

Victoria Grants Commission
Annual Report 2012-13

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2012-13

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Victoria Grants Commission

Annual Report

2012-13

September 2013

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 2013, in accordance with Section 17 of the Victoria Grants Commission Act 1976.

John Watson
Chairperson

Doug Thomas
Member

Caroline Hogg
Member

Contents

| | | |
|----------|---------------------------------------|-----------|
| | Foreword | 1 |
| 1 | The Commission | 3 |
| 2 | Summary of 2012-13 | 6 |
| 3 | Consultation | 9 |
| 4 | General Purpose Grants | 11 |
| 5 | Local Roads Grants | 25 |
| 6 | The Year Ahead | 31 |
| | Appendices | 33 |
| | 1. Final Grant Allocations 2012-13 | 34 |
| | 2. Allocations 2013-14 | 38 |
| | 3. Comparative Grant Outcomes 2013-14 | 42 |
| | 4. General Purpose Grants 2013-14 | 44 |
| | 5. Local Roads Grants 2013-14 | 96 |

Foreword

The Victoria Grants Commission's Annual Report for 2012-13 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 2013-14. 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 refine the local roads allocation model, with a particular focus on the data utilised and the design of the cost modifiers used within the methodology. The 2013-14 local roads grants have been based on the road classification types of urban and rural, which replaced the previous kerbed and unkerbed road length data in 2012.

The 2013-14 local roads grant have also incorporated new cost modifiers to determine the impacts of freight loading, climate, materials availability and sub-grade conditions on each council's local roads network. Changes have been made to the cost modifiers primarily due to previous data sets becoming outdated and new, more rigorous data sources becoming available. These new cost modifiers ensure that the local roads allocation methodology continue to reflect the relative needs of Victorian councils as accurately as possible.

Throughout the year, the Commission has also updated a vast range of the data inputs utilised for its general purpose grant model. The Australian Bureau of Statistics has made available data sets from its most recent General Census of Population and Housing, held in 2011. These data sources are the most accurate ones available to the Commission, and have been fed into the model. Other data sources have been updated where possible.

In recognition that new data sets and methodology alterations can potentially lead to large grant fluctuations in the first year of application, the Commission has taken steps to cap grant outcomes, to ensure that no Victorian council receives a lower allocation than in the previous year.

The Commission continued its consultation program with councils, conducting three well attended regional meetings and 13 individual council meetings across Victoria in 2012-13. 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 2013.

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

**Victoria Grants Commission
September 2013**

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.

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 | 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 all of the Commission's operating costs being met by the Victorian Government. These costs include staff salaries, accommodation, members' sessional fees, travel and consultancies.

Staff

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

Staff members during 2012-13 were as follows:

| | |
|----------------|-------------------|
| Colin Morrison | Executive Officer |
| Nada Bagaric | |
| Julia Keeble | (to Dec. 2012) |
| Eammon Oxford | |

Acknowledgements

The Commission would like to extend its sincere gratitude to Mr Paul Slape, who retired from his position as Chair of the Victoria Grants Commission in October 2012. Mr Slape provided strong leadership of the Commission for nearly eight years, and oversaw a number of significant modifications and improvements to its allocation methodology. The Commission recognises his contribution, and wishes him all the best for the future.

The Commission would also like to thank Ms Julia Keeble for her invaluable expertise and contribution to the work of the Victoria Grants Commission for the past five years. The Commission wishes her well in all of her future endeavours.

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

The Commission would also like to thank Local Government Victoria (Department of Transport, Planning and Local Infrastructure), the Commonwealth Department of 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.

**Commission
Meetings
2012-13**

The Commission and its staff meet on a monthly basis, and other times as required, throughout the year to deliberate. A summary of the meetings held during 2012-13 is as follows:

| Meeting Date | Attendees |
|---------------------|---|
| 26 September 2012 | Mr Paul Slape (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Julia Keeble, Ms Nada Bagaric <i>Apologies: N/A</i> |
| 24 October 2012 | Mr Paul Slape (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Julia Keeble, Ms Nada Bagaric <i>Apologies: N/A</i> |
| 28 November 2012 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Julia Keeble, Ms Nada Bagaric <i>Apologies: N/A</i> |
| 19 December 2012 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Julia Keeble, Ms Nada Bagaric <i>Apologies: N/A</i> |
| 15 February 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i> |
| 13 March 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i> |
| 18 April 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric <i>Apologies: Mr Eammon Oxford</i> |
| 3 May 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric <i>Apologies: Mr Eammon Oxford</i> |
| 17 May 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i> |
| 20 June 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i> |
| 18 July 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i> |
| 16 August 2013 | Mr John Watson (C), Ms Caroline Hogg, Mr Doug Thomas Mr Colin Morrison, Ms Nada Bagaric, Mr Eammon Oxford <i>Apologies: N/A</i> |

(C) – denotes chair of meeting

2. Summary of 2012-13

This section provides a summary of the Victoria Grants Commission's key activities for 2012-13.

