure is community engagement. In 2002, for the first time the survey asked residents how they rated their council's efforts to involve them in decision-making. The results are shown in Figure 5.

Both metropolitan and country councils received community engagement ratings significantly below those for overall satisfaction:

- in metropolitan councils, 39 per cent rated their council as good or excellent on community engagement in 2002, compared to the 54 per cent who gave a rating of good or excellent for overall performance (a 15 percentage point difference)
- in country councils, 35 per cent rated their council as good or excellent on community engagement in 2002, compared to the 45 per cent who gave a rating of good or excellent for overall performance (a 10 percentage point difference).

Figure 5. Community engagement



Country councils saw a smaller difference between the two measures than did metropolitan councils. This could reflect the easier access to councillors and council officers in smaller councils, and may also be influenced by the range of community volunteer groups working with councils in rural areas.

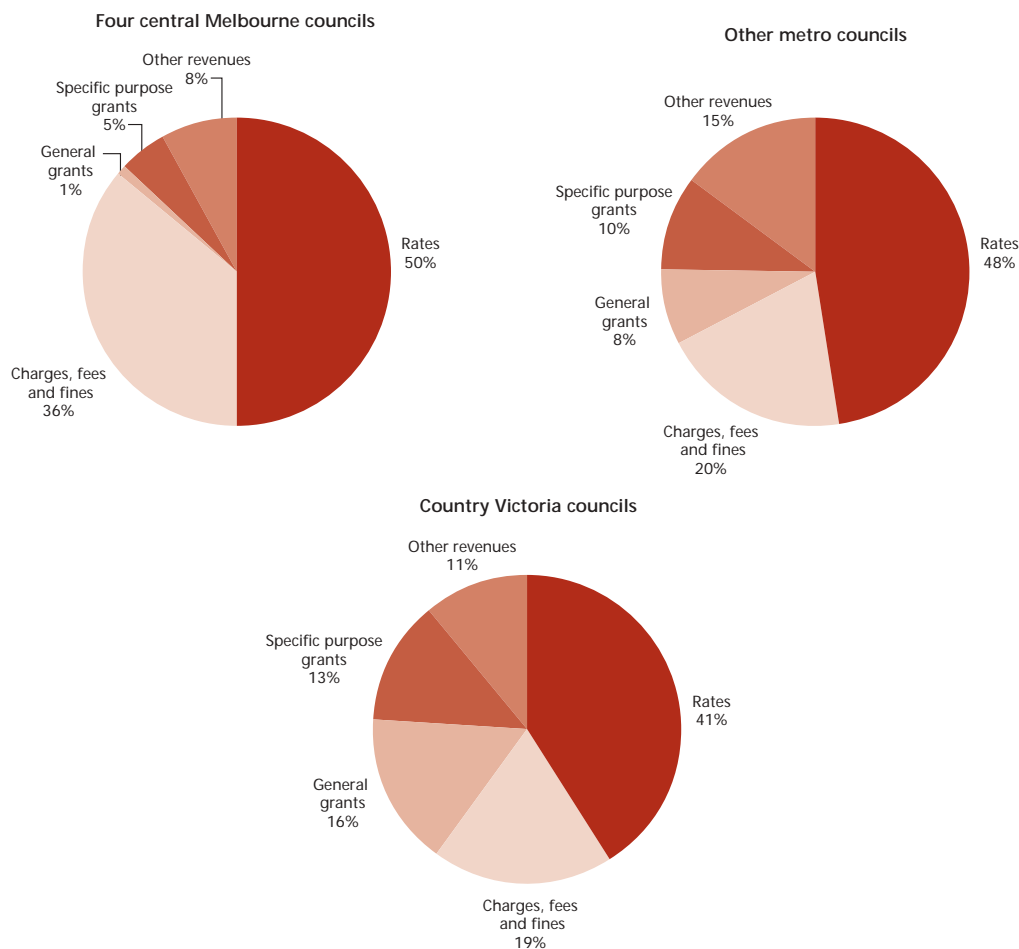
## Sources of council revenue

Figure 6 shows the key sources of council revenues in 1999–2000 as published by the Australian Bureau of Statistics in *Local Government Finance Victoria*, Cat. No. 5501.2.

