



Victorian Local Government   
Grants Commission

**Annual Allocation Report**

**2023-24**

September 2023

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|  | **Victorian Local Government  Grants Commission**  **Annual Allocation Report**  **2023-24** |

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Victorian Local Government Grants Commission

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**Victorian Local Government Grants Commission**

**Annual Allocation Report**

**2023-24**

September 2023

The Hon Melissa Horne MP

Minister for Local Government

1 Spring Street

MELBOURNE VIC 3000

Dear Minister

On behalf of the Victorian Local Government Grants Commission, we have pleasure in presenting the Annual Allocation Report of the Commission’s operations for the year to 31 August 2023, in accordance with Section 17 of the *Victorian Local Government Grants Commission Act 1976*.

This report provides a summary of the Commission’s activities for the year and details the methodology used by the Commission in preparing recommendations to the Commonwealth Government for the allocation of financial assistance grants to Victorian councils for 2023-24.

**John Watson**

**Chair**

**Michael Ulbrick**

**Member**

**Marg Allan PSM**

**Member**

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1. The Commission

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| Role |  | The role of the Victorian Local Government Grants Commission is to make recommendations for the allocation of financial assistance grants (general purpose grants and local roads grants) provided by the Commonwealth Government to Victorian councils.  The Commonwealth Government’s Financial Assistance Grants Program provides annual funding to councils to support the delivery of services to their communities. The grants are untied, allowing councils to spend the funds according to local priorities. |
| Legislation |  | The *Victorian Local Government Grants Commission Act 1976* is the State legislation that governs the operation of the Victorian Local Government Grants Commission. The Act establishes the Commission for the purpose of making recommendations for the allocation of financial assistance grants to councils, provides for the appointment and remuneration of Commission members and specifies the general operations of the Commission, including meetings of the Commission and the annual reporting requirements.  The *Local Government (Financial Assistance) Act 1995* is the Commonwealth legislation that sets out the basis for the allocation of financial assistance grants by each Local Government Grants Commission to its respective local governing bodies in each State and the Northern Territory.  This legislation also requires that a set of national principles be formulated in writing between the Commonwealth and each jurisdiction. 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 (page 12) and 5 (page 25). |
| Membership |  | As required by the *Victorian Local Government 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. All current Commission members have extensive local government experience.  The present membership of the Commission is as follows:   |  |  |  |  | | --- | --- | --- | --- | |  |  | **Initial  Appointment** | **Current Term  Expires** | | Chair | John Watson | 1 November 2012 | 31 October 2023 | | Sessional Member | Michael Ulbrick | 1 November 2013 | 31 October 2025 | | Sessional Member | Marg Allan PSM | 1 November 2021 | 31 October 2025 | |
|  |  | **John Watson (Chairperson)**  Mr John Watson has been the Chairperson of the Victorian Local Government Grants Commission since 2012.  Mr Watson has had a long career in State and local government over more than four decades. He has held a number of leadership roles in local government as Chief Executive Officer of the former Shire of Bulla (1988-94), Moonee Valley City Council (1994-95) and Hume City Council (1995-98). His Victorian Government roles include periods as a Director, and then Executive Director, of Local Government Victoria (1999-2012). Mr Watson was Chair of the Panel of Administrators of Brimbank Council for four years until November 2016 and chairs/sits on a number of council audit and risk committees and the board of the Northern Hospital. He was a co-author of the 2015 Sunbury Hume Transition Local Government Panel Report. In 2019 Mr Watson was one of three Commissioners appointed to conduct the Commission of Inquiry into the South Gippsland Shire Council. He has recently been a municipal monitor appointed to Darebin City Council  **Michael Ulbrick (Member)**  Mr Michael Ulbrick has been a Member of the Victorian Local Government Grants Commission since 2013.  Mr Ulbrick has considerable State and local government, public policy and consultation experience. He has held several executive positions in local government, including as Chief Executive Officer of Surf Coast Shire Council (2002) and Darebin City Council (2005-2010). His Victorian Government experience includes periods as Executive Director of the Workcover Authority and Executive Officer of the Victorian Local Government Grants Commission and, more recently, as consultant with Local Government Victoria in developing the Performance Management Framework (2012-14). Mr Ulbrick has established his own management consulting business and holds various Board and local government audit committee positions.    **Marg Allan PSM (Member)**  Ms Marg Allan has been a Member of the Victorian Local Government Grants Commission in November 2021.  Ms Allan has had an extensive career in local government, commencing in 1980. Throughout her career she has specialised in governance and strategy, corporate services, people and policy development and program delivery. Marg has worked with a number of councils in executive roles including Greater Bendigo City Council 2007-2015, Loddon (interim CEO), and Mount Alexander and Gannawarra Shire Councils. Marg joined the Victorian Public Service from 2016-21 as Regional Director Loddon Mallee with the Department of Environment, Land, Water and Planning. Marg is a member of Zoos Victoria Board and was the municipal monitor appointed to Moira Shire Council.  She was awarded the Public Service Medal in 2022. |
| Commission Meetings  2022-23 |  | The Commission and staff meet on a monthly basis, and other times as required, throughout the year.  During 2022-23 (September 2022 - August 2023), the Commission conducted 11 meetings.   |  |  |  | | --- | --- | --- | |  | **Member** | **Number of  Meetings Attended** | |  | John Watson | 10 | |  | Michael Ulbrick | 10 | |  | Marg Allan | 11 | |
| Staff |  | The Commission’s staff is drawn from Local Government Victoria, which forms part of the Department of Government Services (since 1 January 2023, previously Department of Jobs, Precincts and Regions).  Staff members during 2022-23 were as follows:   |  |  |  | | --- | --- | --- | |  | Colin Morrison | Executive Officer | |  | Julia Keeble | Manager, Recurrent Programs | |  | Nada Bagaric | Senior Analyst | |
| Funding |  | All funds allocated by the Commonwealth are distributed to councils, with all of the Commission’s operating costs being met by the Victorian Government. These costs include staff salaries, accommodation, members’ sessional fees, travel and consultancies. |
| Acknowledgements |  | The Commission wishes to acknowledge the continued and valuable contributions from Victorian councils particularly in response to information requests, including the annual data return, providing submissions and participating in Commission information sessions.  The Commission would also like to thank:   * Local Government Victoria, Department of Government Services * Commonwealth Department of Infrastructure, Transport, Regional Development, Communications and the Arts * Commonwealth Grants Commission * Municipal Association of Victoria * Office of the Valuer-General * Australian Bureau of Statistics * Commonwealth Department of Human Services (Centrelink) * Tourism Research Australia * Our counterparts in other States and the Northern Territory  for their assistance and guidance throughout the year. |

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2. Summary of 2023-24

This section provides a summary of the Victorian Local Government Grants Commission’s key activities for 2023-24.

