Victoria Grants Commission

Annual Report 2016



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|  |  | **Victoria Grants Commission**  **Annual Report**  **2015-16** |

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**Victoria Grants Commission**

**Annual Report**

**2015-16**

September 2016

The Hon Natalie Hutchins MP

Minister for Local Government

1 Spring Street

MELBOURNE VIC 3000

Dear Minister

On behalf of the Victoria Grants Commission, we have pleasure in presenting the Annual Report of the Commission’s operations for the year to 31 August 2016,   
in accordance with Section 17 of the *Victoria Grants Commission Act 1976*.

**John Watson**

**Chairperson**

**Julie Eisenbise**

**Member**

**Michael Ulbrick**

**Member**

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Foreword

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|  |  | The Victoria Grants Commission’s Annual Report for 2015-16 provides a summary of the Commission’s activities for the year to 31 August 2016.  The major focus for this period was the determination of general purpose grants and local roads grants for each Victorian council for 2016-17. This Annual Report details the methodology used to allocate these grants, while the appendices contain the data used in this process.  During 2015-16, the Commission’s deliberations continued to be dominated by the Commonwealth Government’s decision, announced in May 2014, to pause indexation on the national pool of financial assistance grants for three years to 2016-17.  As detailed in this report, the Commission has responded to this by adopting a system of limiting movements in grant outcomes from one year to the next. This system is designed to reduce the variability in grant outcomes for all councils, particularly those in rural areas who are heavily reliant on financial assistance grants as a source of recurrent revenue. While grant movement limits continued to be applied for the 2016-17 allocations, they were further loosened as the Commission prepares for the resumption of indexation in 2017-18.  The Commission has continued to review its allocation methodology. Whilst not making any significant changes to that methodology for  2016-17, it is continuing to review several aspects of the formula. This work will continue during the coming year, as detailed in Section 6 of this Annual Report.  The Commission continued its consultation program with councils, conducting 17 individual council meetings across Victoria in 2015-16. The meetings provide the Commission with the opportunity to gain valuable insight to local issues affecting councils in Victoria. This was supplemented by the annual submission process, through which councils provide feedback and suggestions to the Commission about the way in which grants are allocated.  Finally, as outlined in Section 2, the Commission was delighted to have the opportunity to host the National Forum of Local Government Grants Commissions in Melbourne in October 2015.  **Victoria Grants Commission**  **September 2016** |

1. The Commission

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| Role |  | The role of the Victoria Grants Commission is to determine the allocation of financial assistance grants (general purpose grants and local roads grants) provided by the Commonwealth Government to Victorian councils. |
| Legislation |  | The *Victoria Grants Commission Act 1976* is the State legislation that governs the operation of the Victoria Grants Commission. The Act establishes the Commission for the purpose of determining the allocation of financial assistance grants to councils, provides for the appointment and remuneration of Commission members and specifies the general operations of the Commission, including meetings of the Commission and the annual reporting requirements.  The *Local Government (Financial Assistance) Act 1995* is the Commonwealth legislation that sets out the basis for the allocation of financial assistance grants by each Local Government Grants Commission to its respective local governing bodies in each State and the Northern Territory.  This legislation also requires that a set of national principles be formulated in writing 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 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 2019 | | Sessional Member | Julie Eisenbise | 1 November 2013 | 31 October 2016 | | Sessional Member | Michael Ulbrick | 1 November 2013 | 31 October 2016 |   All current members of the Commission have local government experience. |
|  |  | **John Watson (Chairperson)**  Mr John Watson has been the Chairperson of the Victoria Grants Commission since 2012.  Mr Watson has had a long career in State and local government over more than four decades. He has held a number of leadership roles in local government as Chief Executive Officer of the former Shire of Bulla (1988-94), Moonee Valley City Council (1994-95) and Hume City Council (1995-98). His Victorian Government roles include periods as a Director, and then Executive Director, of Local Government Victoria (1999-2012). Mr Watson is currently Chair of the Panel of Administrators of Brimbank Council and sits on several council audit committees and the Emergency Management Victoria Program Board. He was a co-author of the 2015 Sunbury Hume Transition Local Government Panel Report.  **Julie Eisenbise (Member)**  Ms Julie Eisenbise has been a Member of the Victoria Grants Commission since 2013.  Ms Eisenbise was a councillor at Manningham City Council, (1997-2005), serving as Mayor in 2001-02, and was a member of the Municipal Association of Victoria Board (2001-04). She has extensive experience in the education and science field spanning 30 years, including the role of Executive Director, Global Business and Engagement at RMIT University. Ms Eisenbise was the Business and Professional Woman’s Association’s Victorian Woman of the Year in 1997 and is a Fellow of the Australian Institute of Company Directors. Ms Eisenbise is also currently on the Box Hill Institute and CAE board.  **Michael Ulbrick (Member)**  Mr Michael Ulbrick has been a Member of the Victoria Grants Commission since 2013.  Mr Ulbrick has considerable State and local government, public policy and consultation experience. He has held several executive positions in local government, including as Chief Executive Officer of Surf Coast Shire Council (2002) and Darebin City Council (2005-2010). His Victorian Government experience includes a period as Executive Officer of the Victoria Grants Commission and, more recently, as consultant with Local Government Victoria in developing the Performance Management Framework (2012-14). Mr Ulbrick has established his own management consulting business and holds various local government audit committee positions. |
| Staff |  | The Commission’s staff is drawn from Local Government Victoria, which forms part of the Department of Environment, Land, Water & Planning.  Staff members during 2015-16 were as follows:   |  |  |  | | --- | --- | --- | |  | Colin Morrison | Executive Officer | |  | Brendan Devlin |  | |  | Nada Bagaric |  | |
| Funding |  | All funds allocated by the Commonwealth are distributed to councils, with all of the Commission’s operating costs being met by the Victorian Government. These costs include staff salaries, accommodation, members’ sessional fees, travel and consultancies. |
| Acknowledgements |  | The Commission wishes to acknowledge the continued and valuable contributions from Victorian councils particularly in response to information requests, including the annual data return, providing submissions and participating in Commission information sessions.  The Commission would also like to thank Local Government Victoria (Department of Environment, Land, Water & Planning), the Commonwealth Department of Infrastructure and Regional Development, the Commonwealth Grants Commission, the Municipal Association of Victoria, the Australian Bureau of Statistics, the Office of the Valuer-General, Centrelink, Tourism Research Australia and our counterparts in other States and the Northern Territory for their assistance and guidance throughout the year. |
| Commission Meetings  2015-16 |  | The Commission and its staff meet on a monthly basis, and other times as required, throughout the year. A summary of the meetings held during 2015-16 is as follows:   |  |  | | --- | --- | | **Meeting Date** | **Attendees** *(C) – denotes chair of meeting* | | 11 September 2015 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 7 October 2015 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 4 November 2015 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 10 December 2015 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 10 February 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 2 March 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin *Apologies: Ms Nada Bagaric* | | 6 April 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 21 April 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 6 May 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 12 May 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | | 1 June 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin *Apologies: Ms Nada Bagaric* | | 6 July 2016 | Mr John Watson (C), Ms Julie Eisenbise,  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: Mr Michael Ulbrick* | | 21 July 2016 | Mr John Watson (C), Ms Julie Eisenbise  Mr Colin Morrison, Mr Brendan Devlin  *Apologies: Mr Michael Ulbrick, Ms Nada Bagaric* | | 10 August 2016 | Mr John Watson (C), Ms Julie Eisenbise, Mr Michael Ulbrick  Mr Colin Morrison, Mr Brendan Devlin, Ms Nada Bagaric  *Apologies: N/A* | |

