



Institute of
Public Works
Engineering
Australia
(NSW Division)

IPWEA (NSW) ROADS & TRANSPORT DIRECTORATE

Consultation Submission
Rebuilding NSW
GPO Box 5341
Sydney NSW 2001

18 September 2014

Website: www.rebuilding.nsw.gov.au .

Dear Sir / Madam,

Rebuilding NSW Discussion Paper Submission

Introduction

The Institute of Public Works Engineering Australia (IPWEA) is a not for profit, membership based, professional organisation representing engineers and others involved in the provision of public works and services predominantly in the local government sphere.

The Roads & Transport Directorate has been set up by IPWEA (NSW) in conjunction with Local Government NSW to provide support to its members working in local government across the state. It is supported financially by membership contributions from Local Councils in NSW.

Background

The Roads & Transport Directorate has been set up to meet the demand from members of IPWEA (NSW) to act as a focus for research activities and to provide technical advice.

Its main purpose is to assist Local Government in NSW in the area of road infrastructure and transport related activities by:

- Assisting members in discharging their road management roles in the most effective manner consistent with current legal obligations and the most recent technical practices in the critical area of consistent and cost effective asset management and road safety;
- Assisting the IPWEA (NSW), Local Government NSW, individual Councils and members in lobbying for a higher priority to be placed on road infrastructure provision and maintenance and for a more equitable share of resources and funding; and
- Providing for IPWEA members and Local Government a powerful technical and research resource on transport issues at regional, state and national level. The

activities would be, as circumstances dictate, either proactive or reactive to achieve the optimum benefit for the region or state.

The Directorate commenced operation in October 2004 and has been involved in determining the needs of members and developing solutions to meet those needs. Over that period the Directorate has made submissions on a range of issues. Copies of some of these submissions¹ are available on the website at: www.roadsdirectorate.org.au.

Infrastructure Funding Background for NSW Local Roads

In NSW, Local Governments are “Road Authorities” under the Roads Act, 1993. Local Government has responsibility for 85 percent of the road network and this portion of the road network accounts for around 60 percent of road accidents.

In 2005, 2008 and 2010² the Roads & Transport Directorate commissioned a Road Asset Benchmarking Project to provide a snapshot of the current reported condition of Regional and Local Roads in NSW, an estimate of the shortfall in funding necessary to bring them to a satisfactory condition and specific recommendations about rectification of the problems identified.

In May 2013 the Roads & Transport Directorate released a further set of reports containing the results of the 2012 Road Asset Benchmarking Project.

The conclusions of the 2012³ report are summarised as follows:

This 2012 Road Management Report estimates the length of regional and local roads at 160,417 km, comprising 80,629 km of sealed roads and 79,789 km of unsealed roads. The replacement value at 30 June 2012 is estimated at \$61.8 billion.

The 2006 NSW Local Government Inquiry identified a sum of \$6.3 billion required to bring existing (including road and bridge) assets to a satisfactory standard. The figure of \$6.3 billion is 13% of total asset value and eight times the current level of expenditure. In addition, a further \$14.6 billion was required for replacement of existing assets over the next 15 years.

The Roads & Transport Directorate of the IPWEA NSW Division reported a snapshot of the current reported condition of regional and local roads in NSW at 30 June 2005 in its Road Management Report, The report concluded that present levels of road funding were not sustainable and identified a life cycle funding gap of \$783 million per annum.

Overcoming this funding gap will require a 108% increase in 2005 funding levels.

¹ Copies of submissions are available at:

<http://www.ipwea.org/RoadsTransportDirectorate/AboutRD/Submissions/>

²2006, 2008, 2010 Asset Benchmarking Reports are available

at:<http://www.ipwea.org.au/RoadsTransportDirectorate/AboutRD/AssetBenchmarkingProject/>

³ 2012 Road Asset Benchmarking Report is available at:

<http://higherlogicdownload.s3.amazonaws.com/IPWEA/c7e19de0-08d5-47b7-ac3f-c198b11cd969/UploadedImages/Asset%20Benchmarking%20Project/2012%20Road%20Management%20Report.pdf>

The 2008 Road Asset Benchmarking Survey reported a life cycle funding gap of \$618 million per annum equivalent to an increase of 75% required over 2007-08 funding levels. The life cycle funding gap was reported at \$677 million in 2010, equivalent to an increase of 91% over 2009-10 funding levels.

