

**NRMA Motoring & Services**

# **Funding Local Roads**

**June 2014**

# About NRMA Motoring & Services

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The National Roads & Motorists' Association Limited (trading as NRMA Motoring & Services) comprises more than 2.4 million Members in New South Wales (NSW) and the Australian Capital Territory (ACT). For more than 90 years, NRMA has represented the interests of motorists in relation to road funding, road safety and other relevant public policy issues.

NRMA began in 1920 when there were 20,000 motor vehicles on the road. One of the first services NRMA offered was car minding in 1924, when it was against the law to leave a motor vehicle unattended in the centre of Sydney.

Throughout the years, NRMA has fought for key road safety initiatives such as seatbelts in cars and drink driving education programs for better roads, better funding and fairer petrol prices.

Today NRMA has grown and, in addition to roadside assistance has, diversified to offer a range of motoring, travel, lifestyle, and advocacy services.

NRMA remains a Membership based organisation with a focus on Member benefits and roadside assistance.

## Comments and Queries

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## Introduction

Over the five year period from 2008 to 2012, there were 1,322 fatalities and 93,646 people injured on roads managed by local councils in NSW. Deaths and injuries on these roads cost these regional communities almost \$10 billion over the five year period to 2012.<sup>i</sup> With the total economic cost to regional communities averaging \$2 billion per year, there is an urgent need to address safety standards on our local roads.

While both the Australian and NSW Governments have increased spending on roads in regional NSW, the revenue streams available to local councils are not adequate to maintain existing road infrastructure to a satisfactory standard. Budgetary pressures being experienced by local councils are also affecting investment in road maintenance.

Along with increasing passenger and freight movements, which will increase with population and economic growth, there will be additional road safety concerns if the regional road network continues to deteriorate.

A growing infrastructure and maintenance backlog is putting greater pressure on the NSW local and regional road network, with road safety being a primary concern. The economic cost will continue to increase if a suitable plan is not implemented to adequately fund local roads.

## Economic cost of inadequate road funding

The Bureau of Infrastructure, Transport and Regional Economics (BITRE) estimated the cost of road crashes in Australia.<sup>ii</sup> These estimates are based on the number and type of casualty and factors such as human cost, loss of life, treatment of injuries and ongoing care of persons with disabilities, property costs and other general costs.

BITRE (2009) estimated the average cost of road crashes in NSW for an individual as follows (in 2014 prices):

1. **Fatality: \$3,342,971,**
2. **Serious injury: \$333,045 and**
3. **Injury: \$18,405**

Using this method, the cost of road crashes on regional and local council roads in NSW was calculated for NSW roads from 2008 to 2012.

Table 1 summarises the cost of road crashes for all regional and local council roads and the split between metropolitan and regional councils. The major difference between metropolitan and regional councils is quite obvious when the cost of fatalities in country NSW compared with the Sydney metropolitan area is taken into account. On average, country roads have twice as many fatalities than metropolitan roads, with total kilometres travelled in non-urban areas estimated at less than 30 per cent of kilometres travelled in urban NSW<sup>iii</sup>.

**Table 1: The Cost of Road Crashes - Regional and Local Roads \$ million**

Year 2008-2012 (Annual Average)	Fatality	Serious Injury	Non-Serious Injury	Total
Total	883.9	785.9	301.3	1,971.1
Metropolitan Councils	294.9	482.3	184.9	962.1
Regional Councils	589.0	303.6	116.4	1,009.0

An annual cost of \$2 billion to the NSW economy is a significant cost which cannot be sustained into the future. Investment in NSW regional and council roads is required to reduce this social cost.

## Financial assessment of NSW regional and local council roads

Table 2 summaries of the annual recurrent road expenditure received by councils from both the Australian and NSW Governments as provided through the 2013-14 budgetary process and the 2012-13 annual financial assessment provided by local councils to the NSW Department of Local Government as part of their annual reporting obligations.<sup>iv</sup>

**Table 2: Financial Assessment for Local Council Roads 2012-13 \$ million**

	Recurrent Road Grant Funds	Estimated Annual Road Maintenance	Actual Annual Maintenance	Maintenance Shortfall	Infrastructure Backlog
All councils	458.9	879.1	698.6	-180.5	3867.9
Metropolitan councils	73.8	282.7	271.1	-11.7	910.9
Regional councils	385.2	596.4	427.6	-168.8	2,957.0

Note: Total Road Km Network – not correct due to rounding.

