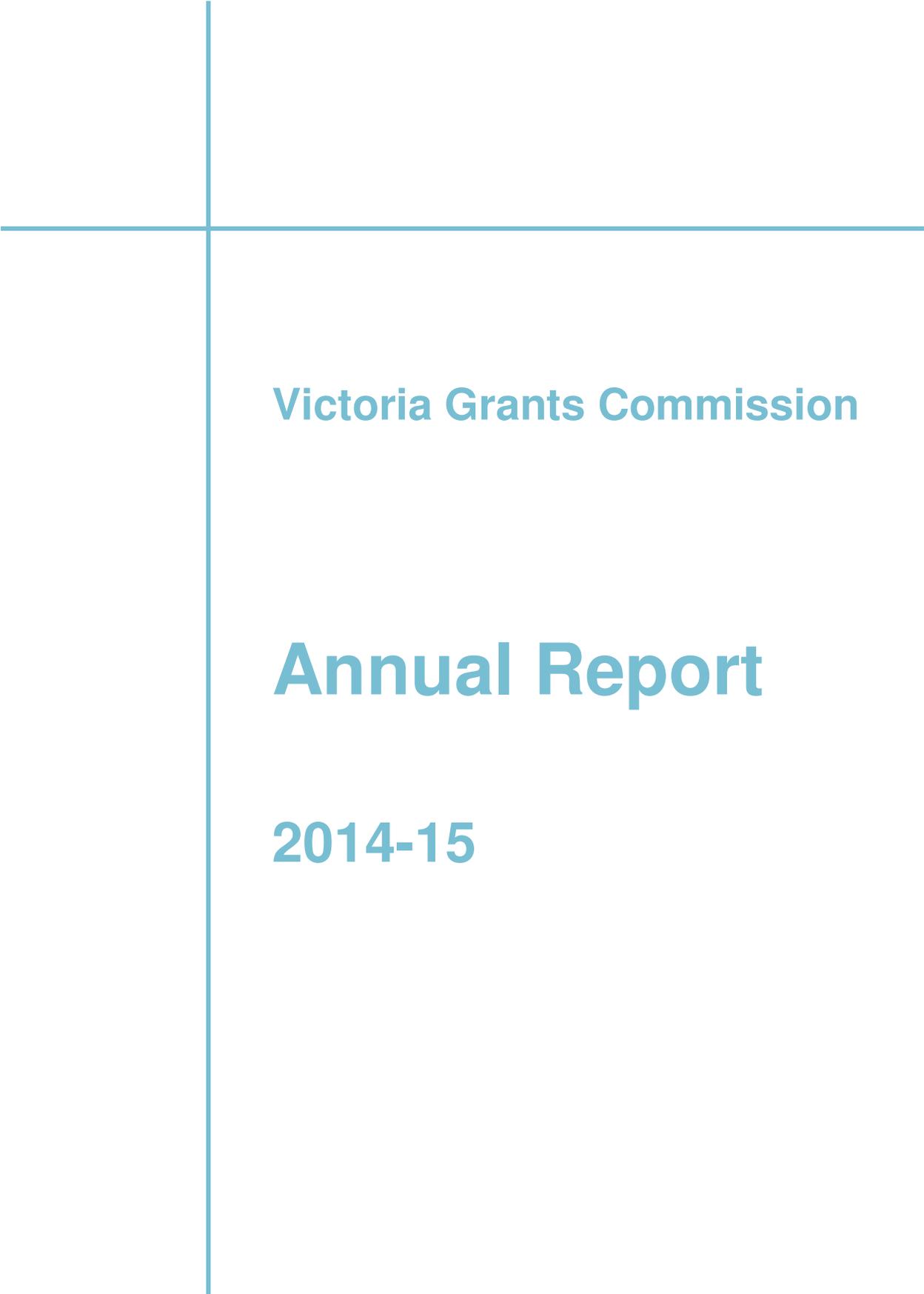


Victoria Grants Commission

Annual Report 2015



Victoria Grants Commission

Annual Report

2014-15

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Victoria Grants Commission

Annual Report

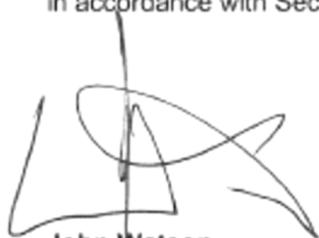
2014-15

September 2015

The Hon Natalie Hutchins MP
Minister for Local Government
1 Spring Street
MELBOURNE VIC 3000

Dear Minister

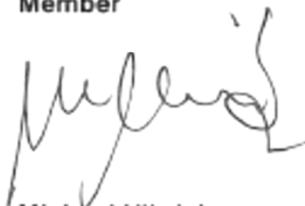
On behalf of the Victoria Grants Commission, we have pleasure in presenting the Annual Report of the Commission's operations for the year to 31 August 2015, in accordance with Section 17 of the *Victoria Grants Commission Act 1976*.



John Watson
Chairperson



Julie Eisenbise
Member



Michael Ulbrick
Member

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Foreword

The Victoria Grants Commission's Annual Report for 2014-15 provides a summary of the Commission's activities for the year to 31 August 2015.

The major focus for this period was the determination of general purpose grants and local roads grants for each Victorian council for 2015-16. This Annual Report details the methodology used to allocate these grants, while the appendices contain the data used in this process.

