



Victoria Grants Commission

Annual Report 2013-14

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Victoria Grants Commission

Annual Report

2013-14

September 2014

The Hon Tim Bull MLA
Minister for Local Government
1 Spring Street
MELBOURNE VIC 3000

Dear Minister

On behalf of the Victoria Grants Commission, we have pleasure in presenting the Annual Report of the Commission's operations for the year to 31 August 2014, in accordance with Section 17 of the *Victoria Grants Commission Act 1976*.

John Watson
Chairperson

Julie Eisenbise
Member

Michael Ulbrick
Member

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Foreword

The Victoria Grants Commission's Annual Report for 2013-14 provides a summary of the Commission's activities for the year.

The major focus for this period was the determination of general purpose grants and local roads grants for each Victorian council for 2014-15. This Annual Report details the methodology used to allocate these grants, while the appendices contain the data that was used in this process.

This year has been marked by the Commonwealth Government's decision, announced in its May Budget, to pause indexation on the national pool of financial assistance grants for three years to 2017-18.

This announcement was not anticipated and the Commission is concerned as to the potential longer-term impacts on the financial position of some Victorian councils. The Commission has calculated that, over the four-year outlook, grants to Victorian councils will be some \$200 million lower than would otherwise have been the case.

The Commonwealth's decision has provided a particularly challenging set of circumstances for the Commission in allocating the 2014-15 grants equitably in line with the national distribution principles.

In response, the Commission has adopted a relatively tight variable capping regime for both local roads grants and general purpose grants. These caps have been applied so as to reduce the financial impact of the Commonwealth's decision on those councils most heavily reliant on this funding, whilst ensuring the burden is spread as equitably as possible.

The Commission has continued to review its allocation methodology, and has made a minor adjustment to its assessment of user fees and charges in calculating standardised revenue to more accurately reflect the sector's ability to raise own-source revenue.

The Commission continued its consultation program with councils, conducting six well attended regional meetings and 17 individual council meetings across Victoria in 2013-14. The meetings provide the Commission with the opportunity to gain valuable insight to local issues affecting councils in Victoria. Through the submission process, five councils provided further feedback and suggestions to the Commission in submissions received in February 2014.

Finally, the Commission wishes to express its sincere appreciation for the work undertaken by its staff during the year.

**Victoria Grants Commission
September 2014**

1. The Commission

Role

The role of the Victoria Grants Commission is to determine the allocation of general revenue assistance (general purpose grants and local roads grants) provided by the Commonwealth Government to Victorian councils.

Legislation

The *Victoria Grants Commission Act 1976* is the State legislation that governs the operation of the Victoria Grants Commission. The Act establishes the Commission for the purpose of determining the allocation of financial assistance to councils, provides for the appointment and remuneration of Commission members and specifies the general operations of the Commission, including meetings of the Commission and the annual reporting requirements.

The *Local Government (Financial Assistance) Act 1995* is the Commonwealth legislation that sets out the basis for the allocation of general revenue assistance by each Local Government Grants Commission to its respective local governing bodies in each State and the Northern Territory.

This legislation also requires that a set of national principles be formulated in writing. The purpose of the principles is to guide the respective Local Government Grants Commissions in the allocation of funds to councils within their own jurisdiction.

The number of national principles currently stands at seven – six applying to the allocation of general purpose grants and one applying to the allocation of local roads grants. The national principles are detailed in Sections 4 and 5 of this report.

Membership

As required by the *Victoria Grants Commission Act 1976* the Commission is to comprise a Chairperson and two other Members appointed by the Governor in Council. At least two of the Members of the Commission are required to have had an association with local government.

Membership to the end of October 2013 comprised Ms Caroline Hogg and Mr Doug Thomas, both of whom retired from their positions on the Commission following the end of their terms.

Subsequently, the Commission welcomed two new Members in November 2013 in Ms Julie Eisenbise and Mr Michael Ulbrick. Both Julie and Michael bring with them a considerable amount of local government experience.

The present membership of the Commission is as follows:

		Initial Appointment	Current Term Expires
Chairperson	John Watson	1 November 2012	31 October 2015
Sessional Member	Julie Eisenbise	1 November 2013	31 October 2016
Sessional Member	Michael Ulbrick	1 November 2013	31 October 2016

Funding

All funds allocated by the Commonwealth are distributed to councils, with all of the Commission's operating costs being met by the Victorian Government. These costs include staff salaries, accommodation, members' sessional fees, travel and consultancies.

Staff

The Commission's staff is drawn from Local Government Victoria, which forms part of the Department of Transport, Planning and Local Infrastructure.

Staff members during 2013-14 were as follows:

Colin Morrison	Executive Officer
Nada Bagaric	
Eammon Oxford	

Acknowledgements

The Commission would like to extend its sincere gratitude to Mr Doug Thomas and Ms Caroline Hogg, both of whom retired from their positions as Members of the Victoria Grants Commission in October 2013.

For nearly ten years, Mr Thomas provided the Commission with an exceptional level of knowledge and analytical skill, as well as a strong understanding of the interplay between different tiers of government.

Over the same period, Ms Hogg provided the Commission with an invaluable level of understanding of the intricacies of the local government sector and an attention to detail that will be sorely missed.

Throughout their terms, Mr Thomas and Ms Hogg were responsible for overseeing significant improvements to the Commission's allocation methodology that saw over \$4.12 billion in funding provided to Victorian councils. The Commission would like to recognise their significant contribution to both the Commission and the improvement of local government in Victoria, and wish them all the very best for the future.

The Commission would like to acknowledge the continued and valuable contributions from Victorian councils particularly in response to information requests, including the annual data return, providing submissions and participating in Commission information sessions.

The Commission would also like to thank Local Government Victoria (Department of Transport, Planning and Local Infrastructure), the Commonwealth Department of Infrastructure and Regional Development, the Commonwealth Grants Commission, the Municipal Association of Victoria, the Australian Bureau of Statistics, the Office of the Valuer-General and our counterparts in other States and the Northern Territory for their assistance and guidance throughout the year.

**Commission
Meetings
2013-14**

The Commission and its staff meet on a monthly basis, and other times as required, throughout the year to deliberate. A summary of the meetings held during 2013-14 is as follows:

Meeting Date	Attendees
12 September 2013	Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>
18 October 2013	Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Mr Eammon Oxford <i>Apologies: Ms Nada Bagaric</i>
4 December 2013	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>
5 February 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>
19 March 2014	Mr John Watson (C), Ms Julie Eisenbise Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: Mr Michael Ulbrick</i>
16 April 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>
7 May 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>
16 May 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>
16 July 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>
13 August 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i>

(C) – denotes chair of meeting

2. Summary of 2013-14

This section provides a summary of the Victoria Grants Commission's key activities for 2013-14.

Commonwealth Indexation Pause

The 2014 Federal Budget was brought down on 13 May 2014 and announced that the Commonwealth Government would pause indexation on the national pool of financial assistance grants provided to local government for a period of three years to 2016-17.

Over this period, general purpose grant allocations between the States and Territories will continue to fluctuate in line with population changes. However, the level of local roads grants will effectively remain at 2014-15 levels.

The Commission has calculated that, over the four-year outlook, total grants to Victorian councils will be approximately \$200 million lower than would have otherwise been the case. When indexation is scheduled to resume it will be from a base that is some 12.5% lower than had the pause not been implemented.