Consultation

All Victorian councils were invited to present written submissions to the Commission early in 2013. 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 and September 2012 to enhance councils' understanding of the Commission's role, allocation methodology and data requirements, and to provide an overview of the calculation of the 2012-13 grants.

For more details about the Commission's consultation program for 2012-13 refer to Section 3 of this Annual Report.

Annual Data Return

A lodgement date of 2 November 2012 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.

Grant Allocations for 2013-14

The Federal Budget was brought down on 14 May 2013 and contained the estimated 2013-14 total entitlement to Victorian councils. Consequently, on 28 May 2013, the Commission was able to provide all councils with an indicative estimate of their general purpose and local roads grants allocations for 2013-14, based on the Commonwealth Budget estimates.

General Purpose Grants

| | |
|----------------------------------|----------------------|
| 2012-13 Estimated Entitlement | \$376,919,866 |
| 2012-13 Overpayment | - \$1,526,576 |
| 2012-13 Final Allocation | <u>\$375,393,290</u> |
| 2013-14 Estimated Entitlement | \$390,966,790 |
| \$ Change (compared to estimate) | \$14,046,924 |
| \$ Change (compared to final) | \$15,573,500 |
| % Change (compared to estimate) | 3.7% |
| % Change (compared to final) | 4.1% |

Local Roads Grants

| | |
|----------------------------------|----------------------|
| 2012-13 Estimated Entitlement | \$138,884,454 |
| 2012-13 Overpayment | - \$514,715 |
| 2012-13 Final Allocation | <u>\$138,369,739</u> |
| 2013-14 Estimated Entitlement | \$144,213,770 |
| \$ Change (compared to estimate) | \$5,329,316 |
| \$ Change (compared to final) | \$5,844,031 |
| % Change (compared to estimate) | 3.8% |
| % Change (compared to final) | 4.2% |

Total General Revenue Assistance

| | |
|----------------------------------|----------------------|
| 2012-13 Estimated Entitlement | \$515,804,320 |
| 2012-13 Overpayment | - \$2,041,291 |
| 2012-13 Final Allocation | <u>\$513,763,029</u> |
| 2013-14 Estimated Entitlement | \$535,180,560 |
| \$ Change (compared to estimate) | \$19,376,240 |
| \$ Change (compared to final) | \$21,417,531 |
| % Change (compared to estimate) | 3.8% |
| % Change (compared to final) | 4.2% |

2013-14 Cash Payment *

| | |
|-------------------------------|----------------------|
| 2013-14 Estimated Entitlement | \$535,180,560 |
| 2012-13 Overpayment | - \$2,041,291 |
| | <u>\$533,139,269</u> |

* Includes natural disaster assistance grants.

The estimated allocation for Victorian councils for 2013-14 is \$535.181 million, comprising general purpose grants of \$390.967 million and local roads grants of \$144.214 million. The Commonwealth Government also announced that an amount of \$2.041 million would be subtracted from the cash payments to Victorian councils during 2013-14, as a result of an overestimation of the 2012-13 entitlements.

In aggregate, the estimated entitlements for 2013-14 represent an increase in funding of \$19.376 million or 3.8% over the estimated entitlements for 2012-13 (as announced in August 2012), or an increase of \$21.418 million or 4.2% when compared to the final allocation for 2012-13.

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

Forward Payments

The Federal Government announced in the May Budget that it would bring forward the payment of approximately half of the 2013-14 financial assistance grants to the 2012-13 financial year for all Australian councils. A total of \$267.282 million was brought forward for Victoria.

The remaining payments for 2013-14 are due to be made in equal quarterly instalments during 2013-14.

For the purposes of this report the payments made in June 2013 are treated as part of the 2013-14 payments.

National Conference

The Victoria Grants Commission attended the annual National Conference of Local Government Grants Commissions, held in Western Australia from 9-11 October 2012.

The Conference focussed on the theme of local government reform, and involved discussions on topics such as the impact of mining on local governments, infrastructure delivery, flexible working arrangements and their impact on households, integrated planning and reporting, and the Commonwealth review of Financial Assistance Grants.

The Commission noted with regret that the next National Conference, which was scheduled to be hosted by the Northern Territory Grants Commission in October 2013, has been cancelled due to several jurisdictions indicating their inability to attend.