During 2014-15, the Commission's deliberations continued to be dominated by the Commonwealth Government's decision, announced in May 2014, to pause indexation on the national pool of financial assistance grants for three years to 2016-17.

As detailed in this report, the Commission has responded to this by adopting a system of variable caps on grant outcomes. While caps were maintained for the 2015-16 allocations, these have been loosened somewhat as the Commission prepares for the resumption of indexation in 2017-18.

The Commonwealth Government "brought forward" \$269.798 million from the 2015-16 allocations and paid this amount to the Victorian Government on 30 June 2015. This amount was subsequently on-passed to councils, increasing their cash payments for 2014-15 and reducing their cash payments for 2015-16. The Commission has calculated that, because the payment to Victoria was treated as a grant made in 2014-15 rather than 2015-16, there was a resulting reduction in funds paid to Victorian councils of approximately \$0.6 million.

The Commission has continued to review its allocation methodology, and has made several changes to the application of cost adjustors, which are used to reflect local characteristics in the allocation of general purpose grants.

The Commission continued its consultation program with councils, conducting 23 individual council meetings across Victoria in 2014-15. 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 2015.

**Victoria Grants Commission
September 2015**

1. The Commission

Role

The role of the Victoria Grants Commission is to determine the allocation of financial assistance grants (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 grants 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 financial assistance grants 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.

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

All current members of the Commission have local government experience.

John Watson (Chairperson)

Mr John Watson has been the Chairperson of the Victoria Grants Commission since 2012.

Mr Watson has had a long career in State and local government over more than four decades. He has held a number of leadership roles in local government as Chief Executive Officer of the former Shire of Bulla (1988-94), Moonee Valley City Council (1994-95) and Hume City Council (1995-98). His Victorian Government roles include periods as a Director, and then Executive Director, of Local Government Victoria (1999-2012). Mr Watson is currently Chair of the Panel of Administrators of Brimbank Council and sits on several council audit committees and the Emergency Management Victoria Program Board. He is a co-author of the 2015 Sunbury Hume Transition Local Government Panel Report.

Julie Eisenbise (Member)

Ms Julie Eisenbise has been a Member of the Victoria Grants Commission since 2013.

Ms Eisenbise was a councillor at Manningham City Council, (1997-2005), serving as Mayor in 2001-02, and was a member of the Municipal Association of Victoria Board (2001-04). She has extensive experience in the education and science field spanning 30 years, including the role of Executive Director, Global Business and Engagement at RMIT University. Ms Eisenbise was the Business and Professional Woman's Association's Victorian Woman of the Year in 1997 and is a Fellow of the Australian Institute of Company Directors.

Michael Ulbrick (Member)

Mr Michael Ulbrick has been a Member of the Victoria Grants Commission since 2013.

Mr Ulbrick has considerable State and local government, public policy and consultation experience. He has held several executive positions in local government, including as Chief Executive Officer of Surf Coast Shire Council (2002) and Darebin City Council (2005-2010). His Victorian Government experience includes a period as Executive Officer of the Victoria Grants Commission and, more recently, as consultant with Local Government Victoria in developing the Performance Management Framework (2012-14). Mr Ulbrick has established his own management consulting business and holds various local government audit committee positions.

Staff

The Commission's staff is drawn from Local Government Victoria, which forms part of the Department of Environment, Land, Water & Planning.

Staff members during 2014-15 were as follows:

Colin Morrison	Executive Officer
Eammon Oxford	(To April 2015)
Brendan Devlin	(From April 2015)
Nada Bagaric	

The Commission would like to extend its thanks to Mr Eammon Oxford for his invaluable expertise and contribution to the work of the Victoria Grants Commission for the past three years. The Commission wishes him well in all of his future endeavours.

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.

Acknowledgements

The Commission wishes 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 Environment, Land, Water & Planning), 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, Centrelink, Tourism Research Australia and our counterparts in other States and the Northern Territory for their assistance and guidance throughout the year.

**Commission
Meetings
2014-15**

The Commission and its staff meet on a monthly basis, and other times as required, throughout the year. A summary of the meetings held during 2014-15 is as follows:

Meeting Date	Attendees	<i>(C) – denotes chair of meeting</i>
17 September 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Ms Nada Bagaric <i>Apologies: Mr Eammon Oxford</i>	
6 November 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Eammon Oxford, Ms Nada Bagaric <i>Apologies: N/A</i>	
3 December 2014	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Eammon Oxford, Ms Nada Bagaric <i>Apologies: N/A</i>	
4 February 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Eammon Oxford, Ms Nada Bagaric <i>Apologies: N/A</i>	
11 March 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Eammon Oxford, Ms Nada Bagaric <i>Apologies: N/A</i>	
8 April 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric <i>Apologies: N/A</i>	
6 May 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric <i>Apologies: N/A</i>	
14 May 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric <i>Apologies: N/A</i>	
3 June 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric <i>Apologies: N/A</i>	
20 July 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric <i>Apologies: Mr Michael Ulbrick</i>	
24 August 2015	Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric <i>Apologies: N/A</i>	

2. Summary of 2014-15

This section provides a summary of the Victoria Grants Commission's key activities for 2014-15.

Commonwealth Indexation Pause

In May 2014, the Commonwealth Government announced that it 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 led to considerable challenges in allocating the 2014-15 grants equitably in line with the national distribution principles, and this was the case again for the 2015-16 allocations.

