

Road Grants Legislation in Australia: Commonwealth Government Involvement 1900 - 1981

Occasional Paper

This Paper details how the scope and purpose of Commonwealth assistance to the States (and, through the States, to Local Government) for roads has varied over the years. Other issues addressed include the distribution of Commonwealth funds between States and between rural and urban roads, and the varying conditions which have been applied to Commonwealth assistance.

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Road Grants Legislation in Australia: Commonwealth Government Involvement, 1900-1981

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FOREWORD

In 1977, the BTE published an Occasional Paper (No 8) on the History of Commonwealth Government Legislation Relating to Roads and Road Transport, 1900-1972.

It was decided to update Occasional Paper 8 to incorporate the significant developments in Commonwealth roads grants legislation since 1972. The opportunity has also been taken to discuss legislation up to 1972 in greater length than in Occasional Paper 8, with a view to promoting an improved understanding of the changes which have been introduced in successive legislation, and the reasons for those changes.

This Paper details how the scope and purpose of Commonwealth assistance to the States (and, through the States, to local government) for roads has varied over the years. Other issues addressed include the distribution of Commonwealth funds between States and between rural and urban roads, and the varying conditions which have been applied to Commonwealth assistance.

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CONTENTS

	Page
FOREWORD	iii
CHAPTER 1 INTRODUCTION	1
CHAPTER 2 INITIAL ALLOCATION OF ROADS RESPONSIBILITIES	3
Early role of local government	3
Establishment of State road authorities	3
CHAPTER 3 THE INITIAL YEARS OF COMMONWEALTH FUNDING: 1922-23 TO 1925-26	5
Loan Act 1922	5
Main Roads Development Act 1923	5
Main Roads Development Act 1924-25	6
Main Roads Development Act 1925	7
Overview 1922-23 to 1925-26	8
CHAPTER 4 CENTRALISM AND REACTION: 1926-27 TO 1936-37	11
Inter-governmental financial relations: national issues	11
Federal Aid Roads Act 1926	12
Contemporary criticism of the Federal Aid Roads Act 1926	13
The Federal Aid Roads Act 1926 in perspective	15
The move away from centralism—dismantling the 1926 Act	15
Federal Aid Roads Act 1931	18
Federal Aid Roads Act 1936	18
Overview 1926-27 to 1936-37	19
CHAPTER 5 A DECADE OF MINIMAL FEDERAL INVOLVEMENT: 1937-38 TO 1946-47	21
Federal Aid Roads and Works Act 1937	21
CHAPTER 6 RENEWED COMMONWEALTH INTEREST: 1947-48 TO 1958-59	23
Commonwealth Aid Roads and Works Act 1947	23
Grants for beef roads	25
Amendment Acts 1948 and 1949	25
Commonwealth Aid Roads Act 1950	25
Commonwealth Aid Roads Act 1954 and Amending Acts	27
Overview 1947-48 to 1958-59	30
CHAPTER 7 THE END OF HYPOTHECATION	31
Commonwealth Aid Roads Act 1959	31
Commonwealth Aid Roads Act 1964	32
Commonwealth Bureau of Roads Bill 1964	33
Overview 1959-60 to 1968-69	34

	Page
CHAPTER 8 YEARS OF CHANGE: 1969-1977	35
Commonwealth Aid Roads Act 1969	35
1974 roads legislation	37
Appropriation Act (No 4) 1974-75	40
Roads Acts Amendment Act 1976	40
Roads Acts Amendment Act (No 2) 1976	41
Roads Acts Amendment Act 1977	42
Overview 1969 to 1977	42
CHAPTER 9 ROADS LEGISLATION SINCE 1977	45
States Grants (Roads Interim Assistance) Act 1977	45
States Grants (Roads) Act 1977	45
Roads Grants Act 1980	46
Roads Grants Act 1981	46
CHAPTER 10 AN OVERVIEW OF COMMONWEALTH ASSISTANCE FOR ROADS	49
Scope and purpose	49
Distribution between States	49
Conditions	50
Level of grants	52
Conclusion	54
APPENDIX I COMMONWEALTH GOVERNMENT MINISTRIES, 1918 TO 1981	57
APPENDIX II ESTABLISHMENT OF STATE ROAD AUTHORITIES	59
LIST OF REFERENCES	63
ABBREVIATIONS	67

TABLES

	Page
3.1 Commonwealth roads grants, 1923-24 and 1924-25	7
4.1 Commonwealth expenditure under the Federal Aid Roads Act 1926 during 1926-27	14
4.2 Commonwealth roads grants and nominated road user taxes, 1926-27 to 1930-31	17
4.3 Commonwealth fuel tax revenues and roads grants, 1926-27 to 1936-37	20
8.1 Road grants legislation, 1969-74	35
8.2 Percentage of Commonwealth grants spent in non-metropolitan areas, by State, 1953-54 to 1969-70	36
8.3 Distribution of grants under 1974 roads legislation, by category	39
9.1 Proposed Commonwealth road grants, 1980-81 to 1984-85	46
10.1 Comparison of actual distribution of Commonwealth roads grants between States with distribution if based on pre-1969 formula, 1969-70 to 1979-80	50
10.2 Commonwealth road grants to the States by road category, 1968-69 to 1980-81	52
10.3 Commonwealth road grants as a percentage of fuel tax revenues, 1926-27 to 1979-80	53
10.4 Dollars of Commonwealth road grant spent per motor vehicle, 1947-48 to 1979-80	54
10.5 Commonwealth road grants as a percentage of total budget expenditure, 1947-48 to 1979-80	54
11.1 Local government roads expenditure in Victoria, 1910-11	60

CHAPTER 1—INTRODUCTION

This paper provides an historical perspective on the development of Commonwealth financial assistance¹ to the States for roads. In addition it documents the history of Commonwealth attitudes towards local government road funding.

A short history of Commonwealth roads legislation up to the 1970s has been compiled by Burke (1977). Commonwealth assistance to the States for roads was introduced in 1922 primarily as a means to alleviate unemployment, especially amongst ex-servicemen. Prior to this some Commonwealth funds had been provided through the Repatriation Department for the purpose of making or mending development roads (H/R, Comm. Hansard, 22 June 1923, p314, Pratten)².

In addition to the annual assistance provided under the general road Acts since 1922 the Commonwealth has from time to time provided funds for specific road works in the States³ and for works in the Territories. This Paper does not examine these programs, further information on which is contained in Burke (1977), Department of National Development (1970) and Commonwealth of Australia (1975).

Chapters 2 to 9 provide a chronological discussion of the various pieces of legislation, and the related Parliamentary debate. Since changes in road funding policy which have occurred during the period covered by this paper reflect the priorities of different governments, a list of the Ministries responsible for each separate piece of legislation is provided as Appendix I.

Chapter 10 provides an overview of the sixty years of Commonwealth financial assistance for roads, considering themes such as changes in the scope of the assistance, the distribution between States, categories of roads, the direction of funds, matching quotas attached to the provision of funds and the need for program approvals.

1 All financial data in this paper are expressed in dollar terms, except fuel customs and excise duty rates which are expressed in either pence per gallon or cents per litre.

2 References to Parliamentary records in this report follow the form (a) institution—House of Representatives (H/R), Senate, Legislative Assembly, Legislative Council etc (b) Commonwealth or State reporting document (c) date of entry (d) page of entry (e) Parliamentary member (f) Parliamentary position (if any), and are given in the text rather than in the Bibliography.

3 For example, beef road grants, Eyre and Barkly Highway grants, the Tasmanian Gordon River Road and the 1973-74 road safety grant.

CHAPTER 2—INITIAL ALLOCATION OF ROADS RESPONSIBILITIES

EARLY ROLE OF LOCAL GOVERNMENT

Initially, the colonial (later to become State) governments undertook work on a few main roads and bridges. This responsibility gradually expanded in line with colonial development through the establishment of main road boards. (See Newell 1938 and also ABS 1966, pp258-259). However, beginning in 1858 the colonial governments made local governments responsible for roads within their boundaries. Newell (1938) records that local government responsibilities for roads commenced with relevant legislation in New South Wales in 1858, Victoria 1859, Queensland 1864, South Australia 1861, Western Australia 1871, Tasmania 1858 and 1869. For each colony there were a number of further Acts which defined the powers and responsibilities of local government and in a few cases roads boards and trusts.

However, it was found that local government generally had insufficient financial resources to undertake all required main road works. Initially, such works were subsidised by the colonial and State governments in various ways¹, while still respecting local government autonomy. Gradually, the State Governments came to the view that even with such assistance local governments were not adequately meeting their roads responsibilities and that State road authorities should be established.

ESTABLISHMENT OF STATE ROAD AUTHORITIES

As State Governments saw it, relying on local authorities to construct and maintain main roads had the following shortcomings:

- inconsistency of design standards from one local government area to another;
- in some cases, poor construction due to lack of engineering skills; and
- insufficient priority being given to main roads compared with local roads, with State Government assistance intended for main roads sometimes being spent on local roads, and a reluctance on the part of local authorities to spend their own funds on main roads when the benefits might accrue largely to residents of other areas.

In an attempt to overcome these difficulties, the States created road authorities. As discussed in the next chapter, such authorities also played an important role (and continue to do so) in facilitating Commonwealth specific purpose assistance for roads, which was initiated in 1923. The Country Roads Board was established in Victoria in 1912. It was followed by similar authorities in Queensland (1919), New South Wales (1924), Western Australia (1925) and South Australia (1926). In Tasmania, the State Government's road construction activities continued to be performed by the Public Works Department (established in 1848) until the establishment of a Department of Main Roads in 1977.

Generally, the State road authorities were vested with power to declare, construct and maintain main roads (though they varied in the extent to which they carried out the work themselves, used local authorities as their agents, or used private contractors). Their expenditures were to be financed by a mixture of revenues, State motorist and land taxes, contributions from local government and, later, Commonwealth financial assistance. In Victoria and Queensland, for example, local government was required to finance half the expenditure (by way of repayments over thirty-one and one-half years).

¹ See Coane (1915, pp41-44), Queensland Parliamentary Debates, Legislative Assembly, Second Reading Speech—Main Roads Bill, 4 November 1919, pp1810-1816 and Newell (1938).

The Country Roads Board in Victoria was given particularly wide powers, including the determination of individual local government contributions according to its assessment of the benefits enjoyed by individual local government as a result of main roads expenditures (Coane 1915, pp41-42).

Also, it was authorised to spend the equivalent of \$800 000 per annum between 1912 and 1917, which was significant in relation to total local government road spending at that time (equivalent to \$1 136 000 in 1910-11, approximately one-third of which had been financed by State grants).

The reaction of local government to the establishment of State road authorities ranged from unanimous support in Queensland (Legislative Assembly, Queensland, Parliamentary Debates, 24 October 1919, p1580, W.N. Gillies) to strong opposition in New South Wales, resulting in the legislation being delayed for 12 years (Legislative Assembly, NSW, Parliamentary Debates, 7 August 1924, p924, Mutch).

Further details of the establishment of the State road authorities are provided in Appendix II.

CHAPTER 3—THE INITIAL YEARS OF COMMONWEALTH FUNDING: 1922-23 TO 1925-26

LOAN ACT 1922

Commonwealth assistance to the States for roads was introduced under the *Loan Act* 1922, which *inter alia* provided for a specific road grant of \$500,000 for the financial year 1922-23. Prime Minister Hughes, in his Second Reading Speech, stated that the assistance was primarily for the purpose of alleviating unemployment and that such expenditure was justified as roads were needed in rural returned soldier settlements and to open these settlements to markets. The ensuing debate on the Loans Bill 1922 concentrated on the large number of other purposes which were to be financed by Loan. There was only one reference to the road proposal during the debate:

I hope the Government will be able to explain why the Commonwealth should be asked to borrow money to spend it on unproductive work of this nature. (H/R, Comm. Hansard, 30 August 1922, p1753, Riley)

The funds were distributed between the States according to population and were to be spent on the maintenance of existing main roads outside city areas. The States were required to match the Commonwealth funds on a dollar for dollar basis, and Commonwealth approval of all expenditures was required. Reflecting the prominent role of local government in roads at that time, some States were quick to translate the matching requirement into a local government responsibility. The New South Wales Government required that:

no money be allocated unless the expenditure of an equal amount is incurred by the local authority within whose area any road work is undertaken. (Legislative Assembly, NSW, Parliamentary Debates, 9 August 1922, p918).

Queensland adopted a similar practice whereby benefiting local authorities had to repay one-eighth of the total cost of works (one-quarter the State's share) over a period of 38 years (Queensland Parliament 1923).

MAIN ROADS DEVELOPMENT ACT 1923

This Act represented the first occasion on which the Commonwealth used its powers under Section 96 of the Constitution to 'grant financial assistance to any State on such terms and conditions as the Parliament sees fit'. That is, it was the first form of specific purpose assistance.

The Prime Minister (H/R, Comm. Hansard, 22 June 1923, pp311-316, Bruce) described the purposes of the grants to provide employment and to imprint a national transport development proposal onto the country by providing funds for the development of main roads. A grant of \$1 million was to be provided to the States in 1923-24 for expenditure on the construction of main roads of the following types:

- main roads to open up new country for agricultural, pastoral or mining purposes or to provide access from such areas to railheads;
- main trunk roads between important towns, either within a State or between States, where no railways were provided; and
- arterial roads through country areas unable to finance heavy road construction costs.

The grant, which was to be matched by the State on a dollar for dollar basis, was

distributed between the States on a formula of 5 per cent for Tasmania, with the remainder divided between the remaining States on a three-fifths population/two-fifths area basis. The Commonwealth was to approve all State road expenditures.

It is interesting to note that the House of Representatives and Senate debates on the Main Roads Development Bill 1923 introduced several arguments against the provision of road grants which have been raised, from time to time, in the context of subsequent Commonwealth road funding:

- grants relieve States of their financial responsibility for roads at the expense of the Commonwealth;
- as roads are a State and local government responsibility the funds for roads should be raised by the relevant authority;
- the revenue sources for roads expenditure should be user based and not derived from general taxation revenues;
- the Commonwealth would be given little credit for the expenditure of the money;
- matching provision was inadequate in that it would not raise State road expenditures above those which would have been realised without the assistance;
- the rationale behind the implied division of road responsibility (local authorities—local roads; state authorities—main roads; Commonwealth assistance—main roads of an inter-State nature) was not adequately safeguarded in the Bill;
- grants were only for country areas, with no funds available for city areas, while the source of revenue was Australia wide;
- approval conditions interfered with State plans and would be administered by Federal ministers and officers who had neither the time nor inclination to inspect State proposals first-hand; and
- the money could be spent on roads which compete with railways.

The basic argument used in support of Federal road funding -to speed up the construction of main roads (or roads of a national character)—is still used in support of Federal grants today. To avoid relieving State and local governments of the financial burden they had hitherto carried for roads, the Commonwealth relied on matching requirements and program approval. The latter condition related to all State main road expenditures proposals—this condition being retained in the administration of successive pieces of legislation until dropped by the 1930 Labor Government. The next instance of a total expenditure approval approach was in the *Roads Grants Act* 1974 and related to urban arterial road expenditures. Local government received little mention in the debate on the 1923 Act, although there is sufficient reference to suggest that local government was expected to undertake at least some of the approved works. No attempt was made by the Commonwealth to impose matching conditions on local government road expenditures.

MAIN ROADS DEVELOPMENT ACT 1924-1925

This Act supplemented the *Main Roads Development Act* 1923 by providing an additional \$1 million for roads assistance to the States on the same terms and conditions as previously applied. When introducing the new Bill, the Minister of Works and Railways referred to difficulties faced by the Commonwealth in administering the 1923 Act (H/R, Comm. Hansard, 26 June 1924, pp1639-1642, Stewart). The difficulties included the lack of a roads board in New South Wales (so that the roads program was developed by local governments which collectively asked for too much money for projects often at variance with the 'main roads' criteria), delays caused by the Commonwealth's program approval arrangements and delays caused by slow construction, especially where contract labour was used.

It was also suggested during the debate that a lack of prior advice to State Treasurers as to the amount they would have to find to meet the matching requirements was adding to the delays.

Table 3.1 shows the effect of these difficulties in terms of delayed expenditure of available funds between 1923-24 and 1924-25.

In reply to a question suggesting that the Commonwealth should deal directly with local authorities to speed up the rate of advances the Minister said:

That would be utterly impossible. I should not like to be the Minister who would have to deal with them, as life would not be worth living under those conditions. (H/R, Comm. Hansard, 26 June 1924, p1641, Cunningham).

TABLE 3.1—COMMONWEALTH ROADS GRANTS, 1923-24 AND 1924-25^a

(\$)

<i>State</i>	<i>Maximum grant payable</i>	<i>Amount paid 1 July 1923 to 30 June 1925</i>
NSW	552 000	230 000
VIC	360 000	242 000
QLD	376 000	258 000
SA	228 000	174 000
WA	394 000	374 000
TAS	100 000	24 000
TOTAL	2 000 000	1 302 000

a. Amounts rounded to nearest \$1000.

Sources: Commonwealth Parliament (1924). Commonwealth of Australia (1975).

In the main, the first two roads assistance Bills enjoyed favourable Parliamentary passage. The major grounds for objections were: the need for fiscal constraint at a time of mounting unemployment and growing national debt; and inadequate identification of fiscal responsibility using the argument that the Federal Government should not finance, in the absence of a clearly identifiable national need, expenditures traditionally met by other levels of government. An example of the latter argument was put by a Sydney member:

The position is serious, and it is time that someone protested against the Federal Government wet-nursing the State Governments in this way. A local government act was passed in the New South Wales Parliament, which gave the Shire Councils power to levy taxes for the construction and maintenance of roads, but that power has not been exercised in many cases. I know of one shire council which has not imposed a sufficiently heavy tax to pay the salary of the one clerk and rate collector which it employs (H/R, Comm. Hansard, 26 June 1924, p1661, West);

MAIN ROADS DEVELOPMENT ACT 1925

Under this Act the total amount available to the States for expenditure on new works between 1923-24 and 1925-26 was increased from \$2 million to \$3 million and an additional sum of \$500 000 was set aside for the 'purpose of reconditioning or strengthening existing main roads' (*Main Roads Development Act 1925*, Section 6). However, this latter grant was free of matching conditions and was introduced as an offset to the matching provisions of the construction grants which were diverting State (and local government) funds from road maintenance.

During the debate on this Bill (H/R, Comm. Hansard, 9 September 1925, pp2321-2375) there was a reiteration of the Commonwealth position that the assistance was to be provided to the States; if local authorities wished to receive assistance for given roads then they would have to seek their inclusion in the State list of projects submitted to the Commonwealth by the appropriate State authority.

Several other points were made in the debate concerning local authority road expenditures:

- local government Acts were passed at times when the development of motor vehicles was not envisaged. Local governments' original road responsibility was one of keeping roads to railway depots in good order; shires now faced problems of heavy through traffic;
- Commonwealth roads assistance tended to be used by State authorities rather than passed on to local government;
- roads serving areas of few ratepayers were accorded low priority, even if they were important connectors;
- State authorities used their own labour forces where previously local government labour forces were used; and
- States with developed networks were disadvantaged as a majority of funds were for new works.