There are marked differences between metropolitan and country councils. In addition, four councils in central Melbourne (Melbourne, Port Phillip, Stonnington and Yarra) have very different revenue patterns (particularly with high car parking revenues), and are treated in this section as a separate group.

While rates are clearly the single most important revenue source for all councils, there are some significant differences between the three groups.

**Figure 6. Sources of council revenue**



The four central Melbourne councils all have major commercial property bases, and provide a range of services to commercial property and tourism. They receive 50 per cent of their income from rates, with charges fees and fines providing another 36 per cent of revenues. The largest single element in these charges is car parking fees and fines. In 1998–99, these four councils collected \$81 million in car-parking revenues – 65 per cent of the \$125 million in these revenues collected by all councils across Victoria.

## Sources of council revenue cont.

Other revenues form a small part of these councils' budgets. Because of their property bases, they all receive the minimum general grants that the Victoria Grants Commission allocates. With significant commercial services, services to residents are a smaller part of the budget than for other councils – and so, too, are the specific purpose grants for such services.

*Other metropolitan councils* receive a similar share (48 per cent) of total revenues from rates as the inner group, but their other sources of income differ. Charges fees and fines are less, primarily because of the fewer opportunities for car parking revenues. General grants comprise 8 per cent, and specific purpose grants 10 per cent. A major alternative source of income for these councils – especially those in the developing urban fringe – is developer contributions towards infrastructure. These contributions are included in 'Other revenues', which at 15 per cent of total revenues is higher for this group than for inner or country councils.

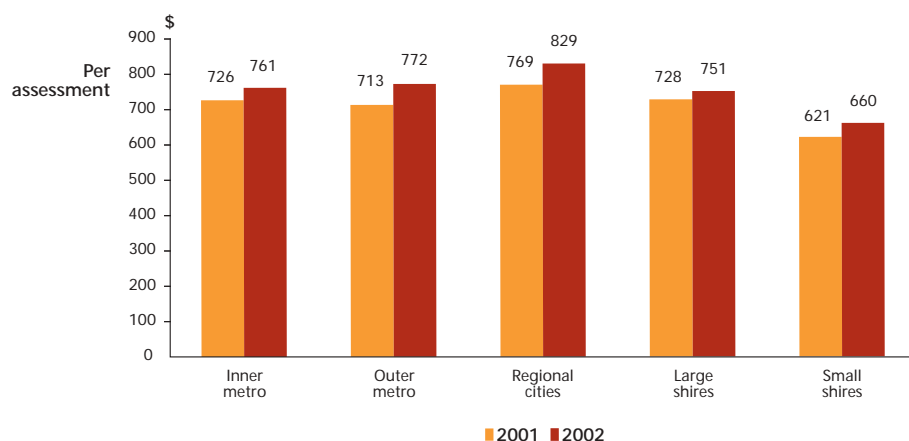
*Country Victoria councils* (including regional cities) receive a lower share (41 per cent) of their total income in rates than the other two groups. The primary reason for this is a greater contribution from government grants – both general (16 per cent) and specific purpose (13 per cent). Councils in country Victoria receive higher general grants for two reasons. For general purpose grants they are generally assessed as having higher levels of need (both because of their size and typically lower property bases). For roads grants, these councils have, per head, much greater road networks to maintain than do metropolitan councils.

The country share of charges fees and fines (19 per cent) is similar to that of other metropolitan councils. The share of other revenues (11 per cent) is slightly higher than that for inner Melbourne councils. While councils in country Victoria have limited access to developer contributions, many run saleyards or other commercial operations and these revenues are included in the 'Other' category.

## Median rates

Councils across Victoria increased their rates in 2001–02.

**Figure 7. Median rates per assessment, 2000–01 and 2001–02**



Note. The 'inner metro' category here refers to the 17 councils generally included in this category in this report. This includes the four central Melbourne councils discussed separately above.

## Sources of council revenue cont.

Median rates and charges per assessment increased the most in outer metropolitan (8.3 per cent) and regional cities (7.8 per cent) councils. Small shires' median rates and charges per assessment increased 6.3 per cent, while large shires (3.2 per cent) and inner metropolitan (4.8 per cent) had the smallest percentage increases.