The Victoria Grants Commission believes that national meetings of Commission members to discuss and compare their methodologies and processes are invaluable and contribute to the collective knowledge of all Commissions. As such, the Victoria Grants Commission will continue to advocate for a national meeting to be resumed, albeit possibly in a different form.

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 2012-13, the Commission visited a total of 13 councils on an individual basis.

| Individual Council Meeting | Venue | Date |
|----------------------------------|----------------|---------------|
| Greater Geelong City Council | Geelong | 1 March 2013 |
| Borough of Queenscliffe | Queenscliff | 1 March 2013 |
| Knox City Council | Wantirna South | 18 March 2013 |
| Darebin City Council | Preston | 18 March 2013 |
| Moira Shire Council | Cobram | 27 June 2013 |
| Towong Shire Council | Tallangatta | 27 June 2013 |
| Alpine Shire Council | Bright | 28 June 2013 |
| Murrindindi Shire Council | Alexandra | 11 July 2013 |
| Mansfield Shire Council | Mansfield | 11 July 2013 |
| Benalla Rural City Council | Benalla | 12 July 2013 |
| Ballarat City Council | Ballarat | 25 July 2013 |
| Northern Grampians Shire Council | Stawell | 25 July 2013 |
| Ararat Rural City Council | Ararat | 26 July 2013 |

Regional Information Sessions

A series of regional information sessions were held in August and September 2012, with meetings in Cobram, Horsham, Melton and Narre Warren. These sessions provided an overview of the methodology for the 2012-13 allocations and outlined the timetable for the 2013-14 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 2013, in relation to the 2013-14 allocations. Submissions were received from five councils, as follows:

Submissions Received

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

These submissions 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

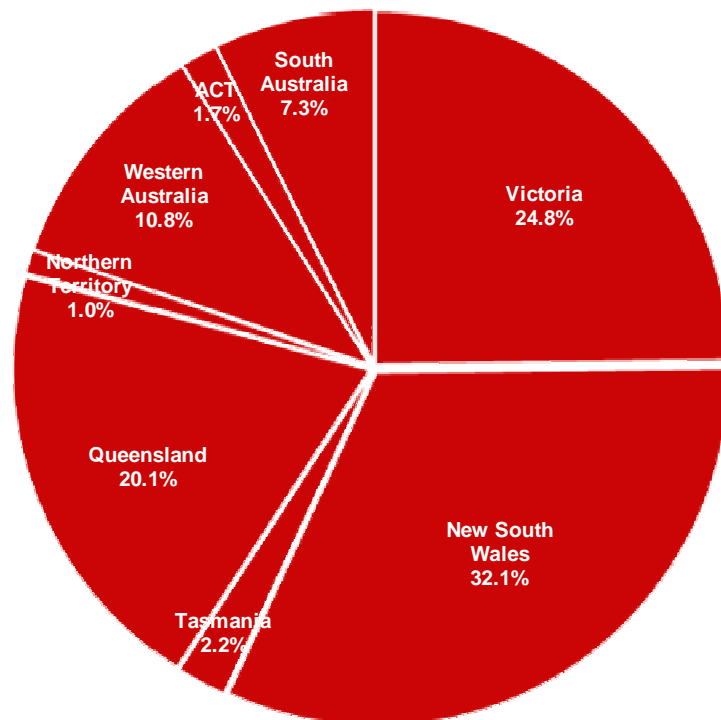
This section provides details of the allocation of general purpose grants for 2013-14, which represents the primary focus of the Commission's activities during the period covered by this Annual Report.

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 2013-14, 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 2012-13

In July 2012 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total general purpose grants for 2012-13 of \$376.920 million. This formed the basis of the Commission's estimated general purpose grant allocations to each council for 2012-13, which were announced in August 2012 and are detailed in Appendix 2A of the Commission's 2011-12 Annual Report.

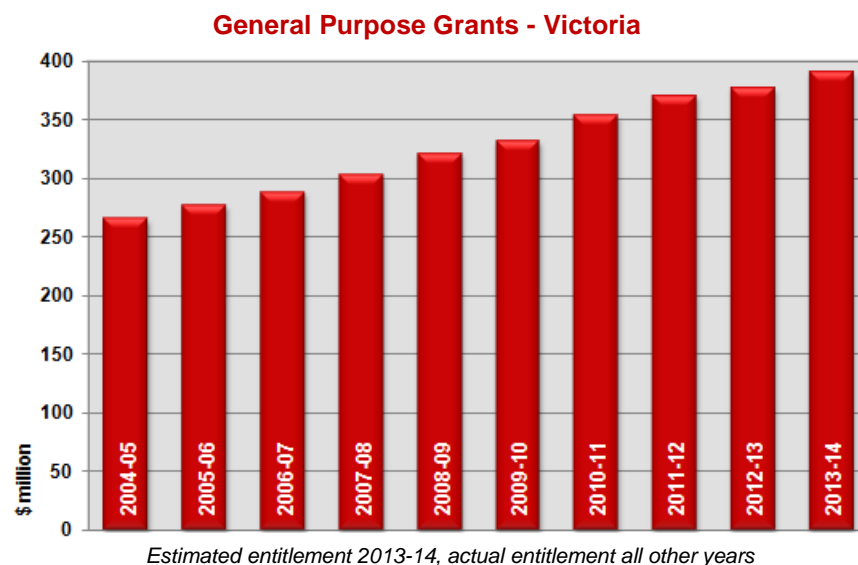
The final (or actual) amount to be allocated for 2012-13 was determined by the Commonwealth Government in July 2013, based on revised inflation and population growth estimates. The final allocation is \$375.393 million, a decrease of \$1.527 million or 0.4% compared with the earlier estimate.