Whereas the additional grant proposal of the 1925 Bill attracted strong support in the lower House, there was a less enthusiastic response in the Senate (S. Comm. Hansard, 10 September 1925, pp2369-2375) where the following points were made:

- assistance conditions cut across States rights and States autonomy to deal with their own problems; and
- it was more appropriate for States and local government to raise road funds; Commonwealth funding sources were inappropriate.

OVERVIEW 1922-23 TO 1925-26

Four Commonwealth Acts provided grants assistance to the States over this four year period. Whilst recognising the traditional local government role in relation to local and shire roads, the Commonwealth's assistance, from the beginning, was directed at main roads, with the objective of promoting national development.

In order to ensure that the States took account of Commonwealth objectives the roads legislation empowered Commonwealth Ministers and officers to attach expenditure approval conditions to use of the grants. Also, in order to progress the rate of road development the States were theoretically prevented from substituting Commonwealth funds for traditional State and local government expenditures through the use of *matching conditions* and by limiting expenditure of the Commonwealth funds to new construction. Apart from the one-year 1922 *Loan Act*, maintenance was regarded as an ongoing obligation of State and local government for which Commonwealth assistance was not provided.

In summary, the Commonwealth Government, through its roads legislation, signalled its opinion that State and local governments did not have the resolve to develop national transport policies, whereas the Commonwealth did and was prepared to provide conditional financial assistance in order to achieve national development goals.

Such a centralist stance is even more notable given its proximity to Federation: it represented a significant change in the then current pattern of inter-governmental financial relations insofar as vertical fiscal imbalance was addressed in other than the passive (general purpose assistance) terms envisaged in the Constitution. It is also noteworthy that from the beginning Section 96 specific purpose road grants included

conditions which the States have tended to resent and which have been the cause of inter-governmental conflict.

At the same time the administrative and practical limitations of annual Acts as a means of accelerating main road development became obvious. To overcome this problem a more comprehensive and longer-term assistance program was proposed.

CHAPTER 4—CENTRALISM AND REACTION: 1926-27 TO 1936-37

INTER-GOVERNMENTAL FINANCIAL RELATIONS: NATIONAL ISSUES

The future direction that Commonwealth roads policy was to take was outlined at the May 1926 Conference of Commonwealth and State Ministers. The roads policy statement was part of a new set of arrangements which the Commonwealth was proposing—the prime one of which was that the existing system of per capita subsidies from customs and excise duties to the States be discontinued 'so that responsibility for raising revenue should be placed upon the authority which spends the money' (Commonwealth Parliament 1929, p321). To this end the Commonwealth proposed to vacate the field of personal income taxation and allow the States the right to levy such taxes for their own purposes. In place of the per capita grants the Commonwealth proposed to introduce a program of national resource development. Under the latter proposal the Commonwealth would:

give financial assistance, without regard to State boundaries or population, in special cases where proper and necessary development cannot otherwise be secured (claiming that) under existing conditions Australia is not being developed rapidly enough nor are the States in a position to provide for its development under a well-balanced scheme. Federal aid is essential for Migration, Main Roads, National Insurance, Health, Science and Industry, Unification of Railways, and for other purposes. (Commonwealth Parliament 1929, p314).

The specific main roads proposal was:

Under the sole direction of the States, there has not been developed a comprehensive main roads plan such as is necessary for facilitating the economical transport of products and for opening up undeveloped land.

Commonwealth aid for main roads has been given for some years, but our needs have now become so urgent that the Commonwealth has decided to stimulate State action by the grant of \$40 million for main roads over a period of ten years. (ie 1926-27 to 1935-36) (Commonwealth Parliament 1929, p314).

The ensuing State and Commonwealth ministerial debate on these Commonwealth proposals revealed that the roads assistance was to be raised from motorist-based revenue. The Prime Minister, Mr S.M. Bruce said:

We shall have to raise the money from those who will gain the most benefit, namely, the motorists, but we do not propose to do something which will increase the difficulties of transport in this country unless we are likely to obtain a benefit more than equal to the detriment caused by the taxation levied. (Commonwealth Parliament 1929, p339)

The Commonwealth's motorist tax was opposed by the Victorian Premier as the proposed road grant was still to be distributed on the basis of population and area (despite the above-noted statement identifying national development objectives as paramount to those of State borders and population). The Victorian Premier objected on two grounds—that Victorian motorists would be subsidising roads expenditure in other States, and that the tax would fall upon a comparatively limited number of people, (that is motorists—there were only 15 vehicles per 1000 people in Australia at the time).

It is evident from the proceedings that the Commonwealth's proposal to increase road expenditure had received firm public support. However, the intrusion of the Commonwealth in State activities, such as roads, was criticised by the Premier of Queensland on the grounds that the Commonwealth was seeking to identify itself with popular measures.

Let the Commonwealth take the responsibility for the costly, unpopular, and unproductive activities, as well as for those which are popular and productive. (Commonwealth Parliament 1929, p348)

The Prime Minister further supported the main road policy on electoral grounds:

The national roads policy was dealt with pretty solidly at the last election . . . the people throughout Australia showed that they were in accord with the principle that a national roads policy is essential. The Commonwealth cannot encroach upon a State function unless there is a demand in that direction by the people of Australia. The making of good roads is undoubtedly a national question, in regard to which the Commonwealth and States can co-operate. (Commonwealth Parliament 1929, p357).

However, for the most part the debate centred on State opposition to the Commonwealth proposal to vacate the field of direct taxation of incomes and to cease payments to the States on a per capita basis of surplus customs and excise revenues. The States opposed these proposals as they would then face the politically unpopular course of increasing State taxes to meet their expenditure requirements (aside from any specific purpose assistance provided by the Commonwealth). It was argued that the existing Commonwealth-State arrangements were analogous to State-local government arrangements and that the total system of financial transfers should be retained.

In reply the Commonwealth Treasurer, Dr Earle Page advanced the following argument in support of separate financial resources:

Mr Gunn (South Australian Premier) fails to realize the difference between the Commonwealth giving money to a State and a State giving money to a municipality. Municipalities are the creation of the State Government to which they are absolutely subsidiary. Under the Federal system the Commonwealth and the States are separate and independent entities, and therefore a relationship that is quite right as between a State Government and a municipality is quite wrong as between a State Government and the Commonwealth Government. It is necessary that the States remain independent under the Federal system, and to that end separation of finances is necessary and fundamental. (Commonwealth Parliament 1929, p365).

FEDERAL AID ROADS ACT 1926

Principal features of the *Federal Aid Roads Act* 1926 were:

- use of a formal Commonwealth-State agreement which appeared as a schedule to the Act;
- grants of \$40 million over ten years;
- funds were to be distributed on the same basis as previous legislation, that is 5 per cent to Tasmania with the remainder distributed amongst the other States three-fifths on a per capita basis and two-fifths on an area basis;
- grant to be paid initially into a Commonwealth trust fund;
- one-quarter of grant for construction of new roads (from 'present' Commonwealth revenue sources) and three-quarters of grant for construction or reconstruction of existing roads (from 'new' Commonwealth revenue sources—which were to be increased fuel taxes and a new tax on vehicle chassis);
- State matching on a Commonwealth \$1:State 0.75c basis, with one-eighth of State matching from 'new' revenue and seven-eighths from 'present' road revenue sources or loans;
- a new road classification 'Federal Aid Roads' was introduced, defined as main roads which open up and develop new country, trunk roads between important towns, and arterial roads carrying the concentrated traffic from main, trunk and other roads;
- funds were not available for cities over 5000 people and for towns of less than 5000

people funds were only available for roads which extended beyond town limits, ie for through-town roads¹;

- standards of roads works to be determined by Federal Aid Roads Board (to consist of relevant Commonwealth and State Ministers);
- States to submit five year plans of proposed construction and reconstruction works with works within any financial year to be approved by the Minister;
- two per cent of cost of work allowance for survey and supervision of work; and
- three per cent of loan funds allowance towards interest on such loans.

CONTEMPORARY CRITICISM OF THE FEDERAL AID ROADS ACT 1926

Unlike its predecessors, the 1926 Roads Bill attracted close Parliamentary scrutiny, was subject to a long debate² and resulted in three States (New South Wales, South Australia and Victoria) initially refusing to sign the Agreement. It further attracted a vote basically along party lines—with Labor in opposition generally opposing the Bill although some rural electorate Labor members supported it.

Although the proposed Commonwealth-State Agreement had been drafted during the February 1926 Conference of Federal and State ministers its introduction to the Commonwealth Parliament generated some spirited State and member criticism. The major concerns expressed against the Bill and Agreement concerned their financial provisions, constitutionality and effects on 'State rights'.

The Commonwealth proposed to increase its revenue by increasing its taxes on petrol, car chassis and tyres. Criticism was directed against the petrol tax proposal in that some States had already introduced such taxes (it being claimed that such revenues were road user charges and not sales taxes) for the purpose of road building. Whereas there was a general acceptance that the Commonwealth had the right to levy 'normal' customs and excise duties in line with those applied to other commodities, it was not accepted that 'extra' taxes should be levied with the view to expanding specific purpose Section 96 assistance to the States. The High Court was later (October-November 1926) to rule that the States did not have the right to levy such taxes (given the Commonwealth's exclusive powers relating to excise duties).

Much of the Parliamentary debate concerned the intention of the Commonwealth to impose conditions on the use of its roads grants; one opposing argument being that, as roads were the responsibility of the State and local governments, the Commonwealth should not seek to influence their expenditure proposals or priorities. In support of its policy the Commonwealth relied strongly on the practices adopted in the United States of America, United Kingdom and Canada where national policies were financed from central government funding. Victoria challenged the Commonwealth's proposed 1926 roads legislation, but the High Court (November 1926) ruled in favour of the right of the Commonwealth to provide Section 96 grants under such terms and conditions as the Commonwealth felt fit to impose, with the State left with the passive right to accept or reject the offer of such assistance.

It would appear, however, that the proposed Act did receive general support from local government bodies as the assistance would partially relieve them of main roads expenditures. When entrance of New South Wales into the Agreement was in doubt the option of the Commonwealth dealing directly with local government was again raised

1 Clause 7.2 of the Agreement (schedule to the *Federal Aid Roads Act 1926*) made allowance for the State to seek up to 50 per cent of its contribution for these roads works from the local governing body of the town. The Minister for Works and Railways, Mr W.C. Hill added, however: 'The Government does not intend that the States shall make a levy on the municipalities for roads outside the boundaries of the towns' (H/R, Comm. Hansard, 27 July 1926, P4597, Hill).

2 Covering almost 200 pages in the Commonwealth House of Representative and Senate Hansards.

Mr R Green—As many shire councils in New South Wales are bitterly opposed to the attitude adopted by the Premier of the State towards the Federal Aid Roads Grant, will the Prime Minister take into consideration the advisability of making agreements with the Shires Association, or with associations of shires in New South Wales that favour the proposed Commonwealth roads grants, in order that Commonwealth money may be made available to them on the same terms as those in the agreement with the States, namely the expenditure of the shires of \$0.75 for every \$1.00 granted by the Commonwealth?

Mr Bruce—The Commonwealth's relations must be with the respective State Governments. The attitude of the Government towards assistance for the carrying out of a national roads policy, has, I think, been made very clear in this House. (H/R, Comm. Hansard, 9 August 1926, p4046, Green and Bruce).

There was further debate on the Commonwealth's desire to provide specific purpose grants rather than traditional general purpose (untied) grants. It was argued that the Commonwealth's roads assistance proposal would discriminate:

- between States on a per capita basis;
- against any State not entering the Agreement;
- between city and country authorities as city local authorities were excluded from assistance; and
- against city motorists and city ratepayers; the former would be liable for up to two-thirds of the extra petrol tax levy, the latter fully liable for roads in towns of over 5000 people.

The delay in some States signing the Agreement and the number of conditions which they had to meet to become eligible for assistance is clearly reflected in the rate of payment of funds during 1926-27 as set out in Table 4.1.

TABLE 4.1—COMMONWEALTH EXPENDITURE UNDER THE FEDERAL AID ROADS ACT 1926 DURING 1926-27^a

(\$'000)			
State	Available grant	Amounts paid 1926-27	Balance unexpended 30.6.1927
NSW	1 104	358	746
VIC	720	330	390
QLD	752	410	342
SA	456	310	146
WA	768	426	342
TAS	200	94	106
TOTAL	4 000	1 928	2 072

a. Rounded to nearest \$1000.

Source: Commonwealth of Australia (1975, pp228-229).

Despite this slow start the rate of expenditure accelerated in following years. In his 1928-29 Budget Speech, the Treasurer, Dr Earle Page informed Parliament (H/R, Comm. Hansard, 30 August 1928, p6225, Page) that the approved program then covered 293 roads and involved a total expenditure of \$17.6 million. Of this \$6.4 million was spent on main development roads, \$3.2 million on trunk roads, and \$8.0 million on arterial roads.

THE FEDERAL AID ROADS ACT 1926 IN PERSPECTIVE

The move towards more Commonwealth control in the 1926 Act needs to be viewed against the background of the mid to late 1920s being a period of great significance in the history of the development of Commonwealth-State financial relations. Mathews and Jay (1972) provide a convenient summary of the four major streams of development:

- changes in general purpose assistance arrangements (per capita grants) and associated tax proposals under the Financial Agreement;
- use of special grants to claimant States;
- development of specific purpose grants—commencing with the *Main Roads Development Act* 1923; and
- constitutional interpretations of the High Court in November 1926 (validity of Section 96 specific purpose grants as incorporated in the *Federal Aid Roads Act* 1926) and October-November 1926 (invalidity of State fuel taxes).

With respect to roads expenditure, as noted above the major effects of the High Court decisions were:

- the States were excluded from the easiest to administer and most logical (available) user tax for roads so that in future any variance between Commonwealth or State and local Government road priorities would need to be financed from less suitable State taxes on motorists (with higher collection costs), other State sources, or from local government rates and loan revenues; and
- local government roads expenditure priorities were open to the dual influences of State and Commonwealth policies.

An example of the latter effect is seen in the Second Reading Speech of the Minister for Works and Railways, Mr W.C. Hill for the Federal Aid Roads Bill 1926:

It has been contended that motorists are to be taxed for the making of roads, not in the cities, but in the country, and it has been suggested that a portion of the money raised by the tax should be made available to municipal authorities for road construction within city areas. It is important to bear in mind that the present proposals represent agreements between the Commonwealth and the States, in furtherance of a national scheme for opening up and developing the country. The necessity for cooperation between the Commonwealth and the States is largely due to the financial assistance required to overcome the problem of road construction in sparsely-populated areas. Under this scheme this problem is solved; but there still remains the question of financing necessary connexions of roads that pass through densely-populated areas, the local authorities of which are not in a position to meet the required expenditure. This question is occupying the attention of the various State Governments and the Commonwealth Government would be prepared to consider cooperation with the States in any proposal they may submit for its solution. (H/R, Comm. Hansard, 27 July 1926, p4594, Hill)

THE MOVE AWAY FROM CENTRALISM—DISMANTLING THE 1926 ACT

Roads as a subject effectively dropped from Parliamentary scrutiny until 1929. In that year a report from the Commonwealth Transport Committee (1929) was tabled in the House of Representatives (4 September 1929). This report had been discussed at the May 1929 Conference of Commonwealth and State Ministers. This Conference was held in camera, and only a record of decisions was published (Commonwealth Parliament 1930).

The Transport Committee consisted of representatives of the Commonwealth and State Governments who reported on a recurring theme in Australian politics, the need for the co-ordination of transport facilities in Australia. To assist co-ordination they recommended the establishment of a Federal Transport Council which would consist of State and Commonwealth transport ministers. The Ministerial Conference agreed to

this proposal in principle.

In relation to roads, the State ministers suggested an extension of assistance to road maintenance and that the Federal Aid Roads Board re-examine the provisions of the Federal Aid Roads Agreement.

As an alternative to the continuance of the Agreement the States proposed that petrol tax be increased with the proceeds paid, free of conditions, by the Commonwealth to the States in proportions determined by the quantity of petrol used in each State. The States guaranteed that they would spend on roads an amount equivalent to that being spent under the current Agreement, and to the extent that there were funds over and above this need they would be directed towards reducing other forms of State motor taxation and to provide rebates to non-road petrol users.

Prime Minister Bruce informed the State ministers that their proposal would be referred to his Cabinet for consideration. In the event, this proposal was overtaken by the change of Government in October 1929.

Immediately upon taking office the Scullin Labor government proposed the release of \$2 million from the accumulated balance of the Federal Aid Road Trust Fund (ie funds available to the States to that time but unexpended) for the relief of unemployment. The funds would be made available for expenditure on road works outside the works included in the approved 5 year programs. No State matching expenditure would be required.

This proposal, and the review of the Agreement and proposals for petrol taxes put forward at the May Ministerial Conference (before the change of Government), were discussed at a December 1929 Ministerial Conference and again in February 1930. (Commonwealth Parliament 1931a, p57).

At the latter Conference, major changes to the operation of the Federal Aid Roads Agreement were proposed by the Prime Minister. The basic impact of these changes would be for the Commonwealth to withdraw from any active role in roads expenditure other than to become a tax agent on behalf of the States. A reading of the proceedings of this Conference indicate the implementation of a somewhat confused and hastily conceived new federal roads 'policy'. The unemployment relief proposal, although in line with the Government's policy of non-involvement in the formulation of State expenditure plans, did not contain any safeguards with regard to the substitution of Commonwealth expenditure for State expenditure. The February Conference proposals, which were based on proposals telegraphed to the States on 26 November 1929 and a resolution of a Main Roads Board Conference of 19 February 1930, were introduced with the claim that, because of rising rail deficits, it was necessary to reconsider the rate of road expenditure, especially as it facilitated road competition with rail. If anything, the proposed changes could be viewed as inappropriate in that they guaranteed neither a decrease in road expenditure nor a reduction in road competition with rail.

In discussing the Commonwealth's new position with respect to road funding the Prime Minister Mr J.H. Scullin:

the correct interpretation . . . is that if the States are agreeable, the Commonwealth Government is prepared to get right out of the Federal Aid Roads Agreement—to cease to have anything to do with the making of roads in the States—and merely to act as agent for the States to collect the tax on whatever basis is agreed upon by the States. That would practically mean scrapping the agreement. Briefly put, we say we shall not be in the business of road making; but we believe we can collect the petrol tax better than the States can. (Commonwealth Parliament 1931a, p71).

A State counter-proposal that the Agreement be scrapped in favour of an increased petrol levy proposal along the lines of the May 1929 Conference proposal was not adopted by the Commonwealth. The new proposals were introduced to the Commonwealth Parliament by the Prime Minister in the 1930-31 Budget Speech He

pointed out that the Commonwealth Government had already paid \$4 million per annum for the first four years of the agreement and would continue to do so. However this was where Commonwealth involvement ended.

The present Commonwealth Government has no desire to exercise any control over the activities of the State in relation to roads. It is however, prepared to contribute \$4 million per annum to the States for roads expenditure.