2. Summary of 2015-16

This section provides a summary of the Victoria Grants Commission’s key activities for 2015-16.

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| Commonwealth Indexation Pause |  | The 2014 Federal Budget announced that the Commonwealth Government would ‘pause’ indexation on the national pool of financial assistance grants provided to local government for the three years to 2016-17.  Over this period, general purpose grant allocations between the States and Territories are continuing to fluctuate in line with population changes. However, the level of local roads grants has remained at 2014-15 levels, with the total quantum of the overall pool.  The Victoria Grants Commission has calculated that, over the four-year period to 2017-18, total grants to Victorian councils will be approximately $200 million lower than would have otherwise been the case with indexation. When indexation is scheduled to resume it will be from a base that is some 12.5% lower than had the pause not been implemented.  The indexation pause led to considerable challenges in allocating the 2015-16 grants equitably in line with the national distribution principles, and this was the case again for the 2016-17 allocations.  The 2016 Federal Budget confirmed the continuation of the indexation ‘pause’ for the 2016-17 financial year  As a result of the continuation of the ‘pause,’ the Commission has again limited movements in grant outcomes for 2016-17.  In comparison to 2015-16, the limits have been loosened in preparation for the resumption of indexation in 2017-18. However, the parameters have still been designed to reduce the financial impact borne by those councils with the greatest reliance on this funding, whilst ensuring that the pool is shared equitably. |
| Estimated Grant Allocations for  2016-17 |  | The 2016 Federal Budget, which was handed down on 3 May 2016 contained the estimated 2016-17 total allocation to Victorian councils.  Consequently, on 24 May 2016, the Commission was able to provide all councils with an indicative estimate of their general purpose and local roads grants allocations for 2016-17, based on the Commonwealth Budget estimates. |
| Annual Data  Return |  | The Commission’s allocation process relies on data provided by councils in annual data returns. Much of this data is also shared with third parties, including the Australian Bureau of Statistics. A lodgement date of 4 November 2015 was set for the receipt of annual data returns from councils.  Many councils provided their returns well before the due date, assisting in expediting the data processing that is the first stage of the grant allocation process. |
| Consultation |  | All Victorian councils have the ability to provide written submissions to the Commission. The views presented in these submissions provide valuable input on aspects of both the general purpose and local roads grant allocation methodologies, including the construction and application of the cost adjustors and cost modifiers used to reflect the local characteristics of individual councils. This, in turn, allows the Commission to consider modification of the methodologies to ensure that they continue to be relevant to the needs of councils.  Five regional information sessions were held in August/September 2015 to enhance councils’ understanding of the Commission’s role, allocation methodology and data requirements, and to provide an overview of the calculation of the 2015-16 grants.  For more details about the Commission’s consultation program for  2015-16 refer to Section 3 of this Annual Report. |
| Allocation |  | The 2016-17 estimated allocation for Victorian councils is $542.137 million, comprising general purpose grants of $397.116 million and local roads grants of $145.020 million.  The Commonwealth Government also announced that an amount of $0.099 million would be added to the cash payments to Victorian councils during 2016-17, as a result of an underestimation of the  2015-16 entitlements. This amount is the result of an adjustment made by the Commonwealth Government at the end of each financial year to reflect updated population estimates.  In aggregate, the estimated allocation for 2016-17 represents an increase in funding of:   * $2.341 million (0.4%) over the allocation for 2015-16 (as announced in August 2015)   or   * $2.783 million (0.5%) when compared to the final allocation for 2015-16.   This is summarised on the next page. Further details pertaining to the allocation of general purpose grants and local roads grants are contained in Sections 4 and 5, respectively. |
| Allocation Summary |  | |  |  | | --- | --- | |  |  | | **General Purpose Grants** |  | |  |  | | 2015-16 Estimated Allocation | $ 394,781,661 | | 2015-16 Underpayment | $ 98,931 | | 2015-16 Final Allocation | **$ 394,880,592** | |  |  | | 2016-17 Estimated Allocation | **$ 397,116,376** | |  |  | | $ Change (compared to estimate) | $ 2,334,715 | | $ Change (compared to final) | $ 2,235,784 | | % Change (compared to estimate) | 0.6% | | % Change (compared to final) | 0.6% | |  |  | |  |  | | **Local Roads Grants** |  | |  |  | | 2015-16 Estimated Allocation | $ 145,013,958 | | 2015-16 Adjustment | $ 0 | | 2015-16 Final Allocation | **$ 145,013,958** | |  |  | | 2016-17 Estimated Allocation | **$ 145,020,454** | |  |  | | $ Change (compared to estimate) | $ 6,496 | | $ Change (compared to final) | $ 6,496 | | % Change (compared to estimate) | 0.0% | | % Change (compared to final) | 0.0% | |  |  | |  |  | | **Total Financial Assistance Grants** |  | |  |  | | 2015-16 Estimated Allocation | $ 539,795,619 | | 2015-16 Underpayment | $ 98,931 | | 2015-16 Final Allocation | **$ 539,894,550** | |  |  | | 2016-17 Estimated Allocation | **$ 542,136,830** | |  |  | | $ Change (compared to estimate) | $ 2,341,211 | | $ Change (compared to final) | $ 2,341,211 | | % Change (compared to estimate) | 0.4% | | % Change (compared to final) | 0.4% | |  |  | |  |  | | **2016-17 Cash Payment \*** |  | |  |  | | 2016-17 Estimated Allocation | $ 542,136,830 | | 2015-16 Underpayment | $ 98,951 | |  | **$ 542,235,761** | |  |  | | \* Includes natural disaster assistance grants. |  | |
| National  Conference |  | The Commission believes that national meetings of Local Government Grants Commission members to discuss and compare their allocation methodologies and processes are invaluable and contribute to the collective knowledge of all Commissions.  The Victorian Commission hosted a National Forum of Local Government Grants Commissions in Melbourne on 28-29 October 2015. This was the first such gathering of Local Government Grants Commissions since 2012, and was attended by representatives of each of the seven Commissions across Australia, as well as representatives of the Commonwealth Department of Infrastructure and Regional Development and the Commonwealth Grants Commission.  It has been agreed that these important meetings will now be held every second year, and the next National Forum will be convened by the South Australian Local Government Grants Commission in late 2017. |

