HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Inquiry into federal road funding

CANBERRA

Thursday, 26 June 1997

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Members:

Mr Vaile (Chair)

Mr Albanese	Mr Peter Morris
Mr Ross Cameron	Mr Neville
Mrs Crosio	Mr Randall
Mr Hardgrave	Mr Tanner
Mr Lindsay	Mr Wakelin
Mr McArthur	Mr Willis
Mr McDougall	

The Commonwealth, under its roads program, provides funds to the States and Territories for the National Highway and Roads of National Importance. The Committee is asked to:

1. Review the Commonwealth role in road funding and identify the most effective means of fulfilling that role;

2. Assess the adequacy and extent of the National Highway as currently declared in meeting the objective of providing a national road system that meets the needs of industry and the community;

3. Assess the level of funding required to adequately fulfil the Commonwealth role. This should take into account the current condition of the asset, depreciation and maintenance requirements, as well as new investment required to meet demand growth, changes in technology (especially increased weight limits for heavy vehicles) and community expectations of road standards;

4. Examine whether current administrative arrangements have an adequate performance focus, promote effective and efficient use of funds and adoption by States and Territories of best practice, and provide an effective Commonwealth/State interface; and

5. Assess the scope to supplement Government funding through innovative arrangements for private sector involvement in the provision and maintenance of roads infrastructure and the scope for pricing of road services to reflect full resource costs.

In undertaking this review the Committee is to take into account the National Commission of Audit principles of clarifying the roles and responsibilities of Governments with the overriding objective of improving the outcome to clients and achieving value for money for the taxpayer.

WITNESSES

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Inquiry into federal road funding

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Thursday, 26 June 1997

Present

Mr Vaile (Chair)

Mr Ross Cameron	Mr Peter Morris
Mrs Crosio	Mr Randall
Mr Hardgrave	Mr Wakelin
Mr Lindsay	Mr Willis
Mr McArthur	

The committee met at 8.58 a.m.

Mr Vaile took the chair.

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform in its inquiry into federal road funding. The Canberra hearings, which conclude tomorrow, will complete the committee's 14-day program of hearings and inspections covering all states and territories. The hearing today will allow the committee to hear evidence from a number of central Commonwealth government agencies including: the Department of Finance, Treasury, national peak bodies including the Australian Local Government Association and the National Farmers Federation, which will provide a national perspective to the consideration of the terms of reference and add to the state and territory based evidence already presented to the committee.

The committee is investigating the underlying principles for funding Australia's national road system. I should emphasise at this point that in addressing the terms of reference the inquiry should not be seen as a forum for advocating the funding of specific road projects.

On behalf of the committee I welcome everyone appearing before the committee today. Before proceeding, I wish to advise all witnesses that although the committee does not require evidence to be given under oath committee hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. However, the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament.

FISHER, Mr Roger Eric, Branch Head, Transport and Communications Branch, Department of Finance, Newlands Street, Parkes, Australian Capital Territory

JOHNSTON, Mr Bert Martin, Director, Infrastructure and Projects Section, Department of Finance, Newlands Street, Parkes, Australian Capital Territory

CHAIR—I welcome representatives from the Department of Finance this morning. We have received your submission. Mr Fisher, would you like to make a brief opening statement?

Mr Fisher—If I may. Firstly, I would say that we are very happy to appear before the committee and welcome the opportunity to discuss with you views about Commonwealth funding of roads. We do not appear as road or transport experts but cannot help but bring to the roads program some observations about Commonwealth involvement in roads and the nature of the program by virtue of where we sit in the Commonwealth administration.

From our perspective, there are a number of issues or principles that could usefully be addressed. They include the need for a clear definition of responsibilities for road funding between different jurisdictions—Commonwealth, state and local government. Our view at present is that the responsibility is different. Tiers of government are not always as clear as they might be, which perhaps reduces the level of transparency and accountability that the taxpayer might reasonably expect different levels of government to hold for the quality of roads.

We believe there is scope for consolidation of programs at the Commonwealth level to minimise duplication and to minimise scope for cost shifting between different levels of government. We believe there is also scope for consolidation of land transport programs at the Commonwealth level. We had in mind the need for a better integration of road funding and Commonwealth involvement in rail funding.

We believe that, following the National Commission of Audit, there is scope for a better articulation of criteria for investment decisions in roads. We would advocate economically based assessment of projects on a project by project basis.

We believe there is scope for improvements in the quality of the Commonwealth program. We note ANAO's audit several years ago which identified the need for better performance measures, better statement of Commonwealth objectives. And we note comments by ANAO, Business Council of Australia, AustRoads and others on the quality of data on the Australian road system.

We would also be happy to explore with the committee scope for a greater involvement of the private sector in funding roads. Perhaps the best thing for me to do is to leave the opening statement there and say that we would be very happy to take any questions or expand on any of those comments or discuss any other issues with the committee.

CHAIR—Thank you very much, Mr Fisher. In your submission it notes:

. . . the possible alternatives or variations to the current annual funding appropriation approach, including the allocation of maintenance on a guaranteed three-year basis, similar to the approach in place with the funding of the ABC.

Would you like to elaborate on the ABC funding example and how it may be applied to road maintenance funding? Would this be a three-year rolling program? Could that also be applicable to funding as far as construction is concerned?

Mr Fisher—We can appreciate the strength of feeling and the importance that state bodies and constructors place on certainty. The roads program is a very large capital program with long lead times. I can understand the comments that people sometimes make to us that it is difficult to plan the construction and maintenance of a national asset if people are bound by annual appropriations. I think that is a fair comment.

At the same time, sitting where we sit in the Department of Finance, we can see a tension between those legitimate concerns and the understandable desire of government to keep flexibility in its fiscal management and its budget setting, and the government needs to make trade-offs from year to year.

We tried to think about ways of accommodating both needs and the kind of triennial funding arrangements that we have with the ABC seemed to us to be a reasonable accommodation where government will sit down and think three years out what the appropriate level of funding might be and then commit to that funding for that period. There is no legal contract and there is not a multi-year appropriation but there is a compact or understanding between the executive government and the agency about the level of funding that can be reasonably expected over a three-year period.

I have to say we thought that it was probably more valuable in relation to the maintenance component of the budget and we are driven in part by a desire to see the road network maintained in a reasonable quality. It is not in our interest to see the significant capital investment we have made in roads over the last 20 years run down and it is reasonable to expect that to be maintained.

We do not see the same imperative in relation to construction of new parts of the NHS. We thought it reasonable for the executive government to retain some flexibility from year to year over which programs might be extended or enhanced and for the government to talk with the states about which bits of the network might be constructed. That does not preclude multi-year approaches and the approach that the Commonwealth and states have taken with the Pacific Highway is an example. There is there an agreement between levels of government about 10-year funding levels and I think that provides a reasonable approach. It does not necessarily lock the executive government in forever, for the entire program, but it does provide a reasonable degree of certainty about the commitment to that project.

CHAIR—I know we are talking about a three-year program when comparing with the triennial funding of the ABC. The way the budget and the forward estimates are structured now I suppose it would not make much difference if you were talking about a four-year program either if that was the way it was structured, particularly with regard to maintenance.

Mr Fisher—There is no magic number on three years.

CHAIR—With regard to the economic analysis of needs and the current mechanisms that are being used to establish the cost-benefit ratios, is Finance satisfied with that analysis? Is there a better way to do it? Is there an alternate way to do it, or a parallel way to check to see if that is accurate?

Mr Fisher—That is a fair question. We are not really in a position to say the current arrangements for producing those economic evaluations are bombproof. We are not close enough to the process and we would not audit them. We get numbers delivered to us and we ask questions and we read other peoples' comments that the economic evaluations are not necessarily produced on a consistent basis. Different assumptions might be made. We know the Department of Transport spends a lot of time questioning the states about the way in which the numbers are being produced. We can see benefits in a much more consistent approach to preparing the economic evaluations perhaps with some more standard methodologies.

Mr ROSS CAMERON—On that point, we had a case yesterday where representatives from, I think, the department of transport were giving evidence on duplication in relation to the Lake George upgrade. The RTA was putting a proposal up to the Commonwealth on the basis that the Commonwealth was going to be funding the project. They put up a proposal for duplication which will cost, as I recall, $220 million. Then, when they got some kind of independent review of the New South Wales proposal, they found that they could duplicate the same stretch of road for $130 million.

We are not talking about a marginal difference here, we are talking about virtually doubling the project cost. We are talking about $80 million to $90 million on one stretch of road. The rationale provided by the officer from the department was that, when the Commonwealth agrees to build a stretch of road, the states will put in a Rolls Royce version. I have got to tell you that I found that the most compelling argument since the committee began for getting the Commonwealth out of road funding.

Mr Fisher—That is a good illustration. You have put your finger on what we see as one of the fundamental issues about Commonwealth road funding, and that is the scope for cost shifting. Where you have different levels of government involved in funding a single project, there is scope for confusion and a lack of transparency and accountability. It is clear, in this particular instance, that we are seeing an example of that.

Mr ROSS CAMERON—I do not think that there was any confusion. I think it was a very calculated and deliberate strategy.

Mr Fisher—I guess behind your question was the statement that that is a compelling argument for the Commonwealth not being involved in road funding. I would be interested in teasing that out a bit with you.

Mr ROSS CAMERON—Let me put this to you: if we are talking about accountability, you have got a situation where one level of government is signing the cheques and another level of government is actually administering the contracts. When we ask you, 'How much accountability do you think there is?', you say, 'We are not close enough to the process to make a really good judgment; we get the figures delivered to us.'

My feeling is that a similar thing has almost certainly taken place here between the Department of Transport and Regional Development and the state road agencies, because there is no way they can be out there on the site assessing the quotes between different engineering solutions to a curve in a road, a culvert or a bridge. As long as they know that we are going to cough up in the end, you get this chasm of accountability because we simply cannot have the level of involvement in the day-to-day engineering decisions to be able to provide it.

Mr Fisher—We would agree. I am interested in exploring whether that means that the Commonwealth just closes the door and does not fund roads any more, which clearly leaves a bit of a shortfall in investment, or whether you are hinting that there is scope for redesigning the way in which the Commonwealth is involved so that we avoid the mixed—

Mr ROSS CAMERON—It would certainly seem to be an argument to say that you ought to at least have a principle of matching funding. Where you create a category of roads which are 100 per cent financed by the Commonwealth, you create a massive opportunity for abuse.

Mr Fisher—There is a lot of merit in that kind of option. There are some others, which I am sure the committee is exploring in any event; for example, the National Commission of Audit's suggestion about creating a pool of funds that states might bid for, or a pool of funds and allowing the states to then set priorities within the pool. That would avoid the incentives that currently exist for the states to ratchet up or Rolls Royce, because they will have an incentive to deliver the best roads they can with the available money.