As a result of conferences on this matter a general agreement has been reached. Under it, the Commonwealth will pay to the States, during a period of 10 1/2 years as from 1 July 1926, \$4 million per annum. The States will undertake to spend this money on the construction, reconstruction, maintenance or repair of roads. They will not, however, be under any obligation to contribute any particular sum for roads expenditure from their own funds, nor will the Commonwealth exercise any supervision over the work of the States in this connexion.

A formal agreement on these lines has been submitted to the States, and will, at a later date, be placed before Parliament for ratification. (H/R, Comm. Hansard, 9 July 1930, p3895, Scullin).

However, the deepening of the depression resulted in a review of these arrangements¹. At the February 1931 Ministerial Conference the States were informed by the Prime Minister that the revised Agreement was not to be proceeded with, and that the Commonwealth considered an annual grant of \$4 million for roads to be beyond the financial capabilities of the Commonwealth. In support of a Commonwealth proposal to reduce its (and the States') roads expenditure the Prime Minister claimed that some of the funds could be used for more productive works (which promoted export income) and that road expenditure was adding to the indebtedness of the railways.

However, the Commonwealth's major concern was financial. The twopence (two cents) per gallon petrol tax nominally levied to finance the road grants, and the chassis tax levied at the commencement of the Act were not yielding sufficient funds; the \$4 million grant was requiring consolidated revenue funds (CRF) supplementation as illustrated in Table 4.2.

TABLE 4.2—COMMONWEALTH ROAD GRANTS AND NOMINATED ROAD USER TAXES, 1926-27 TO 1930-31

(\$ million)

	<i>Grant payable</i>	<i>Collections from fuel and chassis tax</i>	<i>CRF supplementation</i>
1926-27	4.0	1.154	2.846
1927-28	4.0	2.262	1.738
1928-29	4.0	4.146	—
1929-30	4.0	4.414	—
1930-31 ^e	4.0	1.700 ^a	2.300

a. The 1930-31 estimate was increased to \$2 million by the time of the May-June 1931 Ministerial Conference.

e. Estimated.

Source: Commonwealth Parliament (1931b).

It was agreed not to change the arrangements for 1930-31. However, the Commonwealth renewed its offer to become the tax agent for the States and this was agreed to by the States and expressed in the following Conference resolution

The Conference agrees that the Federal Aid Roads Agreement be amended to provide that as from 1st July next the Commonwealth shall pay to the States a sum equal to twopence

¹ It was initially proposed to extend the Agreement by six months to allow the States to fully use the unemployment grant of \$2 million (H/R, Comm. Hansard, 9 July 1930, p3895, Scullin).

halfpenny per gallon on all petrol cleared through customs for home consumption; such sum to be apportioned among the States on the same basis as the (\$4 million) set out in the Agreement to be cancelled. (Commonwealth Parliament 1931b, p67).

FEDERAL AID ROADS ACT 1931

The resolution described above was amended at the mid-1931 conference (Commonwealth Parliament 1931c) to allow for a further payment to the States of five-fourteenths of excise collections on petrol refined in Australia.

This proposal was again changed slightly by the time of the delivery of the 1931-32 Budget Speech (H/R, Comm. Hansard, 9-10 July, 1931, p3745, Theodore).

The new arrangements provided for the Commonwealth to pay to the States an amount equal to two and a half pence (approximately three cents) per gallon on all petrol cleared through customs for home consumption and one and a half pence (approximately two cents) per gallon on petrol refined in Australia.

The funds were to be distributed between States on the same basis as in the existing Agreement, and the only condition was that money must be spent on roads. This legislation thus represented a significant relaxation of the 1926 legislation which required that Commonwealth funds be spent only on the construction and reconstruction of main roads. The funds could now be spent on any type of road maintenance as well as construction.

Under the terms of the proposed new Agreement (Schedule to the Federal Aid Roads Bill 1931) the States were released from any unfulfilled obligation outstanding at 30 June 1931 (such as matching and expenditure on approved projects). The new Agreement also included an extremely liberal audit provision in that the Commonwealth Minister could satisfy himself by such means as he thought fit as to whether monies paid under either the superseded or new Agreement had been correctly expended.

The Bill was passed on a party vote; the Opposition objected to the dismantling of the expenditure controls contained in the original Agreement. Country Party and local government interests feared that the grants would now be spent in city areas to relieve unemployment, and that previously constructed Federal Aid Roads in country areas would not be adequately maintained, with their maintenance burden falling on local government.

It was the then Deputy Leader of the Opposition (and former Attorney-General) Mr J.G. Latham who raised the most pertinent objection. The new Agreement incorporated, for the first time, a provision for the formal hypothecation or 'earmarking' of Commonwealth taxes to a non-Commonwealth purpose. He was concerned that Parliament was binding itself to both a certain form of taxation and the maintenance of a certain rate of taxation. It was his view that the:

grant should be made out of consolidated revenue of the Commonwealth without fettering this or subsequent Parliaments in their financial policy . . . (H/R, Comm. Hansard, 5 August 1931, p4995, Latham).

His fears were well founded. It was to be almost 30 years before the Commonwealth extracted itself from this obligation, while the lack of hypothecation since 1959 has been one of the major complaints voiced against roads policy since that date.

Under the new Agreement the States were expected to receive \$2.8 million in 1931-32. The States informed the Commonwealth at the August/September 1931 Ministerial Conference that they would enter the new Agreement (Commonwealth Parliament 1931d).

FEDERAL AID ROADS ACT 1936

Commonwealth Parliamentary discussion of roads assistance was minimal for the

period of the revised Agreement. The Agreement was extended for a further 6 months (to 30 June 1937) to overcome budgetary problems associated with the Agreement's original expiration date of 31 December 1936. This was accomplished by passing the *Federal Aid Roads Act 1936* which extended the provisions of the *Federal Aid Roads Act 1926*, as amended by the *Federal Aid Roads Act 1931*.

As the date of the revised Act's expiration came closer suggestions were made in Parliament to alter the assistance arrangements. One theme was that a proportion of petrol tax raisings should be distributed directly amongst shires and municipalities, and that some of the funds should be spent on shire secondary roads which were not under Main Roads Boards' control (H/R. Comm. Hansard, 8 May 1936, p1440, Perkins; and 12 May 1936, p1483, Clark; p1498 Hutchinson; and p1506, Street). However, nothing was to come of these suggestions.

OVERVIEW 1926-27 TO 1936-37

The history and direction of Commonwealth roads assistance legislation over the eleven year period 1926-27 to 1936-37 is notable in that Commonwealth policy in relation to centralist plans through co-operative (but centrally controlled) planning with the States was rejected in favour of State autonomy. Commencing in 1926-27, the Nationalist-Country Party Coalition (Bruce-Page Ministry, 9 February 1923 to 22 October 1929) followed a strongly interventionist centralist roads assistance program. The rights of the Commonwealth to impose conditions on Section 96 grants and to have sole power in relation to excise and sales taxes were clarified at this time by the High Court in the Commonwealth's favour.

In view of these successes the Commonwealth was able to progress its plans for the more rapid development of Federally defined main roads (and other) programs. In order to finance the proposed increased rate of expenditure the Government initially followed a quasi-hypothecation policy of increasing excise and custom taxes on fuel and vehicle chassis and loosely associating this portion of its increased revenue with the annual \$4 million grant. In the 1931 Act, hypothecation was formally adopted by earmarking a specific part of Commonwealth fuel tax revenues for road grants to the States. However, as shown in Table 4.3, the rates of roads grants to total Commonwealth fund tax revenues were actually lower under the 1931 Act (covering the period to 30 June 1937) than during the term of the 1926 Act.

Commonwealth roads grants to the States over this period grew at a substantially slower rate than fuel tax revenues (Table 4.3).

Under the 1926 legislation's financial arrangements, expenditure was limited to approved projects and funds drawn from a trust fund; this arrangement allowed funds not used in any one year to accumulate rather than lapse as in the case of annual appropriations. It was such an accumulation of funds which attracted the Australian Labor Party (Scullin Ministry, 22 October 1929 to 6 January 1932) to seek to release some of these funds for unemployment relief in 1930. The more important change introduced by the Scullin administration was that of a rapid reduction in the degree of Commonwealth influence over State road planning. Scullin's Ministry was determined to follow a non-interventionist course; the most important outcome of this policy was fuel tax hypothecation in line with a desire to match expenditure responsibility with financial capacity.

Even though the Nationalist and Country Parties in opposition opposed these new arrangements (incorporated in the *Federal Aid Roads Act 1931*) there was no attempt to revert to the Bruce-Page approach when the United Australia Party gained office in 1932 (as the United Australia Party—Lyons Ministry, 6 January 1932 to 9 November 1934). Strong State opposition to Federal Section 96 specific purpose grant controls, and the administrative complexity of the 1926 Agreement, combined with the financial and political problems stemming from the depression, reacted against desires to

expand Commonwealth powers at the expense of the State and local governments. This period of passive inter-governmental financial relations was to last until World War II¹ when the introduction of uniform income tax was to prepare the way for greater Commonwealth involvement in the post-war period.

TABLE 4.3—COMMONWEALTH FUEL TAX REVENUES AND ROAD GRANTS, 1926-27 TO 1935-36

	<i>Amount collected in petrol duties</i>	<i>Grants available to States</i>	<i>Grants as share of duties</i>	<i>Actual payments to States</i>	<i>Payment as share of duties</i>	<i>Amount retained in Consolidated Revenue Fund</i>
	(\$'000)	(\$'000)	(per cent)	(\$'000)	(per cent)	(\$'000)
1926-27	3 293	4 000	121	1 928	59	1 365
1927-28	4 179	4 000	96	3 196	76	983
1928-29	5 094	4 000	79	4 086	80	1 008
1929-30	7 476	4 000	54	6 186	83	1 290
1930-31	7 835	4 000	51	4 242	54	3 593
1931-32	10 183	3 624	36	4 036	40	6 147
1932-33	11 020	3 844	35	3 790	34	7 230
1933-34	12 553	4 416	35	4 608	37	7 945
1934-35	14 049	4 932	35	4 820	34	9 229
1935-36	15 824	5 558	35	5 496	35	10 328

Source: H/R, Comm. Hansard, 1 July 1937, p799; Commonwealth of Australia (1975, pp228-9).

1 Mathews and Jay (1972) describe the World War II period as one of transition in inter-governmental financial relations in Australia.

CHAPTER 5—A DECADE OF MINIMAL FEDERAL INVOLVEMENT: 1937-38 TO 1946-47

FEDERAL AID ROADS AND WORKS ACT, 1937

The views of the States on the future direction of Commonwealth roads policy were aired at the August 1936 Ministerial Conference (Commonwealth Parliament 1938). At that meeting the State Premiers concluded (p109):

- (1) That this Conference approves of the renewal of the existing Federal Aid Roads Agreement on the existing basis for a period of 10 years;
- (2) That the Conference ask the Commonwealth Government to increase the Federal Aid Roads grants by an allowance based on an additional 2½d a gallon of imported petrol and 1½d a gallon excise.

The Premiers were thus seeking a doubling of Federal Aid Roads Grants. It should be noted that the Premiers had been unsuccessful at earlier conferences in getting the Commonwealth to agree to return all fuel customs and excise duties to the States, or in allowing the States to raise their own fuel excise revenues.

The Second Reading Speech of the 1937 Federal Aid Roads and Works Bill was delivered by the Acting Treasurer Mr R.G. Menzies (H/R, Comm. Hansard, 29 June 1937, p674, Menzies) one day prior to the expiration of the amended 1926 *Roads Act*. The Bill continued with the concept of a formal Agreement between the Prime Minister and State Premiers; the Agreement had to be ratified by all relevant Parliaments. Features of the new Agreement were:

- assistance was to be provided for a period of 10 years commencing 1 July 1937;
- the 2½d customs and 1½d excise per gallon duties of the past could be expended as under the superseded Agreements; except there was a minor change in the amount able to be absorbed by sinking fund arrangements toward acquitting past State road loans; and
- total road grants were to be increased by an amount equivalent to ½d per gallon customs and excise duty (that is, significantly less than requested by the States). It was proposed to deduct this from the Commonwealth's consolidated revenue rather than increase the relevant taxes by this amount;
- the 'base' grant was to be used for the construction, reconstruction, maintenance and repair of roads, while the 'additional' grant was to be available for this purpose 'or other works connected with transport, as the State may think fit', eg provision of marine havens, shelters, anchorages and the like, for the protection of beacons and jetties for fishing boats, or similar purposes where petrol motor power was used (including aerodromes and railways). It was also provided that one-twelfth of the increase could, at the request of the Commonwealth, be used for the maintenance and repair—not construction or reconstruction—of roads of approach to or adjoining Commonwealth properties.

The Labor opposition indicated that it had 'no objection to this measure, and will facilitate its passage' (H/R, Comm. Hansard, 30 June 1937, p732, Curtin). The debate was generally favourable towards the provisions of the Bill. There was one complaint about the lack of money for local government.

In the outback areas . . . the same excessive rate of tax (Commonwealth customs and excise fuel tax) applies, but the people themselves receive few or no benefits from the expenditure of the Federal Aid Roads Grant. The cities, the suburban areas, and districts lying between large

country centres, reap most of the advantage . . . very little provision is made for distant rural areas. Unfortunately, the expenditure of the money by the State is largely restricted to main roads controlled by the Main Roads Board authority; shires and municipalities receive no moneys from this grant to spend on roads or streets which are outside the scope of the Main Roads Board authority. As a result of this policy of the State authorities, country municipalities and shires are great sufferers. In country towns motorists who are constantly using roads pay the petrol tax of 7½d per gallon; but the unfortunate local-governing bodies are in many instances obliged to pay for the upkeep of such roads out of their own receipts from rates and local taxes . . . In order to overcome this unfair position, some understanding between the Commonwealth and the States should be arrived at, with a view of securing for the municipalities and shires a fair share of the Federal Aid Roads Grant in order to compensate them for their compulsory expenditure in maintaining their streets and roads. (H/R, Comm. Hansard, 30 June 1937, p743, Clark).

However, the Government refused to consider a policy change which would have directed funds specifically to rural secondary roads, country roads or local government on the grounds that the new Agreement had been already agreed to by the States.

The attitude of the Government towards providing funds for local government road works was restated by the Treasurer in answer to a question without notice.

Within the last few weeks I have received through various honourable members a number of representations on the general subject . . . The matter did not need any additional consideration, because the Government has considered it many times in the past. The answer that I gave was identical with that which I have always given, namely, that the Commonwealth Government can deal only with the State Governments which can expend these moneys as they think fit. No restraint is imposed on them, other than the expenditure must be on roads. (H/R, Comm. Hansard, 24 August 1937, p20, Casey).

Commonwealth road grants to the States received very little Parliamentary attention during World War II although scattered Hansard references indicate concern that the road system, especially that portion for which local government was responsible, was rapidly deteriorating due to reduced expenditure (partly from fuel rationing), a lack of manpower, and insufficient road building machinery, much of which had been relinquished for defence purposes at the outbreak of hostilities.

Towards the end of the war a request was made by an opposition backbencher member of the House of Representatives (H/R, Comm. Hansard, 26 July 1945, p4604, Corser; similar request H/R, 18 September 1945, p5508, Corser) to the effect that in the post-war period the Commonwealth provide assistance for secondary roads and mail routes directly to local authorities. In reply Prime Minister, Mr J.B. Chifley would not give any undertaking that the Commonwealth would grant direct financial assistance to specific roads except under special conditions. The following question and answer sums up the situation as the 1937 Agreement drew to an end

Mr Adermann—ask the Prime Minister whether the Government has decided to review the Federal Aid Roads Agreement with the States when it expires next year? Is he prepared to meet the request of local authorities that all collections from petrol tax be used for road construction and maintenance? Will he consider the needs of inland shires, which have greater mileages of unconstructed roads than have other shires, when arranging with the States an allocation of funds for the construction and maintenance of roads?

Mr Chifley—The Federal Aid Roads Agreement will expire on 30th June next. It has been the subject of very limited discussion so far by Cabinet, but it has appointed a sub-committee to examine the matter of its renewal and the financial terms on which it should be renewed. State Premiers and certain bodies associated with motoring have also approached me on the subject. All that I have been able to indicate to both the Premiers and the associations is that, whilst I should be prepared to allow the renewal of the agreement, decision on whether it should be renewed must be left to the Cabinet. Terms of its renewal would be a matter for discussion between the Commonwealth and State Governments. I hope that a review will be made early in the New Year, and that Cabinet will reach a decision reasonably early so that the States concerned may know how much money they will receive, and the conditions under which the grants will be made. That will enable the authorities to proceed with their planning. (H/R, Comm. Hansard, 28 November 1946, p739, Adermann and Chifley).

CHAPTER 6—RENEWED COMMONWEALTH INTEREST: 1947-48 TO 1958-59

COMMONWEALTH AID ROADS AND WORKS ACT 1947

The Bill for the above Act was presented to Parliament by the Minister for Transport, Mr E.J. Ward. He explained the basic provisions in his Second Reading Speech.

The grants would be paid over a 3 year period from 1 July 1947 to 30 June 1950. He explained that:

Because of uncertainties as to trends in public finances, as well as in costs, petrol consumption, and other factors affecting transport, it has been thought advisable to limit the term of the grant to three years. (H/R, Comm. Hansard, 19 March 1947, p849, Ward)

The grants were to be spent on the basis of a road construction policy agreed to by the Commonwealth Minister for Transport after consultation with the Australian Transport Advisory Council (ATAC) on which the States were represented by their Ministers for Transport. The grants were to take four forms. There would be a general grant equal to 3d per gallon customs duty and 2d per gallon excise duty (excluding civil aviation fuel). This grant would be distributed between the States on the same basis as had prevailed since the introduction of specific purpose road grants in 1923 (that is 5 per cent to Tasmania, and remainder between the other States on the basis of two-fifths according to area and three fifths according to population. Up to one-sixth of this general grant could be spent on transport other than roads (in recognition of the fact that fuel tax revenues were derived partly from fuels used for non-road transport). The States were required to provide broad basis of proposed expenditure for ATAC.

There was an additional grant of \$2 million per year for the special purpose of building and maintaining roads through sparsely settled areas, timber country and rural areas for which other transport facilities were not available (normally to exclude highways, main and trunk roads). This was intended to open up undeveloped regions and to afford some relief to the finances of local government. The grant could be spent, where a State thought fit, upon modern road making plant for use in areas where plant costs were beyond the resources of local authorities. State Road Authorities were to undertake responsibility for adequate maintenance of constructed development roads. Distribution between States was on same basis as the general grant.

In support of the additional grant he stated:

for various reasons the development of secondary roads in many regions has not kept pace (with development of the main road systems). Generally, such roads are the responsibility of local boards or councils whose finances are limited and because they run through thinly populated country, of low rateable value, such roads tend to be neglected. (H/R, Comm. Hansard, 19 March 1947, p848, Ward).

Provision was made for a further additional grant of \$1 million per year for the maintenance of certain strategic roads and roads of access to Commonwealth properties. This was not available for normal State roads unless the Commonwealth required a higher standard. Roads were to be identified by the Commonwealth (in either State or Commonwealth territory), and expenditure was to be controlled by the Commonwealth and work carried out by the State or Commonwealth as arranged.

Finally, there was a component of \$0.2 million per year for expenditure on measures approved by the Commonwealth Minister for Transport for the promotion of road safety principles and practices.