The Australian Local Government Association estimated maintenance and renewal expenditure for local roads in Australia for the period 2010 – 2024 and indicated a shortfall of \$17,664 million over the 15 years equivalent to an increase of 39% over estimated available funding levels for the period.

The Directorate commissioned this report to update the 2010 Road Asset Benchmarking report on the condition on NSW roads and bridges at 30 June 2012, update the shortfall in funding required to bring them to a satisfactory condition, provide specific recommendations about rectification of the problems identified and report on whether councils have made any improvement in management of road and bridge assets since the 2010 Road Asset Benchmarking Project survey.

The road funding gap for all 152 NSW councils is estimated at \$567 million per annum based on the data from the 146 responding councils extrapolated to 152 councils. Funding at this level will require a 66% increase on 2011/12 road expenditures if asset management principles are not applied to managing the gap.

Asset management principles to be applied to managing the funding gap include:

- ensuring that all councils have adequate accurate knowledge on the road assets and how these assets are performing,*
- ensuring that sealed roads are resurfaced/resealed at the optimum time to maintain waterproofing of pavements. This will require an increase in funding from \$178 million in 2011/12 to \$348 million per annum for all councils (a 96% increase, 254% in 2009/10).*
- consulting with and select appropriate levels of service and costs to meet community needs and available resources,*
- ensuring that unsealed roads are resheeted at the optimum time to meet agreed service levels within available resources. This will require an increase in funding from \$53 million in 2011/12 to \$155 million for all councils if service levels reported in the survey are to be maintained (a 194% increase, 416% in 2009/10),*
- making efficiencies in operations, maintenance, resurfacing and pavement renewal aimed at reducing life cycle costs,*
- improving maintenance practices and funding if necessary to extend pavement life and defer projected renewal,*
- ensuring adequate risk management practices are in place to identify risks and implement appropriate risk treatment actions,*
- rationalising (dispose) of unnecessary infrastructure assets,*
- reducing service levels in consultation with the community,*
- identifying future renewal needs and expenditure required to meet agreed service levels and document in an asset management plan,*
- increasing funding, and*
- combinations of all actions above.*

Present funding to meet existing service levels for NSW regional and local roads and bridges is 60% of the life cycle costs, an improvement from 57% in 2007/08 and 55% in 2009/10. Current level of service with current level of expenditure is not sustainable.

Councils may be facing a large and increasing risk exposure at present and in the future. These risks include:

- the condition of roads and bridges infrastructure will decline,*
- potential increase in personal injury and legal claims,*
- road life cycle expenditure ‘savings’ will be passed onto road users through higher transportation operating costs,*
- funding will not be available to renew ageing road and bridge assets,*
- councils will not be able to provide services needed by communities in medium-long term.*

Renewal expenditures are being transferred to the next generation.

Councils have a low level of knowledge of the load carrying capacity of bridges. This applies to only 14.8% of concrete bridges and 20.6% of timber bridges. Lack of knowledge is an additional risk to councils and inhibits community benefits from more efficient use of regional and local roads by the transport industry.

Asset consumption as reported by depreciation expense is understating the assessment of asset consumption by local road asset managers by almost 23% (50% in 2007/08, 35% in 2009/10), although councils have made significant improvements in the consistency of technical and financial reporting of infrastructure consumption.

These outcomes are supported by a raft of other studies into the sustainability of Local Government which include:

	NSW ‘Allan’ Inquiry (2006) ⁴ :	\$6.3 billion backlog
	Australia-wide PWC (2006) ⁵ :	\$15.3 billion (high); \$14.5 billion (intermediate); \$12 billion (low)
	NSW TCorp (2012) ⁶ :	Total NSW backlog 7.2 billion as at 2012 (25.4% increase since 2009)
	NSW DLG Audit Report (2012) ⁷ :	Total backlog 7.2 billion

⁴ Copy of *Independent Inquiry into the Financial Sustainability of NSW Local Government* available on LGNSW website: <http://www.lgnsw.org.au/files/imce-uploads/35/final-report-findings-and-recommendations.pdf>

⁵ Copy of PWC Report *National Financial Sustainability Study of Local Government* on the ALGA website at: http://alga.asn.au/site/misc/alga/downloads/pwc/PwC_Report.pdf