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| Estimated Grant Allocations for  2023-24 |  | The 2023 Federal Budget, which was handed down on 9 May 2023, contained an initial estimate of the total allocations to Victorian councils for 2023-24.  Consequently, on 29 May 2023, the Commission was able to provide all councils with an indicative estimate of their general purpose and local roads grants allocations for 2023-24, based on the Federal Budget estimates. |
| Brought Forward Payment |  | The Federal Budget also indicated that an “advanced payment” of financial assistance grants for 2023-24 would be paid.  On 22 June 2023, formal advice was provided by the Federal Minister for Regional Development, Local Government and Territories confirming a brought forward payment. This was equivalent to the initial estimate of the 2023-24 grants pool as detailed in the 2023 Federal Budget.  The total amount paid for Victorian councils was **$745.956 million**, comprising general purpose grants of **$549.118 million** and local roads grants of **$196.838 million**.  These amounts were paid out to councils on 26 June 2023. |
| Allocation |  | The 2023-24 estimated allocations for Victorian councils are:  **General Purpose Grants $ 550,164,456**  **Local Roads Grants $ 197,212,781**  **Total Victorian Allocation $ 747,377,237**  The Commonwealth Government also announced that an amount of **$31.558 million** would be added to the 2023-24 cash payments to Victorian councils due to an underestimation of the 2022-23 grants. This is the result of an adjustment made by the Commonwealth Government at the end of each financial year to reflect updated population estimates and inflation forecasts.  In aggregate, the estimated allocation for 2023-24 represents an increase in funding of:   * **$48.299 million (9.6%)** compared to the estimated general purpose grants allocation for 2022-23; or * **$25.428 million (4.8%)** compared to the final general purpose grants  allocation for 2022-23.   Further details about the allocation of general purpose grants and local roads grants are contained in Sections 4 and 5, respectively. |
| Annual Data  Questionnaire |  | The Commission’s allocation methodology relies on data provided by councils in an annual data questionnaire. Much of this data is also shared with third parties, including the Australian Bureau of Statistics.  A lodgement date of the first Wednesday in November is set for the receipt of the annual questionnaire from councils.  Many councils provided their questionnaires well before the due date, assisting in expediting the data processing that is the first stage of the grant allocation process. |
| Consultation |  | All Victorian councils have the ability to provide written submissions to the Commission. The views presented in these submissions provide valuable input on aspects of both the general purpose and local roads grants 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.  Regular statewide information sessions are conducted by the Commission to provide an overview of the methodology used in preparing its recommended allocations were conducted.  Two statewide information sessions were held on 23 and 31 August 2022, and an additional session for councils receiving a minimum general purpose grant was held on 9 September 2022. These were conducted virtually and were attended by 141 individuals including 72 councillors. A further session was held virtually on 28 February 2023 and was attended by 134 individuals from 41 councils, including 25 councillors.  The next series of statewide information sessions will be scheduled for August/September 2023.  The Commission also visits and meets with Victorian councils individually over a four-year cycle. The Commission strives to meet councils in person where possible. During 2022-23, the Commission held individual council meetings with 17 councils.  For more details about the Commission’s consultation program for  2022-23 refer to Section 3 of this Allocation Report. |
| Commonwealth Allocation Summary |  | The Commonwealth Government formally advises the Victorian Local Government Grants Commission each July of the allocations to be provided for the forthcoming financial year. These allocations are adjusted by the Commonwealth in the following year if they are deemed to have been “underpaid” or “overpaid” once revised population growth and inflation data is taken into account.   |  |  | | --- | --- | |  |  | | **General Purpose Grants \*** |  | |  |  | | 2022-23 Allocation | $ 501,865,271 | | 2022-23 Underpayment | $ 23,045,572 | | 2022-23 Adjusted Allocation | **$ 524,910,843** | |  |  | | 2023-24 Allocation | **$ 550,164,456** | |  |  | | $ Change (compared to 2022-23 allocation) | $ 48,299,185 | | $ Change (compared to adjusted allocation) | $ 25,253,613 | | % Change (compared to 2022-23 allocation) | 9.6% | | % Change (compared to adjusted allocation) | 4.8% | |  |  | |  |  | | **Local Roads Grants** |  | |  |  | | 2022-23 Allocation | $ 178,488,462 | | 2022-23 Underpayment | $ 8,512,721 | | 2022-23 Adjusted Allocation | **$ 187,001,183** | |  |  | | 2023-24 Allocation | **$ 197,212,781** | |  |  | | $ Change (compared to 2022-23 allocation) | $ 18,724,319 | | $ Change (compared to adjusted allocation) | $ 10,211,598 | | % Change (compared to 2022-23 allocation) | 10.5% | | % Change (compared to adjusted allocation) | 5.5% | |  |  | |  |  | | **Total Financial Assistance Grants** |  | |  |  | | 2022-23 Allocation | $ 680,353,73 3 | | 2022-23 Underpayment | $ 31,558,293 | | 2022-23 Adjusted Allocation | **$ 711,912,026** | |  |  | | 2023-24 Allocation | **$ 747,377,237** | |  |  | | $ Change (compared to 2022-23 allocation) | $ 67,023,504 | | $ Change (compared to adjusted allocation) | $ 35,465,211 | | % Change (compared to 2022-23 allocation) | 9.9% | | % Change (compared to adjusted allocation) | 5.0% | |  |  | |  |  | | **2023-24 Cash Payments** |  | |  |  | | 2023-24 Allocation | $ 747,377,237 | | 2022-23 Underpayment | $ 31,558,293 | |  | **$ 778,935,530** | |  |  | | \* Includes natural disaster assistance grants |  | |
| Methodology Reviews and Changes |  | The Commission has a continuous process of reviewing and adjusting its allocation methodology in consultation with councils.  Prior to determining its recommendations for the 2023-24 allocations, the Commission reviewed several key aspects of the formula.  As a result of that work, the Commission made several changes to the methodology used in the allocation of general purpose grants as follows:   * the base population used in the Environment and Business & Economic Services functions was increased from 15,000 to 17,500 to take account of increasing ‘flag fall’ costs in providing these services; * the calculation of the number of non-permanent residents in each council area was adjusted to take account of the increased usage of secondary dwellings during and post COVID; and * a technical change was made to the way in which the relative rate revenue raising capacity of each council is calculated, to ensure that councils with decreasing populations did not receive an unintended advantage.   As outlined later in this report, the Commission also imposed constraints on movements in grant outcomes for individual councils. |