There was no matching requirement, no formal agreement, and no expenditure

approval process. The expenditure requirement for the majority of the funds was that States spend the grant on the construction, reconstruction, maintenance and repair of roads in accordance with a policy agreed to by the Commonwealth Minister with the proposed allocations of expenditure to be communicated by the States to the Commonwealth. However, while the requirement for State audits of their expenditure was retained, the Act did not prescribe any specific measures included to force State compliance to the Act's terms and conditions, other than the ability to make Regulations under the Act.

The debate on the Bill was markedly different from those of earlier roads Bills in that almost all speakers, regardless of political affiliation, argued that:

- the proposed grants were insufficient in light of required road expenditure and the Commonwealth's revenue from fuel taxes. It was argued that either the grants for roads be increased or that the tax on motorists be reduced; and
- either roads grants should be made available directly to local government, or a greater proportion of funds should be directed to rural roads or rural development roads (other than main roads).

These two points were to be embodied in an Opposition (Liberal and Country Parties) amendment which reflected local government and motorists' organisation campaigns:

The Opposition believes that local authorities should be paid an additional 3d a gallon from the petrol tax in order to enable them to undertake these essential works (repair of war damaged roads from military vehicles; roads to local aerodromes and drome construction; dairy roads; roads, wharves and jetties used by the fishing industry; and the purchase of heavy road making machinery). (H/R, Comm. Hansard, 15 May 1947, p2488, Corser).

In addition the Opposition amendment (H/R, Comm. Hansard, 21 May 1947, pp2682-2683, Fadden) proposed extending the tenure of the Bill from 3 to 10 years, providing a sum of \$10 million to recoup shire councils and provincial and local authorities for damage caused to roads during the war, and providing for all customs and excise duty from fuel used for civil aviation purposes to be used for the establishment and development of country aerodromes.

Other points made against the Bill were:

- road grants should be spent according to the wishes of State Governments, not those of Commonwealth Government;
- it contained no formal agreement; the Opposition favoured Agreements as these had to be concurred between the Commonwealth and States and therefore were more likely to reflect both sides' views; and
- its arrangements encouraged the trend for 'specific purpose taxes' to become 'revenue taxes' (as exemplified by less than full hypothecation of fuel taxes).

In reply, the Minister supported the shorter period of the grant in that it would allow greater flexibility in formulating future assistance programs. He also argued that the co-ordination of roads expenditure was best left to both the State and Commonwealth Governments through the Australian Transport Advisory Council rather than only to State or local governments which individually did not have control of the entire State road system.

The proposed amendment was ruled, by the Speaker, not to be in order as it would increase the amount of appropriation. During the committee debate, somewhat surprisingly, only one speaker raised the practical and legal problems of the Commonwealth dealing directly with local government, especially if the Commonwealth wished to exercise any control over grants expenditures.

In view of the administration of Commonwealth roads policy between 1930 and the 1947 Act, the form of the new Act and the attendant debate constituted a major shift in Parliamentary and political thinking. Even more striking was the strong support,

regardless of political affiliation, that Federal politicians gave to the new arrangements and to an increase in Commonwealth roads funding. In addition, there was widespread support for the concept of direct support for local government – either by means of a direct grant or by controlling State grants expenditure so that local government could be guaranteed additional funding. Despite the fact that the proposals for increased funding and direct assistance to local government were not taken up by the Government, the Commonwealth was clearly about to re-embark on a more active roads policy (as exemplified, for example, by the separate categories of grants).

Several reasons for this change were advanced during the debate. There had been a marked decline in the standard of roads (caused in some cases by extensive military use) under the control of local government due to financial stringency and a shortage of manpower and machinery during the war. Also, export demand, especially for primary products, was buoyant and this added to pressures for better rural roads and greater rural development. More employment opportunities and better community facilities were being pressed for in rural areas to counter the 'drift' of rural population to urban areas.

Furthermore, fuel tax revenues were rising and there was strong and organised agitation from local authorities and motorist groups for a commensurate rise in roads expenditure. Another factor was that the Commonwealth Government had gained experience in positively directing both physical and financial resources on a national basis during the War, and in imposing controls on planning options and the economy. This approach was also embodied in post-war reconstruction policies, the formulation of which commenced during the war years. In line with this, the Government was expressing its belief that it was right to retain some control over Commonwealth grants to the States.

Finally, the formation of the Australian Transport Advisory Council (first meeting in 1947) allowed for the development of a national approach in determining road expenditure priorities. The idea was prominent in the 1920s but had been abandoned in the 1930s.

GRANTS FOR BEEF ROADS

With the signing of a Fifteen Year Meat Agreement with the United Kingdom in 1949 the Commonwealth Government initiated a program of assistance for roads in the beef cattle areas of northern Queensland and Western Australia and the Northern Territory. A grant of \$4.2 million was made to Queensland and Western Australia (\$2.6 million and \$1.6 million respectively for the five years 1949-50 to 1953-54. This was paid under separate legislation from the Commonwealth Aid Roads Acts; the *States Grants (Encouragement of Meat Production) Act* 1949-54. Further assistance for beef roads was provided from 1961 to 1977 by way of grants and loans. Again it was provided under separate legislation until 1974 when it was included in the *Roads Grants Act* 1974.

AMENDMENT ACTS 1948 AND 1949

The *Commonwealth Aid Roads and Works Act* 1948 increased the grant for road works in sparsely populated rural areas by \$2m to a total annual amount of \$4m for 1948-49 and 1949-50. A similar Act in 1949 increased the grant for these works in 1949-50 to \$6m. The Second Reading Speeches for both amending Bills (H/R, Comm. Hansard, 8 September 1948, p275, Ward; 8 September 1949, p146, Ward) stressed that this portion of the Commonwealth grant was for secondary rural roads which were the basic financial and construction responsibility of local government. Partly as a result of delays in passing these pieces of legislation, some \$11m remained expended at the end of the period covered by the Acts.

COMMONWEALTH AID ROADS ACT 1950

By the time the Bill for the 1950 Act was introduced to Parliament the Government had

changed. The member responsible for moving the 1947 Bill's amendment (Mr Fadden, Leader of the Country Party) was now Treasurer and was responsible for delivering the Second Reading Speech. He stated that the Bill's main proposals were to introduce a new system of Commonwealth assistance for roads:

- (a) To make available each year for roads a larger amount of money than under the former legislation and to ensure that the aggregate grant will increase as petrol consumption increases.
- (b) To provide from this money a specific grant to the States for roads in rural areas as well as a grant for general roads purposes.
- (c) To give the States express permission to use any part of either of these grants to assist local authorities in the construction and upkeep of roads.
- (d) To provide for continuity in roads programmes by making the legislation operative for five years.
- (e) To set aside annual sums for Commonwealth expenditure on strategic roads and roads of access to Commonwealth property and for the promotion of road safety. (H/R, Comm. Hansard, 21 November 1950, p2700, Fadden).

In specific terms the Act covered the five year period 1950-51 to 1954-55 and provided funds equivalent to 6d per gallon customs duty and 3.5d per gallon excise duty (excluding aviation fuel). This compared with a main grant under the 1947 legislation equivalent to 3d per gallon customs duty and 2.5d per gallon excise duty. However, the 1947 legislation provided for additional grants of \$3.2 million per annum (subsequently increased to \$7.2 million), whereas the other grants in the 1950 legislation were deducted from the total determined by the above formula.

The funds provided in the 1950 Act, less \$1.2 million earmarked for special purposes¹, were distributed between States on the same basis as under previous legislation. Sixty five per cent (less than \$1.2 million) was payable to the States for expenditure by them or by local authorities on construction, reconstruction, maintenance and repair of roads, or purchases of road making equipment. An amount not exceeding one-sixth of this component could be expended on works connected with road or water transport. The remaining 35 per cent was to be spent on roads in rural areas (including development, feeder roads, roads in sparsely populated areas and in soldier settlement areas and roads in country municipalities and shires - but not on a road which was a highway, trunk or main road)

These grants had been discussed with the States at the September 1950 Conference of Commonwealth and State Ministers. Two basic changes had been made to the grant system introduced with the 1947 Act. First the section of the legislation which referred to rural roads was reworded to emphasise all rural roads other than arterial roads, rather than roads in sparsely populated areas. It was possible to read the 1947 legislation in this way also, though it was clear that its intention was to emphasise roads in sparsely populated areas. The first change should not be over-emphasised as the approval power was not used in practice. The then Minister for Transport, Mr E.J. Ward claimed that the Commonwealth did not alter any State government program proposals during the period of the legislation (H/R, Comm. Hansard, 23 November 1950, p2937, Ward). Second, the States were able to spend the majority of the grants as they saw fit (within the broad 'categories' of expenditure outlined above) without having to provide the Commonwealth with any details of their expenditure proposals (although the standard auditing condition was retained). However, despite what might have been expected from statements by Liberal-Country Party spokesmen (when in Opposition) in the debates on the 1947, 1948 and 1949 Road Bills, local government

1 \$1 million per year was to be expended by the Commonwealth on the construction, reconstruction, maintenance and repair of strategic roads and roads of access to Commonwealth properties (works to be approved by Minister) and \$0.2 million per year was to be expended by the Commonwealth on the promotion of road safety practices throughout Australia (proposals to be approved by the Minister).

was not to receive direct grants. As the (Country Party) Minister explained in his Second Reading Speech:

Primarily, roads are the responsibility of the State governments and local authorities, and the Australian Government has no desire to encroach upon that responsibility. Over many years, however, successive Australian Governments have recognised the development and defensive importance of roads and have made grants to the States for expenditure on road construction and maintenance.

I wish to make clear the attitude of the Australian Government with respect to assistance to local authorities for roads purposes. Many urgent representations have been made to the Government on this subject, about which, however, there ought to be no misunderstanding. Local authority affairs, including local authority finances, belong to the province of the State governments and the Commonwealth cannot and should not undertake responsibility in that field. The Government, of course, recognises the very important functions of local authorities and believes that it is necessary that the local authorities should be in a position to carry out those functions adequately. That, however, is primarily the concern of the State governments and the Australian Government will not try to intervene in the matter. In this legislation, therefore, it is made perfectly plain that the State governments may use any of the money to be received under the general roads grants (i.e., the 65 per cent portion) to assist local authorities in either urban or rural areas and any part of the grant for roads in rural areas to assist local authorities, in those areas. Beyond that, however, it does not go: and in respect of how the money received under either of these grants is allocated by the State governments, it is for local authorities to deal with the State government themselves and not with the Australian Government. (H/R, Comm. Hansard, 21 November 1950, pp2701-2703, Fadden)

The Labor Opposition spokesman, Mr E.J. Ward (the former Minister responsible for the 1947, 1948 and 1949 Road Acts) in reply to the Second Reading Speech (H/R, Comm. Hansard, 22 November 1950, pp2835-2842, Ward) claimed that the funding was insufficient, especially having regard to the Commonwealth's fuel tax revenues. He also argued that the Government's failure to provide direct grants to local government was inconsistent with earlier statements by Liberal-Country Party spokesmen. In his view, road expenditure decisions had been transferred almost exclusively to the State governments and the Commonwealth Government had, at the same time, downgraded the importance of Federal involvement in the co-ordination of transport systems and the Australian Transport Advisory Council.

The remainder of the debate was non-controversial, there being no great difference between the Government and the Opposition in their attitude to the desirability of road grants. The Bill was not opposed by the Opposition.

COMMONWEALTH AID ROADS ACT 1954 AND AMENDING ACTS

The Bill for the *Commonwealth Aid Roads Act* 1954 was introduced by the Prime Minister, Mr R.G. Menzies during October 1954 prior to the expiration of the 1950 Act (30 June 1955). The basic provisions of the Bill were to repeal the 1950 Act in its application to 1954-55, and to provide grants for roads for the 5 year period 1954-55 to 1958-59. The overtaking of the original 1954-55 arrangements was deemed necessary by the Government as the existing fuel hypothecation arrangements would not have resulted in an adequate road grant (due to the changing proportion of excise and customs duties). The new financial arrangements provided for funds equivalent to 7d per gallon on all non-aviation fuel intended for home consumption, and subject to customs or excise duty. This amount was split four ways:

- 60 per cent less \$1.8 million per annum for general road grant to States as in the 1950 Act;
- 40 per cent to be spent in rural areas as in the 1950 Act;
- \$1.6 million per annum on strategic roads, and Commonwealth property roads as in the 1950 Act; and
- \$0.2 million per annum on promotion of road safety as in the 1950 Act.

Again, except for the third and fourth components, (which were to be allocated by the Commonwealth), the funds were distributed between the States on the same basis as in previous legislation. Victoria had objected to the distribution formula at the June 1954 Premiers' Conference, but as the other States supported it the formula was retained.

The States were free to spend any part of their general grant to assist local authority road activities and up to \$2 million per annum could be spent on works related to road or water transport. As with the 1950 legislation, there was an auditing requirement, but no expenditure approval or matching requirements.

This Bill was not opposed by the Labor Opposition. Prime Minister Menzies stressed his Government's view that petrol taxes also rightly served as general revenue taxes and it was for that purpose they were first introduced.

He also reiterated the Government's position towards local government:

the State Governments are responsible for local authority affairs, it is for each State Government to determine the extent to which local authorities should share in these grants. (H/R, Comm. Hansard, 14 October 1954, pp1997-1998, Menzies)

In reply, the Opposition transport spokesman (still Mr Ward) criticised the Bill in that:

- it did not pay due regard to Australia's defence transport needs, especially in regard to the task of a co-ordinated national transport plan under which the development of all modes could be guided by a single management;
- funding was 'altogether inadequate' for the development of outback areas;
- the safety grant was inadequate and still at its 1947 level; and
- it did not give the Commonwealth any power to monitor the expenditure of the funds, especially with regard to road construction standards (an issue which last received major attention in the 1920s, although from time to time claims had been made of extravagant State road authority design standards for main roads).

No other points of significance were raised during the remainder of the debate, although there were signs of mounting pressure for some form of assessment as to the effectiveness of the Commonwealth's roads expenditure in achieving development aims.

On 24 August 1955, the Treasurer, Sir A.W. Fadden introduced the Commonwealth Aid Roads Bill 1955 (H/R, Comm. Hansard, 24 August 1955, p65, Fadden). Under the Bill's only proposal, the grant for road safety purposes was to be increased from \$0.2 million to \$0.3 million per annum, with a corresponding decrease in the general road grant for the States. This change had been discussed by the Australian Transport Advisory Council and agreed to at the June 1955 Premiers' Conference. This Bill was not opposed by the Opposition.

The 1954 Act, as amended, was again amended in 1956 by the *Commonwealth Aid Roads Act 1956* which increased the total roads grant from 7d per gallon on petrol consumption to 8d per gallon—the increase to operate from 1 April 1956 with the addition to be made available to the States on the same conditions as payments under the existing legislation. This measure followed a Government decision to increase petrol customs and excise duties by 3d per gallon.

Predictably, these amendments again raised the question of whether the petrol tax was a general revenue measure, a road tax or a combination of both. The Opposition argued that the total increase in petrol taxes should have been hypothecated to roads, partly to relieve the financial problems of local government and partly as an equity entitlement of motorists.

While the majority of the voluminous debate was concerned with the hypothecation issue, the formula for grant distribution again came under attack—it being pointed out that the States with the most motor vehicles received the lowest grants, while the two

States with the largest areas (Western Australia and Queensland), which as a consequence enjoyed favoured positions under the existing formula, had for some time left large unspent balances of road funds in the Trust Account.

In line with its post war transport policies, the Opposition again criticised the Government for its alleged failure to develop and implement a multi-modal national transport plan, and to seek Constitutional reform to achieve national co-ordination of transport expenditure and operational policies. During the committee stage of the debate Labor moved the following motion 'That the whole of the recent increase of 3d a gallon in the petrol tax be set aside for roads' (H/R, Comm. Hansard, 18 May 1956, p2269, Calwell). This motion was defeated on party lines. A second amending motion was then proposed by a Victorian Country Party member.

That the Act should not be brought into operation until arrangements have been made for the additional sum to be distributed amongst the States in accordance with the proportionate collections of duties in the States, with the exception that the allocation to Tasmania remain at 5 per cent. (H/R, Comm. Hansard, 18 May 1956, p2287, Turnbull).

This amendment was opposed by the Government and the Opposition, the former asserting that 'We believe that the best interests of the country as a whole are served by adhering to the present formula' (H/R, Comm. Hansard, 18 May 1956, p2292, Cameron). The motion was defeated, with one vote for and some sixty against.

Finally there was a third amendment proposal, this time from a New South Wales Liberal Party backbencher

(i) that the whole of the extra proceeds derived from taxes for oil and petrol as a result of legislation passed this financial year should be paid into this Trust Fund, and

(ii) that moneys paid into this Trust Fund should, within twelve months of receipt into such Fund, be divided among the States, in the proportions set out in section ten of the Commonwealth Aid Roads Act 1954-55, for approved expenditure for heavy road-making plant or upon the improvement of main arterial roads. (H/R, Comm. Hansard, 18 May 1956, p2294, Wentworth);

Under this proposal the total additional tax of 3d per gallon, which the Government had indicated was only a temporary measure, would have been used to meet heavy equipment and main roads needs. It would also allow the tax to be removed in recognition of its 'temporary' status. This amendment was supported by the Labor Opposition and two Liberal Party members: it was defeated and the Bill was passed without amendment.

In November 1957 a third (supplementary) Bill, the Commonwealth Aid Roads (Special Assistance) Bill 1957, relating to the then current roads legislation was introduced by the Treasurer (H/R, Comm. Hansard, 6 November 1957, pp1870-1871, Fadden). Under the amending proposals the roads grants for both 1957-58 and 1958-59 were to be increased by \$6 million.

These funds were to come from the Consolidated Revenue Fund and approximated the expected annual collection from recently imposed levies on diesel fuel, a fact acknowledged by the Treasurer, but done so without any claim of hypothecation.

As set out in the Act, the funds were available for the construction, reconstruction, maintenance and repair of roads or the purchase of road making plant, for making payment to local authorities for such purposes, or for road works serving Commonwealth purposes.

The proportionate distribution of the additional grant between the States and Commonwealth¹ did not follow the established population/area/5 per cent Tasmania formula although for New South Wales and Tasmania there was only minor variation.

¹ The \$6 million was to be distributed as follows: New South Wales \$1.6 million, Victoria \$1.4 million, Queensland \$1 million, South Australia \$0.7 million, Western Australia \$0.95 million and Tasmania \$0.3 million with \$0.05 million for Commonwealth purposes.

There was some criticism of the fact that the established distribution procedure had not been followed for all States and that the new distribution methodology had not been explained by the Minister to the House. The States suffering most were Western Australia and Queensland; Victoria gained most.

The Bill was opposed by the Labor Opposition and passed on a party line vote without amendment. Aside from the Commonwealth component (which, as was the case with comparative appropriations in earlier Acts, had to be spent by the States) this increased grant was made available to the States free of any conditions other than it had to be used for roads and that the expenditure was to be audited. There was no increase in the 'rural' road component of the existing Act.

