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Commonwealth Road Funding Since 1990 (Updated 1 March 2004)

This paper reviews developments in Commonwealth road funding in the 1990s and examines associated major issues. The paper also contains the most recent data.

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Executive Summary

While, under the Constitution, the Commonwealth has no specific responsibility for roads, it has an important role in road funding. The Commonwealth accounts for about one-fifth of all government road-related expenditure and so exerts some influence over the level and disposition of funding. The proposed future direction of Commonwealth funding will be revealed when, later this year, the Government releases the White Paper for its National Land Transport Plan otherwise known as AusLink. This 'umbrella' program promises to change how the Commonwealth funds roads (and railways). This paper explains how Commonwealth road funding has evolved since 1990 into the arrangements that will apply in the run up to the release of the White Paper. An [earlier paper](#) described the arrangements that prevailed in the 1980s.

At the beginning of the 1990s, the Commonwealth funded, via specific purpose payments (that is, 'tied' funding), the National Highway, national arterials, State arterials, and local roads. The Commonwealth's role in funding has since changed. The changes fall into three categories: program changes, the rationalisation of funding responsibilities among the three tiers of government, and the subsequent unwinding of this rationalisation.

Program changes have entailed the cessation of some programs and the introduction of new programs. The Commonwealth now funds four categories of road: the National Highway, Roads of National Importance, Black Spots, and local roads. The Commonwealth also funds Federation Fund projects.

The National Highway was and is the centrepiece of Commonwealth funding; in 2002–03, 45 per cent of funding was devoted to it. Generally, the Commonwealth funds all maintenance and construction on the National Highway. The exception is the Westlink M7 in Sydney, which will be funded mainly under a public/private partnership. Critics argue that the National Highway is underfunded, pointing out that funding has fallen short of the expenditure that the Bureau of Transport and Communications Economics estimated is needed for the non-urban sections.

A feature of the Howard Government's road funding policy has been the redirection of funds from the National Highway to its new Roads of National Importance program. This introduced flexibility by funding roads outside the National Highway. While the Roads of National Importance program emphasises regional arterial roads, funding has been directed to projects such as upgrading roads to ports. Roads of National Importance are determined on a case by case basis and are subject to benefit-cost analysis. The Commonwealth funds Roads of National Importance jointly with the States usually on a 50:50 basis, and funds construction only.

The Black Spot program, which targets locations where crashes involving death and serious injury are occurring, has been one of the most successful programs. Independent

evaluations indicate that the program has improved safety at such locations and has a very high benefit-cost ratio. Given the success of the Black Spot program, there is a case for devoting a larger share of Commonwealth funds to it.

Another feature of the Howard Government's road funding policy has been its emphasis on local roads especially those in regional areas. This is evident from the Roads to Recovery program, which provides \$1.2 billion directly to local governments over four and a half years. Of this, 71 per cent is for regional roads. The Government has announced that it proposes to extend the program, with changes, for another four years. The program provides funds additional to the identified local road grants paid under the *Local Government (Financial Assistance) Act 1995*, and has increased considerably funding of local roads. The Roads to Recovery program can be seen as an attempt to reverse the slide in the amount allocated for identified local road grants from 0.075 per cent of gross domestic product in 1991–92 to 0.06 per cent in 2001–02, and as a means of transferring resources to regional areas. A review of the program found that it had generally attained its goals.

Before 1991, the division of responsibility for funding—apart from the National Highway—was unclear because no one level of government had clear responsibility for a particular category of road. A feature of the period since 1990 has been the Commonwealth's reordering of its funding priorities and the subsequent unwinding of these priorities. The 1991 Intergovernmental Road Funding Agreement provides that the Commonwealth has sole financial responsibility for construction and maintenance of the National Highway; State and Territory governments are responsible for funding the development, maintenance and operation of urban and rural arterial roads; and local government is responsible for the local road network. But, in practice, the Commonwealth has unwound this Agreement by funding programs that go well beyond its responsibilities under the Agreement.

The level of Commonwealth road funding in real terms was flat over most of the 1990s. Critics argue that the Commonwealth should increase funding substantially. The Allen Consulting Group, for example, has pointed to a backlog of projects with potentially high benefit-cost ratios. While major increases in road funding are constrained by budgetary considerations, there may, however, be scope for redirecting funds. The Commonwealth generally does not fund urban arterials and freeways that have high benefit-cost rankings. In contrast, 40 per cent of funding is for local roads that generally have low benefit-cost ratios. This suggests that there would be net gains to society if funding were redirected from local roads to urban arterial roads and freeways. Such a redirection seems unlikely. The Howard Government's view seems to be that State governments are responsible for funding urban arterial roads and freeways. Further, the practice of Commonwealth road funding suggests that there is a trade-off between economic efficiency and equity in policy deliberations.

Arguments that more of the revenue raised from motor vehicle taxes should be earmarked (hypothecated) for spending on roads are questionable. Fuel taxes are imposed mainly to

raise revenue. The level of road funding is determined in the overall budget context without reference to the revenue from particular taxes.

The AusLink program offers many potential benefits but also raises many questions. The AusLink Green Paper proposes rationalising responsibility for road funding under a new Land Transport Intergovernmental Agreement. This raises the question of what precisely the Agreement will contain. The States are suspicious that the Commonwealth will try to shift further responsibility for road funding onto them.

AusLink proposes to provide strategic direction to investment in land transport infrastructure. Scope exists for a more rational allocation of land transport funding and the proposed National Land Transport Plan could contribute to such an outcome. But it is not clear how projects with the 'highest benefits' will be assessed nor how funds will be allocated among projects, including between road and rail projects. Ideally, equity considerations aside, projects would be subject to some form of social benefit-cost analysis with projects undertaken in order of their benefit–cost ratios. But it seems likely that political considerations will, in some instances, override any commitment to a more economically efficient allocation of funds.

AusLink proposes that funds be earmarked for regional areas but does not indicate what proportion. The bulk of Commonwealth road funds is currently spent on roads located in regional areas. It is questionable whether AusLink proposes any major shift in funding towards urban roads. Nor is it evident how the tension will be resolved between funding regional projects with low net social benefits and AusLink's proposal that funds be spent on projects with the highest benefits.

