

ROAD SAFETY COMMITTEE

Inquiry into federal-state road funding arrangements

Melbourne — 1 March, 2010

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Mr R. Spence, chief executive officer, and

Ms C. Dunn, policy officer, Municipal Association of Victoria.

The CHAIR — Thank you very much for being here today to assist the Road Safety Committee's inquiry into federal-state road funding arrangements. As you can see, the proceedings are being recorded. You will receive a copy of the transcript to correct, as appropriate. If you could just state your name, the organisation you belong to and proceed with your presentation, we will ask questions as we go along.

Mr SPENCE — I am Rob Spence, and I am the chief executive officer of the Municipal Association of Victoria. Thank you for the opportunity to speak to you today. This will be a less sophisticated presentation than the last in terms of the fact that I am talking about the hard end of road funding and how it works for local government. I had the pleasure, if you can call it that, of appearing before the Victorian Bushfires Royal Commission again on Friday, for the third time, and I had a talk to them about roadside issues and the issues of public safety — both on the roadside and on the bushfire and fire prevention side. So if I still seem a bit revved up, you will understand why.

The CHAIR — Sure.

Mr SPENCE — Just to get the dimensions in your mind, I think VicRoads has control of about 24 000 kilometres of road; local government has 129 000 kilometres, and I think the interesting bit and the great challenge for us is that about 119 000 of the 129 000 kilometres sits in the CFA area — so basically out of Melbourne and into rural Victoria. This amount of 119 000 kilometres is the equivalent of the circumference of the earth three times, so it is not exactly short on roads out of Melbourne and rural Victoria.

The proposition I want to put to you today is that there are some issues affecting road funding in local government or affecting the outcomes for roads that are not necessarily coming purely from road funding; they are coming from commonwealth-state relationships across the whole array of grants and funding issues.

I am happy to take questions on road funding and questions around it and road safety, but the proposition I want to put to you today is that issues for local government are much more embedded in other space than the pure road funding streams.

Just to talk quickly about the road safety questions, the material we have seen, and recent statistics, are indicating that while we are getting a significant reduction in accidents and deaths on VicRoads roads, we are not seeing that level of reduction on local roads. I am sure that you have seen those statistics.

The CHAIR — Yes.

Mr SPENCE — We think that that is driven by a number of things. Advice I have seen from some of the researchers indicates that to be effective on local roads you really need to have about a 9-metre break between the edge of the road and the tree line; so we are in a complicated environment, as I was expressing to the royal commission on Friday, where we are pushing against issues like native vegetation rules and commonwealth environment rules that actually make it very hard for a local government to manage the space efficiently for road safety purposes and for fire prevention purposes. Again, the proposition I put to the royal commission was that when you look at it historically, the balance in the legislation, which was about provision of safe transport through the roads legislation, and then provision of a safe fire environment through the CFA act, we have had this other legislation that has come in from the side that has made it very hard to deliver that outcome.

Therefore, we do have a real opportunity, we think, in improving road safety on local roads, particularly in rural Victoria. But those issues are going to be difficult to deal with unless we can get a better balance in the legislative framework that actually gives us capacity to provide more safe options — maybe a 9-metre break — and some improvements in the roadside. So that is the first proposition I put to you.

The second proposition is about the whole funding model for local government, and I want to take you through that and talk to you about what we are seeing and what the outcomes are for roads. When you look at the finance streams for local government there is what is known as FAGs — financial assistance grants. They are general purpose grants. That is just a pool of commonwealth tax money that goes to local government. That pool is escalated by CPI plus or minus population, so if you are in rural Victoria, say in the Yarriambiack shire, with 4000 kilometres of road and a diminishing population, your grant will be going up by CPI but then coming back by population number.

We have road funding which is basically road-length driven, but there has been no assessment of the need before the pool of funds has been created. We have a pool of funds that significantly helps councils to do a difficult task, but there is really no relationship between what the task is and the funding pool. Attached to that we have this thing called Roads to Recovery, which was a Howard government initiative, and I would say for some of the poorer councils, it was probably the saviour for them in terms of trying to manage the workload. That is a funding pool that is allocated. It is a block of money — again, not related to the task — distributed to councils basically on road length.

