

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS AND  
AUDIT

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**AUDIT REPORT NO:31 – ROADS TO RECOVERY**

**SUBMISSION – AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION**

The Australian Local Government Association (ALGA) welcomes the opportunity to engage with the Committee on the report of the Australian National Audit Office (ANAO) on its performance audit of the *Roads to Recovery* program.

ALGA notes that the ANAO and the Department of Transport and Regional Services (DOTARS) are also parties to the Hearings of the Committee to be conducted on Friday 23 June 2006. For the information of the Committee ALGA notes that it has been involved in useful discussions with these two organisations on the Audit outcomes.

***Local Government's road network – the task in brief***

Local government maintains assets worth more than \$150 billion. Of this, \$110 billion comprises built infrastructure, plant and equipment. Roads, bridges and related assets are the largest single component, worth around \$75 billion.

Local government is responsible for around 680,000 km - or nearly 85 per cent - of all Australian roads. Approximately 400,000 km of the local roads network is unsealed.

A great deal of this infrastructure dates from the post-war period and was built in the fifties and sixties with the help of state and federal funds. These assets are increasingly reaching the end of their useful life and are in pressing need of replacement, renewal and augmentation. Much of the local roads network for example is narrow and thinly paved and not in keeping with current traffic demands

Local government is also responsible for about 29,000 timber bridges across the country, approximately 14,000 of which are on heavy vehicle routes. About one third of these bridges are now more than 50 years old. With the freight task expected to grow by about 100 percent between 2000 and 2020 the pressures on this ageing roads and bridge network is becoming more intense, particularly with the trend to facilitate the use of higher productivity freight vehicles to support the performance and competitiveness of our industries, and to close down marginal rail freight lines.

While local government owns and manages the local road network and is responsible for its service provision, it is the Commonwealth and State/Territory governments that are the beneficiaries of revenues derived from user charges on the network. It is accordingly a reasonable proposition

that local government should receive transfer payments from other tiers of government in some sensible proportion to the wear and tear on the network. This is a strategic goal of local government that is under discussion in a number of inter-governmental forums.

In 2003-04 the value of local government's local roads asset was about \$75 billion and notwithstanding the \$300 million contribution *Roads to Recovery* makes, local government has an annual local road deficit of about \$344 million per annum to provide a reasonable level of service on the local road network.

In 2002-03, local government spent \$3.8 billion on local roads but needs to spend \$4.1 billion per annum to maintain local roads in a fit-for-purpose condition. About one-third of local road spending is on new capital works and about two-thirds are on road renewal and maintenance. Of the \$3.8 billion spent on local roads, approximately \$2.9 billion was own-source revenue. This was up by 40 per cent since 1997 when the Bureau of Transport and Regional Economics estimated that council own-source spending on local roads was \$2.0 billion.

### ***Roads to Recovery – The Big Picture***

The *Roads to Recovery* program has been highly successful in meeting its core objectives of addressing the backlog of maintenance in the local roads network and improving the general state of this large national asset.

The ANAO determined that all monies were spent in accordance with the legislation in pursuing these objectives.

In the first stage of the program which ran between 2001 and 2005, and was the subject of the ANAO audit, some 15,000 projects were undertaken. Within the sample of local governments examined by the ANAO about 700 bridges were replaced or repaired which suggests (by extrapolation) that anything up to 5000 or 6000 bridges, which otherwise may not have been programmed for attention in that period, were replaced or strengthened.

The ANAO report further notes that an analysis of the outcomes reported to DOTARS by the sample group indicated that R2R funds were spent on improving road safety (30 percent), achieving better asset management (25 percent) and improving heavy vehicle access (12 percent). These are national objectives of the first order and reflect, among other things, outcomes being pursued in the national interest by the current program of the Coalition of Australian Governments (COAG).

The ANAO indicates that the audit objectives were to assess the efficiency and effectiveness of the management of the initial R2R Program; and to identify any opportunities for improvements to management of the Program. It is fairly clear that both these objectives have been met with an exhaustive scan of management and compliance issues, and opportunities for

improvement identified which supplemented a process of continual improvement that was already in progress.

Recently the Australian Government provided an expression of confidence in the program to deliver the prescribed benefits, and to deliver within a proven governance framework, by announcing a further injection of \$307 million into the program.

### **Some Further Observations**

The R2R program was a first in a number of respects most notably in that it delivered grants direct to individual local government bodies. It represented new program delivery mechanisms for both DOTARS and for local government. The ANAO audit of the first stage of the program did therefore indicate a number of management and compliance issues which can genuinely be seen as matters that could arise in the process of "bedding down" the program.