3. Consultation

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

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| Council Meetings |  | The Commission holds a number of individual meetings with councils each year. The purpose of these meetings is to provide councils with a detailed overview of the Commission’s role and methodology, and how the grant outcomes are determined. The meetings also enable the Commission to gain a greater understanding of the issues facing individual councils.  In 2023-24, the Commission continued its program of individual meetings with councils as part of its commitment to meet with every Victorian council on a four-year cycle.   |  |  |  | | --- | --- | --- | | **Individual Council Meeting** | **Venue** | **Date** | | Mornington Peninsula (S) | *Virtual* | 5 October 2022 | | Cardinia (S) | *Virtual* | 5 October 2022 | | Hindmarsh (S) | Nhill | 11 October 2022 | | Northern Grampians (S) | Stawell | 12 October 2022 | | Ararat (RC) | Ararat | 12 October 2022 | | Greater Geelong (C) | Geelong | 24 October 2022 | | Yarra Ranges (S) | Lilydale | 25 October 2022 | | Indigo (S) | Beechworth | 9 March 2023 | | Wodonga (C) | Wodonga | 9 March 2023 | | Towong (S) | Tallangatta | 10 March 2023 | | South Gippsland (S) | Leongatha | 16 March 2023 | | Wellington (S) | Sale | 16 March 2023 | | East Gippsland (S) | Bairnsdale | 17 March 2023 | | Macedon Ranges (S) # | Kyneton | 29 March 2023 | | Southern Grampians (S) | Hamilton | 5 April 2023 | | Moyne (S) | Port Fairy | 5 April 2023 | | Warrnambool (C) | Warrnambool | 6 April 2023 |   During 2022-23, approximately 120 individuals attended the 17 meetings that were held with individual councils. Attendance comprised councillors (45%), chief executive officers and other council staff. |
| Statewide Information Sessions |  | The Commission also held statewide information sessions to provide an overview of the methodology in developing its recommendations for the allocations and the Commission’s work program.  In 2022-23, four information sessions were held virtually.   |  |  |  | | --- | --- | --- | | **Information Sessions** |  | **Date** | | Session 1 | Virtual | 23 August 2022 | | Session 2 | Virtual | 31 August 2022 | | Session 3 *(minimum grant councils)* | Virtual | 9 September 2022 | | Session 4 | Virtual | 28 February 2023 |   During 2023-24, approximately 375 individuals attended the virtual information sessions. Attendance comprised councillors (26%), chief executive officers and other council staff. |
| Public Meetings |  | In accordance with section 11 (2) (c) of the *Local Government (Financial Assistance Act) 1995*, the Commission’s meetings with councils and regional information sessions are conducted as public meetings. |
| Submissions |  | Councils were invited to provide the Commission with written submissions by the end of February 2023 in relation to the 2023-24 allocations.  Two submission was received from:   * Mornington Peninsula Shire Council * Murrindindi Shire Council. |
| Other Information |  | Information about the Victorian Local Government Grants Commission, including key reports and information papers, is published on the Commission’s webpages: <https://www.localgovernment.vic.gov.au/funding-programs/victoria-grants-commission> |

4. General Purpose Grants

This section provides details the allocation of general purpose grants to Victorian councils for 2023-24. The recommendations of the Victorian Local Government Grants Commission for the allocation of these funds were approved by the Federal Assistant Minister for Local Government in July 2023.

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| Background |  | General purpose grants are one of the two components of the financial assistance grants (along with local roads grants) provided by the Commonwealth Government to local government. The *Local Government (Financial Assistance) Act 1995* provides that the grants are untied; that is, the Victorian Local Government Grants Commission is unable to direct councils as to how the grants are to be spent.  General purpose grants are allocated between Australian states and territories on a population basis. In 2023-24, Victoria will receive 25.5% of the total funds made available by the Commonwealth Government for this purpose, in line with its share of national population.  **Figure 4.1: Share of General Purpose Grants**    % figures have been rounded |
| National Principles |  | The Victorian Local Government Grants Commission is required to make recommendations for the allocation of financial assistance grants to councils in accordance with a set of nationally agreed principles. There are currently six principles that apply to the allocation of general purpose grants. |

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| 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. |

