

2012

Victoria Grants Commission Annual Report 2011-12

Victoria Grants Commission

Annual Report

2011-12

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Victoria Grants Commission

Annual Report

2011-12

September 2012

The Hon Jeanette Powell MP
Minister for Local Government
8 Nicholson 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 2012, in accordance with Section 17 of the Victoria Grants Commission Act 1976.

Paul Slape
Chairperson

Doug Thomas
Member

Caroline Hogg
Member

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Foreword

The Victoria Grants Commission's Annual Report for 2011-12 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 2012-13. This Annual Report details the methodology used to allocate these grants, while the appendices contain the data that was used in this process.

During the year, the Commission has continued to review the local roads data and the data used for the calculation of the cost modifiers used within the methodology. The 2012-13 local roads grants were based on the new road classification types of urban and rural, replacing the previous kerbed and unkerbed road length data. The new data was also used in replacing the Kerbed Roads Cost Adjustor with an Urban Roads Cost Adjustor in the general purpose grant calculation. The Cost Adjustor now takes into account councils' total urban road lengths.

As part of the ongoing review, the Commission will continue to review data used for the local roads methodology and update councils about the progress of this as it occurs.

A review of what was formerly known as the Annual Data Return was undertaken in consultation with a small group of councils, other State Grants Commissions and the Australian Bureau of Statistics. The new look Questionnaire provides an easier to read layout and includes new items in line with the Local Government Purpose Classification. At the same time a review of the manual that assists in the completion of the Questionnaire has also been undertaken.

The Commission continued its consultation program with councils, conducting three well attended regional meetings and twenty individual council meetings across Victoria through 2011 and 2012. The meetings provide the Commission with the opportunity to gain valuable insight to local issues affecting councils in Victoria. Through the submission process, seven councils provided further feedback and suggestions to the Commission in submissions received in February 2012.

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

**Victoria Grants Commission
September 2012**

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.

Ms Caroline Hogg was reappointed through to 31 October 2013.

The present membership of the Commission is as follows:

		Initial Appointment	Current Term Expires
Chairperson	Paul Slape	17 January 2005	31 October 2012
Sessional Member	Caroline Hogg	1 November 2004	31 October 2013
Sessional Member	Doug Thomas	13 April 2004	31 October 2013

Funding

All funds allocated by the Commonwealth are distributed to councils, with 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 Planning and Community Development.

Staff members during 2011-12 were as follows:

Colin Morrison	Executive Officer
Julia Keeble	
Nada Bagaric	

Acknowledgements

The Commission would like to acknowledge the continued and valuable contributions from Victorian councils particularly in responding 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 Planning and Community Development), the Commonwealth Department of Regional Australia, Local Government, Arts and Sport, 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.

2. Summary of 2011-12

This section provides a summary of a selection of the Victoria Grants Commission's key activities for 2011-12.

Consultation

All Victorian councils were invited to present written submissions to the Commission early in 2012. 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.

Three regional information sessions were held in early September 2011 to enhance councils' understanding of the Commission's role, allocation methodology and data requirements and to provide an overview of the calculation of the 2011-12 grants.

For more details about the Commission's consultation program for 2011-12 refer to Section 3 of this Annual Report.

Annual Data Return

Councils were requested this year to provide the local roads component of the annual return by 30 September 2011. This enabled the modelling of the changes to the road classification type to be undertaken prior to the allocation process.

A lodgement date of 2 November 2011 was set for the remainder 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.

Grant Allocations for 2012-13

The Federal Budget was brought down on 8 May 2012 and contained the estimated 2012-13 total entitlement to Victorian councils. Consequently, on 23 May 2012, the Commission was able to provide all councils with an indicative estimate of their general purpose and local roads grants allocations for 2012-13, based on the Commonwealth Budget estimates.