CHAIR—But the alternative disciplines to address that problem would be, for example, the processes that are being used in the first major contract on the Pacific Highway, where it was put out to a selective tendering process—and I think there were about six tenderers. The contract was a design, construct and 10 years of maintenance one and, from RTA projections, there has been something like a $60 million reduction in the contract price by imposing that discipline. Where the Commonwealth and the state were involved, there was a lot of Commonwealth money, but by using those disciplines and going through that transparent process it saved money—and obviously the Department of Finance would be aware of that process.

I am interested in what you were saying about having a vote of the Commonwealth for road funding in a trust account and then letting the states bid for different projects on which they wanted dollar-for-dollar funding. Is that what you are suggesting, Mr Fisher?

Mr Fisher—Yes, along those lines. I did not have in mind a trust account, but I had in mind a pool of funds that could be—

CHAIR—But a pool that is allocated to road funding?

Mr Fisher—Yes, or, alternatively, to land transport funding to take into account the road versus rail trade-off, with some clear Commonwealth criteria about where their objectives might be or what the Commonwealth is trying to achieve, and then to invite states to bid against those criteria and against that amount of money. We are keen to see the Commonwealth become a little clearer about what it is trying to achieve through its road funding.

We are currently transferring a lot of money to the states and, from a Department of Finance perspective, we can see a continuing justification for the Commonwealth to be involved in road funding because there are some national benefits on roads that will not always be captured within a state. If the Commonwealth has national objectives, it needs to spell out what it is trying to achieve, what its strategic aims might be and then to allow the states to bid against those.

Mr HARDGRAVE—Mr Fisher made a comment about economically based assessments, project by project. Mr Fisher, what sort of criteria are you applying in those assessments?

Mr Fisher—What I had in mind was cost-benefit type analysis where the full social and economic costs and benefits are taken into account for a particular project.

Mr HARDGRAVE—I am glad you said that, because my next question looks at some of the social benefits of road construction. What sort of work have you done on, say, the multiplier effect, local communities, improvements to roads—having a better road for the local community, plus the injection of dollars into that local community through the construction stage?

Mr Fisher—You have taken me very quickly right out of my bailiwick.

Mr HARDGRAVE—I have been known to do that before.

Mr Fisher—Maybe I should explain that Finance does not really get involved and cannot get involved in independently constructing cost-benefit analyses for particular road projects. Our involvement is at a much more aggregate level and looking at overall road funding against other budget priorities. We do not have the expertise or the mandate to second-guess at that level of detail what other jurisdictions might be doing or what the department of transport might be doing.

Mr HARDGRAVE—When you said before that you had used economically based assessments project by project, that is just simply a theoretical idea—nothing that you actually apply yourselves?

Mr Fisher—We would say that funding for roads might be based on economically based assessments, not that the Department of Finance separately sits down and does its own economic assessments.

Mr HARDGRAVE—Have you done any work on the cost of maintaining old roads versus the construction of new roads? Have you seen any figures about that?

Mr Fisher—We have not done independent work. We are relying pretty much on secondary material—work that bodies like Transport or BTCE or BCA might produce.

Mr HARDGRAVE—Are you satisfied that roads are actually being constructed with Commonwealth funds? Are you satisfied with the accountability mechanisms currently in place, because we have had evidence here that suggested that a few good swimming pools are being built in local communities around the country instead of roads being constructed? What do you think about that possibility?

Mr Fisher—It is a bit hard to react to the question because I am not quite sure who said it and when and out of what money. The Commonwealth provides states and local governments with funds for specific purpose road funding. There is clear accountability and clear requirements that roads can be built. The

Commonwealth also provides untied funds, some of which are earmarked for roads but some of which are not earmarked for roads in any contractual sense between the Commonwealth and the states. So it is possible that the states are building swimming pools but whether they are using Commonwealth roads money I really cannot comment on.

On your broader question, whether we are satisfied with levels of accountability for the Commonwealth roads program, I guess we cannot help but notice the kinds of comments that ANAO made in their audit of the roads program. We have said in our submission that we think accountability and transparency would be improved if we had better quality performance indicators and if there was better data available that would help us—the Commonwealth—assure the taxpayer that the money is being spent well.

Mr HARDGRAVE—My line of questioning is making me feel a bit like Mark Taylor; I will have one more swing at this. You raised the concept of private sector funding. What are the advantages of private sector funding versus public sector funding?

Mr Fisher—If I could answer the question in terms of whether there are advantages or benefits in private sector funding, we can see lots of benefits in having the private sector involved in partnership in constructing infrastructure. The private sector can sometimes build things faster and can sometimes build things more cheaply than the Commonwealth has been able to demonstrate.

Mr PETER MORRIS—The private sector builds all of it; the Commonwealth does not build anything.

Mr Fisher—No. That is right. The private sector can sometimes finance projects faster than the Commonwealth might have the funds available, as well.

Mrs CROSIO—Perhaps we should bring in the toll system again.

Mr Fisher—We would not discount that; we would like it explored as an option. We are mindful that there is a lot of pent-up demand for roads around the country and we can see the economic benefits in better quality roads. We would want to stay open-minded about ways of meeting that demand in an efficient way and sometimes there might be an argument for a toll road if that provides an upgraded road faster and if people are happy to meet the demand. That does not mean that all roads should be toll roads. There can be some real downsides, but we would like to explore the possibility of some parts of the NHS having some form of direct charging arrangement: it could be tolls; it could be shadow tolls; or it could be other arrangements.

Mr HARDGRAVE—There is an implied criticism of the Commonwealth's process in what you are saying in that, if the private sector can respond, I think you said, 'more quickly and more efficiently' to demands for funding of roads than the bureaucracy, what is wrong with the bureaucracy's response times? Why is it so slow?

Mr Fisher—I tried to answer the question not in terms of whether the private sector is better than the public sector. The Commonwealth has budget constraints and it has competing priorities. It has a lot of demands on available funds. If somebody in the private sector has funds available and can see benefits in investing in a project, I think it is probably sensible to have a look at that and see whether the national infrastructure can be improved.

A clear example might be like mining roads in Queensland. If the Commonwealth has a look at the NHS and the priorities on enhancements to the NHS, it is possible that a stretch of road in Queensland might not be the next cab off the rank, but if there is a private sector financier who can see benefits in upgrading that road and if you can satisfy yourself that the risk is being properly measured and the benefits are being captured, then why would you not sit down and talk to them about whether they want to make the investment and whether the overall road system is better as a consequence?

Mr HARDGRAVE—Is that happening much now?

Mr Fisher—At the moment, as I understand—

Mrs CROSIO—Why would it? You have not got any return on your investment: why would it?

Mr Fisher—Whose investment?

Mrs CROSIO—You were saying if it was a private structure. I was just thinking of that particular case you were giving then to say why they should not get involved in roads if they see that it should be done quicker. Where are they going to get their return for their investment? And what private investor goes out there without a return, both in the short term and the long term?

Mr Fisher—They might see a return on their investment through quicker carriage of their materials to the ports, for example, if they can run it down a bituminised road. They might also capture some benefits in terms of tolls or shadow tolls on the part of the road that they constructed with their money. I guess we would want to explore opportunities for that. In terms of your question as to whether that is happening at the moment on the NHS, no, it is not. But because it has not been done in the past does not, in our mind, mean that we should not be thinking about it. My understanding is that Transport is working up some principles that might give some guidance as to when private sector financing might be appropriate and I think that would be helpful.

Mr RANDALL—Yesterday Mr Willis suggested—and I do not remember who to—that the funding program might be better over four years, because of the forward estimates situation, rather than the three years that you are talking about. You might want to comment on that. The other matter is that my state—Western Australia—puts on a levy of 4c a litre and we are looking at another 3c to bring forward some of these projects. Do you have any comments on the states getting involved in helping in the financing by bringing it forward, and how does that overlap with the Commonwealth's role?

Mr Fisher—On the forward estimates, I think it would be sensible to talk about how much certainty is required to ensure that the assets are maintained appropriately. Whether it is three or four is something that could be sorted through; it might be two. They are questions that need to be talked through. There might be some confusion about three or four, in that the forward estimates run for three years but the normal approach is to have a budget year plus three forward years. So when we talk about the three forward years we are talking about the three years after the budget year. That might be where the questioning about three versus four has come from.

Mr RANDALL—The 4c to 7c a litre and the states?

Mr Fisher—The question in our mind is whether the states, the Commonwealth and local government have clearly worked out between them who does what in terms of roads and who is responsible for which bit of road. The concern from our point of view is that the taxpayer might have an expectation that a piece of road is maintained in a good condition or is upgraded to reflect increased traffic flows. They may not know where to turn: 'Is this a road that the Commonwealth is responsible for, or should I talk to my state member or to the local council?' As a consequence, different levels of government are responding in different ways to the demand.

The question in our mind is that when the different tiers of government respond, are they responding in a consistent way and in a way that gives you the best way of achieving an overall strategic and integrated road network? I can understand why the state government might want to bring forward some road construction. The question in my mind is whether we are getting the best overall network.

Mr RANDALL—Queensland, I believe, is a state that will not involve itself in adding anything to the petrol price to do this. That raises the question: is the Commonwealth funding anywhere near adequate when the other states of Australia have to get involved. That is probably a pretty wide-ranging opinion I am asking you for.

Mr Fisher—It is a fair question and a hard one—

Mrs CROSIO—How long is a piece of string?

Mr Fisher—That is right; but it is one that we have to ask ourselves every year. I am not sure that I can give you an answer that the overall level of funding the Commonwealth puts in should be X versus Y, because each year the government is going to make judgments about its level of involvement against all the demands on it—not only for transport expenditure but for social welfare expenditure, education expenditure and so on, and priorities might change from year to year. We are guided in looking at the level of funding—not just by the Commonwealth but also by the states and local government—that is actually being invested in roads overall.

The other issue in our mind is what people's expert assessments are on the adequacy of the infrastructure. From our reading, we get the impression that in the road system as a whole there is probably underinvestment in some of the urban arterials and possibly overinvestment, overall, in rural highways. The question in our mind is how to ensure that the limited money available is invested in the areas that are going to give you the best returns. It is a good question that you ask about the overall level of funding. There is also a question to be asked about how you allocate that overall level of funding.

CHAIR—Just before we go to Mrs Crosio, there is a pertinent point I want to raise. The Victorian government and other witnesses at our hearings in Victoria continually repeat that they are badly done by, in that they contribute something like 27 per cent of the fuel excise from road users in this nation, yet they only receive 17 or 18 per cent of the national road funding dollars back. Are you aware of this claim? Would you like to comment on that? Or would you like to take it on notice and get some information back to us? I would like a comment from Finance about that.

Mr Fisher—It is a fair comment. If it is okay, I would be happy to respond to it now. I do not have the numbers off the top of my head, but I am familiar with the general complaint that might be made by different states at different times about whether they are getting their fair share. State shares go up and down. Victorians got a lot more money when they were constructing the very high quality Hume Highway, between Melbourne and Wodonga. They have had injections of money to do different projects. We would suggest that the allocation of funds is not best made on a state share basis. You get a better overall result for the country as a whole if you make your investment on needs and economic benefit. Our concern is that, if you continued to put money into a particular state, you would keep getting roads built, but they might not be the next highest priority roads.