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| Final Allocations 2022-23 |  | In July 2022, the Commonwealth Government provided the Victorian Local Government Grants Commission with an estimate of total general purpose grants for 2022-23 of $501.690 million. This formed the basis of the Commission’s recommended general purpose grant allocations to each council for 2022-23, which were announced in August 2022 and are detailed in Appendix 2A of this Report.  The final (or actual) amount to be allocated for 2022-23 was determined by the Commonwealth Government in July 2023, based on revised population growth and inflation estimates. The final allocation of general purpose grants is $524.736 million, an increase of $23.046 million compared with the earlier estimate.  Councils’ final allocations for 2022-23 are shown in **Appendix 2B**. | | |
| Estimated  Allocations 2023-24 | |  | | The national general purpose grants pool for 2023-24 is $2.156 billion. Victoria’s share of this estimated allocation is **$550.164 million**.  This represents an increase of:   * $48.299 million (9.6%) compared to the estimated general purpose grants allocation for 2022-23, or * $25.428 million (4.8%) compared to the final general purpose grants allocation for 2022-23.   **Figure 4.2: General Purpose Grants - Victoria**  *Estimated allocation 2023-24, actual allocation all other years* |
| Methodology | |  | | The Victorian Local Government Grants Commission’s methodology for allocating general purpose grants takes into account each council’s assessed relative expenditure needs and relative capacity to raise revenue.  For each council, a *raw grant* is obtained which is calculated by subtracting the council’s *standardised revenue* from its *standardised expenditure*.  The available general purpose grants pool is then allocated in proportion to each council’s raw grant, taking into account the requirement in the Commonwealth legislation and associated national distribution principles to provide a minimum grant to each council. As outlined below, increases and decreases in general purpose grant outcomes have also been limited in movement which, in turn, affects the relationship between raw grants and actual grants. |
|  | |  | | In preparing its estimates of general purpose grants, the Commission gave careful consideration to specific issues raised by councils through written submissions and the individual and regional meetings held with councils throughout the year.  Specific grants, up to a maximum of $35,000 per declared event, are made to a small number of councils each year in the form of natural disaster assistance. These grants are drawn from the general purpose grants pool and so reduce the amount allocated on a formula basis.  Details of natural disaster assistance grants allocated for 2023-24 are provided on page 24. |
| Standardised Expenditure | |  | | Under the Commission’s general purpose grants methodology, *standardised expenditure* is calculated for each council on the basis of nine expenditure functions. Between them, these expenditure functions include all council recurrent expenditure.  The structure of the model ensures that the gross standardised expenditure for each function equals aggregate actual expenditure by councils, thus ensuring that the relative importance of each of the nine expenditure functions in the Commission’s model matches the pattern of actual council expenditure.  The total recurrent expenditure across all Victorian councils in 2021-22 equalled $10.248 billion. Under the Commission’s methodology, the gross standardised expenditure in the allocation model for 2023-24 therefore also equals $10.248 billion, with each of the nine expenditure functions assuming the same share of both actual expenditure and standardised expenditure.  **Figure 4.3: Functional shares of recurrent expenditure 2021-22** |
|  | |  | | 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:  **Figure 4.4: Calculation of gross standardised expenditure**  **Gross Standardised Expenditure**  (for each function)  **Major Cost Driver**  **Gross Standardised Expenditure**  **Average Expenditure  per Unit**  **Cost Adjustors**  The calculation of standardised expenditure for the Local Roads and Bridges expenditure function is described at the end of this section.  The major cost drivers and average expenditures per unit for each expenditure function, with the exception of Local Roads and Bridges, are shown below:   |  |  |  | | --- | --- | --- | | **Expenditure Function** | **Major Cost Driver** | **Average Expend Per Unit** | | Governance | Modified Population \* | $ 70.25 | | Family & Community Services | Population | $ 150.78 | | Aged & Disabled Services | Pop >60 +Disability Pensioners +Carer’s Allowance Recipients | $ 303.23 | | Recreation & Culture | Modified Population \* | $ 359.51 | | Waste Management | No. of Dwellings | $ 484.63 | | Traffic & Street Management | Modified Population \* | $ 140.57 | | Environment | Modified Population \* | $ 88.05 | | Business & Economic Services | Modified Population \* | $ 149.70 |   \* Modified Population - adjusted by two-thirds of the vacancy rate above the state average to take account of part-time residents.  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 | | Modified Population\*  (minimum population: 20,000) | - Governance | | Modified Population \*  (minimum population: 17,500) | - Environment  - Business & Economic Services | | Modified Population \*  (no minimum) | - Recreation and Culture  - Traffic & Street Management | | Population Aged >60 + Recipients  of Disability Support Pensions  or Carer’s Allowance | - Aged & Disabled Services | | Number of Dwellings | - Waste Management |   \* Modified Population - adjusted by two-thirds of the vacancy rate above the state average to take account of part-time residents. |
|  | |  | | For five expenditure functions, a modified 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 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 as a result of their part-time resident population:   * For the Governance expenditure function, actual populations are adjusted upwards to reflect two-thirds of the “excess” vacant dwellings on census night and councils with a population of less than 20,000 are deemed to have a population of 20,000. * For the Recreation & Culture and Traffic & Street Management functions actual populations are adjusted upwards to reflect two-thirds of the “excess” vacant dwellings on census night. * For the Environment and Business & Economic Services functions actual populations are adjusted upwards to reflect two-thirds of the “excess” vacant dwellings on census night. Councils with a population of less than 17,500 are deemed to have a base population of 17,500. |
| Cost Adjustors | |  | | Cost adjustors are measures designed to reflect differences between councils, and allow the Commission to take account of the particular characteristics of individual councils which impact on the cost of service provision on a comparable basis. A number of cost adjustors are used in various combinations against each expenditure function.  Each cost adjustor has been based around a State weighted average of 1.00 with a ratio of 1:2 between the minimum and maximum values, to ensure that the relative importance of each expenditure function in the model is maintained. |
|  | |  | | The 12 cost adjustors used in the calculation of the 2023-24 general purpose grants are:   |  |  | | --- | --- | | Aged Pensioners | Population Growth | | Economies of Scale | Population less than 6 Years | | Environmental Risk (Fire & Flood) | Regional Services | | Indigenous Population | Remoteness | | Language | Socio-Economic | | Population Dispersion | Tourism |   Further information on each cost adjustor is contained at the end of this section on page 24.  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 2023-24 general purpose grants are shown in **Figure 4.5**: |
|  | |  | | **Figure 4.5: Application of cost adjustors: 2023-24 allocations** |
| Treatment of  Other Grants | |  | | *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 2021-22) is shown below:   |  |  |  | | --- | --- | --- | | **Function** | **Major Cost Driver** | **Average  Grants Per Unit** | | Governance | Modified Population | $ 3.00 | | Family & Community Services | Population | $ 44.22 | | Aged & Disabled Services | Pop > 60 + Disability Pensioners + Carer’s Allowance Recipients | $ 142.94 | | Recreation & Culture | Modified Population | $ 8.28 | | Waste Management | No. of Dwellings | $ 0.26 | | Traffic & Street Management | Modified Population | $ 3.74 | | Environment | Modified Population | $ 1.24 | | Business & Economic Services | Modified Population | $ 2.78 |   Diagrammatically, the calculation of net standardised expenditure for each expenditure function is as shown in **Figure 4.6**:  **Figure 4.6: Calculation of net standardised expenditure**  **Net Standardised Expenditure**  (for each function)  **Major  Cost Driver**  **Major  Cost Driver**  **Gross Standardised Expenditure**  **Standardised Grant  Revenue**  Equals  **Net Standardised Expenditure**  Less  **Cost Adjustors**  **Average Grant Revenue per Unit**  **Average Expenditure per Unit** |
|  | |  | | 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. The payments in lieu of rates received by some councils for major facilities such as power generating plants and airports have been added to their standardised revenue to ensure that all councils are treated on an equitable basis.  With the introduction of rate capping in 2017, the Commission altered its calculation of rate revenue raising capacity at that time to reflect a four-year average of valuation and rates data, rather than the previous three years. With all valuations and rates data in the model now fully reflecting the rate capping environment, the Commission has reverted to the use of a three-year average for the 2023-24 allocations.  Rate revenue raising capacity is calculated separately for each of the three major property classes (residential, commercial/industrial/other and farm).  The derivation of the average rates for each of the property classes is shown below:   |  |  |  |  | | --- | --- | --- | --- | | **Category** | **Total Average Valuations** | **Total Rate Revenue** | **Average Rate** | | Residential | $ 1,933.321 b | $ 5.081 b | $ 0.00263 | | Commercial/ Industrial/Other | $ 332.176 b | $ 1.070 b | $ 0.00322 | | Farm | $ 110.193 b | $ 0.330 b | $ 0.00299 |   The Commission constrains increases in each council’s assessed revenue capacity to improve stability in grant outcomes. The constraint for each council has been set at the statewide average increase in standardised revenue adjusted by the council’s own rate of population growth to reflect growth in the property base.  A council’s relative capacity to raise revenue from user fees and charges, or *standardised fees and charges revenue*, also forms part of the calculation of standardised revenue.  For each council, for each of the nine functional areas, the relevant driver (such as population) is multiplied by the adjusted State median revenue from user fees and charges (adjusted to remove the skewing effect of large outliers in the data). For some functions, this is then modified by a series of “revenue adjustors” to take account of differences between municipalities in their capacity to generate fees and charges, due to their characteristics.  The actual revenue from user fees and charges from the three years to June 2022 has been used as the basis for calculating standardised fees and charges revenue for the recommended allocations for 2023-24. These amounts are shown below, along with the revenue adjustors applied: |
|  | |  | | |  |  |  |  | | --- | --- | --- | --- | | **Expenditure  Function** | **Major Driver (Units)** | **Standard Fees & Charges Per Unit** | **Revenue Adjustors** | | Governance | Population | $ 16.59 | Nil | | Family &  Community Services | Population | $ 6.53 | Socio-Economic | | Aged &  Disabled Services | Pop. > 60  +Disability  +Carer’s Allowance | $ 25.33 | Household Income | | Recreation & Culture | Population | $ 11.47 | Nil | | Waste Management | No. Dwellings | $ 33.20 | Nil | | Traffic & Street Management | Population | $ 4.61 | Valuations  (% Commercial) | | Environment | Population | $ 1.21 | Nil | | Business &  Economic Services | Population | $ 41.18 | Tourism + Value of Development | | Local Roads  & Bridges | Population | $ 2.55 | Nil |   The assessed capacity to generate user fees and charges for each council is added to its standardised rate revenue to produce total standardised revenue.  Further information about the revenue adjustors used in assessing standardised fees and charges revenue is contained at the end of this section on page 25. |
| Data and Methodology Changes | |  | | In preparing its recommendations for general purpose grants for 2023-24, the Commission gave consideration to issues raised by councils through written submissions and the individual and statewide meetings held with councils throughout the year.  All data used by the Commission in allocating general purpose grants has been updated where possible. Major inputs for the 2023-24 allocation include Australian Bureau of Statistics’ population estimates, valuations data and the most recent information on council expenditure and revenue. Significant data sets from the 2021 Census, including socio-economic disadvantage and employment data have also been incorporated into the allocation model for 2023-24.  In light of the ongoing impacts of COVID-19, the Commission did not incorporate the most recent data provided by Tourism Research Australia and continued to utilise pre-pandemic tourism data in the relevant sections of the methodology.  In addition to incorporating revised data sets, the Commission has made three changes to the allocation methodology as follows:   * an increase in the base population used in the Environment and Business & Economic Services functions from 15,000 to 17,500 to take account of increasing ‘flag fall’ costs in providing these services; * an adjustment to the calculation of the number of non-permanent residents to take account of the increased usage of secondary dwellings during and post COVID; and * a technical change to the way in which the relative rate revenue raising capacity of each council is calculated, to ensure that councils with decreasing populations do not receive an unintended advantage. |