Chronology of Developments in Commonwealth Road Funding Since 1990

Date	Measure
1989	On 1 January 1989, the Australian Centennial Roads Development program replaces the Australian Land Transport program and the Australian Bicentennial Road Development program under the <i>Australian Centennial Roads Development Act 1988</i> .
1990	<p>The Provincial Cities and Rural Highways and the Black Spot programs are established. Funding is for 1990–91 to 1992–93.</p> <p>The October 1990 Special Premiers Conference agrees that Commonwealth funds for local roads be 'untied'—that is, the funds do not have to be spent on roads but can be spent for any purpose—and paid to local government as 'identified local road grants'.</p> <p>The name of the <i>Australian Centennial Roads Development Act 1988</i> is changed to the <i>Australian Land Transport Development Act 1988</i>.</p>
1991	<p>The July 1991 Special Premiers Conference agrees that the Commonwealth should concentrate on funding the National Highway program and other roads of national significance. The Conference also agrees that Commonwealth funding of State arterial roads be untied and incorporated into general purpose financial assistance grants to the States.</p> <p>Identified local road grants begin in 1991–92.</p>
1992	The National Highway is extended with the addition of the inland routes between Melbourne and Brisbane (the Goulburn Valley, Newell and Gore highways) and between Sydney and Adelaide (the Sturt Highway).
1993	Commonwealth funding of State arterial roads ceases on 31 December 1993.
1994	<p>On 1 January 1994, the transfer begins of funds for State arterial roads into general purpose assistance as 'State identified road grants'.</p> <p>In 1994–95, funds for national arterial roads are also consolidated into State identified road grants.</p> <p>It was agreed that the roads in the mainland capitals that connect the end points of the National Highway, be added to the network.</p> <p>From 1 January 1994, Commonwealth funding is confined to the National Highway, the interstate routes linking Sydney and Adelaide and Melbourne and Brisbane, and urban roads linking the termination points of the National Highway in Sydney, Melbourne, Brisbane, Perth and Adelaide.</p>
1996	<p>In March, the Howard Government announces the Roads of National Importance program. Funded by transferring funds from the National Highway.</p> <p>The Howard Government reintroduces the Black Spot program in the 1996–97 Budget.</p>
2000	<p>State identified road grants replaced by revenue from the GST from 1 July 2000.</p> <p>The <i>Roads to Recovery Act 2000</i> becomes law on 21 December 2000. Provides for \$1.2 billion for local government roads by 30 June 2005.</p>
2002	On 7 November 2002, the Government issues the Green Paper on land transport funding: <i>AusLink: Towards the National Land Transport Plan</i> .

Introduction

While, under the Constitution, the Commonwealth has no specific responsibility for roads, it has an important role in road funding. The Commonwealth accounts for about one-fifth of all government road-related expenditure and so exerts some influence over the level and disposition of funding. The proposed future direction of Commonwealth funding will be revealed when, later this year, the Government releases the White Paper for its National Land Transport Plan otherwise known as AusLink. This 'umbrella' program promises to change how the Commonwealth funds roads (and railways). This paper explains how Commonwealth road funding has evolved since 1990 into the arrangements that will apply in the run up to the release of the White Paper. An [earlier paper](#) described the arrangements that prevailed in the 1980s.

At the beginning of the 1990s, the Commonwealth funded, via specific purpose payments (that is, 'tied' funding), four categories of road:

- the National Highway
- national arterials
- State arterials, and
- local roads.

In the case of State arterials and local roads, the Commonwealth provided assistance to the States and local government to 'top up' funding that these governments provided. In addition, for the three years beginning in 1990–91, the Commonwealth funded the Black Spot and Provincial Cities and Rural Highways programs. The Commonwealth's role in road funding has since changed considerably. This paper provides an overview of the changes and updates two earlier papers by the Department of the Parliamentary Library.¹

The Commonwealth now funds four categories of road:

- the National Highway
- Roads of National Importance
- the Black Spot program, and
- local roads.

The Commonwealth funds these roads as specific purpose payments under:

- the [Australian Land Transport Development Act 1988](#) (the ALTD Act)
- the [Roads to Recovery Act 2000](#) (Roads to Recovery Act), and

- the [Local Government \(Financial Assistance\) Act 1995](#).

The Commonwealth funds the National Highway, Roads of National Importance and the Black Spot program under the ALTD Act and most funding is under this Act. Local roads are funded under the *Local Government (Financial Assistance) Act 1995* (identified local road grants) and the Roads to Recovery Act.

In addition, the Commonwealth is funding Federation Fund projects such as the Murray River bridges and the Caboolture Motorway.

Data on road funding since 1989–90, classified by program, are in Appendix 1.

Changes to the Commonwealth's Role in Road Funding

The changes to the Commonwealth's role in road funding since 1990 fall into three categories: program changes, the rationalisation of funding responsibilities among the three tiers of government, and the unwinding of this rationalisation. The changes to programs were:

- the cessation of the Australian Centennial Roads Development program that had been established under the *Australian Centennial Roads Development Act 1988* (this Act's title was also changed to the ALTD Act)
- the introduction of the Black Spot program, its termination by the Keating Government, and its reintroduction by the Howard Government
- the introduction of the Provincial Cities and Rural Highways program and its termination by the Howard Government
- the introduction in 1996 by the Howard Government of the new Roads of National Importance program, and
- the introduction by the Howard Government in 2000 of the new Roads to Recovery program to provide additional funding to local roads.

Steps to rationalise the Commonwealth's responsibilities for road funding were:

- the decision that the Commonwealth would concentrate on funding a national road network
- the 'untying' of local roads grants and their incorporation into general purpose assistance to local government as 'identified local road grants' with effect from 1 July 1991 (with the result that funds previously earmarked for roads can be spent for any purpose), and

- the untying of State arterial roads grants and their incorporation into general purpose financial assistance to the States as 'State identified road grants'.

Programs

At the beginning of the 1990s, the Commonwealth provided grants to the States for the construction and maintenance of roads under the Australian Centennial Roads Development program and the Provincial Cities and Rural Highways program. These defunct programs are described in Appendix 2.

National Highway

The [National Highway](#) was and is the centrepiece of Commonwealth road funding. The network that forms the basis of today's National Highway was established in 1974. It arose from work by the Commonwealth Bureau of Roads that identified major roads that would link State capitals and major population centres. On 16 December 1989, the capital cities and major towns were connected for the first time by sealed highways. In 1992, the inland routes between Melbourne and Brisbane (the Goulburn Valley, Newell and Gore Highways) and between Sydney and Adelaide (the Sturt Highway) were added to the network. In 1994, it was agreed that the roads in the mainland capitals connecting the end points of the National Highway would also be added to the network. Before then, the National Highway terminated on the outskirts of the capital cities. In 1999, the National Highway accounted for 13 per cent of the traffic task (measured in billions of vehicle kilometres).²

In 1974, the Whitlam Government assumed full financial responsibility for the National Highway and the Commonwealth has retained this responsibility ever since. In 2002–03, 45 per cent of Commonwealth funding was devoted to the National Highway. It is comprised of roads declared to be National Highways, and includes the major highways linking all State and Territory capitals, the Bruce Highway from Brisbane to Cairns, and the highway linking Hobart to Burnie (see the map in Appendix 3).

After funding of State arterial roads ceased on 31 December 1993, funding was confined to the National Highway including the interstate routes linking Sydney and Adelaide and Melbourne and Brisbane, and the urban roads linking the termination points of the National Highway in Sydney, Melbourne, Brisbane, Perth and Adelaide.

Generally, the Commonwealth funds all maintenance and construction on the National Highway. The exception is the [Westlink M7](#) (formerly known as the Western Sydney Orbital) which will replace the Cumberland Highway as the National Highway through Sydney. The M7 will be a toll road funded, built and operated under a public/private partnership. However, the Commonwealth will contribute \$356 million over six years to the project.