As a result of the indexation pause, a relatively tight variable capping regime was adopted for grant movements from 2013-14 to 2014-15 for both local roads grants and general purpose grants. These capping arrangements were designed to reduce the financial impact borne by those councils with the greatest reliance on this funding.

The capping parameters have been loosened for the 2015-16 allocations to help prepare for the resumption of indexation in 2017-18, while still being designed to reduce the financial impact borne by those councils with the greatest reliance on this funding and ensuring the burden of the lower-than-expected funding pool is borne as equitably as possible.

Estimated Grant Allocations for 2015-16

The 2015 Federal Budget, which was handed down on 12 May 2015 contained the estimated 2015-16 total allocation to Victorian councils.

Consequently, on 22 May 2015, the Commission was able to provide all councils with an indicative estimate of their general purpose and local roads grants allocations for 2015-16, based on the Commonwealth Budget estimates.

Annual Data Return

The Commission's allocation process relies on data provided by councils in annual data returns. Much of this data is also shared with third parties, including the Australian Bureau of Statistics. A lodgement date of 5 November 2014 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 have the ability to provide written submissions to the Commission. 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 adjustors 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.

Four regional information sessions were held in August 2014 to enhance councils' understanding of the Commission's role, allocation methodology and data requirements, and to provide an overview of the calculation of the 2014-15 grants.

A further five regional information sessions are to be held in August/September 2015 to provide an overview of the calculation of the 2015-16 grants, as well as additional information with respect to the Commonwealth pause on the indexation of financial assistance grants. In line with Commonwealth legislation, these meetings are held as public meetings.

For more details about the Commission's consultation program for 2014-15 refer to Section 3 of this Annual Report.

Allocation

The 2015-16 estimated allocation for Victorian councils is \$539.796 million, comprising general purpose grants of \$394.782 million and local roads grants of \$145.014 million.

The Commonwealth Government also announced that an amount of \$0.442 million would be subtracted from the cash payments to Victorian councils during 2015-16, as a result of an overestimation of the 2014-15 entitlements. This amount is the result of an adjustment made by the Commonwealth Government at the end of each financial year to reflect updated population estimates.

In aggregate, the estimated allocation for 2015-16 represents an increase in funding of:

- \$1.045 million (0.2%) over the estimated allocation for 2014-15 (as announced in August 2014)

or

- \$1.486 million (0.3%) when compared to the final allocation for 2014-15.

This is summarised on the next page. Further details pertaining to the allocation of general purpose grants and local roads grants are contained in Sections 4 and 5, respectively.

Allocation Summary

General Purpose Grants

2014-15 Estimated Allocation	\$ 393,729,711
2014-15 Overpayment	\$ 439,751
2014-15 Final Allocation	\$ 393,289,960
2015-16 Estimated Allocation	\$ 394,781,661
\$ Change (compared to estimate)	\$ 1,051,950
\$ Change (compared to final)	\$ 1,491,701
% Change (compared to estimate)	0.3%
% Change (compared to final)	0.4%

Local Roads Grants

2014-15 Estimated Allocation	\$ 145,021,962
2014-15 Overpayment	\$ 2,260
2014-15 Final Allocation	\$ 145,019,702
2015-16 Estimated Allocation	\$ 145,013,958
\$ Change (compared to estimate)	-\$ 8,004
\$ Change (compared to final)	-\$ 5,744
% Change (compared to estimate)	0.0%
% Change (compared to final)	0.0%

Total Financial Assistance Grants

2014-15 Estimated Allocation	\$ 538,751,673
2014-15 Overpayment	\$ 442,011
2014-15 Final Allocation	\$ 538,309,662
2015-16 Estimated Allocation	\$ 539,795,619
\$ Change (compared to estimate)	\$ 1,043,946
\$ Change (compared to final)	\$ 1,485,957
% Change (compared to estimate)	0.2%
% Change (compared to final)	0.3%

2015-16 Cash Payment *

2015-16 Estimated Allocation	\$ 539,795,619
2014-15 Overpayment	\$ 442,011
	\$ 539,353,608

* Includes natural disaster assistance grants.

Forward Payments

On 29 June 2015, a total of \$269.798 million, equivalent to 50% of the estimated 2015-16 financial assistance grants for Victorian councils, was “brought forward” and paid to the Victorian Government.

Payments were made to all Victorian councils on 30 June 2015. As the notification and payment to Victoria occurred prior to the Commonwealth receiving and approving the recommended allocations to councils for 2015-16, the “brought forward” payments were allocated between councils in proportion to their 2014-15 allocations.

As a result of the “brought forward” payments, the total quantum of financial assistance grants received by Victorian councils in 2015-16 will be at least \$0.6 million less than what it would have been if the payments had all occurred during 2015-16. This is due to the “brought forward” payment being treated by the Commonwealth as a 2014-15 grant (and therefore allocated between states and the Northern Territory based on December 2013 population shares) rather than a 2015-16 grant (which would have been allocated on the basis of December 2014 population shares).

National Conference

A national conference of Local Government Grants Commissions was not held during 2014-15.

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.

As a result, the Victoria Grants Commission will host a forum for all Local Government Grants Commissions in Melbourne in October 2015.

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 2014-15, the Commission held meetings with a total of 23 councils on an individual basis. This is part of the Commission's commitment to meet with every Victorian council on a four-year cycle.

