

Executive summary

Commonwealth role

It is essential that the Commonwealth take a leadership role in developing and publishing a national strategic plan for Australia's transport network.

To demonstrate its commitment to the goals and discipline of a strategic approach to the road component of the national transport strategic plan, the Commonwealth should:

- consult with the States/Territories, local government, the private sector and community groups;
- continue its commitment to tied funding for road infrastructure;
- increase certainty in road funding; and
- provide an appropriate, guaranteed level of road funding to support agreed national outcomes.

The Commonwealth role in road funding should focus on achieving national objectives. The committee has identified the need for the Commonwealth to continue to be involved in developing a national road system which is defined in this report as comprising the national highway system and roads of national importance.

The Commonwealth role in road funding should be consistent with a clear delineation of responsibilities amongst all parties in road funding to reduce administrative overlap and to achieve effective accountability for areas of responsibility.

The Commonwealth should use:

- **specific purpose (tied) payments** in programs for which the Commonwealth is responsible for performance outcomes (such as the national highway system, roads of national importance, and black spot program) and where the Commonwealth is involved in detailed project approval; and
- **specific purpose (tied) payments via block grants** in programs that are the responsibility of the States/Territories and local government in which the Commonwealth is not involved in detailed project approval.

Adequacy and extent of the national highway system

The community regards Australia's roads as one network rather than a compilation of three networks: Commonwealth, State/Territory, and local roads. The adequacy of the national highway system for industry and the community is inextricably linked to the adequacy of State/Territory and local road networks. The adequacy of the road network impacts on, and is affected by, the adequacy of alternative forms of transport.

The Commonwealth is responsible for the funding, project approval and performance outcomes for the national highway system. The States/Territories act as the Commonwealth's agents in managing and delivering road projects on the national highway. The national highway system represents only a small proportion of Australia's total road network (2.3 per cent). However, it includes many of Australia's major long haul freight routes and provides the key links between significant population centres, with domestic and international market implications.

The national highway system is the backbone of Australia's road transport network serving industry and the community. The committee recommends that for the national highway system:

- the current stated objectives be reviewed,
- following this review, the objectives be incorporated into the *Australian Land Transport Development Act 1988* and its accompanying *Notes on Administration*,
- the Commonwealth develop performance indicators against each of the objectives and regularly evaluate performance, and
- the results of this evaluation, together with an implementation plan, be published by the Commonwealth every five years.

For this inquiry the committee's role is to investigate the underlying principles for funding Australia's national road system rather than identify particular works for funding. The committee is not empowered to allocate funds, approve projects or to seek to directly influence decisions of any government in regards to specific road projects.

In considering the adequacy and extent of the national highway, as contained in the terms of reference, it was not the committee's intention to determine lists of projects comprising necessary national highway works to address perceived deficiencies, or develop lists of roads which could be regarded as possible national highway extensions or included as roads of national importance. Nevertheless, a considerable amount of evidence was presented to the committee by government bodies, industry and community organisations in each State/Territory arguing the case for the funding of particular roads and road projects in their area. The committee received many calls to include additional roads in the national highway system or as roads of national importance. The committee took the

opportunity to inspect a number of roads and road infrastructure needs covering urban, rural and remote regions.

The committee recommends that the present scope of the national highway system be maintained and that the inclusion of additional roads within the national road system be funded as roads of national importance.

The committee supports continuing funding of roads of national importance. The committee believes strongly that the funding of roads of national importance:

- should be prioritised on the basis of substantial net economic benefit, and this
- should not be at the expense of funding for the national highway.

Further, the guidelines governing the determination of projects to be funded under the roads of national importance category should be included in the *Notes on Administration*. While the objectives and provision of the national highway system may be broadly seen as adequate, there are linkage problems including sections of some roads, access to ports and areas of major production. In addition, the linkages in urban centres connecting highways are a significant problem.

Deficiencies in bridge infrastructure are emerging as a major weak link in Australia's road network. Inadequate bridge infrastructure imposes constraints on the social and economic development of Australia. The proposed introduction of increased mass limits for heavy vehicles will exacerbate the problem but it is not the primary cause of deficiencies in the bridge stock. Issues including age, design, and the construction of bridge stock contribute significantly to deficiencies in bridges. As bridges are an integral part of the road system, all three tiers of government need to develop a program to address bridge infrastructure deficiencies.

The Commonwealth, in consultation with the States/Territories, needs to determine a national road system (comprising the national highway and roads of national importance) and its integration with state arterial roads. The standard and performance of this national road system should be assessed every five years.