General Purpose Grants

2011-12 Estimated Entitlement	\$370,445,541
2011-12 Overpayment	- \$10,249,680
2011-12 Final Allocation	<u>\$360,195,861</u>
2012-13 Estimated Entitlement	\$376,919,866
\$ Change (compared to estimate)	\$6,474,325
\$ Change (compared to final)	\$16,724,005
% Change (compared to estimate)	1.8%
% Change (compared to final)	4.6%

Local Roads Grants

2011-12 Estimated Entitlement	\$136,366,508
2011-12 Overpayment	- \$3,351,048
2011-12 Final Allocation	<u>\$133,015,460</u>
2012-13 Estimated Entitlement	\$138,884,454
\$ Change (compared to estimate)	\$2,517,946
\$ Change (compared to final)	\$5,868,994
% Change (compared to estimate)	1.8%
% Change (compared to final)	4.4%

Total General Revenue Assistance

2011-12 Estimated Entitlement	\$506,812,049
2011-12 Underpayment	\$13,600,728
2011-12 Final Allocation	<u>\$493,211,321</u>
2012-13 Estimated Entitlement	\$515,804,320
\$ Change (compared to estimate)	\$8,992,271
\$ Change (compared to final)	\$22,592,999
% Change (compared to estimate)	1.8%
% Change (compared to final)	4.6%

2012-13 Cash Payment *

2012-13 Estimated Entitlement	\$515,804,320
- 2011-12 Overpayment	\$13,600,728
	<u>\$502,203,592</u>

* Includes natural disaster grants.

Forward Payments

The estimated allocation for Victorian councils for 2012-13 is \$515.804 million, comprising general purpose grants of \$376.920 million and local roads grants of \$138.884 million. However, the Commonwealth Government also announced that an amount of \$13.601 million would be subtracted from the cash payments to Victorian councils during 2012-13, as a result of an overestimation of the 2011-12 entitlements.

In aggregate, the estimated entitlements for 2012-13 represent an increase in funding of \$8.992 million or 1.8% over the estimated entitlements for 2011-12 (as announced in August 2011), or an increase of \$22.593 million or 4.6% when compared to the final allocation for 2011-12.

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

The Federal Government announced in the May Budget that it would bring forward the payment of approximately half of the 2012-13 financial assistance grants to the 2011-12 financial year for all Australian councils. A total of \$263.288 million was brought forward for Victoria.

The remaining payments for 2012-13 are due to be made in equal quarterly instalments during 2012-13.

For the purposes of this report the payments made in June 2012 are treated as part of the 2012-13 payments.

National Conference

The Victoria Grants Commission attended the annual National Conference of Local Government Grants Commissions, held in South Australia from 5-7 October 2011.

The Conference focussed on the theme of a 'two speed economy'. Other issues facing both councils and local government grants commissions around growth, water and constitutional recognition of Local Government were also discussed at the conference.

The Conference was attended by representatives from each of the seven Local Government Grants Commissions, the Commonwealth Grants Commission and the Commonwealth Department of Regional Australia, Local Government, Arts and Sport.

The next National Conference will be held in Western Australia on 9-11 October 2012 and will focus on local government reform.

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.

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 enable the Commission to gain a greater understanding of the issues facing individual councils.

In 2011-12, the Commission visited a total of twenty councils on an individual basis.

Individual Council Meetings	Venue	Date
Brimbank City Council	Sunshine	28 November 2011
Central Goldfields Shire Council	Maryborough	29 November 2011
Mildura Rural City Council	Mildura	6 February 2012
Greater Dandenong City Council	Dandenong	14 February 2012
Frankston City Council	Frankston	14 February 2012
Mitchell Shire Council	Broadford	20 February 2012
Strathbogie Shire Council	Euroa	20 February 2012
Colac Otway Shire Council	Colac	14 March 2012
Surf Coast Shire Council	Torquay	14 March 2012
Banyule City Council	Heidelberg	26 March 2012
Moreland City Council	Coburg	26 March 2012
Melton Shire Council	Melton	13 June 2012
Glenelg Shire Council	Portland	14 June 2012
West Wimmera Shire Council	Edenhope	15 June 2012
Hepburn Shire Council	Hepburn	4 July 2012
Pyrenees Shire Council	Beaufort	4 July 2012
Casey City Council	Narre Warren	16 July 2012
Cardinia Shire Council	Pakenham	16 July 2012
Greater Bendigo City Council	Bendigo	26 July 2012
Mount Alexander Shire Council	Castlemaine	26 July 2012

Regional Information Sessions

A series of regional information sessions were held in September 2011, with meetings in Beaufort, Shepparton and Ringwood. These sessions provided an overview of the methodology for the 2011-12 allocations and outlined the timetable for the 2012-13 allocation cycle. 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 2012, in relation to the 2012-13 allocations. Submissions were received from seven councils, as follows:

Submissions Received

Central Goldfields Shire Council
Colac Otway Shire Council
Mansfield Shire Council
Maribyrnong City Council
Nillumbik Shire Council
Strathbogie Shire Council
Yarra Ranges Shire Council

These submissions dealt with a range of issues, including the treatment of socio-economic disadvantage within the methodology, the use of Centrelink data, the use of adjusted population figures and challenges facing councils, including environmental issues.

