



3 March 2009

Mr Paul Slape
Chairman
Victoria Grants Commission
Level 8
55 Collins Street
MELBOURNE, VIC. 3000

Dear Mr Slape,

WELLINGTON COUNCIL SUBMISSION TO VICTORIA GRANTS COMMISSION

Thank you for your letter of 4 June 2008, responding to the issues Wellington raised in our submission of February 2008.

Wellington especially appreciates the change the Commission made in the Other Infrastructure expenditure function. The Commission now applies a vacancy rate calculation to recognise the costs faced by Wellington and several other Councils in dealing with extensive numbers of frequently uninhabited dwellings.

We would also like to formally thank the Commission for its efforts in bringing forward the payment of the fourth instalment of the grants for 2008-09. This has made a substantial contribution to Council's cash flow at a difficult time.

This year, Wellington wishes to raise four issues for the Commission's attention:

- The Environmental Risk cost adjustor for General Purpose Grants
- The Freight Loading Index for Roads Grants
- A perverse impact on Wellington's Roads Grant from the methodology for timber and concrete bridges and
- A suggestion for improvement in the strategic roads methodology.

Our concerns on these issues are outlined in the attached document.

Yours sincerely

BRUCE GRAHAM
Acting Chief Executive Officer

Encl.

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Environmental Risk cost adjustor

Our submission last year commented on the adequacy of the Environmental Risk cost adjustor, and its application to the Other Infrastructure function. In response, you indicated that the Commission would be conducting a review of this cost adjustor and its impacts on the standardised expenditure calculations.

From discussions with Commission staff, we understand that the review has concentrated on appropriate data sources to assess environmental risk. It appears however that the Macquarie University danger index currently used is the best data set with detailed information for each council area.

The management of environmental risk is becoming an increasingly important area for councils. Wellington recommends that the Commission should consider increasing the weight it gives to this cost adjustor.

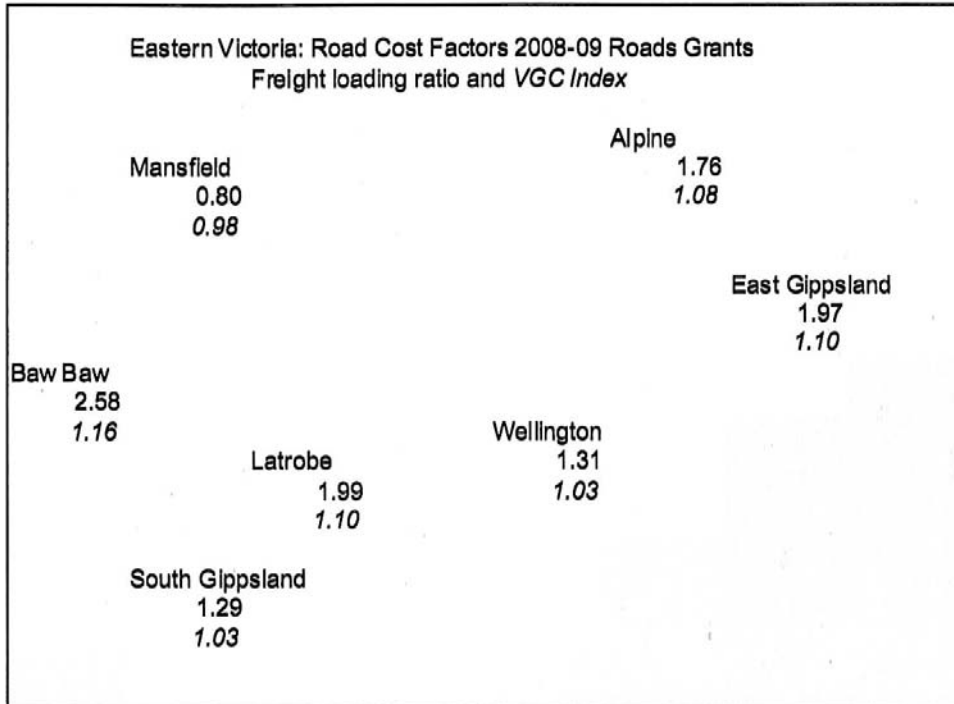
While Wellington was thankfully spared the worst of the recent bushfires, our Shire has experienced five environmental disasters in the last three years. These include the bushfires of December 2007, which burnt more than 40% of the Shire's land area, two major floods, and the Licola landslip, as well as the fires of Black Saturday.

Direct costs for councils of dealing with such disasters are covered under Natural Disaster Funding, with the Commission assisting councils with additional funding to cover costs not reimbursable from NDF. These funds cover direct costs of responding to emergencies, including the costs of hiring replacement staff to cover for council staff seconded to emergency work.