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| Minimum Grants |  | The available general purpose grants pool for Victorian councils represents, on average, $83.11 per head of population (using ABS population estimates as at 30 June 2022). 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 $24.93 for 2023-24).  Without the application of this principle, general purpose grants for 2023-24 for **17 councils** – Banyule, Bayside, Boroondara, Darebin, Glen Eira, Hobsons Bay, Kingston, Manningham, Melbourne, Monash, Moreland, Mornington Peninsula, Moonee Valley, Port Phillip, Stonnington, Whitehorse and Yarra, would have been below the equivalent of $24.93 per capita. The minimum grant principle has resulted in the general purpose grants to these councils being increased to that level.  If grant movements were not constrained by the Commission, Maribyrnong would also receive the minimum grant in 2023-24. However, as outlined below, the Commission recommends that councils that were not previously in receipt of the minimum grant should not receive a lower general purpose grant than in 2022-23. Therefore, the recommended actual grant outcome for Maribyrnong will remain slightly above the minimum grant level in 2023-24. |
| Limits on Grant Movements |  | The Commission applied the following limits to movements in the recommended general purpose grant outcomes for 2023-24:   * no floor to be applied to councils that were in receipt of the minimum grant in 2022-23; * grants to increase for all other councils by a minimum of 5%; and * grant increases to be limited to no more than 17%. |
| Estimated Allocations  2023-24 |  | The estimated general purpose grant allocations for each Victorian council for 2023-24 is shown in **Appendix 2A**.  A summary of the changes in estimated general purpose grant from 2022-23 to 2023-24 is shown below:   |  |  | | --- | --- | | **Change in General Purpose Grant** | **No. of Councils** | | Limit set at no more than 17% | 2 | | Range from 10-17% | 18 | | Ranging from 5-10% | 45 | | Increase of 5% (set) | 5 | | Increase of less than 5% | 9 | |  | **79** | |
| 2023-24 Grant Adjustment: Borough of Queenscliffe |  | The brought forward payment from 2022-23 made by the Commonwealth Government to the Borough of Queenscliffe in April 2022 exceeded by $96,242 the total recommended general purpose grant allocation for that council for 2022-23.  To accommodate this, the recommended 2022-23 general purpose grant for the Borough of Queenscliffe was increased on a one-off basis by $96,242. The council was notified that the same amount will be deducted from the council’s recommendation general purpose grant for 2023-24. |
| Comparative Grant Outcomes 2023-24 |  | The largest recommended general purpose grant allocation for 2023-24 is for Casey City Council ($23.508 million) and then Greater Geelong City Council ($22.359 million). The smallest grant has been recommended for the Borough of Queenscliffe ($369,940).  On a per capita basis, the largest recommended general purpose grant has been allocated to West Wimmera Shire Council, where the recommended grant allocation of $4.222 million represents $1,072.10 per head of population. This compares to the outcome for the 17 councils receiving a minimum general purpose grant, where the grant represents $24.93 per head of population.  A comparison of recommended general purpose grant outcomes on a per capita basis is illustrated in **Figure 4.7**: |
|  |  | **Figure 4.7:**  **2023-24 General Purpose Grants (per capita)** |
| Natural Disaster Assistance |  | As outlined on page 14 of this report, 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.  For 2023-24, it was recommended that a total of **$367,977** be allocated to **6 councils** for **12 events**, as follows:   |  |  |  | | --- | --- | --- | | **2023-24 Natural Disaster Assistance Grants ($)** | | | | Baw Baw (S) | Floods & Storms (x3) | $ 92,975 | | East Gippsland (S) | Storms (x3) | $ 105,000 | | Mansfield (S) | Storms | $ 12,487 | | Moorabool (S) | Floods & Storms | $ 35,000 | | South Gippsland (S) | Storm (x2) | $ 70,000 | | Wellington (S) | Storms (x2) | $ 52,515 | | **6** | **12** | **$ 367,977** | |

