
New South Wales Auditor-General's Report

Performance Audit

Regional Road funding – Block Grant and REPAIR programs

Roads and Maritime Services



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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Regional Road funding – Block Grant and REPAIR programs: Roads and Maritime Services**.

A handwritten signature in black ink, appearing to read 'Grant Hehir'.

Grant Hehir
Auditor-General
8 May 2014

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Executive summary

Background

Regional Roads perform a support function between the main arterial network of State Roads and the network of Local Roads. Regional Roads connect smaller towns to the State Roads network and with each other in rural areas and they provide sub-arterial connections in urban areas. There are around 18,250 kms of Regional Roads in NSW.

Roads and Maritime Services (RMS) controls State Roads and councils control Regional and Local Roads. In recognition of their importance to the State's economy, the State government provides a financial contribution to help councils manage and maintain Regional Roads. The two main funding sources are the Regional Roads Block Grant and the REPAIR (REPair And Improvement of Regional Roads) programs which are administered by RMS.

Under the Block Grant program, introduced in 1989, each council receives an annual grant to use at its discretion on Regional Roads within its boundaries. In 2013–14, the total allocation for this program was \$142.2 million. There are three components to the grant. The roads component comprises 75 per cent of the fund. There are different formulae for allocating the roads component for Sydney councils and rural councils. The traffic facilities component is distributed by a different formula which applies to all councils and covers routine maintenance of traffic facilities. The third component is a fixed supplementary amount equivalent to what councils had historically received under the State government's discontinued 3X3 Special Road funding program.

The REPAIR program, introduced in 1995, provides funds to assist councils in undertaking larger rehabilitation and development works on Regional Roads. The aim is to minimise whole-of-life costs and to promote economic development. The program provides for a State government contribution of 50 per cent of the estimated project cost, with projects selected on a region-wide merit basis by a Regional Consultative Committee (RCC) established in each of the six RMS regions. The total allocation for this program in 2013–14 was \$29 million. The latest available data shows that in 2011–12, councils spent \$254.5 million on Regional Roads with \$163.1 million coming from these two funding programs out of a total NSW government contribution of \$189.8 million.

We examined whether the Block Grant and REPAIR programs are effective in promoting value for money outcomes. In doing so we assessed whether the RMS allocation of funds to councils through these programs was efficient and effective. We also looked at whether RMS ensures funds provided under these programs are well spent. We limited our examination to RMS management of the programs because we do not have either the mandate to audit local government directly or 'follow the dollar' powers to directly examine the quality of local government performance data.

Conclusion

The Block Grant program is administratively simple and provides autonomy to councils in determining priorities. There are shortcomings in allocation and accountability which hamper its efficiency and effectiveness:

- the allocation formula for the rural council roads component ignores the disproportionate damage caused by heavy vehicles
- traffic data on which allocations are based is unreliable
- RMS has little assurance that grants are well spent.

RMS has been working to improve aspects of the Block Grant program, in particular the capture, quality and currency of data provided by councils for allocating Block Grants.

The REPAIR program is well designed to promote efficient and effective use of the funds provided by RMS. In particular: it promotes merit-based project selection from a regional perspective to minimise whole-of-life costs and provide positive net economic benefits; uses a collaborative approach to decision-making; and provides an efficient accountability mechanism. However, RMS needs to improve how the program operates in regions to ensure the program's good design translates to optimal results.

Supporting findings

Does Roads and Maritime Services allocate funds to councils under the Block Grant program efficiently and effectively and ensure that funds are well spent?

The Block Grant program is simple in design and operation and administratively efficient. It provides autonomy to councils regarding spending on their Regional Roads and is supported by Local Government NSW.

However, shortcomings exist in both design and operation of the program. These primarily are:

- traffic data provided by councils which supports funding allocation is unreliable
- the allocation formula for the roads component for rural councils does not take account of the impact of heavy vehicles on the need for and cost of road maintenance
- while councils are required to certify they have spent Block Grant money only on Regional Roads, RMS does not obtain assurance that councils have spent the money efficiently and effectively
- around ten per cent of the program funds are allocated based on an average of what councils received from the discontinued 3X3 Special Road funding program between 1995 and 1999, rather than on the basis of the Block Grant formulae
- there has been no major evaluation of the program since 1995.

RMS therefore cannot be sure that the Block Grant funds are being efficiently and effectively allocated and used.

Since 2011, RMS has been seeking to improve the quality of council-provided data. This includes:

- creating a position with responsibility to improve the Block Grant program
- establishing a working group in mid 2013 with Local Government NSW, the Institute of Public Works Engineers NSW, and Division of Local Government to address this issue
- modifying the 2013-14 Block Grant agreement to require councils to list each year their full road inventory and traffic counts for each Regional Road and to provide evidence of, and the basis for, determining traffic data.

We support these initiatives if they result in:

- improved reliability of traffic data used for allocations or adoption of a reasonable surrogate
- the allocation formula for the roads component for rural councils taking account of the impact of heavy vehicles.

The program would also be improved if:

- RMS had greater assurance that councils are spending the grant well. This could be achieved by RMS requiring councils to certify that the grant is spent in accordance with priorities and plans established through the Integrated Planning and Reporting requirements established under the *Local Government Act 1993* and *Local Government Amendment (Planning and Reporting) Act 2009* with some risk-based, desk-top assurance of the certification
- RMS evaluated the program approximately every five years.

In making changes to the Block Grant program, RMS needs to strike the right balance between maintaining the administrative efficiency of the program and improving allocative efficiency and accountability.

There are a number of current initiatives elsewhere within government which aim to promote coordinated planning and management of council controlled roads at a regional level. RMS needs to participate in the reform process where possible to capitalise on opportunities to improve the design and operation of the Block Grant program.

Does Roads and Maritime Services allocate funds to councils under the REPAIR program efficiently and effectively and ensure that funds are well spent?

The REPAIR program has a number of positive elements in its design, including:

- it has a clear objective
- projects are to be selected on a merit basis from a regional perspective
- councils, through a regional consultative process, have the major say in the projects undertaken within the overall requirements of the program
- it is intended to fund larger rehabilitation and development projects which minimise whole-of-life costs and provide positive net benefits to the community
- the scope, estimated costs and expected benefits of projects are established up-front, simplifying post-project accountability requirements.

However, shortcomings exist in the operation of the allocation process. These primarily are:

- allocations to RMS regions are based on the same formulae and traffic data used for Block Grant allocations, and therefore have the same shortcomings
- projects in two RMS regions were not selected by RCCs on a merit basis from a regional perspective but on the basis of Block Grant allocations to individual councils
- project assessment methods used by RCCs varied widely across RMS regions, with most not adequately weighted for minimisation of whole-of-life costs and promotion of economic development.

The program would be improved if:

- the allocation to each RMS region under REPAIR was based on formulae which better reflect road management costs and on more reliable traffic information
- RMS ensured that approved projects meet the program requirements, including:
 - all RMS regions ensure that RCCs allocate funds to projects from a regional perspective rather than to individual councils on the basis of the Block Grant formulae
 - project assessments are required to give appropriate weight to economic development and minimisation of whole-of-life costs.
- RMS evaluated the program approximately every five years.

RMS is in the process of appointing a Local Government Program Coordinator in each region to provide assurance that Regional Road funding programs are delivered consistently across RMS regions and in accordance with their objectives and guidelines.

Key recommendations

Roads and Maritime Services should:

1. work with Transport for NSW and local councils to account for the impact of heavy vehicles in allocating Block Grants to rural councils (page 20) and improve the integrity and reliability of the traffic information it uses to allocate Block Grants to councils and REPAIR program funding to RMS regions (pages 17, 26)
2. require councils to certify that they spend Block Grant funds in line with priorities established through the Integrated Planning and Reporting framework, with some risk-based, desk-top assurance of this certification (page 22)
3. publish benchmarking information on regional road maintenance costs and outputs (page 22)
4. ensure all RMS regions and their RCCs comply with the REPAIR program objective that project selection is carried out on a merit basis from a regional perspective (page 27)
5. ensure RCCs give adequate weight to whole-of-life costs and economic benefits when assessing REPAIR projects (page 31)
6. evaluate the REPAIR and Block Grants programs in the next two years, and then every five years in line with good practice in grants administration (pages 23, 33).

Response from Roads and Maritime Services



Transport
Roads & Maritime
Services

CE14 / 0498

Mr Grant Hehir
Auditor-General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

Dear Mr Hehir

Performance Audit – Regional Road Funding

Thank you for your letter seeking a formal response on behalf of Roads and Maritime Services about the report on the Performance Audit on Regional Road Funding programs – Block Grant and REPAIR.

Roads and Maritime welcomes the opportunity to provide a formal response.

As requested, please find attached the Roads and Maritime formal response for inclusion in the report.

Overall, Roads and Maritime considers the audit to have been comprehensive and well researched. The findings and recommendations contained in the report will be given full and rigorous consideration.

If you have any further enquiries on this response, please contact Mr Mike Cush, General Manager, Asset Maintenance Planning on (02) 8588 5650.

Yours sincerely

A handwritten signature in black ink, followed by the date '29.4.2014'.

Peter Duncan
Chief Executive

Roads & Maritime Services

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Roads and Maritime Services' responses

Roads and Maritime Services (RMS) welcomes the findings of the Performance Audit of Regional Road Funding programs – Block Grant and REPAIR.

These programs provide a significant NSW State Government contribution to the maintenance and upgrade of Regional Roads owned and managed by councils. RMS agrees that the administration of these programs needs to be efficient and effective to deliver value for money for the NSW community.

RMS notes that the report acknowledges its efforts over recent years to improve the administration of these programs in collaboration with key stakeholders:

- Local Government NSW.
- Institute of Public Works Engineers Australia (NSW).
- Office of Local Government.

RMS recognises that the nature of the recommended changes will necessitate a collaborative approach. Further, RMS also recognises that recent reforms in the Local Government sector present opportunities for improved program administration. However, given the programs impact on 152 councils, RMS does not underestimate the task to implement improvements.

RMS notes that the Audit Office of NSW has suggested that many of the recommendations be delivered by June 2015. RMS' preliminary assessment indicates that this is a realistic timeframe for the completion of implementation. It would allow sufficient time for detailed consideration of recommendations, consultation with stakeholders on the more substantive issues, and implementation of findings.

RMS' response to individual recommendations is provided in the following tables.