⁶ Copy of TCorp report *Financial Sustainability of the New South Wales Local Government Sector* available at: <http://www.dlg.nsw.gov.au/dlg/dlghome/documents/information/TCorp%20Report%20-%20Financial%20Sustainability%20of%20the%20New%20South%20Wales%20Local%20Government%20Sector%20-%20April%202013.pdf>

⁷ Copy of DLG *Local Government Infrastructure Audit Report* available at: <http://www.dlg.nsw.gov.au/dlg/dlghome/documents/Information/Local%20Government%20Infrastructure%20Audit%20Report%20-%20June%202013.pdf>

The Sustainability of Councils

The above assessments clearly establish that across NSW the sustainability of councils is at a critical point. The existing funding model is not adequate to support council service provision at its present level into the future.

It is difficult to see how any meaningful efficiency gains, in real terms, can be extracted from councils. Local Government in NSW has been subject to Rate Pegging since 1978 ensuring that real costs have been capped and decreased since that time. The rate cap has generally been set at the CPI increase or slightly below, insuring that rate increases have been held to about the CPI rate. This has unfailingly ignored the fact that construction cost indexes have been consistently well above the CPI rate – up to double in some years. This has focussed councils of the efficient provision of services for the past 36 years.

In addition to these facts, Local Government New South Wales (LGNSW) evaluations confirm that cost shifting to Local Government has increased costs for councils by in excess of \$520million per annum.

The solution to the sustainability of councils is therefore restricted to a combination of:

- ▲ Obtaining a more equitable share of income from both State and Federal Governments;
- ▲ A better use of appropriate debt; and
- ▲ An adjustment to the levels of service provided to the community.

While the IPWEA data provided above deals only with roads and bridges a similar situation exists in relation to other asset classes, particularly buildings, drainage and recreation facilities.

Summary of Annual Funding Gap – Bridges on Regional and Local Roads

Item	Estimated Value
Concrete / Steel Bridges	8,328
Timber Bridges	2,238
Total Bridges	10,566
Bridge Replacement Value	\$4,403M
Annual Bridge Asset Consumption	\$56.2M/yr
Bridge Life Cycle Cost	\$69.0M/yr
Annual Expenditure (10/11)	\$37.4M/yr
Funding Gap	\$29.6M/yr

Summary of Annual Funding Gap – Regional and Local Roads

Item	Length (km)	Life Cycle Cost \$/yr	Expenditure \$/yr	Funding Gap \$/yr
Regional Roads				
Sealed Roads	14,712	227,080,073	159,106,900	67,973,173
Unsealed Roads	3,220	23,012,358	10,049,179	12,963,179
Sub-Total	17,931	250,092,431	169,156,079	80,936,352
Local Roads				
Sealed Roads	65,917	923,651,741	527,225,056	396,426,685
Unsealed Roads	76,569	250,574,354	160,915,834	89,658,520
Sub-Total	142,486	1,174,226,096	688,140,890	486,085,205
Grand Total	160,417	1,424,318,526	857,296,969	567,021,558

Total Road Asset Replacement Cost = \$44,606M

Context of this Submission

This submission will focus on the allocation of available funds in the light of the above need to renew and maintain the existing Regional and Local Road Network.

While the necessity to extend the existing network and to provide new infrastructure is recognised, concentration on this at the expense of the current network will not provide improved end to end transport links.

The following responses relate to the specific questions contained in the Rebuilding NSW Discussion Paper.

a. Better Planning

There is a need for more comprehensive transport planning across the State. It is obvious from the preceding data that it is not possible to construct all roads to a standard capable of carrying more efficient freight vehicles or more widely dispersed public transport networks. The solution is to identify which elements of the network need to be upgraded to deliver enriched community outcomes and to concentrate the allocation of additional resources to these elements.

It is recognised that the State Government has completed some high level regional transport planning and the Local Councils have developed local transport plans. There is now a need to integrate these two levels of planning to provide a comprehensive, end to end, transport plan which can support present and future resource allocation.

b. Project Identification

Completion of the transport planning referred to above will facilitate the identification of high outcome transport related investment that will maximise economic growth and return on investment while at the same time meeting community expectations.

The current *Fixing Country Roads* Programme is an excellent first step in providing additional resources to the local and regional network. It is our contention that the benefits of this Programme would be enhanced by the allocation of resources in accordance with a comprehensive Local / Regional / State transport blueprint.

c. Efficient Infrastructure Provision

It is the Road & Transport Directorate's view that the areas of road funding and knowledge sharing need to be developed to provide for more efficient infrastructure provision.