This table shows that local councils in NSW require almost \$4 billion in funding to bring their roads to a satisfactory condition. The definition of “*satisfactory condition*” is the *estimated cost to bring the asset to a satisfactory condition as deemed by Council. It does not include any planned enhancements to the existing asset.* The cost to regional councils is in the order of \$3 billion. In addition, the shortfall in maintenance was at least \$170 million in 2012-13.

The cost of crashes for regional councils, estimated at over \$1 billion, could be eliminated or at least reduced if \$1 billion is spent each year over the next three years by regional councils.

The \$4 billion backlog assessment is also similar to the Local Government Infrastructure Audit report released in June 2013 which reported a \$4.5 billion backlog for roads and related assets<sup>v</sup>. The NSW Treasury Corporation’s Report on the Financial Sustainability of the NSW Local Government sector<sup>vi</sup> also noted the increasing backlog for councils over the past four years. This trend is expected to continue unless remedial action is undertaken.

## Recommendations to clear the road infrastructure backlog

Given the extensive and growing backlog in regional road infrastructure for local councils outside the metropolitan area, it is important to assess a range of options to solve the problem.

As a first priority, **NRMA calls for the tripling of Roads to Recovery** and other recurrent grants, as advocated in recent submissions to the Australian and NSW Budgets.

These annual grants would require increased financial commitment by both the Australian and NSW Governments over a 10 year period to reduce the road infrastructure

backlog and annual maintenance shortfalls. A \$300 million per annum increase in Roads to Recovery funding to NSW councils from the Australian Government would add \$3 billion to address the infrastructure backlog.

Other options that should be proposed include:

### **1. Greater return of fuel excise levies to regional councils**

Currently \$15 billion is collected by the Australian Government for all road users, from the fuel excise levy at a rate of 38.143 cents per litre for unleaded and diesel fuel purchases. Only 10 cents out of 38.143 cents collected from Australian motorists is returned to the road network. Annual investment in the NSW road network has varied between \$3.6 billion and \$6.2 billion over the past six years. The NRMA as part of its wider commitment to secure adequate road funding would like to see a permanent legislated figure. For example 50 per cent of fuel excise collected is returned to the road network as a minimum. A specific allocation to local council roads is also worth pursuing. In addition, motorists pay other taxes and fees, which add to the disparity between what they pay to use the road and what is invested back into the road network by all levels of government.

### **2. Local Government Infrastructure Backlog Fund**

The NSW Government has provided \$100 million up to 2016-17 to implement a Local Government Infrastructure Backlog Policy. This policy is intended to provide a financial platform to assist local councils to become more financially sustainable. While improved financial assessment, asset benchmarking and asset condition audits is a step in the right direction, annual grants are critical under this policy for councils to address the current backlog in road investment.

### **3. Lower interest region-specific infrastructure and investment funds, similar to the Hunter Infrastructure and Investment Fund**

The implementation of a region specific fund, like the Hunter Infrastructure and Investment Fund, should also assist in reducing the road infrastructure backlog for various councils. The use of lower interest rates to fund finance projects could assist local councils to bring forward backlog projects.

The Hunter region fund has seen an allocation of \$20 million to upgrade wine country roads under the jurisdiction of Cessnock Council that have become unsealed and in need of urgent repair.

The upgrade of Main Road 101 between Dungog and Raymond Terrace, an important road between two regional towns worth \$20 million, is another significant project that has already improved parts of this important road, making travel between the towns safer.

### **4. Aggregation of specific road asset management benchmarking, consolidation of regional road infrastructure planning**

Given the large number of regional councils and the size of the infrastructure backlog, the consolidation of road asset benchmarking, infrastructure planning and financial evaluation by councils pooling their resources into bigger regions may assist the decision making process to fund and build road projects. Setting up regional organisations of councils known as ROCs can assist in building larger bodies to aggregate specific functions adding more leverage to rebuild the local roads. WSROC and NSROC, while both metropolitan organisations representing local councils in Western Sydney and North Sydney are examples of what can be achieved.