The indexation pause has led to considerable challenges in allocating the 2014-15 grants equitably in line with the national distribution principles, and it is anticipated that this will be the case again for both 2015-16 and 2016-17.

The Commission is concerned that the pause on indexation of the national pool of financial assistance grants will cause considerable funding pressures for those councils with the greatest reliance on this funding.

As a result of the Commonwealth's decision, the Commission has adopted a relatively tight variable capping regime for grant movements from 2013-14 to 2014-15 for both local roads grants and general purpose grants. These capping arrangements have been designed to reduce the financial impact borne by those councils with the greatest reliance on this funding, whilst ensuring the burden of the lower-than-expected funding pool is borne as equitably as possible.

Estimated Grant Allocations for 2014-15

The Federal Budget also contained the estimated 2014-15 total entitlement to Victorian councils.

Consequently, on 23 May 2014, the Commission was able to provide all councils with an indicative estimate of their general purpose and local roads grants allocations for 2014-15, based on the Commonwealth Budget estimates.

Annual Data Return

A lodgement date of 1 November 2013 was set for the receipt of annual data returns from councils.

Many councils provided their returns well before the due date, assisting in expediting the data processing that is the first stage of the grant allocation process.

Consultation

All Victorian councils were invited to present written submissions to the Commission early in 2014. The views presented in these submissions provide valuable input on aspects of both the general purpose and local roads grant allocation methodologies, including the construction and application of the cost adjusters and cost modifiers used to reflect the local characteristics of individual councils. This, in turn, allows the Commission to consider modification of the methodologies to ensure that they continue to be relevant to the needs of councils.

Three regional information sessions were held in October 2013 to enhance councils' understanding of the Commission's role, allocation methodology and data requirements, and to provide an overview of the calculation of the 2013-14 grants.

A further four regional information sessions were held in August 2014 to provide an overview of the calculation of the 2014-15 grants, as well as additional information with respect to the Commonwealth pause on the indexation of financial assistance grants.

For more details about the Commission's consultation program for 2013-14 refer to Section 3 of this Annual Report.

General Purpose Grants

2013-14 Estimated Entitlement	\$390,966,790
2013-14 Underpayment	\$2,168,391
2013-14 Final Allocation	<u>\$393,135,181</u>
2014-15 Estimated Entitlement	\$393,729,711
\$ Change (compared to estimate)	\$2,762,921
\$ Change (compared to final)	\$594,530
% Change (compared to estimate)	0.7%
% Change (compared to final)	0.2%

Local Roads Grants

2013-14 Estimated Entitlement	\$144,213,770
2013-14 Underpayment	\$809,453
2013-14 Final Allocation	<u>\$145,023,223</u>
2014-15 Estimated Entitlement	\$145,021,962
\$ Change (compared to estimate)	\$808,192
\$ Change (compared to final)	-\$1,261
% Change (compared to estimate)	0.6%
% Change (compared to final)	0.0%

Total General Revenue Assistance

2013-14 Estimated Entitlement	\$535,180,560
2013-14 Underpayment	\$2,977,844
2013-14 Final Allocation	<u>\$538,158,404</u>
2014-15 Estimated Entitlement	\$538,751,673
\$ Change (compared to estimate)	\$3,571,113
\$ Change (compared to final)	\$593,269
% Change (compared to estimate)	0.7%
% Change (compared to final)	0.1%

2014-15 Cash Payment *

2014-15 Estimated Entitlement	\$538,751,673
2013-14 Underpayment	\$2,977,844
	<u>\$541,729,517</u>

* Includes natural disaster assistance grants.

The estimated allocation for Victorian councils for 2014-15 is \$538.752 million, comprising general purpose grants of \$393.730 million and local roads grants of \$145.022 million.

The Commonwealth Government also announced that an amount of \$2.978 million would be added to the cash payments to Victorian councils during 2014-15, as a result of an underestimation of the 2013-14 entitlements. This amount is the result of a routine adjustment made at the end of each financial year incorporating actual inflation and population growth figures.

In aggregate, the estimated entitlements for 2014-15 represent an increase in funding of:

- \$3.571 million (0.7%) over the estimated entitlements for 2013-14 (as announced in August 2013)
- or
- \$0.593 million (0.1%) when compared to the final allocation for 2013-14.

Further details pertaining to the allocation of general purpose grants and local roads grants are contained in Sections 4 and 5, respectively.

Forward Payments

The Federal Government announced in the May Budget that it would not bring forward any payments of 2014-15 financial assistance grants to the 2013-14 financial year.

This follows five years in which some payments were brought forward. The Commission notes that this may cause some short-term cash flow issues for some councils as they adjust to the revised payment schedule.

National Conference

The Victoria Grants Commission again noted with regret that there was no National Conference held in 2013-14.

The Commission believes that national meetings of Commission members to discuss and compare their allocation methodologies and processes are invaluable and contribute to the collective knowledge of all Commissions.

The Victoria Grants Commission continues to advocate for a national meeting to be resumed if even held in an abbreviated format.

3. Consultation

The Victoria Grants Commission undertakes consultation with councils and other interested parties. A number of forums are provided annually by the Commission for communication of its allocation methodology, thereby making opportunities available for councils to provide input into the grants determination process, as well as for the Commission to listen and respond to councils' issues and concerns. The Commission strongly encourages as many elected Councillors as possible to attend these meetings as a way of broadening their knowledge of the wider local government sector.

Individual Council Visits

The Commission holds a number of individual meetings with councils each year. The purpose of these meetings is to provide councils with a detailed overview of the Commission's role and methodology, and how the grant outcomes are determined. The meetings also enable the Commission to gain a greater understanding of the issues facing individual councils.

In 2013-14, the Commission visited a total of 17 councils on an individual basis.

Individual Council Meeting	Venue	Date
Bayside City Council*	Nunawading	19 September 2014
Boroondara City Council*	Nunawading	19 September 2014
Glen Eira City Council*	Nunawading	19 September 2014
Hobsons Bay City Council*	Nunawading	19 September 2014
Kingston City Council*	Nunawading	19 September 2014
Manningham City Council*	Nunawading	19 September 2014
Melbourne City Council*	Nunawading	19 September 2014
Moonee Valley City Council*	Nunawading	19 September 2014
Whitehorse City Council*	Nunawading	19 September 2014
Yarra City Council*	Nunawading	19 September 2014
Moorabool Shire Council	Ballan	6 March 2014
Macedon Ranges Shire Council	Gisborne	19 March 2014
Whittlesea City Council	South Morang	26 March 2014
Mornington Peninsula Shire Council	Rosebud	16 April 2014
East Gippsland Shire Council	Bairnsdale	4 June 2014
South Gippsland Shire Council	Leongatha	4 June 2014
Wellington Shire Council	Sale	5 June 2014

* Councils receiving a minimum grant were met with in one session

Regional Information Sessions

A series of regional information sessions were held in October 2013, with meetings in Beaufort, Bendigo and Ringwood. These sessions provided an overview of the methodology for the 2013-14 allocations and outlined the timetable for the 2014-15 allocation cycle.

A further four regional information sessions were held in August 2014 in Dandenong, Horsham, Point Cook and Shepparton. These sessions provided an overview of the methodology for the 2014-15 allocations and provided some additional information to councils about the Commonwealth pausing of indexation on financial assistance grants.

In accordance with section 11 (2) (c) of the *Local Government (Financial Assistance Act) 1995*, the Commission's meetings are conducted as public meetings.

