

## **ROAD SAFETY COMMITTEE**

### **Inquiry into federal-state road funding arrangements**

Sydney — 16 March 2010

#### Members

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#### Witness

Ms L. Sawtell, executive officer, Queensland Local Government Grants Commission.

**The CHAIR** — Thank you very much for being here this afternoon to assist us with our inquiry into federal-state road funding arrangements. As you can see, we are recording the evidence taken today. We will provide you with a copy of the transcript, which you can change as appropriate. Please state your full name and organisation and then proceed with your presentation.

**Ms SAWTELL** — Lynn Sawtell, executive officer, Queensland Local Government Grants Commission. The Queensland Local Government Grants Commission put in a submission, as you know, but we are not sure of where or how that might influence the outcomes that you are trying to achieve. The Queensland Local Government Grants Commission has been concerned for some time about the split up of the money from the federal to state funding levels. We are only concerned — other grants commissions would have told you this — with local roads managed by councils within Queensland, so that is the only impact that we have on funding allocations.

In Queensland we have the highest number of any state of local roads controlled, and that is growing rapidly. As you are aware, our population is increasing significantly so that means there are obviously a lot more roads being built — and we put that in our submission — and that places enormous stress on infrastructure such as roads, whether local roads or main roads. We can talk about only the local roads.

The Commonwealth Grants Commission, as you are aware from other grants commissions that have made presentations to you, did the 2005–06 review on the split up of the allocations of funding. It is that determination that we would like to see implemented in some way, and we put that in our submission. We understand that it is going to be a very difficult political decision to make to be able to implement those recommendations, with funding to a number of states decreasing significantly, but the states that are missing out are Queensland, Victoria and New South Wales because of the recommendations the Commonwealth Grants Commission has made in terms of the split of the funding — that is, the identified road grant — to the states. The Queensland Local Government Grants Commission would like to see that that distribution implemented so that our funding for our local roads is increased.

I think Queensland is in a unique position in terms of the local roads in that it is a very decentralised state with large population centres up the coast, unlike other states, and those major population centres are growing, which places a lot of pressure on infrastructure. An extra \$10.4 million for Queensland would have such enormous benefits for not only our regional centres but also the rural shires.

One of our commissioners is Mark O'Brien, the mayor Murweh Shire Council, which has just experienced the once-in-100-year floods. He will often point out to the commission that an extra \$200 000 or \$300 000 for a council will mean that it will be able to turn a small section of a unsealed rural road into a sealed bitumen road, and what a difference that makes to a council's budget in ongoing maintenance and operations. I guess that might not seem like a lot, but for our rural councils and indigenous councils, an extra amount of funding can also mean a significant amount for their roads infrastructure.

**The CHAIR** — Just on that, Lynn, what guidelines surround the amount of money that is given specifically for road infrastructure, for the councils to use that money in an appropriate way?

**Ms SAWTELL** — The money that comes from financial assistance grants is untied.

**The CHAIR** — So it does not mean that that money will necessarily go towards roads?

**Ms SAWTELL** — No. The other funding that is available for councils is through the Roads to Recovery program, which is an allocation as well. Funding that is available to councils through Queensland's \*Department of Transport and Main Roads is applied for on a project-by-project basis. I operated under a Minister for Local Government who wanted me to find out everything about any other sort of funding that was available to councils for roads.

I guess where the indigenous councils and the rural councils miss out on that is that they just do not have the resources available to be able to put in an application or a proposal to bitumen — —

**Mr KOCH** — They cannot match the funding.

**Ms SAWTELL** — And they cannot match the funding. The indigenous councils do not have a hope of being able to match the funding. This untied funding is just such a bonus for those councils because they do not have to apply for it, they do not have to match it and they do not have to report on it.

There are two streams of thought. We have a commission that is actually quite divided on that. Some members think it should be tied and that councils should report on the financial assistance grants, and then there are other members of the commission who say that this is the only amount of untied funding that comes into councils that they have some discretion about using.

