Reader's guide to council fact sheets

What is the purpose of this reader's guide?

Use this guide to help you understand our fact sheets that examine council revenue, expenditure and financial sustainability over recent years. The guide lists the data sources and contains definitions and other guidance that can help you interpret the information in the fact sheets.

From page 2 on, this reader's guide is laid out in a similar way to the fact sheets. You should look for the matching heading to determine what part of the fact sheet the information in this guide is referring to.

There are fact sheets for each individual council, plus one for each of the five groups of similar councils. The five council groups are: metropolitan, interface (metropolitan fringe), regional cities, large shires and small shires. View all fact sheets at https://www.esc.vic.gov.au/local-government/rate-capping-outcomes-reports.

Why have we published these fact sheets?

These fact sheets form part of our reporting on the outcomes of Victoria's local government rate capping system, which sets the maximum percentage a council can increase its average general rates and municipal charges in a financial year. Together with a report examining sector-wide outcomes, the fact sheets help inform communities, councils and the Victorian Government about how councils are operating in a rate capped environment.

What should you remember when reading the fact sheets?

The fact sheets provide information in key areas, focusing on the years from 2016–17 to 2019–20. These are the first four years of rate capping. When reviewing the data, remember that changes from year to year could reflect many things including the impact of rate capping, coronavirus (in 2019–20) or changes in grant funding, demographics, community preferences, or natural disasters (like floods and bushfires).

We have adjusted the numbers in the fact sheet for inflation, that is they are expressed in what is called 'real terms'. This means that the dollar amounts reported in the fact sheets will only show an increase from year to year if the increases have been more than the rate of inflation (increases in the cost of goods and services in the broader economy). Adjusting for inflation improves the comparability of the data over time. The dollar amounts are shown in 2019–20 dollars.

Be careful comparing data from different sections of the fact sheets because the data may have come from different sources. Except for some rates data, we have used data from existing sources to minimise the reporting burden on councils. Councils have had the opportunity to check the accuracy of the data against the original sources, but not all data has been audited and may therefore contain some errors.

Where can you get more information?

- Your council's annual report, budget and website
- Our website (www.esc.vic.gov.au/local-government)
- Local Government Victoria (www.localgovernment.vic.gov.au)
- Victorian Auditor–General's Office (www.audit.vic.gov.au), which includes an interactive dashboard of council financial results
- The Victorian Government's Local Government Performance Reporting Framework, which provides performance information on a range of measures relating to service performance, financial sustainability and performance, and governance and management. (www.knowyourcouncil.vic.gov.au).

A note on the 'key facts' box

The 'key facts' box gives context for the data in the rest of the fact sheet. These variables can affect the amount of services the council must provide and the cost of providing them.

Once the Minister for Local Government has set the rate cap (in December each year), councils can apply to the Essential Services Commission for approval to increase their rates above the rate cap (that is, approval of a 'higher cap'). The table indicates whether the council applied for a higher cap for any year between 2016–17 and 2019–20. Information about higher cap applications can be found at https://www.esc.vic.gov.au/local-government/higher-rate-cap-applications.

Data sources: Australian Bureau of Statistics (ABS) (2020) 'ERP by LGA (ASGS 2019), 2001 to 2019', Estimated Resident Population, accessed 20 January 2021; ABS (2018-19) 'Population estimates by Local Government Area, 2018 to 2019' [data set], Regional population, accessed 20 January 2021; Victorian Local Government Grants Commission – VGC 3 data 2015–16 to 2019–20 (unaudited data); Employee numbers are the forecast actuals from councils' 2020–21 adopted budgets as this is the most consistent source of employee numbers..

Rates

What has happened to average rates and charges?

This area of the fact sheet examines the two main components of rates notices:

- General rates and municipal charges (capped rates) — the total revenue collected from general rates and any municipal charges (which have been subject to a rate cap since 2016–17). A municipal charge is a flat charge applied to all ratepayers. Not all councils apply a municipal charge.
- Service charges (uncapped) — these typically recover the cost of kerbside waste collection and disposal but may also include community waste services (such as street cleaning) and other services (such as water supply and sewerage services). Service charges are outside of the rate cap.