Other Information

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

4. General Purpose Grants

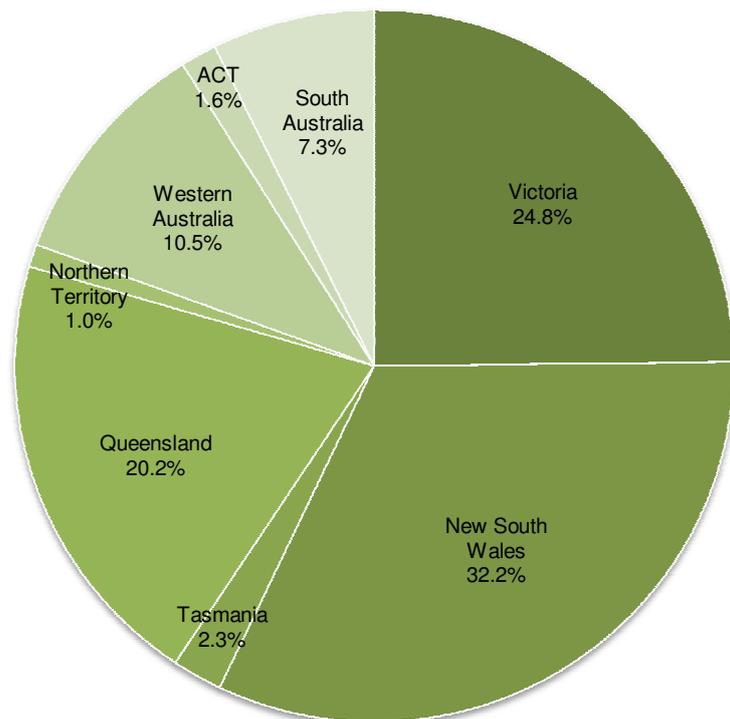
This section provides details of the allocation of general purpose grants for 2012-13, which represents the primary focus of the Commission's activities during the period covered by this Annual Report.

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 2012-13, 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 2011-12

In July 2011 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total general purpose grants for 2011-12 of \$370.446 million. This formed the basis of the Commission's estimated general purpose grant allocations to each council for 2011-12, which were announced in August 2011 and are detailed in Appendix 2A of the Commission's 2010-11 Annual Report.

The final (or actual) amount to be allocated for 2011-12 was determined by the Commonwealth Government in July 2012, based on revised inflation and population growth estimates. The final allocation is \$360.196 million, a decrease of \$10.250 million or 2.8% compared with the earlier estimate.

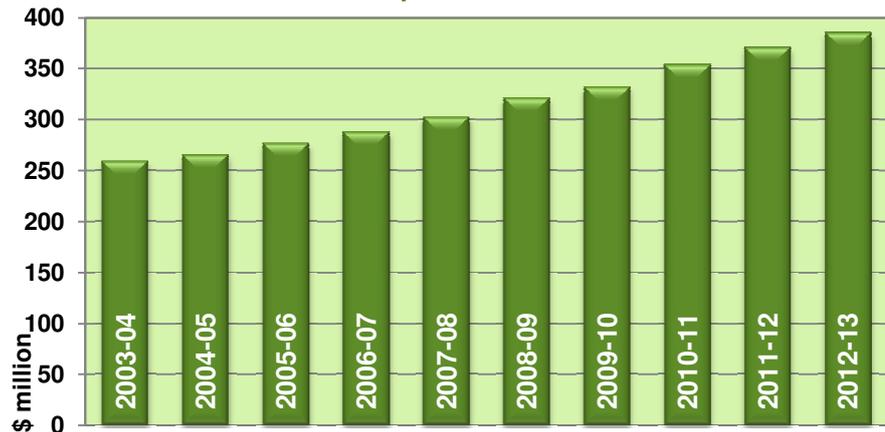
The reduction in funds will be subtracted from each council's quarterly payments for 2012-13 on a pro-rata basis according to each council's estimated entitlement for 2011-12 as shown in Appendix 2B.