OVERVIEW 1947-48 TO 1958-59

The prime change instituted during this period was the explicit earmarking of Commonwealth roads assistance to roads, other than main roads, in rural areas. This portion of the grant, which commenced at \$2 million per annum in 1947, was subsequently increased to 35 per cent and later 40 per cent of the total grant. The twin effects of this emphasis was the guaranteeing of expenditure on rural local roads and of a flow of road funds to rural local authorities (via the State governments).

In addition, the various Acts continued with explicit grants for roads of strategic importance and roads of access to Commonwealth properties (loosely classifiable as defence expenditures) and introduced specific grants for road safety purposes. However, grants for both these purposes accounted for only 5 per cent of total grants over the period.

Finally, there were growing pressures for a re-examination of the method of allocating road funds. This concern reflected itself in a number of ways. The Labor Opposition expressed concern over the lack of a national Commonwealth directed transport policy. There were growing demands on ATAC to produce quantified assessments of road expenditure needs which incorporated road classifications reflecting road usage rather than State legal classifications. In the populous States there was opposition to the road assistance distribution formula, which favoured the sparsely settled large States and made no allowance for relative road usage.

CHAPTER 7—THE END OF HYPOTHECATION

COMMONWEALTH AID ROADS ACT 1959

The Bill for the *Commonwealth Aid Roads Act* 1959 was introduced to Parliament by the Treasurer, Mr H.E. Holt during April 1959 (H/R, Comm. Hansard, 28 April 1959, pp1621-1627, Holt). The Bill provided for grants totalling \$500 million over the five year period 1959-60 to 1963-64. This represented a substantial increase over the grants paid in the preceding five years (\$306 million)¹ The increase was an acknowledgement of traffic growth, a trend towards heavier and faster vehicles, and development needs.

Several innovations were introduced in this legislation. One was the breaking of the nexus between road grants and fuel tax revenues. Another was a matching requirement whereby in addition to a basic grant of \$440 million available on an unmatched basis, the States could receive an additional grant as to maximum of \$60 million on a dollar for dollar basis to match any increase in their expenditure over 1958-59 levels. The basis of distributing grants between the States was changed. Tasmania's share remained at 5 per cent, but the balance was distributed amongst the other States as follows: one-third according to population, one-third according to area, and one-third according to motor vehicles on the register.

The States were free to allocate any part of the grant to municipal or local authorities for road purposes, and were permitted to spend such amounts as they thought fit on research into problems connected with road construction and maintenance.

Up to \$2 million per year could be used on works connected with road or water transport other than the construction, reconstruction or maintenance of roads.

The requirement that up to 40 per cent of the grant be spent on rural roads (other than highways and main or trunk roads) was retained.

No separate provision was made for roads serving Commonwealth property or for road safety, both of which were to be covered by separate legislation.

In the Second Reading Speech debate the Labor Opposition moved that:

the Bill be withdrawn and redrafted with a view to providing that, without reduction of the amounts provided under this Bill, an amount of money not less than the full proceeds of the petrol and diesel fuel taxes shall be granted to the States for expenditure by the States, municipalities and shires on or in connexion with roads. (H/R, Comm. Hansard, 29 April 1959, p1639, Bird.)

The Opposition supported the revised grant distribution formula but strongly condemned, as a retrograde step, the matching provision applied to the supplementary grant as it considered this would result in State governments diverting funds from other expenditures. Both the amendment and the proposition that the matching requirement would cause a disruption to State expenditure priorities were rejected by the Government. As with previous roads legislation of the Liberal-Country Party Government, much of the debate centred on the Opposition's claim concerning the lack of a national transport policy or a national road policy. The Opposition suggested a need for greater Commonwealth-State cooperation, a Federal road construction authority and a national and defence roads policy. In relation to the need for a Federal coordinating body the Opposition announced that if elected it would reestablish the

1 Grants paid from 1954-55 to 1958-59, \$306 million, compared with a 'grants available' figure of \$313 million.

Inter-State Commission under Section 101 of the Constitution.

After a long debate the motion was defeated on party lines and the Bill passed through the Committee stage without amendment.

OTHER ROADS ASSISTANCE

The assistance for roads of strategic importance introduced into the *Commonwealth Aid Roads and Works Act 1947* was removed from the *Commonwealth Aid Roads Act 1959* and provided for from annual budget appropriations.

COMMONWEALTH AID ROADS ACT 1964

The Treasurer introduced a Bill for the *Commonwealth Aid Roads Act 1964* to continue road grants to the States for a further 5 years from 1 July 1964 to 30 June 1969 (H/R, Comm. Hansard, 16 April 1964, pp1209-1213 Holt). The Bill's proposals had been discussed at the March 1964 Premiers' Conference.

The Bill was introduced at a time of rising Australian prosperity and at a time of rapidly increasing motor vehicle ownership¹. As a result the Government foresaw a need for increased roads expenditure and was prepared to finance such expenditure. It was also announced that a Commonwealth Bureau of Roads would be established in order that the Commonwealth Government might be adequately informed on the developing road situation.

Apart from the increases in grants (a basic grant of \$660 million and a supplementary grant of \$90 million), the Bill was very similar to the 1959 legislation. The supplementary grant was available on a matching dollar for dollar basis for increases in State expenditure over the 1963-64 level. The 1964 formula for distribution between States, and the 40 per cent share for rural roads (other than highways and trunk and main roads) were retained, as was the allowance for up to \$2 million per year which could be spent on road works connected with road or water transport. Again, any amount of the general grant could be passed on to local government for road expenditure purposes.

However, growing pressures for specific allocation towards road works in metropolitan areas were rejected by the Commonwealth as such grants were opposed by State Premiers.

The debate on the Bill was lead by Mr E.G. Whitlam (Deputy Leader of the Opposition) who repeated earlier Opposition statements regarding the alleged lack of an overall transport policy, resulting in insufficient co-ordination between the various forms of transport and the transport authorities themselves.

However, the Opposition did not oppose the Bill, as it considered that the combined expenditure by the Commonwealth on State road grants, beef roads, special road projects and territory roads over the 5 year period would approximate fuel tax collections. The Labor Party's policy for the full usage of fuel taxes for road construction and maintenance was based on the assertion that road revenue sources available to the other levels of government (vehicle and driver taxes, property rates and loans) were less equitable and less related to usage than fuel taxes. Full usage of fuel taxes for roads was further supported on the judgement that there was insufficient expenditure on roads. It was claimed that the Commonwealth had retained a 'huge amount' of the money which it had received from fuel tax revenue in the previous thirty years. (H/R, Comm. Hansard, 5 May 1964, p1520, Jones). This situation is examined in Chapter 10 and it can be seen that Commonwealth Road Grants as a percentage of fuel tax revenues increased steadily from 1947-48 up to 1963-64.

There was some Opposition criticism of the Government's policies of not seeking to influence road expenditure decisions (program approval) and not allocating money

1 Rising from 221 per 1000 persons in 1955 to 245 per 1000 persons in 1958 to 290 per 1000 persons by 1962 (excluding motor cycles). (Commonwealth of Australia 1964, p589; Commonwealth of Australia 1960, p545)

specifically for expenditure in urban areas, especially those urban areas feeling the pressures of residential expansion and the rapid rise in car ownership.

The debate also indicated that more members were becoming interested in a 'road needs approach', whereby estimated costs of bringing the road system to a certain standard could be used to assist judgements on the appropriate level of roads expenditure. The National Association of Australian State Road Authorities had produced two reports on road needs, in 1961 and 1963. The 1963 report concluded that over the five year period 1964-65 to 1968-69 it would be necessary to spend \$2010 million on road construction, \$478 million on bridge construction and maintenance, and \$336 million on road maintenance (a total of \$2824 million in 1963 prices) to bring the road system to a reasonable standard in the foreseeable future (H/R, Comm. Hansard, 5 May 1964, p1521, Jones).

In reply the Minister for Shipping and Transport, Mr Freeth, restated the Government's position that road expenditure priorities must be independent of fuel tax collections, and that road expenditure decisions were the sole prerogative of the States (H/R, Comm. Hansard, 5 May 1964, p1544, Freeth). The Bill was passed on party lines.

COMMONWEALTH BUREAU OF ROADS BILL 1964

On 20 May 1964, the Minister for Shipping and Transport introduced the Commonwealth Bureau of Roads Bill. The establishment of a Commonwealth Bureau of Roads (CBR) had been promised in the 1963 election campaign and discussed at the March 1964 Premiers' Conference. The Minister stated that the prime reason for the CBR's establishment stemmed from 'the Commonwealth's deep and increasing involvement in the financing of roads expenditure in Australia' (H/R, Comm. Hansard, 20 May 1964, p2135, Freeth). Other reasons advanced for its establishment were the economic significance of transport costs and expenditures on infrastructure; the lack of data on which to make sound expenditure decisions; the need for a national transport perspective; and the need for an independent investigatory and advising body on transport matters.

However, the functions of the CBR were not to be extended to the planning, design or construction of roads.

We have no intention or desire to take over the States' functions on road matters (H/R, Comm. Hansard, 20 May 1964, p2136, Freeth).

The Government did want independent advice, and for that reason was not prepared to accept the National Association of Australian State Road Authorities as the only advising body on road matters.

The Opposition was not opposed to the establishment of the CBR but believed that its establishment in the proposed form would not 'help materially to solve Australia's transport problems' (H/R, Comm. Hansard, 11 August 1964, p86, Webb). The Opposition wanted the establishment of a body which could participate actively in the co-ordination of transport, had authority to act in a way to achieve this, and had the power to plan and implement a national highways policy similar to that operating in the United States of America since 1956.

It favoured the establishment of an Inter-State Commission as allowed for in the Constitution.

The ensuing debate did not expand the above stances although there was some airing of a proposal that the CBR's board should include at least one member with the knowledge and experience to interpret correctly the needs of country municipalities. There were signs, too, of growing pressures for more attention to be given to city road needs at the expense of rural secondary roads. These pressures were strongly resisted by rural shire associations and Country Party members.

In the Committee stage of the debate the Opposition moved several motions which would have: made the CBR accountable to Parliament rather than the Minister; required the CBR to report annually to Parliament (rather than leave it to the discretion of the CBR to report only on matters referred by the Minister); and allowed for all CBR reports be tabled in Parliament. Each amendment was defeated and the Bill passed in its original form. At that time the Minister indicated that he would give consideration to the appointment of at least one board member who had the knowledge and experience to look after the interests of shire councils.

OVERVIEW 1959-60 TO 1968-69

During the period 1959-60 to 1968-69, there were two five year Roads Acts, introduced in 1959 and 1964. The 1959 Act had several novel features, including a breaking of the nexus between grant levels and fuel tax revenues, a new formula for distributing the grants between the States, and a matching requirement in respect of the 'supplementary grant'. The 1964 Act essentially followed the same lines as the 1959 Act.

The level of roads grants relative to fuel tax revenues continued to attract considerable attention during debates, but there was also an emerging interest in other criteria which might assist road expenditure decisions. This manifested itself in two reports on road needs by the National Association of Australian State Road Authorities (in 1961 and 1963), followed by the establishment of the Commonwealth Bureau of Roads in 1964.

CHAPTER 8—YEARS OF CHANGE

INTRODUCTION

While the *Commonwealth Aid Roads Act* 1969 marked a major change from previous legislation, the period 1969 to 1977 was to see further significant changes, attributable partly to reports from the CBR, and to the changes of Government in 1972 and 1975. Between 1974 and 1977, there were eleven pieces of legislation passed by the Commonwealth parliament relating to road grants assistance (Table 8.1) excluding other assistance related to roads (such as natural disaster relief, growth centres and regional development legislation).

TABLE 8.1—ROADS GRANTS LEGISLATION, 1969-77

<i>Commonwealth Aid Roads Act</i> 1969
<i>National Roads Act</i> 1974
<i>Roads Grants Act</i> 1974
<i>Transport (Planning and Research) Act</i> 1974
<i>Appropriation Act (No. 4)</i> 1974-75
<i>Roads Act Amendment Act</i> 1976
<i>Roads Act Amendment Act (No. 2)</i> 1976
<i>Roads Act Amendment Act</i> 1977
<i>States (Roads Interim Assistance) Act</i> 1977
<i>States Grants (Roads) Act</i> 1977
<i>Transport Planning and Research (Financial Assistance Act</i> 1977.

COMMONWEALTH AID ROADS ACT 1969

The Second Reading Speech for the *Commonwealth Aid Roads Act* 1969 was given by the Treasurer, Mr W. McMahon on 14 May 1969 (H/R, Comm. Hansard, 14 May 1969, pp1779-1954, McMahon). As was by now the custom, the arrangements in the Bill had been discussed at a previous Premiers' Conference (March 1969). The legislation was influenced to a considerable degree by the CBR 1969 Roads Report (CBR 1969). The Bill provided for total Commonwealth grants over the five year period 1969-70 to 1973-74 of \$1252.05 million (less than the CBR's recommendation of \$1280 million but still 67 per cent more than in the previous 5 years). Novel features (reflecting CBR recommendations) included the allocation of grants between four road categories (urban arterial roads, rural arterial roads, rural local roads, planning and research), a new approach for distributing the grants between the States (partly reflecting estimated economic returns on road investments in the different States)¹ and more stringent matching quota or road expenditure requirements for the States to meet from their own resources.

The most notable feature of the new arrangements was that almost 50 per cent of the grant was to be spent on urban arterial roads, the first time under any road Act where urban roads¹ had been specifically identified as a category for assistance. This represented a significant change from previous legislation, under which approximately 80 per cent of Commonwealth grants had been spent in rural areas (Table 8.2).

1 An urban area was defined in the Act as an area designated by the Commonwealth Statistician for Census purposes as one of 16 capital cities and towns with a population of at least 40000.

Further major changes were the reintroduction of specific grants to rural arterial roads (similar provisions last applied as the main road and Federal Aid Road classifications in the 1920s), and the restriction of the use of all arterial road grants monies for construction purposes only. Only rural local road funds were available for both construction and maintenance works.

While the introduction of road categories and the extension of quota requirements represented increased Commonwealth control over roads expenditure, the States were not required to submit road expenditure proposals to the Commonwealth Minister for his consideration or approval. However, the States were required to spend their planning and research grants on projects approved by the Commonwealth Minister.

TABLE 8.2—PERCENTAGE OF COMMONWEALTH GRANTS SPENT IN NON-METROPOLITAN AREAS, BY STATE 1953-54 TO 1969-70

(per cent)

State	1953-54	1959-60	1962-63	1968-69	1969-70
NSW	80	80	80	80	51
Vic	94	95	91	81	43
Qld	na	93	92	na	53
SA	na	94	90	na	59
Tas	100	100	100	100	79

Sources: Victoria, *Legislative Assembly Debates*, 23 April 1974, p4711.
Commonwealth of Australia (1975).
Western Australia, *Legislative Assembly Debates*, 6 May 1964, p2388.
State Year Books (1963 to 1970).

The Opposition criticised the Bill on what was by now, a familiar set of points:

- lack of any formal commitment by the Government to spend all revenues from fuel tax and motor vehicle customs and excise taxes on roads¹;
- the lack of any national plan for the integration and co-ordination of the Australian transport system (Labor did, however, support the new distribution procedure, and the availability of funds for urban areas and planning and research);
- there were no provisions in the Bill relating specifically to local government road expenditure²—in particular, there were no restrictions on the States as to the matching conditions they might place on local governments as a condition for passing on Commonwealth and/or State sourced road funds; and
- the previous provision that some funds could be spent on transport related to roads (mainly wharves, harbour facilities, launching ramps, etc as an equity measure stemming from taxes paid on marine fuels) had been deleted.

In reply, the Minister for Shipping and Transport stated:

Substantially what we have done in the legislation . . . is to bring forward for the first time the beginning of a national road policy . . . What we are doing is for the first time stating through this legislation that the amount of money that is to be allocated by the Commonwealth is to be spent in specified areas. This to my mind is a remarkable advance, because we will be able to plan comprehensively the type of road development that is needed and so underpin the developing needs of a country such as Australia. (H/R, Comm. Hansard 28 May 1969, p2379, Sinclair).

1 The inclusion of customs duties on motor vehicles with fuel taxes as a source of road funds was new to the debate.

2 It is important to appreciate that expenditure on 'local roads' and local government expenditure on roads are not synonymous. Local governments do not account for all expenditure on local roads, nor do local roads account for all local government roads expenditure.

The debate, as it related to local government, followed similar lines to the roads debate of the 1950s and 1960s. Rural members wanted the grants to rural local roads maintained and there was a fair degree of support for the extension of assistance to metropolitan areas. Local government claims that it was the Commonwealth Government's responsibility to ensure the financial solvency of local government were expressed, as were motorist organisation and local government demands that all motorist taxes imposed by the Commonwealth be spent on roads.

1974 ROADS LEGISLATION

The Labor Party won Government at the December 1972 elections and the new Prime Minister, Mr E.G. Whitlam, gave a clear indication of his Government's intentions when addressing the Premiers at the June 1973 Premiers' Conference on the new direction Commonwealth-State financial relations were to take.

For this Government, however, the point of departure from past practice is the degree of the national Government's involvement in the planning of the functions for which it helps provide finance.

From now on we will expect to be involved in the planning of the functions in which we are financially involved. We believe that it would be irresponsible for the national Government to content itself with simply providing funds without being involved in the process by which priorities are set and by which expenditures are planned and by which standards are met.

We believe that the government responsible for gathering and dispersing huge amounts of public money is obliged to see that the money is properly spent. We believe that most of the problems with which allocations from the national Budget are meant to deal cannot be confined to or defined by individual States. We believe that the provision of National Government assistance must be based on comprehensive information on needs and resources and expert analysis of that information—information, I believe, which should be as far as possible be made public before decision. (The Canberra Times, 29 June 1973, p8).

Accordingly, when the *Commonwealth Aid Roads Act* expired in 1974 the new Government's road legislation provided for increased Commonwealth participation in roads expenditure decisions. The legislation covered a three year period (1974-75 to 1976-77) and provided a total grant of \$1126 million consisting of \$400 million under the *National Roads Act*, \$700 million under the *Roads Grants Act* and \$26 million under the *Transport (Planning and Research) Act*. The legislation absorbed ad-hoc assistance existing at that time—specifically assistance for beef road development, the sealing of the Eyre Highway, road safety improvements and some national highways (strategic road) maintenance—which had previously been the subject of separate legislation. Altogether there were ten categories distributed between the three Acts:

National Roads Act 1974

- construction of national highways;
- maintenance of national highways;
- construction and maintenance of export roads and major commercial roads.

Roads Grants Act 1974

- construction of rural arterial and developmental roads;
- construction and maintenance of rural local roads;
- expenditure on minor traffic engineering and road safety improvements (MITERS);
- construction of urban arterial roads;
- construction of urban local roads;
- construction of beef roads.

Transport (Planning and Research) Act 1974

- transport planning and research.

