



Government
Services

2023-24 Council Budgets Summary

Local Government Victoria

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2023-24 Council Budgets

Background

The *Local Government Act 2020* (the Act) requires all Victorian councils to prepare and adopt a budget for each financial year and the subsequent 3 financial years by 30 June.¹ For the 2023-24 budget year, all Victorian councils adopted their budget by 30 June 2023 in compliance with the legislation, noting that several councils struggled to meet the deadline for unexplained reasons.

Local Government Victoria (LGV) within the Department of Government Services (DGS) reviews and analyses all council budgets to understand the planned financial performance and position of the local government sector.

State of sector finances 2023-24

Overall council finances remain sound. A large majority of councils are budgeting for operating surpluses, most have substantial cash and investments and debt levels remain low. 70 of 79 councils adopted a 3.5 per cent rate rise in line with the rate cap and all councils now have separate rates or charges for kerbside waste collection. Capital expenditure levels are consistent with the previous budget year.

Operating results

To remain financially sustainable councils should aim for small operating surpluses on average over multiple years. This is because continued operating deficits consume and reduce council financial resources over time, resulting in an unsustainable financial position. 71 of 79 Victorian councils are budgeting for an accounting operating surplus in 2023-24, while the remaining 8 councils are budgeting for an accounting operating deficit.

Rate rises

The rate cap for 2023-24 was set at 3.50 per cent in December 2022, as required by the *Local Government Act 1989*.

Based on 2023-24 adopted budgets 70 of 79 Victorian councils have adopted a 3.50 per cent rate rise in line with the rate cap. The remaining nine councils have adopted a rate rise below 3.5 per cent, with one of these councils (Ararat Rural City) adopting a zero per cent rate rise. For comparative purposes, the 2022-23 rate cap was set at 1.75 per cent and 75 of 79 councils adopted a rate rise in line with the cap.

¹ Section 94(1), *Local Government Act 2020*

No councils applied to the ESC for a higher cap for 2023-24 and no councils have applied for a higher cap since the 2019-20 budget year. Of the 17 higher cap applications the ESC have assessed since 2016-17, 13 applications have been approved in full or in part.

Analysis of this and previous budget years is revealing that most councils are now using the rate cap figure as the basis for their revenue forecasting – rather than their actual determined revenue requirements for their own operational and capital expenditure. This practice shows that the sector’s financial planning remains unsophisticated, especially as council budgets are highly predictable due to their large fixed asset bases with known future costs of maintenance and depreciation.

Waste charges

The *Local Government Act 1989* allows councils to declare service rates or charges for waste, recycling or resource recovery services.² Since the introduction of rate capping most Victorian councils have levied separate service charges for waste from their general rates. The rate cap applies only to general rates and municipal charges, not to service rates or charges. For 2023-24 three councils (Hume, Whitehorse and Yarra City) introduced waste charges for all ratepayers, meaning that all 79 councils now levy separately for kerbside waste collection.

The use of separate waste charges allows councils to employ a cost recovery approach to their waste services. This has become more important in recent years as the costs associated with the collection, management and disposal of waste have increased well beyond the rate of inflation. Total service rates and charges (almost entirely kerbside waste charges) are budgeted at over \$1.2 billion in 2023-24.

An emerging trend across the sector is the levying of ‘public’ waste charges on properties for services unrelated to kerbside waste collection. Such service charges are ostensibly being used to fund general public services such as street cleaning, graffiti removal, drain cleaning, public bins and environmental education. This practice – while technically permissible – is an inappropriate use of service charges and is being done intentionally to circumvent the State Government’s rate cap. A few councils have opted to levy service *rates* for kerbside waste collection. While permissible, the use of a property’s value to determine the amount levied on each property for kerbside waste collection is unorthodox, as well as being difficult to justify to ratepayers as properties will be levied very different amounts for the identical service.

² Section 162, *Local Government Act 1989*

Capital expenditure

Collectively, Victorian councils are planning to spend \$4.15 billion on capital works in 2023-24, an amount unchanged from 2022-23, though the aggregate numbers mask variability at individual council level. It is also important to note that underspend on capital works remains significant. The Victorian Auditor General identified underspend on capital works of 28.9 per cent for 2021-22, equating to \$1.24 billion. The impacts of COVID-19 exacerbated this underspend however the trend preceded the pandemic.

Cash and investments

Collectively, Victorian councils are budgeting to hold cash and investments worth \$5.99 billion as at 30 June 2024 (increased from \$5.28 billion as at 30 June 2023). The budgeted cash and investments position largely reflects the accumulation of rates and charges, user fees and bank interest. This is slightly offset by the decision of the Commonwealth Government to bring forward payment of 100 per cent of the 2023-24 estimated financial assistance grant allocations into the 2022-23 financial year. In the previous year only 75 per cent of the allocations were brought forward and paid in advance. The impact of this is that council budgets reflect the estimated financial assistance grants in the 2022-23 forecast actual figures rather than in the 2023-24 budget year. However the estimated collective impact of the brought forward payment is approximately \$235 million – only a small percentage of the \$5.99 billion total.

Debt

Victorian councils are planning to hold borrowings of \$1.70 billion at 30 June 2024 (\$1.74 billion as at 30 June 2023). The *Local Government (Planning and Reporting) Regulations 2020* also require councils to disclose their planned new borrowings for the budget year. The 38 councils who plan new borrowings in 2023-24 collectively budgeted new borrowings of \$583.9 million. Budgeted new borrowings in 2022-23 totalled \$735.3 million.

Since 2021 Victorian councils have had access to borrowings from the Treasury Corporation of Victoria (TCV). As at 30 June 2023 around one quarter of councils had loan facilities under the TCV loans framework.

Overall debt levels remain very low, especially in the context of balance sheets that are dominated by fixed assets such as roads, footpaths, drains and buildings. Local governments are far more capital intensive than the federal or state governments yet remain conservatively geared.

Community engagement

Councils must adopt and maintain a community engagement policy, which must be capable of being applied in relation to the Council's budget and policy

development.³ The Act also requires a council's community engagement policy to give effect to the community engagement principles.⁴

The principles-based nature of the *Local Government Act 2020* represents a departure from the prescriptive public notice and submission requirements specified previously in the *Local Government Act 1989*. Under the previous settings councils were required to prepare a draft budget, advertise it for 28 days, and invite submissions from the local community.

For 2023-24 most councils (75 of 79) still prepared a draft budget (which is no longer required by legislation) before seeking formal adoption of the budget by council.

Of the 75 councils who prepared a draft budget, 16 invited community submissions for 28 days (the previous legislative timeline specified in the *Local Government Act 1989*). A further 49 councils invited submissions for a period of time less than 28 days, while 10 councils invited submissions for longer than 28 days.

Four councils (Bendigo, Maroondah, Monash and Mornington) did not issue a draft budget. These councils instead applied their community engagement policies to ensure community input into the budget development process, and then took their budget directly to council for adoption.

Early community engagement is a growing trend across the sector. Many councils undertook community engagement during late 2022 to inform the development of their 2023-24 draft budget. Some councils (for example Mitchell Shire Council) have initiated a year-round project input process to allow community members to contribute suggestions at any time of the year.

Previous budget analysis

Previous analysis of council budgets by LGV, along with aggregated budget data, is available at:

<https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting>.

³ Section 55(1) and 55(2)(d), *Local Government Act 2020*

⁴ Section 55(2)(b), *Local Government Act 2020*