Individual Council Meeting	Venue	Date
Southern Grampians	Hamilton	18 September 2014
Moyne	Port Fairy	19 September 2014
Warrnambool	Warrnambool	19 September 2014
Greater Shepparton	Shepparton	2 October 2014
Wangaratta	Wangaratta	2 October 2014
Indigo	Beechworth	3 October 2014
Loddon	Wedderburn	19 November 2014
Buloke	Wycheproof	19 November 2014
Swan Hill	Swan Hill	20 November 2014
Gannawarra	Kerang	20 November 2014
Campaspe	Echuca	21 November 2014
Wodonga	Melbourne	18 December 2014
Mitchell	Broadford	18 February 2015
Maroondah	Ringwood	2 March 2015
Hindmarsh	Dimboola	18 March 2015
Horsham	Horsham	18 March 2015
Yarriambiack	Warracknabeal	19 March 2015
Banyule	Melbourne	12 June 2015
Maribyrnong	Footscray	17 June 2015
Baw Baw	Warragul	29 June 2015
Latrobe	Morwell	29 June 2015
Wyndham	Werribee	24 August 2015
Surf Coast	Torquay	24 August 2015

Council Group Meeting	Venue	Date
Interface Councils	Melbourne	11 March 2015

Regional Information Sessions

Five regional information sessions will be held in August/September 2015 in Pakenham, Maryborough, Colac, Moonee Ponds and Benalla. These sessions will provide an overview of the methodology for the 2015-16 allocations and provide some additional information to councils about the Commonwealth pausing of indexation on financial assistance grants.

Public Meetings

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

Submissions

Councils were invited to provide the Commission with written submissions by the end of February 2015 in relation to the 2015-16 allocations.

Submissions were received from four councils and one group of councils, as follows:

Submissions Received

Horsham Rural City Council

Moyne Shire Council

Nillumbik Shire Council

Swan Hill Rural City Council

Interface Councils Group

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 adjusters, 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: <http://www.dtpli.vic.gov.au/local-government/victoria-grants-commission>

4. General Purpose Grants

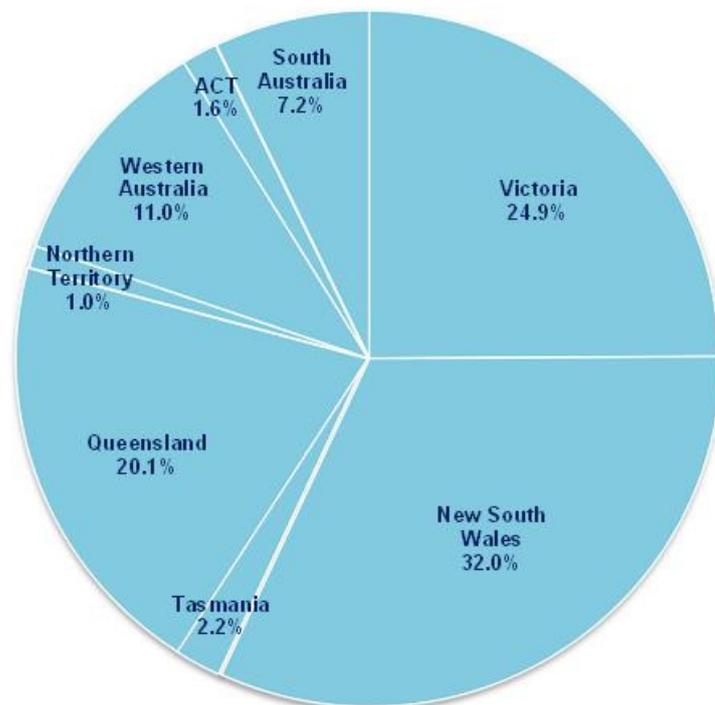
This section provides details of the allocation of general purpose grants for 2015-16, which represents the primary focus of the Commission's activities during the period covered by this Annual Report.

Background

General purpose grants are one of the two components of the financial assistance grants (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 2015-16, Victoria will receive 24.9% 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



National Principles

The Victoria Grants Commission is required to allocate financial assistance grants 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 2014-15

In July 2014 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total general purpose grants for 2014-15 of \$393.730 million. This formed the basis of the Commission's estimated general purpose grant allocations to each council for 2014-15, which were announced in August 2015 and are detailed in Appendix 2A of the Commission's 2014-15 Annual Report.

The final (or actual) amount to be allocated for 2014-15 was determined by the Commonwealth Government in July 2015, based on revised population growth estimates as at December 2013. The final allocation is \$393.290 million, a decrease of \$0.440 million, or 0.1%, compared with the earlier estimate.