Funding

As discussed, the Commonwealth should maintain its commitment to funding roads through specific purpose (tied) payments. The Commonwealth needs to continue to use specific purpose payments to fund the Commonwealth's responsibilities for the national highway system, roads of national importance and the black spot program.

The current procedure of untying road funding to the States/Territories and local governments, then effectively retying it by separately identifying it in the Budget papers and seeking assurances that it be spent on roads, is illogical. Tied block grants will achieve the Commonwealth's intention that identified funds are spent on roads, and give

States/Territories and local government the flexibility to allocate these funds to road projects in line with their own priorities. The committee envisages that the Commonwealth should not be involved in the allocation to, or approval of, specific road projects if funded under block grants.

The committee recommends that the present untied funding to States/Territories and local government be paid as tied funding via block grants and maintained in real terms.

Evidence before the committee identified an urgent need for certainty in Commonwealth road funding. The uncertainty of Commonwealth year to year funding on roads impedes the ability of the Commonwealth and States/Territories to undertake long term planning, and inhibits efficient operation of the construction industry, resulting in higher construction costs.

Increased certainty in Commonwealth road funding is of fundamental importance in order for the Commonwealth to fulfil a strategic role in road funding which is linked to agreed national outcomes. The Commonwealth should ensure greater certainty in its tied road funding program:

- by implementing an appropriate and guaranteed funding approach,
- by implementing a rolling three year period, and with
- payments from consolidated revenue.

The Commonwealth levies excise on fuel as part of its total tax structure. The receipts from fuel excise go into general revenue to fund a wide range of Commonwealth outlays including road funding. The hypothecation arrangements of the 1980s, which began with the *Australian Bicentennial Road Development Trust Fund Act 1982*, have been progressively diluted and modified to the point now where they have been discontinued.

Despite the Commonwealth discontinuing the hypothecation (earmarking) of a proportion of fuel excise for roads, there is a strong perception in the community that hypothecation is still applied.

The perception of a link between fuel excise and road funding creates an expectation within the community that the Commonwealth has the financial capacity to spend more on roads than it does by virtue of the amount of revenue it generates from fuel excise. This expectation is not sustainable.

The capacity of the Commonwealth to fund a road program is determined by the priority it places on roads and other government programs in the context of the overall level of funding. At the Commonwealth level the amount of funding made available for roads has no direct connection to the level of revenue generated from fuel excise.

Hypothecation of fuel excise does not necessarily provide greater certainty. Certainty in funding for Commonwealth road programs can best be achieved by a strong commitment

on the part of the Commonwealth to stated outcomes consistent with a national transport strategy and sourced from budget allocations.

The introduction of a road user charge may be desirable to indicate to users the price of road use in relation to road damage and externalities such as congestion, pollution, accidents and other social costs. However, the committee recognises that the determination of an appropriate road user charge regime which provides for differences in the costs associated with urban and rural road use is a complex undertaking. The development of intelligent transport systems may play a significant role in the implementation and collection of road user charges in the future. Any system developed or introduced in Australia needs to be compatible in order to support a national approach to transport.

An asset management strategy should be developed for the national highway system. However, before its introduction, an assessment needs to be undertaken to determine the Commonwealth's resource capacity to gather, maintain and analyse necessary data to effectively implement such an approach.

Research undertaken by the Bureau of Transport and Communications Economics (BTCE) into funding requirements for the non urban national highway when compared with recent levels of funding demonstrates that funding overall needs to be increased. The committee considers that the BTCE should continue to work with the States/Territories to further refine the existing model and to develop a model to determine road funding needs for urban national highway links.

Administrative arrangements

Evidence presented to the committee revealed a significant degree of dissatisfaction with the Commonwealth's administrative arrangements. Criticism by State and Territory road authorities focussed on:

- lack of a strategic approach to road funding,
- lack of certainty in funding,
- use of cumbersome project approval procedures which often contribute to significant time delays,
- excessive Commonwealth involvement in checking technical details of projects,
- need for ministerial approval for individual projects and stages of projects,
- duplication of administrative effort between the Commonwealth and States/Territories,
- arrangements which fail to encourage accountability by States/Territories, and

- arrangements which focus more on process than outcomes.

The Department of Transport and Regional Development noted a number of difficulties experienced under the existing administrative arrangements, including inadequacies in procedures followed by the States/Territories and the late involvement of the Commonwealth in a project's development. The department is considering reforms to the administrative arrangements including changing its uniform approach (that is 'one size fits all') to every State/Territory and project regardless of the size and cost of the project.

The committee recognises the expertise of the State and Territory road authorities in the management and delivery of Commonwealth road programs. However, it is reasonable for the Commonwealth to set parameters and be involved in project approval procedures where it is accountable for road expenditure, providing the procedures add value and do not contribute to unnecessary delays and additional costs in the implementation of the road program.