Of the other money that is available, small councils just do not have a hope of being able to access that money. In fact, a lot of the indigenous councils in the Cape, for example, do not even have the capacity to even access funding that is available after a natural disaster. Their roads are completely wrecked after a cyclone but they do not even have the capacity to be able to make a submission to access disaster relief arrangements. I think Queensland is in that unique position, in that it has huge numbers of rural councils and a significant number of indigenous councils that are often at a disadvantage because of where they are placed and the resources that they have available. I do not think that is going to be of much use to a Victorian inquiry, really. Queensland is unique in that regard.

**Mr KOCH** — It is not necessarily unique. Victoria has many small municipalities with rate bases not dissimilar to your own. They are exhausted. I am listening to what you are saying. Increasing the percentage of sealed local roads is terribly important, if they have the capacity to do it. In the ratios that are coming through to us, especially for states along the eastern seaboard, it is obvious that we all have limitations on what we can and cannot do.

Do you see in the future a greater percentage of these current grant fund allocations coming back to you? Are there other alternatives? What is the percentage of funds getting into regional Queensland versus what is being spent in metropolitan and larger provincial cities?

**Ms SAWTELL** — The allocation in Queensland for the identified road grant is \$110 million this year. I think previous commissions have told you that that came across in 1991 — the identified road grant previously allocated to the Department of Main Roads came across to the grants commission. The Queensland Local Government Grants Commission has just picked up the same formula, which is 62.85 per cent based on road length and the rest based on population — a mixture of that. The large western rural shires do very well out of the identified road grant because it is primarily based on road length.

We have just had road auditors go into our far western shires because we were concerned about their data. Diamantina shire has 360 people. It was one of the councils where an area the size of Victoria was covered in water, one of the shires that was completely covered in water recently. We had a commission meeting yesterday and the auditor came back and said that the policeman had told him that once that creek comes it is 60 kilometres wide. Those road infrastructures are just hammered by the flooding that happens out there. They control something like 1200 kilometres of road length in their shire.

The auditor we placed in the Western Downs Regional Council, which covers Dalby and the whole Surat Basin, has something like 5000 kilometres of road length. That whole Surat Basin is where the coal seam gas is happening so over the next 10 years they are expecting 55 000 extra people to go to Dalby and from Dalby out to Chinchilla. There is a 360-kilometre pipeline being built from there up to Gladstone. From what I hear, people in local councils there are wandering around as if they are in a daze because they do not know how to handle the sort of growth that is going to happen in that area. Imagine the impact of the infrastructure on their roads. Two or three years ago we were out in Taroom, which is in part of where the pipeline is going to go up to Gladstone, and they were concerned about the trucks.

There are so many phases. The first phase is the drilling and exploration phase. They come in with huge trucks to do all the exploration work and it just tears the roads to pieces. As a commission we hear those stories all the time. All we can do is have the identified road grant, which is based on road length and population. Then we have an asset preservation model that is part of roads assessment as part of the general purpose grant, which is the \$260 million. As part of that we take into account traffic volumes and the extent of damage caused by trucks using local council roads. But you also hear it from the far north Queensland councils, in respect of the cane trucks that can do all sorts of damage to roads up there.

From where I sit there has to be greater cooperation between state and local government; and Queensland has some very good models. The roads alliance has been set up by the Department of Main Roads works with a group of local councils and has been a model that has been talked about across the country. They will work with a group of local councils to identify where the roads funding needs to be spent within a certain group of councils. Also, the Department of Main Roads will support those local councils with understanding.