The existing road funding model is unsustainable and needs to be overhauled. For the vast majority of councils there is no direct incentive to invest proactively for freight vehicles since there is no direct link between heavy vehicle usage and income for road improvements and maintenance. Nevertheless, most Councils are concerned to do what they are able to, to encourage improved productivity and increased economic growth (or to avoid negative growth). Many Councils are involved in regional transport or ROCs which are interested in working to improve economic and employment outcomes.

A direct and transparent link between increased demand by heavy vehicles and funding to support the increase in the level of service required would allow councils to make better investment decisions in relation to heavy vehicle networks.

Underlying the overall management of the total road network is a need to develop new products, new road building techniques and to provide the necessary knowledge transfer and training across all aspects of the road construction and management industry. This might involve the establishment of a state-wide Research & Development capability. This aim might also be achieved by more focused support for Austroads and wider dissemination and application of its research.

d. Asset Funding

The communique adopted by the 2014 NSW Local Roads Congress held in State Parliament House in June this year contains the following suggestions:

- Immediately direct IPART to increase the rate pegging limit by a further 2.5% (total 4.8%) for the 2014/15 financial year to account for the decreased Financial Assistance Grants (FAG) announced in the May, 2014 Federal Budget and the real cost of construction increases
- In the longer term, remove rate pegging in NSW and allow Councils to determine appropriate rating increases in conjunction with their own communities using the Integrated Planning and Reporting framework. Failing that, the NSW Government should set rate pegging to take account of the real costs of undertaking construction and service provision to the community
- Establish a National Local Government Finance Authority (NLGFA) to source lower interest borrowing for Local Government across NSW & Australia

- Produce guidelines for Local Government on effective use of borrowing to address short and long term funding needs including renewal and upgrade of local and regional roads
- Greater support for rail in regional NSW to reduce the increasing freight loads on local and regional roads, including resolving institutional impediments for access to existing rail

e. Regional Case Studies

The availability of large parts of the Local and Regional Road Network is determined by the load capacity of bridges on these roads.

While the Roads & Transport Directorate is not in a position to document specific cases at this time the applications for funding of bridge assessment and renewal under both the *Fixing Country Roads* Programme and the *Bridges Renewal Program* and *Heavy Vehicle Safety and Productivity Program* will clearly show the need for expenditure on this infrastructure as well as the benefits to be generated.

f. Regional Participation

The above information clearly shows that improving the efficiency of the transport network across NSW is critical to underpin the financial future of local communities. All local communities rely on transport to:

- Connect with other communities
- Transport goods and services produced by the local community to markets
- Transport goods and services to the local community
- Provide public transport
- Provide employment in the planning, design, construction and maintenance of local transport infrastructure

g. Efficiency of Electricity Networks

This is outside the area of interest covered by the Roads & Transport Directorate.

h. Network Reliability Standards

This is outside the area of interest covered by the Roads & Transport Directorate.

i. Customer Protections

This is outside the area of interest covered by the Roads & Transport Directorate.

j. Employment Guarantees

This is outside the area of interest covered by the Roads & Transport Directorate.

k. Employment v Cost Balance

This is outside the area of interest covered by the Roads & Transport Directorate.

Other Information

The above submission makes reference to the Communique adopted by the 2014 NSW Local Roads Congress. This Communique is provided in full below.

NSW Local Roads Congress
2nd June 2014
Congress Communiqué

The NSW Roads & Transport Directorate, a partnership between the Institute of Public Works Engineering Australia (IPWEA) and Local Government NSW in holding the 2014 NSW Local Roads Congress resolved to announce the following communiqué.

Local & regional roads are absolutely critical to the social and economic well-being of communities across NSW, and particularly in regional NSW where alternate transport options are limited. These same roads are also critical to the efficient movement of freight including delivering loads via high productivity trucks to/from point of source over the 'first mile'.

The Congress notes government advice that the freight task is predicted to double in the next 20 years. Many local & regional roads were not designed to cater for higher productivity vehicles. In addition, the State Government must review the increased use of the rail network the increased freight task.