The overpaid funds will be subtracted from each council's quarterly payments for 2013-14 on a pro-rata basis according to each council's estimated entitlement for 2012-13 as shown in Appendix 2B.

Estimated Allocations 2013-14

The estimated national general purpose grants pool for 2013-14 is \$1,576 million. Victoria's share of this estimated entitlement is \$390.967 million. This represents an increase of:

- \$14.047 million (3.7%) compared with the estimated general purpose grants allocation for 2012-13;
- or
- \$15.574 million (4.1%) compared with the final general purpose grants allocation for 2012-13.



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.

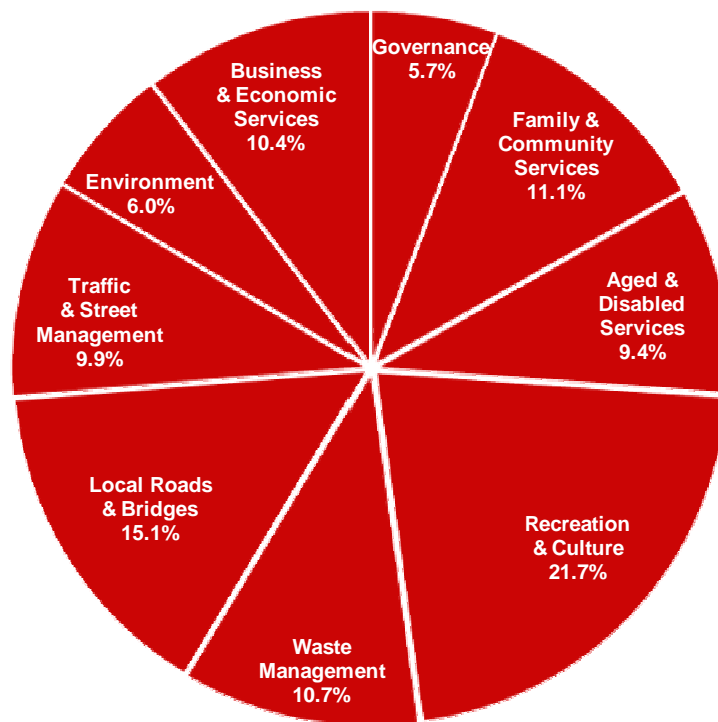
Specific grants, up to a maximum of \$35,000 per disaster, are made to a small number of councils each year in the form of natural disaster assistance. These grants are funded from the general purpose grants pool and so reduce the amount allocated on a formula basis. Details of natural disaster assistance grants allocated for 2013-14 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.

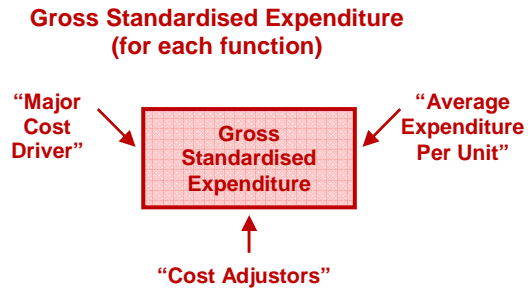
The total recurrent expenditure by Victorian councils in 2011-12 was \$6,821 million. Under the Commission's methodology, the gross standardised expenditure in the allocation model for 2013-14 therefore also equals \$6,821 million, with each of the nine expenditure functions assuming the same share of 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 treatment for the Local Roads and Bridges expenditure function is described at the end of this section.)