3. Consultation

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

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| Individual Council Visits |  | The Commission holds a number of individual meetings with councils each year. The purpose of these meetings is to provide councils with a detailed overview of the Commission’s role and methodology, and how the grant outcomes are determined. The meetings also enable the Commission to gain a greater understanding of the issues facing individual councils.  In 2015-16, the Commission held meetings with a total of 17 councils on an individual basis. This is part of the Commission’s commitment to meet with every Victorian council on a four-year cycle.   |  |  |  | | --- | --- | --- | | **Individual Council Meeting** | **Venue** | **Date** | | Central Goldfields (S) | Maryborough | 2 September 2015 | | Corangamite (S) | Camperdown | 3 September 2015 | | Golden Plains (S) | Bannockburn | 6 November 2015 | | Hume (C) | Broadmeadows | 16 November 2015 | | Nillumbik (S) | Greensborough | 16 November 2015 | | Bass Coast (S) | Wonthaggi | 18 November 2015 | | Brimbank (C) | Sunshine | 10 December 2015 | | Frankston (C) | Frankston | 11 April 2016 | | Greater Dandenong (C) | Dandenong | 11 April 2016 | | Cardinia (S) | Pakenham | 18 April 2016 | | Mildura (RC) | Mildura | 6 June 2016 | | Glenelg (S) | Portland | 15 June 2016 | | West Wimmera (S) | Edenhope | 16 June 2016 | | Mount Alexander (S) | Castlemaine | 21 June 2016 | | Greater Bendigo (C) | Bendigo | 21 June 2016 | | Casey (C) | Narre Warren | 25 June 2016 | | Yarra Ranges (S) | Lilydale | 25 June 2016 | |
| Regional Information Sessions |  | Five regional information sessions will be held in August/September 2016 in Warragul, Greensborough, Ballarat, Sunshine and Shepparton.  These sessions will provide an overview of the methodology for the 2016-17 allocations and provide some additional information to councils about the Commonwealth pausing of indexation on financial assistance grants. |
| Public Meetings |  | In accordance with section 11 (2) (c) of the *Local Government (Financial Assistance Act) 1995*, the Commission’s meetings with councils and regional information sessions are conducted as public meetings. |
| Submissions |  | Councils were invited to provide the Commission with written submissions by the end of February 2016 in relation to the 2016-17 allocations.  Submissions were received from four councils:   |  |  | | --- | --- | |  | **Submissions Received** | |  | Central Goldfields Shire Council | |  | Corangamite Shire Council | |  | Nillumbik Shire Council | |  | Wellington Shire Council |   These submissions covered a range of issues, including the use of a “minimum population” in some areas of the general purpose grants allocation formula, the cost adjustors and cost driver used to assess standardised expenditure for waste management and the source of the data used to calculate the tourism cost adjustor.  The Commission considered each submission carefully, and has provided formal responses to each council addressing their concerns and recommendations. |
| Other Information |  | Information about the Victoria Grants Commission, including key reports and information papers, is published on the Commission’s website: <http://www.dtpli.vic.gov.au/local-government/victoria-grants-commission> |

4. General Purpose Grants

This section provides details of the allocation of general purpose grants for 2016-17, which represents the primary focus of the Commission’s activities during the period covered by this Annual Report.