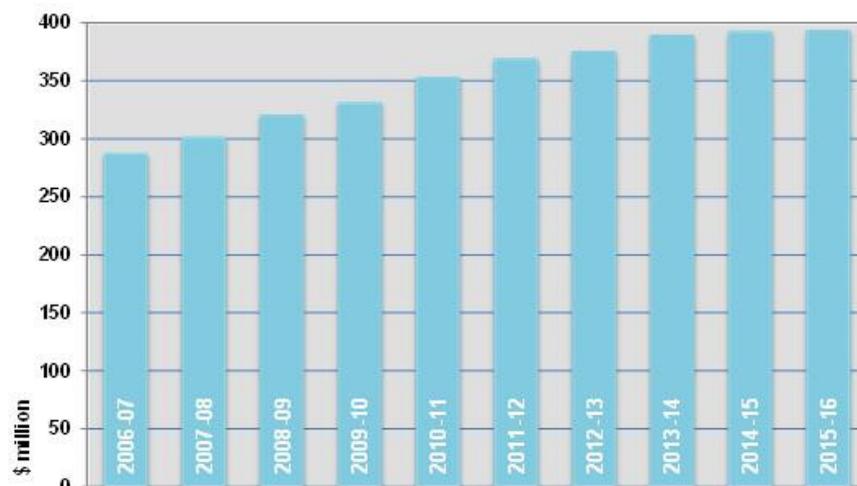
This decrease represents an overpayment to Victorian councils for 2014-15. This overpayment is largely due to the treatment by the Commonwealth of the "brought forward" made in June 2015 as a 2014-15 grant (and therefore based on December 2013 population estimates) rather than a 2015-16 grant (which would have been based on December 2014 population estimates). The overpaid funds will be subtracted from each council's payments for 2015-16 on a pro-rata basis according to each council's estimated entitlement for 2014-15 as shown in Appendix 2B.

Estimated Allocations 2015-16

The estimated national general purpose grants pool for 2015-16 is \$1,585 million. Victoria's share of this estimated entitlement is \$394.782 million. This represents an increase of:

- \$1.052 million (0.3%) compared with the estimated general purpose grants allocation for 2014-15;
- or
- \$1.492 million (0.4%) compared with the final general purpose grants allocation for 2014-15.

General Purpose Grants - Victoria



Estimated allocation 2015-16, actual allocation 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 have also been capped which, in turn, affects the relationship between raw grants and actual grants.

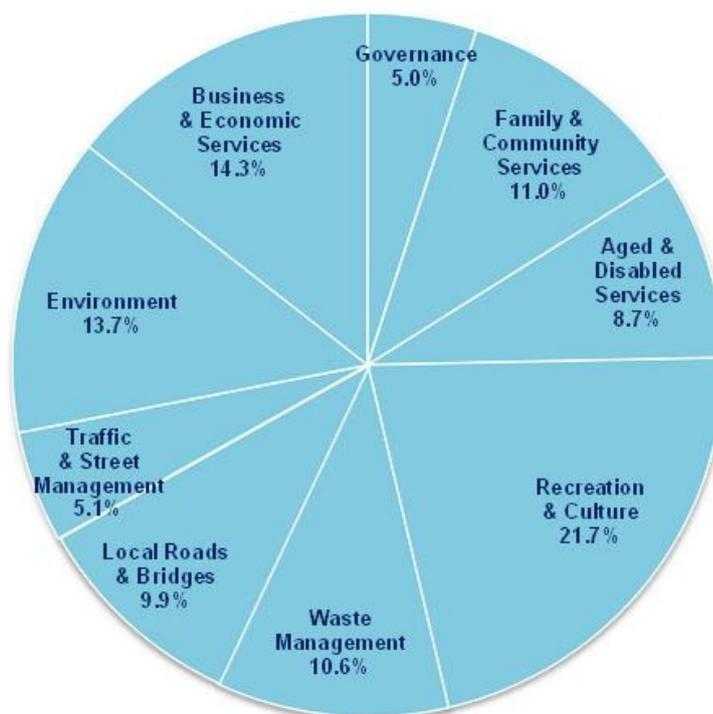
Specific grants, up to a maximum of \$35,000 per declared event, are made to a small number of councils each year in the form of natural disaster assistance. These grants are funded from the general purpose grants pool and so reduce the amount allocated on a formula basis. Details of natural disaster assistance grants allocated for 2015-16 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 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.

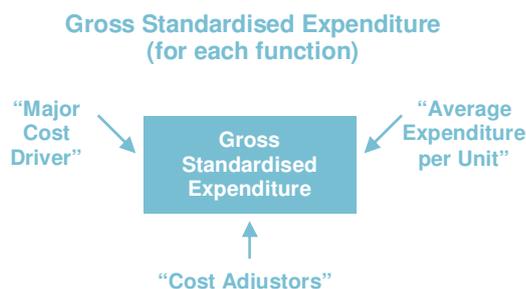
The total recurrent expenditure across all Victorian councils in 2013-14 was \$7.200 billion. Under the Commission's methodology, the gross standardised expenditure in the allocation model for 2015-16 therefore also equals \$7.200 billion, with each of the nine expenditure functions assuming the same share of both actual expenditure and standardised expenditure.



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 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)	\$ 58.50
Family & Community Services	Population	\$137.79
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$415.81
Recreation & Culture	Population	\$270.96
Waste Management	No. of Dwellings	\$311.07
Traffic & Street Management	Population	\$123.11
Environment	Population (adjusted)	\$ 61.52
Business & Economic Services	Population (adjusted)	\$167.18

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

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 also take account of the high rates of vacant dwellings at the time the census is taken as a proxy for non-resident population. 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, actual populations are adjusted upwards to reflect above average rates of vacancies on census night and councils with a population of less than 20,000 are deemed to have a population of 20,000.
- For the Environment function, actual populations are adjusted upwards to reflect above average rates of vacancies on census night. Councils with a vacancy-adjusted population of less than 15,000 are assumed to have a population double that amount, to a maximum of 15,000.
- For the Business & Economic Services function, actual populations are adjusted upwards to reflect 50% of above average rates of vacancies on census night. Councils with a vacancy-adjusted population of less than 15,000 are assumed to have a population double that amount, to a maximum of 15,000.