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

| Expenditure Function | Major Cost Driver | Av. Expend Per Unit |
|------------------------------|--|---------------------|
| Governance | Population (adjusted) | \$64.72 |
| Family & Community Services | Population | \$134.92 |
| Aged & Disabled Services | Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients | \$450.98 |
| Recreation & Culture | Population | \$263.64 |
| Waste Management | No. of Dwellings | \$305.55 |
| Traffic & Street Management | Population | \$119.99 |
| Environment | Population (adjusted) | \$69.73 |
| Business & Economic Services | Population (adjusted) | \$123.04 |

For each expenditure function a major cost driver 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 take account of high rates of vacant dwellings at the time the census is taken. Councils with a vacancy rate above the State average are assumed to have a population higher than the census-based estimate. For the Governance function, councils with an actual population of less than 20,000 are deemed to have a population of 20,000. For the Environment function, a minimum population of 15,000 is assumed 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.

Cost Adjustors

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 2013-14 general purpose grants are:

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

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

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

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

Application of Cost Adjustors: 2013-14 Allocations

Cost adjustor applied
(% indicates weighting)

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

Net Standardised Expenditure

For the 2013-14 allocation, the Commission has made a slight adjustment to the cost adjustor weightings against the Waste Management expenditure function. This change has seen the Population Density cost adjustor decrease from 20% to 10%, and the Regional Significance cost adjustor increase to 10%.

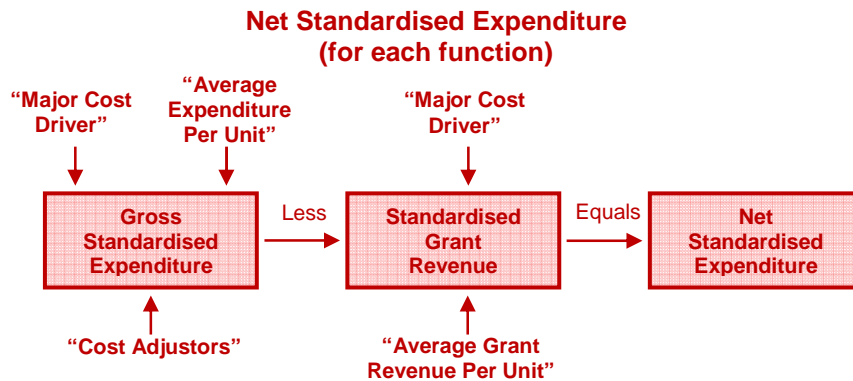
The intention of this change is to improve the ratio of standardised expenditure to actual expenditure for Waste Management for large rural shires and regional centres.

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 2012-13) is shown below:

| Expenditure Function | Major Cost Driver | Average Grants Per Unit |
|------------------------------|--|-------------------------|
| Governance | Population (adjusted) | \$4.86 |
| Family & Community Services | Population | \$33.56 |
| Aged & Disabled Services | Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients | \$185.21 |
| Recreation & Culture | Population | \$6.59 |
| Waste Management | No. of Dwellings | \$0.49 |
| Traffic & Street Management | Population | \$1.86 |
| Environment | Population (adjusted) | \$2.21 |
| Business & Economic Services | Population (adjusted) | \$3.31 |

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 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 | \$974.023 b | \$2.782 b | \$0.00286 |
| Commercial/Industrial/Other | \$195.060 b | \$0.694 b | \$0.00356 |
| Farm | \$75.669 b | \$0.232 b | \$0.00307 |

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 2012-13) are shown in the following table, along with the revenue adjustors applied:

| Expenditure Function | Major Driver (Units) | Standard Fees & Charges Per Unit | Revenue Adjustors |
|------------------------------|--|---|--------------------------------|
| Governance | Population | \$11.61 | Nil |
| Family & Community Services | Population | \$11.01 | Socio-Economic |
| Aged & Disabled Services | Pop. > 60 + Disability Pensioners + Carer's Allowance Recipients | \$55.83 | Household Income |
| Recreation & Culture | Population | \$18.66 | Valuations (% Commercial) |
| Waste Management | No. Dwellings | \$25.49 | Nil |
| Local Roads & Bridges | Population | \$0.77 | Nil |
| Traffic & Street Management | Population | \$5.66 | Valuations (% Commercial) |
| Environment | Population | \$0.80 | Nil |
| Business & Economic Services | Population | \$27.83 | 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 the box at the end of this section.

Methodology Changes

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

All data used by the Commission in allocating general purpose grants has been updated where possible, and a significant number of data inputs have been altered since last year's allocation.

The following updates are from the Australian Bureau of Statistics (ABS) release of data from the most recent Census of Population and Housing, held in 2011:

- estimated resident population (as at 30 June 2012)
- Aboriginal and Torres Strait Islander population
- number of building approvals
- median weekly income levels
- number of individuals employed by industry
- population dispersion (VGC calculation)
- number of occupied and unoccupied dwellings
- levels of English proficiency
- immigration figures

Furthermore, the Commission has incorporated the updated Socio-Economic Indexes for Areas (SEIFA) data, produced by the ABS, into this year's general purpose grants allocation methodology.