Under the *National Roads Act 1974* the Commonwealth undertook to fund 100 per cent of the cost of approved national road projects (defined to embrace the first three categories). The Minister for Transport was to take an active part in the strategic planning of the national highway system through the power to declare the roads that would constitute the system, define construction and maintenance standards, influence the order in which works were to be carried out, approve projects to be funded and inspect plans or work related to approved projects. He could also request States to construct and maintain connector roads between national roads and other State roads. In addition the possibility of the Commonwealth itself constructing and maintaining national roads, was foreshadowed by the Minister for Transport, Mr C.K. Jones, during the debate on the proposed roads grants legislation:

One cannot rule out the possibility that in the longer term the appropriate course to follow would be for the Australian Government to be responsible in every way for the conduct of the national road system provided for in this Bill. (H/R, Comm. Hansard, 18 July 1974, p382, Jones).

The *Roads Grants Act 1974* continued assistance for urban arterial roads (introduced in the 1969 Act), which were to absorb just over 50 per cent of the Roads Grants Bill's funds). In addition, the Act introduced assistance for urban local roads.

The *Transport (Planning and Research) Act 1974* provided for Commonwealth financing of two-thirds of the cost of approved road (and other transport) planning and research projects.

The distribution of Commonwealth funds between the ten categories is shown in Table 8.3. The increased number of categories considerably extended the Commonwealth's potential influence over how road funds were expended.

The two most contentious proposals in the legislation were those relating to rural roads and program approvals. These proposals had significant implications for local government finances, and for the delineation of Commonwealth and State powers.

In relation to rural roads, the Government maintained that its proposals would increase total Commonwealth expenditure on rural roads over that achieved under the previous legislation. The Opposition and local government organisations countered with the view that the overall increase in rural road expenditure resulted from the Government's national roads policy, and that grants for other rural roads would be inadequate. The Minister's counter to this argument was that the State Governments should increase their commitment to rural roads.

I want to make the particular point that previously local government authorities relied on Commonwealth Aid Roads grants. Whilst local government is still eligible for assistance under this legislation these authorities will now have to turn more to State Governments for assistance. I emphasise what I said earlier, namely that with the Australian Government meeting the full cost of national roads, State Governments will be able to meet this increased demand for financial assistance from their local authorities.

However, the most contentious policy proposal change centred on the program approval arrangements. Again from the Minister's Second Reading Speech:

It is intended that the States and local government authorities, will, if required, be called upon to submit programs of all road works carried out in a particular category. There has been some criticism of this approach particularly from State Premiers on the grounds that it impinges on State rights. I must say that this Government could not countenance adopting the practice of the previous Government in introducing the 1969 Commonwealth Aid Roads Act. There they abdicated all responsibility for determining the road works to be attached to them. The realities of the current situation are that the Australian Government is becoming more and more involved in the provision of large sums of financial assistance to the States for transport

development . . .

The underlying philosophy of our approach to transport is to recognise the inter-connection of the various modes and to promote the development of a more rational approach to transport overall . . . All in all the Australian Government has a responsibility to associate itself more closely with the States in making decisions involving the significant disbursement of Australian funds. Only in this way can we achieve the development of our major transport goals.

In order to become more closely associated with the problems of transport planning in the States the intention is to require Australian representation on State bodies responsible for programming and providing policy advice on matters relating to roads. Apart from giving the Australian Government a better first hand appreciation of the problems associated with transport planning it will also give us the opportunity to inject some of our views in the early planning stages. Finally, it will assist the Australian Government in considering its attitude to program approvals in that it will remove the need for the provision of detailed information at the programming stage. (H/R. Comm. Hansard, 18 July 1974, p385, Jones).

TABLE 8.3—DISTRIBUTION OF GRANTS UNDER 1974 ROADS LEGISLATION, BY CATEGORY

	Allocation in original Act		Final amended allocations	
	(\$ million)	(per cent)	(\$ million)	(per cent)
<i>National Roads Act 1974</i>				
National highways—construction	321.9	28.9	338.11	26.9
National highways—maintenance	38.1	3.4	52.43	4.2
Export and major commerce roads	40.0	3.6	36.96	2.9
Total				
<i>Roads Grants Act 1974</i>				
Rural arterial roads	105.0	9.4	137.91	11.0
Rural local roads	156.0	14.0	193.12	15.4
Urban arterial roads	355.0	31.8	387.71	30.9
Urban local roads	30.0	2.7	32.01	2.6
Beef roads	24.0	2.2	24.00	1.9
MITERS ^a	30.0	2.7	30.75	2.4
Total				
<i>Transport (P and R) Act 1974</i>				
Transport P and R	15.0	1.3	22.30	1.8
TOTAL	1 115.0	100.0	1 255.30	100.0

a. MITERS; Minor Traffic Engineering and Road Safety Improvements.

Source: National Roads Act 1974, Roads Grants Act 1974, Transport (Planning and Research) Act 1974, Appropriation Act (No. 4), 1974-75, Roads Acts Amendment Act 1976, Roads Acts Amendment Act (No. 2) 1976, Roads Acts Amendment Act 1977.

In the Second Reading Speech debate the Opposition transport spokesman Mr P.J.Nixon criticised the expenditure approval arrangements on three grounds:

The first is that the Commonwealth, without detailed and expert know how on the subject of road building requirements, will pass judgement on all projects. The second is that the taxes and charges raised by elected (State and local) governments are to be spent in a way determined by Commonwealth Ministers or Commonwealth public servants. The third is that the State is to be responsible in all detail for anything which any road construction body (including local governments) may do and if any road construction body spends any money at all on a project not approved by the Federal Minister the State, in effect, will be fined . . . The

provisions mean that if some municipality or body constructing roads does not satisfy the Federal Minister in any way the State will have to pay back to the Commonwealth the grants made for roads. (H/R, Comm. Hansard, 1 August 1974, p989, Nixon).

Mr Nixon then moved that:

the Bill be withdrawn and re-drafted to more easily suit the requirements and administrative needs of the States and local government authorities. (H/R, Comm. Hansard, 1 August 1974, p991, Nixon).

More specific amendments to the clauses of the National Roads and Roads Grants Bill were later moved by the Opposition (H/R, Comm. Hansard, 1 August 1974, pp1016, 1017 and 1021, In Committee) with the intention of reducing the Commonwealth's powers of approval over State road expenditures. The Opposition's amendments were initially defeated in the House of Representatives on party line votes. However, the Senate, in which the Opposition parties held a majority, amended the National Roads and Roads Grants Bills along the lines moved by the Opposition parties in the House of Representatives and returned the amended Bills, which were reconsidered in Committee by the House on 23 August 1974. The House finally accepted some of the amendments. The most significant amendment was that the clauses in the initial Roads Grants Bill requiring Commonwealth approval of all road projects (irrespective of source of finance) were limited to apply only to urban arterial roads. Other minor amendments were accepted. The Bills as amended were accepted by the Senate and assent notified on 24 September 1974.

In summary, the new Acts considerably extended the Commonwealth's participation in roads expenditure decisions. This was achieved through the introduction of additional categories especially national roads (over which the Commonwealth was to exert almost complete control), specification of separate quotas for each category, and by the requirement for Commonwealth approval of projects/programs in other categories. The approval requirement was particularly broad for urban arterial roads all expenditure on which had to be approved by the Commonwealth regardless of whether such expenditures involved Commonwealth financing. Such a strong power had not been available to a Commonwealth Minister responsible for State road grants since 1949 and had not been used since the 1920s. Finally the Government's concern over urban issues resulted in the introduction of categories for the urban local roads and minor traffic engineering and road safety improvements.

APPROPRIATION ACT (NO. 4) 1974-75

The *Appropriation Act (No. 4) 1974-75* included a provision increasing the amount available to the States for roads in 1974-75 by \$30 million. This grant, plus further grants for non-road expenditures, were to be provided to the States:

on the basis of firm assurances by the States that they will be used in such a way that they have the greatest practical effects in terms of employment within the remains of this financial year (H/R, Comm. Hansard, 25 February 1975, p651, Cairns).

The additional grant was distributed between categories and States in the same proportion as the original 1974-75 grant (excluding transport planning and research).

ROADS ACTS AMENDMENT ACT 1976

The Bill for the *Roads Acts Amendment Act 1976* was introduced by the incoming Liberal-Country Party Government: it was stated in the Second Reading Speech by the Minister for Primary Industry, Mr Ian Sinclair that:

The Bill serves really three main purposes. First of all it will appropriate an additional \$64 million in Australian Government grants to the States for road works in 1975-76. Secondly it will amend the existing legislation so as to allow easier administration and transfer of funds between road categories and between Acts. Thirdly it will amend the legislation to avoid

unnecessary involvement and control by the Commonwealth Government in the area of local roads programs. (H/R, Comm. Hansard, 1 April 1976, p1261, Sinclair).

The provision of an additional \$64 million (to compensate for price rises since 1974) was identical with a similar Bill introduced in October 1975 by the then Labor Government. That Bill lapsed with the double dissolution of both Houses of Parliament on 11 November 1975.

As with the lapsed Bill, the distribution of the additional funds was based on State requests.

As honourable members are no doubt aware the Commonwealth expressed its concern at previous cut backs in funds for local authorities and we asked the States to direct these additional funds wherever possible for use at the local level. As a sign of our co-operative approach we have accepted the requests made by the States in respect of allocations and the States have given assurances that they are able to provide properly for local government authorities. (H/R, Comm. Hansard, 1 April 1976, p1261, Sinclair).

The amendment relating to road expenditure approvals allowed each State to seek an alternative form of Commonwealth approval for expenditure on rural and urban local roads. States would be free to submit either road project/program details (the original arrangements) or a list of fund allocations between local authorities. In addition, the restrictions placed on urban arterial road expenditures were eased with Commonwealth approval now only required for projects on which Commonwealth grants were to be spent.

The Opposition transport spokesman pointed to the difference in approach between the two governments:

one can see the first steps towards a renunciation by this conservative Government of its responsibility to ensure an adequately planned program of roads for the whole of Australia. (H/R, Comm. Hansard, 8 April 1976, p1521, Morris).

This roads legislation was one of the first Section 96 specific purpose assistance programs to reflect the new Liberal-Country Party Government's new federalism policies. However, the Bill still retained the provision for approval of projects/programs involving Commonwealth grants, (other than the local road amendment referred to above). The Bill passed without amendment on 8 April 1976, and was assented to on 26 May 1976.

ROADS ACTS AMENDMENT ACT (NO. 2) 1976

The Bill for the *Roads Acts Amendment Act (No. 2) 1976* provided for an increase of \$35.8 million in total road grants for 1976-77 and for commensurate increases in State quotas. The increased grant brought the total 1976-77 grant to the same level as that available for 1975-76, which, given the rate of inflation over the period, meant a significant decline in the real level of road grants.

Almost half of the additional grant was allocated for the construction and maintenance of rural local roads, a measure undertaken to assist local government. The Minister for Transport, Mr P.J. Nixon, drew attention to this in his Second Reading Speech.

Since coming to office the Government has been particularly conscious of the fact that local government in many instances has suffered badly in competing for road funds against State government programs. We have therefore endeavoured to ensure that the needs of local government in particular are looked after. This point was emphasised by the Commonwealth at the February Premiers' Conference. In advising the States of the proposed additional funds and seeking their views on the proposed allocation to categories I have pointed to the decline in funds available to local government and stressed the urgent road requirements in rural areas. (H/R, Comm. Hansard, 11 November 1976, p2603, Nixon).

The Opposition moved the following amendment to the Bill:

Whilst not opposing the second reading of the Bill the House is of the opinion that the Bill fails to provide adequate financial assistance to the States for cost escalation in the current year. (H/R, Comm. Hansard, 18 November 1976, p2877, Morris).

During the debate, which centered on the degree of Federal control over State expenditure of the road grants, the Opposition raised two major points. It criticised the proposal to amalgamate the CBR (a statutory authority) with the Bureau of Transport Economics (attached to the Department of Transport):

already from all around Australia objection is coming from local councils and motorists' associations to this move by the Government. It is a further move to secrecy, to close off the access of the community, including councils, members of the general public and motorists' organisations. (H/R, Comm. Hansard, 18 November 1976, p2879, Morris).

The Opposition also criticised the proposal under the 'new federalism' policy to absorb longstanding specific purpose grants into general revenue payments or to provide them as block grants free of expenditure constraint:

We will see not only an abandonment of a planned move towards proper and efficient co-ordination of public expenditure upon various modes of transport. We will also see develop . . . cat fights within State treasuries. State transport departments will be trying to obtain priority within their State treasuries. (H/R, Comm. Hansard, 18 November 1976, p2874, Morris).

The Bill was passed without amendment.

ROADS ACTS AMENDMENT ACT 1977

The *Roads Acts Amendment Act 1977* was the fourth and final Act amending the *National Roads* and *Roads Grants Acts 1974*. As with the preceding amendment Act, its provisions related to 1976-77, the final year of the triennium of assistance. The *Roads Acts Amendment Bill 1977* was introduced in the House of Representatives on 5 May 1977, and received assent on 7 June 1977, 23 days prior to the end of the financial year to which its grants provisions applied.

The Bill contained two provisions. It provided an additional road grant of \$3.2 million for Western Australia in 1976-77 to bring that year's total grant to the level of its 1975-76 entitlement. It also allowed (retrospectively) State payroll tax payments by road authorities since 1969-70 as an eligible expenditure for the purpose of the Commonwealth grant for roads or transport planning and research purposes.

OVERVIEW 1969 TO 1977

The *Commonwealth Aid Roads Act 1969* introduced several significant changes in roads grants legislation. It extended the Commonwealth's influence on roads expenditure by providing for four grant categories.

It also substantially increased the proportion of Commonwealth road grants spent on urban roads from around 20 per cent to 50 per cent.

However, the period of 1974-75 to 1976-77 was particularly significant. The period commenced with the passage of three Acts, of which the two major Acts (the *National Roads Act 1974* and the *Roads Grants Act 1974*) received assent on 20 September 1974, almost three months after the commencement of the period for which assistance was to be provided¹.

The two major Acts of 1974 in turn were augmented by four amending pieces of legislation which affected the amounts payable and the conditions under which the grants could be used. In addition there was a further amending Bill which lapsed with the double dissolution of both Houses of Parliament in November 1975. Both major political groups administered the 1974 legislation for approximately the same time,

1 The Transport (Planning and Research) Act 1974 received assent a little earlier, on the 21 August 1974.

both avoiding the issue of petrol-tax hypothecation which had been of overriding concern since the late 1920s.

The Labor Government's roads and transport planning and research Acts represented one aspect of its desire to imprint a national perspective on the development of Australian transport facilities. Associated land transport initiatives included urban public transport assistance; the offer to take-over State rail systems; proposals to develop an Australian urban passenger train and a standard bus; representation on State transport planning bodies; transport project and program approvals as a condition of receiving grants; and the development of growth centres. In addition the Labor Government intended to re-establish the Inter-State Commission to reform and co-ordinate national transport. An Act authorising the establishment of the Commission was passed in 1975 but to date has not been proclaimed.

Of most significance in the roads legislation was the increased number of categories and the extensive program/project approval conditions, which had not been applied to roads since 1930. The initial proposal to seek control over all State and local governmental authority road expenditures regardless of whether the works involved Commonwealth funds or not, was strongly opposed by the Liberal-Country Party Opposition, which held power in the Senate. It was subsequently limited to the urban arterial category and in the event not exercised by the incoming Liberal-Country Party Government. In addition, the new Government relaxed the approval conditions for local roads by offering the alternative (to program approval) of approval of disbursements of funds to local government authorities.

In all, the period 1974 to 1977 was covered by seven separate pieces of legislation, only one of which was assented to prior to the financial year to which it initially applied.

CHAPTER 9—ROADS LEGISLATION SINCE 1977

STATES GRANTS (ROADS INTERIM ASSISTANCE) ACT 1977

The *State Grants (Roads Interim Assistance) Act* 1977 provided for the continuation of Section 96 grants to the States for roads for the first three months of 1977-78. This measure was required as the Government had not finalised details of the new arrangements applying to the 1977-78 to 1979-80 triennium.

The Act contained few provisions aside from appropriating one-quarter of the previously announced (February 1977) total 1977-78 road grant of \$475 million. It allowed the Minister for Transport discretion in approving State road works on which the Commonwealth funds were to be used but did not allocate the \$118.75 million involved to categories of expenditure.

STATES GRANTS (ROADS) ACT 1977

The *States Grants (Roads) Act* 1977 combined the forms of assistance formerly provided under the *National Roads and Roads Grants Acts* 1974 and subsumed the provisions of the interim 1977 roads legislation.

The categories and quota arrangements of the 1974 legislation were essentially retained¹. However, the simplification of the 1974 administrative arrangements, initiated in the *Roads Acts Amendment Act* 1976, was continued.

The Act provided for a basic grant of \$475 million per annum for each of the years 1977-78 to 1979-80, with an assurance from the Minister for Transport that amounts in the latter two years would be indexed in line with cost movements². The provisions of the new legislation did not differ significantly from the preceding legislation. The Opposition spokesman on Transport, Mr P.F. Morris, claimed the legislation was:

in the main, a development and refinement of the progressive roads legislation enacted by the Labor Government, . . . The Opposition does not oppose the legislation but will be directing criticism at certain aspects of it and at the Fraser Government's priorities for funding of roads and associated transport matters. (H/R, Comm. Hansard, 15 September 1977, p1404, Morris).

Under the subsequent amending Acts, the *States Grants (Roads) Amendment Acts* 1978 and 1979, road grants for 1978-79 and 1979-80 were increased in line with estimated cost movements, in accordance with the government's undertaking. State quotas were similarly increased. In general the increases were allocated across categories on a pro-rata basis. Grants were increased from \$475 million to \$508 million in 1978-79 and \$546 million in 1979-80, representing annual increases of some 7 per cent and 7.5 per cent respectively.

The Opposition continued to criticise the Government's transport policies, especially in relation to import parity pricing for domestically produced fuel and its failure to allocate more of the revenue from fuel taxes to transport purposes.

1 The only significant changes were the absorption of funding for Beef Roads in Queensland into the Rural Arterial and Rural Local Roads categories and the change in the name of the Export and Major Commercial Roads category to National Commerce Roads.

2 As recorded in the Australian Bureau of Statistics national accounts implicit price deflator for private investment in 'other building and construction'.

ROADS GRANTS ACT 1980

The *Roads Grants Act* 1980 provided a total grant of \$628 million to the States and, for the first time, the Northern Territory, for 1980-81. Each State and Territory received some 11 per cent more than its 1979-80 roads grant. Total quotas were generally increased from 1979-80 levels at the same rate as total grants but individual State quotas were adjusted in line with a move to gradually bring them all to an equal level per registered motor vehicle over the following five years.

The number of categories was reduced from eight (excluding planning and research) to four: national highways, rural arterials, urban arterials, and local roads. Thus the rural and urban local roads categories were combined, as were the three national roads categories with the reintroduction of 'development roads' as part of the urban national highway category). The category of minor traffic engineering and road safety improvements (MITERS) was dropped.

All local roads were to be eligible for both construction or maintenance grants and the Minister foreshadowed the introduction of a 'formula' approach to the distribution of local road funds to local government areas to assist local authorities planning.

The debate highlighted the Opposition's misgivings regarding the Government's policy of reducing control over State road expenditure priorities and of holding road grants approximately constant in real terms against a background of rapidly increasing revenues from fuel taxation. The Opposition also strongly criticised the Government's decision to cease MITERS funding, claiming that this decision would exacerbate Australia's road safety problem.

