

Management of the AusLink Roads to Recovery Program

Audit Report No.31 2009–10

Opening Statement by Ian McPhee, Auditor General

JCPAA Review 21 June 2010

The original Roads to Recovery program commenced in early 2001 with \$1.2 billion over four years, as a single intervention to address the concern that local government road infrastructure was near the end of its economic life and its replacement was beyond the capacity of local government. ANAO tabled its report on a performance audit of that program in March 2006, and the Committee subsequently reviewed that report.

Audit Report No.31 2009–10 covered the second four year program, which provided another \$1.23 billion, as well as the Supplementary R2R program, which provided an additional \$307.5 million and operated from June 2006 to June 2009. These were AusLink programs. The audit scope did not include the fourth program (the Nation Building R2R program) which commenced on 1 July 2009 and will provide \$1.75 billion over five years.

The objectives of the audit were to:

- assess the effectiveness of the management of the program,
- assess the delivery of the program and management of the funding, including whether that funding was additional to (rather than substituting for) local government spending on roads; and
- identify opportunities for improvement.

More than 560 R2R funded projects were examined during the audit across a sample of 41 Local Government Authorities (LGAs), representing around six per cent of funding recipients and eleven per cent of total funding provided under the program.

Under the AusLink R2R Standard and Supplementary programs examined by ANAO, more than \$1.5 billion was paid to LGAs for the construction and maintenance of roads involving more than sixteen and a half thousand projects. In this respect, the key aspect of the programs relating to distribution of funds to LGAs and their use of these funds for road works have been effectively administered.

A fundamental principle underpinning the R2R program is that the funding provided is to be additional to existing road funding. Accordingly, LGAs are required to maintain their own spending on local roads and report their performance annually to the Department. Although over time the expenditure maintenance obligation has been made less demanding, significant numbers of LGAs have not met the requirements.

Another key aspect of the program was to pay LGAs quarterly in advance. ANAO found many instances where LGAs were paid more than three months in advance due to factors such as accelerated funding during the last quarter of each financial year (so as to fully spend the annual program allocation) notwithstanding that these payments did not reflect LGA cash flow needs, and LGAs overstating their actual expenditure and/or submitting unreliable expenditure forecasts.

Notwithstanding, more than half of all payments made under the Standard Program were made in arrears, suggesting that many LGAs do not require advance payments. The cost to the Commonwealth of making advance payments was estimated by ANAO to be up to \$16.3 million over the life of the Standard Program.

ANAO recommended that key elements of the program design be reviewed in the light of the first ten years experience of operation of the R2R program, including:

- the formula used to allocate funds to individual LGAs, given there is evidence that capacity constraints affect the ability of some LGAs to both spend their R2R funds as well as maintain their own source expenditure on roads; and

- the payment of LGAs in advance (rather than arrears), given that many LGAs have not sought payments in advance and the significant proportion of advance payments that have remained unspent for considerable periods of time.

ANAO also found that compliance by LGAs with a range of important funding conditions has been less than satisfactory. In this regard, ANAO has recommended that the department adopt a range of cost effective strategies aimed at improving understanding of, and adherence to, program funding conditions and administrative arrangements by LGAs and their auditors.

A further two recommendations have been made that are directed towards enhancing the administration of program accountability arrangements and strengthening the program governance framework.

The department agreed to all four recommendations.

Following the audit, ANAO has become aware that the Australian Local Government Association (ALGA) has commissioned a study into the state of local roads across Australia as part of its efforts to have the Roads to Recovery program extended. ALGA is aiming to report the findings to the Roads and Transport Congress in Bunbury in October 2010. The report is expected to examine by state and territory on an annual basis:

- total spending on all roads by source of funds; and
- total spending on local roads by source of funds.

Finally, to assist the Committee in its inquiry, I have with me today two members of the audit team, Brian Boyd, Executive Director, responsible for oversight of the audit, and David Spedding, the Audit Manager.