

Queensland Government submission to the Commonwealth Grants Commission's *Review of the Interstate Distribution of Local Road Grants*

The Queensland Government welcomes the invitation to provide a submission to the Commonwealth Grants Commission's (CGC) Issues Paper 2005/2 – *Review of the Interstate Distribution of Local Road Grants*.

The key issues canvassed in the CGC's paper of interest to Queensland are addressed below.

Untied Local Road Grants

The Australian Government's *Budget Paper Number 3, Federal Financial Relations 2005/06* defines untied local road grants as “*untied assistance to local government authorities in place of specific purpose payments formerly passed on to local government by the states for expenditure on local roads*”. These payments are provided for the same purpose as general purpose assistance, that is, to be used by local government authorities in accordance with their own expenditure policies. Local road grants are no longer provided specifically for the purpose of roads expenditure.

Allocation of Untied Local Road Grants

General purpose grants are allocated to states and territories on a population share basis. Therefore, on the principle of consistency, Queensland argues for the allocation of identified local road grants on a population basis to provide a simple and transparent means of allocating untied local road grants among the states and territories.

If a needs-based assessment for allocation using road data is to be used, two issues need to be resolved. Firstly, finding an appropriate and consistent measure of local government roads could be problematic. Definitional issues of local roads, local government owned roads and non-urban arterial roads are currently posing problems within the CGC's assessment of roads for the purposes of allocating Goods and Services Tax (GST) revenue to states and territories. The CGC has identified in its paper that there are problems in defining local roads. It is sometimes difficult to distinguish between arterial roads, non-arterial roads or simply local roads owned and maintained by local government authorities. Consistently defining and reporting local roads data for all states is an important issue and should be done in such a way that the data sets used are consistent with the data sets used in the GST roads assessment.

Secondly, roads needs apart from road lengths should be considered if a needs-based assessment is used to distribute local road grants between states and territories. Relevant needs would include population dispersion, road usage, physical environment and a number of other factors the CGC currently uses to assess roads needs in calculating state and territory GST relativities. Many of these are identified in the CGC's paper.

Although Queensland's view is that population shares are the most appropriate basis for allocating the untied local road grants between states and territories, the following comments are provided for the CGC's assistance and information.

Scope of maintenance and preservation tasks and the uniform standard

Queensland holds the view that the *average standard* approach to defining and measuring the scope of maintenance and preservation tasks is preferable to the *asset preservation* and *notional service provision* approaches.

**Queensland Government submission to the Commonwealth Grants Commission's
*Review of the Interstate Distribution of Local Road Grants***

The Queensland Local Government Grants Commission (QLGGC) would be able to provide the average per capita expenditure by local government authorities on local roads. However, as acknowledged in the CGC's paper (paragraph 30), annual fluctuations in local roads expenditure by councils could affect the average standard and therefore each state and territory's share of local road grants. Point-in-time assessments may also perpetuate the existing issue where shares are historically based and not relevant to circumstances over time. To some extent, this has occurred with the Australian Government's use of each council's share of the 2000/01 and 2004/05 local road grants as a basis for allocating *Roads to Recovery* funding.

The *asset preservation* approach, while preferable from a theoretical perspective, would be difficult to implement in an equitable and reliable manner. The QLGGC uses an asset preservation approach to assess roads expenditure needs in the allocation of general purpose grants but the data collection and methodology applied would not be comparable to any other Local Government Grants Commission. The CGC's paper includes information regarding the asset preservation models used by Commissions in Queensland, Victoria and Western Australia which demonstrate that different states use different models to assess roads expenditure within the effort neutrality and horizontal fiscal equalisation framework.

Queensland agrees with the CGC's comment (paragraph 28) that applying the *asset preservation* approach could be complex and involve judgements about life cycles and tasks to be performed, their normal frequency and benchmark costs, and could further undermine the viability of this option for reforming the interstate distribution of local road grants.

The *notional service provision* approach developed by the National Institute of Economic and Industry Research appears to capture relevant measures of maintenance and preservation expenditures within the effort neutrality principle. However, the presentation of the model in the CGC's paper suggests it to be new and relatively untested, and therefore not sufficiently developed to form the basis of distributing untied local road grants between states and territories.

Differences in responsibilities between States

Queensland is concerned the different responsibilities performed by state/local governments for arterial roads between states may lead to anomalous outcomes in the interstate distribution of local road grants. The CGC acknowledges (Attachment C, paragraph 7) the importance of this issue to Queensland in relation to Brisbane City Council's funding and control of some arterial roads.

Definitional issues regarding state versus local roads are a further complication for implementing a road-based methodology for allocating local road grants to states and territories. Queensland will reserve its position on this issue, including the choice between NAASRA and PSMA road classification systems, pending release of the draft report in mid-April 2006. Any recommendations in the draft report will be assessed by Queensland from the perspective that consistent, equitable treatment of arterial roads across states and territories should apply to the distribution of untied local road grants and ~~GST Goods and Services Tax~~ revenue.

Assessment level

Queensland supports the CGC's conclusion that local road funding requirements in each state be determined by broad, state-level assessments. To allocate local road grants according to aggregated needs of local governments in each state and territory would be an extremely difficult and resource-intensive task.

Local road expenditure factors

The CGC's paper asks submissions to argue the case for which factors listed in paragraph 53 materially affect aggregate expenditure on local roads and identify available data to measure the factor and its effects. Table 5 in the paper outlines the traffic volume ranges and associated base maintenance costs used by the QLGGC to assess road expenditure needs on urban and rural roads in the general purpose grant. The annualised maintenance costs reflect the following factors:

- periodic regravelling costs for unsealed roads;
- periodic resurfacing costs for sealed roads;
- rehabilitation costs;
- maintenance of traffic management devices in urban areas; and
- annualised general maintenance.

The actual surfaces of council roads are determined by council decisions and, to comply with the effort neutrality principle, are therefore not included in the assessment of road expenditure needs. However, to reflect the reality that traffic volumes impact on road surfacing decisions, higher base maintenance costs are applicable for high volume roads. In addition to the base costs, allowances are given for location specific factors including climate, soil subgrade conditions, location and terrain. Each of these location specific factors are outside the control of councils and affect the amount they are required to spend to maintain their road networks in average condition. The percentage increases applied to raw expenditure assessments are included in all recent QLGGC yearly reports and on its website at [www.qlggc.qld.gov.au](http://www qlggc qld gov au). To answer the CGC's question in paragraph 57, neither the Department of Local Government, Planning, Sport and Recreation (DLGPSR) nor the QLGGC has access to comparable data for other states and territories in relation to these factors.

Base maintenance allowances are applied by the QLGGC for bridges, culverts and floodways. If a needs-based assessment is used to allocate the untied local road grants, it is important that the needs be measured comprehensively. Expenditure on bridges and culverts is a substantial cost for Queensland local governments and would have to be considered in any needs-based approach.

Local roads in unincorporated areas

Queensland's view is that the CGC should not go beyond its terms of reference and include local roads in unincorporated areas.

Conclusion

In its response to the *Rates and Taxes: A Fair Share for Responsible Local Government* report, the Australian Government reaffirmed its position to distribute the general purpose grant between the states and territories in a per capita basis. As the general purpose grant provides untied funding to local governments, a per capita distribution of local road grants to

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states and territories would deliver a consistent allocation of all untied financial assistance grants to local government authorities.