The 2013-14 allocation model has also incorporated updated Centrelink data on aged pensioners, disability pensioners, and those on a carers allowance; data detailing the number of international visitors, day trips and overnight stays from Tourism Research Australia; as well as figures prepared by the University of Adelaide calculating each council's position on the Accessibility/Remoteness Index of Australia (ARIA).

Capping

For the 2013-14 allocations, due to the number of updated data sources being incorporated into the allocation methodology, the Commission has capped downward movements in general purpose grants at 0% compared with their estimated entitlement for the previous year (i.e. no council will receive a smaller general purpose grant than the previous year), and upward movements to 10% (excluding the City of Melbourne, which exceeds this movement due to their status as a minimum grant council – see below).

Minimum Grants

The available general purpose grants pool for Victorian councils represents, on average, \$69.52 per head of population (using ABS population estimates as at 30 June 2012). 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 \$20.86 for 2013-14).

Without the application of this principle, general purpose grants for 2013-14 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 \$20.86 per capita level. The minimum grant principle has resulted in the general purpose grants to these councils being increased to that level.

Estimated Entitlements 2013-14

The estimated general purpose grant entitlement for each Victorian council for 2013-14 is shown in Appendix 2A.

A summary of the changes in estimated general purpose grant entitlements from 2012-13 to 2013-14 is shown below:

| Change in General Purpose Grant | No. of Councils |
|--|------------------------|
| Increase of more than 10.0%* | 1 |
| Increase of 10.0% (capped) | 2 |
| Increase of 7.5% to <10.0% | 6 |
| Increase of 5.0% to <7.5% | 12 |
| Increase of 2.5% to <5.0% | 31 |
| Increase of 0.0% to <2.5% | 22 |
| Increase of 0.0% (capped) | 5 |
| Total | 79 |

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

Comparative Grant Outcomes 2013-14

The largest general purpose grant allocation for 2013-14 is to Greater Geelong City Council (\$16.200 million). The smallest grant of \$204,822 has been allocated to the Borough of Queenscliffe.

On a per capita basis, the largest general purpose grant has been allocated to West Wimmera Shire Council, where the grant of \$2.714 million represents \$643.68 per head of population. This compares to the outcome for minimum grant councils, where the grant represents \$20.86 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.

40 grants to 27 councils have been allocated for 2013-14, totalling \$1,209,661. This is a modest increase from the 38 grants in 2012-13, totalling \$1,153,566. It is expected that the above-average level of natural disaster assistance claims will begin to decline from the next year as the impacts of the extreme weather events of 2011 flow through.

| Natural Disaster Assistance for 2013-14 (\$) | | |
|---|---------------------------|------------------|
| Alpine (S) | Floods | 23,579 |
| Ballarat (C) | Floods | 35,000 |
| Baw Baw (S) | Floods (3 events) | 105,000 |
| Benalla (RC) | Floods | 35,000 |
| Campaspe (S) | Floods | 35,000 |
| Cardinia (S) | Floods | 35,000 |
| East Gippsland (S) | Floods | 35,000 |
| Golden Plains (S) | Floods | 35,000 |
| Greater Bendigo (C) | Floods (2 events) | 70,000 |
| Greater Dandenong (C) | Floods | 22,505 |
| Greater Shepparton (C) | Floods | 35,000 |
| Hindmarsh (S) | Floods | 35,000 |
| Indigo (S) | Floods | 1,871 |
| Latrobe (C) | Floods | 35,000 |
| Loddon (S) | Floods | 35,000 |
| Macedon Ranges (S) | Floods & Storm (3 events) | 105,000 |
| Moira (S) | Floods (2 events) | 47,034 |
| Mount Alexander (S) | Floods / Storm (3 events) | 105,000 |
| Murrindindi (S) | Floods (2 events) | 42,685 |
| Northern Grampians (S) | Storm & Floods | 35,000 |
| Southern Grampians (S) | Floods (2 events) | 24,899 |
| Swan Hill (RC) | Floods | 35,000 |
| Wangaratta (RC) | Floods | 35,000 |
| Wellington (S) | Floods (2 events) | 51,793 |
| Whitehorse (C) | Floods | 15,295 |
| Wyndham (C) | Storms | 35,000 |
| Yarra Ranges (S) | Floods (3 events) | 105,000 |
| Total | | 1,209,661 |

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 2013-14 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 2013-14 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