The bar chart compares annual dollar increases in average capped rates and charges against annual dollar increases in average service charges. The averages have been determined by dividing the total amount of capped rates or service charges revenue by the number of property assessments. Examining both the capped and uncapped parts of your rates notice helps you determine if the impact of a decrease in one area has been offset by an increase in the other. You may notice a large increase in service charges in 2018–19 as some councils raised their service charges in response to increased costs associated with disruptions to the recycling market.

The table shows average rates and charges, which includes general rates, municipal charges and service charges. Remember that rate capping sets a limit on the percentage increase in the *average* capped rate, not the dollar amount of annual increases, or the percentage increase in individual ratepayers' capped rates and charges. Other rates and charges revenue has been excluded from these calculations (including special rates and charges, revenue in lieu of rates, and interest on unpaid rates and charges). Supplementary rates and charges levied since the start of the financial year have also been excluded as the amount councils collect through supplementary rates and charges is uncapped.

The table also indicates the council's applicable rate cap. This is either the rate set by the Minister for Local Government, or a higher cap approved by the Essential Services Commission. The applicable rate cap is the maximum councils can increase their average capped rates. Councils can apply a lower increase.

The table also notes if a council has applied for a higher cap, but has been unsuccessful.

Data sources: Australian Bureau of Statistics (September 2020) 'TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes' [time series spreadsheet], Consumer Price Index, Australia, accessed 20 January 2021; Council annual reports (audited); Victorian Local Government Grants Commission – VGC 2 data 2012–13 to 2019–20 (unaudited data).

Rates (continued)

Have council's average rates complied with the applicable rate caps?

Each year, we use the formula specified in the Local Government Act 1989 to assess councils' compliance with the minister's rate cap (or any higher cap approved by us). The vast majority of councils have complied. More detailed information on councils' compliance with the rate caps is available at https://www.esc.vic.gov.au/local-government/council-compliance-rate-caps/council-compliance-reports.

How have rates changed for different ratepayers?

Council's rating strategy 2020–21

A council's rating strategy will outline the council's approach to using municipal charges, service charges and differential rates (the rate in the dollar that applies to different types of properties like residential or commercial). The rating strategy shows how a council is tailoring its use of rates and charges to the needs of its community and considering issues such as equity and capacity to pay.

This section shows summary information about a council's rating strategy. More detailed information will be available in your council's adopted budget.

Distribution of rates increases and decreases

The rate cap applies only to the percentage increase in a council's average general rate and municipal charge (capped rates). Individual properties may experience different percentage increases because the:

- property increased or decreased in value relative to other properties within the municipality
- classification of the property changed (such as residential, commercial, or rural)
- council changed the distribution of rates between property classes (by changing their rating strategy).

All properties are required to be revalued every year for local government rating purposes. With each revaluation, the relative value of properties changes causing significant differences in rate increases between properties.

This information shows what proportion of ratepayers experienced increases in their capped rates above and below the applicable cap (either the minister's cap or an approved higher cap), and what proportion experienced a decrease in their capped rates.

Ratepayers by property class

This section of the fact sheet examines the proportion of ratepayers, the total rates and charges revenue (both capped and uncapped) in 2019–20 and the average annual percentage change in average rates and charges between 2015–16 and 2019–20 for different classes of property.

The causes of variation in rate increases between individual ratepayers (outlined in the three dot points in the 'distribution of rates increases and decreases' section of this guide) also explain a lot of the variation in rate increases between different property classes. Movements in service charges (uncapped rates) and the number of properties will also contribute to these changes.

Data sources: Australian Bureau of Statistics (September 2020) 'TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes' [time series spreadsheet], Consumer Price Index, Australia, accessed 20 January 2021; Essential Services Commission survey of councils (unaudited data); Victorian Local Government Grants Commission – VGC 2 data 2012–13 to 2019–20 (unaudited data).