Cost Adjustors

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 12 cost adjustors used in the calculation of the 2015-16 general purpose grants are:

Aged Pensioners	Population Growth
Economies of Scale	Population less than 6 Years
Environmental Risk	Regional Significance
Indigenous Population	Remoteness
Language	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 2015-16 general purpose grants are shown on the following page:

Application of Cost Adjustors: 2015-16 Allocations

Cost Adjustor	1	2	3	4	5	6	7	8	9	10	11	12	Major Cost Driver
Expenditure Function	Aged Pensioners	Economies of Scale	Environmental Risk	Indigenous Population	Language	Population Dispersion	Population Growth	Population Under 6 Years	Regional Significance	Remoteness	Socio-Economic	Tourism	
Governance		20%		10%	25%	25%				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		30%				50%			10%			10%	No. of Dwellings
Traffic & Street Management		10%				15%	25%		35%			15%	Population
Environment		10%	30%			25%	10%			25%			Modified Population adjusted by Vacancy Rates (double to max 15,000)
Business & Economic Services		30%				10%			30%	20%		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 removed both the Population Density and Urban Roads cost adjustors for 2015-16.

The Commission has removed both of these cost adjustors as their ongoing relevance could not be adequately demonstrated and it appeared that, to some extent, they worked in a counterproductive manner to some of the other 12 adjustors.

This has resulted in the following adjustments to the cost adjustor weightings for the 2015-16 allocation.

- Waste Management – 10% reallocated from Population Density to Tourism
- Traffic and Street Management – 15% reallocated from Urban Roads to Population Dispersion and 10% to Economies of Scale

In addition, the previous 'Scale' cost adjustor has been retitled 'Economies of Scale'.

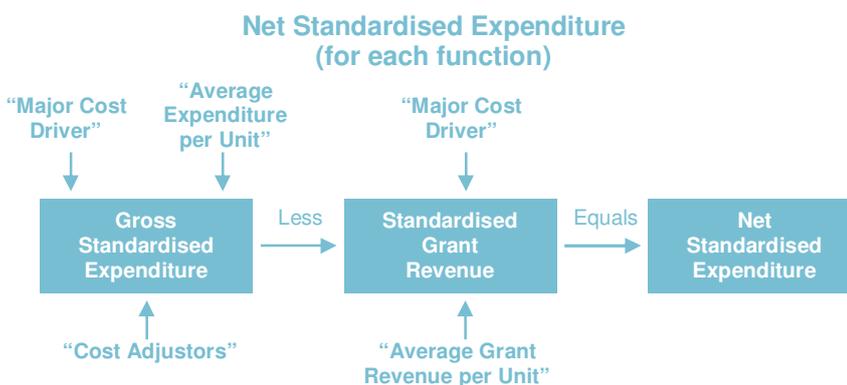
Net Standardised Expenditure

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)	\$ 1.15
Family & Community Services	Population	\$ 36.59
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$188.57
Recreation & Culture	Population	\$ 6.27
Waste Management	No. of Dwellings	\$ 0.25
Traffic & Street Management	Population	\$ 2.03
Environment	Population (adjusted)	\$ 1.14
Business & Economic Services	Population (adjusted)	\$ 2.31

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 generating plants 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	\$ 1.060.312 b	\$ 3.100 b	\$ 0.00292
Commercial/ Industrial/Other	\$ 205.161 b	\$ 0.747 b	\$ 0.00364
Farm	\$ 77.792 b	\$ 0.247 b	\$ 0.00318

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 2013-14) 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	\$ 13.83	Nil
Family & Community Services	Population	\$ 12.14	Socio-Economic
Aged & Disabled Services	Pop. > 60 +Disability Pensioners +Carer's Allowance Recipients	\$ 49.15	Household Income
Recreation & Culture	Population	\$ 24.86	Valuations (% Commercial)
Waste Management	No. Dwellings	\$ 26.97	Nil
Traffic & Street Management	Population	\$ 8.41	Valuations (% Commercial)
Environment	Population	\$ 1.26	Nil
Business & Economic Services	Population	\$ 28.69	Tourism + Value of Development
Local Roads & Bridges	Population	\$ 2.07	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.

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.

All data used by the Commission in allocating general purpose grants has been updated where possible. The main updates used for the 2015-16 allocation have been population estimates, valuations data and council expenditure and revenue information.

The Commission loosened its variable capping regime in 2015-16 in preparation for the conclusion of the Commonwealth Government's 'pause' on indexation of financial assistance grants.

For general purpose grants, the caps for 2015-16 grants are:

- Increases limited to 3.0%, except for minimum grant councils
- Decreases limited to -4.0% for metropolitan and regional centre councils
- Decreases limited to -2.0% for rural councils.

Submissions and Data

Variable Capping

Minimum Grants

The available general purpose grants pool for Victorian councils represents, on average, \$67.58 per head of population (using ABS population estimates as at 30 June 2014). 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 \$20.27 for 2015-16).

Without the application of this principle, general purpose grants for 2015-16 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 \$20.27 per capita level. The minimum grant principle has resulted in the general purpose grants to these councils being increased to that level.