There have been two key reasons for these rate increases:

- from the late 1990s, councils and communities have become increasingly aware of the need for additional action to maintain and renew infrastructure, especially roads. The extent of the problems is outlined in the infrastructure measures noted below. Many councils are using funds from rate increases to start tackling these problems
- there have also been increases in local government operational costs. Some councils have faced significant increases in costs in the second round of tendering for service contracts. The recent renegotiated local government enterprise bargaining agreements have also led to increased costs, as have increases in insurance premiums.

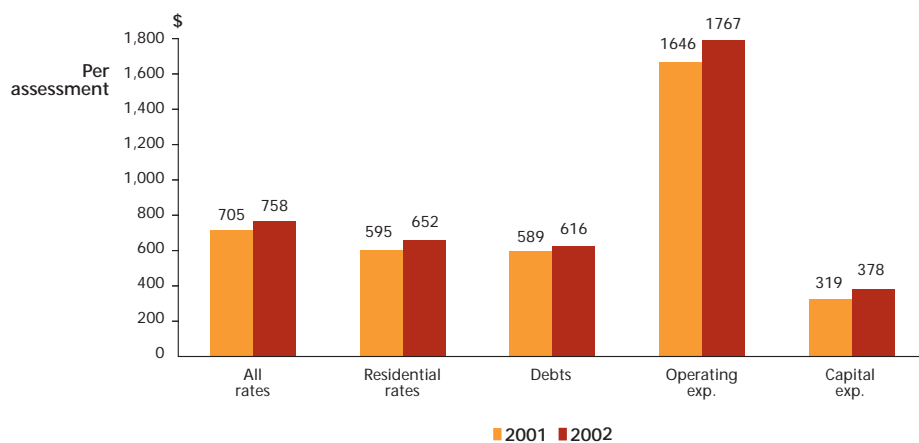
At the same time as increasing rates, councils have looked at other sources of revenue. The four central Melbourne councils have all substantially increased car-parking revenue in the past four years. Urban fringe councils have reviewed and, in many cases, extended their development contribution plans. Other councils, without access to these sources of revenue, have tended to rely on rate increases to meet the rising costs.

## Key indicator trends since last year

This year's indicators show a number of distinctive patterns compared with the 2000-01 data (all figures are median values, per assessment):

### All councils

**Figure 8. All councils**



Across Victoria:

- rates and charges per assessment have increased by \$53, or 7.5 per cent. The most marked increases have been for outer metropolitan (+\$59) and regional cities (+\$60). Large shires (+\$23) have limited their increases in rates
- generally, residential rates have increased in a similar way to the overall rates. However, there were differences for outer metropolitan (where residential rates increased by \$21, less than overall rates) and for large shires (where residential rates increased by \$39, close to double overall rates)
- overall, there was a slight increase in debt per assessment, from \$589 to \$616. However, patterns in debt movements varied considerably between councils. Outer metropolitan and small shires reduced debt, while regional cities and large shires borrowed additional funds – predominantly to pay for capital works
- operational expenses increased for all councils, with the median growing from \$1,646 to \$1,767 (an increase of 7.4 per cent, almost identical to the increase in average rates). There were especially substantial increases for regional cities (+\$151), with inner metro and both large and small shires growing by \$80–100. Outer metro had the smallest increases, at \$53
- capital expenditure increased considerably, from \$319 to \$378 per assessment – an increase of \$59 or 18.5 per cent. This also varied between councils. Regional cities and large shires both increased capital expenditure by more than \$100, while small shires also had a significant increase, at \$60. Metropolitan councils increased expenditure by much less – outer metro +\$16, and inner metro actually fell slightly.

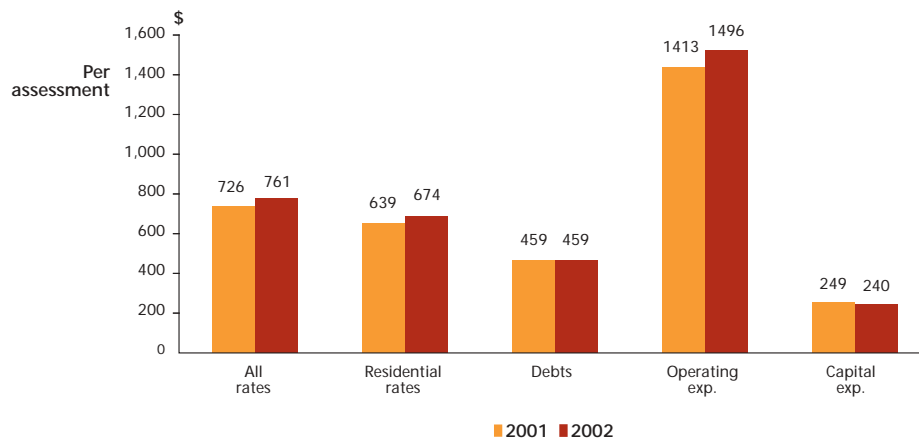
A key element in the major increases in both capital and operating expenditure is the Federal Government's Roads to Recovery program, which funded both new capital and on-going maintenance works (maintenance is included in councils' operating expenditure). This program started in January 2001, and 2001–02 was the first full financial year.



