



AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

Submission

to

**The Parliament of Victoria, Road Safety
Committee: Federal-State Road Funding
Arrangements Inquiry**

January 2010

Introduction

The Australian Local Government Association (ALGA) represents the interests of more than 560 councils at the Federal level. Its membership is made up of the associations of local government in each state and Northern Territory. The ACT Government is also a member in its role as the local authority in the Australian Capital Territory. This submission has been prepared in consultation with the Municipal Association of Victoria.

This submission examines the financial relationship between the Federal and Local Governments for the funding of local roads.

Background

The maintenance of the local road system is one of local government's major tasks and in most councils it is the single largest item of expenditure. The local road system is a significant component of the national transport system totaling some 650,000 kilometres, or over 80% by length of all roads in Australia. The National Transport Commission has estimated that some 18% of kilometres traveled by vehicles over 4.5 tonnes and 28% of all kilometres travelled for commercial purposes is on local roads.

While expenditure on local roads is a major cost for all councils there are significant variations in the proportion of councils budgets devoted to road funding. In general terms a larger proportion of a councils income in outer urban and rural areas is devoted to roads funding compared to urban councils. It is these councils that have the most difficulty meeting the funding needs of their road systems.

Total expenditure on local roads by councils is estimated by the Bureau of Infrastructure, Transport and Regional Economics to be \$3127 million in 2007-08 (the latest year for which data is available) of which the Federal Government provided \$900 million and is the second major source of funds after local government own source funding.

In some States, the State Government also provides funding to councils for roads. For example in Western Australia a proportion of vehicle registration revenue is allocated to local roads. In other jurisdictions the arrangements are ad hoc and usually relate to specific projects.

Federal Funding for local roads

There are three programs under which the Federal Government provides funding for local roads:

1. Financial Assistance Grants Identified for Roads;
2. Roads to Recovery Program; and
3. Black Spots Program

Financial Assistance Grants Identified for Roads

This funding is paid to states as a special purpose payment with the Federal Government attaching the condition that the funds must be passed to local government.

The distribution of funds between the states and territories is set in legislation. Within States the funding is distributed between councils on a formula calculated in each state by respective state grants commissions. The formulae vary between states but they generally take into account road length, population and area.

This funding although, identified for local roads, can be used by a council for any purpose it may choose. The identification of funds for roads reflects the history of this program which prior to the early 1990's required councils to use these funds for roads purposes only.

Councils are not required to provide the Federal Government with details of projects funded.

This is an ongoing program and part of the general transfer of tax revenue from the Federal Government to State and local government.

The table below sets out the funding allocation for 2009-10 by state under this program:

| | NSW | Vic | Qld | WA | SA | Tas | NT | ACT | Total |
|---------------------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| | \$m |
| Untied Local Roads Grants | 171.1 | 121.6 | 110.5 | 90.2 | 47.2 | 31.3 | 13.8 | 18.9 | 604.5 |

Roads to Recovery

Under this program funds are paid directly from the Federal Government to councils. State governments have no role in the administration of this Program.

Funds are allocated to councils in each state on the same formula as that used for Financial Assistance Grants Identified for Roads.

For those parts of Australia where there are no councils and where State Governments provide council services to small communities (known as 'unincorporated areas') special program provisions apply.

The provisions of the Roads to Recovery Program tightly specify the use of the funds to roads.

Councils are required to advise the Federal Government the projects being funded and to erect signs identifying projects being funded from the program.

The Federal Government has committed \$350 million annually to 2014. The State distribution of the funds in 2009-10 is:

| | NSW | Vic | Qld | WA | SA | Tas | NT | ACT | Total |
|-------------------|------|------|------|------|------|------|------|-----|-------|
| | \$m | \$m | \$m |
| Roads to Recovery | 97.5 | 71.2 | 71.2 | 51.2 | 31.5 | 11.4 | 10.2 | 5.6 | 350.0 |

Black Spots

The Black Spost Program provides funding to address locations which have a poor accident record. Funding is available for all roads including local roads. The proportion spent on local roads depends on the projects submitted and as a result varies between jurisdictions and years. In the case of Victoria it is the policy of Vicroads to generally apply the Federal Black Spots funding to local roads.

Locations can be nominated by State and Territory Government, local councils, community groups and associations, road user groups, industry and individuals. Nominations are considered by a Consultative Panel in each state made up of representatives drawn from community and road user groups, industry, Australian and local government and state road and transport agencies.

States and territories play an important coordinating role. Funding is provided state agencies who pass the funding on to a council if the project is on a local road.

Total funding for the Black Spots Program (which includes funding spent on state roads in 2009-10 is:

| | NSW | Vic | Qld | WA | SA | Tas | NT | ACT | Total |
|---------------------|------|------|------|------|-----|-----|-----|-----|-------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Black Spots Program | 38.3 | 27.2 | 24.3 | 13.1 | 9.5 | 3.2 | 2.0 | 1.9 | 119.5 |

A comparative table of the administrative arrangements for these programs is at Attachment 1.

Constitutional Issues

Of the three Federal Government road funding programs only the Roads to Recovery Program involves direct funding from the Commonwealth to local government. A recent High Court case has raised doubts about the extent of the Commonwealth's spending powers.