Audit Office of NSW (AO) recommendations for the Block Grant (BG) program

AO recommendation	AO suggested timing for completion	RMS response
RMS should require councils to certify that they spend BG funds in line with priorities established through the Integrated Planning and Reporting framework with some risk-based, desk-top assurance of this certification.	By the end of June 2015.	Agree in principle. Councils are currently only required to certify they have spent BG money on Regional Roads and the nature of the works undertaken. Completion by the end of June 2015.
RMS should publish benchmarking information on regional road maintenance costs and outputs.	By the end of June 2015.	Noted. RMS will review what data is already collected and how this can be analysed to be more useful to councils. If the collected data is not used, consideration will be given to no longer requiring it. Completion by the end of June 2015.
RMS should improve the integrity and reliability of the traffic information it uses to allocate BGs to councils.	By the end of June 2015.	Agree. The notion of mandating traffic count methodologies to council is currently being investigated with a view to addressing issues raised in the AO report. Timing of any change will be subject to negotiation around council capacity and funding issues being resolved. Completion by the end of June 2015.
RMS should work with Transport for NSW and local councils to account for the impact of heavy vehicles in allocating BGs to rural councils.	By the end of June 2015.	Agree in principle. This can be investigated. It has been attempted in the past with no success, however AO points to new information held by the Bureau of Freight Statistics that may assist the task. Completion by the end of June 2015.
RMS should consider incorporating the BG funds currently distributed on the basis of the discontinued 3X3 road funding program into the BG roads component.	By the end of June 2015.	Noted. RMS will consider the recommendation noting that any proposal to change the funding model for Regional Roads agreed with Local Government will require the concurrence of the Minister for Roads and Ports. Completion by the end of June 2015.
RMS should evaluate the Regional Roads BG program in the next two years, and then every five years in line with good practice in grants administration.	In the next two years.	Agree.
To allow the necessary analysis and consultation, RMS should consider continuing its 2013-14 approach of indexing the previous year's allocations for a further year.	Not applicable.	Noted. RMS will consider the recommendation noting that any proposal to change the funding model for Regional Roads agreed with Local Government will require the concurrence of the Minister for Roads and Ports. By end of June 2014.

Audit Office of NSW (AO) recommendations for the REPAIR program

AO recommendation	AO suggested timing for completion	RMS response
RMS needs to ensure all RMS regions and their Regional Consultative Committees (RCCs) comply with the REPAIR program objective that project selection is carried out on a merit basis from a regional perspective.	By the end of June 2015.	Agree. RMS has initiated a review of Regional compliance with the Program objectives. Completion by the end of June 2015.
Following any amendment to the BG allocation method flowing from RMS' review, RMS should apply the revised allocation method for distribution of REPAIR program funding to individual RMS regions.	Not applicable.	Agree. This recommendation is consistent with the intent of the REPAIR program objectives. Completion by the end of June 2015.
RMS should ensure that: - RCCs give adequate weight to whole-of-life costs and economic benefits when selecting REPAIR projects - The model scoring system in the REPAIR program guidelines gives adequate weight to whole-of-life costs and economic benefits when selecting REPAIR projects.	By the end of June 2015.	Agree. This recommendation is consistent with the REPAIR program objectives. Completion by the end of June 2015.
RMS should: - Do more to encourage joint council funding applications. - Require all RCCs and regions to adopt four year rolling programs.	By the end of June 2015.	Noted. RMS will consider the recommendation in the context of the review of the REPAIR Program. Completion by the end of June 2015.
RMS should ensure that REPAIR project works use technical standards which comply with the RTA manual "Arrangements with Councils for Road Management".	By the end of June 2015.	Agree in principle. Austroads guides, or similar, may provide more up to date and appropriate technical standard than the RTA manual "Arrangements with Councils for Road Management". Completion by the end of June 2015.
Evaluate the REPAIR programs in the next two years, and then every five years in line with good practice in grants administration.	In the next two years.	Agree in principle. The timing of the Review will need to be cognisant of the timing and outcomes of the review of the Regional Road Block Grant Program. Completion in the next two years.

Introduction

1.1 What are Regional Roads?

The classification of State Roads and Regional Roads was established under an agreement made in 1989 between the State government and the then Local Government and Shires Associations (now Local Government NSW) representing local government councils. This transferred control of Regional Roads to councils, including responsibility for funding, determining priorities and standards for road works, including maintenance. The then Roads and Traffic Authority (RTA), now Roads and Maritime Services (RMS), retained an equivalent responsibility for State Roads. The stated objective of this action was to reduce administration costs to councils and RTA, and to develop a more efficient and equitable basis of funds allocation and a more logical road classification system.

Regional Roads comprise Secondary Roads and non-metropolitan Main Roads as classified under the *Roads Act 1993* plus other council controlled roads not classified under the Roads Act but identified as Regional Roads by agreement between councils and RMS.

Regional Roads perform a support function between the main arterial network of RMS controlled State Roads and the network of Local Roads controlled by councils. Regional Roads connect smaller towns to the State Roads network and with each other in rural areas and they provide sub arterial connections in urban areas (see Exhibit 1). There are around 18,250 kms of Regional Roads in NSW while Local Roads comprise around 145,000 kms and State Roads around 17,500 kms.

Exhibit 1: Road classification in NSW

The identification of State and Regional Roads is based on road function and is independent of funding source. Functional classification groups roads into classes or systems according to their function or the character of the service they are intended to provide so as to encourage travel to move within the network in a logical and efficient manner.

Functional consideration gives priority to the commercial importance of routes, that is the extent to which the routes are used for movement of freight and services traffic, with consideration also of social and recreational traffic.

Functional classification can be used as a basis for allocating jurisdictional responsibility for roads. The primary, long distance, high traffic routes have strategic importance for the wider economy and by their nature are more expensive to construct and maintain. Central Governments acknowledge this by taking responsibility for the high order roads while lower order roads remain under responsibility of local councils.

The development of a strongly differentiated hierarchy of roads on a functional basis is essential to support broad State economic objectives, to maximise the effectiveness and efficiency in the spending of road funds by the differing jurisdictions, to support economic objectives, to support appropriate traffic management regimes and efficient traffic flow and to promote road safety.

A generic hierarchy comprises freeways, primary arterial roads, secondary or sub-arterial roads, collector roads and local access roads. The NSW State, Regional and Local Road administrative system of road classification forms a hierarchy which generally aligns to the model hierarchy as follows:

- State Roads – Freeways and primary arterials
- Regional Roads – Secondary or sub-arterials
- Local Roads – Collector and local access roads.

Source: NSW Road Classification Review Panel, Final Report, August 2007.

1.2 What funding assistance does NSW Government provide for Regional Roads?

In recognition of their importance to the State's economy, the State government committed to provide funding assistance, based on historical costs when under RTA control and maintained in real terms, to help councils manage and maintain their Regional Roads. The two main sources of this funding are the Regional Roads Block Grant and the REPAIR (REPair And Improvement of Regional Roads) programs. Both programs are administered by RMS.

The Block Grant program, which was established when the State Roads and Regional Roads classification agreement was made in 1989, has an identified funding pool, CPI adjusted annually, which is distributed to councils. Each council receives an annual grant to use on Regional Roads within its boundaries according to council priorities.

There are three components to the grant: roads; facilities; and supplementary. The roads component comprises 75 per cent of the funds and is allocated via a formula. For rural councils the roads component formula is based on road and timber bridge length and traffic. For Sydney councils the formula is based on lane length and traffic but accounts separately for heavy vehicles (see Appendix 3 for roads component formulae). The traffic facilities component (approximately 15 per cent) is distributed by a different formula which applies to all councils and covers routine maintenance of traffic facilities such as lane markings, pedestrian crossings and road signage. The supplementary component (approximately 10 per cent) is an amount equivalent to what councils had historically received under the State government's discontinued 3X3 Special Road funding program.

To receive Block Grant funds, councils enter into a Block Grant Agreement with RMS each year. This recognises councils as the road authority with responsibility for Regional Roads and acknowledges the capacity and accountability of councils to make appropriate road management decisions. According to *Regional Roads Funding Assistance to Local Government 2011–12*, an information paper to councils issued by the RMS Local Government Liaison Committee (LGLC):

The Agreement is meant to minimise administrative burdens on both councils and the RMS and to ensure that funds contributed by State Government are providing value for money to NSW communities.

The LGLC comprises representatives of RMS, Transport for NSW and Local Government. This includes the President of Local Government NSW (the peak council representative body) and is chaired by the Chief Executive of RMS.

Consistent with this information paper, the standard Block Grant Agreement provides that:

The RMS and councils recognise that effective and efficient planning, management, administrative, funding and classification arrangements are necessary in the current economic and social climate.

In 2013–14, the total allocation under this program was \$142.2 million with \$105.9 million for the roads component and \$21.3 for traffic facilities component as well as the supplementary amount of \$15 million for the discontinued 3X3 Special Road funding program. The 112 rural councils received \$122.3 million, while 40 Sydney urban councils received \$19.9 million.

The REPAIR program, introduced in 1995, provides funds to assist councils in undertaking larger rehabilitation and development works on Regional Roads on a region-wide priority basis. The aim is to minimise whole-of-life costs and to promote economic development. Under this program each RMS region receives an annual allocation from an identified funding pool, CPI adjusted annually, in the same proportion as determined by the Block Grant formulae.

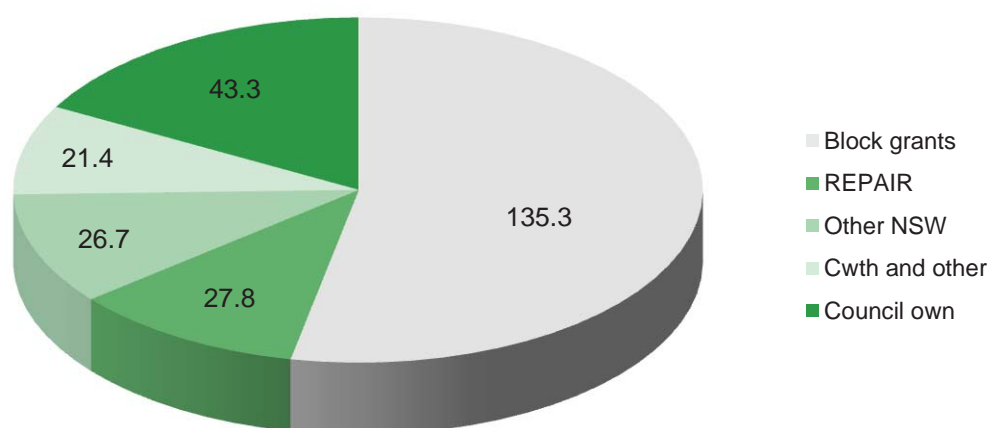
The program provides for a State government contribution of 50 per cent of the estimated project cost, with councils contributing the remainder. Projects are to be selected on a merit basis by a Regional Consultative Committee (RCC) established in each of the six RMS regions. The RCC includes the RMS Regional Manager and representatives of the councils in the RMS region. Selection criteria include benefit to cost, multi-council impact, minimisation of whole-of-life costs, heavy vehicle traffic count, existing road condition, safety risks and connections to rail freight.

