

30 June 2022

Mr Bruce Green
Chair
Local Government Grants Commission
GPO Box 2329
ADELAIDE SA 5001

Dear Mr Green

Wakefield Regional Council's Submission to the South Australian Grants Commission

Wakefield Regional Council would like to thank the South Australian Grants Commission for taking the time to visit Wakefield in September 2021 and for listening to elected members and staff concerns regarding the distribution of Identified Local Road Grant (ILRG).

As part of the Commission's presentation, it explained the background and legislative requirements of the Commission, outlined its distribution methodology and its plans for the future, which included regular reviews of its methodology. The Commission encouraged Council to ask questions and to raise any issues that are of concern to Council, or that Council feels would be of interest to the Commission.

In response, Council expressed concern the current distribution formula for the ILRG component unfairly disadvantages non-metropolitan councils with significant road networks and relatively low populations. The Commission strongly encouraged Council to provide a formal submission, stressing its commitment to open and regular reviews of its methodology.

Council provides the attached submission and respectfully requests genuine reform of the distribution methodology, to ensure a council's relative needs are reflected in the allocation of the Identified Road Component.

Council's submission provides examples specific to Wakefield however, Council recognises there are many other councils in a similar financial struggle and as such, is advocating on behalf of all councils disadvantaged by the current distribution methodology.

Council appreciates the complexity and difficulties facing the Commission, and congratulates its members for their willingness to explore continuous improvement opportunities. The work of the Commission is extremely important to the local government sector.

Council looks forward to hearing from the Commission on the outcome of its review.

Yours sincerely



Rodney Reid
Mayor

WAKEFIELD REGIONAL COUNCIL

SUBMISSION TO THE

SOUTH AUSTRALIAN GRANT COMMISSION

30 JUNE 2022

INTRODUCTION

1. The Wakefield Regional Council (**WRC**) is a council constituted under the *Local Government Act 1999* (the **Act**), providing local government services to the mid-north region of South Australia.
2. Despite its relatively low population base, WRC has a significant and extensive road network, which is the fourth largest road network for which a council is responsible in South Australia. The network roughly covers 2728kms – the same distance as Adelaide to Perth.
3. The WRC elected body takes the view, having regard to the significant road network within WRC's constituted area, which WRC currently receives inadequate road funding allocated by the South Australia Grants Commission (the **Commission**) in light of WRC's relative needs.
4. More specifically, WRC is concerned that the Federal Local Road Grant (**Local Road Grant**) is being inequitably distributed in a manner that does not align with the applicable principle under the *Local Government (Financial Assistance) Act 1995* (Cth).
5. Consequently, WRC has been lobbying for a more equitable distribution of road funding to South Australian councils and, in June 2020, gained some support for its position at the National General Assembly of Local Government, the national voice for councils.
6. The current methodology employed by the Commission to distribute Local Road Grants distinguished between metropolitan and non-metropolitan councils. In the metropolitan area, allocations to individual councils are determined by an equal weighting of population and road length, whereas for non-metropolitan/regional areas, allocations are made on an equal weighting of population, road length and the area of the Council.
7. It is WRC's position that the current methodology employed by the Commission is unfairly skewed by population weighing, which in turn, unfairly disadvantages non-metropolitan Council's with significant road networks and a relatively low population. On this basis, further grant funding is required to subsidise the prevailing discrepancy between WRC's available revenue and the actual costs of maintaining its regional road network.
8. WRC understands that the Commission is committed and open to the regular review of its methodology. As such, WRC makes this submission to bring to the Commission's attention what the WRC considers to be the shortcomings of the current methodology, and to encourage the Commission to revisit and undertake a comprehensive review of it.
9. An overview of the applicable principles and key considerations in support of WRC's request for a comprehensive review of the Commission's methodology follows below.

PART 1: SHORTCOMING OF CURENT METHODOLOGY

10. Overview of Principles

10.1 By way of background, the *Local Government (Financial Assistance) Act 1995* (Cth) (**CTH Act**) prescribes national principles (as determined by the responsible Federal Minister), which the Commission must follow in making recommendations for the allocation of Commonwealth grant funding to councils.