The High Court decision in *Pape v Commissioner of Taxation* brings into question the constitutional validity of the federal government providing funding directly to local government through programs such as the Roads to Recovery.

There has been no challenge to the Roads to Recovery Program to date and the Program continues to operate.

The uncertainty raised by the Pape decision makes the need for recognition of local government in the constitution even more important. Loss of Roads to Recovery Funding would severely impact on the ability of local government to deliver adequate standards of amenity and safety on local roads. In particular rural councils would without Roads to Recovery funding fall even further behind in the delivery of roads to their communities.

Heavy Vehicle Charging Reforms

The Council of Australian Governments (COAG) has agreed that the Australian Transport Council (ATC) will examine the feasibility of a mass-distance-location charging regime for heavy vehicles with the objective of establishing mass-distance-location charging for vehicle in excess of 4.5 tonnes.

Local Government supports the COAG heavy vehicle reforms as a useful microeconomic reform that will more closely link the level of road damage to specific road users than current averaging arrangements and the use fuel excise as a proxy for road usage. In the case of local roads there is currently no linkage between the level of usage and usage and the funding provided by the Federal Government.

Local Government is engaged in the development of mass-distance-location charging for heavy vehicles through ALGA's participation in ATC.

Local government is concerned to ensure, that as the mass-distance-location charging administrative arrangements are developed, local roads are not excluded from any scheme that might be developed. Local roads form more than 80% of the total road system and it would, we believe, be detrimental to the credibility of any system of mass-distance-location charging that might be developed if such a large proportion of the road system was excluded.

While the technical difficulties of including local roads in any mass-distance-location charging arrangements are recognised any decision to exclude local roads has the potential to establish a two class system of roads:

- An arterial road system that is charged and paid for on a mass-distance-location charging basis; and
- A local road system that is perceived by users to be "free" as there is no charge for its use.

Local government is concerned that not charging for the use of local roads would lead to 'rat-running' on the local road system to avoid charges on the arterial road system. Accordingly, Local Government has sought an assurance that all roads will be included in the development of mass distance charging for heavy vehicle and that revenue raised is returned to the owners of the roads where the charge is incurred.

Henry Tax Review

The Henry Tax Review has identified the current arrangements for charging for the use of and funding arrangements for roads as an area in which there is a compelling case for micro economic reform through the development of a system of direct road user charging.

A road user charging regime would provide the basis for a source of ongoing funding of local roads and address the anomaly of the lack of a direct link between local road usage and funding. If that approach was to be adopted by government ALGA seeks an assurance that total funding to local government for local roads would be at least maintained at current levels.

Should the Australian Government choose to implement road user charging, local government believes that there should be a corresponding offset in the current tax burden through a reduction in the fuel excise. If this approach is not adopted, communities will perceive any move to road user charging as no more than a 'grab' for additional taxes.

Cost shifting

In April 2006, all Australian governments signed the *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations of Local Government Matters* (the IGA). The IGA outlines a set of principles designed to establish an ongoing framework to address future cost shifting, and prevent the cost shifts that have occurred in the past.

In line with that principle any shift of road responsibility to local government should be accompanied by appropriate funding.

Conclusion

The Federal Government makes a considerable and welcome contribution to local road funding through three programs (Financial Assistance Grants Identified for Roads, Roads to Recovery and Black Spot Programs). Nevertheless, local government largely funds the local road system from its own sources, mainly property rates.

Local Government considers it appropriate that the Federal Government provides financial support for the local road system because of the nature of the tax system in Australia where the Federal Government collects over 80% of all taxes, and the limited capacity of many councils to meet the needs of the local road system.

Local Government has a strong preference for programs that operate on the Roads to Recovery model, ie:

- funding is provided directly to councils; and
- Councils can make their own decisions about the allocation of these funds within parameters set down by the Federal Government

This approach recognises that councils best understand the needs of their local road systems and, as democratically elected bodies they are accountable to their electorates for the use of funds. While the Pape High Court decision has had no impact on local government to date ALGA believes that the decision points to the need for constitutional reform to ensure that the Federal Government has the power to fund local government directly, including in the area of local roads.

Local government supports any move to link road funding to usage as a sensible economic principle and is strongly of the view that any arrangements of this nature must include the local system to avoid the problem of creating a two tier road system which has the potential to encourage “rat running” on the perceived “free” roads. Any move to road user charging should not result in reduced funding for local roads

Any shifting of responsibility for roads to councils should be accompanied with the necessary funding to maintain those roads.

Local government’s objective is to establish permanent funding arrangements for local government which ensure a well-managed, sustainable local road system that provides appropriate access and levels of service for all communities.

Attachment 1**Comparison of the Administrative Arrangements of the three Federal Road Funding Programs**

| | Financial Assistance Grants Identified for Roads | Roads to Recovery | Black Spots |
|--|---|---|---------------------------|
| Funded Projects Identified | No | Yes | Yes |
| State Government involvement in administration | Yes | No | Yes |
| Distribution methodology | Formula | Formula | Project Specific |
| Joint funding | No | No but a council must maintain its own effort on road funding | Usually |
| How funds are used | Discretion of council | Discretion of council but must be on a road as defined in legislation | Specific project approved |
| Signage | Not required | Required | Required |