## 5. Rebuild the diminishing engineering capacity especially in regional local councils to assess road projects and provide reports for improved decision making both at Local Council and NSW Government levels

Currently there is a lack of qualified engineering expertise at Local Council and NSW Government level to undertake the necessary evaluation of proposals to build roads and other key infrastructure. A recent report from Professionals Australia warned that up to 20 per cent of capital costs can be wasted due to a lack of engineering expertise in project scoping for both RMS and local councils.<sup>vii</sup> This affects the ability of councils to provide sound business cases to NSW Treasury for evaluation. The use of consultancy services is cost prohibitive for many local councils and in-house engineers can also reduce the costs associated with tendering and procurement for councils.

## 6. Build road networking alliances with the private sector to use joint expertise in engineering, finance, procurement and maintenance to improve delivery of road projects in regional NSW

Build alliances with the private sector in regional towns has expedited the delivery of key road projects especially in Queensland. Southern Pacific Alliance Network is such an example.<sup>viii</sup> Public sector alliancing using RoadTek, a commercial service business unit of the Queensland Department of Main Roads which competes with the private sector has also assisted in improving project delivery in regional Queensland. Such examples should be explored in regional NSW.

## The NSW road network

The NSW road network is around 184,859 km in length. Roads and Maritime Services (RMS) is responsible for the management of 18,028 km of the major arterial road network in NSW, (“State Roads”), and provides funding for councils to manage 18,257 km of state-significant regional roads. RMS also manages 2,970 km of roads in far western NSW where there is no council jurisdiction.

The remaining 146,000 km of the NSW road network is classified as local roads, funded and managed by local councils. Councils also own and manage the land on all public roads, apart from freeways.

RMS management of other state roads focuses on network development, enhancement and maintenance, but only in relation to the carriageway and associated roadway elements relating to the state-significance of the route.

According to the NSW Local Government Grants Commission Report 2012-13, the total local road network in NSW comprises of the following:

<b>Local Road Category and Length (km) – Controlled by Local Government Councils</b>	
Urban Local Roads	32,075
Non-Urban Sealed Local Roads	34,187
Non-Urban Unsealed Local Roads	79,950
<b>Total Local Road Network</b>	<b>146,210</b>

Note: Total Road Km Network – not correct due to rounding.

Local councils outside the Sydney metropolitan basin are responsible for

- 60 per cent of the Urban Local Road network;
- 95 per cent of the Non-Urban Sealed Local Road network; and
- 99 per cent of the Non-Urban Unsealed Local Road network.

## State of funding for the Local Government road network

The road network in regional and local government areas of NSW has not received an adequate level of maintenance investment to ensure a minimum road standard.

The existing road network requires funding to cover general maintenance, road improvement, bridge repair, safety and traffic works and natural disasters repair.

Local councils rely on Australian Government grants and NSW Government funding to maintain the road network. In recent years, funding provided to councils to maintain regional roads has also been inadequate. In addition, the need to cater for future growth in both passenger and freight traffic has not been addressed.

This systemic underinvestment has given rise to concerns over safety standards across the regional road network.

The potential to expand tourism, agricultural and industrial freight in regional areas will be restricted if roads are not built and maintained to a standard that can cater for existing and future traffic demand on regional roads.

Indicative estimates made by various engineering bodies, including the Institute of Public Works Engineers Australia (IPWEA), suggest that the annual maintenance backlog of regional and local government roads is increasing exponentially.

For NSW regional roads, it is estimated there is a backlog of at least \$18 billion in road infrastructure projects. An annual maintenance funding shortfall in the order of \$600 million has been calculated.<sup>ix</sup> This amount is a lot higher than the estimate derived from each local council assessment of its maintenance backlog.

There is a clear need to address the increasing backlog of required capital and maintenance expenditure on both local and regional roads.<sup>x</sup>

The task of funding the project backlog and maintenance task for the entire NSW road network is significant and requires urgent action address what is a growing problem. A long term plan is required across all levels of government to address this issue.