In a Press Release dated 26 June 1980 the Minister for Transport announced the Commonwealth Government's decision regarding road grants for five years 1980-81 to 1984-85 (Table 9.1). These arrangements were announced at the June 1980 Premiers' Conference.

TABLE 9.1—PROPOSED COMMONWEALTH ROAD GRANTS, 1980-81 TO 1984-85
(\$ million)

1980-81	628
1981-82	685
1982-83	734
1983-84	778
1984-85	825
	<hr/> 3 650

Source: Department of Transport (1980).

ROADS GRANTS ACT 1981

The *Roads Grants Act* 1981 is basically a continuation of the 1980 Act providing \$685 million for 1981-82. However, it also introduced a number of important administrative changes. The number of categories was reduced from four to three by amalgamating the two arterial roads categories. Program approval procedures for arterial roads were discontinued and replaced by a simple requirement for retrospective reporting. Quotas were abolished, and the Minister's power to approve transfers of expenditure from national roads to other categories was withdrawn. Tenders were required for all national road projects.

1 Development roads were defined as roads of national importance from the standpoint of aiding the development of particular industries or particular energy resources or assisting interstate or international trade.

The distribution of the funds among the States and Northern Territory was pro-rata to the 1980 Act, as was the distribution among categories (after allowing for the amalgamation of the arterial road categories).

The Act also included schedules of grants for national roads for 1982-83 and 1983-84. The Minister for Transport, Mr R.J. Hunt, in his Second Reading Speech stated, however, that these amounts:

will be substantially supplemented when subsequent amendments are made to the legislation to appropriate funds for the balance of the five year program (H/R, Commonwealth Hansard, 14 May 1981, p2437, Hunt).

Without a decision to increase the total grants already announced for the remaining three years, this implies a forthcoming major redirection of Commonwealth funding priorities.

The Minister also reaffirmed his intention to introduce a formula arrangement for the distribution of the local roads grants among local government authorities.

The main issues raised by the Opposition in the debate were:

- the nine per cent increase in funds was likely to be less than the increase in road construction and maintenance costs, thus continuing the decline in the real level of Commonwealth road funds;
- the abolition of MITERS grants in the 1980 Act and the scaling down of the Office of Road Safety would reduce the road safety effort;
- opposition to the requirement that tenders be required for all national road projects; and
- opposition to the amalgamation of the two arterial road categories which, it was claimed, would lead to an inequitable distribution of road funds between rural and urban areas and enable the States to engage in 'pork-barrelling.'

CHAPTER 10—AN OVERVIEW OF COMMONWEALTH ASSISTANCE FOR ROADS

Under the Australian Constitution, the Commonwealth Government is not given specific powers for constructing and maintaining roads. By implication and practice, the States and local authorities are responsible for constructing and maintaining roads within State boundaries. The Commonwealth has similar responsibility for roads in its own territories¹. However, the Commonwealth also finances around a quarter of total expenditure on roads within State boundaries.

For the first twenty years of Federation there was no direct Commonwealth financing of State roads expenditure. Commonwealth grants for general road works commenced in 1922 and have continued to date. Separate assistance for specific roads was introduced in the late 1940s and continued until such assistance was incorporated in the *National Roads Act* 1974. The most significant type of such assistance was for beef cattle roads in Queensland, South Australia and Western Australia in respect of which the Commonwealth made grants and loans of almost \$79 million². About \$11.5 million was provided for other roads under separate legislation prior to 1974. This total of about \$90 million compared with \$4200 million made available by way of Commonwealth Aid Roads Grants since 1949-50.

It is useful to consider the following aspects of the evolution of the general Commonwealth assistance for roads:

- scope and purpose;
- distribution between States;
- conditions; and
- the level of grants.

SCOPE AND PURPOSE

The first (1922) Commonwealth road grant was for the maintenance of existing urban highways and district roads. It was replaced a year later by grants for the construction of non-urban main roads and, in 1925, this was extended to cover reconstruction of such roads. In 1931, the coverage was further extended to include construction, reconstruction and maintenance of any class of road. This broad coverage has continued since with two major exceptions: between 1969 and 1974 urban local roads were not eligible for Commonwealth funding and maintenance of arterial roads has not been eligible for Commonwealth funding since 1974. In addition, since 1959 the Commonwealth has provided assistance for expenditure on transport planning and research, although such assistance will be discontinued after 30 June 1981.

DISTRIBUTION BETWEEN STATES

The first Commonwealth roads assistance (1922) was distributed on a per capita basis, but the 1923 Act provided for distribution according to population (60 per cent weighting) and area (40 per cent weighting), except that Tasmania's share was set at 5

1 Section 122 of the Constitution empowers the Commonwealth to make laws for any of its Territories. Following the granting of self government to the Northern Territory in 1978, the Commonwealth has made road grants to the Territory from 1979-80 on a similar basis to that used for the six States, but under Section 122 of the Constitution in lieu of Section 96.

2 Commonwealth of Australia (1975, p229).

per cent of the total. This distribution formula continued until 1959, when the formula accorded equal (one third) weighting to population, area, and motor vehicles on the register (except for Tasmania, whose 5 per cent share was retained).

In 1969 the CBR (established in 1964) recommended that the principal grant (\$1200 million) be distributed according to its analysis of economic returns from road expenditure in the various States. Because this would have resulted in a substantial reduction in the proportion of the grant going to South Australia, Western Australia and Tasmania, the CBR recommended that a supplementary grant of \$52 million be shared between these States, to be phased out by the end of the five year period covered by the Act. In the event the Government decided to distribute the principal grant according to the average of the CBR's suggested distribution and the 1964 formula. It adopted the CBR's recommendation regarding the supplementary grant. The effect of the change from the old formula approach was initially small as can be seen in Table 10.1. However, over the next few years the share of total funds to each State changed significantly.

The 1974 roads legislation was preceded by a further roads report by the CBR in 1973. The distribution among States largely followed the shares implied in the CBR's recommendations except that the Government did not reduce Western Australia's share to the extent recommended by the CBR.

The 1977 legislation was again preceded by a CBR roads study, and on this occasion the relative State shares were similar to those implied in the CBR's recommendations. As shown in Table 10.1, State percentage shares have hardly varied since 1977-78. However, the distribution now differs considerably from that which would result from applying the pre-1969 formula.

TABLE 10.1—COMPARISON OF ACTUAL DISTRIBUTION OF COMMONWEALTH ROAD GRANTS BETWEEN STATES WITH DISTRIBUTION IF BASED ON PRE-1969 FORMULA, 1969-70 TO 1979-80^a

(per cent)

	NSW		VIC		QLD		SA		WA		TAS	
	Formula	Actual	Formula	Actual	Formula	Actual	Formula	Actual	Formula	Actual	Formula	Actual
1969-70	27.8	29.6	19.4	19.8	18.3	18.0	11.3	10.9	18.2	17.1	5	4.7
1970-71	27.8	29.8	19.4	19.9	18.2	18.1	11.3	10.8	18.3	16.6	5	4.7
1971-72	27.8	30.4	19.3	20.3	18.2	18.6	11.3	10.4	18.4	16.0	5	4.4
1972-73	27.7	30.7	19.3	20.5	18.3	18.7	11.3	10.0	18.4	15.7	5	4.4
1973-74	27.6	31.0	19.3	20.7	18.5	18.9	11.3	9.8	18.4	15.7	5	4.4
1974-75	27.4	31.5	19.2	20.6	18.6	20.5	11.3	8.7	18.5	13.7	5	5.0
1975-76	27.3	30.8	19.2	20.8	18.7	20.4	11.3	9.4	18.5	14.1	5	4.5
1976-77	27.1	31.2	19.3	21.0	18.7	20.9	11.3	8.9	18.7	13.2	5	4.7
1977-78	26.9	32.6	19.3	20.7	18.8	20.9	11.3	8.5	18.8	12.8	5	4.5
1978-79	26.8	32.4	19.2	20.8	18.9	21.1	11.2	8.5	18.9	12.7	5	4.6
1979-80	26.8	32.4	19.2	20.8	19.0	21.1	11.2	8.5	18.9	12.7	5	4.6
1980-81	26.7	32.4	19.0	20.8	19.2	21.1	11.1	8.5	19.0	12.7	5	4.6

a. Formula was 5 per cent for Tasmania, balance divided one-third according to population, one-third according to area, and one-third according to motor vehicles on the register.

Source: Commonwealth of Australia (1969 to 1980).

CONDITIONS

Over the years, the Commonwealth has sought to influence the pattern of roads expenditure to varying degrees by the use of three types of conditions: quotas and matching requirements (eg, States to match Commonwealth funds on a dollar for

dollar basis); allocation of grants between road categories; and various project/program approval requirements.

Matching conditions and quotas

From 1922 until 1931, States were required to match the Commonwealth grants. Matching conditions were re-introduced for the 'additional' grants in the 1959 and 1964 legislation; however, the additional grants accounted for only 12 per cent of the total grants. The 1969 Act specified quotas which each State was required to expend from its own resources, and quotas were retained until 1981, when they were discontinued.

Road categories

Until 1969, the most significant condition attached to Commonwealth grants, apart from matching conditions, was the requirement that a specified amount or proportion should be spent on rural roads¹. The 1947 Act initially earmarked \$2 million (subsequently increased to \$6 million, representing about 17 per cent of total funds disbursed under the Act) for rural roads. In 1950, legislation required that 35 per cent of the total grant should be spent on local rural roads. This was increased to 40 per cent in the 1954 legislation, and this condition continued until the 1969 Act.

The 1969 Act allocated the principal grant between four categories of expenditure: urban arterial/sub-arterial, rural arterial, other rural roads, and planning and research. The allocation between urban arterials/sub-arterials and rural arterials was based on the CBR's assessments. The allocation for other rural roads was based on an increment of 5 per cent per year over the amount spent on such roads from the 1968-69 grant. The effect of this was to reduce the share going to other rural roads from 40 per cent to 32 per cent. More importantly, however, the 1969 Act allocated over 50 per cent of the principal grant to urban arterial roads, marking a major shift in emphasis from rural to city roads (Table 10.2). Prior to 1969 expenditure on all rural roads (ie arterials and locals) accounted for over 80 per cent of Commonwealth road grants.

The 1974 *Roads Grants Act* extended the funding categories to include urban local roads, and a new category, national roads (previously forming part of the rural arterial roads category) was provided for in a separate Act. While the distribution between categories deviated considerably from the CBR recommendations, the division of funding between urban and rural roads (approximately 50 per cent to each) was close to the recommended division.

The 1977 *Roads Act*, which combined the 1974 *National Roads Act* and *Roads Grants Act* categories into one Act, marked a significant shift back towards rural roads, which received almost 80 per cent of total funds (as they had prior to 1969). A further minor shift away from urban roads occurred under the 1980 *Roads Grants Act* with a small relative increase in funding for national roads. However, with the amalgamation of the two local roads categories in 1980 and the two arterial roads categories in 1981 it is difficult to predict the future allocation of funds to rural and urban roads.

Commonwealth approval of projects/programs

When specific purpose assistance for roads was first introduced in 1922, Commonwealth approval of proposed expenditure was required. This requirement was discontinued in 1931 and was not re-introduced until 1974. Between 1974 and 1976, the approval requirement extended to expenditure of the States' own funds on urban arterial roads. The degree of involvement of the Commonwealth in the approval of national road projects extended to the setting of design standards and route alignment. For other roads, however, the involvement was less, being more a matter of ensuring that expenditure was not contrary to general Commonwealth objectives.

In recent years the level of Commonwealth control on roads other than national roads has been significantly reduced. For example, as regards arterial road grants, from 1981

1 There were other conditions, such as those in the 1947 Act requiring a specified amount to be spent in strategic roads and access roads to Commonwealth property, but these have been of minor significance.

States will only be required to report retrospectively on where the funds have been spent.

TABLE 10.2 COMMONWEALTH ROAD GRANTS TO THE STATES BY ROAD CATEGORY, 1968-69 TO 1980-81

(per cent)

	Urban arterial	Urban local	Rural local	Rural arterial	National	Total
1968-69 ^e	20	—	40	40	..	100
1979-80	45.6	—	40.3	14.0	..	100
1970-71	48.0	—	37.0	14.9	..	100
1971-72	50.3	—	34.0	15.6	..	100
1972-73	52.6	—	31.1	16.4	..	100
1973-74	54.6	—	28.4	17.0	..	100
1974-75	36.2	1.8	17.7	12.9	31.3	100
1975-76	35.1	2.9	16.7	11.9	33.4	100
1976-77	29.4	3.4	15.7	11.0	40.5	100
1977-78	17.4	5.6	19.4	15.5	41.2	100
1978-79	17.4	5.6	19.4	15.5	42.1	100
1979-80	17.4	5.6	19.4	15.5	42.1	100
1980-81	17.5	23.6		14.7	44.2	100

e. estimated.

Source: Victoria, *Legislative Assembly Debates*, 23 April 1974, p4711, Commonwealth of Australia (1975), Western Australia, *Legislative Assembly Debates*, 6 May 1964, p2388, State Year Books (1963 to 1970), Commonwealth Aid Roads Act 1969, National Roads Act 1974, Roads Grants Act 1974, Appropriation Act (No. 4) 1974-75, Roads Acts Amendment Act 1976, Roads Acts Amendment Act (No. 2) 1976, Roads Acts Amendment Act 1977, States Grants (Roads Interim Assistance Act 1977, States Grants (Roads) Act 1977, States Grants (Roads) Amendment Act 1978, States Grants (Roads) Amendment Act 1979, Roads Grants Act 1980.

LEVEL OF GRANTS

From 1926 to 1959 the fuel tax revenue collected by the Commonwealth from excise and customs duties on motor spirit was partly hypothecated for the purpose of providing road grants. Hypothecation ceased in 1959 and was replaced by a grant from Consolidated Revenue. The fuel tax revenue, however, continued to grow with the increasing numbers of motor vehicles using Australian roads. This growth was paralleled by increasing Commonwealth road grant expenditure. The growth in grants when compared with the revenue from fuel taxes, vehicle usage (as measured by the number of vehicles on the register) and the total Commonwealth expenditure, provides an indication of the priority given to road funding by the Federal sphere of Government in Australia.

Fuel tax revenue

Except for the period of the 1926 legislation, road grants before World War II were less

than 50 per cent of fuel tax revenue. After the War, the situation changed and for the five years preceding the abolition of hypothecation, road grants averaged 64 per cent of fuel tax revenue. These changes can be seen in Table 10.3. This average dropped only slightly after 1959 and was 60 per cent over the period 1959-60 to 1979-80. This figure tends to back up the argument put forward during the debate on the *Commonwealth Aid Roads Act* 1959 that there was a *close relationship* between fuel tax revenue and road funding, even in the absence of hypothecation. An explanation for this situation is suggested when the growth in vehicle registrations is compared with the increase in grants in Table 10.4.

TABLE 10.3—COMMONWEALTH ROAD GRANTS AS A PERCENTAGE OF FUEL TAX REVENUES^a 1926-27 TO 1979-80 (current prices)

<i>Road Grant Acts</i>	<i>Average revenue (\$'000)</i>	<i>Average payments (\$'000)</i>	<i>(per cent)</i>
1926-27 to 1930-31	5 576	3 928	70
1931-32 to 1936-37	13 484	4 798	36
1937-38 to 1946-47	20 634	6 351	31
1947-48 to 1949-50	51 300	14 612	29
1950-51 to 1953-54	69 525	29 577	43
1954-55 to 1958-59	95 260	61 299	64
1959-60 to 1963-64	143 080	100 769	70
1964-65 to 1968-69	246 340	150 000	61
1969-70 to 1973-74	468 520	250 410	53
1974-75 to 1976-77	755 467	415 667	55
1977-78 to 1979-80	846 733	510 667	60

a. Grants paid (as distinct from grants available). Customs and excise revenue on gasoline includes customs revenue on aviation gasoline; also includes diesel fuel tax from 1957-58.

Sources: Australian Institute of Petroleum (1979), Burke (1977), H/R, Comm. Hansard, 9 August 1962, p269, Commonwealth of Australia (1975 to 1980), Commonwealth of Australia (1947 to 1979), ABS (1969 to 1977).

Vehicle registrations

The allocation of grants per registered motor vehicle in Australia in the post war period 1947-48 to 1979-80 reached a peak during the period of the *Commonwealth Aid Roads Act* 1969. The funding in this Act can be seen as a response to the rapid increase in motor vehicle numbers which had occurred in the 1960s, resulting in urban traffic congestion, which that Act sought to alleviate by diverting funds to the cities. The reduction in allocations per registered vehicle which began with the 1974 legislation reflects a reduced emphasis on road funding by the Commonwealth Government. This is illustrated in Table 10.5. Although the number of motor vehicles on register continued to increase, total Commonwealth road grants declined in real terms after 1972-73.

Budget Priority

Road grants made up an increasing share of Federal Budget allocations in the post-war period until the passage of the *State Grants (Roads) Act* 1977. They reached a peak of 1.95 per cent between 1974-75 and 1976-77. More correctly, the peak was reached at the end of the *Commonwealth Aid Roads Act* 1969 period and the 1974 road grants legislation embodied a reduced emphasis on road funding. Starting from 0.33 per cent in the early post-war period, they rose to a peak in 1973-74 of over 2 per cent and have since fallen to 1.68 per cent of Federal Government Expenditure in 1980-81.

TABLE 10.4—DOLLARS OF COMMONWEALTH ROAD GRANT SPENT PER REGISTERED MOTOR VEHICLE 1947-48 TO 1979-80

(1971-72 prices)

<i>Road Grant Acts</i>	<i>Average grant</i> (\$'000)	<i>Average number of motor vehicles</i> ('000)	<i>Average grant per motor vehicle</i> (\$)
1947-48 to 1949-50	40 307	1 115	36.1
1950-51 to 1953-54	55 142	1 649	33.4
1954-55 to 1958-59	90 505	2 239	40.4
1959-60 to 1963-64	127 255	2 965	42.9
1964-65 to 1968-69	180 124	3 885	46.4
1969-70 to 1973-74	241 192	5 050	47.8
1974-75 to 1976-77	246 998	6 270	39.4
1977-78 to 1979-80	245 380	7 097	34.6

Sources: BTE (1978), BTE (1979), Commonwealth of Australia (1975 to 1980), Commonwealth of Australia (1947 to 1979).

TABLE 10.5—COMMONWEALTH ROAD GRANTS AS A PERCENTAGE OF TOTAL BUDGET EXPENDITURE, 1947-48 TO 1979-80

(current prices)

<i>Roads Grants Acts</i>	<i>Average grant</i> (\$'000)	<i>Average budget expenditure</i> (\$'000)	<i>(per cent)</i>
1947-48 to 1949-50	14 612	4 286 873	0.34
1950-51 to 1953-54	29 577	5 097 051	0.58
1954-55 to 1958-59	61 299	4 986 104	1.23
1959-60 to 1963-64	100 769	5 669 962	1.78
1964-65 to 1968-69	150 000	8 291 301	1.81
1969-70 to 1973-74	250 410	13 262 181	1.89
1974-75 to 1976-77	415 667	21 271 333	1.95
1977-78 to 1979-80	510 667	29 120 667	1.75

Sources: Commonwealth of Australia (1975 to 1980), Commonwealth of Australia (1977 to 1979), Commonwealth of Australia (1948 to 1980).