Submissions

Councils were invited to provide the Commission with written submissions by the end of February 2013, in relation to the 2014-15 allocations.

Submissions were received from five councils, as follows:

Submissions Received

East Gippsland Shire Council
Horsham Rural City Council
Nillumbik Shire Council
Borough of Queenscliffe
Wellington Shire Council

These submissions covered a range of issues, including the Commission's assessment of council revenue-raising capacity, the data utilised for the calculation of the sub-grade cost modifier, the application of some of the cost adjustors, and emergency management and environmental risk issues.

The Commission considered each submission carefully, and has provided formal responses to each council addressing their concerns and recommendations.

Other Information

Information about the Victoria Grants Commission, including key reports and information papers, is published on the Commission's website: www.dpcd.vic.gov.au/localgovernment/victoria-grants-commission.

4. General Purpose Grants

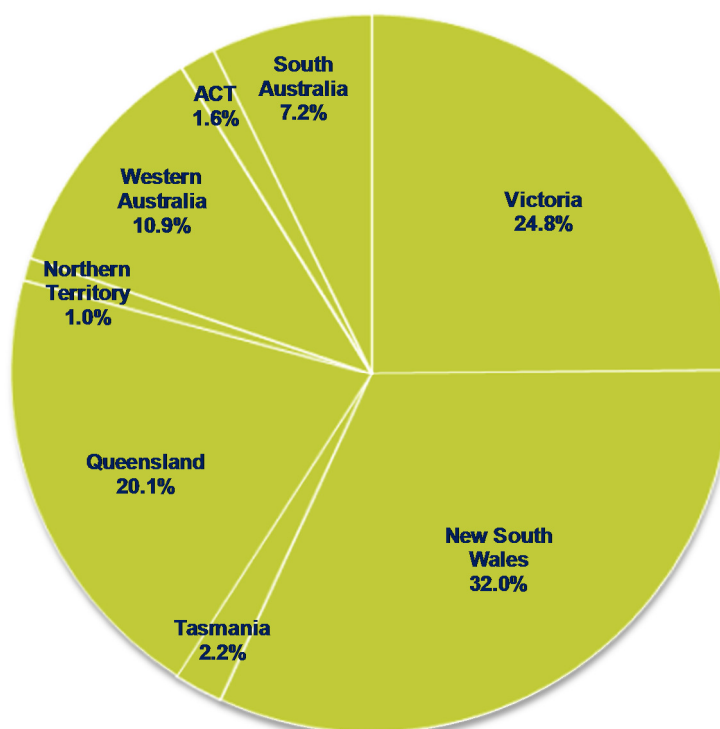
This section provides details of the allocation of general purpose grants for 2014-15, which represents the primary focus of the Commission's activities during the period covered by this Annual Report.

Background

General purpose grants are one of the two components of the general revenue assistance (along with local roads grants) provided by the Commonwealth Government to local government. The *Local Government (Financial Assistance) Act 1995* provides that the grants are untied; that is, the Victoria Grants Commission is unable to direct councils as to how the allocated funds are to be spent.

General purpose grants are allocated between Australian states and territories on a population basis. In 2014-15, Victoria will receive 24.8% of the total funds made available by the Commonwealth Government for this purpose, in line with its share of national population.

Share of General Purpose Grants



% figures have been rounded

National Principles

The Victoria Grants Commission is required to allocate general revenue assistance to councils in accordance with a set of nationally agreed principles. There are currently six principles that apply to the allocation of general purpose grants.

National Principles

The Commonwealth *Local Government (Financial Assistance) Act 1995* requires that the allocation of general purpose grants to local government bodies (councils) conforms with the relevant national distribution principles:

- (i) Horizontal Equalisation**

General purpose grants are to be allocated to councils, as far as practicable, on a full horizontal equalisation basis. This aims to ensure that each council is able to function, by reasonable effort, at a standard not lower than the average standard of other councils in the State/Territory.
- (ii) Effort Neutrality**

In allocating general purpose grants, an effort or policy neutral approach is to be used in assessing the expenditure requirements and revenue raising capacity of each council. This means as far as practicable, the policies of individual councils in terms of expenditure and revenue efforts will not affect the grant determination.
- (iii) Minimum Grant**

The minimum general purpose grant for a council is to be not less than the amount to which it would be entitled if 30 per cent of the total amount of general purpose grants were allocated on a per capita basis.
- (iv) Other Grant Support**

In allocating general purpose grants, other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed is to be taken into account.
- (v) Aboriginal Peoples & Torres Strait Islanders**

Financial assistance is to be allocated to councils in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.
- (vi) Council Amalgamation**

Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

Final Allocations 2013-14

In July 2013 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total general purpose grants for 2013-14 of \$390.967 million. This formed the basis of the Commission's estimated general purpose grant allocations to each council for 2013-14, which were announced in August 2013 and are detailed in Appendix 2A of the Commission's 2012-13 Annual Report.

The final (or actual) amount to be allocated for 2013-14 was determined by the Commonwealth Government in July 2014, based on revised inflation and population growth estimates. The final allocation is \$393.135 million, an increase of \$2.168 million, or 0.6%, compared with the earlier estimate.

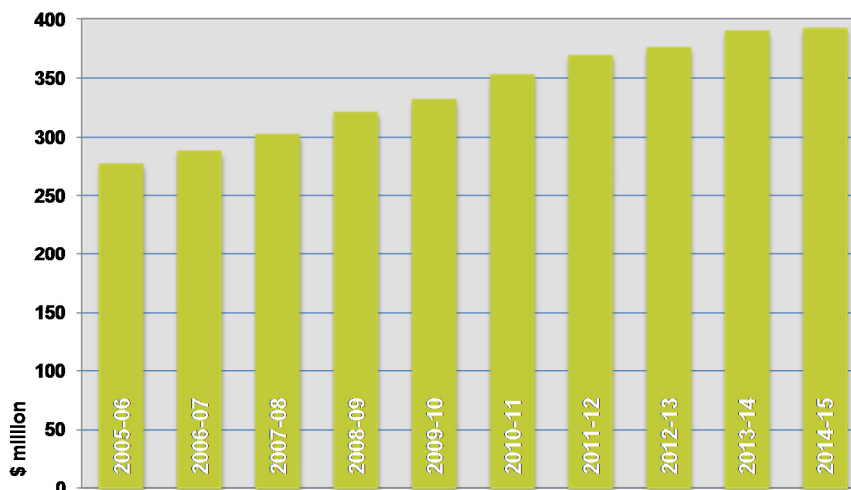
This increase represents an underpayment to Victorian councils for 2013-14. To balance this, an equivalent amount will be added to each council's quarterly payments for 2014-15 on a pro-rata basis, according to each council's estimated entitlement for 2013-14, as shown in Appendix 2B.

Estimated Allocations 2014-15

The estimated national general purpose grants pool for 2014-15 is \$1,585 million. Victoria's share of this estimated entitlement is \$393.730 million. This represents an increase of:

- \$2.763 million (0.7%) compared with the estimated general purpose grants allocation for 2013-14;
- or
- \$0.595 million (0.2%) compared with the final general purpose grants allocation for 2013-14.

General Purpose Grants - Victoria



Estimated entitlement 2014-15, actual entitlement all other years

Methodology

The Victoria Grants Commission's methodology for allocating general purpose grants takes into account each council's assessed relative expenditure needs and relative capacity to raise revenue.

For each council, a *raw grant* is obtained which is calculated by subtracting the council's *standardised revenue* from its *standardised expenditure*.