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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 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 2016-17, Victoria will receive 25.0% of the total funds made available by the Commonwealth Government for this purpose, in line with its share of national population.  **Share of General Purpose Grants** |
| National Principles |  | The Victoria Grants Commission is required to allocate financial assistance grants to councils in accordance with a set of nationally agreed principles. There are currently six principles that apply to the allocation of general purpose grants. |

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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 2015-16 |  | In July 2015 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total general purpose grants for 2015-16 of $394.782 million. This formed the basis of the Commission’s estimated general purpose grant allocations to each council for 2015-16, which were announced in August 2015 and are detailed in Appendix 2A of the Commission’s 2015-16 Annual Report.  The final (or actual) amount to be allocated for 2015-16 was determined by the Commonwealth Government in July 2016, based on revised population growth estimates as at December 2014. The final allocation is $394.881 million, an increase of $0.099 million, or 0.03% compared with the earlier estimate.  Councils’ final allocations for 2015-16 are shown in Appendix 2B. | | |
| Estimated  Allocations 2016-17 | |  | | The estimated national general purpose grants pool for 2016-17 is $1.585 billion. Victoria’s share of this estimated allocation is $397.116 million. This represents an increase of:   * $2.335 million (0.6%) compared to the estimated general purpose grants allocation for 2015-16;   or   * $2.235 million (0.6%) compared to the final general purpose grants allocation for 2015-16.   **General Purpose Grants - Victoria**    *Estimated allocation 2016-17, actual allocation all other years* |
| Methodology | |  | | The Victoria Grants Commission’s methodology for allocating general purpose grants takes into account each council’s assessed relative expenditure needs and relative capacity to raise revenue.  For each council, a *raw grant* is obtained which is calculated by subtracting the council’s *standardised revenue* from its *standardised expenditure*.  The available general purpose grants pool is then allocated in proportion to each council’s raw grant, taking into account the requirement in the Commonwealth legislation and associated national distribution principles to provide a minimum grant to each council. As outlined below, increases and decreases in general purpose grant outcomes have also been limited in movement which, in turn, affects the relationship between raw grants and actual grants.  Specific grants, up to a maximum of $35,000 per declared event, are made to a small number of councils each year in the form of natural disaster assistance. These grants are funded from the general purpose grants pool and so reduce the amount allocated on a formula basis. Details of natural disaster assistance grants allocated for  2016-17 are provided at the end of this section. |
| Standardised Expenditure | |  | | Under the Commission’s general purpose grants methodology, *standardised expenditure* is calculated for each council on the basis of nine expenditure functions. Between them, these expenditure functions include all council recurrent expenditure.  The structure of the model ensures that the gross standardised expenditure for each function equals aggregate actual expenditure by councils, thus ensuring that the relative importance of each of the nine expenditure functions in the Commission’s model matches the pattern of actual council expenditure.  The total recurrent expenditure across all Victorian councils in 2014-15 was $7.613 billion. Under the Commission’s methodology, the gross standardised expenditure in the allocation model for 2016-17 therefore also equals $7.613 billion, with each of the nine expenditure functions assuming the same share of both actual expenditure and standardised expenditure. |
|  | |  | | For each function, with the exception of Local Roads and Bridges, *gross standardised expenditure* is obtained by multiplying the relevant major cost driver by:   * the average Victorian council expenditure on that function, per unit of need; and * a composite cost adjustor which takes account of factors that make service provision cost more or less for individual councils than the State average.   This can be demonstrated diagrammatically as follows:  **Gross Standardised Expenditure**  (for each function)  **“Major Cost Driver”**  **Gross Standardised Expenditure**  **“Cost Adjustors”**  **“Average Expenditure  per Unit”**  The calculation of standardised expenditure for the Local Roads and Bridges expenditure function is described at the end of this section.  The major cost drivers and average expenditures per unit for each expenditure function, with the exception of Local Roads and Bridges, are shown below:   |  |  |  | | --- | --- | --- | | **Expenditure Function** | **Major Cost Driver** | **Average Expend Per Unit** | | Governance | Population (adjusted) | $60.62 | | Family & Community Services | Population | $139.86 | | Aged & Disabled Services | Pop. > 60 + Disability Pensioners + Carer’s Allowance Recipients | $401.16 | | Recreation & Culture | Population | $285.26 | | Waste Management | No. of Dwellings | $320.12 | | Traffic & Street Management | Population | $128.95 | | Environment | Population (adjusted) | $63.36 | | Business & Economic Services | Population (adjusted) | $166.44 | |
