

Reader's guide to council fact sheets

What is the purpose of this reader's guide?

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

From page 2, this guide follows the same layout as the fact sheets. Look for the matching heading to find the relevant guidance.

There are fact sheets for each council, plus one for each of the five groups of similar councils. The five council groups are: metropolitan, interface (urban 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 do we publish fact sheets?

These fact sheets are 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.

Things to consider when reading the fact sheets

- The fact sheets provide information in key areas, focusing on the years from 2018–19 to 2021–22.
- Changes from year to year could reflect many things including the impact of rate capping, coronavirus or changes in grant funding, demographics, community preferences, or natural disasters (like floods and bushfires).
- We use numbers adjusted for inflation (increases in the cost of goods and services for the broader economy). The numbers are expressed in 'real terms'. It means the dollar amounts increase from year to year only if the increases are more than the inflation rate. Adjusting for inflation means we can compare data over time. The dollar amounts are shown in 2021–22 dollars.
- Be careful comparing data from different sections of the fact sheets because it may come from different sources. Except for some rates data, we use data from existing sources to minimise the reporting burden on councils. Councils check the accuracy of the data against the original sources. But not all data has been audited, so it may contain some errors.

Where you can 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.localgovernment.vic.gov.au/strengthening-councils/performance-reporting).

'Key facts' box

This box gives contextual information about each council. These variables can affect the amount of services the council must provide and the cost of providing them.

Once the Minister for Local Government sets the rate cap (in December each year), councils can apply to the Essential Services Commission 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 2021–22. 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 (2021) [Regional population](#), ABS Website, accessed 17 January 2023; Australian Bureau of Statistics (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; Victorian Local Government Grants Commission – VGC 3 data 2015–16 to 2021–22 (unaudited data); Employee numbers are the forecast actuals from councils' 2022–23 adopted budgets as this is the most consistent source of employee numbers.

Rates

What happened to average rates and charges?

This section 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 are 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 shows if a decrease in one area is offset by an increase in the other. You may notice a large increase in service charges in 2018–19. 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 rate capping limits the percentage increase in the *average* capped rate. It does not apply to the dollar amount of annual increases, or the percentage increase in individual ratepayers' capped rates and charges. These calculations exclude other rates and charges revenue (including special rates and charges, revenue in lieu of rates, and interest on unpaid rates and charges). They also exclude supplementary rates and charges levied since the start of the financial year which are uncapped.

The table also indicates the council's applicable rate cap. This is either the minister's rate cap or an approved higher cap. The applicable rate cap is the maximum councils can increase their average capped rates. They can apply a lower increase.

Data sources: Australian Bureau of Statistics (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; Council annual reports (audited); Victorian Local Government Grants Commission – VGC 2 data 2014–15 to 2021–22 (unaudited data).

Rates (continued)

Did council's average rates comply 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 approved higher cap). Nearly all councils 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 did rates change for different ratepayers?

Council's rating strategy 2022–23

A council's rating strategy will outline its 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 tailors rates and charges to community needs and considers issues such as equity and capacity to pay.

More detailed information is available in your council's adopted budget.

Distribution of rates increases and decreases

The rate cap applies to only 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 its rating strategy).

All properties are revalued every year for local government rating purposes. This revaluation changes the relative value of properties causing significant differences in rate increases between properties.

This information shows the proportion of ratepayers whose capped rates increased above and below the applicable cap (either the minister's cap or an approved higher cap), and the proportion whose capped rates decreased.

Ratepayers by property class

This section examines the proportion of ratepayers, the total rates and charges revenue (both capped and uncapped) in 2021–22 and the average annual percentage change in average rates and charges between 2017–18 and 2021–22 for different classes of property.

The causes of variation in rate increases between individual ratepayers (outlined above) also explain much 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 (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; Essential Services Commission survey of councils (unaudited data); Victorian Local Government Grants Commission – VGC 2 data 2014–15 to 2021–22 (unaudited data).

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

Revenue

Where did council's money come from?

This section 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 — 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) from developers or landowners towards 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). Remember the percentage contribution can increase without the dollar amounts from that source increasing. (It may be caused by a decrease in the amount coming from other sources).

When examining changes in revenue from year to year, remember these numbers are adjusted for inflation, which removes the impacts of cost increases in the broader economy.

Revenue decreased for many councils due to coronavirus and related restrictions (particularly from user fees and statutory fees and fines linked to councils the closing leisure centres and waiving certain fees).

Year-on-year fluctuations in grant funding may reflect the advance payment of some Commonwealth financial assistance grant funding in each year. Councils report grant revenue in the year it is received even if it is allocated for the following year.

Revenue per person (2021–22 dollars)

Revenue per person highlights 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. Generally, growth in population is also 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 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 the growth in rates and charges per person may be higher than the cap.

This section uses two charts with different scales to better show the year-on-year fluctuations in smaller revenue sources. Note of the scales if comparing the different sources.

Data sources: Australian Bureau of Statistics (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; Australian Bureau of Statistics (2021) [Regional population](#), ABS Website, accessed 17 January 2023; council annual reports.

Expenditure

How much money did council spend?

This section examines council's expenditure, which can be 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) indicates a council's focus and priorities. The balance between operating and capital expenditure will vary between councils, reflecting the different nature of their assets and the needs and preferences of their communities. 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 longer-term capital projects. The 'Infrastructure' section provides more information about how council manages its assets and infrastructure.