The available general purpose grants pool is then allocated in proportion to each council's raw grant, taking into account the requirement in the Commonwealth legislation and associated national distribution principles to provide a minimum grant to each council. As outlined below, increases and decreases in general purpose grant outcomes are also capped which, in turn, affects the relationship between raw grants and actual grants.

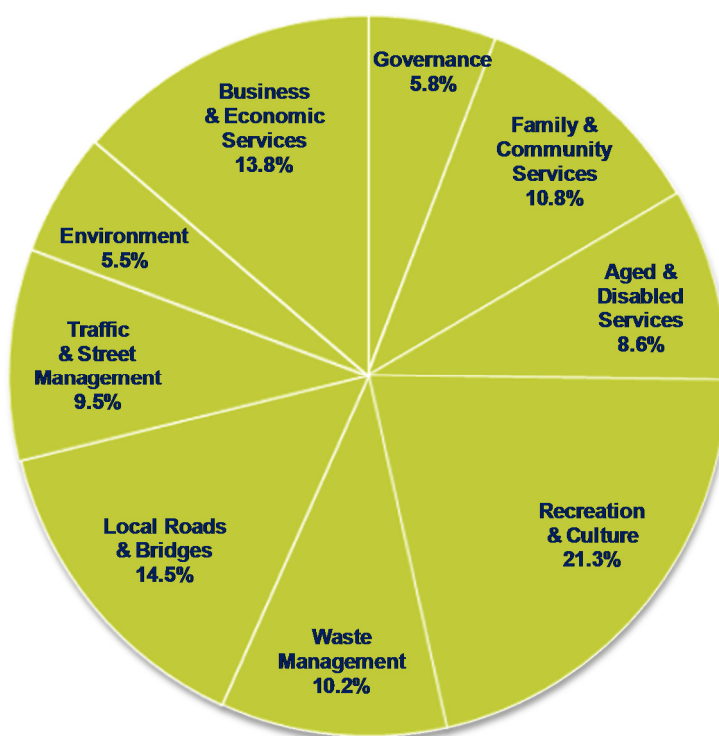
Specific grants, up to a maximum of \$35,000 per declared event, are made to a small number of councils each year in the form of natural disaster assistance. These grants are funded from the general purpose grants pool and so reduce the amount allocated on a formula basis. Details of natural disaster assistance grants allocated for 2014-15 are provided at the end of this section.

Standardised Expenditure

Under the Commission's general purpose grants methodology, *standardised expenditure* is calculated for each council on the basis of nine expenditure functions. Between them, these expenditure functions include virtually all council recurrent expenditure.

The structure of the model ensures that the gross standardised expenditure for each function equals aggregate actual expenditure by councils, thus ensuring that the relative importance of each of the nine expenditure functions in the Commission's model matches the pattern of actual council expenditure.

The total recurrent expenditure across all Victorian councils in 2012-13 was \$7,122 million. Under the Commission's methodology, the gross standardised expenditure in the allocation model for 2014-15 therefore also equals \$7,122 million, with each of the nine expenditure functions assuming the same share of both actual expenditure and standardised expenditure.

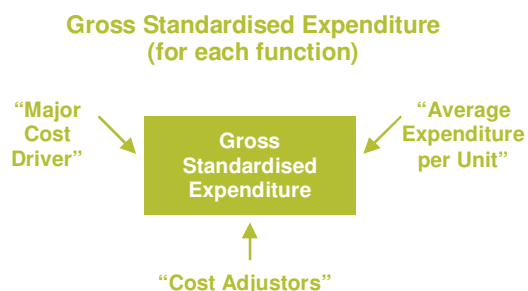


% figures have been rounded

For each function, with the exception of Local Roads and Bridges, *gross standardised expenditure* is obtained by multiplying the relevant major cost driver by:

- the average Victorian council expenditure on that function, per unit of need; and
- a composite cost adjustor which takes account of factors that make service provision cost more or less for individual councils than the State average.

This can be demonstrated diagrammatically as follows:



The calculation of standardised expenditure for the treatment for the Local Roads and Bridges expenditure function is described at the end of this section.

The major cost drivers and average expenditures per unit for each expenditure function, with the exception of Local Roads and Bridges, are shown below:

Expenditure Function	Major Cost Driver	Average Expend Per Unit
Governance	Population (adjusted)	\$68.16
Family & Community Services	Population	\$133.47
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$415.27
Recreation & Culture	Population	\$263.87
Waste Management	No. of Dwellings	\$298.62
Traffic & Street Management	Population	\$117.84
Environment	Population (adjusted)	\$66.04
Business & Economic Services	Population (adjusted)	\$166.28

For each expenditure function a major cost driver (or unit of need) is used, which is seen by the Commission to be the most significant determinant of a council's expenditure need on a particular function. Several different major cost drivers are used:

Major Cost Driver	Expenditure Functions
Population	Family & Community Services Recreation and Culture Traffic & Street Management
Population adjusted by % of vacant dwellings (minimum population: 20,000)	Governance
Population adjusted by % of vacant dwellings (minimum population: 15,000)	Environment
Population adjusted by <u>half</u> vacancy rate in excess of State average; if population less than 15,000, population doubled to maximum of 15,000	Business & Economic Services
Population Aged Over 60 + Recipients of Disability Support Pensions or Carer's Allowance	Aged & Disabled Services
Number of Dwellings	Waste Management

Cost Adjustors

For three expenditure functions (Governance, Environment and Business & Economic Services), an adjusted population is used as the major cost driver to recognise the fixed costs associated with certain functional areas.

The major cost drivers used in assessing relative expenditure needs for these three functions take account of high rates of vacant dwellings at the time the census is taken. Councils with a vacancy rate above the State average are assumed to have a population higher than the census-based estimate:

- For the Governance function, councils with an actual population of less than 20,000 are deemed to have a population of 20,000.
- For the Environment function, a minimum population of 15,000 is assumed
- For the Business and Economic Services function, councils with a population of less than 15,000 are assumed to have a population double that amount, to a maximum of 15,000.

Cost adjustors are measures designed to reflect differences between councils, and allow the Commission to take account of the particular characteristics of individual councils which impact on the cost of service provision on a comparable basis. A number of cost adjustors are used in various combinations against each expenditure function.

Each cost adjustor has been based around a State weighted average of 1.00 with a ratio of 1:2 between the minimum and maximum values, to ensure that the relative importance of each expenditure function in the model is maintained.

The 14 cost adjustors used in the calculation of the 2013-14 general purpose grants are:

Aged Pensioners	Population Growth
Environmental Risk	Population Less Than 6 Years
Indigenous Population	Regional Significance
Urban Roads	Remoteness
Language	Scale
Population Density	Socio-Economic
Population Dispersion	Tourism

Further information on each cost adjustor is contained in the box at the end of this section.

Because some factors represented by cost adjustors impact more on costs than others, different weightings have been used for the cost adjustors applied to each expenditure function.