The total allocation for this program for 2013–14 was \$29 million, with \$25 million shared between the five rural RMS regions, and \$4 million to Sydney RMS region.

The Block Grant and REPAIR Programs are intended to be only a contribution to councils toward the upkeep of regional roads. Councils have the responsibility to ensure Regional Roads are properly managed. Councils have access to a range of other funding sources to fulfil this responsibility.

The latest available data shows that in 2011–12, councils spent \$254.5 million on Regional Roads with \$163.1 million coming from these two funding programs out of a total NSW government contribution of \$189.8 million. This means the NSW government contributed around 75 per cent of total council expenditure on Regional Roads. An additional \$21.4 million came from Commonwealth and other sources, leaving councils' direct contribution at \$43.3 million or 17 per cent of the total spend (see Exhibit 2).

Exhibit 2: Council expenditure on Regional Roads by funding source, 2011–12 (\$ million)



Source: Data provided by RMS based on schedules submitted to it by councils.

Note: Other NSW (\$26.7m) comprises other funding assistance such as small programs covering installation and management of traffic facilities and natural disaster restoration.

1.3 Interstate comparisons

We undertook a desktop review of arrangements in Queensland, Western Australia, and Victoria for the funding of Regional Roads or their approximate equivalents. There is no standard definition of Regional Roads across Australia.

In 2004, the Victorian government terminated a funding arrangement with councils for management of its equivalent of Regional Roads and placed them under the control of VicRoads, the equivalent to RMS. A reason for this action given by VicRoads was that there was concern that council management was inadequate and the roads were being degraded.

In Queensland, Regional Roads are managed through the Roads and Transport Alliance. This is a partnership between the Queensland Government, represented by Transport and Main Roads, and local government, represented by the Local Government Association of Queensland. The Roads and Transport Alliance was established in 2002 to create a more strategic and long-term approach to regional road and transport planning, financing and delivery across both levels of government in Queensland. Under the Alliance, local governments voluntarily collaborate with Department of Transport and Main Roads regional representatives to form 18 Regional Roads and Transport Groups who are responsible for prioritising, investing in and delivering regionally significant road and transport infrastructure. The Roads and Transport Alliance is similar to the REPAIR program in its region wide strategic approach and sharing of financial resources between government and councils. There is no equivalent to a Block Grant program in Queensland.

Western Australia does operate both Block Grant and REPAIR style merit-based road funding programs for council-controlled roads. However, the key difference to NSW is that the merit-based funding constitutes around 89 per cent of total government funds provided under these programs as against 17 per cent in NSW. See Exhibit 3 for a comparison between Western Australia and NSW.

Exhibit 3: Comparison of Regional Road funding in NSW and WA.

	NSW	WA
Funding split Block grant to region-wide merit-based	Block grant to councils 83% Region-wide merit-based (REPAIR) 17% Note: State funding limited to Regional Roads.	Block grant to councils 11% Region-wide merit-based 89% Note: State funding available for regional and local roads.
Block grant formula complexity	Simple formula based on length of Regional Roads, traffic data (including heavy vehicles in Sydney RMS region) and length of timber bridges (in rural RMS regions).	Complex formula based on state wide Asset Preservation Model. The model requires comprehensive road statistics, costs and work standards. These include road length, area of sealed roads, area of bridges, traffic count, heavy vehicle count on unsealed roads, cost of road building materials and amount of salt present in the surrounding material.
Traffic data	Provided by recipient council to RMS (funder). No standardised methodology is used and no verification by RMS.	Carried out by Main Roads WA (funder). A standardised methodology is used.

Source: Audit Office research.

1.4 What is the audit about?

Councils have responsibility for Local Roads in addition to Regional Roads. A recently completed Local Government Infrastructure Audit by the Division of Local Government of the Department of Premier and Cabinet found that by mid-2012, there was a funding backlog on maintenance and renewal of some \$4.5 billion for council controlled roads and related assets. That Audit also found that a large number of mostly rural councils are not investing enough to prevent their backlog from growing.

This high and persistent backlog indicates the need for strategic targeting of scarce funding for council controlled roads and related assets to optimise value for money.

Our audit provided an opportunity to test whether the Block Grant and REPAIR programs are effective in promoting value for money outcomes. In doing so we assessed whether the RMS allocation of funds to councils through these programs was efficient and effective. We also looked at accountability, this being whether RMS ensures funds provided under these programs are well spent.

See Appendix 1 for more information on the audit scope and focus.

Key findings

2. Does Roads and Maritime Services allocate funds to councils under the Block Grant program efficiently and effectively and ensure that funds are well spent?

The Block Grant program is simple in design and operation and administratively efficient. It provides autonomy to councils regarding spending on their Regional Roads and is supported by Local Government NSW.

However shortcomings exist in both design and operation of the program. These are:

- traffic data provided by councils which supports funding allocation is unreliable
- the allocation formula for the roads component for rural councils does not take account of the impact of heavy vehicles on the need for and cost of road maintenance
- while RMS attains some assurance that the money allocated to councils is spent only on Regional Roads, it has little assurance that councils are spending the grant monies efficiently and effectively
- around ten percent of the program funds are allocated based on an average of what councils received from the discontinued 3X3 Special Road funding program between 1995 and 1999, rather than on the basis of the Block Grant formulae
- there has been no major re-evaluation of the program since 1995.

RMS therefore cannot be sure that the Block Grant funds are being efficiently and effectively allocated and used.

Since 2011, RMS has been seeking to improve the quality of council data. This includes:

- creating a position with responsibility to improve the Block Grant program
- establishing a working group in mid 2013 with Local Government NSW, the Institute of Public Works Engineers NSW, and Division of Local Government to address this issue
- modifying the 2013-14 Block Grant agreement to require councils to list each year their full road inventory and traffic counts for each Regional Road and to provide evidence of and the basis for determining traffic data.

We support these initiatives if they result in:

- improved reliability of the traffic data used for allocations or adoption of a reasonable surrogate
- the allocation formula for the roads component for rural councils taking account of the impact of heavy vehicles.

The program would also be improved if:

- RMS had greater assurance that councils are spending the grant well. This could be achieved by requiring councils to certify that the grant is being spent in accordance with priorities and plans established through the Integrated Planning and Reporting requirements established under the *Local Government Act 1993* and *Local Government Amendment (Planning and Reporting) Act 2009* with some risk-based, desk-top assurance of the certification
- RMS evaluated the program approximately every five years.

In making changes to the Block Grant program, RMS needs to strike the right balance between maintaining the administrative efficiency of the program and improving allocative efficiency and accountability.

There are a number of current initiatives elsewhere within government which aim to promote coordinated planning and management of council controlled roads at a regional level. RMS needs to participate in the reform process where possible to capitalise on opportunities to improve the design and operation of the Block Grant program.

2.1 Allocation

Finding: Allocation of funds to councils under the Block Grant program is administratively simple.

The Block Grant program provides autonomy to councils to spend the grant on Regional Roads according to their own priorities.

Council stakeholder representatives, including Local Government NSW, support the program.

However, we found shortcomings exist in allocation which impact on Block Grant funds being allocated efficiently and effectively.

Council-provided traffic data

Finding: The data provided by councils which supports Block Grant allocation is unreliable.

The allocation formula for the roads component of Block Grants is a function of road length, Annual Average Daily Traffic (AADT) and length of timber bridges in the case of rural councils. For Sydney councils it is based on length of traffic lanes and traffic, with heavy vehicles separately accounted for.

Presently traffic counts are undertaken by councils.

We have concerns about the reliability of the traffic data provided by councils. We found that:

- there is no standard approach prescribed by RMS to undertake traffic counts
- RMS does not audit or undertake other systematic quality assurance on this data.

We note that the 2013–14 standard Block Grant Agreement for the first time asks councils to provide “evidence/basis for determination of traffic data”. However, there is nothing specific in the Agreement which enables RMS to audit or verify the accuracy of the traffic data or the method used.

An average annual daily traffic estimate can vary significantly depending on such things as when in the year the count was taken, where it was taken on the road and the duration of measurement.

For example, AADT will be overstated where a council extrapolates its estimate from counts taken:

- at the height of the tourist or harvest seasons, when usage will be at its highest in the year
- in a town rather than between towns, where local traffic in the town will exaggerate the result.

The council returns to RMS we saw showed that traffic data was in some instances quite old, well over ten years on occasion and up to 20 years old, and contained anomalies. This included significant changes in traffic estimates both up and down from one year to the next. For example:

- increases in traffic estimates from 2,275 AADT to 6,418 AADT and 21,493 AADT to 45,211 AADT
- decreases in traffic estimates from 950 AADT to 498 AADT and from 5,987 AADT to 2,677 AADT.

RMS acknowledges that council data is inconsistent and sometimes dated.

We did not examine directly the validity of the methods used by councils to assess AADT or the accuracy of the traffic data ourselves. We do not have either a mandate to audit local government nor the power to 'follow the dollar' to examine how government grants are allocated or spent by councils. We therefore relied on the information and assessments provided by RMS.

RMS also has concerns about the validity of asset inventories (road lengths and timber bridge lengths) provided by councils, and acknowledges that there is no agreed authoritative database for council Regional Road inventory.

RMS concerns on data reliability were sufficient to lead it to decide not to use the data for the 2013–14 Block Grant allocation, but apply fixed indexation increases to the 2012–13 allocations instead.

To address these concerns, in mid 2013 RMS invited Local Government NSW, the Institute of Public Works Engineers NSW and the Division of Local Government (being the key stakeholders) to join a working group led by RMS to review the current administrative arrangements for Block Grant funding, including options for improving the consistency of road inventory and traffic data. The working group has yet to complete the review.