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

When examining changes in expenditure from year to year, remember these numbers are adjusted for inflation, which removes the impacts of cost increases in the broader economy.

Expenditure per person (2021–22 dollars)

Looking at expenditure per person highlights changes in expenditure that are not attributable to population or property growth. Growth in the population is likely to increase expenditure as the council spends more on infrastructure or services.

While employee costs per person and materials and services per person may indicate a council's efficiency, these measures do not account for the service quality provided. Be careful comparing between councils because the range and level of services they provide is likely to vary according to the needs and preferences of their communities.

Data sources: Australian Bureau of Statistics (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; Australian Bureau of Statistics (2021) [Regional population](#), ABS Website, accessed 17 January 2023; council annual reports.

Note: we have removed depreciation from operating expenditure.

Infrastructure

Did council's capital expenditure pattern change?

This section 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 improve the 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 capital expenditure over time may highlight shifts in a council's approach to asset management.

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 each council will have different priorities guided by the needs and preferences of their communities.

Data sources: Australian Bureau of Statistics (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; council annual reports.

Note: some councils include expenditure to acquire intangible assets as a fifth category. This expenditure 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 are excluded from council capital expenditure, so total capital expenditure in this section may differ from the capital expenditure reported in the expenditure section.

Did council renew assets (such as roads, parks and buildings)?

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 fully offsets the annual decline in its assets. The percentage may be lower or higher in any given year for several reasons. For example, renewal expenditure typically occurs in peaks and troughs, with councils renewing assets in line with an asset management plan rather than to offset depreciation each year. 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. Often, they focus on new assets and expansion projects to service their growing communities. Their assets are relatively new and there is less need for renewal or upgrade in the short term.

Data sources: Australian Bureau of Statistics (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; council annual reports; Local Government Performance Reporting Framework (www.localgovernment.vic.gov.au/strengthening-councils/performance-reporting).

Services

Which service areas did council spend its money on?

This section presents expenditure data for different service areas (classified as functions by the Victorian Local Government Grants Commission (VLGGC)). These categories 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 comparing between councils. Each provides a unique range of services and allocates their services between the ten categories differently. See your council's annual reports and budgets for more detail on services.

The data shows both the dollar amount (in millions) spent and the proportion of total expenditure spent on each function. Remember the amount and percentage of expenditure allocated to a service area compared with 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.

Interpret changes in the amount of expenditure and in the percentage carefully because they may be caused by several things, including changes in:

- service levels
- service quality
- community preferences
- how council categorises expenses
- the cost to the council of providing different services (including changes in efficiency)
- population
- the availability or provision of the service elsewhere (for example, by another level of government or private operators).

Data sources: Australian Bureau of Statistics (Dec-quarter-2022), [Consumer Price Index](#), Australia, ABS Website, accessed 17 January 2023; Australian Bureau of Statistics (2021) [Regional population](#), ABS Website, accessed 17 January 2023; Victorian Local Government Grants Commission – VGC1 data 2014–15 to 2021–22 (unaudited data).

Which areas experienced the biggest changes from 2018–19 to 2021–22?

This section 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 excluded 'other' and categories that represented less than 5 per cent of a council's service expenditure. Where four or fewer categories represent at least 5 per cent of service expenditure, we show changes in only those categories.

Did service quality or community satisfaction change?

This section presents three service quality and community satisfaction indicators that all councils reported 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.localgovernment.vic.gov.au/strengthening-councils/performance-reporting).

Financial position

Did council operate sustainably?

This section 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 measures can indicate 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 removing non-recurrent revenues (such as one-off capital grants and non-monetary contributions from developers). If the result is positive (above zero), the council's ongoing revenue can fund its current activities. Repeated adjusted underlying deficits (percentages below zero) may not be sustainable and a council in this position may be relying on continued receipt of one-off grants to meet service needs and expectations.

We use the council's average adjusted underlying result between 2018-19 and 2021-22 as a guide to whether the council has enough ongoing revenue to keep providing its current range and level of services. Councils with 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 some years because of the timing of Commonwealth grant 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.

Many councils' adjusted underlying results for 2019-20 and 2020-21 were adversely impacted by lower revenue and higher expenses related to the coronavirus pandemic.

Working capital

Working capital indicates whether a council has enough cash readily available to pay all 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 tends to be. Sudden increases in working capital may be due to things developer contributions or grant payments. Sharp drops in working capital often reflect cash withdrawals to fund capital works or repay a loan.

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

Financial position (continued)

Is council operating sustainably?

Indebtedness

Indebtedness indicates 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, the more of its revenue it needs to meet long-term obligations (such as making loan repayments). Councils with low levels of indebtedness can spend more of the money they generate on providing services for the community. However, councils must balance ability to fund services in the short term against the need to meet 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 its unique circumstances.

A council's capital works program, indebtedness and working capital are often linked, which reflect its approach to debt and funding 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).

Data sources: Local Government Performance Reporting Framework (www.localgovernment.vic.gov.au/strengthening-councils/performance-reporting), council annual reports.

Note: the text beside each chart includes the four-year average for each indicator. Because year-on-year movements in these indicators are common, the four-year averages may better indicate council's financial position than single year results.

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 classify assets and liabilities as short-term or long-term. Several changes to accounting standards were introduced in 2019–20, which some councils cited as the reason for significant changes in their indicators in that year.