The cost adjustors and weightings applied to each expenditure function in the calculation of the 2013-14 general purpose grants are shown on the following page:

Application of Cost Adjustors: 2014-15 Allocations

Cost Adjustor	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Major Cost Driver
Expenditure Function	Aged Pensioners	Environmental Risk	Indigenous Population	Urban Roads	Language	Population Density	Population Dispersion	Population Growth	Population Under 6 Years	Regional Significance	Remoteness	Scale	Socio-Economic	Tourism	
Governance			10%		25%		25%				20%	20%			Modified Population adjusted by Vacancy Rates (minimum 20,000)
Family & Community Services			10%		10%		10%	10%	40%				20%		Population
Aged & Disabled Services	20%				20%		30%						30%		Population > 60 Years & Disabled Pensioners & Carers
Recreation & Culture							25%	10%		40%				25%	Population
Waste Management						10%	50%			10%		30%			No. of Dwellings
Traffic & Street Management				25%				25%		35%				15%	Population
Environment		30%					25%	10%			25%	10%			Modified Population adjusted by Vacancy Rates (double to max. 15,000)
Business & Economic Services							10%			30%	20%	30%		10%	Modified Population adjusted by half Vacancy Rates (double to max. 15,000)
Local Roads & Bridges	Cost Adjustors not applied - based on local road model network costs														

The Commission has not made any adjustments to the relative cost adjustor weightings for the 2014-15 allocation.

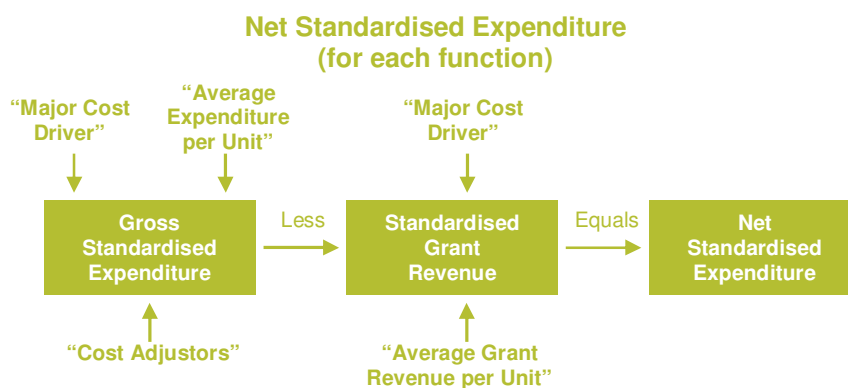
Net Standardised Expenditure

Net standardised expenditure has been obtained for each function by subtracting standardised grant support (calculated on an average per unit basis) from gross standardised expenditure. This ensures that other grant support is treated on an "inclusion" basis.

Average grant revenue on a per unit basis (based on actual grants received by local government in 2013-14) is shown below:

Expenditure Function	Major Cost Driver	Average Grants Per Unit
Governance	Population (adjusted)	\$3.68
Family & Community Services	Population	\$36.41
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$183.18
Recreation & Culture	Population	\$7.27
Waste Management	No. of Dwellings	\$0.20
Traffic & Street Management	Population	\$1.51
Environment	Population (adjusted)	\$1.32
Business & Economic Services	Population (adjusted)	\$2.95

Diagrammatically, the calculation of net standardised expenditure for each expenditure function is as follows:



Standardised expenditure for the Local Roads and Bridges expenditure function within the general purpose grants model is based on the grant outcomes for each council under the Commission’s local roads grants model. As outlined in Section 5, this incorporates a number of cost modifiers (similar to cost adjustors) to take account of differences between councils. Net standardised expenditure for this function for each council is calculated by subtracting other grant support (based on actual identified local roads grants and a proportion of Roads to Recovery grants) from gross standardised expenditure.

The total standardised expenditure for each council is the sum of the standardised expenditure calculated for each of the nine expenditure functions.

Standardised Revenue

A council’s *standardised revenue* is intended to reflect its capacity to raise revenue from its community.

Relative capacity to raise rate revenue, or *standardised rate revenue*, is calculated for each council by multiplying its valuation base (on a capital improved value basis) by the average rate across all Victorian councils over three years. The payments in lieu of rates received by some councils for major facilities such as power stations and airports have been added to their standardised revenue to ensure that all councils are treated on an equitable basis.

Rate revenue raising capacity is calculated separately for each of the three major property classes (residential, commercial/industrial/other and farm) using a three year average of valuation data.

The derivation of the average rates for each of the property classes is shown below:

Category	Total Ave Valuations	Total Rate Revenue	Average Rate
Residential	\$1,051.896 b	\$23.019 b	\$0.00287
Commercial/Industrial/Other	\$203.942 b	\$0.733 b	\$0.00360
Farm	\$77.851 b	\$0.244 b	\$0.00314

The Commission constrains increases in each council's assessed revenue capacity to improve stability in grant outcomes. The constraint for each council has been set at the statewide average increase in standardised revenue adjusted by the council's own rate of population growth to reflect growth in the property base.

A council's relative capacity to raise revenue from user fees and charges, or *standardised fees and charges revenue*, also forms part of the calculation of standardised revenue.

For each council, for each of the nine functional areas, the relevant driver (such as population) is multiplied by the adjusted State median revenue from user fees and charges (adjusted to remove the skewing effect of large outliers in the data). For some functions, this is then modified by a series of "revenue adjustors" to take account of differences between municipalities in their capacity to generate fees and charges, due to their characteristics.

The standard fees and charges used for each function (based on adjusted median actual revenues generated by local government in 2012-13) are shown in the following table, along with the revenue adjustors applied:

Expenditure Function	Major Driver (Units)	Standard Fees & Charges Per Unit	Revenue Adjustors
Governance	Population	\$13.13	Nil
Family & Community Services	Population	\$10.07	Socio-Economic
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$54.74	Household Income
Recreation & Culture	Population	\$20.43	Valuations (% Commercial)
Waste Management	No. Dwellings	\$20.79	Nil
Traffic & Street Management	Population	\$5.35	Valuations (% Commercial)
Environment	Population	\$0.87	Nil
Business & Economic Services	Population	\$23.87	Tourism + Value of Development
Local Roads & Bridges	Population	\$0.83	Nil

The assessed capacity to generate user fees and charges for each council is added to its standardised rate revenue to produce total standardised revenue.

Further information about the revenue adjustors used in assessing standardised fees and charges revenue is contained in the box at the end of this section.

Methodology Changes

In preparing its estimates of general purpose grants, the Commission gave careful consideration to specific issues raised by councils through five written submissions and the individual and the regional meetings held throughout the year.

The Commission has adopted a modified method of determining the median value utilised in calculating standardised revenue from user fees and charges. For several data series, the Commission found that large outliers were skewing the data sets, and generally over-representing the broader ability for most councils to raise own-source revenue. As such, the Commission has adopted an adjusted median figure to use in these calculations, whereby such outliers are removed from the calculation.

This alteration has had the effect of lowering the assessed revenue raising capacity of Victorian councils, thereby increasing their assessed level of relative need.

All data used by the Commission in allocating general purpose grants has been updated where possible. The main updates used for the 2014-15 allocation have been population estimates, valuations data and council expenditure and revenue information.

Variable Capping

Due to the Commonwealth Government's decision to pause indexation of financial assistance grants for a three year period, the Commission has adopted a relatively tight variable capping regime for movements in grant outcomes for 2014-15, compared with 2013-14.

For general purpose grants, these caps are:

- Increases limited to 3.0%, except for councils receiving a minimum grant
- Decreases limited to -2.0% for metropolitan and regional centre councils
- Decreases limited to -1.0% for rural councils.

Minimum Grants

The available general purpose grants pool for Victorian councils represents, on average, \$68.60 per head of population (using ABS population estimates as at 30 June 2013). The minimum grant national distribution principle requires that no council may receive a general purpose grant that is less than 30% of the per capita average (or \$20.58 for 2014-15).