CONCLUSION

Commonwealth road funds were originally intended as an assistance grant to supplement State and local government expenditure on roads. They were part of the growth in public expenditure which took place after World War I. Although they were justified as development expenditure to assist the decentralisation of industry, they also performed the social function of assisting unemployment relief in rural areas. During the Great Depression of the 1930s they also provided employment in the cities. World War II gave a new impetus to road funding, which emerged in the late 1940s. This impetus was linked with an emphasis on planned development and a return to the pre-depression concern with decentralisation.

Although there was debate about the exact role of the Commonwealth Government in post-war road funding, there was a unity of purpose on the question of the distribution of funds. This was demonstrated by the emphasis on Commonwealth funding of rural roads. As has been shown earlier, while there was a requirement in the legislation for 40

per cent of Commonwealth road grants to be spent on rural roads, in fact, with at least the tacit approval of the Commonwealth, State governments spent over 80 per cent of Commonwealth roads grants on rural roads during this period. The argument over the distribution of these funds in the country, between rural arterial and rural local roads, appeared to be resolved during the 1950s and 1960s. During the late 1960s, the enormous increase in motor traffic in the cities overtook this consensus and for some time there was an emphasis placed on distributing funds to the major cities. This money was intended for building urban freeways. The shortcomings associated with this policy became apparent in the early 1970s and an attempt was made to exercise stricter Commonwealth control over the use made of road funds by State governments. This proposal did not prove compatible with the working of Federal/State relations and resulted in the Commonwealth largely withdrawing from detailed involvement.

The change in roads grants policy which began in 1976 did not result in a return to the pre-1969 situation. Although the Commonwealth Government relaxed control of expenditure on most categories of roads there was an important exception. In successive Roads Grants Acts an increasing proportion of roads grant money has been directed towards specific rural roads, namely those rural arterial roads classified as National Highways. In 1980 approximately 70 per cent of federal road money was allocated to rural roads. However, unlike the situation prior to 1969, it is required that more than half of this amount be spent on National Highways.

APPENDIX I—COMMONWEALTH GOVERNMENT MINISTRIES, 1918 TO 1981

Hughes Ministry, 10 January 1918 to 9 February 1923 <i>Public Works Act 1922</i>	(NAT)
Bruce-Page Ministry, 9 February 1923 to 22 October 1929 <i>Main Roads Development Act 1923-25</i> <i>Federal Aid Roads Act 1926</i>	(NAT-CAP)
Scullin Ministry, 22 October 1929 to 6 January 1932 <i>Federal Aid Roads Act 1931</i>	(ALP)
Lyons Ministry, 6 January 1932 to 9 November 1934	(UAP)
Lyons Ministry, 9 November 1934-29 November 1937 <i>Federal Aid Roads and Works Act 1937-47</i>	(UAP-CP)
Lyons Ministry, 29 November 1937-7 November 1938	(UAP-CP)
Lyons Ministry, 7 November 1938 to 7 April 1939	(UAP-CP)
Page Ministry, 7 April 1939 to 26 April 1939	(UAP-CP)
Menzies Ministry, 26 April 1939 to 14 March 1940	(UAP)
Menzies Ministry, 14 March 1940 to 28 October 1940	(UAP-CP)
Menzies Ministry, 28 October 1940 to 29 August 1941	(UAP-CP)
Fadden Ministry, 29 August 1941 to 7 October 1941	(UAP-CP)
Curtin Ministry, 7 October 1941 to 21 September 1943	(ALP)
Curtin Ministry, 21 September 1943 to 6 July 1945	(ALP)
Forde Ministry, 6 July 1945 to 13 July 1945	(ALP)
Chifley Ministry, 13 July 1945 to 1 November 1946	(ALP)
Chifley Ministry, 1 November 1946 to 19 December 1949 <i>Commonwealth Aid Roads and Works Act 1947-49</i> <i>State Grants (Encouragement of Meat Production) Act 1949-54</i>	(ALP)
Menzies Ministry, 19 December 1949 to 11 May 1951 <i>Commonwealth Aid Roads Act 1950</i>	(LP-CP)
Menzies Ministry, 11 May 1951 to 11 January 1956 <i>Commonwealth Aid Roads Act 1954-56</i>	(LP-CP)
Menzies Ministry, 11 January 1956 to 10 December 1958 <i>Commonwealth Aid Roads (Special Assistance) Act 1957</i>	(LP-CP)
Menzies Ministry, 10 December 1958 to 18 December 1963 <i>Commonwealth Aid Roads Act 1959</i> <i>Queensland Grant (Beef Cattle Roads) Act 1961</i> <i>Western Australia (Beef Cattle Roads) Act 1961</i> <i>Queensland Beef Cattle Roads Agreement Act 1962</i> <i>Western Australian (Beef Cattle Roads) Act 1962</i>	(LP-CP)
Menzies Ministry, 18 December 1963 to 26 January 1966 <i>Tasmanian Grant (Gordon River Road) Act 1964-67</i> <i>Commonwealth Bureau of Roads Act 1964-1973</i> <i>Commonwealth Aid Roads Act 1964</i> <i>Queensland Beef Cattle Roads Agreement Act 1962-1973</i>	(LP-CP)
Holt Ministry, 26 January 1966 to 14 December 1966 <i>Western Australia Grant (Beef Cattle Roads) Act 1966</i>	(LP-CP)
Holt Ministry, 14 December 1966 to 19 December 1967	(LP-CP)
McEwen Ministry, 19 December 1967 to 10 January 1968	(LP-CP)
Gorton Ministry, 10 January 1968 to 28 February 1968	(LP-CP)
Gorton Ministry, 28 February 1968 to 12 November 1969 <i>States Grants (Beef Cattle Roads) Act 1968</i> <i>Commonwealth Aid Roads Act 1969</i>	(LP-CP)

Gorton Ministry, 12 November 1969 to 10 March 1971	(LP-CP)
McMahon Ministry, 10 March 1971 to 5 December 1972	(LP-CP)
Whitlam Ministry, 5 December 1972 to 19 December 1972	(ALP)
Whitlam Ministry, 19 December 1972 to 11 November 1975	(ALP)
<i>National Roads Act 1974</i>	
<i>Roads Grants Act 1974</i>	
<i>Transport Planning and Research Act 1974</i>	
Fraser Ministry, 11 November 1975 to 22 December 1977	(LP-NCP)
<i>Roads Acts Amendment Act 1975</i>	
<i>Roads Acts Amendment Act (No. 2) 1976</i>	
Fraser Ministry, 22 December 1975 to 20 December 1977	(LP-NCP)
<i>Roads Acts Amendment Act 1977</i>	
<i>Commonwealth Bureau of Roads (Repeal) Act 1977</i>	
<i>States Grants (Roads Interim Assistance) Act 1977</i>	
<i>States Grants (Roads) Act 1977</i>	
<i>Transport Planning and Research (Financial Assistance) Act 1977</i>	
Fraser Ministry, 20 December 1977 to 3 November 1980	(LP-NCP)
<i>States Grants (Roads) Amendment Act 1978</i>	
<i>States Grants (Roads) Amendment Act 1979</i>	
<i>States Grants (Urban Public Transport) Amendment Act 1979</i>	
<i>Roads Grants Act 1980</i>	
Fraser Ministry, 3 November 1980	(LP-NCP)
<i>Roads Grants Act 1981</i>	

ALP—Australian Labor Party
 CP—Country Party
 NCP—National Country Party

LP—Liberal Party
 UAP—United Australia Party
 NAT—Nationalist Party (new name of CP
 after 1975)

Source: Commonwealth of Australia (1980), Burke (1977), Sawyer (1967).

APPENDIX II—ESTABLISHMENT OF STATE ROAD AUTHORITIES

Victoria (1912)

The first of Australia's State road authorities was the Victorian Country Roads Board (CRB) which was established in 1912. When he introduced the Bill for the establishment of the CRB into the Victorian parliament, Mr H. McKenzie the Minister for Lands gave the reasons for its establishment as:

- central control required to ensure main road construction standards were uniform between local government areas;
- municipal authorities not coping with their road task; and
- economic development needs required a specialised statutory authority to ensure adequate planned expenditure (Legislative Assembly, Victoria, Parliamentary Debates, 12 October 1912, p1727).

The concept of a roads board was derived from the United States system under which a Federal Highways Board provided funds to the States for expenditure (on a shared basis) on approved road projects. Under the Victorian proposal the CRB was to have the power to declare main roads and to either construct roads or provide assistance to local government for this purpose; however it was envisaged that local government would undertake the works. Two funds were to be established - one for capital works, the other for maintenance expenditure with the latter expenditures to be financed from local government contributions, fees and fines from motor traffic, traction engine registration and other sources as designated. In total it was proposed to spend \$4 million over 5 years, with local governments to repay half this sum over thirty-one and one-half years at a total rate of 6 per cent per annum for interest and redemption. Individual local government repayments were to be calculated by the Board according to its assessment of the gain to that local government from the improvements. It was expected that these repayments would be derived from an increase in rates. The Board also had the power to levy repayments on town and city municipalities when it judged that they had benefited from the improvements (which were to be in rural boroughs and shires). Some perspective of the proposed expenditure (\$800000 per annum) can be gained from local government roads expenditure in Victoria (excluding towns and cities) in 1910-11 (Table II.1).

In addition the Board was given powers relating to the use of main roads (overload policing etc). There was some opposition to the financial arrangements and the vesting of these functions in a statutory authority. The use of statutory authorities in Victoria has been commented upon elsewhere (Victorian Government 1979):

municipalities inevitably lacked the resources and also very often the desire to engage in large projects and to perform the wide range of functions permitted by statute. Consequently, as the 19th century ran its course, and through the early decades of the 20th century, the State government found it necessary to by-pass the municipal sphere, preferring instead to establish (indeed it came to lead the world in this sphere) *ad hoc* authorities.

Four single-purpose statutory authorities had been created in Victoria prior to the creation of the Country Roads Board. Victoria's model for the CRB was to be substantially adopted by the remaining States (with the exception of Tasmania) when establishing their own State road authorities.

TABLE II.1—LOCAL GOVERNMENT ROADS EXPENDITURE IN VICTORIA, 1910-11
(\$'000)

	Boroughs	Shires	Total
Revenue			
Rate revenue	107.1	937.7	1 044.8
State grants	33.7	359.3	393.0
Other revenue	51.1	130.7	181.8
Total	191.9	1 427.71	619.6
Expenditure on roads and bridges			
Construction	20.5	595.1	615.6
Maintenance	47.5	472.9	520.4
Total	68.0	1 068.0	1 136.0
per cent of total revenue	35.4	74.8	70.1

Source: Legislative Assembly, Victoria, Parliamentary Debates (12 October 1912, p1727).

Queensland (1919)

The failure of local government in its role as provider of roads was cited as a reason for the establishment of the Queensland Main Roads Board (MRB). The functions of the Board, and the reasons for its establishment were outlined by the Secretary for Agriculture, Mr W.N. Gillies.

The scheme of this Bill is briefly this: The Government will cooperate with the local authorities in carrying out the administration of this Main Roads Bill. The Bill will bring into existence a main roads board . . . So far as financing of the roads is concerned, the Treasury will find the money in the first instance. A fund will be created and the Treasury will find the money to build main roads, after they have been agreed upon between the local authorities concerned. A fund should be created at the Treasury to be called 'The Main Roads Fund', and all moneys raised under the Act shall be placed to the credit of this fund. An adjustment of the cost of the roads will be made between the different local authorities, and the local authorities will remit 50 per cent of the total cost of making the roads. This will take the form of a loan to the local authorities extending over thirty years, at the current rate of interest paid by the Government for money. The same thing will apply to the maintenance of the roads. The local authorities concerned all pay their share with regard to maintenance just as they do with regard to the maintenance of roads at the present time. It seems logical to me that if we build railways out of loan moneys we should also build feeders to those railways out of loan money. A sinking fund will be created to liquidate the loan. The first duty of the Board when it comes into existence will be to cause maps to be prepared and decide where main roads are to be constructed. (Legislative Assembly, Queensland Parliamentary Debates, 30 October 1919, p1723, Gillies).

Main roads, as well as providing rail feeders, would be provided between: producing areas and ports of shipment by water or rail; adjacent producing areas; and producing areas and capital and provincial cities.

It was claimed that these new arrangements would be more effective than the provision of road subsidies to local government as in the past such arrangements had contributed to poor road standards and excess expenditure on local roads at the expense of main roads. The Secretary suggested that the Commonwealth Government should follow the example of the United States Government by providing funds to the States for 'federal roads'.

He also claimed that there was wide community support for the new arrangements.

I might mention that the Local Authorities Conference passed a unanimous resolution in favour of this system being adopted by Queensland. The Good Roads Association have passed similar resolutions. The Carriers' Association have endorsed the principles embodied in the Bill, and the automobile people have said they are prepared to pay a reasonable tax so long as the money is spent on roads. (Legislative Assembly, Queensland Parliamentary Debates, 30 October 1919, p1813, Gillies).

As in the Victorian example, the Board was vested with a range of additional powers over the use of main roads (ie enforcing vehicle limits).

New South Wales (1924)

Proposals similar to those introduced in Victoria were slow to become law in New South Wales. The reasons for this delay were outlined by Mr J.C.L. Fitzpatrick, the then Minister for Local Government during the debate on the first Main Roads Bill to be passed by the NSW Parliament, the Main Roads Bill 1924.

Since 1912 there have been several endeavours to provide the necessary legislation for the care of main roads of the State . . . In 1912, Mr Arthur Griffith, who was Minister for Works in the first Labour government, introduced a Main Roads Bill, which was not passed, whilst the Victorian measure was passed by Parliament. In 1918 Mr James introduced in this House a Local Government Bill containing a chapter providing for the constitution of a main roads board. This was withdrawn, as the result of representations made by country members, who felt that it did not meet the requirements of the situation. (Legislative Assembly, NSW Parliamentary Debates, 7 August 1924, p922, Fitzpatrick).

Prior to 1924 a further two bills had been introduced but failed to become law. Local government opposition was the explanation given also by a former Minister during the debate:

I realise that this measure is a highly contentious one in some respects. I can quite remember the great suspicion that attached to my remarks when I first addressed a shires conference of this subject. I may say that it was the shires and the country municipalities generally which were responsible for the rejection of the measure during the past ten years . . . with the result that we are now ten or twelve years behind Victoria in the provision of a measure which means so much to the economic life of the State. (Legislative Assembly, NSW Parliamentary Debates, 7 August 1924, p924, Mutch).

In his Second Reading Speech (Legislative Assembly, NSW Parliamentary Debates, 14 August 1924, p1157) the Minister advanced very similar reasons in support of the Bill as had the Victorian and Queensland Ministers; the failure of local government in total to achieve consistent and adequate main road construction and the leakage of state grants to minor road and minor maintenance works. Two funds were proposed, one each for country and metropolitan main roads.

These funds were to be raised through loans, motorist taxes, government subsidy and local government contributions. They would be under the control of a Board of three having powers relating to the specification and standard of work and the supervision of work (which was to be carried out as far as possible by local government).

Western Australia (1925)

The Main Roads Bill was introduced to Parliament in November 1924. In his Second Reading Speech the Minister for Works stated that such a measure had been under consideration for many years as the upkeep of main roads was, as a result of the increase in traffic and insufficient road maintenance, beyond the capability of local government. However Western Australia did not favour the Victorian model; it was claimed that it did not want a main roads board that was also a taxing authority—especially one which could levy charges on local government (Legislative Assembly, Western Australian Parliamentary Debates, 20 November 1924, McCallum).

Western Australia's arrangements were based on the South Australian system at that time. Provision was made for local authorities and road districts to elect Board members. The relevant Minister would have to rely on the Board with regard to

recommendations on main road declarations and expenditures.

The Board also was to allocate work between the Public Works Department, local authorities or private contract.

A main road trust fund was set up. It was to be funded from:

- land taxes;
- taxes on vendors of motor spirit;
- monies from local authorities;
- Commonwealth road grants (which had been introduced in 1922); and
- other funds as determined by Parliament.

In 1930 the Board was abolished and replaced by a (single) Commissioner of Main Roads.

South Australia (1926)

Under the *Highways Act* 1926, the South Australian Parliament created a Commissioner of Highways. In addition he held the position of Director of the Local Government Department. The new Commissioner replaced arrangements introduced in 1921 which failed to provide a systematic basis for the construction, maintenance or financing of main roads by local government.

In the words of the Treasurer:

Although when the main roads were placed under the control of local authorities in 1887 it was definitely laid down that the councils were to maintain them with the help of a government subsidy, the councils, in effect, practically contributed nothing, and simply expended the annual grant until the provisions of the Roads Improvement Act, 1921, came into force, since then they have contributed \$60000 per annum towards main road upkeep . . . It has been advocated that the actual maintenance of the main roads should be carried out by a number of Government boards. This system was in force prior to 1887, when the roads were looked after by eight boards, but the cost of supervision became so out of proportion to the amount expended that the system broke down of its own weight, and no objection was raised in any quarter to its abolition. (House of Assembly, South Australian Parliamentary Debates, 25 August 1925, p556-7, Gunn).

The functions of the Commissioner were similar to those of the Boards established in the other States; he had the responsibility of identifying main roads, setting work standards etc and these were to be financed from a number of earmarked taxes on motorists plus council and Parliamentary contributions.

Tasmania (1977)

According to the Tasmanian Department of Main Roads *Annual Report* 1976-77,

The origins of the State's public works administration go back to the convict system for all the early roads, bridges and buildings were constructed by convict gangs under Overseers of the Civil Establishment . . .

An Engineering Department with responsibility for roads, bridges and buildings was established in 1820. In 1827 during the administration of Governor Arthur this Department was divided to form the Engineers' and Architects' Department and a separate Roads and Bridges Department. The Engineers' and Architects' Department was later re-named the Public Works Department.

In 1848 the Roads and Bridges Department and the Public Works Department were amalgamated under the name of the Public Works Department and once again the responsibilities for roads, bridges and buildings were brought within a single administrative structure. (Tasmanian Department of Main Roads, 1977).

Responsibilities for roads, bridges and buildings remained within the Department of Public Works until March 1977, when the Department of Public Works was abolished and two new Departments formed. The Engineering Branch and the major part of the Administration Branch became the new Department of Main Roads. The Architectural Branch, together with some of the staff of the Administration Branch, had a temporary existence as the Department of Construction until it was incorporated with the Housing Department to form the new Department of Housing and Construction.

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ABBREVIATIONS

ALP	— Australian Labor Party
ATAC	— Australian Transport Advisory Council
BTE	— Bureau of Transport Economics
CBR	— Commonwealth Bureau of Roads
CRB	— Country Roads Board
CRF	— Consolidated Revenue Fund
CP	— Country Party
LP	— Liberal Party
MITERS	— Minor Traffic Engineering and Road Safety Improvements
NAT	— Nationalist Party
NCP	— National Country Party
UAP	— United Australia Party