10.2 The relevant provisions of the CTH Act provide:

- 1) *The Minister, after consulting the relevant State Ministers and with a body or bodies representative of local government, must formulate national principles for the purpose of allocating among local governing bodies amounts payable to States (other than the Australian Capital Territory) under this Act in the year beginning on 1 July 1996 and later years.*
- 2) *In formulating national principles, the Minister:*
 - a) *is to have regard to the need to ensure that the allocation of funds for local government purposes under section 9 is made, as far as practicable, on a full horizontal equalisation basis; but*
 - b) *must ensure that no local governing body in a State will be allocated an amount under section 9 in a year that is less than the amount that would be allocated to the body if 30% of the amount to which the State is entitled under that section in respect of the year were allocated among local governing bodies in the State on a per capita basis.*

10.3 Section 6 of the CTH Act makes it clear that the national principles are for the purpose of allocating among local government bodies amounts payable to the States, however, makes the distinction that only 'Section 9 payments' are to be allocated on 'full horizontal equalisation basis'. Relevantly section 9 payments are explained as:

...Subject to this section and to section 11, each State is entitled to the payment, in respect of a year (the current year), by way of financial assistance for local government purposes, of a general grant...

10.4 That is, the National Principles apply to only section 9 payments which, as per above, are limited to a 'general grant'. To this end, for the purposes of the CTH Act, Local Road Grants are 'section 12 payments' to which the following principle applies:

The identified road component of the financial assistance grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area.

(emphasis added).

- 10.5 Accordingly, the overarching principle that the Commission must aim to achieve when making recommendations for the distribution of the Local Roads Grant is that, as far as practicable, Local Road Grants should be awarded on the *relative needs* of each local governing body for roads expenditure and to preserve its road assets (the **Road Principle**).
- 10.6 The relevant consideration in assessing road needs are expressed as ‘including’ the length, type and usage of roads in each local governing area. The reference to ‘including’, means that the list is not to be interpreted as being exhaustive and other matters can be taken into account.

11. Population

- 11.1 The legislative scheme does not prescribe ‘population’ as a consideration that the Commission is bound to consider when assessing the relative needs of a council. Indeed, WRC submits that for the reasons set out below, reliance upon ‘population’ as a consideration, has proven to be particularly problematic for non-metropolitan councils in South Australia.
- 11.2 Whilst it may be asserted that population is a relevant consideration to determine road usage, sole reliance upon population to assess road usage is misleading and leads to inequitable outcomes. This is because the approach fails to account for road usage by users outside of those persons who make up the population.
- 11.3 Councils rely on approximately 90% self-funding to undertake their operations. By virtue of their comparatively small populations, many regional councils like WRC do not have the means or capacity to generate the same revenues as their urban and larger metropolitan counterparts. Consequently, they are significantly more reliant on external funding sources, which play a critical role in ensuring the council is able to function in the best interests of, and provide key services/infrastructure to, its residents, local industries, primary producers and wider community.
- 11.4 This issue was recently acknowledged in the *NSW Local Government Grants Commissioner Annual Report 2020-21* where the Productivity Commission found that there was an increasing inequity between sparsely populated remote and rural areas and metropolitan, more densely populated areas. Relevantly, the Productivity Commission noted that:

‘Generally, remote councils have greater relative need, due to inherent factors which is being compounded by depopulation...’¹

¹ NSW Local Government Grant Commission, *Annual Report 2020-21*, <https://www.olg.nsw.gov.au/wp-content/uploads/2021/10/Grants-Commission-2020-21-Annual-Report.pdf>.

11.5 As a nationwide trend, it is also to be recognised that there has been a long-term population decline in many rural and regional council areas. As a result, many rural and regional councils have a diminishing ability to raise revenue in spite of these councils experiencing increased costs to discharge their responsibilities for provisions of infrastructure and services, including, of course, maintaining expansive road networks. This has been the experience of WRC.

11.6 The *Independent Local Government Review Panel* has also recognised (as below) that regional councils, ordinarily with a small ratepayer base, are particularly vulnerable and can suffer detrimental impacts to their long-term financial sustainability:

'given these councils' lower population density, their expenditure needs per capita can be higher due to the large size of the area they serve (and the long total length of the roads they are responsible for).'

