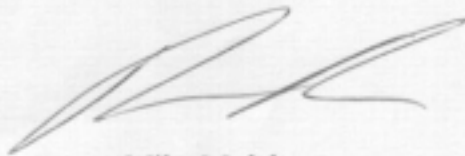

File Reference: 2002/00460

Mr Trevor Rowe
Secretary
House of Representatives Standing
Committee on Economics, Finance and
Public Administration
Parliament House
CANBERRA ACT 2600

**Subject: House of Representatives Standing Committee on
Economics, Finance and Public Administration:
Inquiry into Local Government and Cost Shifting**

One of the issues on which the Committee has sought advice from the Department is the basis for the current interstate distributions of the local roads grants component of the local government financial assistance grants. I understand that the Committee has received submissions to the Inquiry requesting the Committee to examine this issue and I am aware that participants at public hearings have also raised this issue.

Attached is a short paper developed by the Department which we believe provides the sequence of events that have led to the current interstate distribution of local roads grants. Should you have any questions on the attached paper, please contact either Geof Watts (ph 6274 8144) or Mervyn Carter (ph 62748135) in my Division.

A handwritten signature in black ink, appearing to read 'Mike Mrdak', is written over a light-colored background.

Mike Mrdak
First Assistant Secretary
Territories and Local Government Division
28 January 2003

House of representatives Standing Committee on Economics, Finance and Public Administration	
Submission No:	337
Date Received:	31/1/03
Secretary:	

History of the Interstate Distribution of Local Roads Grants

The history of State shares of road grants dates back to 1923. According to the 1986 *Report of the Inquiry into the Distribution of Federal Road Grants* (the 'Cameron Report') 'The 1923 Commonwealth road grants legislation allocated grants on the basis of three-fifths according to population and two-fifths according to area.' In 1959, reliable data on vehicle registrations became available and Commonwealth legislation divided the funds between the States on the basis of one-third population, one-third area and one-third vehicles on register. However, this formula did not apply to Tasmania, which received 5 per cent of the grants (pp. 48–49 of the Cameron Report).

Annual Federal grants to Local Government, first made in 1974, were grants for general purposes. The *Road Grants Act 1974* provided grants to the States for urban arterial, rural arterial, urban local roads and rural local road projects and some of these grants were passed on to Local Government. The grants were made following a 1973 Commonwealth Bureau of Roads *Report on Roads in Australia*, which had examined the needs of the whole road system.

The report suggested that the 'distribution of grants between the States [be] determined on the one hand by the distribution of the warranted and feasible road program and on the other, by taxable capacity as indicated by numbers of motor vehicles and people and by incomes per capita' (p. 210). In other words, shares would be determined in part by actual needs (as modified by what was actually feasible in the time frame) and in part by future expenditure effort, with States being required to provide some matching funds. A special equalisation grant was suggested for Tasmania as it had 'the lowest level of income per head and the highest road construction and maintenance costs' (p. 211).

Federal grants for local roads continued to grow over the next decade, and as they became an integral part of council budgets, councils sought greater clarity, predictability and control over the grants. This came in the 1980s as agreement was reached with the States on principles for the intrastate distribution of these grants to Local Government.

One issue that blurred transparency of the local road grants was the fact that State road authorities were responsible for some local roads mainly those in unincorporated areas. The Cameron Report noted that 'Many local roads are the direct responsibility of State governments, mainly in areas not incorporated as local authorities' (p. 25). According to this report, the State was responsible for 2.5 per cent of the local road system in New South Wales, 5.1 per cent in Victoria, 12.2 per cent in Queensland, none in Western Australia, 12.1 per cent in South Australia and 6.1 per cent in Tasmania (p. 26).

The Report noted 'In all except one of the States a significant amount of local road grants is allocated to State road authorities. In two of the States, this is about one third of the total' (p. 27). The amounts retained by State governments for local roads under their control were negotiated privately between the States and State Local

Government Associations (p. 27). Therefore, Local Government shares were not separately identified in Federal departmental annual reports.

In 1987, the Bureau of Transport Economics prepared a report called *Assessment of the Australian Road System* (No.61, 1987). The report noted that 'The distribution of Commonwealth Local Government road grants among local authorities and States is based on formulae which broadly take into account, inter alia, both the population and road lengths of a particular area' (p. 137). As an example of this, from 1977-78 through to 1990-91, South Australia's share of the local road grants across a number of Federal road programs ranged between 7.5 per cent and 8.1 per cent of the total local roads grants. In 1990-91, it was \$24.3 million or 7.5 per cent of a total local road grant of \$323.8 million.

On 29 May 1991, the Federal Government introduced a Bill under which local road grants would be separately identified and paid under the *Local Government (Financial Assistance) Act 1986*. The Second Reading Speech said the Local Government (Financial Assistance) Amendment Bill 1991 implemented the Special Premiers' Conference decision 'that funds for local roads would be untied and paid to Local Governments, or to State Governments where they are responsible for local roads, via general purpose grants.'

Federal Budget Paper No.1 for 1991-92 (p. 3-267) records that 'Heads of Government agreed at the October 1990 Special Premiers' Conference that Commonwealth funds for local roads be untied and paid at the same real level. Interim arrangements decided in April 1991, provide for a portion of these funds to be paid to the States from 1991-92 as grants in lieu of funding for local roads under their direct control (eg those in national parks and unincorporated areas).'

In 1991-92, \$39.4 million was budgeted in general revenue assistance to the States for local roads maintained by the States (p. 3-266). Payments to the States were as follows: \$4.543 million in New South Wales; \$2.653 million in Victoria; \$6.019 million in Queensland; \$8.771 million in South Australia; \$5.193 million in Tasmania; and \$12.205 million in Northern Territory (Federal Budget paper No. 4, p. A-42). This led to a commensurate reduction in the Local Government financial assistance grants in each State except Western Australia. In the case of South Australia, its grant was reduced to \$17.7 million or 5.85% of the local roads funds provided under the *Local Government (Financial Assistance) Act 1986* in 1991-92.

There were some subsequent changes that enlarged the national local roads grant pool:

- In 1992-93, the Tasmanian Government restored all of its local road grants to councils under the financial assistance grants. This is one reason why Local Government in Tasmania has a higher than expected share of the local road grants.
- In 1992-93, some of the grants in the Northern Territory (mostly for unincorporated Aboriginal councils) were returned to the local road financial assistance grants.
- In 1995-96, local road grants were paid to the ACT Government for the first time under the *Local Government (Financial Assistance) Act 1995*.

These changes had no effect on the entitlements or payments for the other States under the Act but did dilute their share of the local roads grant pool. For instance, the

impact of these changes caused South Australia's share to fall from 5.85% to 5.68% and finally to 5.5%.

In 1993-94, the payments to the States for local roads maintained by the States were untied and were subsumed within general purpose payments to the States.

References

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