

ROAD SAFETY COMMITTEE

Inquiry into federal-state road funding arrangements

Melbourne — 12 April 2010

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Mr P. Ilee, executive officer, South Australian Local Government Grants Commission.

The CHAIR — This is the first time the Road Safety Committee has conducted a hearing via teleconference. I will go through all the things I would normally go through if you were here with us, Peter. Thank you very much for being with us today to assist us in our inquiry into federal–state road funding arrangements. The proceedings are being recorded, and we will provide you with a copy of the transcript as soon as we can so you can correct it as appropriate.

Mr ILEE — That sounds good.

The CHAIR — We will ask questions as we go, but you could start with your presentation.

Mr ILEE — In terms of South Australia's distribution for road funding, the issue is that local government in South Australia has always felt it has not received a fair share of road funding from the commonwealth. I am not sure exactly how much you guys have dug into the distributions for each of the states, but essentially South Australia receives a share of road funding based on an historical situation which has been in place for a number of years.

Where the general purpose component of our financial assistance grant is based on our population and is adjusted for CPI, that situation is different for the road grants. Road grants are based on an historical percentage that has been allocated to South Australia for some time, and South Australia receives only 5.5 per cent of the pie, if you like — of the road grants that are provided by the commonwealth.

Based on some information that we used in a presentation we make to councils when we visit them, there is some data which shows that as at 2007 — so this data is a little bit old now — in terms of its local road network South Australia has been maintaining about 11 per cent of the nation's local roads, but during that time we have only been receiving 5.5 per cent of the road funding. Obviously, there is a fair difference between 11.42 per cent of the nation's local roads in South Australia and a distribution of 5.5 per cent.

From South Australia's perspective this has caused a significant amount of debate in state Parliament and among the Local Government Association of South Australia and the commonwealth. I guess that is where it is at at this point in time.

In terms of other funding issues that have been put on the table for us, that particular issue has resulted in South Australia receiving some extra funding. We have a specific program which is called the supplementary local road program or local road funding. That program is designed to provide South Australia with some extra road funding in recognition of that shortfall under the identified road grants. In its current program, which has run from 2007–08 to 2010–11, South Australia will receive about \$57.5 million. For 2009–10, for example, South Australia received \$14.8 million under that program, so it is a separate amount of money that specifically comes to South Australia that no other state has received, and it is specifically designed to recognise the fact that South Australia has historically not received our fair share of the nation's road funding under the identified roads grants.

The CHAIR — In relation to the funds being allocated to local government, does the money go into general revenue, or is it dedicated to road safety works?

Mr ILEE — The financial assistance grants in South Australia — both the general purpose grants and the identified roads grants — are untied grant funding. In essence most of that money goes into councils' general revenue. The only difference I guess is the way the program works in South Australia. I guess we know about the identified road grants, and I have just talked to you about the supplementary local road funding, so that is two forms of road funding that comes to South Australia.

There is a third pool that is relevant to this discussion for us, which is the commonwealth's Roads to Recovery funding. What happens under general circumstances, as I understand it, around the rest of the country is that Roads to Recovery funding from the commonwealth just goes directly to councils. In South Australia the way our road grants funding pools work is that all three of our pools have a percentage of 85 per cent that is allocated directly to councils based on formulas, basically, and 15 per cent of those road funding pools are put aside for a program that we call the special local roads program.

What that program does is put aside 15 per cent of those road pools to contribute towards roads that are identified by the sector as roads of regional significance to the state. They can be roads that are of a tourism

nature, of a freight nature or a social nature, as in a social interconnector-type scenario. That pool of funding is specifically designed to go to specific road projects and therefore is kind of tied, but it is essentially only a small proportion of each of the three road programs that we have got for South Australia, so 85 per cent of that funding from the identified road grants is untied grant funding that councils can do with what they choose.

Some 85 per cent of the supplementary local roads funding for South Australia only is also untied, and councils can use it as they choose. Some 85 per cent of the Roads to Recovery funding goes directly from the commonwealth to councils anyway, so we do not have anything to do with that. Has that confused everyone?

The CHAIR — Yes, totally.

Mr KOCH — Is there any matching funding on that 15 per cent for the special local roads program?

Mr ILEE — No. From council's perspective, do you mean?

Mr KOCH — Yes, from council's perspective on this special local roads program funding.

Mr ILEE — Yes, there is. The way it works is that metropolitan councils have to match the funding 50–50.

Mr KOCH — One for one?

Mr ILEE — With regional councils it is one-third to our two-thirds.

Mr KOCH — So that is against the regional local government municipalities?

Mr ILEE — Yes.

Mr KOCH — You are putting two in for every one you get?

Mr ILEE — Yes, for rurals.

Mr KOCH — Thank you.

Mr WELLER — Do you think that the grants money going to the local government should be tied to roads?

