# 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 the outcomes of rate capping across the local government sector. The guide lists the data sources and contains definitions and other guidance that can help you interpret the information in the fact sheets.

> This reader’s guide is laid out in a similar way to the fact sheets from page 2. 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 showing the average for each group 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/outcomes-reports](https://www.esc.vic.gov.au/outcomes-reports).

### Why are we reporting on the outcomes of rate capping?

We published these fact sheets to inform communities, councils and the Victorian Government about councils’ services, infrastructure and financial outcomes following the introduction of rate capping in 2016–17. Rate capping is a system that sets the maximum percentage a council can increase its average general rates and municipal charges in a financial year.

## What should you remember when reading the fact sheets?

The fact sheets provide information in key areas, focusing in particular on any changes between the two years immediately before rate capping (2014–15 and 2015–16) and the two years after the introduction of rate capping (2016–17 and 2017–18). When reviewing any changes, remember that these could reflect things other than rate capping, such as changes in grant funding, demographics, community preferences, or natural disasters (like floods and fires). The numbers we've used in this report have not been adjusted for inflation. When you're using these fact sheets, make sure you consider how current inflation rates might affect the cost of goods and services.

Be careful comparing data from different sections of the fact sheets because the data may have come from different sources. With the exception of 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](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 information in the 'key facts' box of the fact sheet 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 or not the council applied for a higher cap in either 2016–17 or 2017–18. Information about higher cap applications can be found at www.esc.vic.gov.au/local-government/council-rate-caps.

**Data sources:** Australian Bureau of Statistics 2018, Regional Population Growth, Australia 2016-17 - Revised, cat. no. 3218.0, ABS, Canberra; Victoria Grants Commission; council adopted budgets.

# 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 to offset some of a council's administrative costs. Not all councils apply a municipal charge.
- Other rates and charges (uncapped rates) — any other rates and charges outside of the capped rates (general rates and municipal charges). Uncapped rates revenue may include service rates and charges (like waste charges), special rates and charges, revenue in lieu of rates, interest on unpaid rates and charges, and supplementary rates and charges levied since the start of the financial year.

The bar chart compares the annual dollar increases in average capped rates and charges against the annual dollar increases in average uncapped rates and charges. The averages have been determined by dividing the total amount of capped or uncapped rates revenue by the number of property assessments. Examining both the capped and uncapped parts of your rates notices helps you determine if the impact of a decrease in one area has been offset by an increase in the other.

The table shows average rates and charges, which includes both capped and uncapped rates and 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' uncapped rates and charges.

The table also indicates the council's applicable rate cap for 2016–17 and 2017–18. This will either be the rate set by the Minister for Local Government, or a higher cap approved by the Essential Services Commission. The table also notes if a council has applied for a higher cap, but has been unsuccessful.

**Data sources:** Council Annual Reports (audited), Victoria Grants Commission (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 www.esc.vic.gov.au/local-government/council-compliance-reports.

## How have rates changed for individual ratepayers?

### Distribution of rates increases and decreases in revaluation years

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 higher or lower 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 what is called the 'differential rate' — the rate in the dollar that applies to different property classes).

From 2018–19, all councils must revalue all properties within their municipality every year (instead of every two years). Each time properties are revalued, the relative value of properties usually changes causing significant differences in rate increases between properties.

This information shows (for the two most recent revaluation years) 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

The line chart in this section of the fact sheet examines the percentage change in average rates and charges (both capped and uncapped) for different classes of property over the first two years of rate capping (from 2015–16 to 2017–18).

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

The pie chart in this section of the fact sheet shows the proportion of rates and charges revenue collected from each property class in 2017–18. Changes in this chart over time may reveal whether the rates burden has shifted between property classes in a rate capped environment.

**Data source:** Victoria Grants Commission (unaudited data). 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).
- Non-rates revenue sources:
  - Grants — includes recurrent and non-recurrent grants from both state and federal governments for operating and capital purposes.
  - 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.
  - 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 compares the council's average revenue in the two years before and in the two years after rate capping was introduced. It 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). We have used the two-year averages to partially smooth the effect of changes in the timing of grants payments. 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).

### Revenue growth, by source

The chart in this section of the fact sheet shows total revenue and its composition over time.

It shows how growth in the council's rates and charges revenue has changed after the introduction of rate capping in 2016–17. When looking at the growth in rates and charges revenue, remember that not all rates and charges are capped, and that where the cap does apply, it applies only to the average rate. This means that growth in capped rates revenue may be higher than the cap because of increases in property numbers or increases in uncapped rates and charges.