Mrs CROSIO—I would like to come at it from a different aspect from that of one or two of my colleagues. As one who firmly believes that the development of a nation has got to be through the infrastructure and that the government should be responsible for the infrastructure, perhaps I am taking on a little of what you were saying as far as finance is concerned. You really believe that some of our national highway systems now should be advocating more and more toll structures: is that basically what you are saying?

Mr Fisher—I think you are putting a proposition that is in advance of where I am at the moment and certainly in advance of what I was trying to imply. I was trying to express a view that we should be open-minded about the source of funding and that the objectives should be, as you say, to get the best quality national infrastructure. If we can do that by accessing some private funding then we would be open-minded about that. The objective here is to get good quality infrastructure.

It might be that to have a new road built or a new section of road built in a way that does it quickly and gets people driving up and down it earlier rather than later and with fewer accidents and less congestion time, then maybe that can be achieved through private sector funding and it might be achieved through tolls. We are not advocating that you make the NHS a toll road but we are saying there might be sections of the NHS that could be funded through tolls.

An example I had in mind, which I know was thought through, is the Lake George road. Could we have had the Lake George road constructed earlier if it had been tolled? If we could have, some lives might have been saved and some travelling time might have been saved and that might not have been a bad thing. I am suggesting that we would want to look for opportunities of attracting private sector financing where that is sensible.

Mrs CROSIO—We could have said, as far as Lake George is concerned, that if priorities had been allocated in a different fashion, the same result would have occurred. In other words, it could have been done a lot quicker.

Mr Fisher—Yes, but some other road would not have been built, if you have a fixed budget.

Mrs CROSIO—In your submission to us and in what you have been saying here this morning, you are saying that not only is the Commonwealth's role yet to be defined, but basically the whole aspect of Commonwealth involvement has to be changed in the future. Is that correct?

Mr Fisher—In the Department of Finance all we can do is make observations and suggestions and governments are going to have to consider the nature of Commonwealth involvement. We can reflect on the past 25 years of Commonwealth involvement and see it has been very successful in building a very high quality NHS. The question in our mind is whether it is sensible to continue to administer a Commonwealth program in exactly the same way for the next 25 years.

[10.05 a.m.]

BORTHWICK, Mr David, Deputy Secretary, Department of the Treasury, Parkes Place, Parkes, Australian Capital Territory

HOOD, Mr Chris, Assistant Secretary, Business Taxation Provisions Branch, Department of the Treasury, Parkes Place, Parkes, Australian Capital Territory

LIVERMORE, Mr James, Assistant Secretary, Infrastructure Policy Branch, Department of the Treasury, Parkes Place, Parkes, Australian Capital Territory

CHAIR—Welcome. Mr Borthwick, would you like to make a brief opening statement?

Mr Borthwick—As I indicated during our meeting with the committee in October, we do not have specific expertise on road funding issues. We have, nevertheless, had an opportunity to glance at some of the arguments that have been put to the committee so far. Some points caught my eye.

Firstly, there is a belief, certainly on the part of the states, that the Commonwealth should take a more strategic view of road funding. That sounds fine as far as it goes. We need a national approach and it needs to be linked with the regional, local approaches. The states and the Commonwealth certainly need to cooperate closely. However, many who were of that view seemed to equate a strategic perspective with what would amount to a massive expansion of the NHS and the Commonwealth's involvement in road funding well beyond currently identified funding responsibilities. Let me just say that many of the proposals put to the committee strike me as very challenging fiscally.

Secondly, related to the previous point, there is a widespread sentiment that there be some movement away from the current delineation of responsibilities between the Commonwealth and states for road funding. As I indicated to the committee in October, this is an area in which judgments may well differ, and legitimately so. We remain of the view, however, that there does need to be a clear delineation of responsibilities.

Further, we doubt that it is fruitful to suggest changes in responsibilities which, by implication, lead to markedly increased funding requirements by the Commonwealth. At the same time, as I mentioned before, we recognise that there does need to be a cooperative approach between governments; for example, in terms of where the NHS links in with the urban network.

Thirdly, the recognition of funding pressures on governments has led some to suggest that there should be more effective hypothecation, say, of petrol excise revenue to road funding. In an environment where it is very difficult to raise taxes or impose new taxes, hypothecation possibilities should be kept open. However, we are wary as a general proposition of quarantining particular areas of government taxing to spending in this way.

Without wanting to overstate the point, the more streams of revenue tied to specific expenditures, the greater the pressure to adjust on remaining areas to meet fiscal objectives. This so-called fiscal lock-in problem and hypothecation that is raised in this context as one form of that is a very real problem for governments confronted with fiscal adjustment problems.

Further, I would be surprised if spending requirements—and this might be a more important point—on roads aligned in any meaningful way with, say, hypothecated revenue collections; that is to say, we do not think that it should be levels of revenue which are collected which should necessarily drive the spending on roads. The spending decisions might be more or they might be less than the revenue collected.

Fourthly, the committee has asked for our views on rolling programs versus annual funding for roads. There is force in the argument for greater certainty. However, I am not sure that, providing there is sensible management, this point is as important as it is sometimes made out to be. There should be mechanisms for handling large parcels of projects under the NHS for giving surety to contractors. There should be potential to sequence major projects to give surety to contractors.

In this context, for example, it is my understanding that, although NHS funding was reduced in the 1996-97 budget, this was done without prejudicing maintenance projects under way or the commencement of new high priority projects. If there are instances where there has been a deleterious effect, I suspect this is more likely to reflect poor planning at the project level rather than changes in the level of funding arising from the Commonwealth's budget decisions.

Mr Chairman, they are some general introductory remarks. We want to be helpful to the committee but, as I said, we are by no means experts on specific road funding issues.

CHAIR—Thank you, Mr Borthwick. We certainly appreciate the point that you make with regard to the responsible departments as far as that is concerned. The emphasis that this committee has put on getting some evidence from Treasury from my point of view particularly revolves around the issue of hypothecation, because it is a revenue measure. There is a very widespread expectation within the community of road users that what they pay in fuel excise should be directed to roads. I accept that you have made a point on that issue. Under the current arrangements, you indicate that it would be very difficult for an element of hypothecation. Is there enough flexibility within the system for the Commonwealth to say, 'We won't hypothecate all of the money, but what if there were a percentage of fuel excise that was collected from road users to be hypothecated on road expenditure?'

Mr Borthwick—I will make a couple of observations. There is currently a hypothecation arrangement but, to be frank, it is an ineffective arrangement because it is an after the event arrangement.

CHAIR—Are you talking about the element of the ALTD?

Mr Borthwick—Yes; it is an after the event arrangement. The excise that we collect on petrol is, in effect, a general revenue measure. It vastly exceeds the amount of money that the Commonwealth wants to fund on roads. It goes to the Commonwealth's coffers and part of it gets passed back to the states through general revenue grants. The difficulty we would have—and this is something that your committee or others more closely connected with road funding might look at—is how you relate a level of excise collection or another tax to road funding requirements. As I said, it would be very unusual if those two things lined up over time.

Having said that, we do not want to rule out hypothecation possibilities. But we would rather do that in consideration of new taxes rather than in consideration of the existing taxes, because the existing taxes are fully spent in other areas. It would really be a question of considering differing tax regimes, and the government's policy is not to consider new or additional taxes during this current term.

CHAIR—I want to go to the point that you raised with regard to the discipline that may surround the selection of projects and the level of spending. I think you were alluding to the fact that if, say, 75 per cent of excise collected were hypothecated directly to roads, different agencies would find the projects to spend the money on, rather than having the discipline of establishing the projects on a needs basis. Is that the point that you are trying to get across—that, if we had full hypothecation, it would probably create a lazy, fat system?

Mr Borthwick—That is exactly the point, Mr Chairman. We think there would be dangers that you would have to safeguard in terms of gold plating of roads. If you allocated that money, it would certainly be spent. We would rather see rigorous cost benefit analyses done and for the spending priorities to be determined in their own right, both in respect to road funding, with respect to other capital infrastructure projects and with respect to outlays programs in general.

CHAIR—Would that then be an important argument to substantiate a more strategic planning role for the Commonwealth so that there was a substantiated future plan for road construction?

Mr Borthwick—We do not have any difficulty with the Commonwealth either going it alone in terms of doing cost-benefit analyses in terms of the roads it constructs or, in partnerships with the states, trying to assess what priorities there are. That strikes us as a sensible way of doing it.

Mr PETER MORRIS—Let us put it a bit bluntly, Mr Borthwick: are you not really being a bit fanciful? To put to the committee a suggestion that if you hypothecate you do not know how much money you are going to get in and you have this terrible task of having all this money coming which is dependent upon the quantity of fuel sold and then there is the problem of how we are going to spend it. That is really over the top.

Mr Borthwick—No, it is not. What I suggested was that the current arrangements really are fairly ineffective in terms of hypothecation.

Mr PETER MORRIS—Yes, they are. They are a pretend. They are after the events.

Mr Borthwick—There is a possibility, at some stage, for governments to consider additional revenue bases which they might want to link to roads. You can think of a range of possibilities. We might have a special road project and you might want a special revenue measure to be imposed for the life of that road project. Then that would be tied specifically. We would certainly be prepared to think of possibilities in that regard.

But if, for example, you were going to impose—this is just an example; it might not be the best way of doing it at all—an extra 2c a litre on excise or an extra 5c a litre on excise and you said that for evermore that money was going to go additionally to roads over and above current funding levels, then we would question whether that was a sensible way to go, because the decision on road funding at any point in time might be quite independent of the revenue that you collected from that base. That is the only point I am trying to make.

Mr PETER MORRIS—I am saying: is that not absolutely fanciful? That has never happened; it is not likely to happen: it is an example of just fantasy. Where there was hypothecation in the past was the bicentennial roads act. It was for an extra 2c for a set period. No government is likely to hypothecate an amount of revenue for evermore for any kind of expenditure.

Mr Borthwick—That is an example of where I said we would be prepared to contemplate.

Mr PETER MORRIS—But there has been hypothecation in the past. Is it not also the reality, is it not also the actual history in this area that, where there has been hypothecation, as there was in the Australian Bicentennial Roads Act, prior to reaching agreement on it, there was a long period of negotiation and discussion between Treasury and Finance and the Department of Transport to establish what was a reasonable level of expenditure over the ensuing two to five years, and the level of hypothecation was based around that? So it was a very tight screening and prioritising program before you got to a figure. There has never been a suggestion that you hypothecate an amount of money for evermore.

Mr Borthwick—There have been lots of suggestions before the committee to that effect.

Mr PETER MORRIS—Yes. But there is hard, practical evidence of what has happened in the past and there has never been anything like you have been relating to us. There is evidence along the lines I have indicated to you. Is that true, or is that not true?

Mr Borthwick—What happened previously?

Mr PETER MORRIS—Yes.

Mr Borthwick—It is true.

Mr PETER MORRIS—And there was a privatisation process?