## Funding Sources

Local councils can source funding for roads from a number of traditional revenue sources, including:

- Council rates and annual charges;
- Council user charges and fees;
- Operating grants; and
- Other *ad hoc* payments.

On average, operating grants comprise about 20 per cent of council's total revenue base.<sup>xi</sup> Grants are made up of two types of revenue:

- Recurrent annual grants (determined by a set criteria for both the Australian and NSW Governments); and
- *Ad hoc* payments (that relate to natural disasters and other associated

factors).

Local councils are responsible for not only road infrastructure in their jurisdiction, but also for key public assets including buildings, non-building structures, water, sewerage and drainage assets. The ability of local councils, especially in regional NSW, to maintain these assets has become quite constrained over the past three decades. There is an increasing need for Australian and NSW Government support for councils to maintain core services.

### **Australian Government Funding**

Local councils receive specific recurrent annual road grants through:

- Roads to Recovery; and
- Financial Assistance Grants – tied to the local road network.

Local councils also receive Financial Assistance Grants, an annual 'general purpose' grant which may be spent on the road network, but is traditionally spent on local councils' other assets and core council activity.

Funding is also provided by the Australian Government through the Black Spot Program. This is a set criteria based assessment program that local councils bid for. The bids are assessed on an annual basis and prioritised in order of merit.

### **NSW Government Funding**

The NSW Government provides funding to local councils through the Regional Road Block Grant Program. This funding is for management and maintenance of regional and council roads. This is an annual agreement between RMS and the local council which outlines the council's authority and capacity to manage the relevant region under their jurisdiction.

The other funding arrangements provided by the NSW Government are not recurrent annual payments. These include the following programs:

- The REPAIR (Repair And Improvement of Regional Roads) Program – to assist in larger works of rehabilitation and development on regional roads to minimise the long term maintenance of these roads commensurate with their function and usage;
- Timber Bridge Partnership – repair of worn bridges that are life expired and cannot accommodate heavy road vehicles, on a dollar for dollar basis with local councils;
- State Black Spot Program – for local council bids that failed the Australian Government Black Spot Program evaluation; and
- Natural Disaster Restoration Programs as required.

## Reform of Local Government Sector – Road Funding

As part of the NSW Government's wider reform agenda to enhance long term financial sustainability of local councils, better asset measuring and reporting, and infrastructure planning is required.

A lack of consistency in asset benchmarking for regional road infrastructure and the management of road assets has resulted in a growing backlog of unfunded regional work projects. Even more critically this has led to a lack of funds to maintain the upkeep of the road asset base.

As part of the NSW Government's local government reform, each council is required to report on the condition of its public assets within its annual financial reports. The report known as **Special Schedule No 7 – Condition of Public Works**, provides the following information:

1. Current Asset Valuation;
2. Accumulated Depreciation;
3. Written Down Asset Valuation;
4. Rated Asset Condition assessment;
5. Estimated cost to bring up to a satisfactory condition-standard;
6. Required Annual Maintenance for each asset; and
7. Current Annual Maintenance for each asset.

Whilst this schedule is required as part of the compulsory annual reporting requirements imposed on local councils, the financial numbers reported are classified as unaudited numbers.

The intention of this reporting is to improve the accuracy and financial transparency of the numbers provided by councils in future years. Local Councils have now submitted returns for 2011-12 and 2012-13.

### 2012-13 Summary Results – Road Asset Condition

The results of the 2012-13 road asset condition assessment for local council as summarised in Appendix 1 show the value of the road infrastructure backlog and the difference between estimated required maintenance and actual maintenance expenditure on local council road assets.

Table 3 provides a high level summary of all local councils, split between metropolitan and regional councils. Issues of note include:

- The current backlog of infrastructure funding required to bring roads to a satisfactory condition is \$3.9 billion, of which \$3 billion is required for regional and \$910 million for metropolitan councils.
- The maintenance deficit for 2012-13 is \$11 million for metropolitan councils and \$168 million for regional councils.
- The annual recurrent government grants that are given to local councils for roads

totalled \$459 million for 2013-14. This falls well short of required funding, with \$698.6 million spent by local councils on road maintenance alone in 2012-13.