Mr ILEE — The issue has been that it has been a bit difficult to do that. I think the issue has been because the percentage that has been coming to South Australia had been historically so low that it has made it difficult to be able to do that. I guess the issue is for the rest of the country, for that funding to be tied to roads is not going to be enough.

South Australia would have been historically and has been always seeking further funding, so to have it specific to roads and for it to be honoured as specific to roads, but I draw more attention to it in terms of its level of funding and therefore increase that debate around the historical percentage that has been allocated to the states. I think it is a kind of a double-edged sword for the commonwealth.

Obviously they appreciate the fact that South Australia has not received its fair share and has tried to do something about that with the supplementary local road funding, but at the same time if they start tying it to roads, I would imagine that the rest of the country has got similar issues to Australia. There are significant issues with infrastructure across local government, and roads are no exception, so that is a difficult one.

Mr KOCH — So there is no audit process in place so you cannot identify where that expenditure has taken place?

Mr ILEE — We collect some very specific information from local government in South Australia. I am not quite sure exactly what Victorians call the financial returns they get, but we get something that we call a supplementary return in South Australia. The supplementary return was a return that used to be collected by the Australian Bureau of Statistics that we took over in 2002–03, and that does give us a very good idea of what has been spent on roads within South Australia.

We get some fairly significant detail. We get some expenditure out of their operating statement and their financial statement that is broken down into functional categories, so we have about 100 functional categories,

including all of the roads categories — sealed, unsealed, sealed within a built-up area, sealed outside a built-up area and unsealed roads. We do get very specific information that we use as part of the grant formula, yes.

Mr LEANE — You said that in 2009–10, I think, supplementary road funding was \$14.8 million?

Mr ILEE — Yes.

Mr LEANE — Has anyone done the sums as the total amount federal/local roads grants that went out for all the states? When you add that \$14.8 million does that bring the percentage of local road funding in South Australia closer to that 11.29 of the local roads that are in South Australia?

Mr ILEE — Yes, it did.

Mr LEANE — It did, so that is the way they work out that quantum?

Mr ILEE — The supplementary local road funding brings South Australia's proportion up to about 9 per cent. I guess the issue is when you look at it across the three programs the identified road grants is 5.5 per cent. The combined funding, including the supplementary local road funding, brings us up to about 9 per cent, and the Roads to Recovery money that is provided from the commonwealth actually is about 8.3 per cent.

In essence what that supplementary money has done is kind of bridged the gap a little bit between the 5.5 per cent and the 8.33 per cent that we get under Roads to Recovery, but the sector in South Australia — the local government association — will always be arguing that that is still not enough, given that we are somewhere around the 11 per cent for the length of road network, but certainly it has made a difference, yes.

Mr LEANE — Thanks.

Mr TILLEY — On the current regime do you see any alternatives to the formula for funding as it stands today?

Mr ILEE — I guess the issue has been the sector has been undergoing some fairly significant transformation in terms of its financial sustainability. One of the things that the commission in South Australia is looking at in terms of road funding is actually tying the distribution of grants more strongly to councils' financial management practices than it does currently.

What I meant in English there is that we have got councils who under their legislative requirements are having to have asset management plans in place, and those asset management plans are meant to be some very detailed work around prioritising their road networks, making some fairly important decisions about what roads they really need, what roads they do not need, what roads they have to maintain to certain levels and what roads they can keep at a lower level. So really the thinking from the commission's perspective in South Australia has been around the feasibility of actually tying the distribution of road grants a lot more strongly to councils' asset management plans.

The issue that we have had with it thus far is that because we have got 21 metropolitan councils within South Australia and about 57 regional councils, the regional councils have not necessarily had the opportunity to develop those plans to the same degree or at the same pace as some of the metropolitan councils, and so it is a bit difficult at this stage to really look at that strongly but we have certainly spent a bit of time looking at some of the councils' asset management plans and starting to think about the identified road grants and therefore the supplemental local road funding could be tied more strongly to councils' asset management plans. That has been the thinking in South Australia over the last 12 months.

Mr TILLEY — Thanks, Peter. Taking it further, do you have an opinion or any thoughts in relation to the commonwealth government with the impending release of the Henry review and the speculation of possibly considering the option for road-user charging? Do you have any thoughts on that or has that been discussed in South Australia to any extent?

Mr ILEE — No, to be honest. I am not quite sure at what level or how road user charging would work within local government. One of the issues for us is what if the national principal says that policies of council are to be taken into account in the commission making its recommendations for the distribution of grants, so if you are looking at road user charges for example, how would that affect local government?

Would they have a choice as to how they would do that? Would that be a policy decision they would have to make? And if that was the case, then that would be something, obviously, that we would have to take into consideration but we are specifically precluded from taking into account councils' policy decision-making process so there would have to be a way in which that could be incorporated into the model that the commission used without having to specifically take into account those decisions that councils make. That is a tough one.

Mr TILLEY — I agree, it is. Thank you for that, Peter.

The CHAIR — Any further questions? Thank you very much for your time, Peter.

Witness withdrew.