Note: the classifications may not correspond with the way a council classifies properties in its rating structures and on rates notices.

Revenue

Where is council’s money coming from?

This section of the fact sheet shows council’s total revenue and the different sources of that revenue:

- Rates and charges — includes capped rates (general rates and any municipal charges) and any uncapped rates and charges collected through rates notices (such as waste or special charges).
- User fees and statutory fees and fines — this is revenue collected independently of rates, such as permits, parking fees and other fees for services, which may be paid by ratepayers, residents or non-residents of the municipality.
- Grants — includes recurrent and non-recurrent grants from both state and federal governments for operating and capital purposes.
- Contributions — includes the contributions (both monetary and non-monetary) of developers or landowners to the provision of new infrastructure for commercial or residential developments.
- Other — includes items such as interest on investments and rent.

The table also shows how reliant the council is on the different sources of revenue (that is, the percentage of its revenue that comes from each source). When looking at this table, remember that an increase in percentage contribution can occur without any increase in dollars coming from that source (it may just be caused by a decrease in the amount coming from other sources).

When examining changes in revenue from year to year, remember that these numbers have been adjusted for inflation, which means the impacts of cost increases in the broader economy have been removed.

In 2019–20, many councils experienced a decrease in revenue due to the impact of coronavirus and related restrictions (particularly from user fees and statutory fees and fines linked to the closure of leisure centres and waiving of certain fees). These decreases in revenue are unlikely to indicate the full extent of the impact of coronavirus as restrictions continued in to 2020–21, which is not covered in the fact sheets.

Any increase in grants revenue in 2017–18 may be partially explained by the reintroduction of indexation of commonwealth financial assistance grants in that year. Indexation of these grants had been frozen between 2014–15 and 2016–17. Year-on-year fluctuations in grant funding may also be partially explained by the advance payment of some commonwealth financial assistance grant funding in each year. Councils are required to report grant revenue in the year it is received even if it is allocated for the following year.

Revenue per person (2019–20 dollars)

The charts in this section of the fact sheet show revenue per person. Looking at revenue per person allows you to see changes in revenue that are not linked to population or property growth. Some revenue sources (like Commonwealth grant funding) are directly linked to a council's population. Growth in population is also generally linked to an increase in property numbers, which may mean more revenue from rates and developer contributions.

When looking at the growth in rates and charges per person, remember that not all rates and charges are capped, and the cap only applies to the average rate per property (not average rate per person). This means that the growth in rates and charges per person may be higher than the cap.

In this section, we have used two charts with different scales to enable you to see more clearly the year-on-year fluctuations in smaller revenue sources. Take note of the scales if comparing the different sources.

Data sources: Australian Bureau of Statistics (September 2020) ‘TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes’ [time series spreadsheet], Consumer Price Index, Australia, accessed 20 January 2021; Australian Bureau of Statistics (2020) ‘ERP by LGA (ASGS 2019), 2001 to 2019’, Estimated Resident Population, accessed 20 January 2021; council annual reports.

Expenditure

How much money is council spending?

This section of the fact sheet examines council's expenditure, which can be classified as either operating expenditure or capital expenditure.

- Operating expenditure typically relates to the day-to-day operations of the council and includes:
  - employee costs — wages, superannuation, and leave entitlements (of casual and permanent staff, but not contractors)
  - materials and services — such as consultant and contractor fees, utilities, IT costs and other materials required to deliver services
  - other operating costs — such as community grants, councillors' allowances, borrowing costs, and accounting losses relating to asset disposals and revaluations.
- Capital expenditure typically has a more long-term focus and includes expenditure on the construction, renewal, upgrade or expansion of assets (see next page for further detail).

The table shows both total expenditure and the composition of expenditure.