## **2012-13 Summary Results for Regional Councils – Road Asset Condition**

Table 3 provides the regional council financial assessment for 2012-13 for councils in the Central West, Hunter, Illawarra, Mid North Coast, North Coast, New England, Orana, South East and South West regions.

Key results in summary are:

- Mid North Coast has the highest infrastructure backlog estimate at 17.9 per cent of total backlog.
- Including the North Coast the percentage number increases to 27.5 per cent.
- Byron Bay, Cessnock, Greater Taree, Port Macquarie Hastings, and Clarence Valley councils each have a backlog of more than \$100 million worth of road infrastructure.
- Greater Taree council has the highest road infrastructure backlog estimate at \$260.1 million.
- Bourke council has the biggest maintenance deficit estimated at \$16.6 million.
- Regional councils tend to have relatively higher road infrastructure and maintenance backlogs than metropolitan councils.

## **2012-13 Summary Results for Metropolitan Councils – Road Asset Condition**

Table 4 provides the regional council financial assessment for 2012-13 for councils in the Metropolitan North, South and West regions.

Key results in summary in are:

- Ku-Ring-Gai and Liverpool councils each have a road infrastructure backlog of more than \$100 million.
- Liverpool council has the highest infrastructure backlog at \$149.6 million.
- Rockdale council has the largest annual maintenance shortfall of \$5.5 million.
- Metropolitan councils are generally better positioned to finance road maintenance compared to regional councils.

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- <sup>i</sup> NRMA Motoring & Services, “Cost of Road Crashes”, March 2012.
- <sup>ii</sup> Bureau of Infrastructure, Transport and Regional Economics, “Cost of road crashes in Australia 2006”, December 2009.
- <sup>iii</sup> Australian Bureau of Statistics: CAT 9208.0 “Survey of Motor Vehicle Use – 12 months ended 30 June 2012, April 2013, p17.
- <sup>iv</sup> See 1) 2012-13 NSW Local Government Grants Commission Annual Report, 2) Australian Government: Department of Regional Australia, Regional Development and Local Government State Summary – General Purpose and Local Road Financial Assistance Grant 2013-14, 3) Australian Government: Department of Regional Australia, Regional Development and Local Government State Summary – Roads to Recovery 2013-14, 4) NSW Government: Transport Roads & Maritime Services, Block Grant Allocations FY2013-14, and 5) Local Government Councils – Annual Financial Statement 2012-13.
- <sup>v</sup> See NSW Government Premier & Cabinet, Division of Local Government, “Local Government Infrastructure Audit” June 2013 p.9
- <sup>vi</sup> See NSW Treasury Corporation’s Report on the Financial Sustainability of NSW Local Government Sector, April 2013 p.15.
- <sup>vii</sup> Professionals Australia, “Best value is elusive without engineers”, 22 March 2014. Published online at <http://www.professionalsaustralia.org.au-newsviews-latest-?id=3064>
- <sup>viii</sup> See the following link with road network alliance history in Queensland, use by the Queensland - Department of Main Roads  
[https://www.google.com.au/url?q=http://www.alliancetwork.com.au/documents/DavisCowan\\_CompetitiveAlliancesPaper.pdf&sa=U&ei=tqhpU7OUMsrrkAWL0IG4BQ&ved=0CEIQFjAG&usg=AFQjCNGQBfvJREL597b5msH3hzCxx4\\_q3g](https://www.google.com.au/url?q=http://www.alliancetwork.com.au/documents/DavisCowan_CompetitiveAlliancesPaper.pdf&sa=U&ei=tqhpU7OUMsrrkAWL0IG4BQ&ved=0CEIQFjAG&usg=AFQjCNGQBfvJREL597b5msH3hzCxx4_q3g)
- <sup>ix</sup> Local Government Association of NSW, “Local Government in NSW” presentation to the Shire Association of NSW October 2012, p1.
- <sup>x</sup> Institute of Public Works Engineering Australia NSW Division, *Road Asset Benchmarking Project*, Sydney, 2012.
- <sup>xi</sup> 2012-13 NSW Local Government Grants Commission Annual Report.