## Key indicator trends since last year cont.

### Inner metro councils

Figure 9. Inner metro councils



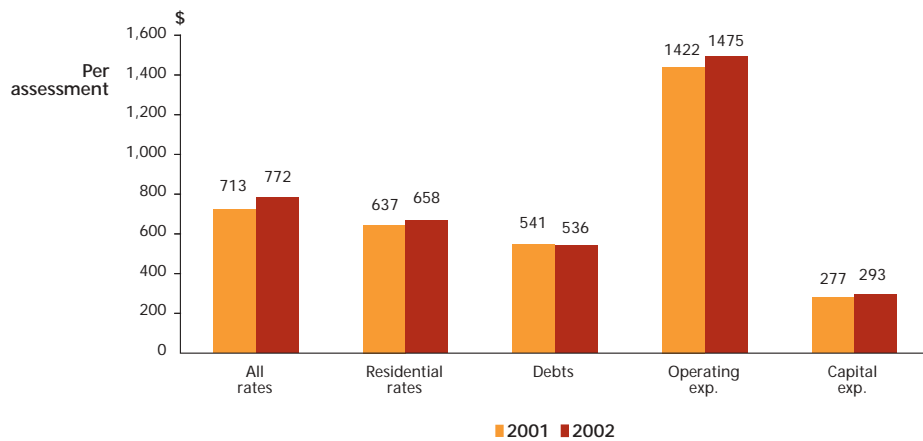
A comparison of the inner metropolitan data for 2002 with the previous year shows:

- the median rates and charges increased by \$35 (5 per cent), with the median residential rates and charges figure increasing by a similar amount
- there was no change in the level of debts per assessment
- the rate increases helped fund increases in operating expenditure, of \$83
- in contrast, the median capital expenditure figure actually fell slightly, although it should be noted that changes in capital expenditure varied widely across this group – 11 of the 17 inner metropolitan councils increased capital expenditure in 2002
- the inner metro councils received the lowest levels of funding from the Roads to Recovery program – a median of \$10 per assessment.

## Key indicator trends since last year cont.

### Outer metro councils

Figure 10. Outer metro councils



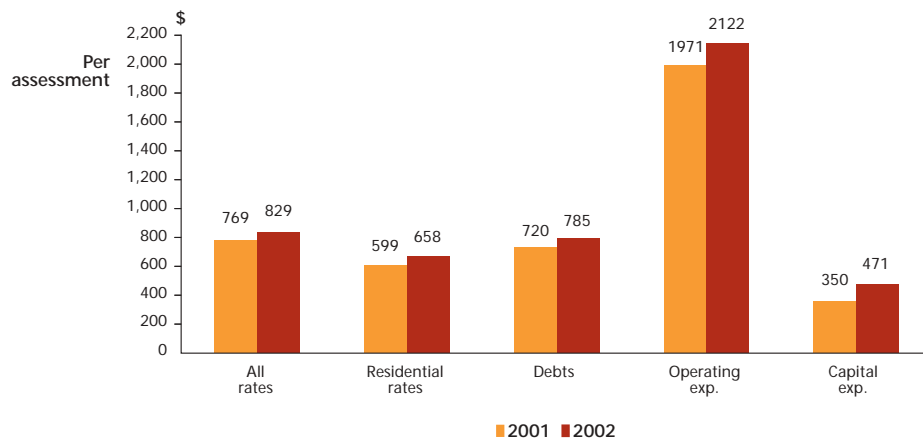
For outer metropolitan councils:

- the median rates and charges increased by \$59 (8 per cent), with the median residential rates and charges figure increasing by only \$21
- there was a slight fall in the level of debts per assessment, with councils repaying some debt;
- operating expenditure increased by \$53
- the capital expenditure figure increased by \$16
- roads expenditure was assisted by the Roads to Recovery program – outer metropolitan councils received an average of \$16 per assessment from this program.