Mr Borthwick—What I am saying is that with specific projects tied to specific revenue objectives it is perfectly legitimate to consider those sorts of projects. I made it very clear in my remarks that we do not want to turn a blind eye to hypothecation possibilities, full stop. What I went on to say was that if you stretch that, as some have suggested before the committee, to have a general revenue source and to say that the funds collected from that revenue source for ever more should be allocated to roads, I do not think that is a realistic possibility. I accept that that is not what you are suggesting. My remarks were couched against the fact that a number of people before the committee have suggested the more general linkage.

Mr LINDSAY—Mr Borthwick, as part of your evidence you indicated that the three- to five-year funding approach would tend to limit the Commonwealth's flexibility to react to changing budgetary circumstances. Do you have any feeling, looking ahead, as to what increase in funds might be available for road funding? I know that that is a pretty open-ended question and that it depends on a whole lot of other possibilities. But with the way the current government is going in repairing the budget deficit, does Treasury have a view as to what the possibilities might be in the next five years?

Mr Borthwick—That is very much a matter for governments to determine priorities, and these decisions are best made in a budget context when you can weigh one priority against another. That is the difficulty that this committee is confronting: it is looking at road funding issues without having to make those choices. A lot of the witnesses that appeared before you—the department of transport, the states—are all in for additional funding for roads. They are not having to make the trade-offs that the government have to make. My own judgment is that it would be extremely difficult for any government to give substantial additional funding to road programs in the current environment and meet its fiscal objectives.

Mr LINDSAY—Does what you are suggesting hold for the next five years?

Mr Borthwick—Yes it would. But, as I say, it is a matter for governments.

Mr LINDSAY—I understand that.

Mr Borthwick—That is why I said that a lot of the proposals that have been put to the committee would be very 'fiscally challenging'.

Mr McDOUGALL—Mr Borthwick, I remember our last discussion when you were here and a lot has gone under the bridge since we had that discussion. I particularly take note of your comments—

Mr Borthwick—I hope we have had a few more bridges built!

Mr McDOUGALL—We have got evidence that we could build a few more.

Mr Borthwick—I am sure.

Mr McDOUGALL—I have a problem in relation to this strategic planning issue. As we have gone around the states we have found that some states have got some strategic plans, others have not, others are trying to put them in place. But they tend to come back and say, 'It is all about engineering and it is all about what we would love to have, if—' I think some of these strategic plans that some of the states have got might be about 25 years old, and they pull them out whenever they get the opportunity and hope to hell they can get more roads. At the same time it tends to be weighted, in the majority of cases, towards building new roads.

I would like to ask you a question which is split in two—one about construction of new roads and the other about the maintenance of our existing infrastructure. I would like to get your comments about the problem that I see, that we are about building roads or maintaining roads for roads sake, rather than building infrastructure based on an economic strategic plan objective. Nowhere in the whole inquiry that we have been involved in so far can I find any evidence that talks about anyone having a handle on where this economic strategic activity is going, either at a state level or a Commonwealth level. I would like to have your comments about it, at least from a Commonwealth perspective.

Mr Borthwick—I will make a couple of general comments. I am not sure I can answer your specific comment, because I just do not know what arrangements the states have in place; we just do not look at those matters. But, as a general proposition, we would have thought that all levels of government should apply a cost-benefit approach to road funding and that roads should be built and maintained according to the ranking that comes out of that cost-benefit program. It could well be that it gets to a stage where the additional dollars spent on the national highway system do not generate a worthwhile return relative to other projects, so that is why I personally have got an open mind in terms of where you draw the line in terms of responsibilities.

I do not think I am going to be very helpful to you, because I just think that whatever the strategic approach is—and there should be cooperation between Commonwealth and states and it should be a national approach to where road funding goes rather than split up between the states—as long as you apply that cost-benefit framework and you do it properly, then that should dictate your strategy. Your strategy should flow out of that approach.

I think the emphasis is getting the signals right and maybe putting in place mechanisms for the Commonwealth and the state governments to talk about these so that there are common understandings. I think that would be a good head start, but that is just getting the framework right in which governments can then take decisions.

Mr McDOUGALL—The Commonwealth has worked for a long time on the principle of the national highway system with this new innovation of the RONIs or the roads of national importance: should the Commonwealth be working on a strategic issue of roads of national economic importance rather than just a singular road system that may or may not in some parts work and be viable in relation to return to the economy? Should we change our focus at a federal level to roads of national economic importance rather than a single roads system?

Mr Borthwick—I think there needs to be a national perspective in it, but I could well imagine that the Commonwealth has a role in terms of meeting with states and state ministers responsible to try and get them to agree on a national perspective.

If it got to a stage where there were higher benefits from spending money elsewhere than on the national highway system then I think the Commonwealth should contemplate them, subject to the proviso that there could be the development of criteria which really establish national interest objectives rather than local considerations.

I have got an open mind on that. I certainly would not be advocating that we keep on spending money on the national highway system if it were adjudged that there were national interest objectives which would generate a higher return from spending elsewhere.

Mr McDOUGALL—You made comment in your submission in regard to the replacement of the infrastructure bonds with the tax rebate scheme: could you make some comments to the committee as to why you feel the tax rebate scheme will work better than the infrastructure bonds, and will it work to achieve the objective, which is to get private sector funding into major infrastructure?

Mr Borthwick—They are quite substantially different schemes. The infrastructure bonds scheme had a lot more leveraging but it was going to cost the taxpayers potentially billions of dollars, so it just was not sustainable. The rebate scheme is very much a limited scheme; it is capped at $75 million, so it is not going to achieve as much for that reason. Maybe I could leave my colleague Mr Hood to outline the features of the new arrangements.

Mr Hood—The major difficulty with the previous scheme was not a series of considerations about the merits or otherwise of the projects which were able to get access to it; the major problem was the direction of the cost to the revenue and the fact that that cost to the revenue was increasingly going elsewhere than into directly reducing the financing costs of the infrastructure project. In other words, the benefits were being captured away from the infrastructure projects. That was the major issue.

Yes, there was a major issue with an overall blow-out. Let’s face it: when you have over $20 billion worth of potential expenditure in pending applications for a scheme which, in previous years, has only approved in the order of $4 billion worth of projects, you can see that there has been a very large and sudden jump in attempted take-up.

The major consideration was not whether the former scheme had any effect on privately owned and run public infrastructure projects. The question was how far the costs were going through to the right projects. It was also a consideration that, under that scheme, there was indeed no relativity, no ranking of the economic benefits of projects, and no attempt to allocate access to the most worthy projects. Frankly, in the original design of the scheme, that was intentional. The objective was to have a relatively lower level of ongoing funding that would make the difference for a number of projects. The size of the blow-out meant that that was not going on any longer. Once the modifications to infrastructure borrowing structures began to appear, it was also apparent that the revenue costs were not going into the projects.

CHAIR—With some of the projects that were assisted with the infrastructure bonds, would Treasury view it—and it seems so to me—that some of those projects were state roads? Would we be right in assuming that there was a transfer of the burden of cost from the state to the Commonwealth by the use of those bonds—for example, where there is a private tollway constructed in a state road situation and there is a transfer of part of the cost of that to Commonwealth revenue by way of infrastructure bonds?

Mr Borthwick—That was certainly the case. I had it put to me persuasively by one of our bigger financial institutions that—if I have understood you correctly that this was a transfer from the Commonwealth to the states—according to them, if a state was putting in a toll road and all the participants could bid, having resort to infrastructure borrowings, then their bid price would be bid down to the extent of the value of that borrowing to them. In other words, there was nothing particularly in it for the private developers; the benefits went to the states in terms of a lower road price. If that is what you are suggesting, it was certainly something which was suggested to me.

CHAIR—A specific example is the M2, which has been completely privately constructed. I understand there were infrastructure bonds involved in that with the private consortium which set that up. That is possibly not a road which, in the priority of things, the Commonwealth would have been involved in. But, in a de facto way, the Commonwealth, because of the impost on revenue of that infrastructure bond, is contributing to the cost of that road.

Mr Borthwick—Very much so; and, through some of these schemes, by many times the actual value of the bond—by multiples of it. If I can add to my previous remark, I think this was passed through in parts of the states, but most of it was pocketed by high-wealth individuals who took advantage of infrastructure bonds. The cost to the revenue was not going into roads at all.

CHAIR—I take the point which Mr Hood was making in relation to the restructured arrangements, that there is also a view to the economic benefit of the project that is being assisted.

Mr Hood—In the rebate arrangement, yes, that is very much the case. I think it is worth pointing out that there is in these sorts of discussions a complicating factor which may not have been laid out to the committee as clearly as it could have been so far. You have to bear in mind that what the former infrastructure borrowing scheme treated as a precondition, and what indeed the replacement rebate scheme treats as a precondition, is that you are in fact dealing with a private project. The borderline between a private project and a state project with private involvement is a problem. But it is a border that has to be there and has to be policed.

A good deal of the discussion seems to have been about prioritisation, both at the Commonwealth level and at the state level, but to the extent that it is possible for private interests to own and operate private infrastructure, there is then a further question about the extent to which that is really under the prioritisation or control of the Commonwealth and the states.

It is quite true that in some of these cases you can see that there has been a very close consultation and concern between private interests and the state—the state has effectively nominated an area that it is prepared to allow to be built, owned and operated privately. You could expect that at least considerations of wider benefit and so on might be taken into account in that way. But it is a real issue just as to where the borderline is between a state project or a Commonwealth project and a private project.

Mr McDOUGALL—As you know, we are going into an inquiry in relation to the railway system. Obviously, the question will come up about private operation within the railway system. One of the things that bothers me is that we tend to be building roads with a priority that we want to build bigger and better roads to carry bigger and better trucks that will carry more freight on the roads. There is an alternative system in that we might be able to put a lot of that freight onto rail. Where will the Treasury be if the private infrastructure borrowings come into the rail system and there is a prioritising between rail and road as to a limited rebate scheme? Is that going to have to be revisited if that sort of action takes place?

Mr Hood—With regard to the rebate scheme, it is effectively across land transport and would potentially include rail projects. The design of the scheme is such, therefore, that any proposed road projects that sought the rebate would be compared with any rail projects seeking the—

CHAIR—So they could be competing?

Mr Hood—They would be competing against each other in that process. That does not mean the creation of a larger process for projects that, for instance, are not using the rebate—that is a separate issue.

Mr PETER MORRIS—Let us say that the rebate scheme did not exist; can you take us back to the status quo. Where commercial judgments are being made by companies to invest in infrastructure or whatever plant and equipment is related to their principal activity, there are serious depreciation arrangements, write-offs, running costs that are deductible against income, et cetera. Those taxation arrangements are common across commerce, aren't they?

Mr Hood—Yes.

Mr PETER MORRIS—If I build a factory, I could write off depreciation, and the costs of painting and maintaining the factory are fully deductible against income earned, and so on—that is common to any of those private sector activities, be it infrastructure or production equipment.

Mr Hood—Yes, if it is genuinely part of the project.