However, councils are facing other costs as well, both in ensuring that we are well prepared for such emergencies, and in the aftermath. Wellington already has extensive training costs, and we are considering establishing a permanent post with responsibility for emergency preparation. We also find that there is substantial additional work for council in the aftermath of disasters, for example in higher than usual planning and building approvals.

Freight Loading Ratio

The freight loading cost adjustor responds to the relative intensity of freight use of local road systems. The Commission uses freight loading ratios developed for the Commission by the National Institute of Industry & Economic Research. The freight loading ratios are on a scale from 0.37 to 2.94, and the VGC adjusts these pro rata to create an index from 0.94 to 1.19. The ratio and index figures for each council in eastern Victoria are shown in the map.



Wellington's rating is similar to South Gippsland's, but below those of Latrobe, East Gippsland and Alpine.

Wellington accepts that the patterns of traffic in Latrobe, Alpine and East Gippsland do give higher freight loadings than we experience. However, we think it seems anomalous that Wellington, with traffic from both dairying and timber, receives a rating which is the same as South Gippsland, which only has dairying.

Part of the explanation for this anomaly may be an adjustment that was made in the development of the Freight Index. The NIEIR report for the Commission¹ notes that a downwards adjustment was made for tonnage in five councils which have direct port and/or pipeline traffic. It is not clear from the 2003 NIEIR report how significant this adjustment was. Nonetheless, it appears to have contributed to the above pattern which seems to underestimate Wellington's freight loads.

Based on the above comparisons, we contend that an index figure of 1.05 would be more accurate for Wellington, instead of the 1.03 we currently receive.

Timber and Concrete Bridges

¹ National Institute of Economic and Industry Research *Review of freight relativity factors* Report for the Victoria Grants Commission March 2003, p4. The other four councils are Glenelg, Greater Geelong, Wellington and Hobsons Bay.

In the Commission's calculation of road network costs, just under 10% of Wellington's total cost is contributed by the allowance for bridges in the Shire. The Commission allows annual maintenance costs of \$80 per square metre for timber bridges and \$40 per square metre for concrete bridges.

While we do not dispute the difference in on-going maintenance costs between timber and concrete bridges, we would like to draw the Commission's attention to a perverse, albeit inadvertent, effect these allowances are having on Wellington's Roads Grants.

Over the past six years, Wellington has reported the following bridge data in our annual data return to the Commission.

	Bridge data reported in October					
	2003	2004	2005	2006	2007	2008
Bridges (sq m)						
Timber	10,815	9,025	7,326	6,377	6,002	5,010
Concrete	13,035	13,395	14,418	15,794	15,919	17,409
Total	23,850	22,420	21,744	22,171	21,921	22,419

As is evident from this data, Wellington has undertaken a major program in recent years to replace timber bridges with concrete bridges. The 2004 Shire *Road Management Plan* outlined the situation of many timber bridges:

Wellington Shire has over 95 timber bridges, all of which are in relatively poor condition and, with the exception of a few bridges with very low usage, are in need of replacement within the 20-year projections of this plan.²

The situation was described another way in the valuation of the Shire's bridges. For the 95 timber bridges, the written down value was 25% of replacement value, indicating the bridges were, on average, three quarters of their way through their anticipated life expectancy of 60 years. The 87 concrete bridges had a written down value which was 75% of the replacement value, indicating the bridges were, on average, only one quarter of the way through their life expectancy of 100 years.³

As part of its Road Management Plan, Council established a risk assessment framework to establish priorities for maintenance and capital projects. In this framework,

timber bridges have been identified as the most critical asset group at this time. Control measures include load-rating inspections of approximately 10 bridges

² Wellington Shire Council *Road Management Plan 2004* p12

³ Wellington Shire Council *Road Management Plan 2004* p11

annually, speed restrictions and load limits for specific bridges. A bridge renewal and major rehabilitation program has been developed.⁴

From this importance, Council has given a high priority to replacing timber bridges. Some 20% of projected renewals expenditure is allocated to the bridge renewal program, being funded from Roads to Recovery funding provided by Federal Government.⁵

There is however a perverse result from this activity by the Shire on the calculation of Wellington's network costs. In the returns to the VGC in 2004 and 2008, Wellington reported almost identical total bridge areas. However, in this four year period, Wellington replaced almost half its timber bridge area with concrete.

The impact of this on the calculation of Wellington's network costs is as follows:

Bridges	Cost allowance per square metre	2004 return		2008 return	
		Square metres	Network Cost	Square metres	Network Cost
Timber	\$80	9,025	\$722,000	5,010	\$400,800
Concrete	\$40	13,395	\$535,800	17,409	\$696,360
			\$1,257,800		\$1,097,160
Difference in total network cost					-\$160,640
Difference in grant (factor for 2008-09)			0.326823		-\$52,501

This situation produces a perverse result. Wellington has acted promptly to improve the bridges it is responsible for, replacing half the timber bridges (by area) in the Shire with concrete in the last five years. However, because of the VGC methodology, this action has led to the Shire losing some \$50,000 a year in roads grants, in comparison with the 2004 figures.