Without the application of this principle, general purpose grants for 2014-15 for 13 councils – Bayside, Boroondara, Glen Eira, Hobsons Bay, Kingston, Manningham, Melbourne, Monash, Moonee Valley, Port Phillip, Stonnington, Whitehorse and Yarra, would have been below the \$20.58 per capita level. The minimum grant principle has resulted in the general purpose grants to these councils being increased to this level.

Estimated Entitlements 2014-15

The estimated general purpose grant entitlement for each Victorian council for 2014-15 is shown in Appendix 2A.

A summary of the changes in estimated general purpose grant entitlements from 2013-14 to 2014-15 is shown below:

Change in General Purpose Grant	No. of Councils
Increase of more than 3.0%*	1
Increase of 3.0% (capped)	11
Increase of 0.0% to <3.0%	44
Decrease of 0.0% to <-1.0% (Rural)	1
Decrease of 0.0% to <-2.0% (Metro, Regional Centres)	11
Decrease of -1.0% (Capped) (Rural)	7
Decrease of -2.0% (Capped) (Metro, Regional Centres)	4
Total	79

*Increase exceeds 10.0% due to the City of Melbourne's minimum grant council status.

Comparative Grant Outcomes 2014-15

The largest general purpose grant allocation for 2014-15 is to Greater Geelong City Council (\$16.208 million). The smallest grant of \$202,744 has been allocated to the Borough of Queenscliffe.

On a per capita basis, the largest general purpose grant has been allocated to West Wimmera Shire Council, where the grant of \$2.732 million represents \$668.04 per head of population. This compares to the outcome for minimum grant councils, where the grant represents \$20.58 per head of population.

Natural Disaster Assistance

The Commission provides funds from the general purpose grants pool to councils which have incurred expenditure resulting from natural disasters. Grants of up to \$35,000 per council per eligible event are provided to assist with repairs and restoration work.

23 grants to 17 councils have been allocated for 2014-15, totalling \$709,722. This is a considerable decrease from the 40 grants provided in 2013-14, totalling \$1,209,661.

Recommended natural disaster assistance grants from the 2014-15 allocation are as follows:

Natural Disaster Assistance for 2014-15		(\$)
Alpine (S)	Floods & Bushfires (2 events)	42,426
Ballarat (C)	Storms	35,000
Banyule (C)	Floods	35,000
Bass Coast (S)	Heavy Rainfall	35,000
Benalla (RC)	Floods & Storms (2 events)	70,000
Campaspe (S)	Floods	35,000
Cardinia (S)	Storms	25,662
Central Goldfields (S)	Floods / Windstorms	35,000
Golden Plains (S)	Bushfires	35,000
Greater Geelong(C)	Storms	35,000
Greater Shepparton (C)	Storms	14,048
Indigo (S)	Storms & Tornado (2 events)	44,600
Mildura (RC)	Floods	30,000
Mount Alexander (S)	Floods / Storm	35,000
Pyrenees (S)	Floods & Bushfires (3 events)	105,000
Strathbogie (S)	Floods & Bushfires (2 events)	62,986
Towong (S)	Floods	35,000
Total		709,722

Allocation of General Purpose Grants

Cost Adjustors

A set of cost adjustors is used in the Victoria Grants Commission's formula for allocating general purpose grants to Victorian councils. These are designed to reflect differences between councils and take account of factors that make service provision cost more or less for individual councils than the State average.

Individual cost adjustment index values are calculated for each of the cost adjustors for each council. These are shown in Appendix 4D.

The 14 cost adjustors used by the Commission for the 2014-15 allocations are listed below. Data sources for these cost adjustors are detailed in Appendix 4L.

<i>Aged Pensioners</i>	Recognises that councils with high numbers of aged pensioners, relative to the number of people aged over 60 years, are likely to have additional expenditure requirements.
<i>Environmental Risk</i>	Recognises that councils face differing levels of risk from floods, bushfires and land erosion leading to varying impacts on council expenditure.
<i>Indigenous Population</i>	Recognises the impact on council expenditure of providing services to people of Aboriginal or Torres Strait Islander descent.
<i>Urban Roads</i>	Recognises that councils with a large network of urban roads are likely to require relatively higher per capita expenditure on areas such as footpath maintenance, street lighting and street cleaning.
<i>Language</i>	Recognises the impact on council expenditure of providing services to residents, particularly newly arrived migrants, with a low level of proficiency in English.
<i>Population Density</i>	Recognises that areas of higher population density require relatively greater council effort in providing some functions.
<i>Population Dispersion</i>	Recognises the impact on council expenditure of having to provide infrastructure and services to more than one population centre.
<i>Population Growth</i>	Recognises that areas of higher population growth require relatively greater council effort in providing some services.
<i>Population <6 Years</i>	Recognises the impact on council expenditure of providing services to children less than 6 years of age.
<i>Regional Significance</i>	Recognises that some municipalities provide a range of services to a larger than average catchment area, increasing the demand on some council services.
<i>Remoteness</i>	Recognises the impact on council expenditure caused by remoteness from major service centres.
<i>Scale</i>	Recognises the economies of scale inherent in providing some local government services to larger populations.
<i>Socio-Economic</i>	Recognises that residents of areas of relative socio-economic disadvantage are likely to make a greater call on certain council services.
<i>Tourism</i>	Recognises that councils in areas attracting significant numbers of tourists have additional expenditure requirements.

Allocation of General Purpose Grants

Revenue Adjustors

A set of revenue adjustors is used in the Victoria Grants Commission's formula for allocating general purpose grants to Victorian councils. These are designed to reflect differences between councils and take account of factors that impact on a council's relative capacity to raise revenue from user fees and charges.

Individual revenue adjustment index values are calculated for each of the revenue adjustors for each council. These are shown in Appendix 4H.

The five revenue adjustors used by the Commission for the 2014-15 allocations are listed below. Data sources for these revenue adjustors are detailed in Appendix 4L.

<i>Household Income</i>	Recognises the impact that household income has on the level of fees and charges that a council can raise.
<i>Socio-Economic</i>	Recognises that residents of areas of relative socio-economic disadvantage are likely to have a lower capacity to pay fees and charges than residents of areas of relative socio-economic advantage.
<i>Tourism</i>	Recognises the impact that tourism has on the level of fees and charges that a council can raise, particularly in relation to tourist facilities.
<i>Value of Development</i>	Recognises that municipalities that have a high value of development, as represented by building approvals, have a greater capacity to raise fees and charges, particularly in relation to planning and building services.
<i>Valuations (Commercial)</i>	Recognises that municipalities that have a high proportion of commercial activity have a greater capacity to raise fees and charges, particularly in relation to parking fees and fines.