Mr PETER MORRIS—If we are now laying on top of that a special benefit confined to road and rail to the limit of $75 million per year in rebates, as the chairman was saying, we are somehow going to be trying to prioritise—reading through your responses on pages 1 and 2—which road or rail project we will give taxpayer assistance to via the rebate. They are competing with each other and we are financing one against the other.

Mr Borthwick—What is proposed in terms of the rebate is that there be a cost-benefit analysis undertaken, and that that form part of the evaluation.

Mr PETER MORRIS—Can I come back to that in a moment?

Mr Borthwick—Yes.

Mr PETER MORRIS—I listened to what you said earlier in our informal discussion—which was very helpful—but I am not quite sure if there is a substantial cost to revenue from those deductions for infrastructure borrowings. Is that correct?

Mr Borthwick—Yes.

Mr PETER MORRIS—Are there any numbers available on that to help us with the overall picture?

Mr Borthwick—Yes. There were estimates made public as to the potential costs of the current infrastructure borrowings.

Mr PETER MORRIS—Are the figures available? You do not have to give them to us now, but they would be helpful to look at them.

Mr Borthwick—Yes. There are.

Mr PETER MORRIS—What I am looking for is what has been incurred, not what may have been.

Mr Hood—There is a difficulty on that. The methods which were being used were devised to estimate the cost to revenue of infrastructure borrowing certificates under the former scheme. The methods which were being used were only progressively improved. It was only in January this year that a significantly improved methodology was agreed between the Treasury and the Development Allowance Authority and so on. That methodology has been consistently applied to those pending applications, hence those figures for out-year costs of the pending applications if they were all to go ahead. I do not think that the figures for past cost have been substantially revised in accordance with that methodology.

Mr PETER MORRIS—What I am asking specifically is what has been the cost to revenue of that program to date? This is taxation expenditure, is it not—deductions from income? What has been the cost of it? I do not want it now but it is important because the next—

Mr Borthwick—Can we take that question on notice? We will get back to you because the Development Allowance Authority will have access to that information. We do not have it at our fingertips. In terms of the costs of the previous schemes, what we were finding is that the new schemes that were coming through under that arrangement were being far more aggressive in terms of the concessions they were seeking so that whatever the costs were of the old scheme, I do not think they will bear any resemblance to the potential costs of the other 70-odd schemes that were in the pipeline, because they were becoming very tax aggressive.

Mr PETER MORRIS—Can I suggest to you, Mr Borthwick, that it is important to us in the overall scheme of things and our understanding. Bearing in mind that you said at the informal discussions that this is a backdoor method of road expenditure, if we look at total road outlays by the Commonwealth, it is in the form of these programs, taxation expenditures and the actual direct grants by the federal government to the state. Do you agree on that?

Mr Borthwick—Yes.

Mr PETER MORRIS—The next question I want to ask you is, when the decisions were being developed on what road expenditure would be available in the current year and in the coming out years, did that consideration take into account the revenue forgone and the backdoor method of financing roads?

Mr Borthwick—I am unable to comment on that. I will take that on notice because I am not sure what considerations were before the government. Your premise is certainly right that, in adding up the Commonwealth involvement in road funding, we should add up all those forms. We will try to get to the bottom of exactly how much was going to roads through the infrastructure borrowings arrangement.

Mr PETER MORRIS—Would you agree that the committee must take into account—when looking at the scale of funding—that first term of reference, our role in funding, all forms of benefit whether it is direct expenditure or revenue or tax forgone.

Mr Borthwick—You have got to be very careful. I think you need to take into account road specific forms of spending so you would pick up the infrastructure borrowing allowance. But you would not necessarily pick up tax concessions that were available to all taxpayers as a whole.

Mr Hood—For instance, I do not think you would want to try to put something in there for, say, the extension of Division 10D into structural improvements which happened from 1992.

Mr PETER MORRIS—I do not know what Division 10D is.

Mr Hood—That is the write-off for building and construction expenditure which is obviously highly relevant to roads.

Mr PETER MORRIS—You cross-tender.

Mr Borthwick—The only point we are making is that you need to have road specific spending, not forms of accelerated depreciation et cetera that are available to all taxpayers.

Mr PETER MORRIS—I am thinking of road expenditure in the budget.

CHAIR—The information that we would appreciate would be what impact the former infrastructure borrowings program had on revenue—I think that is what Mr Morris is getting at—and what, if any, consideration was taken in the overall framework of this budget and the out-years with the new rebate scheme if that were built into the thinking on roads as well.

Mr Borthwick—We will endeavour to get to the bottom of that.

CHAIR—We would appreciate that.

Mr PETER MORRIS—Mr Chairman, given Mr Borthwick's earlier announcements about flexibility at budget decision time, what should be the process in the future?

Mr Hood—In relation to the rebate you do need to bear in mind that, although for new projects it is confined to land transport projects, all pending applications under the former scheme, even if not in relation to road transport, are eligible to seek funding under the rebate and so are extensions to existing non-road projects. So you cannot count the $75 million as being for just roads.

Mr PETER MORRIS—The $75 million here is confined to road and rail projects and other related facilities.

Mr Hood—No, because it also covers the pending applications under the former scheme, which covered a wider range of infrastructure, which can also be considered for rebate and so can extensions of existing—

Mr PETER MORRIS—To the extent that you can help us in your response if you can confine that to road.

Mr Hood—It may be difficult to dissect between road and other infrastructure projects.

Mr PETER MORRIS—But you have done out-year estimates and all those things; you will find a way of doing that. You will do a best estimate on that. I am confident of that.

Mr McARTHUR—Could I seek further clarification on this whole matter. You are saying that the infrastructure bonds moved from $4 billion to $20 billion. Would you say that the tax minimisation aspect of that was of the order of the bottom of the harbour type potential?

Mr Hood—I would have to go back and cogitate to think about what I think bottom of the harbour was worth. Even then I would not be too certain of what we were potentially up for in relation to the pending projects under the former scheme.

Mr McARTHUR—It would seem the Treasurer's statement indicated that there was some tax minimisation schemes being attracted to the infrastructure bond proposition.

Mr Hood—It was certainly clear that, on fairly conservative analysis of the pending applications, the Commonwealth revenue was facing a cost over the out-years of a total of about $4.6 billion. That was a cost which, with only moderate tweaking of the assumptions, would be substantially higher. How much of that one should attribute to something as pejorative as bottom of the harbour style tax avoidance and how much one should simply allocate to benefits not going perhaps where the government would most want them is, I think, a dissection that has not really been made.

Mr McARTHUR—Thank you for that. If the policy position was that infrastructure bonds were a desirable mechanism for encouraging capital to projects such as Citylink in Melbourne because of the length of the project, the 40-year pay-back period, the length in construction and the interest factor involved, would Treasury accept that infrastructure bonds per se were a reasonable method—even if it did cost the revenue some money—of financing big road projects or big infrastructure projects, be they roads, be they the Snowy Mountains, be they standardising the national rail gauge?

Mr Hood—The considerations as to what is an appropriate method of support are ultimately political considerations for the government. But, if your question depends on the proposition that somehow large or long-term projects with therefore a similarly long pay-back period are somehow discriminated against by the tax system, I think the Treasury position on that would have to be very firmly that there is no tax system discrimination against large or long-term projects with long pay-back periods that indeed are tax advantaged.

Mr McARTHUR—Even in the case of the Very Fast Train? The argument put in relation to the Very Fast Train was that the tax system discriminated against that project proceeding.

Mr Hood—That was an unsound argument and has been thoroughly exploded by EPAC and the several separate analyses conducted in that context.

Mr Borthwick—A more general point concerning mechanisms like infrastructure bonds mechanisms: we believe that those sorts of mechanisms are unsound and are essentially beyond our capacity to draft legislation to guarantee that the benefit goes to whom the government intended it to go. By their very nature they are open to the imagination of those who are highly remunerated to think of tax lurks. It is very, very difficult to put in place an arrangement like that and—

Mr McARTHUR—You are challenging the whole concept of infrastructure bonds?

Mr Borthwick—Exactly.

Mr McARTHUR—You are saying that the City Link in Melbourne managed to be the last cab off the rank, as I understand it, using infrastructure bonds; that that project would not have proceeded had Treasury's view prevailed? It seems to be a very fine line. You just allowed that to get through. Is that right?

Mr Borthwick—I doubt that judgment very much, if that judgment has been put to you. Most of the benefit from the sorts of infrastructure bond arrangements that were being marketed—and I cannot speak about that specific project; this is a general comment—was not flowing through into road construction; it was flowing to those who took advantage of the concession.

Mr McARTHUR—The Victorian government's position was quite clearly that if infrastructure bond arrangements were not left in place, the City Link project would not have proceeded.

Mr Borthwick—That is a judgment for them to make.

Mr McARTHUR—It was a pretty important judgment that the federal government left the infrastructure bond arrangement in place for that project. I know it was closed off after the finalisation of that deal.

Mr Borthwick—The only point I am making is that infrastructure bonds, if my memory is right, were being leveraged up to seven or eight times the value of the project going to roads.

Mr Hood—Of the benefit going to roads.

CHAIR—Mr McArthur, we have to end the discussion with these witnesses. We have kept them longer than was originally intended and the discussions have been very good. I am sure that the information Mr Hood might be able to get back to us on the couple of questions that were taken on notice will also be very helpful in relation to the criticisms we have received from the Victorian government about what is spent on road funding in Victoria.

Mr PETER MORRIS—If I can ask one very short last question, does Treasury still hold to the view that, from a Commonwealth viewpoint, the Commonwealth government would be better out of roads and for all the funding to go to the general revenue grant?

Mr Borthwick—I am not sure that we have ever advocated that view. I do not recall advocating that view.

CHAIR—Thank you to the representatives from Treasury for coming along this morning. Thank you for your patience while we attended that division. There were a couple of questions that you took on notice and it would be appreciated if you could get that information back to us.

Mr Hood—What sort of timing?

CHAIR—Two to three weeks, if possible.

Mr Hood—Knowing what information is available and how difficult it would be to go much beyond that, we may be able to be quicker than that.

CHAIR—After this week we are going to go into the drafting stages of the report and that information would be extremely helpful in drafting the report.

[10.55 a.m.]

GOLIGHTLY, Ms Malisa de Lourdes, Acting Group Director, Performance Audit Business Unit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

LEWIS, Mr Michael Kenneth, Executive Director, Performance Audit, Australian National Audit Office, GPO Box 707, Canberra, Australian Capital Territory 2601

SMITH, Mr David Norman, Audit Manager, Performance Audit, Australian National Audit Office, Centenary House, National Circuit, Barton, Australian Capital Territory 2600

CHAIR—Welcome. We have received your submission. Would you like to make a short opening statement?

Ms Golightly—Thank you for the opportunity to give evidence today. The committee's inquiry, we feel, is an important one, given the significance of roads to the social and economic welfare of all Australians and the fact that the Commonwealth allocated some $1.6 billion in road funding to the states and territories in the recent budget.