The chart may also show whether growth in the council's non-rates sources of revenue has changed.

Any increase in user and statutory fees and fines from 2016–17 may be partially explained by an increase in statutory planning fees by the Department of Environment Land Water and Planning from mid-October 2016.

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 of the commonwealth financial assistance grant in some years. Councils are required to report grant revenue in the year it is received even if it is allocated for the following year. As a result, grants revenue may be overstated in 2014–15 and 2016–17 but understated in 2015–16.

**Data sources:** 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).

Changes in expenditure per head of population could reflect either changes in population or changes in expenditure (which, in turn may reflect increases or reductions in the need for some services). Operating expenses per head of population may provide some indication of a council's efficiency, although it does 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.

In general, operating expenditure relates to the day to day operations of the council while capital expenditure has a more long-term focus. Observing changes in the balance (or ratio) between a council's capital and operating expenditures 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'.

**Data sources:** council annual reports; Australian Bureau of Statistics 2018, Regional Population Growth, Australia 2016-17 - Revised, cat. no. 3218.0, ABS, Canberra. Note that we have removed depreciation from operating costs.

## How is council spending its money?

The pie charts in this section of the fact sheet compare the average make up of councils' expenditure in the two years before the introduction of rate capping, with the two years following (see the section 'how much money is council spending' for an explanation of the categories).

When looking at these pie charts, 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).

**Data sources:** council annual reports.

# Infrastructure

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

This section of the fact sheet examines the council's asset renewal expenditure (that is, spending to address wear and tear to improve the condition of an asset beyond regular maintenance and repair). Expenditure to improve an asset above its original standard is not included here (see 'expansion' and 'upgrade' expenditure in the next section).

The table shows the council's asset renewal 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, which sets a target band of between 90 per cent and 110 per cent. More information on the framework can be found at www.knowyourcouncil.vic.gov.au.

Asset renewal 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 as a percentage of depreciation as they focus their capital works on new assets, upgrade and expansion projects to service their growing communities. The assets of these councils are relatively new and there is less need for renewal in the short term.

**Data sources:** council annual reports; council adopted budgets.

## Has council's capital expenditure pattern changed?

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

- Renewal — (see the previous section)
- New — expenditure that creates an asset to provide a service or output that does not currently exist
- 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

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:** 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. Capital expenditure on intangible assets has been excluded from the breakdown of council capital expenditure.

# Services

## Which service areas is council spending its money in?

This section of the fact sheet presents expenditure data for different service areas (classified as functions by the Victoria Grants Commission (VGC)). Some of these functions are broadly defined and may cover a number of services (for example governance which covers council operations, public safety, general and administrative operations and disaster relief among other things). Service function definitions can be found on the VGC website. This data includes operating expenses (including depreciation) but excludes capital expenses.

Be careful when making comparisons between councils. Councils are unique in the range of services they provide and may 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 spent per person in the municipality and the proportion of expenditure on each function, averaged for the two years before the introduction of rate capping and the two years following. Taking the average over two years helps to smooth the effects of changes in the timing of grants.

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 per person 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 particular 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:** Victoria Grants Commission (unaudited data); Australian Bureau of Statistics 2018, Regional Population Growth, Australia 2016-17 - Revised, cat. no. 3218.0, ABS, Canberra.

## Which service areas have experienced the biggest changes in spending?

This section of the fact sheet reports the five biggest percentage increases or decreases in the amount spent in an area between the two years before the introduction of rate capping and the two years after. 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 operating expenditure (two year average) both before and after the introduction of rate capping.

## Has there been a change in service quality? (selected services only)

This section of the fact sheet presents three service quality 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 included in 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 financial 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, that 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 0), 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 2014–15 and 2017–18 as a guide to whether the council has enough ongoing revenue to continue to provide 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 continue to provide their current range and level of services.

Some of the fluctuation in the adjusted underlying result is due to the councils' advance receipt of some of their annual Commonwealth grant allocations in some years. Councils are required to report grant revenue in the year it is received even if it is the allocation for the following year. Due to this issue with the timing of grants, councils' revenue (and adjusted underlying result) may be overstated in 2014–15 and 2016–17, but understated in 2015–16.

## 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).

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, followed by a sharp decline in their working capital.

The Local Government Performance Reporting Framework includes a target band of between 120 per cent and 200 per cent. This amount of working capital would enable councils to pay off their debts and have funds remaining to deal with any unexpected expenses.

## 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 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 Local Government Performance Reporting Framework includes a target band for indebtedness of between 10 and 40 per cent.

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