Then in the other funding pools we have other specific purpose payments, fees and fines and, at the end of the chain, council rates. So we have this array of funding pools and then we get to roads. When you look at council cost structures, they are probably driven off — particularly in the rural councils — two components. They are driven off labour movements, which over the last seven years I think have been consistent with what all public sector wage movements have been running at, about 4.5 per cent. Then we have capital costs, basically the construction and maintenance costs, which have been running at about 5.6 per cent over the last seven years. So you can see a reasonably high level of growth. We would expect in terms of capital costs that VicRoads would see numbers that are pretty much the same, although they will be operating in a much larger work environment and be able to cut much better deals than a small council that might have 4000 kilometres of road length but is probably only doing relatively small amounts of construction or maintenance in any one year.

Where the funding side and the cost structure side rub together is in terms of the way the deals are put together: FAGs, as I said, and CPI plus or minus population. So you can see if CPI is running at 3, you have got a gap of maybe 2 per cent. If it is a bit higher, it closes the gap a bit, but you would expect that to reflect in the price. When you take a rural council that might be collecting, say, 30 per cent of its revenue through rates and getting 60 per cent through financial assistance grants and 10 through other items, you can see the enormous stress on the organisation if its main funding pool is increasing by CPI plus or minus population and its real costs are growing by, say, 2 per cent above that. What that does is load back into rates or a reduction in service levels.

The other area that I would say is affecting the councils is HACC. In home and community care the escalator is 2.7 per cent. Again it is basically labour driven, so if the labour is moving at 4.5 and the price movement is at 2.7, you are in catch-up mode again. They are a couple of examples of what you see on the commonwealth side.

When you get to the state side, whilst the state has probably been more generous through maternal and child health and so on with some of their grant programs, and they have assisted in some topping up in the HACC space, what the state does is creep up on us in a different way. It does not reflect so much in the funding pool, but what it reflects in is the constant layering of additional regulation on the sector that all costs money. If I look at the stuff that is around at the moment, we have the issue of the Essential Services Commission performance indicators for local government. ESC is saying they expect there to be no more than 100 performance indicators for each council — no more than 100, a nice, small number. I estimate roughly that it will probably cost each council maybe 40 grand to do that. If you take that in Yarriambiack or Towong shires, for Towong shire that is about 1 per cent of rate; West Wimmera, about 1 per cent of rate — —

Mr KOCH — Hindmarsh.

Mr SPENCE — Yes. That is an example. I am a great supporter of neighbourhood safer places, but if you look at the arrangement there, every council has to deal with it. Over a year or two years I would expect that on an annual basis this will load up maybe 20 to 40 grand per council. Again for Yarriambiack or West Wimmera you are talking about 1 per cent, maybe 2 per cent, of rate. There are some other issues like wind farms and school crossing supervisors. The way I describe this is that it is like dropping a frog or dropping a nice, live lobster in cold water and then just turning the heat up until you cook it. That is what is happening to our sector. Slowly we are returning red and floating to the surface.

You might not get the link back to roads, but the impact of it will not be seen in rates. Rates are moving at about 6 per cent per annum on average. You might get a few just a bit above and a few a bit below, but they are moving at 6 per cent. For some councils that is enough to keep them in equilibrium. For the rest, what they do is short fund the long-term stuff that the community does not see the initial impact of, and the natural outcome of that is in the roads area and, I would say, emergency management.

What happens is they say, 'We know we can't reduce the library service, we can't reduce the maternal and child health service, we can't reduce the HACC service and so on, but we'll just underspend on roads. We'll do that, and we can get away with keeping our budget in equilibrium and not overrating'. This may sound like a fairly unsophisticated proposition, but what I said about the lobster is exactly what is happening. We are being slowly cooked. As I said to the commission on Friday, I know we are talking about endangered species, but there are 18 to 20 councils in Victoria that are currently endangered species. The capacity to keep going with declining populations, struggling economies and massive road length is problematic, and there needs to be a solution to it.

My view is that the solution is we have to deal with those inequities that are currently in the funding structures of normal business for the sector but the commonwealth needs to more appropriately consider its escalators and I think the state has to go through a much more formal regulatory or legislative impact statement with councils before it introduces anything, because if it does not, the knock-on effect to the sector is quite significant, particularly for the small councils. It is not really an issue for those councils that are in the MFB area. It is a nice sort of split to consider this. If you look at the CFA area, that is where the stress is, that is where the high need is, that is where the high road length is and that is where the 18 highly stressed councils are.

Mr KOCH — So you are talking interfaces and regional councils.

Mr SPENCE — Interfaces and out, yes. The indicators of the stressed councils are small and distributed population, high road length, generally state forest in their area or national parks — —

Mr WELLER — Yes, they are gone, the national parks.

