On the Operations of existing and proposed toll roads in Australia

Ben Aveling

Co-Convenor, Alexandria Residents Action Group

[redacted]

[redacted]

12 July 2017

On financial arrangements of existing and proposed private toll roads, and transparency and accountability

The way tolls are administered leads to a failure to properly account for moneys collected on behalf of the State, and a failure to properly account for money disbursed by the State.

Where the state grants a concession to collect a toll, the money collected should be considered, for accounting purposes, to have been collected by the State, and any money not handed over to the State should be considered, for accounting purposes, to have been a payment by the State.

There is a perception in some quarters that toll roads are not a cost to the State, because they are, supposedly, user-pays. And further, that they are not a cost to the user, because the user is no worse off if they choose not to use the toll road.

As an example of the later, Ken Kanofski, Chief Executive, Roads and Maritime Services, told the NSW Inquiry into Road Tolling on the 22 May 2017:

> "individual customers make a decision as to whether to use the toll road or not on whether they think it represents value to them in terms of their timesaving. If they think it provides value to them then they will use it, if they do not think it provides value to them then they will not." ... "It is the view of the Roads and Maritime Services that people will use the road if it delivers them value. There is a free alternative."
> https://www.parliament.nsw.gov.au/committees/DBAssets/InquiryEventTranscript/Transcript/9948/Transcript%20-%2022%20May%202017%20-%20CORRECTED.pdf

The fallacy in Mr Kanofski's reasoning is that toll roads are not additive.

Mr Kanofski's reasoning would hold only if every toll road was in addition to existing infrastructure, built at no cost to the State, with no negative externalities, imposing no cost to those who chose not to use it, and if the cost to those that do use the road were outweighed by the benefit.

However, most toll roads take an existing free-to-use road or road reservation and convert it into a pay-to-use road. They typically require government funding or a government guarantee, and/or a zero cost loan of public land, and/or non-compete clauses.

Even where a given user is prepared to pay-to-use a toll road, that does not necessarily mean that the user is as well off as they would be if the road were still free. It may be that paying to use the road is better than any of the remaining alternatives, without being as good an option for the driver a more congested but free road would have been.

Even if, as Mr Kanofski claimed “there is always a free alternative” to paying a toll, converting a free road into a toll road means that there is one less free alternative to paying a toll.

Even if some users are better off for having a faster, less congested toll road, this does not in itself demonstrate that the State has achieved value for money. It may well be a better outcome could have been achieved by having the State build, own and operate the road.

To calculate whether granting a concession makes sense, it is necessary to look beyond the direct cost to the state, and to examine the full cost of the concession.

Because the State is granting a concession (a right to charge a toll), then from an accounting point of view, the money raised from the concession should be treated as being raised by the State and then handed over to the concession holder, minus the government's share. But instead, what is collected is ignored. Only the government's share is considered to be income, and the concession holder's share is not accounted for at all.

Only by considering both money in and money out can we provide a full account of the cost to the citizenry and of the amount paid to the concession holder.

Where the state grants a concession to collect a toll, the money collected should be considered, for accounting purposes, to have been collected by the State, and any money not handed over to the State should be considered, for accounting purposes, to have been a payment by the State.

On financial arrangements of existing and proposed private toll roads, and equity aspects of these arrangements

Any toll that exceeds the cost of the service provided should be considered a tax. Tolls should be in proportion to the cost of providing the infrastructure, or should be necessary for the efficient use of that infrastructure.

There is nothing intrinsically unfair about tolls that exceed the cost of providing the service. Where demand would exceed capacity, tolls are a more efficient means of sharing the resource than queuing would be - both methods place a cost on the user, but time spent queuing is completely wasted, whereas using tolls to manage congestion has the benefit of raising revenue.

Charging of a toll becomes unfair when some users pay more than others for comparable services – and especially so if the charging of tolls causes roads to be underutilised.

For example, a toll at a certain level might create value during peak hour, by raising revenue while keeping a road flowing smoothly. The same toll, applied to overnight traffic, would destroy value, because it reduces usage of the road without creating any time savings, because the road would not have been congested.

To manage congestion:

- tolls should be related to congestion - higher at peak hour than off peak
- tolls shouldn't just be on major roads – tolls should be on any heavily congested road or intersection

For fairness:

- tolls should be in proportion to the cost of providing the infrastructure,
- or should be necessary for the efficient use of that infrastructure, as described above.

As an example, tolls on the widened M4/M5 should be cheaper than the tolls on the M4 East and New M5 tunnels, or the tolls should be discontinued sooner, because the tunnels are, approximately, 10 times more expensive to construct. And any toll should be heavily weighted towards peak hour, or other periods of congestion.

Thank you for the opportunity to contribute.