Observing changes in the composition of a council's expenditure (particularly the percentage accounted for by capital expenditure) provides an indication of a council's focus and priorities. What is an appropriate balance between operating and capital expenditure will vary between councils as the nature of their assets and the needs and preferences of their communities will differ. While year-on-year fluctuations are typical, changes in the ratio over the long term may indicate if a council is focusing more on short term priorities and less on capital projects for the benefit of its community in the longer term. More information on the council's management of its assets and infrastructure is provided in the next section on 'Infrastructure'.

When looking at the percentages, remember that the proportion of expenditure in one area can increase without any additional dollars being spent (it may just be caused by a decrease in the amount spent in another area).

When examining changes in expenditure from year to year, remember that these numbers have been adjusted for inflation, which means the impacts of cost increases in the broader economy have been removed.

Expenditure per person (2019–20 dollars)

The chart in this section of the fact sheet shows expenditure per person.

Looking at expenditure per person allows you to see changes in expenditure that are not attributable to population or property growth. Growth in the population is likely to increase a council's expenditure as the council will need to increase the amount of infrastructure or services it provides.

While employee costs per person and materials and services per person may provide some indication of a council's efficiency, these measures do not take into account the quality of services provided. Be careful when making comparisons between councils because the range and level of services they provide is likely to vary according to the needs and preferences of their different communities.

Data sources: Australian Bureau of Statistics (September 2020) 'TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes' [time series spreadsheet], Consumer Price Index, Australia, accessed 20 January 2021; council annual reports; Australian Bureau of Statistics (2020) 'ERP by LGA (ASGS 2019), 2001 to 2019', Estimated Resident Population, accessed 20 January 2021.

Note: we have removed depreciation from operating expenditure.

Infrastructure

Has council's capital expenditure pattern changed?

This section of the fact sheet categorises a council's capital expenditure into the following types:

- Renewal — expenditure that addresses wear and tear to improve the condition of an asset beyond regular maintenance and repair
- Upgrade — expenditure that enhances an existing asset to provide an improved level of service
- Expansion — expenditure that expands the capacity of an existing asset to service more people
- New — expenditure that creates an asset to provide a service or output that does not currently exist

Examining the types of council's capital expenditure over time may help you to see any shift in a council's approach to asset management more clearly.

In a rate capped environment, councils with restricted capital works budgets may focus on upgrading or expanding existing assets instead of constructing new assets, or they may defer capital works or downgrade assets (such as downgrading roads from sealed to unsealed). Remember that each council will have different priorities guided by the needs and preferences of their municipalities.

Data sources: Australian Bureau of Statistics (September 2020) 'TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes' [time series spreadsheet], Consumer Price Index, Australia, accessed 20 January 2021; council annual reports.

Note: expenditure to acquire intangible assets is a fifth category that some councils may use to categorise capital expenditure. This may relate to acquiring goodwill, intellectual property or IT software. Some councils also deduct works in progress from capital expenditure. Capital expenditure on intangible assets and works in progress have been excluded from the breakdown of council capital expenditure, hence total capital expenditure in this section may differ from the capital expenditure reported in the expenditure section.

Is council renewing its assets (such as roads, parks and buildings)?

This section of the fact sheet further examines the council's asset renewal and asset upgrade expenditure (see definitions above).

The table shows the council's asset renewal and upgrade expenditure as a percentage of depreciation (the decrease in the value of a council's assets due to age and use). This measure is included in the Local Government Performance Reporting Framework. More information on the framework can be found at www.knowyourcouncil.vic.gov.au.

Asset renewal and upgrade expenditure equal to 100 per cent of depreciation indicates a council is fully offsetting the annual decline in its assets. There may be good reasons why the percentage is lower or higher in any given year. For example, renewal expenditure typically occurs in peaks and troughs, with councils undertaking renewal periodically according to an asset management plan rather than attempting to offset depreciation annually. However, a sustained gap between expenditure and depreciation can lead to a backlog of renewal expenditure required and increase costs in the long term.