Critics argue that the National Highway is underfunded. Table 1 shows funding of the National Highway since 1997–98.

Table 1: Commonwealth Funding of the National Highway Since 1997–98 (\$m)

1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
706.16	752.00	631.62	697.27	783.94	763.45	704.60

Sources: DoTaRS, ALTD programme progress reports. Hon. J. Anderson, Minister for Transport and Regional Services, Budget press release, 2003–04

Data for 2003–04 estimated

The Bureau of Transport and Communications Economics (BTCE) estimated annual expenditure needs for the non-urban sections of the National Highway over the 22 year period to 2020 at \$772 million (in 1997–98 prices).³ Table 2 shows this estimate in current prices.

Table 2: National Highway: Estimated Funding 'Needs' (Current Prices) (\$m)

1997–98	1998–99	1999–00	2000–01	2001–02	2002–03
772	779	811	855	870	921

Note: BTCE estimate inflated by the BTRE road construction and maintenance price index

A comparison of Tables 1 and 2 shows that actual funding has fallen well below the BTCE needs estimate.

Roads of National Importance

The Howard Government decided that it would help fund projects under the [Roads of National Importance](#) program. This decision was based on the recognition that roads outside the National Highway system also provide social benefits. The criteria for considering nomination of a road as a Road of National Importance include its contribution towards trade, international competitiveness and integration of transport and land use, and whether it will generate large net social benefits. Roads of National Importance are thus determined on a case by case basis and are not a defined network of roads. All proposals are subject to benefit-cost analysis.⁴ In general, Commonwealth funding is for construction only. The Commonwealth funds Roads of National Importance jointly with the States and Territories usually on a 50:50 basis.

The Roads of National Importance program began in 1996–97 and projects were funded by transfers from the National Highway program. The Roads of National Importance program therefore introduced greater flexibility into road funding by allowing the Government to fund roads outside the National Highway system. Table 3 shows Roads of National Importance funding.

Table 3: Roads of National Importance Funding (\$ million)

1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
90.69	108.78	122.54	183.79	135.07	234.31	213.74	227.03

Sources: DoTaRS, ALTD programme progress reports. Hon. J. Anderson, Minister for Transport and Regional Services, Budget press release, 2003–04

Note: data for 2003–04 estimated

In 2002–03, Roads of National Importance accounted for 13 per cent of Commonwealth road funding.

Black Spot Program

On 5 December 1989, Prime Minister Hawke announced that steps would be taken to implement a package of uniform road safety measures across all States and Territories. The Commonwealth set aside an amount—initially \$110 million over three years—which would be paid to the States if they adopted the measures. By 1 July 1990, all States and Territories had adopted the measures and the Commonwealth provided funds from 1990–91 to 1992–93 under the Black Spot program. The criterion for providing funds was that a site had 'contributed to serious motor vehicle crashes involving death or personal injury'.

The ending of the program was criticised because many of the projects had large benefits. In 1995, the Bureau of Transport and Communications Economics published an evaluation of the program. The Bureau concluded:

Overall, the decrease in injury crashes at the sample sites was over two-and-a-half times what could have been expected on the basis of general comparable crash trends in various jurisdictions over the relevant period. Fatalities fell by one-third, people hospitalised by two-thirds, and the number in need of medical treatment by one-half ...

The results of the evaluation strongly suggest that the Program has achieved its aim of improving safety at locations with a history of crashes involving death or serious injury.⁵

The Howard Government reintroduced the [Black Spot](#) program in the 1996–97 Budget, allocating \$36 million in real terms—that is, after including an allowance for inflation—for each of the years 1996–97 to 1999–2000.

In 2001, the Bureau of Transport Economics published an evaluation of the program that operated from 1990–91 to 1992–93. The study found that:

Overall, the evaluation provides very strong evidence that the Program achieved its aim of improving safety at locations with a history of crashes involving death or serious injury. Using the treatment results obtained from the sample and applying them to the population of projects, it is estimated that from 1996–97 to 1998–99—and excluding

expenditure on safety-audited projects—the Black Spot Program generated a net present value of \$1.3 billion and a benefit-cost ratio of 14.⁶

Table 4 shows Black Spot funding.

Table 4: Black Spot Funding (\$ million)

1990-91	1991-92	1992-93	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
53.30	63.30	163.50	36.00	35.62	37.45	37.69	40.92	42.41	44.50	45.00

Sources: DoTaRS, ALTD programme progress reports. Hon. J. Anderson, Minister for Transport and Regional Services, Budget press release, 2003-04. DoTaRS, Portfolio Budget Statements 2003-04. Note: data for 2003-04 estimated.

Given the success of the Black Spot program, there is a case for devoting a larger share of Commonwealth funds to it.

Roads to Recovery Program

The [Roads to Recovery](#) program has operated since the Roads to Recovery Act became law on 21 December 2000. The program provides \$1.2 billion for local roads by 30 June 2005. Of this, \$850 million (71 per cent) is to be spent on regional roads.⁷ In addition, the Government agreed to provide a further \$8 million over four years to extend the program to the Indian Ocean Territories and unincorporated areas in New South Wales, South Australia and Victoria.⁸ The Commonwealth pays Roads to Recovery grants directly to local governments. The program operates fairly uniformly throughout Australia. However, in South Australia, 15 per cent of funds are pooled for regional projects while in Western Australia, seven per cent of funds are pooled for bridge projects and roads serving Aboriginal communities.

The Roads to Recovery program provides funds for local roads additional to the identified local road grants paid under the *Local Government (Financial Assistance) Act 1995*, and has increased considerably funding of local roads as shown in Table 5.

Table 5: Commonwealth Funding of Local Roads 1999-2000 to 2003-04 (\$ million)

	1999-00	2000-01	2001-02	2002-03	2003-04
Roads to recovery	0.00	150.00	302.16	202.16	302.20
Identified grants	388.65	406.47	424.80	451.37	462.70
Total	388.65	556.47	726.96	653.53	764.90

Sources: DoTaRS, ALTD programme progress reports. Hon. J. Anderson, Minister for Transport and Regional Services, Budget press release, 2003-04. DoTaRS, Portfolio Budget Statements 2003-04

Note: data for 2003-04 estimated

The Roads to Recovery program can be interpreted as an ad hoc attempt to reverse the slide in identified local road grants as a proportion of gross domestic product (discussed below under 'identified local road grants') and as a means of transferring resources to regional areas.

The interstate distribution of Roads to Recovery grants differs from the identified local road grants distribution. The interstate distribution of identified road grants is on a historical—and increasingly anachronistic—basis. In June 1991, the *Local Government (Financial Assistance) Act 1986* was amended to allow local road funding to be added to local government general purpose grants from 1995–96 and hence distributed on a per capita basis. But this would have disadvantaged Western Australia, Tasmania, the ACT, the Northern Territory and Queensland. The 1995 Premiers Conference therefore decided that local road funds would continue to be distributed on the basis of the criteria in the ALTD Act. The effect of this decision has been to freeze the interstate distribution of identified local road grants at the historical shares that applied in 1991–92 when grants were untied. The interstate distribution of Roads to Recovery grants and identified local road grants distribution is shown in Table 6.