Estimated Allocations 2015-16

The estimated general purpose grant allocation for each Victorian council for 2015-16 is shown in Appendix 2A.

A summary of the changes in estimated general purpose grant allocations from 2014-15 to 2015-16 is shown below:

Change in General Purpose Grant	No. of Councils
Increase of more than 3.0%*	1
Increase of 3.0% (capped)	5
Increase of 0.0% to <3.0%	34
Decrease of 0.0% to <-1.0% (Rural)	18
Decrease of 0.0% to <-2.0% (Metro, Regional Centres)	12
Decrease of -1.0% (Capped) (Rural)	1
Decrease of -2.0% (Capped) (Metro, Regional Centres)	8
Total	79

*Increase exceeds 3.0% due to the City of Melbourne's minimum grant council status.

Comparative Grant Outcomes 2015-16

The largest general purpose grant allocation for 2015-16 is to Greater Geelong City Council (\$16.112 million). The smallest grant of \$199,017 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 allocation of \$2.680 million represents \$673.13 per head of population. This compares to the outcome for minimum grant councils, where the grant represents \$20.27 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.

Thirty grants to 16 councils have been allocated for 2015-16, totalling \$970,153. This is an increase over the 23 grants made in 2014-15.

Recommended natural disaster assistance grants from the 2015-16 allocation are as follows:

Natural Disaster Assistance for 2015-16		(\$)
Baw Baw (S)	Flood, Bushfire & Storm (3 events)	105,000
Colac Otway (S)	Storm	35,000
Glenelg (S)	Flood	35,000
Greater Geelong (C)	Storm	25,940
Hepburn (S)	Floods (3 events)	105,000
Hobsons Bay (C)	Flood	35,000
Horsham (RC)	Bushfire	35,000
Hume (C)	Bushfire	35,000
Latrobe (C)	Flood & Storm (2 events)	48,981
Mansfield (S)	Flood	35,000
Moorabool (S)	Flood	35,000
Mornington Peninsula (S)	Floods (4 events)	122,183
Northern Grampians (S)	Bushfire	35,000
South Gippsland (S)	Floods & Storm (4 events)	108,049
Wellington (S)	Flood	35,000
Yarra Ranges (S)	Flood & Storms (4 events)	140,000
Total		970,153

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 12 cost adjustors used by the Commission for the 2015-16 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>Economies of Scale</i>	Recognises the economies of scale inherent in providing some local government services to larger populations.
<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>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 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>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 2015-16 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

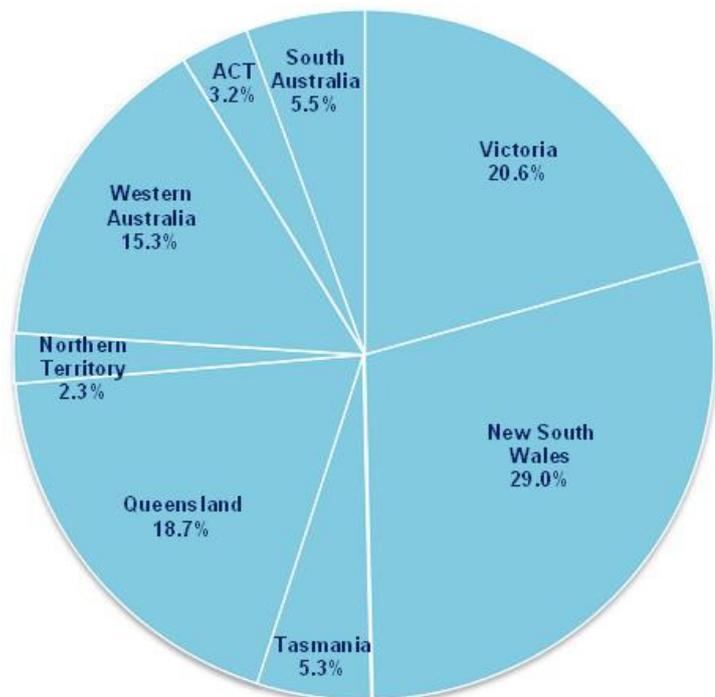
This section provides details of the allocation of local roads grants for 2015-16, which were determined during the period covered by this Annual Report.

Background

Local roads grants are the second of the two components of the financial assistance grants 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 financial assistance grants 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 2014-15

In July 2014 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total local roads grants for 2014-15 of \$145.022 million. This formed the basis of the Commission's estimated local roads allocation to each council for 2014-15, which were announced in August 2014 and are shown in Appendix 2A of the Commission's 2013-14 Annual Report.

The Commonwealth Department of Infrastructure and Regional Development advised the Commission in July 2015 of the final (or actual) amount to be allocated for 2014-15, based on revised inflation and population growth estimates. The final allocation is \$145.020 million, a decrease of \$2260 compared with the earlier estimate.