Councils with growing populations (typically interface councils) tend to have lower levels of asset renewal and upgrade expenditure as a percentage of depreciation as they focus their capital works on new assets and expansion projects to service their growing communities. The assets of these councils are relatively new and there is less need for renewal or upgrade in the short term.

Data sources: Australian Bureau of Statistics (September 2020) 'TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes' [time series spreadsheet], Consumer Price Index, Australia, accessed 20 January 2021**;** council annual reports; council adopted budgets.

Services

Which service areas is council spending its money in?

This section presents expenditure data for different service areas (classified as functions by the Victorian Local Government Grants Commission (VLGGC)). These are broadly defined and may cover several services (for example, 'governance' covers council operations, public safety, general and administrative operations and disaster relief, among other things). Definitions can be found on the VLGGC website (https://www.localgovernment.vic.gov.au/funding-programs/victoria-grants-commission). This data includes recurrent operating expenses (including depreciation) but excludes non-recurrent operating expenses and capital expenses.

Be careful when making comparisons between councils. Councils are unique in the range of services they provide and take different approaches to allocating their wide range of services between the ten categories. Readers should refer to council annual reports and budgets for more detail on council services.

The data presented shows both the dollar amount (in millions) spent in the municipality and the proportion of total expenditure spent on each function. Remember that the amount and percentage of expenditure allocated to a service area compared to other areas does not necessarily reflect the importance of the service area to the council or the community — some services are cheaper to provide than others. Changes in the amount of expenditure and changes in the percentage of expenditure should be interpreted with caution as they may be caused by a number of different things, including changes in:

- the level of service provided
- the quality of the service provided
- the community's service preferences
- the way the council has categorised expenses
- the cost to the council of providing different services (including changes in efficiency)
- the population of the municipality
- the availability or provision of the service elsewhere in the community (for example, by another level of government or private operators).

Data sources: Australian Bureau of Statistics (ABS) (September 2020) 'TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes' [time series spreadsheet], Consumer Price Index, Australia, accessed 20 January 2021; ABS (2020) 'ERP by LGA (ASGS 2019), 2001 to 2019', Estimated Resident Population, accessed 20 January 2021; Victorian Local Government Grants Commission – VGC1 data 2014–15 to 2019–20 (unaudited data).

Which service areas have experienced the biggest changes in spending?

This section of the fact sheet examines the average annual increase or decrease in spending over the four years, and reports the five biggest percentage increases or decreases. This is based on the same data as the previous section and the same cautions apply in interpreting the data.

Note: we have excluded 'other' and categories that represented less than five per cent of a council's service expenditure. Where there are only four or fewer categories that represent at least five per cent of service expenditure, changes in only those categories will be shown.

Has there been a change in service quality and community satisfaction?

This section of the fact sheet presents three service quality and community satisfaction indicators that are reported by all councils and are included in the Local Government Performance Reporting Framework. For more information about the framework and other service indicators, see knowyourcouncil.vic.gov.au.

Data source: Local Government Performance Reporting Framework (www.knowyourcouncil.vic.gov.au).

Financial position

Is council operating sustainably?

This section of the fact sheet reports three financial indicators from the Local Government Performance Reporting Framework. More information on the framework can be found at knowyourcouncil.vic.gov.au.

Together with the asset renewal indicator shown on the infrastructure page, these indicators can provide an indication of council's financial position and level of financial sustainability.

Adjusted underlying result

The adjusted underlying result shows the operating position of a council, expressed as a percentage of adjusted underlying revenue. A council's operating position is its surplus or deficit after non-recurrent revenues (such as one-off capital grants and non-monetary contributions from developers) have been removed. If the result is positive (above zero), the council's ongoing revenue is sufficient to fund its current activities. Repeated adjusted underlying deficits (percentages below zero) may not be sustainable and a council in this position may be reliant on continued receipt of one-off grants to meet its community's service needs and expectations.