In our view, getting a valid inventory of road lengths and timber bridges should be relatively straight forward.

Improving the consistency of traffic data provided by councils, however, is likely to be a significant challenge and may be resource-intensive. One option is for RMS to consider the costs and benefits of collecting the data itself, funded from the Block Grant program. This is what happens in Western Australia.

Another option RMS should consider is to obtain available traffic data from other reputable sources and use these where appropriate. This may include traffic data held in the RMS traffic survey database.

RMS should consider the costs and benefits of other options. These include RMS:

- establishing standards for the conduct of traffic counts by councils and implementing a compliance regime, with the latter undertaken by RMS
- developing a proxy or surrogate for traffic counts, such as a classification system within the Regional Roads category.

In so doing, RMS needs to strike the right balance between administrative and allocative efficiency.

Recommendation

By end of June 2015, RMS should improve the integrity and reliability of the traffic information it uses to allocate Block Grants to councils.

Allocation formula

Finding: The current formula for Block Grant allocations to rural councils for the roads component does not take account of the impact of heavy vehicles, despite these being a major contributor to road damage and hence maintenance costs.

The current allocation formulae for the roads component are based on:

- road and timber bridge lengths and traffic for rural councils
- length of traffic lanes and traffic, with heavy vehicle travel separately accounted for in Sydney councils.

It is important for allocative efficiency that the formulae take account of important determinants of the need for and cost of road maintenance. Heavy vehicles are a major and disproportionate contributor to road damage (see Exhibit 4).

Exhibit 4: Road wear relationship – Car versus Truck

Passenger and light commercial vehicle traffic is responsible for virtually no road pavement deterioration whereas the higher masses of heavy vehicles cause significant road wear.

The impact of a vehicle on road wear depends on the vehicle's axle weight and configuration, not just total weight of a truck compared to total weight of a car, when calculating impact on pavement damage.

Empirical studies have demonstrated that increases in axle load lead to a more than proportional increase in road wear (see figure below). In other words, the relationship between axle load and road wear is exponential. The value of the exponent varies between 4 and 12 depending on materials and technology used in pavement construction.

Typically, a truck will carry 10 times as much weight per axle as a car, and hence that truck will do at least 10,000 times as much damage to the road (per axle). For practical purposes, road damage is caused by trucks, not cars.

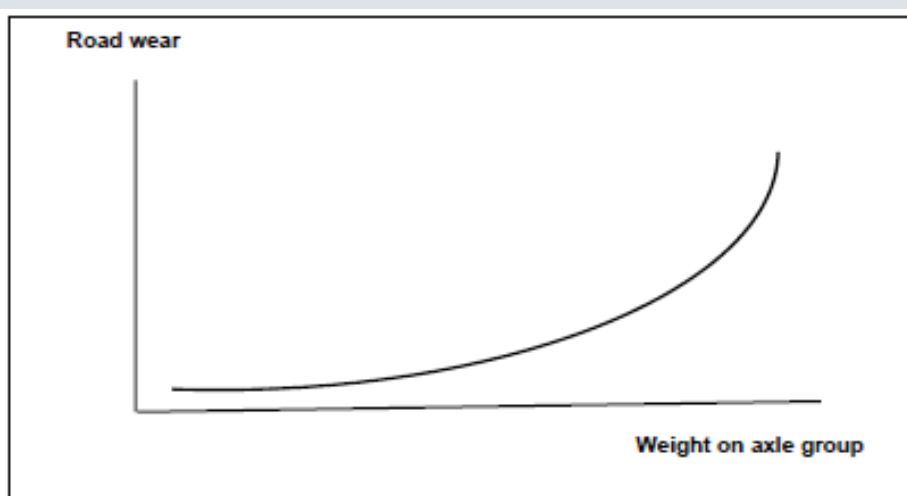


FIGURE: Road Wear is an increasing function of axle load

Source: RMS advice.

RMS was unable to advise us of why the rural council allocation formula for the roads component does not include heavy vehicles.

In 1998, following requests from a number of rural councils, the RTA agreed that consideration be given to incorporate heavy vehicle usage in the roads component allocation formula for rural councils to improve equity in distribution. In 1999 RTA issued a consultant brief. In 2000, the consultant recommended that:

“the rural road block grant formula be amended to distribute maintenance funding in proportion with heavy vehicle and asset length”

The report noted, however, that:

“Despite the rational basis of the proposed formula and its overall goodness of fit with existing equity distribution, there will be some councils that are substantially affected, with the worst being a reduction in block grant funding of some 55 per cent.”

We asked RMS why the recommendation of the report was not adopted.

In response, RMS provided minutes of RTA Local Government Liaison Committee meetings around that time. Minutes of the meeting on 14 June 2000 state:

“RTA noted that the formula had been tested on data that was incomplete and of questionable quality and that more testing would be required with better data. Testing indicated there would be shifts in funding allocations which raise the question of whether it was worthwhile proceeding. RTA will rerun the formula with updated data that is being requested from Councils and will report further.”

Minutes of the meeting on 14 March 2001 state:

“RTA advised that the response from councils regarding the provision of data on heavy vehicle usage of Regional Roads remains very patchy with data of variable and inconsistent quality. To overcome the problems councils appear to be having with provision of data, it was agreed to consider an alternative approach whereby heavy vehicle usage was taken into account only in exceptional cases. It would be a matter for council to demonstrate exceptional circumstances, including verified traffic counts.”

We found no further reference to the matter in minutes up to 10 July 2002, and RMS was not able to provide any other documentation to indicate the outcome of the agreement to consider the alternative approach referred to in these minutes.

We note, however, that the working group comprising RMS, Local Government NSW, the Institute of Public Works Engineers NSW and the Division of Local Government has been considering potential improvements to the allocation process, including accounting for the impact of heavy vehicles.

A reasonable measure of heavy vehicle usage will be required if the allocation formula for the roads component for rural areas is enhanced to take account of heavy vehicles.

Improvements to traffic count reliability discussed previously could be extended to cover heavy vehicles.

Alternately, RMS may be able to obtain reasonable data from other reliable sources. For example, the recently created Bureau of Freight Statistics in Transport for NSW compiles estimates and projections of:

- road freight movements across the State down to local government level
- the weight of commodities transferred by road freight across all individual council boundaries in NSW.

In considering other changes to the Block Grant allocation formulae, we reviewed approaches interstate. In particular, WA has a block grant program, albeit much smaller than in NSW. The allocation formula used for WA's block grant program is far more complex than those used in NSW (see Exhibit 3) and takes account of a number of factors relevant to the cost of road maintenance not included in the NSW formulae. However, the data underpinning the allocation formula come from the state-wide WA Asset Preservation Model. The Model, including traffic counts and its supporting IT infrastructure is provided by the WA government and funded from the block grant program.

Something akin to the WA approach would have advantages in terms of allocative efficiency, but would require a substantial investment by RMS. Furthermore, RMS advises that many NSW councils have in place their own asset preservation models/pavement management systems and it would be a significant duplication of effort and cost for these councils to move to a standard system.

The WA approach would address the limitations of the current formulae for the roads component and the data reliability issue previously identified. However, unless RMS concludes that the benefits clearly outweigh costs to both it and to councils, the alternative is to keep the NSW formulae relatively simple and limit changes to the addition of heavy vehicles in the case of rural councils.

Recommendation

By end of June 2015, RMS should work with Transport for NSW and local councils to account for the impact of heavy vehicles in allocating Block Grants to rural councils.

Supplementary funding replacing 3X3 Special Road program funding

Finding: There is no apparent reason to continue to allocate around ten percent of Block Grant funds based on what councils received from the 3X3 Special Road funding program which ended in 1999, rather than on the basis of the Block Grant formulae.

Under the Block Grant program, councils receive a fixed supplementary amount equivalent to what they had historically received under the State government's discontinued 3X3 Special Road funding program. The 3X3 road funding program finished in 1999.

In developing revised allocation formulae for Block Grants, RMS should consider whether to maintain the supplementary funding for the discontinued 3X3 road funding program at historical levels, or to incorporate those funds into the total funding envelope to be allocated under the revised formulae for the roads component of Block Grants.

Recommendation

By end of June 2015, RMS should consider incorporating the Block Grant funds currently distributed on the basis of the discontinued 3X3 Special Road funding program into the Block Grant roads component.

2.2 Accountability

The Block Grant program is a contribution from the State government to help councils undertake maintenance of Regional Roads, which are owned and controlled by councils.

Each council receives an annual grant to use on Regional Roads within its boundaries according to its priorities. Local Government NSW, representing councils, strongly supports the autonomy provided to councils under the Block Grant program.

The grants average around \$1 million per council. This ranges from \$3.5 million to \$150,000 for rural councils, and \$1.5 million to \$80,000 for Sydney region councils.

Although Regional Roads are owned and controlled by councils:

- 75 per cent of the total expenditure on Regional Roads was provided by the NSW government in 2011–12. Over the past 10 years there has been a consistent pattern of NSW government contribution being between 65 per cent and 75 per cent of total expenditure
- 41 of 152 councils in 2011–12 did not spend any money on Regional Roads other than that provided by the NSW government, while a further 12 councils contributed less than \$20,000 from their own or other sources
- the road maintenance backlog on council-controlled roads was \$4.5 billion in 2012, as reported by the Division of Local Government's Local Government Infrastructure Audit.

These observations raise some concerns about the ability of some councils to maintain all the roads for which they are responsible, and to do so efficiently and effectively. However, we have not examined such concerns because we do not have the mandate to audit local government. Therefore, we have limited our examination to the arrangements put in place by RMS to hold councils accountable for the Block Grant they receive.

RMS oversight

Finding: While RMS obtains some assurance that Block Grant money allocated to councils is spent on Regional Roads, it has little assurance that councils are spending the grant monies well. The current arrangements do not require councils to demonstrate where and how they have spent Block Grant monies.

A stated objective of the Block Grant program at the time of classification of Regional Roads and State Roads in 1989 was to reduce administration costs to councils and the then RTA. Accountability arrangements under the Block Grant program should reflect this objective and at the same time promote the efficient and effective use of this money by councils. This is reinforced in a Joint (Local Government and the RTA) Working Party review of Regional Roads arrangements in 1995, whose report stated:

“The objective for the management of Regional Roads is to maximise the return of available road funds to the actual roads. The previous system, whereby the RTA approved, inspected and supervised all activities by councils, was a duplication of effort.