By way of example the reports clearly demonstrates that there were teething issues associated with the following matters:

- Averaging of expenditure. There was subsequent acknowledgement that the averaging period embodied in the compliance requirements did not adequately provide for lumpiness of expenditure involved in roads projects, uncertainties that can be caused by weather patterns, and/or shortages of water, materials or the necessary expertise or skills
- Reporting period. This provision has also been subsequently modified in the existing Auslink R2R program
- Eligible Expenditure. There was clearly some definitional issues that were labelled as non conformance even when particular local councils exercised good faith in accounting for particular expenditure items.
- Definition of own source expenditure and the treatment of administrative expenditure have likewise been subsequently clarified

These factors all at times contributed to judgements or perceptions of non compliance and have, with the benefit of hindsight, been modified or clarified to take more account of the practicalities of planning and managing road projects in the local government environment.

ALGA has at no stage sought to trivialise or to demonstrate any sense of complacency about the findings of the Audit report. The Association has engaged extensively with its constituency to address the findings of the Audit as far as possible to ensure, among other things, that the integrity and the reputation of the program is protected and enhanced.

This is particularly important also as local government views the R2R program as a successful model in delivering special purpose payments to local government and believes that there is a case for extending its application to other areas of need, including in the context of the recently signed Inter-

governmental Agreement that provides a framework for local government to seek redress for the problematic issues of cost shifting.

Likewise ALGA maintains a close and constructive relationship with DOTARS with a view to engaging on compliance issues and implementing improvements to administration and compliance as it relates to the current program.

The funding conditions for the current Auslink *Roads to Recovery* Program pick up the issues raised by the ANAO in its report. Indeed many of them formed part of the existing dialogue between ALGA and DOTARS based on experience and any difficulties associated with the first program. Compliance requirements for the current R2R program now contain a higher degree of clarity and eliminate some of the ambiguity that emerged in the first program and led to different practices being embraced in meeting certain of the requirements. Quarterly and annual reports now have attached to them accountability requirements that are more tightly defined and call for better information to support claims for payment.

### **Case Studies**

ALGA considers that in any analysis of the R2R program due focus should be maintained on the overall success of the program in meeting its objectives. There were examples where some individual councils clearly need to critically assess the audit outcomes and their compliance procedures, and they have been encouraged to do so. For example ALGA considers that the case mounted by the ANAO for improvement, in some instances, in the rigour applied to the description of projects is valid and worthy of some attention. However such matters are procedural and have not compromised the program outcomes.

It should also be noted however that there are a number of councils that are under stress because of resource issues, not least because they have been chronically under-funded and are now required to provide services which historically were the job of other tiers of government. Further many of these councils have small population bases but nevertheless have responsibility for huge networks of roads. It is therefore not surprising that some councils may have fallen a little short on compliance requirements accompanying a new program, and were perhaps preoccupied with delivering the projects to their constituencies. Compliance cannot be separated from more generic resource issues faced by local governments and which ALGA is endeavouring to address through reform in the broader financial relationships with the other tiers of government.

Further ALGA has noted that some of the case studies identified what may be categorised as marginal issues which, while relevant, did not detract significantly from the performance of the program or the delivery of projects. There were likewise aspects of the compliance requirements that could potentially lead to spurious conclusions which could have been usefully pointed out by the ANAO to add balance to the report.

For example, two councils are listed as non complying for falling fractionally short of their required "own source" funding in one particular year. However no picture is presented of expenditure in other years that may well have meant that on average these councils had a good expenditure record.

Secondly there are instances such as Sydney City Council which incurred very high levels of expenditure before the Olympics Games and could not be reasonably expected to maintain that expenditure, to meet the requirement to maintain its own source funding.

It is implied in other cases that certain councils were non conforming because they applied definitions in good faith (such as footpath construction) to eligible projects. Such matters have subsequently been clarified for the purposes of the existing program.

### **Conclusion**

The ANAO performance audit of the first phase of the *Roads to Recovery* program demonstrates that all monies were applied to meeting the core objective of the program and that 15 000 projects were successfully carried out.

There are some compliance issues identified, which are essentially of a process nature, that are the object of an ongoing dialogue between ALGA and its constituents, and between ALGA and DOTARs, to implement improvements where appropriate and to ensure that the program continues to perform well. Some of these compliance issues were clearly a matter of ensuring definitional clarity or otherwise adjusting requirements to ensure that they are practicable, in the light of experience with the first years of the program.

ALGA looks forward to discussing these matters with the Committee.

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