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| Allocation of General Purpose Grants  **Cost Adjustors**  A set of cost adjustors is used in the Victorian Local Government Grants Commission’s formula for allocating general purpose grants to Victorian councils. These are designed to reflect differences between councils and take account of factors that make service provision cost more or less for individual councils than the State average.  Individual cost adjustment index values are calculated for each of the cost adjustors for each council. These are shown in **Appendix 4D**.  The 12 cost adjustors used by the Commission for the 2023-24 allocations are listed below.  Data sources for these cost adjustors are detailed in **Appendix 4L**. | |
| ***Aged Pensioners*** | 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. |
| ***Economies of Scale*** | Recognises the economies of scale inherent in providing some local government services to larger populations. |
| ***Environmental Risk (Fire & Flood)*** | Recognises that councils face differing levels of risk from floods and bushfires leading to varying impacts on council expenditure. |
| ***Indigenous Population*** | Recognises the impact on council expenditure of providing services to people of Aboriginal or Torres Strait Islander descent. |
| ***Language*** | Recognises the impact on council expenditure of providing services to residents, particularly newly arrived migrants, with a low level of proficiency in English. |
| ***Population Dispersion*** | Recognises the impact on council expenditure of having to provide infrastructure and services to more than one population centre. |
| ***Population Growth*** | Recognises that areas of higher population growth require relatively greater council effort in providing some services. |
| ***Population <6 Years*** | Recognises the impact on council expenditure of providing services to children less than 6 years of age. |
| ***Regional Services*** | Recognises that some municipalities provide a range of services to a larger than average catchment area, increasing the demand on some council services. |
| ***Remoteness*** | Recognises the impact on council expenditure caused by remoteness from major service centres. |
| ***Socio-Economic*** | Recognises that residents of areas of relative socio-economic disadvantage are likely to make a greater call on certain council services. |
| ***Tourism*** | Recognises that councils in areas attracting significant numbers of tourists have additional expenditure requirements. |

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| Allocation of General Purpose Grants  **Revenue Adjustors**  A set of revenue adjustors is used in the Victorian Local Government 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 2023-24 allocations are listed below.  Data sources for these revenue adjustors are detailed in **Appendix 4L**. | |
| ***Household Income*** | Recognises the impact that household income has on the level of fees and charges that a council can raise. |
| ***Socio-Economic*** | 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. |
| ***Tourism*** | Recognises the impact that tourism has on the level of fees and charges that a council can raise, particularly in relation to tourist facilities. |
| ***Value of Development*** | 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. |
| ***Valuations (Commercial)*** | 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 the allocation of local roads grants to Victorian councils for 2023-24. The recommendations of the Victorian Local Government Grants Commission for the allocation of these funds were approved by the Federal Assistant Minister for Local Government in July 2023.