|  | |  | | For each expenditure function a major cost driver (or unit of need) is used, which is seen by the Commission to be the most significant determinant of a council’s expenditure need on a particular function.  Several different major cost drivers are used:   |  |  | | --- | --- | | **Major Cost Driver** | **Expenditure Functions** | | Population | Family & Community Services Recreation and Culture Traffic & Street Management | | Population adjusted by  % of vacant dwellings  (minimum population: 20,000) | Governance | | Population adjusted by  % of vacant dwellings  (minimum population: 15,000) | Environment | | Population adjusted by half vacancy rate  in excess of State average;  if population less than 15,000,  population doubled to maximum of 15,000 | Business & Economic Services | | Population Aged Over 60 + Recipients  of Disability Support Pensions  or Carer’s Allowance | Aged & Disabled Services | | Number of Dwellings | Waste Management |   For three expenditure functions (Governance, Environment and Business & Economic Services), an adjusted population is used as the major cost driver to recognise the fixed costs associated with certain functional areas.  The major cost drivers used in assessing relative expenditure needs for these three functions also take account of the high rates of vacant dwellings at the time the census is taken as a proxy for non-resident population. Councils with a vacancy rate above the State average are assumed to have a population higher than the census-based estimate:   * For the Governance function, actual populations are adjusted upwards to reflect above average rates of vacancies on census night and councils with a population of less than 20,000 are deemed to have a population of 20,000. * For the Environment function, actual populations are adjusted upwards to reflect above average rates of vacancies on census night. Councils with a vacancy-adjusted population of less than 15,000 are assumed to have a population double that amount, to a maximum of 15,000. * For the Business & Economic Services function, actual populations are adjusted upwards to reflect 50% of above average rates of vacancies on census night. Councils with a vacancy-adjusted population of less than 15,000 are assumed to have a population double that amount, to a maximum of 15,000. |
| Cost Adjustors | |  | | Cost adjustors are measures designed to reflect differences between councils, and allow the Commission to take account of the particular characteristics of individual councils which impact on the cost of service provision on a comparable basis. A number of cost adjustors are used in various combinations against each expenditure function.  Each cost adjustor has been based around a State weighted average of 1.00 with a ratio of 1:2 between the minimum and maximum values, to ensure that the relative importance of each expenditure function in the model is maintained.  The 12 cost adjustors used in the calculation of the 2016-17 general purpose grants are:   |  |  | | --- | --- | | Aged Pensioners | Population Growth | | Economies of Scale | Population less than 6 Years | | Environmental Risk | Regional Significance | | Indigenous Population | Remoteness | | Language | Socio-Economic | | Population Dispersion | Tourism |   Further information on each cost adjustor is contained in the box at the end of this section. |
|  | |  | | Because some factors represented by cost adjustors impact more on costs than others, different weightings have been used for the cost adjustors applied to each expenditure function.  The cost adjustors and weightings applied to each expenditure function in the calculation of the 2016-17 general purpose grants are shown in the chart below:  Application of Cost Adjustors: 2016-17 Allocations |
|  | |  | | The Commission has made some changes to the construction of the cost adjustors to reduce the impact of “outlier” data on grant outcomes. This has resulted in small changes to the following cost adjustors:   * Tourism cost adjustor * Language cost adjustor |
| Net Standardised  Expenditure | |  | | *Net standardised expenditure* has been obtained for each function by subtracting standardised grant support (calculated on an average per unit basis) from gross standardised expenditure. This ensures that other grant support is treated on an “inclusion” basis.  Average grant revenue on a per unit basis (based on actual grants received by local government in 2014-15) is shown below:   |  |  |  | | --- | --- | --- | | **Expenditure Function** | **Major Cost Driver** | **Average  Grants Per Unit** | | Governance | Population (adjusted) | $1.78 | | Family & Community Services | Population | $37.68 | | Aged & Disabled Services | Pop. > 60 + Disability Pensioners + Carer’s Allowance Recipients | $185.03 | | Recreation & Culture | Population | $6.12 | | Waste Management | No. of Dwellings | $0.16 | | Traffic & Street Management | Population | $2.40 | | Environment | Population (adjusted) | $1.18 | | Business & Economic Services | Population (adjusted) | $1.10 |   Diagrammatically, the calculation of net standardised expenditure for each expenditure function is as follows:  **Net Standardised Expenditure**  (for each function)  **Gross Standardised Expenditure**  **“Cost Adjustors”**  **“Average Expenditure  per Unit”**  **“Major Cost Driver”**  **Standardised Grant  Revenue**  **Net Standardised Expenditure**  **“Average Grant Revenue per Unit”**  **“Major  Cost Driver”**  Less  Equals  Standardised expenditure for the Local Roads and Bridges expenditure function within the general purpose grants model is based on the grant outcomes for each council under the Commission’s local roads grants model. As outlined in Section 5, this incorporates a number of cost modifiers (similar to cost adjustors) to take account of differences between councils. Net standardised expenditure for this function for each council is calculated by subtracting other grant support (based on actual identified local roads grants and a proportion of Roads to Recovery grants) from gross standardised expenditure.  The total standardised expenditure for each council is the sum of the standardised expenditure calculated for each of the nine expenditure functions. |