Estimated Allocations 2011-12

The estimated national general purpose grants pool for 2012-13 is \$1.518 billion. Victoria's share of this estimated entitlement is \$376.920 million. This represents an increase of:

- \$6.474 million (1.8%) compared with the estimated general purpose grants allocation for 2011-12;
- or
- \$16.724 million (4.6%) compared with the final general purpose grants allocation for 2011-12.

General Purpose Grants - Victoria



Estimated entitlement 2012-13, 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 also affects the relationship between raw grants and actual grants.

Specific grants, up to a maximum of \$35,000 per disaster, 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 2012-13 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 by Victorian councils in 2010-11 was \$6.160 billion. Under the Commission's methodology, the gross standardised expenditure in the allocation model for 2012-13 therefore also equals \$6.160 billion, with each of the nine expenditure functions assuming the same share of both actual expenditure and standardised expenditure.



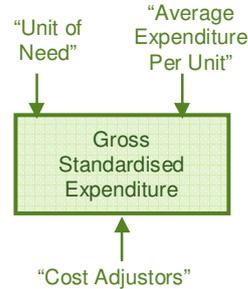
For each function, with the exception of Local Roads and Bridges, *gross standardised expenditure* is obtained by multiplying the relevant unit of need (e.g.: population) by:

- 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.

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

This can be demonstrated diagrammatically as follows:

**Gross Standardised Expenditure
(for each function)**



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	Av. Expend Per Unit
Governance	Population (adjusted)	\$51.63
Family & Community Services	Population	\$131.83
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$465.02
Recreation & Culture	Population	\$237.74
Waste Management	No. of Dwellings	\$277.59
Traffic & Street Management	Population	\$110.09
Environmental Protection Services	Population (adjusted)	\$63.51
Business & Economic Services	Population (adjusted)	\$115.21

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)	- Environmental Protection Services
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, Environmental Protection Services 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 Environmental Protection Services function, a minimum population of 15,000 is assumed and 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.

A number of cost adjustors are used in various combinations against each function. These 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. 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 2012-13 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 2012-13 general purpose grants are shown on the following page:

Application of Cost Adjustors: 2012-13 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						20%	50%					30%			No. of Dwellings
Local Roads & Bridges	Cost Adjustors not applied - based on local road model network costs														
Traffic & Street Management				25%				25%		35%				15%	Population
Environmental Protection Services		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)

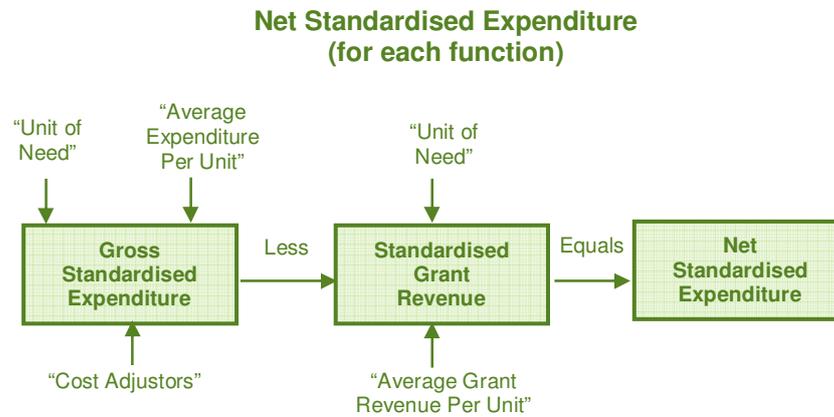
Net Standardised Expenditure

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 2011-12) is shown below:

Expenditure Function	Major Cost Driver	Average Grants Per Unit
Governance	Population (adjusted)	\$0.23
Family & Community Services	Population	\$32.21
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$194.36
Recreation & Culture	Population	\$6.92
Waste Management	No. of Dwellings	\$0.19
Traffic & Street Management	Population	\$2.00
Environmental Protection Services	Population (adjusted)	\$1.08
Business & Economic Services	Population (adjusted)	\$3.18