## Key indicator trends since last year cont.

### Regional cities

Figure 11. Regional cities



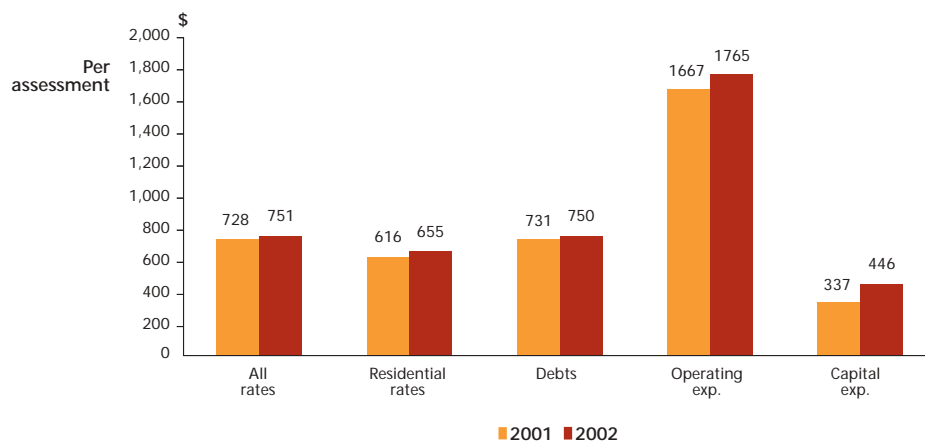
For regional cities:

- the median rates and charges increased by \$60 (8 per cent), with the median residential rates and charges figure increasing by a similar \$59
- there was a \$65 increase in the level of debts per assessment, with councils borrowing to help fund more capital works
- operating expenditure increased by \$151
- the capital expenditure figure increased by \$121
- both expenditure figures were boosted by additional spending – maintenance and capital – on roads. Regional cities received a median \$43 per assessment from the Roads to Recovery program.

## Key indicator trends since last year cont.

### Large shires

Figure 12. Large shires



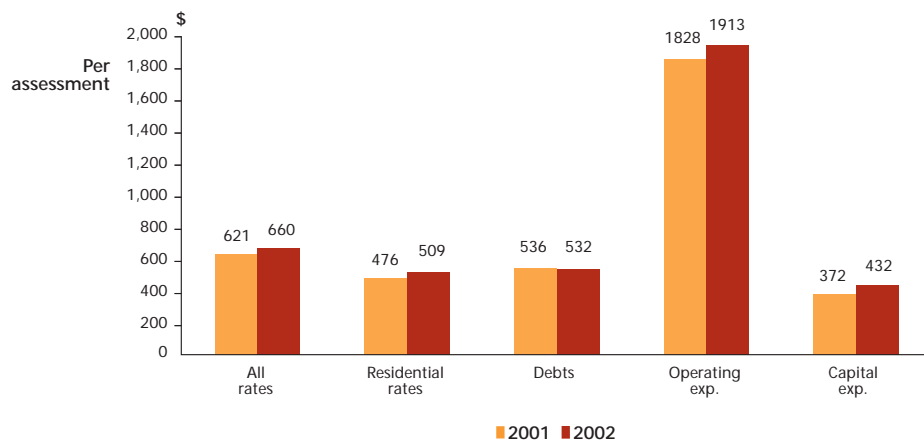
For large shires:

- the median rates and charges increased by \$23 (3 per cent), with the median residential rates and charges figure increasing by a somewhat higher \$39
- there was a slight increase (\$19) in the level of debts per assessment, with councils borrowing to help fund more capital works
- operating expenditure increased by \$98
- the capital expenditure figure increased by \$109
- both were boosted by additional spending – maintenance and capital – on roads. Regional cities received a median \$69 per assessment from the Roads to Recovery program.