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| Background |  | Local roads grants are the second of the two components of the financial assistance grants provided by the Commonwealth Government to local government. Although local roads grants are allocated on the basis of the relative needs of each council for roads expenditure, the *Local Government (Financial Assistance) Act 1995* provides that the grants are untied.  Victoria receives a fixed proportion of 20.6% of the total funds made available each year by the Commonwealth Government for this purpose.  **Figure 5.1: Share of Local Roads Grants**    % figures have been rounded |
| National Principles |  | The Victorian Local Government Grants Commission is required to make recommendations for the allocation of financial assistance grants to councils in accordance with a set of nationally agreed principles. These currently require that local roads grants be ‘allocated to councils as far as practicable on the basis of the relative needs of each council for roads expenditure and to preserve its road assets.’ |
| Final Allocations 2022-23 |  | In July 2022 the Commonwealth Government provided the Victorian Local Government Grants Commission with an estimate of total local roads grants for 2022-23 of **$178.488 million**. This formed the basis of the Commission’s recommended local roads allocation to each council for 2022-23, which were announced in August 2022 and are shown in Appendix 2A of the Commission’s 2021-22 Annual Report.  The Commonwealth Department of Infrastructure, Transport, Regional Development, Communications and the Arts advised the Commission in July 2023 of the final (or actual) amount to be allocated for 2022-23. The final allocation of total local roads grants is $187.001 million, an increase of $8.512 million compared with the earlier estimate.  Councils’ final allocations for 2022-23 are shown in **Appendix 2B**. |
| Estimated Allocations 2023-24 |  | The estimated national local roads grants pool for 2023-24 is $956.583 million. Victoria’s share of this estimated allocation is **$197.213 million**. This represents an increase of $18.724 million or 10.5% over the estimated allocation for 2022-23.  **Figure 5.2: Local Roads Grants - Victoria**    *Estimated allocation 2023-24, actual allocation all other years* |
| Methodology |  | The Commission’s formula for allocating local roads grants is based on each council’s road length (for all surface types) and traffic volumes, using average annual preservation costs for given traffic volume ranges.  The methodology also includes a series of cost modifiers for freight loading, climate, materials, sub-grade conditions and strategic routes and takes account of the deck area of bridges on local roads.  This formula is designed to reflect the relative needs of Victorian councils in relation to local roads grants in accordance with the national principle relating to the allocation of local roads grants.  There have been no changes to the methodology used in preparing recommendations of local roads grants in 2023-24. |
| Road Length & Traffic Volume Data |  | The recommended allocation of local roads grants for 2023-24 was based on road length and traffic volume data reported by all councils for the 12 months to June 2022.  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 **133,292 kilometres** of local roads as at 30 June 2022, an increase of 278 kilometres, or 0.2% more than the length reported 12 months earlier.  Where significant changes were made to the data previously provided, councils were asked to verify those data changes and, in some instances, provide additional supporting documentation.  Variations were as follows:   |  |  | | --- | --- | | **Change in Length of Local Roads** | **No. of Councils** | | Increase of more than 4.0% | 2 | | Increase of 1.0% to 5.0% | 6 | | Increase of up to 1.0% | 33 | | No change # | 30 | | Decreases | 8 | |  | **79** |   # 2022-23 & 2023-24 - As a result of COVID-19, the Commission reviewed all data which may have been impacted by the pandemic. In relation to their local roads data, councils were asked to update their road length data where applicable, but not to adjust traffic volume data..  Road lengths reported by each council for each traffic volume range as at June 2021 are detailed in **Appendix 5A**. |
| Asset  Preservation  Costs |  | Average annual preservation costs for each traffic volume range are used in the allocation model to reflect the cost of local road maintenance and renewal.  The asset preservation costs were altered for the 2018-19 allocations to better reflect councils’ aggregate actual expenditure on road maintenance. However, this change had no impact on the distribution of local roads grants.  The asset preservation costs used in the 2023-24 allocations were as follows:   |  |  |  | | --- | --- | --- | | **Local Road Type** | **Daily Traffic**  **Volume Range** | **Annual Asset  Preservation Cost $/km** | | Urban | < 500 | $ 8,640 | |  | 500 - <1000 | $ 11,760 | |  | 1000 - <5000 | $ 15,840 | |  | 5000 + | $ 25,680 | | Rural | Natural Surface | $ 840 | |  | < 100 | $ 6,000 | |  | 100 - <500 | $ 12,480 | |  | 500 - < 1,000 | $ 13,920 | |  | 1,000 + | $ 15,840 | | Timber Bridge |  | $ 240 / sq m | | Concrete Bridge |  | $ 144 / 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 relative volume of freight carried on local roads in each council * climate * the availability of road-making materials * sub-grade conditions * strategic routes   Cost modifiers are applied to the average annual preservation costs for each traffic volume range for each council to reflect the level of need of the council relative to others. Relatively high cost modifiers add to the network cost calculated for each council, and so increase its local roads grant outcome.  Additional information on the cost modifiers used in the local roads allocation model is provided at the end of this section on page 31.  No changes were made to the cost modifiers for the recommended 2023-24 allocations. |
| Grant Calculation |  | The Commission calculates a total network cost for each council’s local roads. This represents the relative annual costs faced by the council in maintaining its local road and bridge networks, based on average annual preservation costs and taking account of local conditions, using cost modifiers.  The network cost is calculated using traffic volume data for each council, standard asset preservation costs for each traffic volume range and cost modifiers for freight carriage, climate, materials availability, sub-grade conditions and strategic route lengths. The deck area of bridges on local roads is included in the network cost at a rate of $120 per square metre for concrete bridges and $200 per square metre for timber bridges.  Mathematically, the calculation of the network cost for a single traffic volume range for a council can be illustrated as follows:  **Figure 5.3: Calculation of network cost**  **X X =**  **Length of local roads in category**  **Asset preservation cost for category**  **Overall  cost  modifier \***  **Network  Cost**  *\* Overall cost modifier is calculated by multiplying the cost modifier for freight, climate, materials, reactive sub-grades and strategic routes.*  The actual local roads grants are then determined by applying the available funds in proportion to each council’s calculated network cost. |
| Limits on Grants Movements |  | The Commission has not applied any limits to movements in the recommended local roads grant outcomes for 2023-24. |
| Estimated Allocations  2023-24 |  | The estimated local roads grant allocation for each Victorian council for 2023-24 is shown in **Appendix 2A**.  In general, where a significant change has occurred in a council’s local roads grant for 2023-24, this is due to significant changes in local roads data supplied by the council to the Commission.  A summary of the changes in estimated local roads grants entitlements from 2022-23 to 2023-24 is shown below:   |  |  | | --- | --- | | **Change in Local Roads Grants** | **No. of Councils** | | Increase of more than 12.0% | 7 | | Increases of 10.0% - 12.0% | 49 | | Increases to 10.0% | 23 | |  | **79** | |
| Comparative  Grant Outcomes  2023-24 |  | The largest recommended local roads grant for 2023-24 has been allocated to Wellington Shire Council ($5.965 million).  The smallest recommended grant has been allocated to the Borough of Queenscliffe ($72,803). |