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 Av. Valuations	Total Rate Revenue	Average Rate
Residential	\$920.118 b	\$2.570 b	\$0.002793
Commercial/Industrial/Other	\$190.065 b	\$0.654 b	\$0.003444
Farm	\$74.408 b	\$0.217 b	\$0.002920

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 State median revenue from user fees and charges. 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 median actual revenues generated by local government in 2011-12) 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	\$8.55	Nil
Family & Community Services	Population	\$12.11	Socio-Economic
Aged & Disabled Services	Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients	\$61.79	Household Income
Recreation & Culture	Population	\$16.49	Valuations (% Commercial)
Waste Management	No. Dwellings	\$27.80	Nil
Local Roads & Bridges	Population	\$0.30	Nil
Traffic & Street Management	Population	\$8.55	Valuations (% Commercial)
Environmental Protection Services	Population	\$0.79	Nil
Business & Economic Services	Population	\$19.66	Tourism + Value of Development

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 a 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 intense individual and the regional meetings held with councils throughout the year.

As a result of the changes in the data collection for local roads networks, the Kerbed Roads Cost Adjustor has been changed to Urban Roads Cost Adjustor. The Cost Adjustor now takes into account council's total urban road length.

All data used by the Commission in allocating general purpose grants has been updated where possible. Major inputs include population estimates, valuations data and council expenditure and revenue information.

Capping

The Commission limits downward movements in general purpose grants from year to year to 10%. Similarly, the Commission limits upwards movements in general purpose grant outcomes and limits such movements to 20% when compared with the estimated entitlement for the previous year. Neither cap has been applied for the 2012-13 allocations.

Minimum Grants

The available general purpose grants pool for Victorian councils represents, on average, \$67.05 per head of population (using ABS population estimates as at 30 June 2011). 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 \$20.12 for 2012-13).

Without the application of this principle, general purpose grants for 2012-13 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 \$20.12 per capita level. The minimum grant principle has resulted in the general purpose grants to these councils being increased to that level.

Estimated Entitlements 2012-13

The estimated general purpose grant entitlement for each Victorian council for 2012-13 is shown in Appendix 2A.

A summary of the changes in estimated general purpose grant entitlements from 2011-12 to 2012-13 is shown below:

Change in General Purpose Grant	No. of Councils
Increase of more than 10.0%	0
Increase of 5.0% to 10.0%	4
Increase of up to 5.0%	57
Decrease of up to 5.0%	17
Decrease of 5% to 10.0%	1
Total	79

The largest general purpose grant allocation for 2012-13 is to Greater Geelong City Council (\$16.199 million). The smallest grant of \$204.822 has been allocated to the Borough of Queenscliffe.

Natural Disaster Assistance

On a per capita basis, the largest general purpose grant has been allocated to West Wimmera Shire Council, where the grant of \$2.708 million represents \$598.89 per head of population. This compares to the outcome for minimum grant councils, where the grant represents \$20.12 per head of population.

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 eight grants to twenty seven councils have been allocated for 2012-13, totalling \$1,153,566. This is again a significant increase from the previous year, where twenty seven claims were recommended. It is expected that the above average level of natural disaster claims will continue for at least a further year following the extreme weather events that have occurred since the end of 2010.

Natural disaster grants for 2012-13

Ararat Rural City Council	Storm/Flood	\$35,000
Banyule City Council	Flood (2)	\$45,376
Casey City Council	Flood	\$30,354
Central Goldfields Shire Council	Flood	\$35,000
East Gippsland Shire Council	Flood	\$35,000
Gannawarra Shire Council	Flood	\$35,000
Golden Plains Shire Council	Flood	\$35,000
Greater Bendigo City Council	Flood	\$17,030
Greater Geelong City Council	Flood (2)	\$70,000
Greater Shepparton City Council	Flood	\$35,000
Horsham Rural City Council	Flood	\$35,000
Hume City Council	Flood	\$35,000
Indigo Shire Council	Storm/Flood/Bushfire(3)	\$94,189
Latrobe City Council	Bushfire	\$35,000
Macedon Ranges Shire Council	Bushfire	\$35,000
Mansfield Shire Council	Flood	\$35,000
Melton Shire Council	Flood (2)	\$40,202
Monash City Council	Flood	\$35,000
Moorabool Shire Council	Storm	\$35,000
Moyne Shire Council	Flood	\$35,000
Murrindindi Shire Council	Storms (3)	\$105,000
Northern Grampians Shire Council	Flood	\$35,000
South Gippsland Shire Council	Flood	\$35,000
Surf Coast Shire Council	Flood	\$16,992
West Wimmera Shire Council	Flood	\$35,000
Wodonga Rural City Council	Flood (2)	\$49,085
Yarra Ranges Shire Council	Bushfire & Storm (3)	\$90,338
Total		\$1,153,566