The second of the National Principles for grant allocation is that of Effort Neutrality. As the Commission's *2007-08 Annual Report* (p12) states "This means as far as practical, the policies of individual councils . . . will not affect the grant determination." It appears that Wellington's bridge replacement policy is indeed affecting our roads grant.

In preparation for this submission, Wellington has reviewed the timber bridge data provided by councils for the Road Grants in 2004/05 and 2008/09 (based on the data returns in October 2003 and 2007 respectively). The table shows data for the thirteen councils reporting more than 2,000 square metres of timber bridges in October 2003.

	2004/05	2008/09	% Change	\$ impact on annual Network Costs*
East Gippsland (S)	16,065	13,742	-14.5%	-92,920

⁴ Wellington Shire Council *Road Management Plan 2004* p13

⁵ Wellington Shire Council *Road Management Plan 2004* p21, p18

Wellington (S)	10,815	6,002	-44.5%	-192,520
Colac-Otway (S)	5,978	5,745	-3.9%	-9,320
Mount Alexander (S)	4,476	4,344	-2.9%	-5,280
Gannawarra (S)	3,933	3,515	-10.6%	-16,720
Strathbogie (S)	3,859	3,288	-14.8%	-22,840
Moira (S)	3,423	1,571	-54.1%	-74,080
Wangaratta (RC)	3,361	2,195	-34.7%	-46,640
Loddon (S)	3,189	2,221	-30.4%	-38,720
South Gippsland (S)	2,507	2,297	-8.4%	-8,400
Murrindindi (S)	2,414	2,763	14.5%	13,960
Benalla (RC)	2,348	2,421	3.1%	2,920
Moyne (S)	2,168	1,590	-26.7%	-23,120

* Assuming that the change in timber bridge area is replaced with concrete bridging of the same area, so the change in network cost is the change in the timber bridge area multiplied by \$40 (the difference between the allowances of \$80 per sq metre for timber bridges, and \$40 per sq metre for concrete bridges).

This table shows a number of key points:

- Across Victoria, there are only a small number of councils with extensive areas of timber bridges. Rectifying a problem in this area would not therefore create a major realignment of the roads grant.
- Many councils are, like Wellington, taking steps to replace ageing timber bridges. However, the extent of the replacement programs differs considerably. In the four years from 2003 to 2007, Moira has replaced half its bridges, Wellington slightly less than that, and Wangaratta and Loddon have replaced about one third. Some other councils have seen little change (the increases for two councils are likely to be due to more accurate recording of areas in those councils' asset management systems)
- The impacts on annual network costs (and from there to the roads grant) also vary widely.

Wellington is concerned that our policy decision to improve bridges is leading to a reduction in our roads grant. We would like the Commission to consider this situation and develop some way of addressing it. Two possibilities are:

- Freeze the areas of bridges at some point in time (for example, the above October 2003 returns). While simple, this would have the disadvantage of not recognising changes that are occurring in council roads, and a discrepancy would grow over time.
- Use an averaging mechanism similar to that used to smooth unusual changes in rate revenues in the General Purpose Grants methodology. In that, councils with a property valuation increase above the State average have their increase constrained to that average. In the above table, the total timber bridge area of the thirteen councils changed from 64,500 square metres in 2003 to 51,700 square metres in 2007, a drop of 20% over four years. The Commission could use a State-wide annual average of a

5% change in timber bridge areas – where councils have a bigger decrease than this 5%, their assessed bridge network costs could be based on a 5% reduction.

If the Commission does decide to remedy this anomalous situation, Wellington recommends that a base year of 2002 or 2003 be chosen. A more recent year would effectively penalise those councils in the above table that have been improving our communities' assets.

Strategic Routes

For most road volume categories, the VGC adjusts the network cost for the proportion of roads considered strategic routes. However, this is not done for unkerbed roads with more than 1,000 vehicles per day.

Using Wellington's figures, the base network cost for such roads, adjusted for strategic routes, is close to the same for road volumes 500 to 1,000 vehicles per day and 1,000 vehicles per day plus:

- For 500-1,000 vehicles per day, the base network cost is \$4,900 per km: when adjusted for the strategic route index factor of 1.08, this becomes \$5,292;
- For 1,000 + vehicles per day, the base network cost is \$5,400 per km, with no further adjustment for strategic routes.

As Wellington has only 11 kilometres of unkerbed road with 1,000 + vehicles per day, any change here will make only a small change to the total network costs and road grant. However, in the interests of consistency, we consider the Commission should review this treatment.