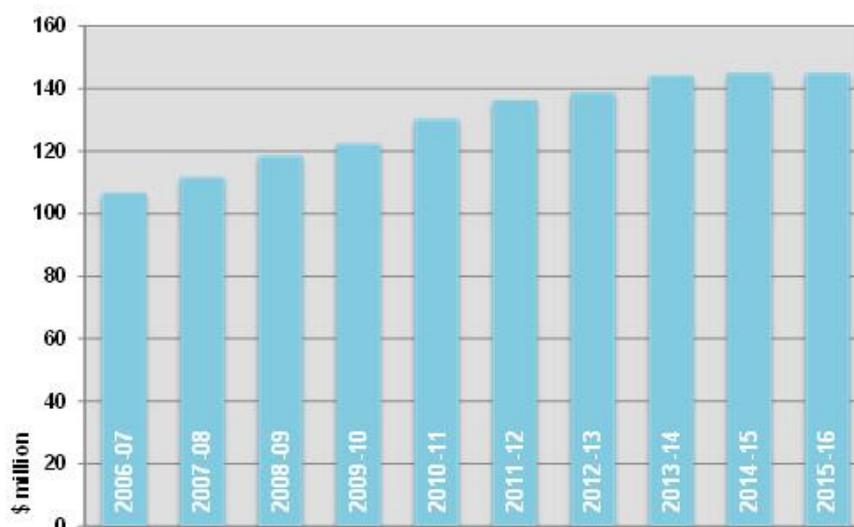
The overpaid funds will be subtracted from each council's payments for 2015-16 on a pro-rata basis according to each council's estimated entitlement for 2014-15 as shown in Appendix 2B.

Estimated Allocations 2015-16

The estimated national local roads grants pool for 2015-16 is \$703.392 million. Victoria's share of this estimated allocation is \$145.014 million. This represents a decrease of:

- \$8004 compared with the estimated local roads allocation for 2014-15;
- or
- \$5744 compared with the final local roads allocation for 2014-15.

Local Roads Grants - Victoria



Estimated allocation 2014-15, actual allocation 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 2015-16 has been based on traffic volume data reported by all councils for the 12 months to June 2014.

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 130,549 kilometres of local roads as at 30 June 2014, an increase of 668 kilometres, or 0.5% 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 their road networks.

Variations were as follows:

Change in Length of Local Roads	No. of Councils
Increase of more than 5.0%	1
Increase of 1.0% to 5.0%	9
Increase of up to 1.0%	38
No Change	23
Decrease of up to 1.0%	7
Decrease of 1.0% to 5.0%	1
Decrease of more than 5.0%	0
Total	79

Road lengths reported by each council for each traffic volume range as at June 2014 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 were doubled for the 2015-16 allocations to better reflect councils' aggregate actual expenditure on road maintenance. However, this change has had no impact on the distribution of local roads grants. The asset preservation costs used for the 2015-16 allocations are:

Local Road Type	Daily Traffic Volume Range	Annual Asset Preservation Cost \$/km
Urban	< 500	\$ 7,200
	500 - <1000	\$ 9,800
	1000 - <5000	\$ 13,200
	5000 +	\$ 21,400
Rural	Natural Surface	\$ 700
	< 100	\$ 5,000
	100 - <500	\$ 10,400
	500 - < 1,000	\$ 11,600
	1,000 +	\$ 13,200
Timber Bridge		\$ 200 / sq m
Concrete Bridge		\$ 120 / 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 2015-16 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 \$ 120 per square metre for concrete bridges and \$ 200 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

The Commission loosened its variable capping regime in 2015-16 in preparation for the conclusion of the Commonwealth Government's 'pause' on indexation of financial assistance grants.

For local roads grants, the caps for 2015-16 grants are:

- Increases limited to 3.0% for all councils
- Decreases limited to -4.0% for metropolitan and regional centre councils
- Decreases limited to -2.0% for rural councils.

Estimated Allocations 2015-16

The estimated local roads grant allocation for each Victorian council for 2015-16 is shown in Appendix 2A.

In general, where a significant change has occurred in a council's local roads grant for 2015-16, this is due to a combination of:

- the significant changes made to the allocation model in 2013-14 still flowing through into the 2015-16 allocation; and
- changes in traffic volume data supplied by the council to the Commission.

A summary of the changes in estimated local roads grant entitlements from 2014-15 to 2015-16 is shown below:

Change in Local Roads Grant	No. of Councils
Increase of 3.0% (Capped)	14
Increase of 0.0% to <3.0%	24
Decrease of 0.0% to <-2.0% (Rural)	15
Decrease of 0.0% to <-4.0% (Metro, Regional Centres)	16
Decrease of -2.0% (Capped) (Rural)	9
Decrease of -4.0% (Capped) (Metro, Regional Centres)	1
Total	79

Comparative Grant Outcomes 2015-16

The largest local roads grant for 2015-16 has been allocated to Wellington Shire Council (\$4.437 million), while the smallest grant of \$52,988 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 2015-16 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 identified 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 2015-16.

Implications of Indexation Pause

In the wake of the Commonwealth Government's decision to pause indexation arrangements for three years from 2015-16, 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%.

In preparation for the resumption of indexation in 2017-18, the capping parameters applied to grant outcomes have been loosened for the 2015-16.

Over the coming year, the Commission will continue to conduct modelling of the 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 unfairly by those councils with the greatest reliance on this funding.

Council Consultation

The Commission will continue to visit Victorian councils on an individual basis 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.

Roads Data

It is important that all councils accurately record and report locals roads data to the Commission as this underpins the annual allocation of local roads grants. A particular current focus for the Commission is the reporting of local roads that are being returned progressively to a natural surface state. Additional information has been sought from councils in this regard in their 2014-15 data returns, which will inform the 2016-17 grant allocations.

National Forum

The Victoria Grants Commission will host a forum for all Local Government Grants Commissions in Melbourne in October 2015.