## Key indicator trends since last year cont.

### Small shires

Figure 13. Small shires



For small shires:

- median rates and charges increased by \$39 (6.3 per cent), with the median residential rates and charges figure increased by a similar amount – \$33
- there was a slight decrease (-\$4) in the level of debts per assessment
- operating expenditure increased by \$85
- the capital expenditure figure increased by \$60
- both were boosted by additional spending on roads. Small shires received a median \$97 per assessment from the Roads to Recovery program.

## Operating result (income – costs)

The definition of 'operating result' has been refined this year to improve consistency. This indicator now reports the 'bottom line' as for private companies and includes all capital funding, changes in asset valuations and other one-off items such as recognising assets for the first time. To give comparability with the 2002 data, the 2001 data has been reworked to the new definition, and differs from that published last year.

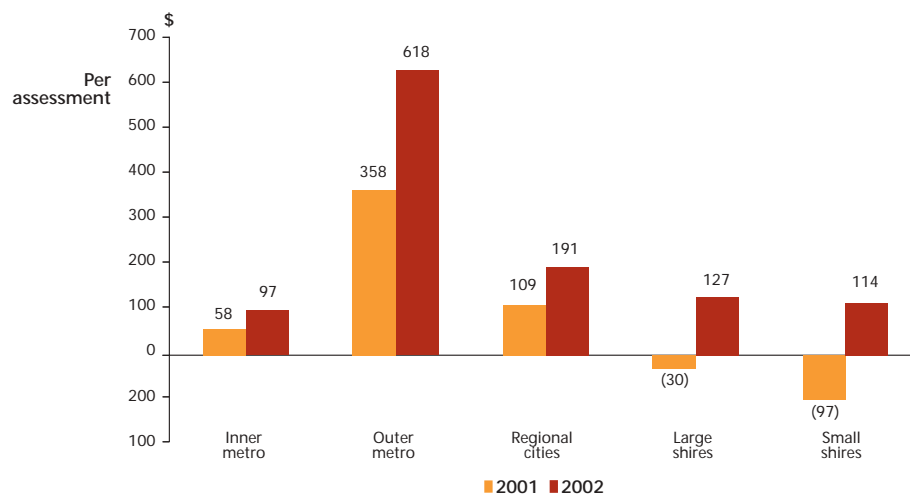
Assessing the bottom line for local government can be a complicated process. This is especially difficult because councils have large numbers of long-lived assets, such as roads and buildings. Movements in the value of these assets, for example, can have a strong impact on the bottom line. Despite these complexities, however, the following indications are apparent.

All groups of councils have experienced improvements in the operating result from 2000–01 to 2001–02. However, it appears from an analysis of many councils' financial statements that this improvement is overwhelmingly due to larger movements in asset revaluations in 2001–02. Councils are not required to revalue their assets every year, but as 2001–02 was a municipal revaluation year, many councils chose to revalue their assets.

Major factors contributed to the results of all councils reporting large positive operating results and most of the larger negative operating result reported. Those with negative operating results also typically did not have 'gifted' assets or substantial asset revaluations contributing to their result for the year.

Outer metropolitan councils have by far the strongest increases in operating results. A strong influence in this group has been 'gifted' assets from new subdivisions on top of the revaluation increases. Other councils have had much smaller increases.

**Figure 14. Operating result, 2000–01 and 2000–02**



This graph of operating results per assessment shows large variations in the results of each council group. There are a number of 'major factors' which councils have identified as affecting their operating results.

## Operating result (income – costs) cont.

Those which can cause positive operating results are:

- 'gifted' assets – one council's results were affected by \$30.8 million of contributions from developers. Once a developer completes a subdivision, council may take over ownership of the roads which the developer has built. This is particularly common for councils in developing areas, such as the outer metropolitan councils
- capital grants – one council received \$2.3 million in capital grants for its swimming pool
- asset valuation increases – one council's result has been changed from a negative \$38 per assessment to a positive \$11,717 per assessment due to the revaluation of its assets
- assets recognised for the first time – one council's results were affected by \$100 million due to crown land being recognised in its books for the first time.

These 'major factors' cause a positive result because although the 'income' side of the transaction is included in the calculation of the operating result, the expenditure is of a capital nature and, therefore, only a proportion of it – the depreciation – is included in the calculation. The difference is correctly reported as a positive operating result as it does not represent funds which could be spent by council.