Local & regional roads are under-funded in NSW by more than \$600M per annum, without accounting for works to meet demand from growth or upgrades to meet the increasing pressures to support higher productivity trucks. This shortfall is inclusive of existing Federal Assistance Grants and Roads to Recovery programs.

The Australian government is to be congratulated for continuing Roads to Recovery (\$349.8M/yr across Australia) and introducing a fund to assist with bridges (\$60M/yr) through to June, 2020. However, greatly increased funding is still required for timber bridges to address the access problem.

The flatlining of Federal Assistance Grants announced in the recent Budget means this funding is being significantly eroded (\$95.8M, \$200.4M, \$307.8M & \$321.1M from 2014/15 to 2018/19 respectively). This represents a major loss of much needed funding.

The NSW Local Road Construction Cost Forecast 2010-2020 (February, 2011) highlights the increasing cost of construction as being over 4.1% per annum over this decade. This far exceeds the rate pegging limit for NSW of 2014/15 of 2.3%, resulting in a decline in available funding in real terms.

In NSW this means accepting further decline in the condition of road & bridge infrastructure, with worsening road safety outcomes, negative impacts on business and the NSW and regional economies, increasing maintenance costs and litigation, and reduced ability to meet the extra demands of growth in population and provide for higher productivity vehicles.

The NSW Congress therefore calls on the State and Australian governments to take the following measures:

NSW government

The NSW government should:

- i) immediately direct IPART to increase the rate pegging limit by a further 2.5% (total 4.8%) for the 2014/15 financial year to account for the decreased Financial Assistance Grants*

- (FAG) announced in the May, 2014 Federal Budget and the real cost of construction increases*
- ii) in the longer term, remove rate pegging in NSW and allow Councils to determine appropriate rating increases in conjunction with their own communities using the Integrated Planning and Reporting framework . Failing that, the NSW Government should set rate pegging to take account of the real costs of undertaking construction and service provision to the community*
 - iii) implement changes to allow the re-distribution of Financial Assistance Grants to assist the areas of highest need in regional NSW and modify rating arrangements on high density development to permit urban Council's to sustain current rate revenue levels. This proposal must be part of a total package based on the development of asset management plans based on auditable data.*
 - IV) the Department of Planning develop strategies to determine and mitigate the cumulative impact of State Significant Development, e.g. mining, on communities and transport infrastructure beyond the immediate development area.*

NSW & Australian Government

The Congress calls on the State and Australian governments to work together to provide:

- i) a National Local Government Finance Authority (NLGFA) to source lower interest borrowing for Local Government across NSW & Australia*
- ii) produce guidelines for Local Government on effective use of borrowing to address short and long term funding needs including renewal and upgrade of local and regional roads*
- iii) increased funding arrangements to facilitate increased productivity in road transport and works designed to meet future growth*
- iv) greater support for rail in regional NSW to reduce the increasing freight loads on local and regional roads, including resolving institutional impediments for access to existing rail*
- v) recognition of Local Government in the Australian Constitution*
- vi) consider and address the cumulative impact of increasing road and rail freight on communities and initiate infrastructure improvements, such as rail overpasses to improve transport efficiency.*

Australian Government

The Congress calls on the Australian government to:

- i) Restore the CPI increase in Financial Assistance Grants to Local Government*
- ii) Progressively increase funding to Local Government tied to a percentage of the GST equivalent to 1% of national GDP.*

Australian Local Government Association

The NSW Congress seeks the support of ALGA to further the case for improved funding and recognition of Local Government as outlined in this communique.

NSW Local Government

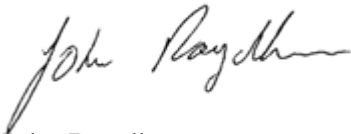
The Congress calls on Local Government in NSW to:

- i) support the Congress outcomes by writing to the relevant Ministers and their local State*

- and Australian government MPs seeking their support for the outcomes outlined herein*
- ii) support the expenditure of all FAG-Roads Component Funding on roads*
 - iii) Continue to pursue improved asset management across all Council's through capacity building and peer support*
 - iv) Continue to strive for gains in efficiency in service delivery*

The IPWEA (NSW) Roads & Transport Directorate appreciates this opportunity to make comment on the ***Rebuilding NSW Discussion Paper*** and would value any opportunity to provide additional details arising from the above submission. We would also value the opportunity to have ongoing involvement in the development of this Program.

For further information in relation to the submission please do not hesitate to contact the undersigned on:



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