It is the roads alliance I am going to hit next. What we hear back from the auditors we have put out there — it is the first time we have done audits of councils and their local roads, so it is a bit like opening up a can of worms — is that councils do not have much of a capacity for understanding the asset management they need around their roads. They do not understand how to use road counters in an effective way not only to be able to provide the data that we need but also to be able to influence an asset management plan. Also Queensland councils are still coming through the whole amalgamation process, because it has been an enormous hit to have eight councils coming together with varying capacities at being able to manage their assets, including their roads. We will have councils that have not reviewed their road lengths or reviewed their road data for many years and that have ignored that whole aspect of reporting to the grants commission.

I think there needs to be greater cooperation between state government and local government so we can understand that whole asset management and where we need to put the funds and how we need to better build the road infrastructure. The main roads department can go off and do what they do and just worry about what they do, but I think there has to be a greater effort between state government and local councils.

**Mr WELLER** — How did the CGC come up with its redistribution? What was the route?

**Ms SAWTELL** — The Commonwealth Grants Commission actually used an asset preservation model, and that is the model that we use as part of doing a roads assessment for each council in terms of the general purpose grant. As I said, the identified road grant is based completely on road length and population. It is simplistic and I do not like it, but trying to get change amongst Queensland councils — as we have found out from a state government perspective — is very difficult.

What we do in the asset preservation model is look at traffic volumes. We have gone to the main roads department — we did not dream them up ourselves — but we have base costs per kilometre in terms of keeping an asset in a preservation state, for example. That is the name of the model. We have different traffic counts and traffic volumes — 0 to 50 cars per day — and \$600 per kilometre if it is a rural road and \$3000 if it is an urban road. New South Wales and Victoria do it a little differently; they have different base costs and different traffic volume ranges. But we also adjust it for location, terrain and climate in terms of the Far North Queensland councils. The heavy rainfalls at certain periods of time can damage the shoulders of the roads and damage the roads significantly. It is those aspects that from where you sit — I do not know what it is like in Victoria — can cause real damage and can create traffic accident concerns. We adjust it for those factors.

On the subject of location, it is much more expensive to build a road in Cloncurry obviously than it is in Townsville, so we adjust it for those cost adjusters and then take that into account as part of doing the general purpose grant. In reality the identified road grant should be distributed that way as well, because that is what we are talking about. No matter who you are, no matter whether you are about road safety or about distributing road funding, you should be talking about preserving the asset in a safe manner. But we will never get that change in my lifetime in Queensland, because we will have too much upset from the rural councils — which say, 'No, it should be based on road length', because they have got all the road length — to be able to turn it into an asset preservation model.

**Mr WELLER** — What about getting the funds from the federal to the state, though? In the state shares you have proposed allocation changes.

**Ms SAWTELL** — Yes.

**Mr WELLER** — That is where you can see improvements for Queensland?

**Ms SAWTELL** — But those changes are only from federal to state for us to allocate to local councils, because that is all I can talk about. They are the changes. They are very difficult to achieve. You might not be hearing from South Australia, but I understand that about 10 years ago — and this was the history I was told by the commonwealth government department — the South Australian councils just created a storm about the fact

that they had so much unincorporated land in their state, being Aboriginal reserves or whatever. The state government siphoned off a lot of that money to be able to look after the roads in unincorporated lands, and the councils said, 'This is not fair; we need more money', so that is what is always meant by supplementary funding to South Australia. Historically they have always had more money than they have needed to get. But even when you look at the Commonwealth Grants Commission recommendations that come in, South Australia is still being underdone. It is the states like Western Australia that would lose money under this model.

**Mr WELLER** — Tassie, the ACT.

**Ms SAWTELL** — Western Australia, the Northern Territory, the ACT — and that is not going to be politically viable. All that we can do as Queensland is to be able to make a noise to say, 'We need to increase funding to those states that are actually missing out'. We will never, ever see those states dropped in my lifetime. All we can say is, 'Let's just put some extra funding into Victoria, New South Wales and Queensland, which aren't receiving their fair share', so that we can increase the pool of funds for those states and not drop those other states, because you will never get that.