'Some of the larger councils consistently run operating surpluses and need to invest surplus funds, but other smaller councils consistently run operating deficits, often falling further behind with asset maintenance and renewal work' ²

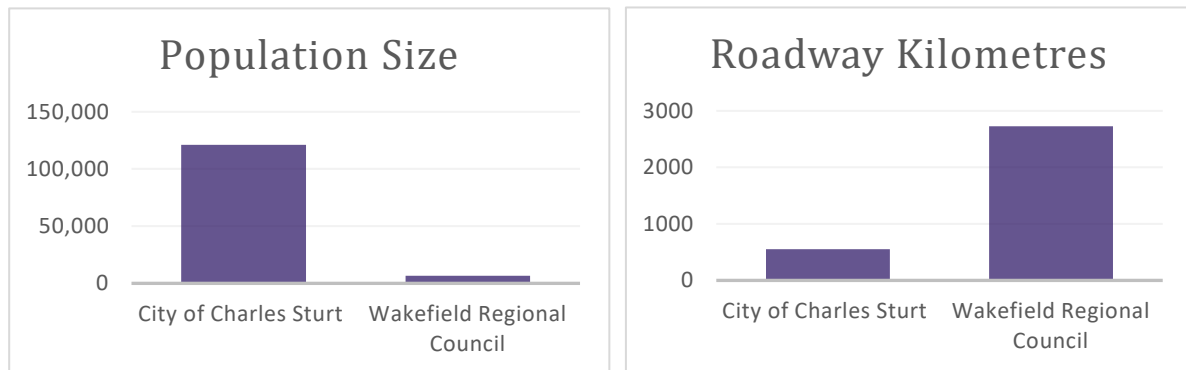
11.7 These issues are compounded by environmental factors such as drought, flood and bushfires which more commonly, impact regional councils.

11.8 WRC is experiencing the challenges outlined above. It faces a fundamental mismatch between its required expenditure to discharge its responsibilities and its limited revenue base derived from rates, as a result of its small and at times, declining number of ratepayers. WRC necessarily has a heavy reliance on government grants (which WRC has limited ability to influence).

11.9 The above points can be illustrated when considering the population of a metropolitan Council, such as the City of Charles Sturt, of **121,065 people** and its road network of **550 kilometres**. In stark contrast, WRC has **2,728 kilometres** of road network yet only **6,660 people**. It therefore follows that applying the current methodology, the City of Charles Sturt's significantly higher 'population' will, in turn, carry considerable weighting in assessing its relative needs (i.e. in spite of its significantly smaller road network). The City of Charles Sturt received **\$1,363,121** in Local Road Grant, in comparison to WRC, which received a significantly lesser amount, being **\$591,677**.

² NSW Independent Local Government Review Panel, *IPART Submission on Consultation Paper*, https://www.ipart.nsw.gov.au/sites/default/files/documents/ipart_submission_-_nsw_independent_local_government_review_panel_-_september_2012.pdf

Figure (1)



11.10 The table below (with data from pages 30 – 42 of the Commissions Annual Report 2020- 21) is further evidence to illustrate how the proportion of the Local Road Grant allocated to WRC is significantly less in comparison to allocations to metropolitan Councils. This is notwithstanding the fact that WRC has a much smaller population (limited rating base) yet a considerably higher total road length, which WRC is, of course, responsible to maintain.

Table (1)

	Local Road Funding (\$)	Road Length (kms)	Population
Wakefield	582,815	2,686kms	6,660
Playford	1,441,199	850kms	98,120
Charles Sturt	1,330,340	591kms	120,000
Adelaide Hills	759,439	1,020kms	40,233
Marion	1,062,273	475kms	94,927

11.11 It is WRC's submission that too much weight is currently placed on 'population' and that this methodology has, and continues, to disadvantage WRC ability to fund required road maintenance and renewal works for its significant road network.

12. Economy/tourism

12.1 WRC submits that the current methodology also overlooks key considerations, including its growing reputation for commerce, which is a matter that directly affects road usage. This is particularly relevant in light of WRC's geographical location, being only 95 kilometres north of the Adelaide CBD, and a key thoroughfare to the Western and Northern areas of South Australia.