Mr SPENCE — Paul, you know them all.

Mr KOCH — Exhausted rate bases.

Mr SPENCE — Exhausted rate bases. Also when you look at the income for the people in these areas they are in the lowest income bracket as calculated by the ABS of any areas in the state. It is my proposition to you that there is a significant opportunity to improve road safety in rural Victoria and in outer Melbourne by improving the road network. At the start of that, in my view, there is a need to get the funding model for local government right and then to choose the road funding model. I do not think we can run with an improved road funding model without fixing the rest of it, because the road funding will get dragged into other bits of business in my view. It requires a holistic fix. That is my proposition. It is not sophisticated, just straightforward.

Mr KOCH — Taking that up, through the chair, Rob, what is the formula that the MAV would propose on behalf of interface and regional councils to gain some road funding mechanism, to get some equity in the Victorian distribution but more so from the federal government to the Victorian government to assist in this passage?

Mr SPENCE — I think the great challenge for Victoria is that the commonwealth have always, in the discussions I have had with them, looked at Victoria as being compressed in size with, they would argue, the best road infrastructure in Australia, and therefore in their view we have a lower level of need. When you look at the flip side of it, I think we have probably more intense use of our road network and much more economic activity within a compressed space. I think the answer to this is trying to get some link between road length use and economic activity instead of it being effectively just on road length. You bias it into other states if you just do it on road length, although local government roads in Victoria are still significant in the national arena.

We are doing a lot of work on the issues around the last kilometre. We know that the backbone of the roads for major economic activity is the VicRoads roads, but to actually get the economy to work effectively across Victoria you have got to get the last kilometre right. We are working on strategies about that, but that still does not resolve the funding issue. It has got those three critical bits to it: economic activity, road use levels and road length.

Mr KOCH — You heard the tail end of the previous presentation in relation to user pays?

Mr SPENCE — Yes.

Mr KOCH — How effective would that be in regional Victoria, and would that be any assistance to the argument you are putting forward?

Mr SPENCE — It blows my mind as to how you could ever run a user-pays system in regional Victoria. It is beyond my mental capacity to understand how you would put it together. I can understand how you can do it on the major arterials, freeways and so on, but the issue we have is that it is going to be around dairy use down in the south-west, timber-intense use at particular times and so on.

Maybe there is a way to price that for those industries but when discussions have occurred about that we have always had massive push back and there is this question about local government affecting the economics for some of these industries. Whilst there is a capacity in legislation to do it, it has not been something that has been attractive to anybody.

The CHAIR — In relation to some of the funding arrangements that you speak of, are you aware of the funding arrangements of say 5 and 10 years ago? What has changed since then?

Mr SPENCE — Very little.

The CHAIR — Okay, so the funding arrangements that you talk about have existed for a long time.

Mr SPENCE — That is right, they were brought in by Gough Whitlam in a moment of inspiration. They were chiselled back by Paul Keating. In each case that was with financial assistance grants, without consideration of the need at the other end. There is a bias in the system that we have got at the moment.

The CHAIR — You are quite happy with the Malcolm Fraser years and the John Howard years but you particularly say Gough Whitlam and Paul Keating?

Mr SPENCE — I thought I said something really nice about Gough Whitlam.

Mr KOCH — Too generous.

Mr SPENCE — Because we would not have had anything without Gough Whitlam, so I am just saying Paul Keating chiselled it back, but across the board there has been no consideration of what the need is relative to the grant. That is what I am saying. All it is is, 'We will give you this and we will escalate it by CPI over time. If that is better than you should have got, then fantastic; but if it is less, stiff'. That is exactly what has happened. In metropolitan Melbourne it is not an issue because they have got horsepower — you have got councils like Port Phillip where I think they are doing about \$30 million in parking and parking fines. For Towong that is four years budget or three years budget.

What I want a solution to, and what MAV wants a solution to, is the small ones out there that are starving to death, that are critical to our economy because they have got major components of the farm network there and critical industry network, but they need help in dollars.

What I am saying is, let us fix the base first, before you get into the road funding side. The base, I do not think, is that hard to fix, but someone needs to turn their mind to it. I am not here to bash Labor or Liberal or whoever. I just think the Victorian government, whether it is Labor or Liberal, needs to get a decent system in place which does not keep loading up local government with regulation when the objective is to get outcomes, not to regulate but to get outcomes.