Table 6: Interstate Distribution of Commonwealth Funding of Local Roads (per cent)

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Roads to recovery	28.3	20.8	20.8	15.0	8.3	3.3	1.7	1.7
Identified grants	29.0	20.6	18.7	15.2	5.5	5.3	3.2	2.3

Source: Prime Minister the Hon. J. Howard and the Hon. J. Anderson, Minister for Transport and Regional Services, 'Roads to Recovery', [joint media release](#), 27 November 2000.

The table shows that Victoria, Queensland and South Australia gain under the Roads to Recovery allocation relative to identified local roads grants.

In February 2003, the Department of Transport and Regional Services and the Australian Local Government Association issued a [report on the Roads to Recovery program](#). The report found among other things that:

- funds have generally been used consistent with the stated intention to address the backlog of works on local roads
 - but deficiencies remain both in terms of the maintenance of the existing road system and the need to upgrade and in some cases to extend it
- local governments allocated funds in accordance with their highest priorities
- the programs had a strong safety focus with a secondary focus on transport efficiency and economic development

- most expenditure was on existing roads and was split about equally between renewal and upgrading capital expenditure
- a sample of projects had an average benefit-cost ratio of 1.8 to 1, and
- simple administrative and reporting procedures and the direct funding of local governments kept Commonwealth and local government overheads to a minimum.

On 22 January 2004, the Government [announced](#) proposed changes to road funding. They have two elements. The first is that the Roads to Recovery program be extended, with modifications, for four more years. The second is that funds be redirected from the Fuel Sales Grants Scheme to land transport infrastructure in regional and outer metropolitan areas.

The Government proposes that the Roads to Recovery program be extended 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.

An example given is the upgrading of roads to service developing industries such as timber plantations.

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. The estimated accumulated cost of the FSGS to 30 June 2004 is \$850 million. 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.

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.

The worth of the FSGS has been questioned. The [Fuel Taxation Inquiry](#):

... 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.⁹

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.

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 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'. As discussed below, analyses indicate that investments in local roads generally have low benefit-cost ratios especially when compared with urban arterial roads and mainline railway upgrading works benefiting the freight transport system.¹⁰ Further, as noted, 71 per cent of Roads to Recovery funds are devoted to regional roads. In contrast, in 1999, rural local roads accounted for only six per cent of the traffic task (measured in billions of vehicle kilometres).¹¹ The Roads to Recovery program treats regional local roads generously.

Rationalising Responsibilities

As noted, in 1974, the Whitlam Government assumed full financial responsibility for the National Highway and the Commonwealth has retained this responsibility ever since. As also noted, in 1989–90, the Commonwealth also funded national arterials, State arterials, and local roads. Hence the division of responsibility for funding before 1991—apart from the National Highway—was unclear because no one level of government had clear responsibility for a particular category of road.

A feature of the period since 1990 has been the Commonwealth's reordering of its funding priorities and the subsequent unwinding of these priorities. There are four aspects to the establishment of road funding responsibilities:

- the protocols that are enshrined in intergovernmental agreements

- the Commonwealth's subsequent unwinding, in practice, of the intergovernmental agreements
- the agreement that Commonwealth funds for local roads should be untied, and
- the agreement that Commonwealth funds for State roads, other than for the National Highway, should be untied.

Intergovernmental Agreements

Each level of government is, in principle, responsible for different sections of the national road network. The protocols that led to these arrangements are enshrined in intergovernmental agreements. Details of these agreements and how they arose are set out in Box 1.

Box 1: Defining Road Funding Responsibilities in Australia

Each tier of government—Commonwealth, State and local—is, at least in principle, responsible for a defined component of the road network. Under these arrangements, the Commonwealth is responsible for the National Highway and for contributing to roads of national significance.

The protocols that led to these arrangements are enshrined in intergovernmental agreements. The October 1990 Special Premiers Conference agreed that the funds the Commonwealth provided for local and State arterial roads would be untied and paid as general purpose grants, that is, the States and local government could use the funds for any purpose and not just roads.

At the July 1991 Special Premiers Conference, it was agreed that the Commonwealth should concentrate on the National Highway and other roads of national significance. The precise delineation of the Commonwealth's responsibilities was to be settled at the November 1991 Special Premiers Conference. It was also reiterated that Commonwealth funds for State roads would be untied in the same way that Commonwealth funds for local roads had been untied.

At the May 1992 heads of government meeting, it was agreed that it was important to delineate clearly Commonwealth and State road responsibilities. The Prime Minister indicated he would write to other heads of government regarding an appropriate basis for distributing Commonwealth road funds and monies agreed to be untied. He undertook to settle the matter before the Premiers Conference due in June 1992. In a June 1992 letter, the Prime Minister advised heads of government of new post-1993 Commonwealth funding arrangements. The Commonwealth proposed that its roads program cover a national network of roads comprising the National Highway (as it was then defined) plus new Melbourne-Brisbane and Sydney-Adelaide interstate links, and urban road links through Sydney, Melbourne, Brisbane, Adelaide and Perth joining the then termination points of the National Highway. The Prime Minister's letter stated that "This is an appropriate level of involvement in roads for the national government, while meeting the understanding reached by Heads of Government that governments clearly define and separate their road funding responsibilities".

Source: Department of Transport and Regional Services, *Australian Land Transport Development Programme. Progress Report 2001–02*, p. 7.

Unwinding the Intergovernmental Road Funding Agreement

The 1991 Intergovernmental Road Funding Agreement provided that:

- the Commonwealth has sole financial responsibility for construction and maintenance of the National Highway
- State and Territory governments are responsible for funding the development, maintenance and operation of urban and rural arterial roads, and
- local government is responsible for the local road network.¹²

In practice, however, the Commonwealth has unwound this Agreement. The [AusLink Green Paper](#) notes that the Commonwealth has provided funding for programs and projects—Roads of National Importance, local roads under the Roads to Recovery program and identified local road grants, the Black Spot program, and bridge upgrading programs to accommodate higher mass limits—that go well beyond its responsibilities under the 1991 Intergovernmental Agreement to fund the National Highway System.¹³

Untying Funding

The States had long argued that their budget flexibility was limited by the tying of Commonwealth assistance in the form of specific purpose payments. At the Special Premiers Conferences that the Hawke Government convened in 1990 and 1991, the Commonwealth agreed to a proposal by the States that more Commonwealth funding be provided in the form of general purpose grants rather than as specific purpose (tied) grants. As a result, it was agreed that road funding, other than for the National Highway, should be untied.

Untying Payments to Local Government: Identified Local Road Grants

The October 1990 Special Premiers Conference agreed that funds for local roads would be untied with effect from 1 July 1991. Such funds are now included in financial assistance grants paid 'through' the States to local governments under the *Local Government (Financial Assistance) Act* 1995. These grants are thus not subject to any formal conditions that they be spent on roads. In practice, however, local governments spend the grants on roads.