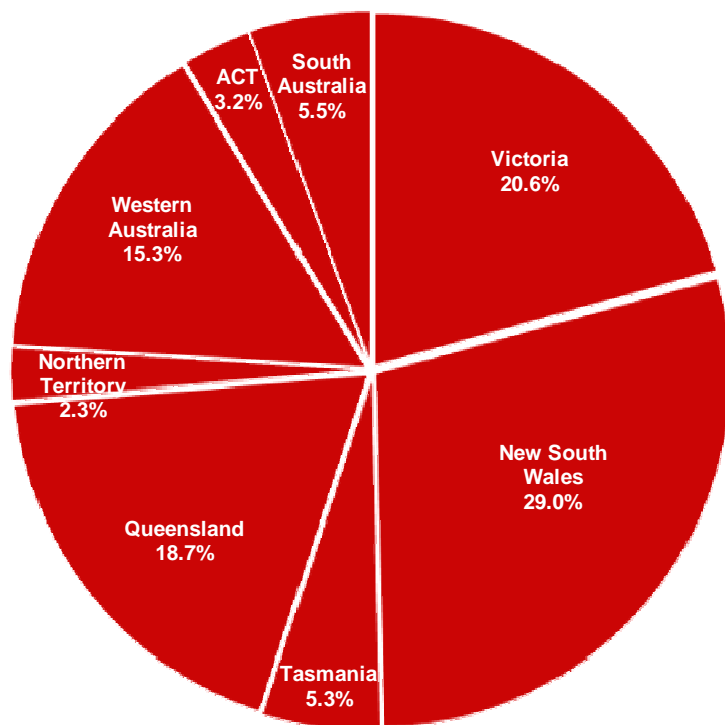
This section provides details of the allocation of local roads grants for 2013-14, which were determined during the period covered by this Annual Report.

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 2012-13

In July 2012 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total local roads grants for 2012-13 of \$138.884 million. This formed the basis of the Commission's estimated local roads allocation to each council for 2012-13, which were announced in August 2012 and are shown in Appendix 2A of the Commission's 2011-12 Annual Report.

The Commonwealth Department of Regional Australia, Local Government, Arts and Sport advised the Commission in July 2013 of the final (or actual) amount to be allocated for 2012-13, based on revised inflation and population growth estimates. The final allocation is \$138.370 million, a decrease of \$0.515 million or 0.4% compared with the earlier estimate.

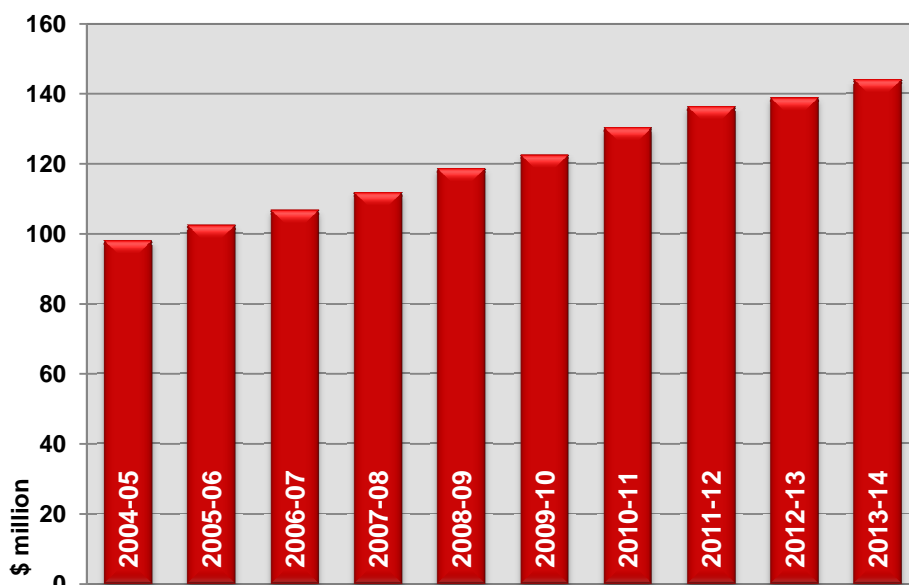
The overpaid funds will be subtracted from each council's payments for 2013-14 on a pro-rata basis according to each council's estimated entitlement for 2012-13 as shown in Appendix 2B.

Estimated Allocations 2013-14

The estimated national local roads grants pool for 2013-14 is \$699.510 million. Victoria's share of this estimated entitlement is \$144.214 million. This represents an increase of:

- \$5.329 million (3.8%) compared with the estimated local roads allocation for 2012-13
- or
- \$5.844 million (4.2%) compared with the final local roads allocation for 2012-13.

Local Roads Grants - Victoria



Estimated entitlement 2013-14, actual entitlement all other years

Methodology

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

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

Road Length & Traffic Volume Data

The allocation of local roads grants for 2013-14 has been based on traffic volume data reported by all councils for the 12 months to June 2012.