- 12.2 WRC is diversifying and growing from an economic standpoint, which is evident from its gross regional product of more than \$487,000,000 and agricultural export value in excess of \$327,600,000. Furthermore, WRC produces over 35% of the States total hay output (much of which is exported to the Middle East, Japan, Taiwan, Korea and China), boasts Australia's second largest windfarm located on the outskirts of Snowtown and is home to Australia's largest inland road/rail intermodal facility located at Bowmans and caters for 30,000 containers per year. ³
- 12.3 In addition, WRC is an important gateway to the State's premier tourism regions, including the Flinders Ranges, the Copper Coast, the Outback, the Yorke Peninsula and Clare Valley.
- 12.4 WRC is ideally positioned, in a geographic sense, to connect business and commerce to townships both within and outside the Council area, which are vital for the overall economic well-being of the State. This is critical to 'Wakefield 2030' - the WRC Strategic Plan to create a thriving region and sustainable future.
- 12.5 The practical consequences of WRC Council's strategic geographical position is that:
- 12.5.1 many of its roads are, in turn, heavily trafficked (i.e. they experience high usage); and
 - 12.5.2 while its population is comparatively low, WRC experiences a high-level of road usage which incurs additional maintenance and renewal responsibilities.
- 12.6 WRC submits that the current methodology fails to address the road funding pressures faced by WRC Council because of its geographic location. This is another reason why the allocation methodology results in an unfair distribution of grant funding to WRC.
13. Freight movement & road usage
- 13.1 Agriculture is a critical component of the WRC economy. The presence of major cereal, livestock, hay and other agricultural exporters within WRC results in higher heavy traffic activity (for example, involving road usage by B-doubles) for the purpose of carting grains and other farming produce.
- 13.2 In 2019-20, South Australia's Yorke and Mid North region, in which the Wakefield Regional Council sits, accounted for \$1.43 billion in agricultural output in the livestock, grains and other agriculture sectors, and just over \$1 billion in regional exports. The sectors also contributed 4,794 jobs representing 17% of total employment in the region. The value of output for agriculture, forestry and fishing (\$1.62 billion) in the Yorke and Mid North region accounts for around 16% of total SA output in the sector. ⁴

³ National Institute of Economic and Industry Research (NIEIR) 2021

⁴ REMPLAN input/output model which uses ABS data for 2019-20

- 13.3 Increased freight traffic on WRC roads also arises due to WRC's strategic geographic position as a thoroughfare to key agriculture and tourism regions.
- 13.4 Unsurprisingly, WRC, therefore, plays an essential role in the efficient movement of freight across its road network. For this purpose, WRC's road maintenance responsibilities extend to undertaking upgrades to provide for suitable lane widths, improved safety standards and increased load bearing capacity, in order for its roads to withstand higher productivity by freight vehicles and traffic volumes. All at this comes at a cost to WRC, noting that high volumes of heavy vehicles on roads increases road asset preservation costs.
- 13.5 WRC submits that freight movement (and the costs of supporting this across the road network) is an important indicator for assessing relative needs of a council. Of concern to the Council is that this is a matter that is seemingly overlooked by the current methodology employed by the Commission. WRC submits that additional targeted funding is needed to assist with high-levels of freight movement, in order to unlock productivity by improving access for connectivity between local roads and freight routes.
- 13.6 The above issues are further compounded for WRC by the ongoing need to replace and restore its ageing road infrastructure. To that end, the age of infrastructure is a further matter that goes to a council's relative needs (it is directly relevant to the type of roads within a council's area). WRC submits that and appears to be given inadequate weight in the current methodology.

PART 2: INTERSTATE GRANTS COMMISSION METHODOLOGIES

14. Interstate methodologies

- 14.1 In order to provide the 'full picture', in preparing this Submission WRC has considered the methodologies employed by interstate Commissions in distributing Local Road Grants in accordance with the CTH Act. These methodologies are discussed in further detail below.

14.2 Victoria

- 14.2.1 The Victorian Commission's formula for allocating Local Road Grants is based on each council's road length and traffic volumes, using the average annual preservation costs for given traffic volume ranges. As part of this process, the Victoria Commission calculates a total network cost for each Council's local road, which represents the relative annual costs faced by the council in maintaining its local road networks and calculated as follows:

Network Cost = Length of local roads in category X Asset preservation cost for category X Overall cost modifier

14.2.2 The amount of the Local Roads Grants are then determined by applying the available funds in proportion to each council's calculated network cost. The allocation model uses a series of five cost modifiers to reflect the differences in circumstances between councils in relation to:

- (a) the relative volume of freight carried on local roads in each council;
- (b) climate;
- (c) the availability of road-making materials;
- (d) sub-grade conditions; and
- (e) strategic routes (noting freight routes).