The untied funds are still shown separately as 'identified local road grants' because the allocation among the States of these grants differs from the allocation of general purpose grants to local government. Whereas the interstate distribution of general purpose grants is on an equal per capita basis, identified local road grants are distributed among the States on the basis of criteria established under the ALTD Act. The State Grants Commissions determine the intrastate distribution of general purpose grants and identified local road grants on the basis of fiscal equalisation.

Untying Payments to the States: State Identified Road Grants

It was agreed at the July 1991 Special Premiers Conference—and reaffirmed in the One Nation statement that Prime Minister Keating made on 26 February 1992—that the Commonwealth would untie annually a minimum of \$350 million of grants for State arterial roads. In June 1992, the Prime Minister indicated that the Commonwealth would untie these grants by transferring them from specific purpose payments to general purpose assistance as 'State identified road grants'. The new arrangements came into effect from 1 January 1994. As a result of the starting date, payments of identified road grants in 1993–94 amounted to half of \$350 million. The Prime Minister also indicated that the aggregate level of identified road grants paid to the States, starting from the base of \$350 million, would be indexed to movements in financial assistance grants paid to the States.

In the 1995–96 Budget, the Government indicated that the basis for distributing identified road grants among the States would be progressively changed from historical shares to shares based on Commonwealth Grants Commission relativities by 1997–98. In 1995–96, two-thirds of the grants were distributed using historical shares and one-third using the Commission's relativities; in 1996–97, the distribution was one-third historical shares and two-thirds relativities. In 1997–98, State identified road grants were fully incorporated into financial assistance grants to the States. Financial assistance grants ceased when they were replaced by revenue from the goods and services tax.

Other Issues in Road Funding

Funding Levels

It is often argued that the level of road funding should rise substantially. Table 7 shows Commonwealth road funding since 1990–91 measured in real (that is, inflation-adjusted) terms.

Table 7: Real Commonwealth Road Funding (millions of 1993–94 dollars)

1990–91	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03
1597.3	1665.7	2089.2	1526.4	1472.0	1523.9	1541.2	1553.8	1609.6	1515.4	1244.1	1521.0	1358.2

Sources: DoTaRS, ALTD programme progress reports

Note: data deflated using the Bureau of Transport and Regional Economics road construction and maintenance price index at http://www.btre.gov.au/docs/indicate/r_construct.htm#Top

The table shows that funding was generally flat over the past decade. Funding rose sharply from the beginning of the 1990s to a peak in 1992–93 but fell in 1993–94 reflecting the cessation of the Black Spot and Provincial Cities and Rural Highways programs, and reduced funding under the One Nation program. The fall in 2000–01 reflects the replacement of financial assistance grants to the States—which incorporated State

identified road grants—with goods and services tax (GST) revenue. Consequently, the data before 2000–01 are not strictly comparable with later years.

The Allen Consulting Group has pointed to a backlog of projects with potentially high benefit-cost ratios.¹⁴ There are, however, limits to what the Commonwealth can spend. The States and local government are responsible for most road funding. Of the three tiers of government, the Commonwealth contributes the smallest share of funding: over the three years 1998–99 to 2000–01, the Commonwealth funded 21 per cent of road-related expenditure, the States 52 per cent, and local government 27 per cent.¹⁵ Major increases in road funding are constrained by overall budgetary objectives and competing demands for funds for other uses.

Hypothecation

It is sometimes argued that a greater proportion of the revenue raised from transport-related taxes—which exceeds total expenditure on roads—should be spent on roads. In particular, it is argued that more of the revenue from fuel excises should be spent on roads. For example, the Australian Automobile Association:

... continues to express the serious concern of the motoring public over the 'decoupling' of motorists' taxes from government spending on roads and transport facilities. Increasingly, motorists are a general target for taxation—receiving little in return for what they pay.¹⁶

But this hypothecation (earmarking) argument is questionable. First, the level of annual Commonwealth road funding is determined in the overall budget context without reference to particular taxes, and roads have to compete with other forms of expenditure. Second, there is no necessary relationship between the use of taxes and their sources. For example, there is no relationship between the revenue from taxes on tobacco and health spending. Third, the [Fuel Taxation Inquiry](#) and the Commonwealth Department of Finance and Administration have acknowledged that fuel excises—the main form of motor vehicle taxes and charges—are principally a revenue raising measure.¹⁷ Finally, hypothecation is generally not a feature of road funding in other countries. For example, the European OECD countries levy a range of vehicle taxes, road use fees, tolls and fuel taxes, but they are aimed largely at recovering the cost of road use and raising revenue.¹⁸

However, the ALTD Act requires that some of the revenue from fuel excise be hypothecated to fund the Commonwealth's road programs. A House of Representatives Standing Committee recommended that the hypothecation provisions be removed to dispel the notion of a link between the amount of fuel excise revenue and the level of road funding.¹⁹ The Government agreed with this recommendation.²⁰

Identified Local Road Grants

As noted, identified local road grants are one of two components of Commonwealth financial assistance to local government; the other component is general purpose grants. The *Local Government (Financial Assistance) Act 1995* provides for financial assistance to be increased each year by an escalation factor that reflects population growth and changes in the consumer price index. Several aspects of these arrangements are worth noting.

First, while indexation of grants in real per capita terms places a 'floor' under the value of identified local road (and general purpose) grants, indexation does not contain any allowance for general economic growth. Hence the value of these grants has fallen from 0.075 per cent of gross domestic product in 1991–92 to 0.06 per cent in 2001–02.

Second, one can question the use of the consumer price index to index road grants. It could be argued that a more appropriate index would be the road construction and maintenance price index that the Bureau of Transport Economics and Regional Economics (BTRE) compiles. The two indices have diverged. For example, the road construction and maintenance price index rose by 13.66 per cent between 1999–2000 and 2002–03 whereas the consumer price index rose by 11.97 per cent over the same period. For this period at least, use of the BTRE index would have yielded a larger increase in funding.

Should Commonwealth Funding be Reoriented?

Given the constraints on road funding, is there scope for reallocating Commonwealth road funding to projects with higher social value? The Allen Consulting Group argues:

Given its interconnected character, and the wide spreading of its benefits and costs, there is an inherent public role in the planning and provision of infrastructure. The primary criterion for investment in infrastructure should be a positive *social* net benefit/cost ratio.²¹

In 1993, the Allen Consulting Group sampled benefit-cost studies of road projects in Australia and averaged the benefit–cost ratios by road category. [Austroads](#), the association of Australian and New Zealand road transport and traffic authorities, used the information in the Allen Consulting Group report to simulate the effects of road construction expenditure. The results are shown in Table 8.

