

# RESEARCH NOTE

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## Road funding changes

On 22 January 2004, the Federal Government announced proposed changes to road funding.<sup>1</sup> They have two elements. The first is that the Roads to Recovery program is to be extended, with modifications, for four more years. The second is that funds will be redirected from the Fuel Sales Grants Scheme to land transport infrastructure in regional and outer metropolitan areas. This Research Note examines some of the likely consequences of these proposals.

### Roads to Recovery

The Roads to Recovery program makes \$1.2 billion available for local governments to upgrade roads through to 30 June 2005. Of this, 70 per cent is being spent in regional areas. The funds are additional to financial assistance grants (FAGs) for roads paid under the Local Government (Financial Assistance) Act 1995. The Commonwealth makes Roads to Recovery payments directly to local governments. The interstate distribution of grants is based on historical precedents, length of road and population. The intrastate distribution accords with the formulae that the state

grants commissions use to distribute FAGs.

The program operates fairly uniformly throughout Australia. However, in South Australia, 15 per cent of funds are pooled across several adjoining local government areas for regional projects, while in Western Australia, seven per cent of funds are pooled for bridge projects and roads serving Aboriginal communities.

### Roads to Recovery extension

The Government proposes that the Roads to Recovery program be extended for a further four years until June 2009 at a cost of \$1.2 billion. Two-thirds will be distributed on the same basis as under the current scheme. The remaining third will be paid directly to local governments to:

... undertake land transport infrastructure projects of strategic regional importance, particularly those that support emerging and expanding industries.<sup>2</sup>

An example in the announcement is the upgrading of roads to service developing industries such as timber plantations. However, the use

of the term 'land transport infrastructure' suggests that local governments could, for example, contribute towards maintaining local grain rail lines.

### Fuel Sales Grants Scheme

The Fuel Sales Grants Scheme (FSGS) was introduced to offset the effect of the GST on petrol prices in regional areas. It provides grants of one cent per litre in non-metropolitan zones and two cents per litre in remote zones.<sup>3</sup> The estimated cost of the FSGS between 1 July 2000 and 30 June 2004 is \$850 million.<sup>4</sup>

The Government proposes that the FSGS end in June 2006 and the funds be used to improve land transport infrastructure in regional and outer metropolitan areas.

### Assessment

The consequences of the proposals will be mixed.

The proposal that one-third of Roads to Recovery funds be used for projects of 'strategic regional importance' seems to be designed to build on the apparent success of the pooling of funds in South Australia and Western Australia and so could yield benefits greater than might be obtained by

investment by individual local governments. But the Government has not said what the basis will be for distributing these funds.

The question also arises as to whether investment in projects of strategic regional importance will be priced so that users pay. If not, the investment will, in effect, be a subsidy to the industries that use the infrastructure. Based on existing road infrastructure cost recovery arrangements, it seems likely that this will be the case.

Submissions to the Fuel Taxation Inquiry<sup>5</sup> questioned the value of the FSGS. The Inquiry reported that it:

... received considerable criticism of the scheme and comparatively little support of it. It appears that the best that can be said of the scheme is that it has had little noticeable impact.

Further,

... it is not clear that any benefits accruing to regional Australians are proportional to the level of expenditure ... nor that this programme is the best use of the funding.<sup>6</sup>

The Inquiry recommended that the FSGS scheme be terminated.

In light of these criticisms, the

termination of the FSGS would seem to be a positive development. The redirection of funds from the FSGS will transfer resources from current use to investment and so increase road investment. But it is unclear whether much of the spending on regional road infrastructure would satisfy cost-benefit analysis or similar socio-economic assessments, and it seems that the Government does not intend to undertake such evaluations.

The Government describes the redirection of funds from the FSGS to regional and outer metropolitan areas as a 'downpayment' on the proposed land transport plan, AusLink. But it is not clear from the Government's statements how this proposal fits into AusLink. Indeed, it seems to pre-empt AusLink to some extent. In particular, it is not clear how the downpayment fits in with the undertaking in AusLink that funds will be earmarked for projects with the 'highest benefits'. Analyses indicate that investment in local roads has low benefit-cost ratios especially when compared with urban arterial roads and mainline railway upgrading works benefiting the freight transport system.<sup>7</sup>

The following table summarises the proposed changes. Data are in millions of dollars

1. Hon. John Anderson, (Minister for Transport and Regional Services), *Major downpayment on Australia's transport future*, media release APM4/2004, 22 January 2004.
2. *ibid.*
3. If fuel has been sold consistently in a remote area at not less than \$1.20 per litre, fuel retailers may, subject to certain conditions, receive an additional one cent per litre of fuel sold.
4. Treasury portfolio budget statements, various years.
5. The Government commissioned the Inquiry on 8 July 2001.
6. [HFuel Taxation Inquiry Report](#), H, March 2002, pp. 161-3.
7. Bureau of Transport Economics, *Facts and Furphies in Benefit-cost Analysis*, report 100, November 1999, p. 116.

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	2005-06	2006-07	2007-08	2008-09
Roads to recovery	300	300	300	300
AusLink		265	270	275
<b>Total</b>	<b>300</b>	<b>565</b>	<b>570</b>	<b>575</b>

Note: figures based on current forward estimates