More council autonomy and decision making power on Regional Roads was seen as appropriate and consistent with increased council efficiency and accountability being promoted under the *Local Government Act 1993*.

However, the RTA also has accountability to the community to ensure that the funds which are entrusted to it are utilised with the greatest efficiency and effectiveness.”

At present, councils are required to certify that the grant money they receive has been spent on Regional Roads and that works are carried out accord with prevailing construction standards, with the latter not defined. While under the standard Block Grant Agreement RMS may seek information in connection with the expenditure of the grant from councils, we found that this authority has not been exercised by any of the six RMS regions.

There is nothing in the current accountability arrangements that require councils to demonstrate they have spent the Block Grant well. The 1995 Joint Working Party report on Regional Roads noted that:

“RTA is accountable to the State government for the expenditure of State funds. In order to meet this accountability, Local Government be required to meet some reporting requirements to account for expenditure of the funding provided. These requirements should meet the principle of keeping administration to an absolute minimum consistent with meeting accountability for the proper use of the funds.”

This led to the following recommendation being made:

“That councils prepare individual three-year Regional Road management plans covering both RTA and council funds. Details of funding allocation be included in the first year of this plan.”

The report also recommended that such management plans be developed in accordance with requirements of the *Local Government Act*, with RTA input being at strategic level through assisting councils to develop management plans and assistance through technology transfer.

We found no evidence that these recommendations were implemented. RMS advises it is now considering such an approach in the context of the statutory reforms of the *Local Government Act*.

We note current initiatives implemented by the NSW Government through the Division of Local Government to improve council asset management planning and practices. In particular, the *Local Government Amendment (Planning and Reporting) Act 2009* introduced the Integrated Planning and Reporting framework. The framework requires councils to develop ten-year Community Strategic Plans, four-year Delivery Programs and annual Operational Plans which align with councils' financial, workforce and physical asset resources.

Asset management is incorporated in this framework through ten-year asset management strategies and plans which identify asset service standards and long term projections of asset maintenance, rehabilitation and replacement costs, four-yearly delivery programs and annual operational plans which implement these strategies and plans. At June 30, 2012, all councils were required to be working under the framework.

One option that we believe strikes the right balance between the need for accountability while minimising administration is to require councils to attest to RMS that the work they have carried out under the Block Grant program is in accord with the priorities and directions articulated in these plans and strategies. This could then be supported by a limited program of risk-based, desk-top compliance audits conducted by RMS.

This would provide greater assurance that there has been a degree of rigour in the selection of works on Regional Roads to be undertaken by councils.

Recommendation

By end of June 2015, RMS should require councils to certify they spend Block Grant funds in line with priorities established through the Integrated Planning and Reporting framework, with some risk-based, desk-top assurance of the certification.

Benchmarking

Finding: RMS does not use the road maintenance data on Regional Roads it collects from councils for benchmarking. Benchmarking could drive improvements to efficiency and effectiveness in council use of Block Grant funds.

We found that while councils provide information to RMS on road maintenance outputs and costs on Regional Roads, this was not used for any purpose by RMS. This is despite a March 1999 RTA paper which recommended that data on Regional Road maintenance outputs and costs (equivalent to what councils are currently required to provide) be collected by RTA, and simple statistical information derived from the data be published. This would enable councils to compare their expenditures and outputs with peer councils and allow trends to be analysed.

RMS could not advise why the recommendation to publish derived statistical information was not implemented, but agrees it has merit. RMS advises that the current local government reforms and its own organisational changes are directed to using such data effectively. The publication of performance information is an important part of any effective accountability framework. The transparency it provides facilitates comparisons both by councils themselves and ratepayers, thereby encouraging poorer performers to improve.

That is not to suggest that this is a straightforward exercise, because to be useful such benchmarking needs to take account of factors such as the size and remoteness of councils and the scale of works they undertake. Nevertheless, publishing benchmarking comparisons and exploring reasons for differences is a starting point for improvements in data validity and for identifying opportunities for improving the efficient and effective use of road funding.

Recommendation

By end of June 2015, RMS should publish benchmarking information on Regional Road maintenance costs and outputs.

Program evaluation

Finding: RMS has not undertaken an evaluation of the Block Grant program since 1995, although it has commenced a review of some aspects of its operation. Good practice is to evaluate a grants program at least every five years.

A major review of the Block Grant program was completed in 1995 by a joint Local Government and RTA working party. This review was primarily directed at reviewing the management arrangements for Regional Roads, which included Block Grants, the classification of Regional Roads, and funding principles with a view of firming up the original trial of Block Grant funding for Regional Roads introduced in 1989.

Since mid- 2013 RMS has been leading a working group examining some aspects of the Block Grant program. While a good initiative, it does not constitute a program evaluation. An evaluation would consider the program's effectiveness and efficiency.

The Good Practice Guide to Grants Administration, issued by the Department of Premier and Cabinet, advises that good practice in grants administration is to evaluate a grant program every three to five years or when priorities change. Such an evaluation should be an independent process, not led by those involved in managing or administering the program.

Recommendation

RMS should evaluate the Regional Roads Block Grant program in the next two years, and then every five years in line with good practice in grants administration.

Other relevant reform initiatives

Finding: There are a number of current initiatives within government which aim to promote coordinated planning and management of council controlled roads at a regional level. As these progress, they may impact on the design and operation of the Block Grant program.

We note several current initiatives within government to promote coordinated planning and management of council controlled roads at a regional level. These include the:

- NSW Independent Local Government Review Panel final report
- Regional Transport Plans currently being developed by Transport for NSW
- NSW Freight and Ports Strategy.

The common premise of these initiatives is that regional coordination and planning will improve network capacity and efficiency and lay a stronger foundation for economic development.

Initiatives within other parts of government which aim to promote coordinated planning and management of council controlled roads at a regional level could impact on the design and operation of the Block Grant program.

Implementation

We note that RMS has established a working group consisting of RMS, Local Government NSW, the Institute of Public Works Engineers NSW and the Division of Local Government (being the key stakeholders) to review the current administrative arrangements for Block Grant funding, including options for improving the consistency of road inventory and traffic data.

We acknowledge that changes to the Block Grant program will need to be carefully considered and be subject to consultation with stakeholders, particularly councils. While we believe change is needed to improve effectiveness and allocative efficiency it needs to be carefully balanced against administrative efficiency. To allow the necessary analysis and consultation, RMS should consider continuing its 2013-14 approach of indexing the previous year's allocations for a further year.

3. Does Roads and Maritime Services allocate funds to councils under the REPAIR program efficiently and effectively and ensure that funds are well spent?

The REPAIR program has a number of positive elements in its design, including:

- it has a clear objective
- projects are to be selected on a merit basis from a regional perspective
- councils, through a regional consultative process, have the major say in the projects undertaken within the overall requirements of the program
- it is intended to fund larger rehabilitation and development projects which minimise whole-of-life costs and provide positive net benefits to the community
- the scope, estimated costs and expected benefits of projects are established up-front, simplifying post-project accountability requirements.

However, shortcomings exist in the operation of the allocation process. These primarily are:

- allocations to RMS regions are based on the same formulae and traffic data used for Block Grant allocations, and therefore have the same shortcomings we identified previously
- projects in two RMS regions were not selected by RCCs on a merit basis from a regional perspective but on the basis of Block Grant allocations to individual councils
- project assessment methods used by RCCs varied widely across RMS regions, with most not adequately weighted for minimisation of whole-of-life costs and to promote economic development.

The program would be improved if:

- the allocation to each RMS region under REPAIR was based on formulae which better reflect road management costs and on more reliable traffic information, as discussed previously
- RMS ensured that approved projects meet the program requirements, including:
 - all RMS regions ensure that RCCs allocate funds to projects from a regional perspective rather than to individual councils on the basis of the Block Grant formulae
 - project assessments are required to give appropriate weight to economic development and minimisation of whole-of-life costs.
- RMS evaluated the program approximately every five years.

RMS is in the process of appointing a Local Government Program Coordinator in each region to provide assurance that Regional Road funding programs are delivered consistently across RMS regions and in accordance with their objectives and guidelines.

3.1 Allocation

Finding: The REPAIR program has a number of positive elements in its design. However, we found shortcomings in the operation of the allocation process.

The REPAIR program has a number of positive elements in its design. If complied with, it would result in region-wide merit selection of larger rehabilitation or development projects which:

- minimise of whole-of life costs
- contribute positively to the economic development of the community.

However, there are deficiencies in the operation of the allocation process which impact on the achievement of these outcomes.

Objective

Finding: The REPAIR program has a clear objective.

RMS has issued guidelines for the operation of the REPAIR program.

The guidelines establish a clear objective for the program:

“The objective of the REPAIR program is to provide additional assistance to councils to undertake larger works of rehabilitation, and development on Regional Roads to minimise the long term maintenance costs of these roads commensurate with their function and usage.”

“Projects are to be selected on a merit basis from a regional perspective.”

Funding allocation to RMS regions

Finding: Allocations to RMS regions are based on the same formulae and traffic data used for Block Grant allocations, and therefore have the same shortcomings.

RMS regions have responsibility for day-to-day administration of the REPAIR program at the regional level. RMS has six regions, covering NSW (see Exhibit 5).

Exhibit 5: RMS regions



Source: RMS website.

The overall annual level of funding available under the REPAIR program is determined by the NSW Government. Distribution to the RMS regions is generally in proportion to the Block Grant formulae.

We previously discussed issues with the formulae and data reliability for the allocation of Block Grants. We have similar concerns about using these for allocating REPAIR funds to RMS regions.

Recommendation

Following any amendment to the Block Grant allocation method flowing from RMS's review, RMS should apply the revised allocation method for distribution of REPAIR program funding to individual RMS regions.

Project selection on a merit basis from a regional perspective

Finding: REPAIR is well designed in that:

- projects are to be selected on a merit basis from a regional perspective
- councils, through a regional consultative process, have the major say in the projects undertaken within the overall requirements of the program.

RCCs in two RMS regions, however, were not allocating funds on the basis of regional priorities.

A merit-based, regional approach to allocation introduces competition for limited resources, which should focus councils on nominating projects which offer the greatest benefit to cost for the region as a whole, rather than for the individual councils.

The REPAIR program guidelines say:

“The RCC should agree on an assessment process and scoring methodology. A technical committee of council and RMS representatives are to assess and select projects and recommend these to the Regional Manager. Cost estimates are to be scrutinised to ensure accuracy.”