14.2.3 WRC' position is that the Victorian methodology, which recognises external factors (described as 'cost modifiers'), appears to more effectively address the *relative needs* component of the Road Principle compared to the methodology employed by the South Australian Grants Commission.

14.3 Tasmania

14.3.1 The Tasmania Commission also determines each council's relative road expenditure using the 'road preservation model'. The model assesses the road preservation component for each council in three road classes:

- (a) urban sealed;
- (b) rural sealed; and
- (c) unsealed roads

14.3.2 By applying estimated life cycle costs to each council's reported road lengths, an unadjusted cost is calculated for each road type.

14.3.3 The proportions applied to the maintenance methods and the estimated lives of each road type for the asset preservation life cycle costs and obtained by taking averages from data collected from councils. This methodology ensures that the relative road expenditure needs are considered for each council and in turn, recognises the preservation/maintenance costs are invariably different for road types.

14.4 New South Wales

14.4.1 In NSW, the formula for the distribution of roads grants to rural areas is different to urban areas. Following steps explains both formulas;

Initial distribution of available pool of grant fund is made as per following split;

- 27.54 per cent to local roads in urban areas
- 72.46 per cent to local roads in rural areas

Local road grant in urban areas

Funds are allocated:

- (a) 5 per cent distributed to individual councils on the basis of bridge length
- (b) 95 per cent distributed to councils on the basis of;
 - 1. 60 per cent distributed on length of roads
 - 2. 40 per cent distributed on population

Local road grant in rural areas

Funds are allocated:

- (a) 7 per cent distributed to individual councils on the basis of bridge length
- (b) 93 per cent distributed to councils on the basis of;
 - 1. 80 per cent distributed on length of roads
 - 2. 20 per cent distributed on population

14.5 Queensland

14.5.1 In the opinion of Queensland Grants Commission, a formula based on road length and population best meets this National Principle for Queensland. Their formula is:

- (a) 62.85 per cent of the pool is allocated according to road length
- (b) 37.15 per cent of the pool is allocated according to population.

14.6 South Australia

14.6.1 In South Australia, the identified local road grants pool is divided 85 per cent to the formula grant and 15 per cent to the special local roads program. The formula component is divided between metropolitan and non-metropolitan councils on the basis of an equal weighting of road length and population.

14.6.2 In the metropolitan area, allocations to individual councils are determined by an equal weighting of road length and population.

14.6.3 In the non-metropolitan area, allocations are made on an equal weighting of road length, population and the area of each council.

15. Comparison of results of different methodologies

15.1 The following table presents information taken directly from the 2018-19 Local Government National Report and presents the data as an average grant per kilometre of road, to illustrate the significant funding disadvantage experienced by South Australian councils compared to interstate councils.

15.1.1 States and territories where cost preservation model is used for distribution of grants, there is a lower disparity of grants distribution between urban and rural councils, such as Victoria and Tasmania.

15.1.2 States like NSW and QLD use road length and population as factors in distribution of grant fund but a lower weightage is given to population and as a result, rural council share of grant per kilometre is approximately 50% of urban councils share of grant per kilometre.