Table 8: Benefit-cost Ratios for Road Construction

Road group	Benefit-cost ratio from:		Ranking
	Benefit-cost analysis	Austrroads study	
Rural Roads:			
National	2.1	1.5	3
Arterial	2.0	1.4	4
Local	1.0	0.5	Equal 5 and 6
Urban Roads:			
Freeways	4.8	5.4	2
Arterial	6.0	6.3	1
Local	1.0	0.5	Equal 5 and 6

Source: Bureau of Transport Economics, *Facts and Figures in Benefit-Cost Analysis: Transport*, report 100, November 1999, p. 116.

Table 8 shows that, while the ratios differ between the benefit-cost studies and the Austrroads study, the *rankings* are the same in both cases, that is, urban arterials have the highest benefit-cost ratios followed (in order) by urban freeways, rural national roads, and rural arterial roads. Local roads—urban and rural—have the lowest benefit-cost ratios.

While it is not possible to determine precisely what proportion of Commonwealth funding falls into each of the six road categories in Table 8, Table 9 apportions funding against the benefit-cost rankings.

Table 9: Comparison of Commonwealth Road Funding and Benefit-cost Rankings

Program	Per cent urban	Per cent regional	Benefit-cost ratio ranking	Share of funding 2002–03 (%)
National Highway	Minor	Most	3	45
Roads of National Importance	Minor	Most	4	13
Black Spots	Approx 50	Approx 50	na	3
Roads to Recovery	29	71	5 and 6	12
Local government identified grants	33	67	5 and 6	27
Other	na	na	na	1

Sources: Figures for per cent urban and regional from Department of Transport and Regional Services website on transport programs. Funding for 2002–03 from ALTD programme progress report 2002–03. na: not available.

With the exception of the urban links of the National Highway, the Commonwealth generally does not fund roads in the two categories with the highest benefit-cost rankings (urban arterials and freeways with ranks one and two respectively) so they do not appear in Table 9. Table 9 shows almost 40 per cent of Commonwealth road funding was for local roads. These roads have not only the lowest benefit-cost ranking but, in 1999, accounted for only 23 per cent of the traffic task (measured in billions of vehicle kilometres).²² This suggests that there could be net gains to society if Commonwealth road funding were redirected especially to urban arterial roads and freeways. In 1999, urban arterials accounted for 42 per cent of the traffic task.²³ The practice of Commonwealth road funding thus suggests that there is a trade-off between economic efficiency and equity considerations in Commonwealth road funding policy deliberations.

As noted, the Commonwealth funded urban arterial roads in the past. The AusLink Green Paper seems to hold out the possibility that the Commonwealth will fund some roads in urban areas in addition to the National Highway urban links.

AusLink

In May 2002, the Minister for Transport and Regional Services, the Hon. John Anderson, announced the Government's intention to develop a new land transport policy to be known as AusLink. On 7 November 2002, the Minister released the AusLink [Green Paper](#). AusLink encompasses both road and rail and potentially has important consequences for future Commonwealth road funding.

AusLink has nine main elements. The Government proposes:

- integrating and improving the national land transport network: AusLink's focus is transport links of strategic national importance, such as rail and road connections between cities and to major ports and airports
- developing a national land transport plan: this will be a rolling five-year national plan for the national network, with participation from the community, industry and all governments. A longer planning horizon of up to 20 years will be used to expand the understanding of future challenges and opportunities
- establishing a national advisory body to provide transport ministers with strategic analysis and advice on priorities for national infrastructure investment reforms that support intermodal integration and infrastructure pricing. Once established, it will play a role in providing strategic advice in developing the National Land Transport Plan
- generating the best ideas by expanding the range of organisations able to propose projects for Commonwealth funding, including State and Territory governments, local councils, the private sector, user organisations, regional development bodies and community organisations

- finding the best solutions by widening the range of solutions eligible for Commonwealth funding including new technology that can lead to better management and pricing
- employing a consistent approach to funding by establishing a single, flexible funding program to replace separate programmes for different transport modes. This will help to direct funds to the best projects. Regional funding will be earmarked
- encouraging reciprocal responsibility by encouraging joint and complementary development and funding of projects between governments and with the private sector to increase the level of available funding. This approach will encourage cooperation between participants and promote better decision-making
- embedding continuous improvement by seeking more information about the network to improve understanding and advice. AusLink's project evaluation methodology will also improve the quality of decisions and allocation of resources, and
- negotiating a new Intergovernmental Agreement between the Commonwealth, State, Territory and local governments to underpin the new planning and funding arrangements for the national network and to clarify arrangements for the broader network.²⁴

However, the Green Paper at times raises as many questions as it answers. The following discussion comments selectively on its proposals.

The proposed National Land Transport Plan seeks to provide strategic direction to investment in land transport infrastructure. As noted, scope exists for a more rational allocation of land transport funding and a National Land Transport Plan could contribute to such an outcome. But it is not clear how projects with the 'highest benefits' will be assessed nor how Commonwealth funds will be allocated among projects. Ideally, projects would be subject to some form of social benefit-cost analysis with projects undertaken in order of their benefit-cost ratios.

The Green Paper proposes pooling of road and rail funds instead of treating them as separate allocations as is now the case. This recognises that it is not possible to consider rail and road as separate, unrelated modes. While road and rail compete in some areas, they are complementary in others. For example, upgrading of a road to a rail depot may increase demand for rail services using that depot, in turn necessitating investment in rail infrastructure. AusLink thus correctly emphasises the development of inter-modal links such as rail and road links to ports and airports.

Commonwealth funding of land transport has traditionally favoured spending on roads over rail infrastructure even though some rail projects have potentially high benefit-cost ratios. For example, a [study of investment in the interstate rail system](#) indicated that investment of the relatively small amount of \$507 million would yield benefits of around

\$1.5 billion, that is, the benefits would be more than three times the amount of investment. Such investment would reduce the need for Commonwealth spending on roads: the study found that proposed investment on the east coast alone would remove 111,000 long-distance truck trips annually from the Hume, Pacific and Newell highways. Further, the priority given to particular road and rail projects seems to have been based more on short-term political factors than on considerations of rational resource allocation. For example, the economic efficiency of Commonwealth funding for the Alice Springs-Darwin railway has been called into question. It seems likely that political considerations will, in some instances, override any commitment to a more rational allocation of funds.

A theme in the Green Paper is the need to identify 'strategic corridors' in urban areas such as rail and road connections to major ports and airports. An example is the possible extension of rail facilities to Port Botany. But the Commonwealth will not fund extensions to public passenger transport infrastructure, which the Government sees as a primarily a State function.²⁵ This raises questions such as how the corridors will be identified, and how Commonwealth-funded strategic corridors will be linked with State public passenger transport infrastructure.

The Green Paper proposes that strategic corridors be funded partly by the private sector and partly by government:

Using leveraging, Commonwealth funding would be allocated between projects to secure those with the highest benefits that accord with the National Land Transport Plan, and to gain funding contributions from other sources. The more contributions the Commonwealth can secure for high value projects, the more projects that can be funded and national benefits expanded.