We consider decision making by the RCC is appropriate because devolving the assessment process and scoring methodology to RCCs gives councils as a group the capacity to respond to local needs and local priorities and allows innovation. We identified variation between RMS regions in the manner in which individual RCCs assess projects. This is to be expected and conforms to the guidelines.

The REPAIR approach, in particular collaborative decision making from a regional perspective, is broadly consistent with the directions outlined by the:

- final report of the NSW Independent Local Government Review Panel
- Minister for Local Government
- NSW Freight and Ports Strategy.

The final report of the NSW Independent Local Government Review Panel recommended that there should be increased collaboration and joint planning between councils and State agencies. In its final report, the Panel referred approvingly to the approach adopted in Queensland where local government councils collaborate with each other and with the Department of Transport and Main Roads through Regional Roads and Transport Groups. A key feature of the Queensland approach is joint decision making, planning and investment which reflects regional priorities across the road and transport network.

In a recent (2 October 2013) speech to Local Government NSW, the Minister for Local Government said:

“I would like to see changes that bring councils to the table in regional planning – that create stronger links between local, regional and State plans and provide a voice for local representatives in the regional forum. I want to see stronger regional structures to support these connections.”

The Transport for NSW's recently issued NSW Freight and Ports Strategy also notes the governance framework for regional infrastructure is in need of reform and has been the subject of increasing attention from policy makers. The Strategy includes a targeted outcome to adopt a best practice reform model for regional infrastructure. It says:

"Transport for NSW will deliver, in collaboration with local councils, a regional infrastructure model to deliver improved network capacity and efficiency. Breaking down long standing practices of uncoordinated infrastructure provision and management is a significant reform that will need to proceed on an incremental basis. Progress will need to be closely assessed and evaluated to refine and inform further reform.

Regional road and rail infrastructure needs to be coordinated and integrated more effectively. Ideally, the distinction between management, regulation and investment functions for State owned and local government owned infrastructure should be broken down, in favour of a more consolidated view of regional infrastructure."

Decision making from a regional perspective also promotes consideration of regional and state-wide economic benefits in determining road funding priorities. To illustrate, in the context of freight movement and economic development, the NSW Freight and Ports Strategy noted:

"for many councils, there is no direct incentive to invest proactively for heavy vehicle traffic since there is no direct link between heavy vehicle usage and income for road improvements and maintenance."

While regional, devolved decision making is a positive design feature of the REPAIR program, it is important that decisions made in such a devolved environment deliver the intent of the program's objectives.

While projects funded under the program are to be selected by RCCs on a merit basis from a regional perspective, we found in two regions (Southern and South West) that the allocation method adopted was to provide funding to individual councils in the same proportion as under the Block Grant program. This approach undermines the clear objective of the program that projects are to be funded on a merit basis from a regional perspective. (See Appendix 2)

To illustrate, the following is an extract of minutes of a Regional Consultative Committee sub-group meeting discussing REPAIR allocations within one of three geographical 'sub-zones' forming the RMS Southern region:

- Each (council) recognised that the allocation of funds using the Block Grant Formula was the most equitable method
- All agreed that each council knows the relative priority for works on their Regional Roads, that each shall do their individual project assessments but that the number 'scored' would be a guide only and not used to cull/prioritise works between councils.

In addition, while the REPAIR guidelines allow for an RCC to split its "funds (if considered necessary) between heavily urbanised areas (Newcastle, Wollongong) and country", doing so for other reasons, as appears to be occurring in Southern, Northern and South West regions, reduces the benefits of a whole-of-region perspective.

This means that there is a risk that some projects which would be more beneficial from a regional perspective may not be funded.

Recommendation

By end of June 2015, RMS needs to ensure that all RMS regions and their RCCs comply with the REPAIR program objective that project selection is carried out on a merit basis from a regional perspective.

Minimising whole-of-life costs and providing economic benefit

Finding: The REPAIR program is well designed to fund larger rehabilitation and development projects which minimise whole-of-life costs and provide positive net benefits to the community.

However, in operation we found that project assessment methods varied widely across RMS regions, with most not adequately weighted for minimisation of whole-of-life costs and to promote economic development.

We have concern that the current model scoring system, which forms part of the REPAIR program guidelines, does not give sufficient emphasis to economic benefits and minimisation of whole-of-life costs.

The REPAIR program guidelines say:

The REPAIR program aims at works that contribute primarily to:

- minimising future and ongoing expenditure needed to keep the road at a satisfactory standard, and
- providing overall benefits to the community that exceed the cost of the work.

In addition, the guidelines say that works should contribute to at least one of the following:

- economic development
- integrity of communities
- road network efficiency
- regional tourism
- road safety.

The aims of minimising whole-of-life costs and positive net benefit are consistent with efficient and effective contemporary road management practice.

Exhibit 6: UK Audit Commission report on local government road maintenance

Whole-of-life costs prioritisation represents value for money.

The UK Audit Commission, in its 2011 report on local government road maintenance titled *Going the Distance*, found that a whole-of-life costs approach to prioritising expenditure yields greater value for money outcomes than a reactive “worst-first” approach to maintenance.

Under the model point scoring system in the REPAIR program guidelines, the maximum score available for:

- network efficiency is six points, for traffic usage is six points, and for economic performance (measured by a benefit cost ratio) is three points, while
- road condition is 18 points and geometric safety or seal deficiency is 16 points.

This results in the model scoring system favouring a 'worst-first' approach to project selection, which under contemporary thinking in road management provides for a less than optimal outcome. The RMS document titled Condition of NSW State Roads, September 2009 which discusses performance of State Roads states that:

"A pro-active strategy that focuses on preservation and minimises deterioration is more cost effective than a reactive approach involving fixing the worst sections of road first (known as a 'worst-first' strategy). A worst-first strategy is non-optimal over the longer term, as it produces a road network that is more costly and difficult to maintain. Intervening too early and too often is not a good use of public funds and contributes to unnecessary traffic delay and disruption due to roadwork."

A scoring system which is geared towards a whole-of-life cost minimisation approach would require an assessment of trends in condition data compared to a deterioration model for such a road derived from a pavement management system. The model scoring system is based on data at a point-in-time rather than trend data. It also does not consider surface cracking, a significant factor in determining the need for and timing of rehabilitation work. Condition of NSW State Roads September 2009 also states that:

"The road surface plays an important role in providing both a safe running surface for traffic and a waterproofing layer to protect the underlying pavement from moisture that can seriously reduce the strength and durability of the road. Road pavements are designed assuming that the moisture content will remain constant. However, if the road surface is cracked, moisture will enter the pavement and the design assumptions will be void. The deterioration of a road may be accelerated if the road is cracked. Cracking is one of the most frequent forms of distress and one of the most significant. It is therefore important to measure the cracking of a road."

In managing its road network, RMS seeks to manage the gradual and continuous deterioration of road pavement by employing a proactive approach of preventive maintenance (known as 'pavement preservation'). Condition of State Roads 2009 states that a pavement preservation strategy:

- appropriately manages road safety risks
- results in longer-lasting and smoother pavements
- minimises the cost of maintaining the road network over the life of the asset as timely and regular smaller scale interventions reduce the need for more costly and disruptive road rebuilding activities.

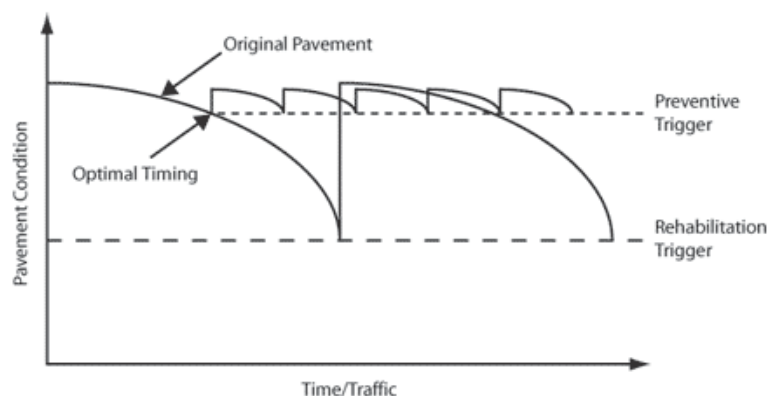
RMS advises that the recent restructuring of RMS is designed to drive greater focus on minimising whole-of-life asset costs through the design, build, manage and maintain cycles.

An example of the benefits of preventative maintenance to whole-of-life costs is shown in Exhibit 7.

Exhibit 7: Minimising whole-of-life costs through preventative maintenance

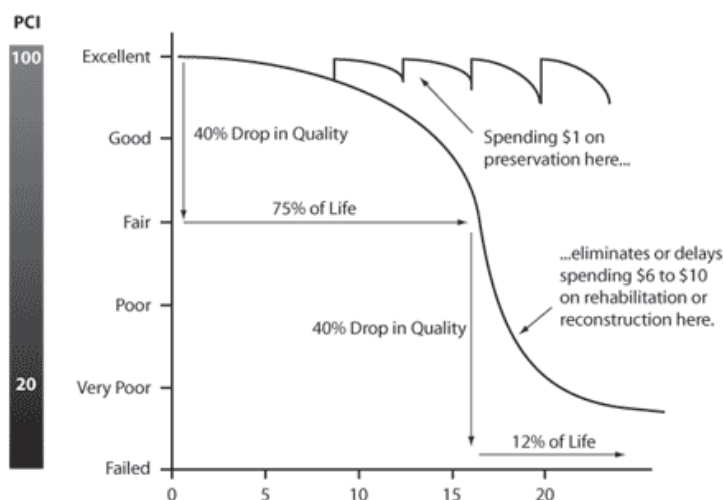
Preventive maintenance is a planned strategy of cost-effective treatments that preserves and maintains or improves a roadway system and retards deterioration. Non-structural treatments are applied early in the life of a pavement to prevent deterioration. The US Federal Highway Administration, in its Principles of Pavement Preservation, discusses how preventative maintenance - applying the right treatment to the right pavement at the right time – can reduce whole-of-life costs.