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| Allocation of Local Roads Grants  **Cost Modifiers**  A series of five cost modifiers is used in the Victorian Local Government 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 2023-24 were: | |
| ***Freight*** | The freight cost modifier recognises that local roads in some municipalities carry relatively high volumes of heavy vehicles compared to others, which impacts on the cost of asset preservation. A freight loading ratio has been calculated for each municipality, based on the level of employment in freight-intensive industries within that municipality. The cost modifier index infers that a higher level of employment in such industries will see relatively higher levels of freight carriage on their local roads network, leading to more rapid road surface deterioration and relatively higher road maintenance costs. |
| ***Climate*** | The climate cost modifier recognises that certain climatic conditions have an adverse impact on road durability and increase the costs to affected councils of asset preservation. The climate index identifies the length of urban and rural roads that fall within the five climatic zones utilised by Standards Australia to produce an average climate rating for both rural and urban roads within each municipality. These ratings are then spread across index ranges, the larger being for rural roads to reflect the relatively greater influence of climate on such surfaces. |
| ***Materials*** | The cost of maintaining local roads can be impacted by the local availability of suitable pavement materials. The materials availability index has identifies the distance between the nearest quarry location containing high quality road making material and the council headquarters. All metropolitan councils have had their indexes set at the minimum value, reflecting the availability of materials from a variety of sources. |
| ***Sub-grades*** | The performance life of road pavements is affected by seasonal swelling and shrinkage of the sub-grade, which accelerates the deterioration of the pavement and adds to asset preservation costs. In Victoria, this is a particular issue in areas with expansive clay sub-grades, which occur predominantly in the western suburbs of Melbourne and western Victoria. The Commission has identified the total length of urban and rural roads in each of the eight sub-grade categories utilised by Standards Australia and has 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. Trends in Outcomes

This section provides a summary of movements in financial assistance grants over time for Victorian councils. This information is provided to emphasise the importance of financial assistance grants to Victorian councils and to assist councils and other stakeholders in understanding how the allocation of these funds has altered over time.

Several of the charts in this section place councils in different broad groupings (interface councils, small rural councils, etc). This categorisation is only for the purpose of summarising the results – it is not used in the grant allocation process and has no influence on grant outcomes.

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| Grants as a proportion of recurrent revenue |  | **Figure 6.1** shows the relative importance of financial assistance grants to all Victorian councils, and highlights that these grants represent a higher proportion of the recurrent revenue of rural councils compared to metropolitan councils.  In the 2021-22 financial year, financial assistance grants represented, on average, 6.0% of the recurrent revenue of Victorian councils.  For most metropolitan councils, these grants comprised less than 5.0% of their recurrent revenue. However, for five rural councils (Buloke, Loddon, Pyrenees, Towong and West Wimmera), more than 25.0% of their revenue was derived from financial assistance grants.  **Figure 6.1: Financial assistance grants as % of recurrent revenue**    **Financial assistance grants  as % of recurrent revenue**  **Victoria Average: 6.0%**    *Data for 2021-22 financial year.* |
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| Total grants  over time |  | **Figure 6.2** shows the change over time in the total pool of financial assistance grants allocated by the Commonwealth Government to Victorian councils.  The total funding pool increased steadily from $394.9 million in 2005-06 to $538.2 million in 2013-14, an average of 4.5% per annum. This reflects strong growth in Australia’s population across that period, and an increase in Victoria’s share of the national population. However, a three-year “pause” on indexation imposed by the Commonwealth Government meant that grant levels were then largely unchanged for three years through to 2016-17.  The resumption of indexation in 2017-18 meant that growth then resumed through to 2022-23 and has averaged 3.8% per annum over that time. The 9.9% increase for 2023-24 is significantly above the historical average.  The 2023-24 Federal Budget estimated that the aggregate pool of funds for Victorian councils will increase by 5.2% in 2024-25, 4.4% in 2025-26 and 4.3% in 2026-27.  **Figure 6.2: Total financial assistance grants to Victorian councils** |
| Total grants per capita by council group |  | **Figure 6.3** shows the movement in total financial assistance grants on a per capita basis to each council group since 2014-15.  This shows that average grants per capita have increased strongly for both the small rural and large rural groups of councils and, to a lesser extent, regional cities. In contrast, average grants per capita have remained relatively constant across that period for the interface and metropolitan-other groups.  **Figure 6.3: Total financial assistance grants per capita by council group** |
| Average increases in grants by council group |  | **Figure 6.4** shows the overall average rate of increase in financial assistance grants for each of the council groups in 2023-24.  Compared to a state average increase of 9.9%, aggregate financial assistance grants to the inner metropolitan group of councils (those receiving the minimum general purpose grant) will increase by 6.9%, whereas grants for the metropolitan-other group will increase by 7.0% and those to the interface councils group will increase by 13.8%. Grants to the regional cities group will increase by 9.6%, while grants to the large and small rural councils groups will increase on average by 9.6% and 9.1 respectively.  **Figure 6.4: Average increases in financial assistance grants  by council group: 2023-24** |
| Share of grants pool by council group |  | **Figure 6.5** shows the share of the Victorian financial assistance grants pool allocated to each council group in 2023-24 compared to that group’s share of Victorian population.  This shows that, while rural councils comprise 13.3% of Victoria’s population, they will receive 45.0% of the total financial assistance grants pool in 2023-24.  **Figure 6.5: Share of financial assistance grants pool  by council group: 2023-24** |