| Standardised  Revenue | |  | | A council’s *standardised revenue* is intended to reflect its capacity to raise revenue from its community.  Relative capacity to raise rate revenue, or *standardised rate revenue*, is calculated for each council by multiplying its valuation base (on a capital improved value basis) by the average rate across all Victorian councils over three years. The payments in lieu of rates received by some councils for major facilities such as power generating plants and airports have been added to their standardised revenue to ensure that all councils are treated on an equitable basis.  Rate revenue raising capacity is calculated separately for each of the three major property classes (residential, commercial/industrial/other and farm) using a three year average of valuation data.  The derivation of the average rates for each of the property classes is are shown below:   |  |  |  |  | | --- | --- | --- | --- | | **Category** | **Total Ave Valuations** | **Total Rate Revenue** | **Average Rate** | | Residential | $ 1,127.719 b | $ 3.423 b | $0.00303 | | Commercial/ Industrial/Other | $ 214.987 b | $ 0.805 b | $0.00375 | | Farm | $ 77.687 b | $ 0.261 b | $0.00336 |   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.  The Commission has made a special adjustment to the valuations data used in calculating the general purpose grant for Colac Otway Shire Council to give immediate recognition to the impact of the loss of rate revenue resulting from the Wye River/Separation Creek bushfire in December 2015. This follows similar adjustments made by the Commission following the Black Saturday bushfires in February 2009 and has had a positive impact on Colac Otway’s grant outcome.  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 Commission has made some changes to the construction of the revenue adjustors to reduce the impact of “outlier” data on grant outcomes, mirroring the cost adjustors. This has resulted in a small change to the Tourism revenue adjustor. |
|  | |  | | The standard fees and charges used for each function (based on adjusted median actual revenues generated by local government in 2014-15) 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 | $14.19 | Nil | | Family &  Community Services | Population | $11.08 | Socio-Economic | | Aged &  Disabled Services | Pop. > 60  +Disability Pensioners  +Carer’s Allowance Recipients | $46.04 | Household Income | | Recreation & Culture | Population | $22.41 | Valuations  (% Commercial) | | Waste Management | No. Dwellings | $26.28 | Nil | | Traffic & Street Management | Population | $9.92 | Valuations  (% Commercial) | | Environment | Population | $1.35 | Nil | | Business &  Economic Services | Population | $27.22 | Tourism + Value of Development | | Local Roads  & Bridges | Population | $1.80 | Nil |   The assessed capacity to generate user fees and charges for each council is added to its standardised rate revenue to produce total standardised revenue.  Further information about the revenue adjustors used in assessing standardised fees and charges revenue is contained in the box at the end of this section. |
| Submissions and Data | |  | | In preparing its estimates of general purpose grants, the Commission gave careful consideration to specific issues raised by councils through five written submissions and the individual and the regional meetings held throughout the year.  All data used by the Commission in allocating general purpose grants has been updated where possible. The main updates used for the 2016-17 allocation have been population estimates, valuations data and council expenditure and revenue information. |
| Limits to Grant Movements | |  | | The Commission loosened its grant movement parameters in 2016-17 in preparation for the conclusion of the Commonwealth Government’s ‘pause’ on indexation of financial assistance grants.  For general purpose grants, the parameters for 2016-17 grants are:   * Increases limited to 3.0%, except for minimum grant councils * Decreases limited to -6.0% for metropolitan and regional centre councils * Decreases limited to -3.0% for rural councils. |
| Minimum Grants | |  | | The available general purpose grants pool for Victorian councils represents, on average, $66.88 per head of population (using ABS population estimates as at 30 June 2015). 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 $20.06 for 2016-17).  Without the application of this principle, general purpose grants for 2016-17 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 $20.06 per capita level. The minimum grant principle has resulted in the general purpose grants to these councils being increased to that level. |
| Estimated Allocations  2016-17 | |  | | The estimated general purpose grant allocation for each Victorian council for 2016-17 is shown in Appendix 2A.  A summary of the changes in estimated general purpose grant allocations from 2015-16 to 2016-17 is shown below:   |  |  | | --- | --- | | **Change in General Purpose Grant** | **No. of Councils** | | Increase of more than 3.0%\* | 1 | | Increase of 3.0% (upper limit) | 9 | | Increase of 0.0% to <3.0% | 51 | | Decrease of 0.0% to <-3.0% (Rural) | 2 | | Decrease of 0.0% to <-6.0% (Metro, Regional Centres) | 8 | | Decrease of -3.0% (lower limit) (Rural) | 1 | | Decrease of -6.0% (lower limit) (Metro, Regional Centres) | 7 | |  | **79** |   \*Increase exceeds 3.0% due to the City of Melbourne’s minimum grant council status. |
| Comparative Grant Outcomes 2016-17 | |  | | The largest general purpose grant allocation for 2016-17 is for Greater Geelong City Council ($16.194 million). The smallest grant of $193,046 has been allocated to the Borough of Queenscliffe.  On a per capita basis, the largest general purpose grant has been allocated to West Wimmera Shire Council, where the grant allocation of $2.726 million represents $702.74 per head of population. This compares to the outcome for the 13 minimum grant councils, where the grant represents $20.06 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.  19 grants to 15 councils have been allocated for 2016-17, totalling $528,762. This is an decrease from the 30 grants made to 16 councils in 2015-16, totalling $970,153.  Natural disaster assistance grants provided from the 2016-17 allocation are as follows: |
|  | |  | | |  |  |  | | --- | --- | --- | | **Natural Disaster Assistance for 2016-17 ($)** | | | | Baw Baw (S) | Storm | 35,000 | | Benalla (RC) | Bushfire | 31,296 | | East Gippsland (S) | Flood (2 events)  Bushfire | 59,729 | | Hepburn (S) | Tornado | 35,000 | | Knox (C) | Storm | 11,132 | | Latrobe (C) | Storm | 18,477 | | Mansfield (S) | Storm | 35,000 | | Mitchell (S) | Bushfire | 23,799 | | Moyne (S) | Flood | 35,000 | | Murrindindi (S) | Flood | 27,315 | | Nillumbik (S) | Flood (2 events) | 70,000 | | Northern Grampians (S) | Flood | 35,000 | | South Gippsland (S) | Storm | 35,000 | | Strathbogie (S) | Bushfire (2 events) | 42,014 | | Wellington (S) | Bushfire | 35,000 | |  |  | **528,762** | |