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 129,462 kilometres of local roads as at 30 June 2012, an increase of 358 kilometres or 0.28% more than the length reported 12 months earlier. This is a result of growth on Melbourne's urban fringes as well as councils' ongoing review of road type categories after the Commission changed them from kerbed/unkerbred to urban/rural.

Variations were as follows:

| Change in Length of Local Roads | No. of Councils |
|---------------------------------|-----------------|
| Increase of more than 5.0% | 3 |
| Increase of 1.0% to 5.0% | 10 |
| Increase of up to 1.0% | 26 |
| No Change | 26 |
| Decrease of up to 1.0% | 10 |
| Decrease of 1.0% to 5.0% | 3 |
| Decrease of more than 5.0% | 1 |
| Total | 79 |

Road lengths reported by each council for each traffic volume range as at June 2012 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 2012-13 for the 2013-14 allocations:

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

Cost Modifiers

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

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

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

A number of changes were made to the cost modifiers for the 2013-14 allocation:

- Freight** The Commission has constructed a new freight cost modifier index that utilises employment data from the 2011 Census to identify industries assessed as being more freight-intensive. This index is derived of total employment in these industries relative to the total resident population within the municipality. The index infers that those municipalities with higher levels 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. Index values have been spread across a range of 0.95 to 1.10.
- Climate** The Commission has developed a new climate index by identifying 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. Urban road index values are spread across a range from 0.95 to 1.10. Rural roads index values are spread across a range from 0.75 to 1.25, reflecting the relatively greater influence of climate conditions on rural roads.
- Materials** The Commission has constructed a materials availability index by determining the distance between the nearest quarry location and the council headquarters. These distances have been spread across a range between 0.95 (most accessible) and 1.05 (least accessible). All metropolitan councils, excluding those in interface areas, have had their index set at the minimum 0.95 to reflect the availability of materials from a range of sources.
- Sub-Grades** The Commission has developed a new sub-grades index by identifying the total length of urban and rural roads in each municipality built on each of the eight sub-grade categories. An average sub-grade rating for each council has then been calculated based on the level of reactivity of each soil type, and then converted into an index ranging from 0.95 to 1.10. This index reflects the relative level of road maintenance costs for each council based on their relative level of soil reactivity.

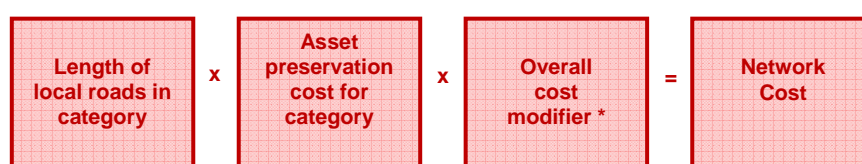
Additional information on the cost modifiers used in the local roads allocation model is provided at the end of this section.

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 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.

Capping

For 2013-14, due to the number of changes made to the cost modifiers under the local roads grant allocation methodology, the Commission has capped downward movements at 0% (i.e. no council will receive a smaller local roads grant than the previous year) and upward movements to 7%.

Estimated Entitlements 2013-14

The estimated local roads grant entitlement for each Victorian council for 2013-14 is shown in Appendix 2A.

In general, where a significant change has occurred in a council's local roads grant for 2013-14, this is due to the adjustments made to the cost modifiers under the model, as well as 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 2012-13 to 2013-14 is shown below:

| Change in Local Roads Grant | No. of Councils |
|-----------------------------|-----------------|
| Increase of 7.0% (capped) | 26 |
| Increase of 5.0% to <7.0% | 9 |
| Increase of 2.5% to <5.0% | 16 |
| Increase of 0.0% to <2.5% | 13 |
| Increase of 0.0% (capped) | 15 |
| Total | 79 |

Comparative Grant Outcomes 2013-14

The largest local roads grant allocation for 2013-14 is to Wellington Shire Council (\$4.573 million), while the smallest grant of \$49,947 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 2013-14 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 line with the refinement of the allocation process.

Local Roads Model

Following from the changes made to the local roads model throughout 2012-13, the Commission will continue its review of the local roads data and allocation methodology.

During 2013-14 the Commission intends to:

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

The Commission will continue to work with councils throughout 2013-14 to improve the quality and relevance of the local roads data.

Commonwealth Review of Financial Assistance Grants

The Commonwealth Government is scheduled to finalise its review of Financial Assistance Grants during 2013-14.

The Commission will examine the outcomes of this review closely, including any potential implications for the Commission's future allocations and processes.

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 2013. These sessions will provide information on grant allocations and an opportunity for discussion regarding the Questionnaire and the ongoing local roads model review.