We have used the council's average adjusted underlying result between 2016–17 and 2019–20 as a guide to whether the council has enough ongoing revenue to keep providing its current range and level of services. Councils that have a negative average result over this four-year period may need to either increase their revenue (from grants, rates or other sources) or reduce their expenditure (for example by improving their efficiency) to keep providing their current range and level of services.

Councils' adjusted underlying results may be overstated in 2016–17 as councils received all of their 2016–17 Commonwealth grant allocation in this year, as well as some of their 2017–18 allocations. Councils are required to report this grant funding as revenue in the year it is received even if it is the allocation for the following year. From 2016–17, some of their allocations have been paid in advance every year, which has generally evened out fluctuations in revenue (and therefore adjusted underlying results).

Many councils' adjusted underlying results for 2019-20 (and forecast years) have been adversely impacted by decreases in revenue and increases in expenses related to the coronavirus pandemic.

Working capital

Working capital provides an indication of whether a council has enough cash readily available to pay all of its bills on time. It is defined as current assets (cash savings and assets that can be sold, for example vehicles) as a percentage of current liabilities (debts payable within 12 months). If a council's working capital is less than 100 per cent, it may not be able to meet its short-term liabilities as they fall due.

The more money a council has in the bank, the higher its working capital percentage will tend to be. Sudden increases in working capital may be due to things like an injection of cash from a developer (contributions) or the receipt of a grant. The main reason for a sharp drop in working capital is the withdrawal of cash to fund capital works or repay a loan.

Councils that do not borrow money to fund capital works must build up sufficient cash to fund major capital works. This is reflected in a gradual increase in their working capital, followed by a sharp decline.

The Victorian Auditor–General's Office considers a council's financial sustainability to be low risk if working capital is above 100 per cent, medium risk if it is between 75 and 100 per cent, and high risk if it is below 75 per cent.

Financial position (continued)

Is council operating sustainably?

Indebtedness

Indebtedness gives an indication of the level of council's long-term liabilities (mainly debt) relative to its size and ability to repay those liabilities. It is measured as a council's non-current liabilities (including bank loans and future long service leave and landfill restoration obligations) as a percentage of its own source revenue (which is revenue within the council's control like rates and charges and user fees).

The higher a council's indebtedness becomes, the more of their revenue they will need to meet their long-term obligations (such as making loan repayments). Councils with low levels of indebtedness will be able to spend more of the money they generate on providing services for the community. However, this ability to fund services in the short term must be balanced against the need to meet its community's longer-term needs, particularly infrastructure, which the council may need to finance through borrowings. Each council's approach to borrowing and debt will depend on their unique circumstances.

There are often links between a council's capital works program, indebtedness and working capital, which reflect the councils' approach to debt and the funding of its capital works. Councils with low levels of debt but high working capital may be planning to increase their spending on capital (funded by cash reserves) in upcoming years. Similarly, councils with high levels of debt may have recently increased their capital spending (funded by a loan).

The Victorian Auditor–General's Office considers a council's financial sustainability to be low risk if indebtedness is below 40 per cent, medium risk if it is between 40 and 60 per cent, and high risk if it is above 60 per cent.

Data sources: Local Government Performance Reporting Framework (knowyourcouncil.vic.gov.au), council annual reports.

Note: the text beside each chart includes the four-year average for each indicator. As year-on-year movements in these indicators are common, the four-year averages may provide a better indication of council's financial position than looking at the results in any single year. The commentary in this section may contain explanations for changes in these indicators from year to year. This commentary has been informed by statements provided by councils in the Local Government Performance Reporting Framework and council annual reports.

A note on changes in accounting standards

Year-on-year movements in these three financial indicators may be due to changes in accounting standards. Accounting standards set out how councils report the financial information that these financial indicators are based on. Changes in accounting standards may impact what councils can recognise as revenue or expenditure and as assets or liabilities. They can also result in changes to the classification of assets and liabilities as short-term or long-term. Several changes to accounting standards were introduced in 2019–20, which some councils have cited as the reason for significant changes in their indicators in this year.