That is not within the Commonwealth Grants Commission's mandate. Obviously the Commonwealth Grants Commission would just — like a consultant — go back to the commonwealth department of infrastructure at the time to look at the distribution. But that is all that we have ever had to go on and all we will ever have to go on.

**Mr KOCH** — Lyn, what becomes of your unexhausted contingency funding across the state of Queensland if you do not have your storms in Queensland and you do not have these rainfall regimes that you have suffered this year? You mentioned earlier you kept something in reserve for exceptional circumstances.

**Ms SAWTELL** — No, we do not.

**Mr KOCH** — You do not? I misunderstood.

**Ms SAWTELL** — It is always allocated.

**Mr KOCH** — How do you find further streams when acts of God tear up your roads through floods or something unforeseen? Is there a contingency?

**Ms SAWTELL** — That is not through the grants commission, but it used to be part of what I used to do when I was in this department. That is the NDRRA funding — the National Disaster Relief and Recovery Arrangements. That is commonwealth-state money, so that is available to all states.

**Mr KOCH** — So yours is exhausted in the first round?

**Ms SAWTELL** — Yes. It gets allocated. We have to get it signed off by our state minister and signed off by the commonwealth minister, and then it is allocated in quarterly payments. Yes, ours has gone. But they do have access to NDRRA funding, and that is once again a contribution from the councils, which indigenous councils often never, ever put in for because they do not have the capacity to put in the additional funds. Even still, it will never fully repair what has had to happen within a council when they have had such extraordinary circumstances. But that is pretty ongoing, especially for the far north, because there will always be high rainfalls. Last year or the year before it rained from November through to April. It was not as if there were lots of cyclones.

**Mr KOCH** — So is that built into the formula that you work under?

**Ms SAWTELL** — Not into the identified road grant — and that is what we are talking about in our submission as the identified road grant. That is just road length and population, but we do build it into the general purpose grant, which is \$260 million this year. We also take into account roads as part of our methodology in that, because we know that the most that a council spends its funding on is roads — roads, roads, roads. That is all they will talk to you about when you go out to visit them, especially some of the western councils that have got soil subgrades that move around a lot. You would hear that in Victoria as well.

**The CHAIR** — That could be because they seek more funding so they can put it into general revenue so they can use it elsewhere.

**Ms SAWTELL** — I do not think that the financial assistance grant should ever be tied — one of my commissioners does, and we have had huge battles talking that through with him — because I do believe that there is so much money that comes into a council that they have to apply for, that they have to account for and that they have to send this report in for and that report in for. For the small councils that is such a burden, whereas we can only trust that a council will spend the money from an identified road grant as it is intended. They are going to get kicked out if they do not keep their roads up to date anyway. They are going to get hit over the head.

Our road auditors came back and reported to the grants commission yesterday, and one council — the South Burnett Regional Council — was probably about 200 kilometres underestimating, and that is about \$80 000 or \$90 000 that they were missing out on. I was sitting beside the chairperson, who was the ex-CEO of Maroochy Shire Council for six years. Across the table was Anne, another commissioner, who was mayor for 14 years of Herberton Shire Council. She said, ‘We should just go and whisper in the ear of the councillors or the mayor’. I said, ‘They would not be concerned about \$80 000, would they? Surely! It’s peanuts, surely!’. But, no; even the ex-CEO of Maroochy Shire Council said, ‘If the councillors knew that we were missing out on anything, one councillor might pick it up and be very concerned about it’. Roads are obviously an important issue. You would also hear that from your councils in terms of just maintaining the asset; keeping it in a safe condition is very important.

**Mr KOCH** — I have a quick question about the advantage being received from the point of view of the Queensland Local Government Grants Commission in relation to restructure. You touched on restructure a minute ago.

**Ms SAWTELL** — During the amalgamations?

**Mr KOCH** — Yes, sorry. Amalgamations or restructures; different terminology, same outcome. What has that done from a funding stream for the local government grants commission?