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| Allocation of General Purpose Grants  **Cost Adjustors**  A set of cost adjustors is used in the Victoria Grants Commission’s formula for allocating general purpose grants to Victorian councils. These are designed to reflect differences between councils and take account of factors that make service provision cost more or less for individual councils than the State average.  Individual cost adjustment index values are calculated for each of the cost adjustors for each council. These are shown in Appendix 4D.  The 12 cost adjustors used by the Commission for the 2016-17 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*** | Recognises that councils face differing levels of risk from floods, bushfires and land erosion 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 Significance*** | 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 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 2016-17 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 of the allocation of local roads grants for 2016-17, which were determined during the period covered by this Annual Report.

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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.  **Share of Local Roads Grants**    % figures have been rounded |
| National Principles |  | The Victoria Grants Commission is required to allocate financial assistance grants to councils in accordance with a set of nationally agreed principles. These currently require that local roads grants be ‘allocated to councils as far as practicable on the basis of the relative needs of each council for roads expenditure and to preserve its road assets.’ |
| Final Allocations 2015-16 |  | In July 2015 the Commonwealth Government provided the Victoria Grants Commission with an estimate of total local roads grants for 2015-16 of $145.014 million. This formed the basis of the Commission’s estimated local roads allocation to each council for 2015-16, which were announced in August 2015 and are shown in Appendix 2A of the Commission’s 2014-15 Annual Report. This amount was confirmed by the Commonwealth Department of Infrastructure and Regional Development in July 2016.  Councils’ final allocations for 2015-16 are shown in Appendix 2B. |
| Estimated Allocations 2016-17 |  | The estimated national local roads grants pool for 2016-17 is $703.423 million. Victoria’s share of this estimated allocation is $145.020 million. This is virtually unchanged from 2015-16, increasing by $6,496.  **Local Roads Grants - Victoria**    *Estimated allocation 2015-16, actual allocation all other years* |
| Methodology |  | The Commission’s formula for allocating local roads grants is based on each council’s road length (for all surface types) and traffic volumes, using average annual preservation costs for given traffic volume ranges. The methodology also includes a series of cost modifiers for freight loading, climate, materials, sub-grade conditions and strategic routes and takes account of the deck area of bridges on local roads.  This formula is designed to reflect the relative needs of Victorian councils in relation to local roads funding in accordance with the national principle relating to the allocation of local roads funding. |
| Road Length & Traffic Volume Data |  | The allocation of local roads grants for 2016-17 has been based on road length and traffic volume data reported by all councils for the 12 months to June 2015.  Similar to previous years, councils were asked to categorise their local road networks according to nine broad traffic volume ranges – four for urban roads and five for rural roads.  Victorian councils reported a total of 130,501 kilometres of local roads as at  30 June 2015, a decrease of 48 kilometres, or 0.04% less than the length reported 12 months earlier.  Variations were as follows:   |  |  | | --- | --- | | **Change in Length of Local Roads** | **No. of Councils** | | Increase of more than 5.0% | 0 | | Increase of 1.0% to 5.0% | 11 | | Increase of up to 1.0% | 29 | | No Change | 22 | | Decrease of up to 1.0% | 11 | | Decrease of 1.0% to 5.0% | 5 | | Decrease of more than 5.0% | 1 | |  | **79** |   In early 2016, the Commission engaged a consultant to examine the data provided by one council which differed significantly to that provided the previous year. The examination concluded that the majority of the data changes were justified and should be included in the 2016-17 grant calculations.  Road lengths reported by each council for each traffic volume range as at June 2015 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 2015-16 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 2016-17 allocations were unchanged from the previous year and are:   |  |  |  | | --- | --- | --- | | **Local Road Type** | **Daily Traffic**  **Volume Range** | **Annual Asset  Preservation Cost $/km** | | Urban | < 500 | $ 7,200 | |  | 500 - <1000 | $ 9.800 | |  | 1000 - <5000 | $ 13,200 | |  | 5000 + | $ 21,400 | | Rural | Natural Surface | $ 700 | |  | < 100 | $ 5,000 | |  | 100 - <500 | $ 10,400 | |  | 500 - < 1,000 | $ 11,600 | |  | 1,000 + | $ 13,200 | | Timber Bridge |  | $ 200 / sq m | | Concrete Bridge |  | $ 120 / sq m | |
| Cost Modifiers |  | The allocation model uses a series of five cost modifiers to reflect differences in circumstances between councils in relation to:   * the 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. No changes were made to the cost modifiers for the 2016-17 allocation. |
| Grant Calculation |  | The Commission calculates a total network cost for each council’s local roads. This represents the relative annual costs faced by the council in maintaining its local road and bridge networks, based on average annual preservation costs and taking account of local conditions, using cost modifiers.  The network cost is calculated using traffic volume data for each council, standard asset preservation costs for each traffic volume range and cost modifiers for freight carriage, climate, materials availability, sub-grade conditions and strategic route lengths. The deck area of bridges on local roads is included in the network cost at a rate of $120 per square metre for concrete bridges and $200 per square metre for timber bridges.  Mathematically, the calculation of the network cost for a single traffic volume range for a council can be illustrated as follows:  **Length of local roads in category**  **x**  **Asset preservation cost for category**  **x**  **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 grant is then determined by applying the available funds in proportion to each council’s calculated network cost. |
| Limits on Grants Movements |  | The Commission loosened its movement parameters in 2016-17 in preparation for the conclusion of the Commonwealth Government’s ‘pause’ on indexation of financial assistance grants.  For local roads grants, the parameters for 2016-17 grants are:   * Increases limited to 5.0% for all councils * Decreases limited to -6.0% for metropolitan and regional centre councils * Decreases limited to -3.0% for rural councils. |
| Estimated Allocations  2016-17 |  | The estimated local roads grant allocation for each Victorian council for 2016-17 is shown in Appendix 2A.  In general, where a significant change has occurred in a council’s local roads grant for 2016-17, this is due to a combination of:   * the significant changes made to the allocation model in 2013-14, volatility from which is coming to an end in the 2016-17 allocation; and, * changes in the annual traffic volume data supplied by the council to the Commission.   A summary of the changes in estimated local roads grant entitlements from 2015-16 to 2016-17 is shown below:   |  |  | | --- | --- | | **Change in Local Roads Grant** | **No. of Councils** | | Increase of 5.0% (upper limit) | 6 | | Increase of 0.0% to <5.0% | 31 | | Decrease of 0.0% to <-3.0% (Rural) | 20 | | Decrease of 0.0% to <-6.0% (Metro, Regional Centres) | 16 | | Decrease of -3.0% (lower limit) (Rural) | 5 | | Decrease of -6.0% (lower limit) (Metro, Regional Centres) | 1 | |  | **79** | |
| Comparative  Grant Outcomes  2016-17 |  | The largest local roads grant for 2016-17 has been allocated to East Gippsland Shire Council ($4.412 million), while the smallest grant of $54,210 has been allocated to the Borough of Queenscliffe. |