5. LOCAL ROADS GRANTS

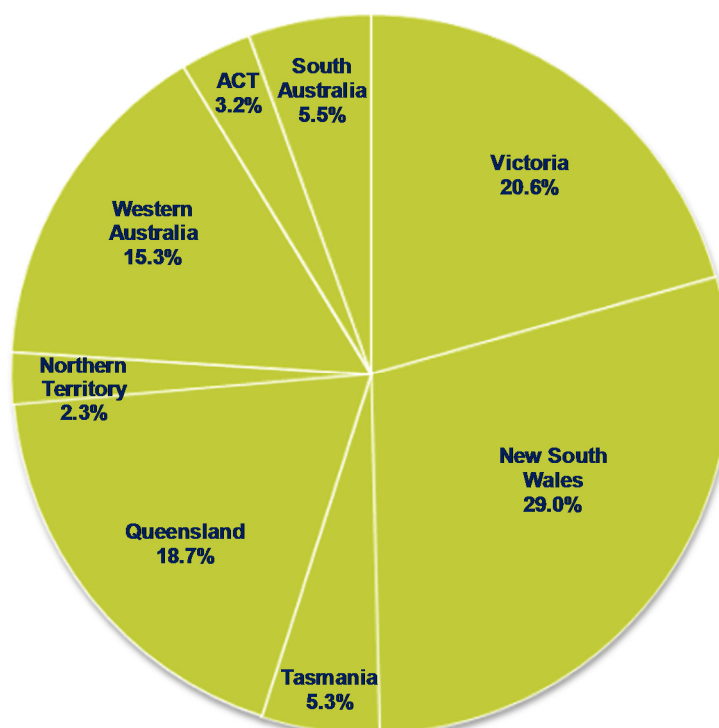
This section provides details of the allocation of local roads grants for 2014-15, which were determined during the period covered by this Annual Report.

Background

Local roads grants are the second of the two components of the general revenue assistance provided by the Commonwealth Government to local government. Although local roads grants are allocated on the basis of the relative needs of each council for roads expenditure, the *Local Government (Financial Assistance) Act 1995* provides that the grants are untied.

Victoria receives a fixed proportion of 20.6% of the total funds made available each year by the Commonwealth Government for this purpose.

Share of Local Roads Grants



% figures have been rounded

National Principles

The Victoria Grants Commission is required to allocate general revenue assistance to councils in accordance with a set of nationally agreed principles. These currently require that local roads grants be 'allocated to councils as far as practicable on the basis of the relative needs of each council for roads expenditure and to preserve its road assets.'

Final Allocations 2013-14

In July 2013 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total local roads grants for 2013-14 of \$144.214 million. This formed the basis of the Commission's estimated local roads allocation to each council for 2013-14, which were announced in August 2013 and are shown in Appendix 2A of the Commission's 2012-13 Annual Report.

The Commonwealth Department of Infrastructure and Regional Development advised the Commission in July 2014 of the final (or actual) amount to be allocated for 2013-14, based on revised inflation and population growth estimates. The final allocation is \$145.023 million, an increase of \$0.809 million or 0.6% compared with the earlier estimate.

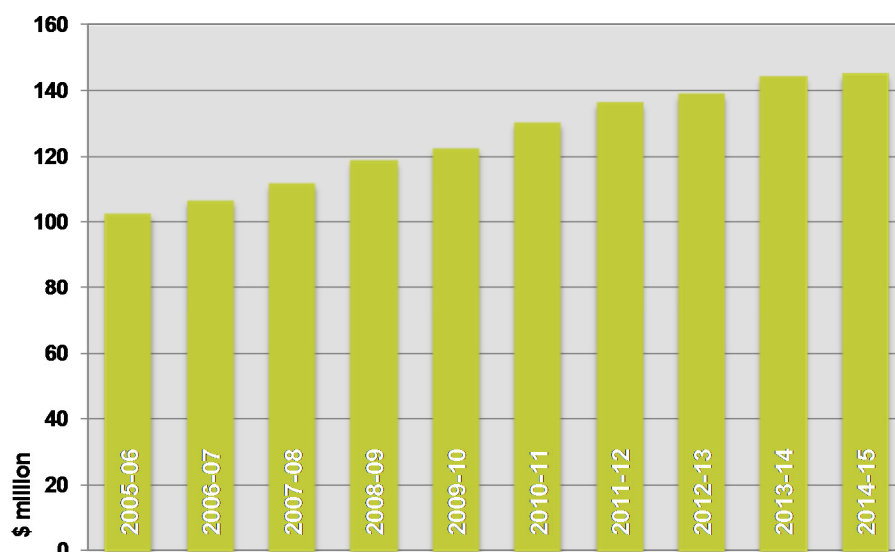
The underpaid funds will be added to each council's payments for 2014-15 on a pro-rata basis according to each council's estimated entitlement for 2013-14 as shown in Appendix 2B.

Estimated Allocations 2014-15

The estimated national local roads grants pool for 2014-15 is \$703.431 million. Victoria's share of this estimated entitlement is \$145.022 million. This represents a change of:

- \$0.809 million (0.6%) increase compared with the estimated local roads allocation for 2013-14;
- or
- \$1,261 (<0.01%) decrease compared with the final local roads allocation for 2013-14.

Local Roads Grants - Victoria



Estimated entitlement 2013-14, actual entitlement all other years

Methodology

The Commission's formula for allocating local roads grants is based on each council's road length (for all surface types) and traffic volumes, using average annual preservation costs for given traffic volume ranges. The methodology also includes a series of cost modifiers for freight loading, climate, materials, sub-grade conditions and strategic routes and takes account of the deck area of bridges on local roads.

This formula is designed to reflect the relative needs of Victorian councils in relation to local roads funding in accordance with the national principle relating to the allocation of local roads funding.

Road Length & Traffic Volume Data

The allocation of local roads grants for 2014-15 has been based on traffic volume data reported by all councils for the 12 months to June 2013.

Similar to previous years, councils were asked to categorise their local road networks according to nine broad traffic volume ranges – four for urban roads and five for rural roads.

Victorian councils reported a total of 129,881 kilometres of local roads as at 30 June 2013, an increase of 419 kilometres or 0.3% more than the length reported 12 months earlier. This is a result of growth on Melbourne's urban fringes, as well as councils' ongoing review of road type categories as assets registers are revised and improved.

Variations were as follows:

Change in Length of Local Roads	No. of Councils
Increase of more than 5.0%	2
Increase of 1.0% to 5.0%	13
Increase of up to 1.0%	23
No Change	26
Decrease of up to 1.0%	8
Decrease of 1.0% to 5.0%	7
Decrease of more than 5.0%	0
Total	79

Road lengths reported by each council for each traffic volume range as at June 2013 are detailed in Appendix 5A.

Asset Preservation Costs

Average annual preservation costs for each traffic volume range are used in the allocation model to reflect the cost of local road maintenance and renewal.

The asset preservation costs remained unchanged from 2013-14 for the 2014-15 allocations:

Local Road Type	Daily Traffic Volume Range	Annual Asset Preservation Cost
Urban	< 500	\$ 3,600 / km
	500 - <1000	\$ 4,900 / km
	1000 - <5000	\$ 6,600 / km
	5000 +	\$ 10,700 / km
Rural	Natural Surface	\$ 350 / km
	< 100	\$ 2,500 / km
	100 - <500	\$ 5,200 / km
	500 - < 1,000	\$ 5,800 / km
	1,000 +	\$ 6,600 / km
Timber Bridge		\$100 / sq m
Concrete Bridge		\$60 / sq m

Cost Modifiers

The allocation model uses a series of five cost modifiers to reflect differences in circumstances between councils in relation to:

- the volume of freight loading carried within each council;
- climate;
- the availability of road-making materials;
- sub-grade conditions; and
- strategic routes.

Cost modifiers are applied to the average annual preservation costs for each traffic volume range for each council to reflect the level of need of the council relative to others. Relatively high cost modifiers add to the network cost calculated for each council, and so increase its local roads grant outcome.