Pavement preservation concept



The Highway Administration provides an example comparing the project life-cycle costs of identical pavement sections with and without preservation treatments to illustrate the benefits of pavement preservation. In the example of a traditional approach, shown below, a highway is constructed for \$508,000 per lane-mile to last 25 years without any preservation activity. Under this approach, the pavement must be completely reconstructed after 25 years at a cost of \$490,000 per lane-mile to extend the expected service life another 25 years. In contrast, preservation treatments cost \$140,000 per lane-mile over 25 years and extend the expected service life another 18 years. Moreover, pavement preservation can continue for more cycles. Substantial savings can accrue with a wellat CE level has concerns on the balance of the Background content in draft report where it considers there is inadequate recognition of current RMS initiatives designed to improve RMS interaction with local government -planned pavement preservation program.

Pavement option curve (example). (PCI = Pavement Condition Index.)



Source: <https://www.fhwa.dot.gov/pavement/preservation/ppc0621.cfm>.

For the REPAIR program, RCCs in two RMS regions, Western and South West, have adopted the model scoring system, although in South West it is not used to prioritise between councils. Three RMS regions, (Sydney, Northern, and Southern) use scoring systems loosely based on the model scoring system, although Southern does not use it to prioritise between councils (see Appendix 2).

As discussed above, the model scoring system only provides limited weighting to economic benefits such as network efficiency and economic performance.

One RMS region, Hunter, has developed a scoring system based on benefit cost ratios (see Exhibit 8 and Appendix 2). This approach aligns with key objectives of the REPAIR program, particularly in terms of consideration of economic benefits and merit-based decisions from a regional perspective.

RMS advises it is currently evaluating the Hunter system with a view to improving consistency between regions.

Exhibit 8: Hunter region uses a benefit cost ratio to allocate funding to projects

Hunter region councils submit data to operate the benefit cost score for REPAIR using a form which is different to the model scoring system in the REPAIR guidelines. Hunter RMS region uses the data it receives from councils to calculate a benefit cost ratio (BCR) for each bid.

The benefit cost formula was developed by the Hunter RCC as it considered this was superior to the model scoring system. The Hunter formula incorporates some of the elements of the model scoring system and has additional elements. A sub-committee to the RCC updates the BCR formula on an ongoing basis. Hunter RCC then allocates funding to projects based on the BCR calculated.

No region, however, has developed a robust whole-of-life cost minimisation approach. Having said this, the practicality of adopting a whole-of-life cost minimisation approach needs to be considered. In addition to existing data, this requires data on road condition and rate of degradation from council pavement management systems which may not be available or accurate which would need to be addressed. A practical approach could be to incorporate data on road cracking into the decision making process and, over time, start to take account of trend data in road condition as well as any available and reliable data on road degradation.

Given RMS's focus on minimising whole-of-life costs in the management of its roads, it should be well equipped to design and implement a project scoring system which takes better account of whole-of-life costs.

RMS is also in the process of appointing a Local Government Program Coordinator in each region. The role is designed to ensure Regional Road funding programs, including the REPAIR program, are delivered consistently across RMS regions and in accordance with program objectives and guidelines.

Recommendations

By end of June 2015, RMS should ensure that:

- RCCs give adequate weight to whole-of-life costs and economic benefits when selecting REPAIR projects
- the model scoring system in the REPAIR program guidelines gives adequate weight to whole-of-life costs and economic benefits when assessing REPAIR projects.

Joint submissions and project scale

Finding: While the REPAIR program guidelines encourage joint council applications and multi-year work programs, we found that few joint applications were submitted and two RMS regions had annual work programs only.

Under the REPAIR program guidelines, joint applications by councils are encouraged. This aligns with the program objective of having a regional perspective, and that Regional Roads frequently cross council boundaries. In our discussions with RMS regions and in reviewing REPAIR programs approved over the past five years we found few joint applications (see Appendix 2).

Also under REPAIR program guidelines, projects may extend over more than one year, with annual allocations. RCCs may develop a multi-year program up to a maximum of four years. These are to be reviewed and confirmed each year by the RCC because the funding allocation may vary from year to year. This is consistent with supporting larger-size projects of a capital nature that the program is meant to deliver. It also enables councils to better plan and deploy their financial, material and other resources. We found that in two RMS regions RCCs operated annual programs with the remaining four RMS regions having four year programs (see Appendix 2).

Recommendations

By end of June 2015, RMS should:

- do more to encourage joint council funding applications
- require all RCCs and RMS regions to adopt four year rolling programs.

3.2 Accountability

RMS oversight

Finding: REPAIR is well designed in that the scope, estimated costs and expected benefits of projects are established up-front, simplifying post-project accountability requirements. However, RMS is not acquiring adequate assurance that the required technical standards are met by councils.

The scope, estimated costs and expected benefits of projects under the REPAIR program are established up-front during the project assessment process and before grant funding is approved. Furthermore, any cost overruns are to be fully met by councils.

The main accountability requirements are therefore to ensure:

- that grant monies are spent on the approved project
- the project scope is delivered as proposed.

Acquittal of the grant monies occurs via councils submitting invoices in standardised format to RMS for progress payments, based on works carried out.

Under the REPAIR program guidelines, RMS is required to undertake a final inspection of the completed work to assure that the REPAIR program objectives have been met. All RMS regions conducted final inspections to confirm the scope of works complied with what was approved (see Appendix 2).

Together, this provides adequate accountability given the overall design of REPAIR.

As part of their funding agreement with RMS however, councils agree to undertake the project in accordance with the RTA manual “Arrangements with Councils for Road Management”. This includes a requirement that council technical standards will conform to RMS technical specifications for design and construction. RMS does not presently gain adequate assurance that the technical standards being adopted by councils comply with this requirement (see Appendix 2). The critical time for such assurance is at the design-stage.

Failure to adopt appropriate technical standards can adversely impact on whole of life costs, thereby negating a key objective of the REPAIR program.

Recommendation

By end of June 2015, RMS should ensure that REPAIR project works use technical standards which comply with the RTA manual “Arrangements with Councils for Road Management”.

Program Evaluation

Finding: RMS has not undertaken an evaluation or major review of the REPAIR program since 1998. Good practice is to evaluate a grants program every three to five years.

As discussed previously, good practice is to evaluate a grants program every three to five years or when priorities change. The evaluation should consider the program’s appropriateness, effectiveness, efficiency and economy.

While a review of the REPAIR program was carried out in 1998 by a joint working party of Local Government and RTA, no evaluation has taken place since that time. The 1998 review was also limited in scope and primarily aimed at fine-tuning the program, which was introduced in 1995.

Recommendation

RMS should evaluate the REPAIR program in the next two years, and then every five years in line with good practice in grants administration.

Appendices

Appendix 1: About the audit

Audit objective

The audit assessed whether the Block Grant and REPAIR funding programs, which assist councils to manage Regional Roads, are effective in promoting value for money outcomes. We asked whether:

- Roads and Maritime Services allocation of funds to councils through these programs was efficient and effective
- Roads and Maritime Services ensures funds provided under these programs for Regional Roads are well spent.

Scope

Matters we considered include:

- Clarity of Block Grant and REPAIR program objectives
- Effectiveness of formulae used for allocating Block Grants
- Reliability of data used for Block Grant allocation
- Effectiveness of the REPAIR allocation model
- Efficiency and economy of each of the two allocation methods (Block Grant and REPAIR), for example fitness for purpose; right touch regulation; cost to deliver
- Effectiveness of RMS accountability mechanisms for each of the two programs (Block Grant and REPAIR)
- Reliability of data provided by councils
- Efficiency and economy of RMS accountability mechanisms for each of the two programs (Block Grant and REPAIR), for example fitness for purpose; right touch regulation; cost to deliver
- Whether RMS has evaluated performance of the two programs (Block Grant and REPAIR).

Audit exclusions

We did not assess:

- other State government road funding programs to councils
- the adequacy of the overall spending by either the State Government or councils
- the merits of government policy objectives
- directly how councils spend the grant monies and the accuracy of their assertions to RMS, given we have no mandate to follow-the-money into local government at this time.

Audit approach

We collected evidence by:

- Interviewing RMS personnel
- Gathering wider views from:
 - Roads authorities from other jurisdictions such as Victoria, Queensland and Western Australia which provide funding assistance for local government management of roads equivalent to Regional Roads

- stakeholders as appropriate. These included: Local Government NSW, IPWEA, Department of Premier and Cabinet, Division of Local Government, NSW Local Government Grants Commission, Transport for NSW.
- Examining relevant documentation, guidelines, reports and data.

Fieldwork

We conducted telephone conferences with RMS Regional Managers and Regional Asset Managers from:

- Southern Region
- Western Region
- Northern Region
- Southwest Region
- Hunter Region.

We also met with the Regional Manager and Regional Asset Manager of RMS Sydney Region.

Agency selection

We chose Roads and Maritime Services as the responding agency because they administer both the Block Grant and REPAIR programs.

Audit selection

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing, and to reflect current thinking on performance auditing practices. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by Roads and Maritime Services and staff who participated in interviews and provided material relevant to the audit.

We also acknowledge the advice provided by staff from the Department of Premier and Cabinet, Transport for NSW, Local Government NSW, the Institute of Public Works Engineers NSW, VicRoads and Main Roads WA.

Audit team

Rod Longford and Ed Shestovsky conducted the performance audit. Sean Crumlin provided direction and quality assurance.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$235,000.