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| 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 2016-17 were: | |
| ***Freight*** | The freight cost modifier recognises that local roads in some municipalities carry relatively high volumes of heavy vehicles compared to others, which impacts on the cost of asset preservation. A freight loading ratio has been calculated for each municipality, based on the level of employment in freight-intensive industries within that municipality. The cost modifier index infers that a higher level of employment in such industries will see relatively higher levels of freight carriage on their local roads network, leading to more rapid road surface deterioration and relatively higher road maintenance costs. |
| ***Climate*** | The climate cost modifier recognises that certain climatic conditions have an adverse impact on road durability and increase the costs to affected councils of asset preservation. The climate index identifies the length of urban and rural roads that fall within the five climatic zones utilised by Standards Australia to produce an average climate rating for both rural and urban roads within each municipality. These ratings are then spread across index ranges, the larger being for rural roads to reflect the relatively greater influence of climate on such surfaces. |
| ***Materials*** | The cost of maintaining local roads can be impacted by the local availability of suitable pavement materials. The materials availability index has identifies the distance between the nearest quarry location containing high quality road making material and the council headquarters. All metropolitan councils have had their indexes set at the minimum value, reflecting the availability of materials from a variety of sources. |
| ***Sub-grades*** | The performance life of road pavements is affected by seasonal swelling and shrinkage of the sub-grade, which accelerates the deterioration of the pavement and adds to asset preservation costs. In Victoria, this is a particular issue in areas with expansive clay sub-grades, which occur predominantly in the western suburbs of Melbourne and western Victoria. The Commission has identified the total length of urban and rural roads in each of the eight sub-grade categories utilised by Standards Australia, and constructed an index reflecting the relative road maintenance costs associated with having lengths of road built on relatively reactive soils. |
| ***Strategic Routes*** | The strategic route cost modifier recognises that certain local roads must be maintained to a higher standard than would normally be the case because of certain characteristics or functions they perform. For all road categories, local roads that are tram or bus routes, including school bus routes, are considered to be strategic routes. In addition, rural local roads that carry less than 100 vehicles a day, but carry at least 10 trucks, or carry less than 100 but more than 50 vehicles per day and are in steep terrain or irrigated areas, are considered strategic routes requiring higher annual levels of expenditure. Details on strategic routes are provided to the Commission by individual councils as part of their annual information returns. |

6. THE YEAR AHEAD

The Victoria Grants Commission aims to allocate grants equitably through clear and transparent procedures. In order to achieve this, the Commission maintains a schedule of ongoing consultation with councils to review and refine the allocation models. The following information provides an outline of the anticipated work to be undertaken in 2016-17.

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| Indexation Pause |  | Modelling undertaken by the Commission indicates that the indexation “pause”, or freeze, on financial assistance grants announced by the Commonwealth Government in 2014 has reduced the aggregate funding provided to Victorian councils by approximately $200 million over the four years to 2017-18.  During this period, the Commission has limited movements in grant outcomes for all councils and has endeavoured to ensure that the burden of this decision has not been borne unfairly by those councils with the greatest reliance on this funding.  The Commonwealth Government has indicated that the indexation of financial assistance grants is scheduled to resume in 2017-18.  In preparation for this, the Commission will undertake modelling of the grant outcomes for 2017-18 and consider what changes may be required to the allocation methodology to ensure that future allocations are made as equitably as possible. |
| Methodology Refinements |  | In keeping with its usual practice, the Commission will also consider various potential improvements to the allocation methodology, based on input received from councils and its own research.  Two particular areas of focus for 2016-17 are:   * updating and improving the data set used to construct the environmental risk cost adjustor; and * reviewing the assessment of relative expenditure need for the waste management function. |
| Roads Data |  | It is important that all councils accurately record and report locals roads data to the Commission as this underpins the annual allocation of local roads grants. During 2016-17, the Commission will examine potential improvements to the way in which data is provided to the Commission to enhance its accuracy and consistency. In addition, if necessary, the data submitted by individual councils will be closely reviewed where this changes significantly from the previous year. This follows an examination of the data provided by one council in 2015-16, as outlined in Section 5. |
| Council Consultation |  | The Commission will continue to visit Victorian councils on an individual basis to provide information on the grant allocation process and a forum for discussion on specific issues impacting councils and feedback on the Commission’s methodologies. |