The sorts of 'major factors' which can cause negative operating results are:

- 'devaluations of assets' – one council's results were affected by a \$65 million reduction in the value of its buildings due to a change of the basis on which those buildings were valued. Another council's results moved from a positive \$71 to a negative \$428 due to the correction of the valuation of road assets
- 'transfers of assets at no consideration' – one council's results were affected by \$1.7 million due to a transfer of a council aged care facility to another service provider.

As noted above, the definition of 'operating result' has been revised this year. As with any new definition, there may still be disparities in the way individual councils apply the definitions. Further work is being done to improve the consistency of application of this indicator as some councils have included in their explanations that they have excluded items such as recognition of assets for the first time, which should have been included. Councils will also be encouraged to provide explanations (as they have this year) and details of their operating result adjusted for major items.

The question as to whether or not councils are fully funding the depreciation on their capital assets is the subject of the next two infrastructure indicators.

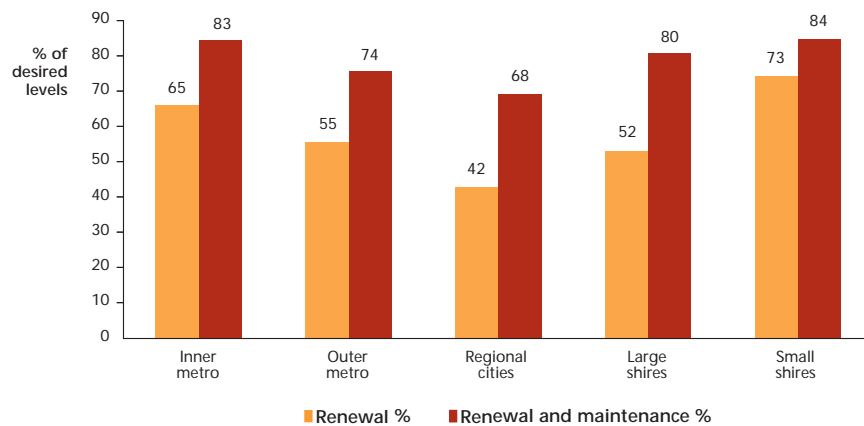
# Infrastructure

In recent years, councils and communities have become increasingly concerned about the state of capital assets, especially roads. In late 2000, the Department of Infrastructure released the report *Facing the Renewal Challenge*, and this was complemented by a report from the Auditor General in June 2002 *Managing of Roads by Local Government*.

Reviewing available data on assets and capital spending, both reports argue that councils need to increase their spending on renewing infrastructure. They also need to improve their systems, to provide better information for asset management.

The first of these findings is supported by two new indicators this year, looking at spending on capital renewal, and capital renewal together with maintenance. Both indicators start from an estimate of the Average Annual Asset Consumption (AAAC) for each council, which is the current replacement cost for each infrastructure asset, divided by its years of useful life. Thus, a park bench with a five-year life would have an AAAC of 20 per cent of its value (that is, value divided by five), while a road with a 50-year life would have an AAAC of 2 per cent of its value (that is, value divided by 50). The two indicators show actual expenditure compared with the AAAC estimate (the desired level).

**Figure 15. Renewal and maintenance expenditure as a percentage of desired levels**



All groups of councils, and most individual councils, are spending less than the desired level, although the extent of the shortfall differs between the groups, as shown in Figure 15.



## Infrastructure cont.

Two ratios are shown in Figure 15: for renewal and for renewal and maintenance together:

- the median figure across Victoria for spending on renewal of assets is 60 per cent of the long-term AAAC. Regional cities have the lowest figure, at 42 per cent, while small shires have the highest renewal spending, at 73 per cent
- councils have a better performance on renewal and maintenance together. Compared with the AAAC plus the annual level of maintenance necessary to maintain assets for their full desired life, median spending across the State was 81 per cent of the desired level. Regional cities again had the lowest figure, at 68 per cent, and small shires the highest, at 84 per cent, but there was a much smaller range across the council groups.

Most councils are now improving their asset management. A number of initiatives are occurring across the sector to assist this process. These include:

- the development of Statewide principles for infrastructure asset management
- the direct assistance provided by the Local Government and Regional Services Division, the Municipal Association of Victoria and Local Government Professionals to improve asset management skills and practices
- the development of road management plans by each Victorian council which address road classification, maintenance, repair – taking local needs and resources into account.