For example, it is expected that proposals with high commercial returns could also attract high levels of investment by the private sector, as there is considerable value to them in getting these proposals off the ground. Similarly, if a project has a high benefit to a state, it should contribute commensurate funding. For instance, an urban project with high traffic levels, high logistics importance, high value and high commercial returns, might be largely or fully funded by the private sector. This allows Commonwealth funding to be used for implementing projects with high benefits but lower commercial returns.²⁶

The injection of Commonwealth funds into projects could trigger additional related infrastructure funding by local government and the private sector. This could give rise to 'economies of scope', that is, benefits arising from carrying on related or complementary activities.

AusLink proposes that funds be earmarked for regional areas but does not indicate what proportion. The bulk of Commonwealth road funds is currently spent on roads located in regional areas. It is questionable whether AusLink proposes any major shift in funding towards urban areas. Nor is it evident how the tension will be resolved between funding regional projects with low net social benefits and the proposal that Commonwealth funds be spent on projects with the 'highest benefits'.

Conclusions

The Commonwealth's role in road funding has changed considerably since 1990. As matters now stand—apart from the perennial issue of the level of funding—several issues remain unresolved. One is the need for clarification of responsibility for road funding among the three tiers of government. The Green Paper proposes rationalising responsibility as follows:

The Commonwealth will focus its existing funding on the national integrated network so far to maximise national benefits ... A new Land Transport Intergovernmental Agreement will redefine and clarify the respective roles and responsibilities of each level of government—including funding responsibilities—more comprehensively than the current agreement.²⁷

This leaves open the questions of what precisely the national integrated network will be and what the Intergovernmental Agreement will contain. The States are suspicious that the Commonwealth will try to shift additional responsibility for road funding to them and so will seek to ensure that does not happen.

As noted, the evidence suggests that there could be net gains to society if road funding were allocated on the basis of social benefit/cost ratios. But it was also noted that the practice of Commonwealth road funding suggests that there is a trade-off between economic efficiency and equity considerations in policy deliberations. This raises the issue of what the relative weighting of economic efficiency and equity should be. Under a regime that increased emphasis on efficiency, the Black Spot program, for example, would be a candidate for a higher proportion of funding.

The future direction of Commonwealth road funding awaits the Government's response to [comments on the Green Paper](#). This will be in the AusLink White Paper, which the Government intends to release around mid year.

Appendix 1: Commonwealth Road Funding 1998–99 to 2003–04

	1989–90	1990–01	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
Funded under ALTD Act															
National highway	523.24	554.21	656.87	868.16	786.18	816.12	831.33	710.48	706.16	752.00	631.62	697.27	783.94	763.45	704.60
Roads of national importance								90.69	108.78	122.54	183.79	135.07	234.31	213.74	227.10
National arterial roads	368.90	442.09	428.96	570.34	228.63										
State arterial roads	139.90	61.30	6.50	12.72											
Local roads	303.10	323.80													
Provincial cities & rural h'ways		87.65	94.45	83.50											
Black spots		53.30	63.30	163.50				36.00	35.62	37.45	37.69	40.92	42.41	44.50	45.00
Land transport research/other	3.40	3.30	3.90	3.30	3.26	2.98	2.61	2.28	2.39	1.93	2.79	2.19	2.62	3.56	
<i>Total ALTD funding</i>	<i>1338.54</i>	<i>1525.65</i>	<i>1253.98</i>	<i>1701.52</i>	<i>1018.07</i>	<i>819.10</i>	<i>833.94</i>	<i>839.45</i>	<i>852.95</i>	<i>913.92</i>	<i>855.89</i>	<i>875.44</i>	<i>1063.27</i>	<i>1025.25</i>	<i>976.70</i>
Other road funding															
ABRD programme															
ALT programme															
Badgerys Creek system		11.00	9.00												
Federation Fund														5.33	43.00
Roads on Aboriginal land							5.20								
Roads to recovery												150.00	302.16	202.16	302.20
State identified road grants*					175	350.00	371.01	383.40	391.00	397.20	408.77				
Local gov't identified grants			352.70	362.64	333.33	336.75	357.98	373.86	370.42	377.36	388.65	406.47	424.80	451.37	462.70
<i>Total other road funding</i>	<i>0.00</i>	<i>11.00</i>	<i>361.70</i>	<i>362.64</i>	<i>508.33</i>	<i>686.75</i>	<i>734.19</i>	<i>757.26</i>	<i>761.42</i>	<i>774.56</i>	<i>797.43</i>	<i>556.47</i>	<i>726.96</i>	<i>658.86</i>	<i>807.90</i>
Total	1338.54	1536.64	1615.69	2064.15	1526.40	1505.85	1568.14	1596.72	1614.36	1688.47	1653.32	1431.91	1790.23	1684.11	1784.60

Sources: DoTaRS ALTD programme progress reports. Hon J Anderson budget press releases. DoTaRS PBS 2003-04

* Absorbed into State financial assistance grants in 1997-98. FAGS replaced by GST from 1 July 2000.

Data for 2003–04 estimated

Appendix 2: the Australian Centennial Roads Development program and the Provincial Cities and Rural Highways program

Australian Centennial Roads Development Program

The Australian Centennial Roads Development (ACRD) program—which began on 1 January 1989—replaced the Australian Land Transport Program (ALTP) and the Australian Bicentennial Road Development (ABRD) program.²⁸ The ACRD was established by the *Australian Centennial Roads Development Act 1988* (ACRD Act).

Like the ALTP and the ABRD, the ACRD principally provided grants to the States for the construction and maintenance of roads. The program also provided funds to approved organisations for land transport research and road safety programs. Funds were also available for urban public transport projects (and mainline capital railway projects) which were expected to yield high economic returns.

The ACRD program changed the categories of roads that existed under the ALTP and the ABRD programs. Under the ALTP and the ABRD, funding was provided for:

- national roads (the National Highway and 'developmental' roads)
- urban arterial roads
- rural arterial roads, and
- local roads.

The ACRD combined as 'State arterial roads', roads that the ALTP and the ABRD had classified as urban arterial roads and rural arterial roads. The ACRD also established a new category of 'national arterial' roads. The ACRD thus funded:

- National Highways
- national arterial roads
- State arterial roads, and
- local roads.