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 2012-13 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 2012-13 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

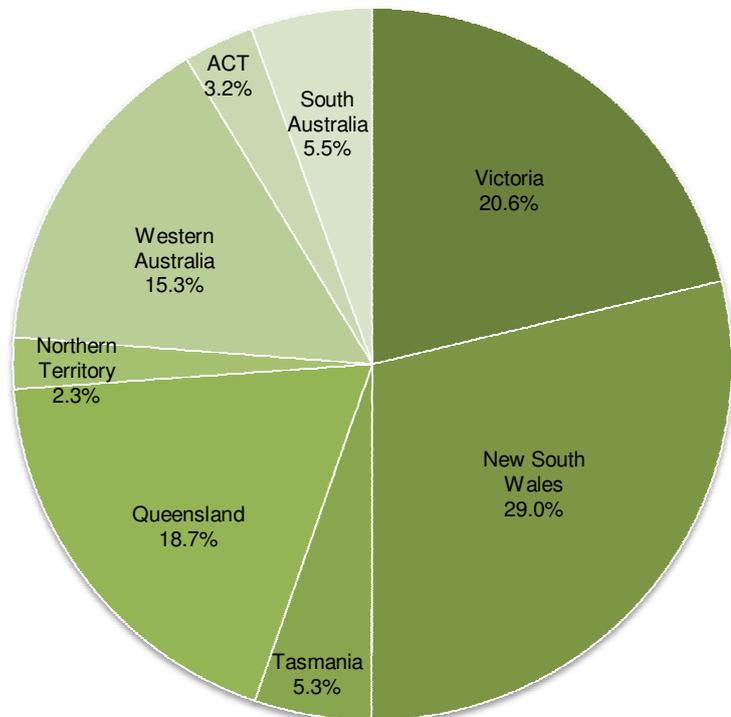
This section provides details of the allocation of local roads grants for 2012-13, which were determined during the period covered by this Annual Report.

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 Principle

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 2011-12

In July 2011 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total local roads grants for 2011-12 of \$136.367 million. This formed the basis of the Commission's estimated local roads allocation to each council for 2011-12, which were announced in August 2011 and are shown in Appendix 2A of the Commission's 2010-11 Annual Report.

The Commonwealth Department of Regional Australia, Local Government, Arts and Sport advised the Commission in July 2012 of the final (or actual) amount to be allocated for 2011-12, based on revised inflation and population growth estimates. The final allocation is \$133.015 million, a decrease of \$3.351 million or 2.5% compared with the earlier estimate.

The over paid funds will be subtracted from each council's payments for 2012-13 on a pro-rata basis according to each council's estimated entitlement for 2011-12 as shown in Appendix 2B.

Total Allocations 2012-13

The estimated national local roads grants pool for 2012-13 is \$673.657 million. Victoria's share of this estimated entitlement is \$138.884 million. This represents an increase of:

- \$2.518 million (1.8%) compared with the estimated local roads allocation for 2011-12
- or
- \$5.869 million (4.4%) compared with the final local roads allocation for 2011-12.



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 2012-13 has been based on traffic volume data reported by all councils for the 12 months to June 2011. As part of the ongoing review of local road data, the Commission requested that the collection of data this year be changed from kerbed and unkerbed to urban and rural road classifications. This change provided councils with the opportunity to update and or revise road length and road register databases in order to provide better quality data.

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 129,104 kilometres of local roads as at 30 June 2011, a decrease of 628 kilometres or 0.48% less than the length reported 12 months earlier. This is a result of councils reviewing the road type categories after the Commission changed them from kerbed/unkerbed to urban/rural.