I would ask the question: where is the benefit of regulation? A hundred performance indicators? We might all feel good about it, but is it going to do much out there on the ground? Nothing, in my view, or very little.

Mr LEANE — You mentioned councils under stress having state forests and national parks. What is the relevance as far as the state parks and national parks, and has there ever been an argument that they should come under the VicRoads jurisdiction if there is an issue with them?

Mr SPENCE — It is an attribute. If there is timber coming out of these areas, then it does awful damage to the roads. But you can get a municipality like in East Gippsland where probably 80 per cent of it is state forests. Their capacity to raise revenue to do tasks is relatively limited; that is the point.

It is about how you raise revenue. I do not want to get on one of my high horses but if you take wind farms, the state regulated the amount of rates that a council could take out of wind farms and what that has done is that it has really limited the revenue stream. What it has done is that the state has used its capacity to regulate or

legislate to ensure that local government basically cross-subsidises the wind industry without local government ever being in the debate about whether it wants to or not.

Across the array of issues that we deal with in this space there are massive inequities, in my view, where other levels of government do it to us because it is easy to do it to us. The benefit, or the outcome, reflects in what you see on the ground, which in a lot of cases is not what it should be. It is my proposition that it affects, ultimately at the end of it, road safety, because that is right at the end of the chain in terms of where you spend your dollar. It is going to be on roads.

Mr WELLER — If we do not spend the dollars, we will not have safe roads.

Mr SPENCE — That is right. That is the point I am making. The dollars have got to be spent, and at the moment councils are propping up the aged care system through HACC. If there was a decent funding arrangement with the commonwealth, those dollars ultimately, in my view, would end up in roads. In the councils that you know, they want to spend on roads, they have got their road management plans, they have got their strategies, but they just do not have the moolah to provide the service.

Mr KOCH — I think you bring to the table a lot of the concerns. You have obviously thought about this pretty hard. There has got to be a way through it. Where does the MAV sit on a suggested funding model to give the space you require? Is it in relation to a fixed percentage of GST for instance, to be tied to local government specifically for roads across the board, metropolitan, regional or whatever?

Mr SPENCE — No. Our proposition is that it should be needs-based. We are not ones for a slice of cream for everybody. There are councils nationally that do not need money and there are some that really need it. We think you need to target those that really need it and try to get them on an even keel and get their infrastructure right.

We are not in for just pouring money into the pool. The evidence is there on who those councils are. We have got their infrastructure management plans, we know the condition of their infrastructure, we know what needs to be done, and what we need is a funding source to help us to do that. That is not a ginormous amount of money but it needs to be there and it needs to be consistent.

Part of the dilemma we have is in the national arena. The other states all want a slice for everybody; it is not the Victorian model. We think that a significant number of councils in Victoria do not need it. They are travelling fine, but there are some that are in poverty street.

The CHAIR — Would you know about the councillor discretionary funds that exist? Has that increased in recent years, and does that go across all councils in Victoria?

Mr SPENCE — Is this a fund that each council has itself? That allows councils to spend on things that they want to spend on?

The CHAIR — Whatever they think is important.

Mr SPENCE — Usually they are pretty small pools of money but they do come out of the rate pool or the grant pool.

The CHAIR — Are some of them about \$500 000 per council?

Mr SPENCE — I think there might be a couple of inner metropolitan councils that might be up at pretty big numbers, but \$500 000 in a Towong?

Mr WELLER — In the Campaspe shire they are \$15 000. Each councillor has \$15 000 that he can spend on discretionary things in his ward.

Mr KOCH — Geelong city is half a million.

Mr SPENCE — So the big ones, yes, but not the small ones. I am not arguing with you in this space for the big ones.

Mr WELLER — There are smaller shires than Campaspe — the likes of Gannawarra would be even less.

Mr SPENCE — Less, yes, and this is an initiative that is taken inside the councils to give the councillors a capacity to deal with issues that they do not have to push up through the budget process and the planning process, so it gives them a level of flexibility, but it does not fix the big problem really.

I just want to emphasise that we have to get on top of the state issue about regulation. I think the royal commission has brought it home to me. We had a look at how local government is trying to manage and how heavily it is regulated. That really limits its capacity to do the task one piece of legislation requires it to do but other pieces of legislation say it cannot do or push against.

Mr KOCH — I hear you clearly.

The CHAIR — Any further questions or comments? Thank you very much.

Witnesses withdrew.