**Ms SAWTELL** — It has really thrown our methodology right around. The Local Government Reform Commission made a recommendation that we had to completely review our methodology.

**Mr KOCH** — Whereas at the end of the day we are talking about the same length of roads.

**Ms SAWTELL** — Exactly.

**Mr KOCH** — Same population.

**Ms SAWTELL** — Exactly.

**Mr KOCH** — So all your formulas are there; the numbers just move?

**Ms SAWTELL** — That is right. But in terms of a methodology, previously when we would have a series of constants — for example, we had a constant of \$350 000 for each council — we would plug that in. That was not what they got, but that would be plugged in as an administration charge, in recognition of the fact that each council needs a CEO, an administration assistant and a CFO, or finance officer, before it can open its doors. When you take that constant out and make it one when you have councils coming together, it means that the whole methodology just goes. It is a methodology based on relativities, so if one council goes down then the other councils just all go up. For example, the Torres Strait Island Regional Council has 15 island councils that have all come together. You take away that constant and the methodology just goes; their grant just goes completely down. They are being held constant for four years, because it is part of the commonwealth’s amalgamation principle that they do not drop for four years, but we are being asked now what our grant is going to look like in 2012–13 because, as you know, councils do those five-year budget projections.

It has played havoc with the methodology. We have been fortunate enough to have somebody from the Commonwealth Grants Commission. I wrote a discussion paper for the commission that we sent out in September which just sought input from every single council about all aspects of the methodology. We had someone from the Queensland Treasury Corporation come and work with us for about a six-week period to come up with a new methodology. It just means that it has not worked out as we had planned because it will be very difficult politically to take it to the Queensland local government minister and say, ‘We think all these

amalgamated councils should go down'. Amalgamated councils will tell you they will not get cost savings for at least four to five years; they just will not.

Also former Premier Beattie made a commitment that no-one except the CEOs would lose their jobs for three years. They have not been able to get cost savings through restructuring of the workforce. They are having to carry a lot of extra staff, more than they probably need. It is a nightmare actually. That three-year period is about to come to an end, and quite frankly in Queensland there will not be much of a problem with being able to pick up, with our economy growing and such a huge resources boom, but it is just a matter of councils being able to do that. The only way they will get cost savings is to be able to better restructure the workforce.

But also in the area I am from — that is, the South Burnett municipality — they need to take some very hard decisions even about the sort of equipment they have. Where four councils came together I think they have ended up with something like eight graders, so they have way too much equipment. Those councils are having to make a whole heap of very difficult decisions. A lot of them are only two years into it now — we had our elections in March 2008, so they are only two years into their four-year term — so really a lot of them have only just settled down their CEOs. There are a whole heap of cultural changes that have to happen, and they are having to make some very tough decisions about administration centres in a number of areas. They all have their work depots in a number of those centres, but they need to consider whether they need an administration centre open five days a week in a lot of the towns.

One of the auditors came back and said that the roads data or the road information for this particular shire was being kept on three different asset management databases. It is just such a huge job to do the amalgamations, but quite frankly I think we have turned the corner; we will not be going back no matter what. The LNP thinks that might happen. I do not think we will ever go back. I think there has been a huge shift, even within the last six months. You notice it when you go out to visit, because there is a greater understanding of a regional need within a regional council.

I remember Premier Anna Bligh saying at a forum I was at that the state government got so many complaints from coalmining companies from the Bowen Basin and Central Queensland about the fact that just to transport the coal from where it was being mined to the port they had to negotiate with 16 different little councils. Now they deal with about four councils to get the coal from the coalfields out to the port. It means there is a greater regional focus happening for a lot of those councils. You would think and hope that would then mean better asset management and better planning. That is the state of Queensland.

**The CHAIR** — Thanks for your time this afternoon.

**Ms SAWTELL** — No worries. Thank you.

**Mr KOCH** — Thanks, Lyn. It will get better, just not immediately.

**Committee adjourned.**