Variations were as follows:

Change in Length of Local Roads	No. of Councils
Increase of more than 5.0%	6
Increase of 1.0% to 5.0%	52
Increase of up to 1.0%	6
Decrease of up to 1.0%	5
Decrease of 1.0% to 5.0%	9
Decrease of more than 5.0%	1
Total	79

Road lengths reported by each council for each traffic volume range as at June 2011 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 2011-12 for the 2012-13 allocations:

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

The cost for concrete and timber bridges remains at \$60 and \$100 per square metre of deck area respectively for the 2012-13 allocation.

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 generated by 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 in the box at the end of this section. No changes were made to the cost modifiers for the 2012-13 allocations.

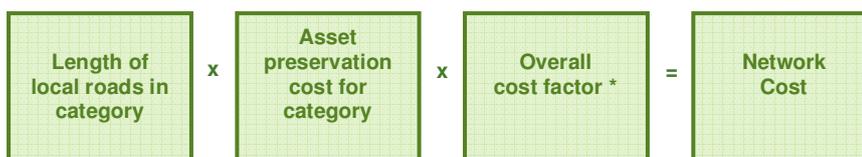
The Commission has continues to review the data used for the cost modifiers within the allocation model. Research is being undertaken into sourcing the most appropriate data sources for the cost modifiers.

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 generation, climate, materials availability, sub-grade conditions and strategic routes. 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 factor is calculated by multiplying the cost factors for freight loading, 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.

Estimated Entitlements 2012-13

The estimated local roads grant entitlement for each Victorian council for 2012-13 is shown in Appendix 2A.

In general, where a significant change has occurred in a council's local roads grant for 2012-13, this is due to changed road length and traffic volume data supplied by the council to the Commission. A summary of the changes in estimated local roads grant entitlements from 2011-12 to 2012-13 is shown below:

Change in Local Roads Grant	No. of Councils
Increase of more than 10.0%	0
Increase of 5.0% to 10.0%	6
Increase of up to 5.0%	58
Decrease of up to 5.0%	14
Decrease of more than 5.0%	1
Total	79

Comparative Grant Outcomes 2012-13

The largest local roads grant allocation for 2012-13 is to East Gippsland Shire Council (\$4.417 million), while the smallest grant of \$46,679 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 5B.

The five cost modifiers used by the Commission in allocating local roads grants to councils for 2012-13 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 estimates of the volume of freight generated in each municipality and the average distance freight is carried on the council's local roads network.

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 influence of climate on local road costs is measured through the Thornthwaite Moisture Index, which takes account of the effects of rainfall and evaporation. The Thornthwaite Index ranges from -40 in the driest parts of Victoria to 100 in the wettest parts of the State.

Materials

The cost of maintaining local roads can be impacted by the local availability of suitable pavement materials. In 2003-04, the Commission conducted a review of the level of access councils have to road-making materials and the quality of those materials. The review was undertaken for the Commission by GeoPave Pty Ltd and was based on council-supplied data.

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. Using a soil classification map provided by VicRoads, the Commission has estimated the proportion of each municipality with expansive clay sub-grades.

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, unkerbed 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 inline with the refinement of the allocation process.

2011 Census - Population Data

The Commission will begin to introduce data from the 2011 Census into the calculation of the 2013-14 allocations. Accordingly there will be adjustments to the composition of the costs adjustors, revenue adjustors and the major cost drivers (unit of need).

Several sets of data such as SEIFA are due for release later in the financial year and therefore will not be included in the 2013-14 allocations.

Local Roads Model

The Commission will continue the review of the local roads data and processes.

During 2012-13 the Commission intends to:

- review the data used for the cost modifiers
- continue to investigate the possibility of GIS based road length data
- update the Asset Preservation Costs for each road type classification and bridge deck area.

The Commission will continue to work with councils throughout 2012 to improve the quality and relevance of the local roads data.

VGC Questionnaire Review

The Commission completed the first stage of the review of the VGC Questionnaire (formerly known as the Annual Data Return).

A small consultative group of councils provided feedback to assist in the first stage of the review.

The Commission intends completing the review with several coding changes. It is anticipated that this will be provided to councils in early 2013 in order for any programming changes to be completed in time for the release of the 2013-14 Questionnaire.

Council Consultation

The Commission will visit a range 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.

Regional Information Sessions will be held towards the end of 2012. These sessions will provide information on grant allocations and an opportunity for discussion regarding the Questionnaire review and the ongoing local roads data collection.