It is imperative that the Commonwealth's administrative arrangements are appropriate and:

- avoid duplication,
- limit additional costs, and
- provide for satisfactory accountability.

The provisions in the *Australian Land Transport Development Act 1988* need to be revised to ensure that they are appropriate to a changing environment and adequately support the adoption of a strategic role for the Commonwealth. As discussed previously, the hypothecation provisions, which have fallen into disuse at the Commonwealth level, should be repealed. The *Notes on Administration* also need to be reviewed and regularly updated to reflect current administrative arrangements.

The Commonwealth needs to work with the States/Territories to define responsibilities of each party to ensure project approval processes are efficient. This should include:

- setting performance targets for each party,
- evaluating the effectiveness of maintenance performance agreements, and
- examining the scope for construction performance agreements which retain individual project approval.

Effective decision making for road programs requires accurate, reliable and available information. In particular, benefit cost analysis of road projects needs to be consistent and transparent. The development of a national roads data base will prove invaluable as an input to decision making, in particular in support of the Commonwealth's strategic role in road funding.

Private sector involvement

The provision of road infrastructure is a service traditionally provided by government. However, since the 1980s there has been an increasing trend for the private sector to be involved in the provision and maintenance of road infrastructure.

In Australia, private sector involvement includes the following.

- Competitive tendering for design and construct contracts where the private sector may carry out the work but financing and ownership remains in the public sector.
- Build, own, operate and transfer (BOOT) schemes where construction and investment by the private sector is granted a concession by the public sector during the term of the contract to operate (quasi ownership) the infrastructure. At the end of the contract full responsibility for the infrastructure is returned to the public sector.
- Maintenance of road infrastructure through tendering for maintenance contracts.

At the Commonwealth level there has been considerable use of competitive tendering and contracting through the Commonwealth's agents, the States/Territories, but there has been no direct private sector investment or 'ownership' arrangements for the Commonwealth's road infrastructure.

While private sector involvement may include a number of responsibilities, or combinations of activities, such as design, construction, maintenance, investment, ownership or operation, it is the more recent move to private sector investment and 'ownership' that has captured community attention. Examples of private sector financing of road infrastructure in Australia include the:

- Sydney Harbour Tunnel,
- M2, M4 and M5 motorways in Sydney and,
- City Link in Melbourne.

Evidence before the committee covered a range of benefits and costs on private sector involvement in the provision of infrastructure. When the private sector invests in infrastructure, a key issue is the allocation of risk between the private and public sector. The committee acknowledges that in principle risk should be allocated to the party best able to control the risk, in order to minimise project risk. The committee is concerned that this principle of allocating risk to the party best able to control it has not always been the experience in Australia where the private sector has invested in road projects.

Based on the evidence received, proposals for private sector investment for road projects in which the Commonwealth has an interest should be assessed on a case by case basis and structured to:

- maximise the net benefits to the community, and
- ensure an acceptable distribution of benefits and costs across the community.

While private sector investors have to look at financial returns on their investments, governments also have a role in ensuring that resource allocation is improved with respect to social benefits.

The evidence in favour of competitive tendering is compelling. Competitive tendering enables the most efficient provider—private or public sector—to undertake road provision and maintenance projects.

The benefits of competitive tendering for Commonwealth road funded contracts may be increased by combining related tasks into larger projects and adopting longer time frames in maintenance contracts. Nevertheless, regional issues such as employment, may need to be taken into account.

Ultimately the community pays for road infrastructure, whether it is sourced by the public sector allocating budget funds or direct from the private sector. In fact the public sector can raise finance on its own behalf from the private capital market in order to build infrastructure such as roads.

One bank involved in facilitating financing infrastructure suggested non recourse financing as an option in place of the BOOT model. It saw BOOT as an evolutionary step and did not consider it the right model for future development of arterial urban toll roads. The committee believes that BOOT schemes are unlikely to be the best method for delivering Commonwealth road projects.

Industry contributions to the provision and maintenance of public roads from which industry receives significant private benefit may be a desirable arrangement for private sector involvement in road infrastructure. To facilitate such an option the Commonwealth needs to examine how industry may contribute to Commonwealth road projects. In addition, the Commonwealth should identify and remove any unwarranted impediments to private or public sector financing for road provision and maintenance. Ideally, the States/Territories and local governments would initiate similar action.

The Commonwealth needs to ensure that any agreements involving the private sector in Commonwealth road projects are transparent and open to public scrutiny. Greater transparency in such agreements should act to make government more accountable for the risks assumed (or not assumed) by government and the resources provided by government.