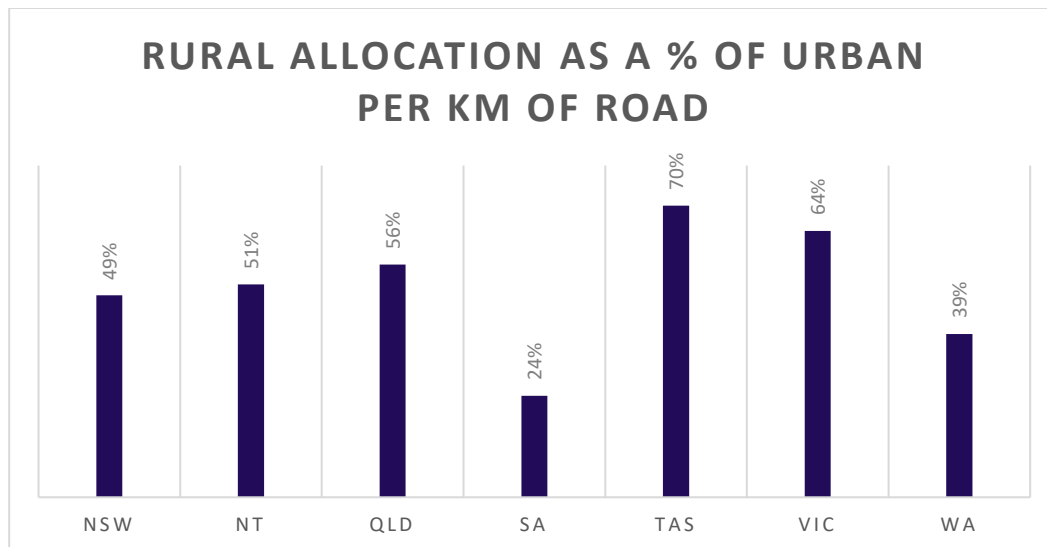
15.1.3 South Australia is the only state in Australia where road length, area and population are given equal weightage and as a result, non-metropolitan councils allocation as a percentage of metropolitan councils per kilometre of road, is only 24%, which is well below the average of other states which currently sits at approximately 55%.

Table (1)

State/Territory	Rural Average Grant Allocation Per KM of Road	Urban Average Grant Allocation Per KM of Road	Rural Allocation as a % of Urban Per KM of Road
NSW	\$ 1,147	\$ 2,356	49%
NT	\$ 1,527	\$ 2,972	51%
QLD	\$ 670	\$ 1,194	56%
SA	\$ 402	\$ 1,643	24%
TAS	\$ 2,571	\$ 3,656	70%
VIC	\$ 1,009	\$ 1,572	64%
WA	\$ 789	\$ 2,004	39%

Source: 2018-19 Local Government National Report, Australian Government- Department of Infrastructure, Transport, Regional Development and Communications

Figure (2)



Source: 2018-19 Local Government National Report, Australian Government- Department of Infrastructure, Transport, Regional Development and Communications

PART 3: CONSIDERATIONS IN SUPPORT OF CHANGE TO METHODOLOGY

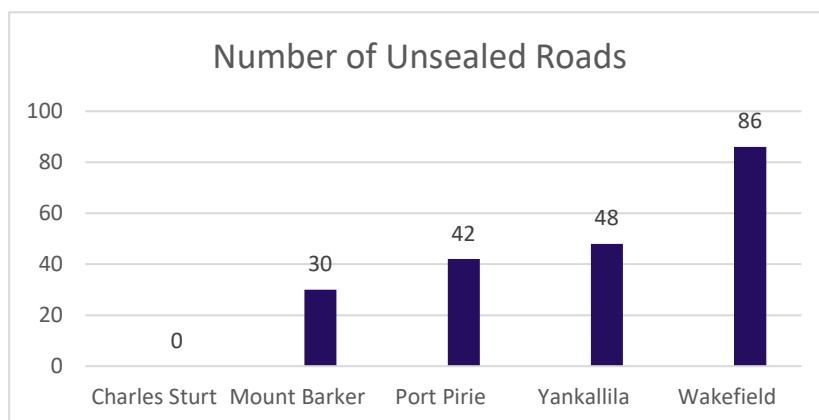
16. For the reasons set out above, WRC submits it is currently underfunded as a result of the methodology employed by the Commission. This is in circumstances where a WRC research study commissioned by consultants McGregor Tan, 'Community Experience Research', (the **WRC Study**) found that 95% of respondents identified road maintenance as the most important social and environmental issue facing WRC Council. ⁵
17. The WRC Financial Statements for the 2020/21 financial year reinforce the limited capacity of the Council to deliver upon road infrastructure/maintenance responsibilities. As is evident from the Financial Statements:
 - 17.1 WRC spent \$6.69 million on roads (inclusive of operating expenses) in 2021, which is approximately 78% of the general rates revenue; and
 - 17.2 'Transport' (activities relating to roads – sealed, formed unformed etc.) is contributing a deficit of \$4.6 million to the WRC operating surplus.
18. Notwithstanding such significant road spending by WRC, the Council still has **\$12.5 million** worth of fully expired road assets which require maintenance or preservation works to bring them 'up to standard'. This is particularly problematic for WRC in light of its strategic vision for growth and economic diversification, as required road funding requirement is presenting as an 'obstacle' to the Council achieving these strategic goals, by restricting WRC's ability to fund and provide critical public services including relating to:

⁵ McGregor Tan, 'Wakefield Regional Council Community Experience Research' (April 2019).