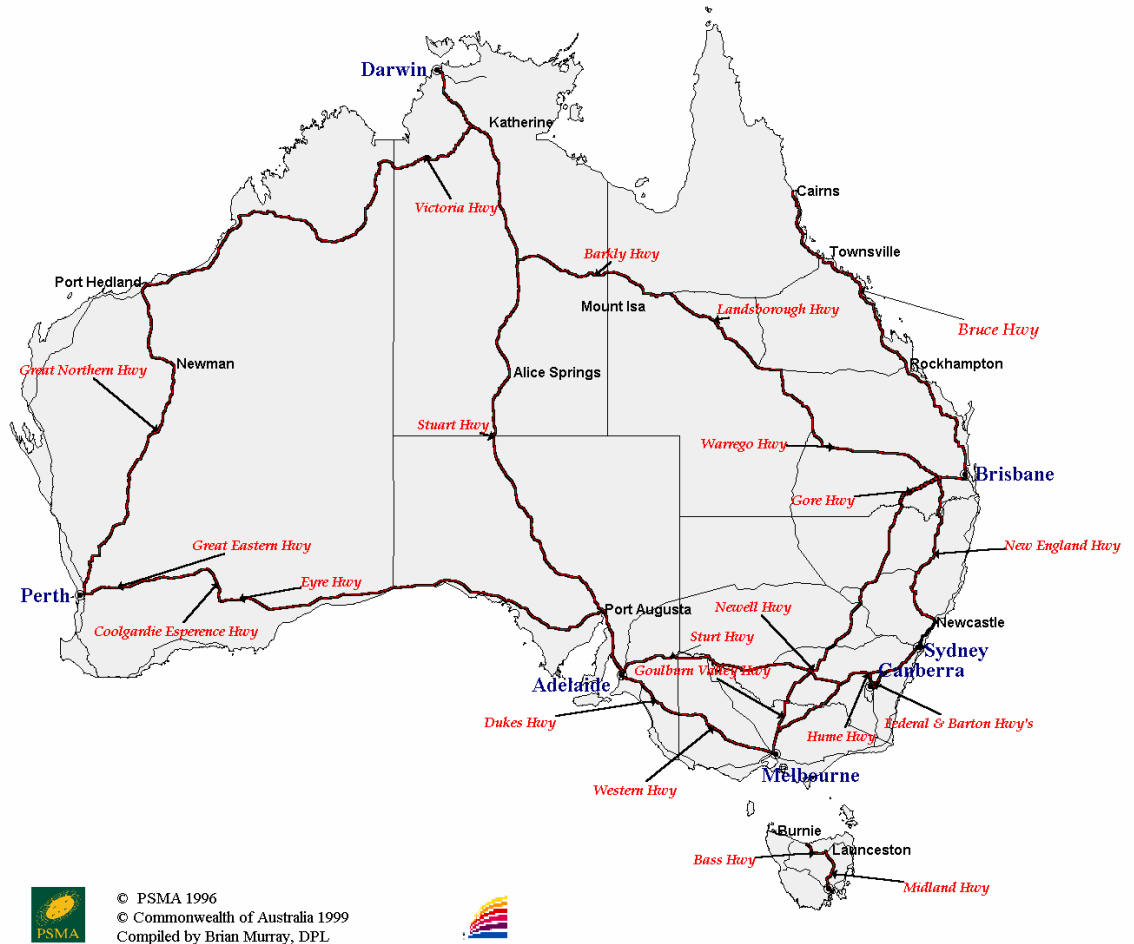
For a road to qualify as a national arterial road, the Federal Minister for Transport had to be satisfied that its construction would improve the competitiveness of export or import competing industries or facilitate tourism significantly. Construction also had to have high benefit–cost ratios. Eligibility for funding depended on the category of road. For example, funds for national arterials could be used only for construction and upgrading.

The bulk of expenditure under the ACRD program was allocated to National Highways and national arterials. The distribution of funds among the States for State arterial and local roads reflected the relativities under the ALTP and ABRD programs. Funding of the National Highway and national arterials, on the other hand, was at the discretion of the Commonwealth. Funds for local roads were distributed among local authorities on the basis of principles each State developed and which the Minister approved. The ACRD continued the arrangements—established under the ALTP and the ABRD—whereby, on the request of a State, a proportion of State arterial funds could be redirected either to urban or public transport projects or capital projects associated with the operation of mainline railways.

Provincial Cities and Rural Highways Program

The *Australian Centennial Roads Development Amendment Act 1990* established the Provincial Cities and Rural Highways (PCRH), the Black Spot and the Urban Public Transport programs, which were financed from consolidated revenue. This Act also changed the title of the ACRD Act to the *Australian Land Transport Development Act 1988* (the ALTD Act). The focus of the PCRH program was roads of major economic significance outside the capital cities. It thus complemented the national arterials program under which funding was directed into major metropolitan roads. The criterion for providing funds under the program was that the 'construction of a road or a proposed road will yield sufficient economic return to justify the incurring of the costs of construction'. Funding was provided for three years—1990–91 to 1992–93—and some \$266 million was spent under this program, although some of the PCRH funds were used to upgrade mainline railway tracks.

Appendix 3: National Highway System



Endnotes

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2. Bureau of Transport Economics, *Spending on Local Roads*, Working Paper 44, 2001, p. 3.
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5. Bureau of Transport and Communications Economics, *Evaluation of the Black Spot Program*, Report 90, 1995.
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8. Unincorporated areas are those not governed by councils. In South Australia, for example, the Outback Areas Community Development Trust provides services to the 36 communities it recognises as out-of-council areas.
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11. Bureau of Transport Economics, *Spending on Local Roads*, op. cit., p. 3.
12. AusLink: Towards the National Land Transport Plan, November 2002, p. 6.
13. *ibid.*, p. 7.
14. The Allen Consulting Group, *Benefits of Public Investment in the Nation's Road Infrastructure*, May 2003.
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16. Australian Automobile Association, *Motoring Directions*, Winter 1995, issue 3, volume 1, p. 7.
17. Productivity Commission, *Progress in Rail Reform*, Draft Report, 30 March 1999, p. 208.
18. OECD, *Liberalisation and Structural Reform in the Freight Transport Sector in Europe*, OECD, Paris, 1997.
19. House of Representatives, op. cit., paragraph 4.113.

20. Hon. John Anderson, Minister for Transport and Regional Services, 'Motorists have not been short changed on road funding', media release A17/2001, 9 February 2001.
21. The Allen Consulting Group, op. cit., p. 2.
22. Bureau of Transport Economics, *Spending on Local Roads*, op. cit., p. 3.
23. ibid.
24. Drawn from *Australian Land Transport Development Programme, Progress Report 2001-02*, pp.5-6.
25. AusLink Green Paper. Towards the National Transport Plan, 2002, p.89.
26. ibid., p.54.
27. AusLink: Towards the National Land Transport Plan, November 2002, p. 46.
28. The ALTP—which was established under the *Australian Land Transport (Financial Assistance) Act 1985*—began on 1 July 1985 and provided funds for land transport over a five-year period. Most of the funds were provided to the States and the Northern Territory for expenditure on roads, but funds were also available for land transport research, road safety and administrative costs. (Funds were also available for railway improvement although the use of funds for rail projects was minimal). The ALTP was funded by payments—into the Australian Land Transport Trust Fund—of a share of the excise on petrol and diesel. The Commonwealth introduced the ABRD in 1982 to develop sections of the road system to a higher standard by 1988, the bicentennial year. The ABRD was financed by a surcharge on the excise on petrol and diesel, which was paid into the Australian Bicentennial Road Development Trust Fund. The program provided that up to 25 per cent of total funds available for urban arterial roads over the life of the program, could be redirected to urban public transport capital projects, where it could be demonstrated that such expenditure would reduce traffic or wear and tear on the urban arterial road system.