As we outlined in our submission, many of the terms of reference of the inquiry address policy matters which are outside the ambit of the Auditor-General's mandate. However, we have had considerable experience in auditing a number of Commonwealth-state programs, including the administration of the national highway program, albeit this latter audit was some years ago now. Most recently, we have tabled an audit which included the national Landcare program, elements of which are jointly administered by the Commonwealth and the state.

In our submission, we noted that programs involving the Commonwealth and the states, like all government programs, require arrangements that balance the achievement of efficient outcomes with the need for public accountability for the use of taxpayers' funds. We consider that this balance can be achieved in a number of ways: by setting clear objectives which should be unambiguous and framed in such a way as to facilitate the measurement of performance; by clearly specifying and agreeing on the roles and responsibilities of each of the parties to the agreement; by implementing accountability arrangements that cover inputs, outputs and outcomes; and by implementing performance measurement, monitoring of feedback, and evaluation mechanisms that are independent and timely and ensure that the funds provider maintains oversight of the program's efficiency and effectiveness.

The officers with me today were responsible for the audit and we would be happy to answer any of the committee's questions.

CHAIR—Several submissions have suggested that the Commonwealth should reduce its administrative role in the national highway program and leave administration to the states or territories. Do you consider that this approach is consistent with efficient program implementation? Would this approach maintain sufficient program accountability?

Ms Golightly—We can answer fairly broadly on that question. Basically, the administration should be put where it is most effective. To decide that, we would normally advise that people take into account a risk management philosophy. It also depends on what the Commonwealth is responsible for. The Commonwealth would need to undertake the administrative activities it needs to do in order to fulfil its responsibilities. That is a very general answer to the question.

Mr Lewis—It is a question of balance. On the one hand, you need to have efficient programs and, on the other hand, you need to have programs that are accountable for the use of taxpayers' funds. Risk management seems to us to be the key to achieving proper program outcomes efficiently while, at the same time, ensuring proper public accountability.

CHAIR—In your earlier report, mention was made of the use of cost-benefit analysis. Do you think current BCAs are too narrowly defined? How could or should they be improved and expanded to further include externalities as far as a particular project is concerned?

Ms Golightly—I am not personally aware of the current arrangements.

Mr Lewis—In our previous report we did talk about cost-benefit analysis. We support the notion of cost-benefit analysis. We support the notion of rigorous needs assessment, and cost-benefit analysis is part of that. Our view would be that, if any externalities or community service obligations were included in such an analysis, they should be made explicit so that people could actually see what was included and what was not.

CHAIR—As an adjunct to it, or as part of the BCA process? Is there an economic way of building that in?

Ms Golightly—Certainly our view generally across any program of the benefit-cost analysis is one that is not necessarily confined to the economic view. It should certainly be based on some hard measurable figures, but a lot of government programs by their nature involve more qualitative objectives and outcomes, and they do need to be taken into account when considering the costs versus the benefits of the program. We would certainly support that sort of analysis in this case.

Mr McDOUGALL—You have probably seen that the state and territories and road agencies have called for the Commonwealth to withdraw from the detailed scrutiny of projects. Is it possible for the Commonwealth to maintain an accountability for its program while withdrawing from that detailed administration?

Ms Golightly—It is possible, but the answer to the question really comes back to what the Commonwealth's role is stated as being. If, as the current arrangements are, the Commonwealth is still approving each project and is responsible for approving funds to projects, then we believe that there is a responsibility there to be involved in the monitoring of those projects. If, however, the arrangements change in any way, you could then look at other options for whether the Commonwealth is involved in the administration of the project or not. Currently, as it stands, the Commonwealth has some responsibility for looking at each project, and we would see that it would need to have some role in monitoring each project in order to fulfil its responsibilities and accountability requirements.

Mr McDOUGALL—Are you saying that if there is a tied nature to the funding you have got that ability but that, if there is not the tied nature, you have not got the ability? Is it as simple as that?

Ms Golightly—That is usually the case, yes. There are all sorts of partnership agreements and things that can be put in place, which do not necessarily go the full way to the tied grant. There are any number of programs we can give as examples of different arrangements in place; but, certainly, on the broad level you normally have more ability to monitor tied projects than untied ones.

Mr McDOUGALL—You have been here and heard the discussion that was on with the Treasury in regard to infrastructure bonds or tax rebate schemes and the involvement of the private sector in infrastructure. If that were to grow in whatever form with the involvement of the private sector in those types of projects, would there be safeguards by which the Auditor-General could monitor the benefits that the government may be passing through—even if not in the form of a grant but in the form of a taxation benefit to the private sector? How would the audit office then have the ability to monitor the projects that have developed out of those benefits?

Ms Golightly—It really comes back to the original agreement that is put in place between the Commonwealth and the state, and any conditions surrounding the—

Mr McDOUGALL—But that is not the state. It is the Commonwealth and the private sector.

Ms Golightly—Sorry—between the Commonwealth and the private sector or the particular project involved, and whether there are any conditions associated with the eligibility or otherwise for that rebate or whatever the mechanism might be that the funding is being provided through.

Mr McDOUGALL—Is that available for the audit office to have a look at in relation specifically to the recent project under way in Melbourne under the infrastructure bond program, or in relation to the M2 in Sydney, where substantial tax benefits were given under the infrastructure bond program? Has the audit office in those cases got the ability to have a look at that?

Ms Golightly—I would need to take that on notice to examine the specific arrangements for those two projects. Generally speaking, however, there is a limit to how much the Commonwealth Auditor-General can audit in terms of either state activity or private sector activity. It would really depend on the arrangements in place and we would need to look at those two projects.

Mr McDOUGALL—Would you check to see whether there are any arrangements in place and let us know?

Mr Lewis—If I could add something there. In the first place, we would be looking to see what arrangements the department had in place to make sure that the cost benefits were being realised. Our first port of call would be to audit the department to see what mechanisms they had in place to monitor the arrangements. As Malisa indicated, our mandate is restricted basically to an examination of the Commonwealth sphere.

Mr McDOUGALL—That would also include Treasury, would it not?

Mr Lewis—Yes, it would include Treasury.

Mr LINDSAY—I should apologise to you; I was not here for your opening remarks. The business of government goes on. What I wanted to look at in relation to the evidence that you put before us may have been covered by the chairman so, if that is the case, I apologise.

In the submission you made to us, there was significant detail on things like performance indicators, program accountability and so on—'after the fact' types of things. In relation to 'before the fact', considering a road like the proposed new port access road to the Townsville harbour, is it your audit office's view that the national importance or the economic importance of such a road should be taken into account?

Ms Golightly—Yes. If the Commonwealth is responsible for approving that project, we would, as a general principle, say that they should take into account a full cost benefit analysis which would include their qualitative benefits as well as any purely economic benefits that would accrue to that project.

Mr WAKELIN—I have a quick question on arrangements. Your submission refers to the use of incentives to reduce administrative costs and you mention that the national highway program which allows for states and territories to claim up to four per cent of their annual allocated administrative costs. What sorts of incentives might be used?

Ms Golightly—I think we listed a couple of them over the page.

Mr Lewis—I guess the sorts of things in general terms that we have in mind are that if, for example, a state or recipient of any sort of grant demonstrates that it is doing the right thing in terms of providing acquittals or providing information on outcomes, then there might be a gradual devolution of authority to that body.

Mr WAKELIN—In other words, it would be performance based, development of trust type of system.

Mr Lewis—Yes. If an organisation can demonstrate to the Commonwealth that it is acting in accordance with the Commonwealth's priorities or delivering good value for money, then you would eventually devolve more and more responsibility to that particular organisation.

Ms Golightly—On page 6, there is another quite specific example to do with another audit we had undertaken on a local capital works program. Some savings were made there on administrative costs by utilising administrative processes that were already in place at the local level. Rather than setting up a new bureaucracy to handle these programs, they used existing processes and that achieved quite significant savings. Certainly, as Mike suggested, a risk analysis of various programs and various organisations would also help you decide whether you could delegate or devolve some of that administrative cost rather than bearing it on the Commonwealth.

Mr WAKELIN—Does four per cent seem fairly high to you?

Ms Golightly—That is a good question. We have just done another audit on the national landcare programs where we found that there is, indeed, a lack of information to benchmark administrative costs. In that case, from the information available with those departments we estimated that the administrative costs were around the 5.2 per cent level. That is one comparison, but it is quite hard.

Mr WAKELIN—You have already picked up the response from the committee there. In other words, there can be a bit of padding there.

Ms Golightly—Like anything, whether it is administrative costs or specific costs to do with the project, you need to have some way of knowing whether the administration is effective.

Mr WAKELIN—And whether the Commonwealth, in insisting on the way certain things are done, that it is not adding to the cost itself.

Ms Golightly—Exactly.

Mr WAKELIN—You have mentioned two, but can you give me anything else? It seems quite significant in terms of how we might improve in the future. You have probably gone about as far as you can. Is there anything else?

Ms Golightly—I do not know if this helps but another audit I was involved with was of an ATSIC program, the CDEP program. They could not measure what the administrative cost was, from memory, but what we were suggesting in that audit were some ways they could go about establishing measures of how that administration was contributing to the eventual outcomes. As a general principle, that is something that any administrator needs to be able to do.

CHAIR—Historically, it would be an interesting comparison. You talk about that four per cent for administration costs and you could compare that to some of the SPPs like the home and community care program which has historically a much higher admin cost than that.

Concerning the involvement of the private sector in public infrastructure provisions, does that affect your ability to evaluate the effectiveness of Commonwealth programs? Are there any safeguards that need to be set in place to manage private sector involvement?

Ms Golightly—There is certainly the potential for it to affect our ability to monitor or evaluate Commonwealth government programs. Recently, the Auditor-General has been involved in a number of discussions with various committees, agencies and the Department of Finance about the types of contractual arrangements that need to be put in place to ensure that the department that has ultimate responsibility for the program can assess the effectiveness of the program and, of course, if they can then we can. It is not just there for Audit's sake, it is there for the department responsible to discharge its responsibilities as well.

There are certainly safeguards that need to be built into the contract with that private sector agency to ensure that it can be evaluated. The types of safeguards you are looking for are performance measures being set up early in the program's life, the ability to refine those program measures as your knowledge increases, what sort of information will be provided back to the Commonwealth, and what sorts of incentives and sanctions might be put in place for over-performance or under-performance. They are the types of things we would be looking for.

CHAIR—In your previous report you concluded that the then Department of Transport was not managing the national highway system to the maximum benefit of the Commonwealth. Where do you believe benefits could still be achieved in the Commonwealth department's management of the NHS?

Ms Golightly—I might let David and Mike talk about the detail of that but generally speaking, we had some concern about the way priorities were being decided, whether the methodology there was rigorous. Unless you are assigning priorities on a firm basis then how do you know whether your return on that money is the maximum that it could be?

Mr Smith—I am going to start at the same point. We could not determine whether the department knew whether it was getting best value for the roads dollar. We said that the information needed to be coming forward in the department's monitoring of the states' projects to assist that. In that we were talking about benchmarking. In the audit report we compared the value that each state was getting for its dollar between the states. Then we said that this was the only data we could find to compare, in a quasi-benchmarking way. That was the main problem.