Appendix 2: Comparison of RMS region practices for REPAIR program

RMS Region	Sydney	Northern	Southern	Western	Hunter	South West
Funding allocation rules	1 year program approach is used. Any approved projects which carry over into following years are approved on a provisional basis for following years. Region's funding split up into Urban and Rural in line with REPAIR guidelines, with each having its own specific business rules, designed to recognise differences between urban and rural to provide some level of equity in funding availability and distribution. Each has its own RCC sub-Group to set rules and make project selections, also in line with REPAIR guidelines.	4 year fixed program used. Funding split into Tablelands and Coastal, each with its own RCC sub-group to reflect differing needs. This is not in line with REPAIR guidelines. Each area has its own detailed business rules designed to provide some equity in funding distribution. For example, coastal councils are limited to a maximum of 20% of total 4 year funding pool, maximum annual spend on road projects is \$600,000. These are in line with REPAIR guidelines. These are reviewed after each 4 year funding cycle.	Over 4 year fixed program. Each council gets funding allocation according to its share based on Block Grant allocation formulae. Region has 3 subzones, based geographically, each with its own list of member councils and consultative committee. These are not consistent with the REPAIR guidelines.	1 year program approach is used. Only limitation is that maximum annual grant to an individual council is limited to \$400,000. A Technical sub-committee (with RMS and council reps) reporting to RCC is given authority to select projects for funding. This is in line with REPAIR guidelines.	4 year Region-wide rolling program, broken up into bridges (only 4 timber bridges left), initial seals (enhancements), and road rehabilitation. Each year RCC determines funding levels for each of the 3 categories. Most funds (85%) go to road rehabilitation. Business rules are in place to provide some equity in funding distribution. For example, maximum amount of grant per council per annum for road rehabilitation is set at \$200,000. This is in line with REPAIR guidelines.	Over 4 year program. Each council gets funding allocation according to its share based on Block Grant allocation formulae. This is not consistent with the REPAIR guidelines. Region has 6 RCCs geographically distributed, each with its own list of member councils. This is not consistent with the REPAIR guidelines.
Project selection rules	Projects are selected on a merit basis within Urban and Rural sub-groups, subject to the funding allocation business rules being met.	Projects are selected on a merit basis within each of the Coastal and Tablelands sub-groups, subject to the funding allocation business rules being met ie maximum project spend pa, maximum project size etc.	Each council decides the projects it will undertake. Councils self-assess projects and use point scoring system as a guide only but points are not used to cull/prioritise works between councils. RCC sub-group vets projects proposed by councils to ensure they do not exceed their 4 year provisional allocation. RMS automatically approves provided they are within provisional funding allocation for each individual council.	Projects are selected on a merit basis across the Region. Councils self-assess their proposals using established point scoring system.	Projects in each category are selected on a merit basis across the Region. As BCR is driven by traffic count and to provide some equity between urban and rural council proposals, urban councils need higher BCR scores compared to rural councils to attract funding.	Highest scoring projects within each council costing up to total 4 year funding allocation as scored by RCC are selected. RMS automatically approves provided they are within funding allocation.
Point scoring system	Different to but loosely based on model assessment criteria in REPAIR Guidelines. Rehabilitation and enhancement works have their own scoring system.	Different to but loosely based on model assessment criteria in REPAIR Guidelines. Each geographic area has its own scoring system. Does not include BCR but includes safety stats and bridgeworks.	Loosely based on model assessment criteria in REPAIR Guidelines, with added fields for network efficiency and bridgeworks.	Same as in model assessment criteria in REPAIR Guidelines.	Totally different to model assessment criteria in REPAIR Guidelines. Uses BCR score for road rehabilitation and initial seals prioritisation.	Same as in model assessment criteria in REPAIR Guidelines. Used by all 6 RCCs.

RMS Region	Sydney	Northern	Southern	Western	Hunter	South West
Technical standards	Region does not check or set technical standards, councils are required to certify they comply with environmental and WHS legislation.	Region does not check or set technical standards, councils are required to certify they comply with environmental and WHS legislation.	Region does not check or set technical standards. Councils are required to certify they comply with environmental legislation.	Region does not check or set technical standards.	Region does not check or set technical standards. However Region encourages councils to good practice, such as comprehensive site surveys to support designs with good whole of life outcomes, and provides advice on road planning and management. 11 out of 14 councils use RMS standards for their road maintenance. Councils also need to demonstrate minimum standards in WHS, Environmental and Quality systems.	Region does not check or set technical standards. Councils are required to certify they comply with environmental legislation.
Project selection	Region provides little input into project selection. Left to relevant Council Consultative Group. RMS vets approved projects loosely to ensure there are no outliers in terms of traffic count or road roughness data, and proposed works are in line with the budget	Region provides some input into project selection decision. Primarily left to relevant Regional subgroup consultative committee.	Region provides little input into project selection. Left to relevant Regional subzone consultative committee. Region checks that bids comply with REPAIR Guidelines in terms of project type, for example pavement rehabilitation, sealing shoulders and widening, bridge repairs and replacement, initial seals.	Region reviews council scores and amends if not satisfied with self-assessment. Any disputes to recommendations go to the Technical sub-committee for binding decision.	Region actively supports the RCC and its selection processes. With a rolling program, annual adjustments are comprehensive to ensure any projected underspending is promptly and properly reallocated.	Region provides little input into project selection. Left to relevant RCC.
Inspection of projects	On completion to confirm approved work was carried out.	On completion to confirm approved work was carried out.	On completion to confirm approved work was carried out.	On completion to confirm approved work was carried out as soon as practicable.	On completion to confirm approved work was carried out.	On completion to confirm approved work was carried out.
Role of RMS in RCC (or equivalent)	RMS convenes CCG or subcommittee meetings and prepares minutes.	RMS convenes Regional subgroup consultative committee meetings and prepares minutes. RMS also convenes Technical subcommittee meetings and prepares minutes.	RMS convenes Regional subzone consultative committee meetings and prepares minutes.	RMS convenes RCC and Technical subcommittee meetings and prepares minutes.	RMS convenes RCC meetings and prepares minutes.	RMS convenes RCC or subcommittee meetings and prepares minutes.
Region-wide (cross council boundaries) approach	Little evidence in approved programs over past 5 years. However some joint applications from smaller councils.	No evidence in approved programs over past 5 years.	No evidence in approved programs over past 5 years.	No evidence in approved programs over past 5 years.	No evidence in approved programs over past 5 years	No evidence in approved programs over past 5 years, although some limited council interaction.

Source: Notes of teleconferences and meeting with and material provided by RMS Regional Managers and Regional Asset Managers.

Appendix 3: Block Grant allocation formulae

The formulae for Block Grant calculations for the roads component are:

Sydney Region councils

For councils inside the RMS Sydney Region, the following formula to determine the Block Grant roads component is utilised:

- The relevant length of each Regional Road is multiplied by a factor;
- Daily traffic is multiplied by a factor; and
- Daily heavy vehicle traffic is multiplied by a factor.

A Sydney Region council's approximate funding allocation can be determined using the following formula:

Approximate Amount = (length of each road x W) + (daily traffic x Y) + (daily heavy traffic x Z)

Note: 'W', 'Y' and 'Z' in the formula vary each year depending on the size of the funding pool.

Rural Region councils

Councils outside of RMS's Sydney Region are referred to as rural councils. The formula to determine the roads component for rural councils is very detailed:

- The relevant length of each Regional Road is multiplied by a traffic factor;
- The traffic factor is the average daily traffic raised to an exponential power of 0.35;
- The metre length of any timber bridges is multiplied by a factor of 0.37.

A rural council's approximate funding allocation can be determined using the following formula:

Approximate Amount = 1000 x (sum of (length of each road x traffic ^ 0.35 x K) + (0.37 x length of timber bridges))

Note: 'K' in the formula varies each year depending on the size of the funding pool.

'1000' is used to show the result of the calculation in thousands of dollars.

The 0.37 figure is periodically adjusted to reflect the current cost of timber bridge maintenance.

Source: RMS advice.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100

Performance audit reports

No	Agency or issues examined	Title of performance audit report or publication	Date tabled in parliament or published
241	Road and Maritime Services	<i>Regional Road funding – Block Grant and REPAIR programs</i>	8 May 2014
240	NSW State Emergency Service	<i>Management of volunteers</i>	15 April 2014
239	Fire and Rescue NSW NSW Rural Fire Service	<i>Fitness of firefighters</i>	1 April 2014
238	Transport for NSW Department of Attorney General and Justice Department of Finance and Service Roads and Maritime Services NSW Police Force Department of Education and Communities	<i>Improving legal and safe driving among Aboriginal people</i>	19 December 2013
237	Department of Education and Communities	<i>Management of casual teachers</i>	3 October 2013
236	Department of Premier and Cabinet Ministry of Health – Cancer Institute NSW Transport for NSW – Rail Corporation NSW	<i>Government Advertising 2012–13</i>	23 September 2013
235	NSW Treasury NSW Police Force NSW Ministry of Health Department of Premier and Cabinet Department of Attorney General and Justice	<i>Cost of alcohol abuse to the NSW Government</i>	6 August 2013
234	Housing NSW NSW Land and Housing Corporation	<i>Making the best use of public housing</i>	30 July 2013
233	Ambulance Service of NSW NSW Ministry of Health	<i>Reducing ambulance turnaround time at hospitals</i>	24 July 2013
232	NSW Health	<i>Managing operating theatre efficiency for elective surgery</i>	17 July 2013
231	Ministry of Health NSW Treasury NSW Office of Environment and Heritage	<i>Building energy use in NSW public hospitals</i>	4 June 2013
230	Office of Environment and Heritage - National Parks and Wildlife Service	<i>Management of historic heritage in national parks and reserves</i>	29 May 2013
229	Department of Trade and Investment, Regional Infrastructure and Services – Office of Liquor, Gaming and Racing Independent Liquor and Gaming Authority	<i>Management of the ClubGRANTS scheme</i>	2 May 2013
228	Department of Planning and Infrastructure Environment Protection Authority Transport for NSW WorkCover Authority	<i>Managing gifts and benefits</i>	27 March 2013
227	NSW Police Force	<i>Managing drug exhibits and other high profile goods</i>	28 February 2013
226	Department of Education and Communities	<i>Impact of the raised school leaving age</i>	1 November 2012
225	Department of Premier and Cabinet Division of Local Government	<i>Monitoring Local Government</i>	26 September 2012
224	Department of Education and Communities	<i>Improving the literacy of Aboriginal students in NSW public schools</i>	8 August 2012

No	Agency or issues examined	Title of performance audit report or publication	Date tabled in parliament or published
223	Rail Corporation NSW Roads and Maritime Services	<i>Managing overtime</i>	20 June 2012
222	Department of Education and Communities	<i>Physical activity in government primary schools</i>	13 June 2012
221	Community Relations Commission For a multicultural NSW Department of Premier and Cabinet	<i>Settling humanitarian entrants in NSW: services to permanent residents who come to NSW through the humanitarian migration stream</i>	23 May 2012
220	Department of Finance and Services NSW Ministry of Health NSW Police Force	<i>Managing IT Services Contracts</i>	1 February 2012
219	NSW Health	<i>Visiting Medical Officers and Staff Specialists</i>	14 December 2011
218	Department of Family and Community Services Department of Attorney General and Justice Ministry of Health NSW Police Force	<i>Responding to Domestic and Family Violence</i>	8 November 2011
217	Roads and Traffic Authority	<i>Improving Road Safety: Young Drivers</i>	19 October 2011
216	Department of Premier and Cabinet Department of Finance and Services	<i>Prequalification Scheme: Performance and Management Services</i>	25 September 2011
215	Roads and Traffic Authority	<i>Improving Road Safety: Speed Cameras</i>	27 July 2011

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.

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