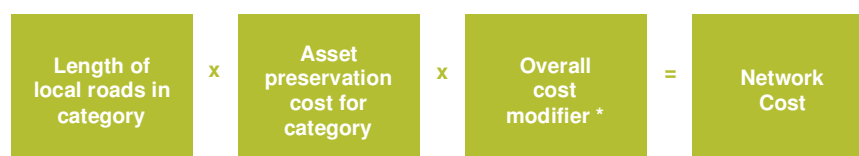
Additional information on the cost modifiers used in the local roads allocation model is provided at the end of this section. No changes were made to the cost modifiers for the 2014-15 allocation.

Grant Calculation

The Commission calculates a total network cost for each council's local roads. This represents the relative annual costs faced by the council in maintaining its local road and bridge networks, based on average annual preservation costs and taking account of local conditions, using cost modifiers.

The network cost is calculated using traffic volume data for each council, standard asset preservation costs for each traffic volume range and cost modifiers for freight carriage, climate, materials availability, sub-grade conditions and strategic route lengths. The deck area of bridges on local roads is included in the network cost at a rate of \$60 per square metre for concrete bridges and \$100 per square metre for timber bridges.

Mathematically, the calculation of the network cost for a single traffic volume range for a council can be illustrated as follows:



** Overall cost modifier is calculated by multiplying the cost modifier for freight, climate, materials, reactive sub-grades and strategic routes.*

The actual local roads grant is then determined by applying the available funds in proportion to each council's calculated network cost.

Variable Capping

Due to the Commonwealth Government's decision to pause indexation of financial assistance grants for a three year period, the Commission has adopted a relatively tight variable capping regime for movements in grant outcomes for 2014-15, compared with 2013-14.

For local roads grants, these caps are:

- No increases for councils receiving a minimum general purpose grant
- Increases limited to 3.0% for non-minimum grant councils
- Decreases limited to -2.0% for metropolitan and regional centre councils
- Decreases limited to -1.0% for rural councils

Estimated Entitlements 2014-15

The estimated local roads grant entitlement for each Victorian council for 2014-15 is shown in Appendix 2A.

In general, where a significant change has occurred in a council's local roads grant for 2014-15, this is due to a combination of:

- the significant changes made to the allocation model in 2013-14 still flowing through into the 2014-15 allocation
- changes in road classification from kerbed/unkerbed to urban/rural road length
- changes in traffic volume data supplied by the council to the Commission.

A summary of the changes in estimated local roads grant entitlements from 2013-14 to 2014-15 is shown below:

Change in Local Roads Grant	No. of Councils
Increase of 3.0% (Capped)	17
Increase of 0.0% to <3.0%	23
No change	11
Decrease of 0.0% to <-1.0% (Rural)	2
Decrease of 0.0% to <-2.0% (Metro, Regional Centres)	5
Decrease of -1.0% (Capped) (Rural)	13
Decrease of -2.0% (Capped) (Metro, Regional Centres)	8
Total	79

Comparative Grant Outcomes 2014-15

The largest local roads grant allocation for 2014-15 is to Wellington Shire Council (\$4.527 million), while the smallest grant of \$51,445 has been allocated to the Borough of Queenscliffe.

Allocation of Local Roads Grants

Cost Modifiers

A series of five cost modifiers is used in the Victoria Grants Commission's formula for allocating local roads grants to Victorian councils. These are designed to take account of differences between councils that may make local road maintenance more or less costly than the State average, which is reflected in average annual preservation costs.

Individual cost factors are calculated for each of the five cost modifiers for each council. Their application to the average annual preservation costs is shown in Appendix 5C.

The five cost modifiers used by the Commission in allocating local roads grants to councils for 2014-15 were:

Freight

The freight cost modifier recognises that local roads in some municipalities carry relatively high volumes of heavy vehicles compared to others, which impacts on the cost of asset preservation. A freight loading ratio has been calculated for each municipality, based on the level of employment in freight-intensive industries within that municipality. The cost modifier index infers that a higher level of employment in such industries will see relatively higher levels of freight carriage on their local roads network, leading to more rapid road surface deterioration and relatively higher road maintenance costs.

Climate

The climate cost modifier recognises that certain climatic conditions have an adverse impact on road durability and increase the costs to affected councils of asset preservation. The climate index identifies the length of urban and rural roads that fall within the five climatic zones utilised by Standards Australia to produce an average climate rating for both rural and urban roads within each municipality. These ratings are then spread across index ranges, the larger being for rural roads to reflect the relatively greater influence of climate on such surfaces.

Materials

The cost of maintaining local roads can be impacted by the local availability of suitable pavement materials. The materials availability index has identifies the distance between the nearest quarry location containing high quality road making material and the council headquarters. All metropolitan councils have had their indexes set at the minimum value, reflecting the availability of materials from a variety of sources.

Sub-grades

The performance life of road pavements is affected by seasonal swelling and shrinkage of the sub-grade, which accelerates the deterioration of the pavement and adds to asset preservation costs. In Victoria, this is a particular issue in areas with expansive clay sub-grades, which occur predominantly in the western suburbs of Melbourne and western Victoria. The Commission has identified the total length of urban and rural roads in each of the eight sub-grade categories utilised by Standards Australia, and constructed an index reflecting the relative road maintenance costs associated with having lengths of road built on relatively reactive soils.

Strategic Routes

The strategic route cost modifier recognises that certain local roads must be maintained to a higher standard than would normally be the case because of certain characteristics or functions they perform. For all road categories, local roads that are tram or bus routes, including school bus routes, are considered to be strategic routes. In addition, rural local roads that carry less than 100 vehicles a day, but carry at least 10 trucks, or carry less than 100 but more than 50 vehicles per day and are in steep terrain or irrigated areas, are considered strategic routes requiring higher annual levels of expenditure. Details on strategic routes are provided to the Commission by individual councils as part of their annual information returns.

6. THE YEAR AHEAD

The Victoria Grants Commission aims to allocate grants equitably through clear and transparent procedures. In order to achieve this, the Commission maintains a process of consultation with councils to review and refine the allocation models. The following information provides an outline of the anticipated work to be undertaken in line with the refinement of the allocation process.

Implications of Indexation Pause

In the wake of the Commonwealth Government's decision to pause indexation arrangements for three years from 2014-15, the Commission will undertake further analysis of its implications.

Preliminary modelling has indicated an impact on the Victorian local government sector of approximately \$200 million, as well as lowering the base from which indexation will be resumed by approximately 12.5%.

Over the coming year, the Commission will conduct further modelling of the potential impacts of the Commonwealth's decision, as well as consider options to ensure future allocations are made as equitably as possible. The Commission will endeavour to ensure that the burden of this decision is not borne in undue measure by those councils with the greatest reliance on this funding.

Local Roads Model

The Commission will continue its review of the local roads data and allocation methodology.

During 2014-15 the Commission intends to:

- continue to investigate the possibility of utilising Geographic Information System (GIS) based road length data
- review the Asset Preservation Costs for each road type classification and bridge deck area.

The Commission will continue to work with councils throughout 2014-15 to improve the quality of the local roads data utilised in its allocation methodology.

Council Consultation

The Commission will visit a number of Victorian councils to provide information on the grant allocation process and a forum for discussion on specific issues impacting councils and feedback on the Commission's methodologies.

These meetings will provide the opportunity to discuss in greater detail the implications of the Commonwealth Government's decision to pause indexation on the national pool of financial assistance grants, and for the Commission to keep the sector informed as to its intended response.