Mr PETER MORRIS—What is your relationship with the Department of Transport and Regional Development now?

Mr Lewis—I guess one could describe it as professional.

Mr PETER MORRIS—Vigorously professional?

Mr Lewis—David did tell me that you asked the department the same question yesterday and you asked whether or not we loved each other.

Mr PETER MORRIS—Did I say that?

Mr Lewis—I have to say that nobody loves an auditor. We have a professional relationship with the department. We attend their audit committee meetings. We think it is important to understand the context in which they are operating their programs. We think it is also important that they understand that we have a job to do. I would describe the relationship as professional.

Mr PETER MORRIS—Do you liaise with the internal audit system of the department?

Mr Lewis—Yes. It is part of our standard practice to keep in touch with them to avoid any duplication.

Mr PETER MORRIS—Given that there has been a move to untied grants for state and local government level, have you had a look across those areas, because they are really outside the purview of the department of transport?

Mr Lewis—We have not looked at them specifically in terms of performance auditing, but I would imagine they would be picked up in the financial statement audits.

Mr PETER MORRIS—When I looked at the conclusion of the report when you were before an earlier committee—the report from November 1994, which was a report upon your report—I think, Mr Smith, you came before that inquiry?

Mr Smith—I was.

Mr PETER MORRIS—My recollection is that considerable progress had been made in the relationship and most of the matters that you had raised in your report—which has been leant on heavily by the Department of Finance, which rather surprised me—as I recall had been pretty much dealt with by the time you came before us. Was that not the case?

Mr Smith—They had either been put in progress or were on the shelf waiting for the new act. The department had made a commitment that the remaining matters which we had raised were under full and proper consideration for the new act. Pending the new act, we could not do any more about it.

Mr PETER MORRIS—How do you reconcile the push that you are making towards the department for improved accountability procedures with what has come before us here at hearing after hearing from the states that the department is overbearing and nitpicking, and that it holds up projects interminably, with months and months of delays caused by the nitpicking bureaucrats from Canberra? How do you reconcile those two things?

Mr Smith—I was quite sympathetic to the department's response yesterday. If submissions do not come in in the proper format—that is, are defective—then why should the department be blamed? If they do not come in on target—that is, they come in for projects that are not on the national highway—then they should not really be blamed for those. I was quite sympathetic with the department's response yesterday.

Ms Golightly—As a more general thing, as Mike mentioned earlier, there is always a balance to be had between how much—

Mr PETER MORRIS—You cannot take that road out. You cannot on the one side hammer them for not being sufficiently accountable and on the other side, say that there has to be a balance about this and we will go out through that door.

Ms Golightly—I do not know as much of the detail as David does, but you need to be making sure that whatever action you are taking is effective action.

Mr PETER MORRIS—And that applies to the auditor's office as well?

Ms Golightly—You do not want to be nitpicking. It would apply to any Commonwealth agency.

Mr PETER MORRIS—There is a problem I certainly see as a member of the committee where, on the one hand, they are being pressured to have a greater level of accountability but, on the other, the great mass of submissions to us, and certainly from the hearings and our inspections, have said that there is too much intrusion by the federal department of transport in the ordinary administrative procedures.

Ms Golightly—What I am trying to say is that there may well be intrusion without good effect. If that is the case, it needs to be changed. To give you another example, with the national landcare audit which we have just tabled, there is a similar problem where the department spends a lot of time on the input controls of getting the money out and assessing applications but not very much time on the review and monitoring. We, of course, said in that report that they should be looking at what the outcomes of the program are.

The department raised the question that, on the one hand, we were saying for them to have more and more control but, on the other hand, less control. Our real point is that you need to apply a risk managed approach to your controls at each stage, but that no one control should outweigh all the others. There may have well been, in that case, too much emphasis and intervention on the input side with the assessment of applications, et cetera, but there was certainly not enough in some other areas. They may be able to decrease in one area and apply those resources to another. I suppose I am illustrating that a department can be too intrusive in some cases and still not be meeting their accountability requirements.

Mr PETER MORRIS—Is the audit office also too intrusive in some cases?

Ms Golightly—I do not believe so.

Mr PETER MORRIS—Mr Smith, would you care to elaborate on what your colleague has just said? You have the best knowledge of this, because you have been in it all the way through. Is it better or worse now, or about the same?

Mr Smith—We cannot judge that. We have not returned to the Department of Transport since 1993 when this audit work was done. The point we were trying to make in the audit report then was that we were interested in ensuring that the department was sure that it was getting the most number of road kilometres out of the available Commonwealth funds. There was talk yesterday and this morning about the gold-plating and whether or not Lake George should have been funded for $210 million or $130 million. The example used in the audit was the Goulburn by-pass where the estimate was racked up from, I think, $88 million to $100 million, and then it was brought in under estimate and ahead of time. There was quite a lot of discussion about the quality of estimating. That leads to what is approved—

Mr PETER MORRIS—Are you sure it was not to do with the change in government?

Mr Smith—No. That then leads to what is actually spent; and that all needs to be kept under close surveillance, if we are going to get the best value for our roads dollar. That cannot be done without a good information flow and without good understanding and cooperation at the state and Commonwealth levels.

Mr PETER MORRIS—Each of you sat here this morning listening to the contributions from Treasury about the infrastructure borrowings. Does Audit have any views on, or has it been involved in any way in, the assessment of those processes, or is it too early yet?

Ms Golightly—We have not been involved in the assessment of those processes.

CHAIR—Your submission expresses the view that the national highway system should be managed in accordance with an asset management model. While the Commonwealth fully funds the national highway system, it does not own it. Does this present an impediment to the adoption of an asset management approach?

Ms Golightly—I suppose that, if you take the literal meaning of asset, if you do not own it then one could argue that it is not your asset. Certainly, we were trying to get at the principle that we are involved in this project because it does have some benefit to the nation. If you take an asset management model in its broadest sense, what you are trying to say is how you can get the best value out of that asset. It was that principle that we were trying to push. That goes through the needs assessment priority setting and all of those items we talked about earlier.

CHAIR—We might leave it there. I thank the witnesses from the ANAO very much for attending. I do not think there were any questions put on notice.

Ms Golightly—There was one about the specific projects in Sydney and Melbourne.

CHAIR—Yes. If you could deal with that as soon as you can, that would be very helpful for the committee's deliberations. We will provide you with a proof copy of the evidence taken this morning as soon as it is available. Thank you for your patience in waiting for us when we ran a little behind time.

[11.25 a.m.]

NICHOLAS, Mr Malcolm Anthony, Assistant Secretary, Expenditure Analysis Branch, Commonwealth Grants Commission, Cypress Court, 5 Torrens Street, Canberra, Australian Capital Territory 2601

PASCOE, Mr Malcolm Stuart, Director, Expenditure B Branch, Commonwealth Grants Commission, Cypress Court, 5 Torrens Street, Canberra, Australian Capital Territory 2601

RYE, Mr Charles Richard, Chairman, Commonwealth Grants Commission, Cypress Court, 5 Torrens Street, Canberra, Australian Capital Territory 2601

CHAIR—Welcome to the hearing this morning and thank you for your attendance. We have received your submission. Would you like to make a brief opening statement?

Mr Rye—Just a couple of points, Mr Chairman. Firstly, as our submission implies, the work of my commission is rather peripheral, to say the least, to the terms of reference that your committee is working on in the roads area. What we are about is assessing what states do, rather than what the Commonwealth does; and even in that area we are assessing recurrent expenditures, rather than capital expenditures which are outside our purview.

The other point, in relation to term of reference No. 4 on administrative arrangements, is that it is perhaps worth noting that our assessment work has been hampered by a lack of comparable data across the states relating to state expenditures on state roads and on the characteristics of roads. There is no shortage of data, but the problem is that they tend not to be comparable between the states; even, for example, the distinction between recurrent expenditure on maintenance, which is our concern, and expenditure on enhancing the capacity of the road system, which is of course a capital works matter.

We have been encouraging the states to provide information to us and to the Bureau of Statistics on the basis of a classification system devised by the National Road Transport Commission and used by them in setting heavy vehicle charges. However, the procedures involve numerous estimates and states often make them on different bases. I could go on at length about the statistical problems in this area, but I think it would be very useful if the committee were able to make some comments in its report on the problems here, because clearly an inadequate statistical base makes it very difficult to reach firm judgments about what could or should be done in the roads area, as in any other. Thank you, Mr Chairman.

CHAIR—Thank you. Your submission notes that the Commonwealth Grants Commission is currently undertaking research for a review of how annual relativities are calculated, and has been examining road maintenance assessment measures. While we appreciate you are not due to report until February 1999, can you indicate some of the points of interest regarding road maintenance needs which have emerged so far and would you be able to provide any preliminary findings before November of this year?

Mr Rye—Perhaps I should preface our remarks on this point by noting that we assessed roads for the first time as recently as 1993. Prior to that, the commission had taken the view that the roads maintenance at least was basically self-funding in the sense that there was a lot of taxation relating to motor vehicles and road users. That also was left out of the commission assessments. But we had cause to change our views on that in 1993. When one is making assessments of an area for the first time it is likely that they will be not as accurate, not as well thought out, as they would be with the development of time. It is in that context that we have been engaged in this road research work. We just thought in 1993 that we got a better result in terms of equalisation between the states by putting roads in than by continuing to leave them out. I can speak to one or two of the areas, and I will ask my colleagues to elaborate if you wish.

It has been put to us by the states that the environment—rainfall, high temperatures and so on—does have an important impact on the need for road maintenance and so we have been working in that area with the help of the National Resource Information Centre, which is part of the Bureau of Resource Sciences. They have been doing some work for us and we are hopeful that that will enable us to have an environment factor in our calculations. I will ask my colleagues whether they wish to elaborate on this, particularly Malcolm Pascoe.

Mr Pascoe—In regard to my chairman's remarks, in the environmental analysis that we are examining now with a view towards the 1999 review of our methods, we are looking at a number of physical factors which include soil, topography, rainfall and temperature, in particular. We are examining the possibility of taking these factors, how they influence costs of road maintenance, and taking them into account, simultaneously if you like, to better assess those expenditures.

We have recently been on an official visit to the Northern Territory and, as the chairman just remarked, that visit has really reinforced our opinion as to the relevance of the physical environment's influence on road maintenance. There was an aspect of ultraviolet light which was mentioned there and we may be taking that into account as well.

Mr Rye—Perhaps I should add that at this stage it is too early for us to make any conclusions about where the bottom line results might come out as a result of this work. We are scheduled to have a conference with the states about the middle of next year at which we will present some preliminary results from our research work and in terms of the review we are undertaking of the whole process of our assessments. At that time there will be documents produced which set out our preliminary findings. They will be subject, of course, to further consideration after that before we produce our final report in February 1999.

CHAIR—On a number of occasions during the process of our inquiry, representatives from Victoria and, in particular, from the Victorian government, have alleged statistically that in the process of Commonwealth funding to roads that Victoria is hardly done by. They have indicated that Victoria contributes somewhere in the vicinity of 27 per cent of the fuel excise from road users to the Commonwealth coffers and yet only receives 17 or 18 per cent back of the total road funding dollar from the Commonwealth. Is this a justifiable point of view?