- 18.1 economic affairs;
- 18.2 protection of the environment;
- 18.3 recreation and culture;
- 18.4 public order and safety; and
- 18.5 housing and other community amenities;

19. It is also relevant to note that the Council's extensive and ongoing preservation/maintenance costs is directly attributable to the significant number of unsealed roads in WRC's area. The *SA Grant Commission Report for 2020-21* confirms that WRC has a considerably high number of unsealed roads, compared to other councils (particularly metropolitan councils) as evidenced in the table below.

Figure (3)



20. There are, in fact, approximately 2,492 kilometres of unsealed roads (compared to 213 kilometres of sealed roads) in the WRC's area. Many of these unsealed roads are relied on to support significant local industries and as such, are subject to heavy plant and machinery movement (i.e. between farms), as well as usage by heavy traffic to cart grain and poultry products.
21. In an effort to fund the renewal and maintenance of its road network, WRC has raised rates by an average of 5% over the past 5 years and has forecast a rate rise of 5% for the next 6 years. Despite these significant rate raises, over the next 4 to 6 years Council will increase its borrowings from \$5M to \$12M.
22. Due to funding restraints, WRC does not have the ability to invest in improving the unsealed road network to ensure it is fit for purpose. This is directly evidenced by the WRC Study, which highlights that the community recognises the need for improvements to both sealed and unsealed roads, with only 25% of responders being satisfied with the current conditions.
23. Of course, the above issues are compounded given the sheer size of WRC, being **3,469 km²** and with a road network, **2,705 km** (excluding roads under the care, control and

management of the Department of Infrastructure). Roads makeup approximately 66% of the total assets WRC holds and maintains. For further context, this is the 4th largest rural road network in South Australia; however, the estimated local road grant, which has been allocated to WRC for 2020/21, is only **\$582,815**, which is ranked **21st**.

CONCLUSION

24. A road network is a crucial and fundamental asset that connects people, places and the economy. It is critical, indeed expected by communities and industries, that roads are fit for purpose and maintained to an acceptable condition, including to ensure safety, support economic development and support prosperity.
25. The WRC is facing significant challenges in delivering upon this objective as it simply does not have financial capacity to fund required roadworks in its area. WRC is heavily reliant upon grant funding and considers that the current methodology employed by the Commission unfairly disadvantages WRC and does not adequately reflect WRC's relative needs as required by the Road Principle.
26. WRC's needs arise due to the following issues, all of which impact upon the cost to WRC to maintain its road network to an adequate standard:
 - 26.1 an extensive road network;
 - 26.2 low population and ratepayer base;
 - 26.3 high heavy vehicle traffic attributable to WRC's location and agriculture economy; and
 - 26.4 a significant high proportion of unsealed roads.
27. In particular, WRC submits that the methodology employed by the Commission places too much weight on 'population' as a determining factor and that this approach results in other important considerations relevant to road usage, road type and maintenance costs are being unfairly, overlooked. The result is that actual grant funding to WRC does not reflect its relative needs and that this equates to a scenario that is inconsistent with the Road Principle.
28. Having regard to the interstate methodologies referred to above, it can be seen that there are different approaches that more effectively align with and deliver upon the Road Principle.
29. Accordingly, WRC provides this submission to the Commission and respectfully seeks and encourages genuine reform of the Commission's methodology so it operates in a way that ensures a council's *relative needs* for roads expenditure are more adequately reflected in the grant allocation process and that Local Road Grants are, in turn, delivered in accordance with the Road Principle.

Should the Commission wish to discuss aspect of this submission, please do not hesitate to contact WRC's Chief Executive Officer, Andrew Macdonald.

WRC thanks the Commission for considering this submission and looks forward to the Commission's response.