Senate Economics References Committee: Inquiry into the operations of existing and proposed toll roads in Australia
Public Hearing Thursday 3 August: Opening statement by the Department of Infrastructure and Regional Development

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Toll roads in Australia have generally been delivered via a public-private partnership, whereby the private sector is paid to deliver the road infrastructure and the road-related services on behalf of state and territory governments. Tolls are charges applied to specific parts of the road network, such as particular routes or corridors (as part of a cost recovery or financing arrangement). Motorists can, in most cases, choose to pay a toll (an immediate cost) based on the benefits of using the road or elect to take an alternative route. The toll charges paid by road users are generally reflective of the cost of delivering and operating an individual section of road infrastructure, and a commercial rate of return based on the risk profile of the infrastructure asset.

There will always be more projects than can be funded through traditional grant funding and the Government is looking to partner with private sector investors, where possible, to encourage private sector investment, through innovative funding and financing approaches, and to drive efficiencies in project development and delivery.

The 2017-18 Budget reflected the Government's deliberate shift in the way it is funding and financing major infrastructure, with a greater use of equity and loans.

Through the Budget, the Government established a 10-year allocation for funding road and rail investments, recognising that many transformational projects are planned and built over many years.

This is expected to deliver over $75 billion in infrastructure funding and financing from 2017-18 to 2026-27.

It is important to note that the Australian Government has no role in setting toll road costs and is not a party in toll road contracts/concessions.

All levels of government are aware, however, that the costs of funding roads are increasing, at the same time as demand for road services is growing and road related revenue is forecast to decline. Looking ahead, governments will need alternative ways of providing the road services Australia needs into the future. The Department plays a key role in two relevant streams of work, including:

- Exploring medium and long-term charging, funding and investment reform for road transport services, beginning with heavy vehicle road reform; and
- Investigating the potential benefits and impacts of cost reflective road pricing for light vehicles.

Both areas of reform are being progressed jointly by the Commonwealth with the states and territories, given the split of functions between levels of government in providing land transport services. The Australian Local Government Association is also involved in this work. Both streams of work share similar objectives, focused on creating sustainable, transparent and fair arrangements for funding Australia's roads into the future. The end point of both reforms, depending on government decision-making, would see a market for roads with users charged for the services they use, as is the case in other utilities.

No decision has been taken to pursue network wide road pricing for all vehicles. While we are many steps away from any introduction of market-based road services, work can be progressed now on 'no regrets' reform elements which improve the efficiency of current funding arrangements, such as:

- Forward looking expenditure and investment plans;
- A forward looking cost base, to inform heavy vehicle charges;
- Asset registers and data on levels of service for roads;
- Common asset and financial metadata standards; and
- Independent price regulation.

There are a range of other reforms that are already underway to improve the way infrastructure projects are identified, assessed and funded including:

- the release of Principles for Innovative Financing in February 2016, through which the Australian Government is seeking to optimise the level of private investment in transport infrastructure through public private partnerships, which can be supported by user pay arrangements on road corridors and the prudent use of innovative financing.
- The Department is also becoming involved in infrastructure projects earlier to help deliver not only the best long-term economic returns, but the desired outcomes for users and the wider community.

We welcome questions from the Committee.

Land Transport Market Reform - Glossary of terms

Terms	Definition
Community Service Obligations	Where government obliges public or private road infrastructure service providers to meet a minimum level of service, associated with specific government policy objectives, which it would not otherwise provide on a commercial basis (source: Austroads, CSO Framework for Roads).
Congestion charging	Charging vehicles for their use of a congested road or area, with revenues accruing to the authorities and not necessarily linked to use for road or transport purposes. (source: Austroads Glossary).
Expenditure plans	The expenditure plans profile maintenance expenditure and capital investments planned by all levels of government on key road segments over the next four years.
Forward Looking Cost Base	A life cycle approach using forward looking costs for the purposes of determining what revenue would be required to efficiently maintain current service standards and meet future needs of users.
Full market road reform	Application of a market based approach to all of the elements linked to the demand and supply of a service within a market – as opposed to a partial market reform which would only focus on certain users or elements in the market.
Heavy Vehicles	Vehicles 4.5 tonnes and over – typically rigid and articulated trucks and buses as well as special purpose vehicles such as cranes.
Heavy vehicle asset registers	The asset registers profile ratings for road segments according to heavy vehicle access, safety, ride quality and reliability characteristics. Ratings can be viewed in open geospatial mapping platforms like Google Earth.
Heavy vehicle road reform	A joint reform process of the Commonwealth, state, territory and local governments aimed at establishing an economic market for the provision and use of heavy vehicle infrastructure services – one that provides clear links between the needs of users, the charges they pay and the services they receive.
Hypothecated charges	Where taxes and charges collected from users of a service are directly returned to service providers to be reinvested in those services.
Light vehicles	Vehicles less than 4.5 tonnes being both passenger cars and light commercial vehicles.
Market based model	A scheme where the supply and demand for a service reaches a classic microeconomic equilibrium which reflects both the users' willingness to pay for a level of quality at a given price and the suppliers' willingness to supply that quality at a given price.
Road related revenues/road related taxes and charges	In the context of current Land Transport Market Reform Branch work, this term refers to taxes and charges collected from road users and vehicle owners and includes access charges such as state-based fees (vehicle registration, vehicle stamp duty and driver licensing) and consumption or usage fees such as Commonwealth fuel excise. A full and agreed definition of this term will be part of the forward work programme on Land Transport Market Reform.
Road user charging	Cost recovery from road users in order to deliver the road services required by road users
Tolls/toll roads	Direct user charges in the form of regulated, facility-based tolls for usage of specific road corridors.