Mr Rye—I cannot speak as to the particular tax that you are talking about but overall it is certainly true that Victoria does contribute more than other states in relation to what it gets back from the Commonwealth in financing, generally. That is a reflection, in large part, of the equalisation system whereby the more dispersed states, states with smaller populations but very large areas to service, have greater need for expenditure than a compact and heavily populated state, in relative terms, like Victoria.

That, of course, is the reason for the Victorian equalisation factor that we arrive at as our bottom line is well below one, the Australian average, whereas at the other extreme you have a figure for the Northern Territory which, if memory serves me right, is about 4½.

CHAIR—In discussions with Treasury officials this morning, it came to light that something that has not been considered as possibly being direct Commonwealth funding provided to the state of Victoria is where, for instance, the Citylink project is being underwritten in a de facto way by infrastructure borrowings which then have an impact on the Commonwealth revenue in a manner that is also Commonwealth funding to roads in Victoria. Would you agree with that?

Mr Rye—I can see the point that has been made, but it is well outside our purview in the sense that that clearly is a capital project. We have not had anything to do with that nor have any particular knowledge of the method of financing that you are referring to.

CHAIR—Going back to your earlier response, in general terms it would not be an isolated situation in roads alone where, by comparison under equalisation equations, Victoria probably ends up with a smaller piece of the pie than it would generally expect.

Mr Rye—Yes. I should point out, however, that our assessment of what is required for Victoria to provide a standardised level of road maintenance is actually considerably higher than what they are spending. These standardised figures add up across Australia to the same total that states are actually spending. So some states are always above and some below. But it is noteworthy in the context of the complaints—if that is the right word—by Victoria, that, in fact, their maintenance expenditure is well below the standardised. That standardised figure is what feeds into their bottom line.

Mr McDOUGALL—I do not know whether you are in a position to answer this question. A lot of the states put to us that it would be far more preferable to get more money in untied grants. Has the commission got a position in relation to tied versus untied grants as a mechanism of funding to the states?

Mr Rye—We do not, as a commission, have a position. But I can let you know that, some years ago, we actually collected a few statistics on the relative costs of the equalisation system as compared with the administrative costs involved with the specific purpose grants. As of now, the costs of the equalisation system are roughly $10 million to $12 million a year. That includes the budget of the Grants Commission, the work that the Treasury and other Commonwealth departments get involved in for the equalisation process and all the efforts of the states to service our needs, to make their submissions to us, to provide us with all the information we seek and so on.

That, I would put to anybody who asks, is a very small price to pay for a system which distributes among the states a sum now in excess of $18 billion: $12 million over $18 billion is a very small ratio. So the administrative costs of the equalisation system are far lower than the cost of any specific purpose payment system that I am aware of. There was a reference earlier today to a four per cent figure. I took it that was in relation to the roads funding. That would be fairly low, on the information that we collected earlier, and the administrative costs of many specific purpose programs are far higher than that.

If you contrast that with the $12 million over $18 billion, my mental arithmetic falters at what percentage it is but it is obviously nought point something or other per cent. There is quite a case for saying that untied grants distributed on the basis of Grants Commission recommendations is a pretty efficient way to decide how much the states should get. That is not to say that we should not have any specific purpose payments, of course. They serve Commonwealth objectives other than equalisation.

Mr McDOUGALL—What sort of assurances should be given by the states and the territories—and I might add, local government—that they will spend the untied grants or the untied funds appropriately as they seek them?

Mr Rye—There are no such assurances; no such assurances are asked for or given. The reason for that is twofold. Firstly, the states are partners in the federation. They have responsibilities under the constitution in their own right and they have the constitutional right to decide where their priorities lie. The second point is that we are talking about untied grants. It would make a mockery of such a system if states were obliged somehow to link what they get with specific types of expenditure.

It is sometimes erroneously suggested that because the Grants Commission calculations are actually done at a level of individual kinds of expenditure that therefore, somehow or other, there is some obligation on the states to spend in accordance with those calculations. We disagree very strongly with that. We make these calculations in detail only for the purpose of getting an appropriate bottom line relativity. Whether the states spend in accordance with those calculations in any particular area is entirely up to them.

For example, a state may choose to have a very high standard of service in some particular area, say, roads. If it does do that it will not make any difference to our calculations, and it certainly will not be recompensed for spending more in a particular area than our calculations suggest would be enough to take it up to a nationwide standard. I really cannot help you other than to say that.

Mr McDOUGALL—I would just like to take it to a specific area. I might be stealing some thunder from my chairman, but it is an area of long-term involvement with me as well. Take the example of the Pacific Highway from Newcastle to Brisbane. Once part of the national highway system, it is no longer part of the national highway system, but recently it was recognised for specific funding. I remember that for many years the state government of New South Wales sought and received funds for the upgrade of that highway through untied processes and yet they never spent a cent on it.

Then the highway became a federal responsibility and last year the federal government picked up the tab for a state that did not live up to its responsibilities. It had said it would when it went out of the national highway area, but it did not do so. Was that state living up to its responsibilities?

Mr Rye—I do not quite understand how an untied grant can be directed in a specific way. I would have thought the appropriate thing was a tied, specific purpose payment, with the money spent on whatever purpose it was supposed to be spent on.

Mrs CROSIO—Would you put on the record when untied grants came in?

Mr Rye—When they came in?

Mrs CROSIO—Yes, dealing with your part of it.

Mr Rye—They have been in existence since federation.

Mrs CROSIO—No, I mean when you were looking at the specific programs, particularly with allocation of grants to the relevant states.

Mr Rye—It goes right back to the foundation of the Grants Commission in 1933 when states that asserted that they were hard done by in terms of the formula distribution that was then in place were able to make a special case to the Commonwealth. Before 1933 there were various methods devised to assess those cases, but the Grants Commission was set up specifically for that purpose. It is only since 1981 that we have looked at all the states simultaneously, and subsequent to that the two self-governing territories have been brought into the same system, most recently the ACT in about 1994.

Mr LINDSAY—Mr Rye, hypothetically, could a case be made for the delivery of dollars that will be used on roads to be only channelled through one mechanism and not multiple mechanisms? Money that ultimately results in bitumen on roads goes through your system. You have given evidence that you spend some time looking at isolation factors and temperatures and whatever. Would it be more efficient if all of the Commonwealth money that is going to end up on a road somewhere went through the one mechanism and not through multiple mechanisms?

Mr Rye—No doubt an argument to that effect could be made, and probably quite a persuasive argument. But, the end result of pursuing that would be that all Commonwealth funds delivered to states were tied in the form of specific purpose payments. The states would obviously rebel very strongly were such a proposal to be mooted and, indeed, all the pressures in recent times have been in the other direction with states asserting that as sovereign entities they ought to have the flexibility to reach their own priorities in terms of expenditure. Of course, there is also a national objective for roads, as in many other areas. Those objectives are appropriately fulfilled, I would say, through specific purpose payments.

The general revenue grants, if you go right back in history, were originally meant—in their present form, at least—as compensation for the fact that the Commonwealth took over income tax, which the states had previously been levying; this was in 1942. Therefore, they were used on all sorts of purposes in the states and it was not appropriate for them to be tied to specific ends. Of course it is still the case that the revenue functions that the Commonwealth has under its own control are very much larger in relation to its expenditure requirements than those of the states.

The states subsist very heavily on Commonwealth transfers of one kind or another. I think there is a strong case for saying that a good proportion of them ought to remain as general purpose grants, notwithstanding the doubtless increased efficiency that would arise in simple administrative terms from saying that all the funds that go to the states for a particular purpose should be through one channel.

Mr LINDSAY—Although you are arguing the case for the untied grants, your commission still spends time and resources looking at the relative disadvantage of states or perhaps even at local authorities. Would other Commonwealth departments do the same work? If so, is that not a duplication of resources?

Mr Rye—To some degree one can argue that. I should say that we no longer have anything to do with local government, and have not for quite a large number of years. It is interesting that the whole question arose of what to do about specific purpose payments when we first began this work of assessing all the states together. Various investigations were conducted about the basis on which those payments were allocated. In many cases they were historical; the reasons for the distribution between the states could not be found. In other cases they were simply equal per capita. There were all sorts of reasons for the distribution of grants which had little to do, as far as we could see, with real needs. Over time, I think that situation has changed. It is interesting that, in many areas—health is a notable example—the distribution criteria that are used are more and more coming to mirror those that we in the Grants Commission have developed over the years. They are based on giving the states the same capacity to provide services across the board.

Mr LINDSAY—Queensland is severely disadvantaged and I might ask you to take that into consideration at your next meeting.

Mr Rye—Actually that is quite true in the area of roads. They are spending a lot more than we are saying that they need to spend. I am hoping that, as our research work proceeds on roads, we might find a better match in that particular area because I find it a bit hard to believe the figures we are presently producing.

Mr LINDSAY—Thank you.

CHAIR—Mr Rye, when we spoke just then about Queensland and Victoria, you referred to some figures that relate to what is being spent compared to what your benchmark is. Would it be possible to make those figures available to the committee?

Mr Rye—Yes, certainly, they are public figures. We can provide you with a table which shows the road maintenance figures for the most recent year or, if you like, for a series of years.

CHAIR—A series of years would be very helpful.

Mr Rye—We will take that on board and send that forward.

CHAIR—Would it also be possible for a basic list of the criteria used for your allocation?

Mr Rye—Yes, of course. We can do that also.

CHAIR—That would be appreciated. With those couple of things that you have taken on notice, we would appreciate it if you get those back to us. As soon as a proof copy of your evidence is available, we will forward it to you. Thank you for your attendance this morning.

[11.49 a.m.]

McLUCAS, Mr John, Assistant Secretary, National Office of Local Government, Department of Sport, Territories and Local Government, PO Box 787, Canberra City, Australian Capital Territory 2601

CHAIR—Welcome, Mr McLucas. The committee received your submission last night and it has been adopted and approved for publication. Would you like to make a brief opening statement?

Mr McLucas—The Commonwealth provides some $1.2 billion annually to local government. Of that amount, about one-third is provided in identified grants for local roads. It is important to note, however, that the whole of the sum, including the amount identified for local roads, is provided to local government unconditionally. That is to say, it is untied in the hands of local government, and it is up to individual local governments to decide their own priorities for how that money will be spent as part of their total council budget.

CHAIR—Is your office satisfied with the acquittal of that money? Do local governments actually spend that money on roads?

Mr McLucas—To answer the second part of the question first, local government spends on local roads, in our estimate, about six times as much as the amount that is provided to them. We had a look at the actual expenditure across all of local government in Australia and, out of over 700 councils, only one spent less than the amount we gave them on local roads, and that was probably an anomaly for that year. So we are comfortable that not only are they spending at least that amount but they are spending very considerably more—I think the factor is around six times as much.

CHAIR—I understand that the National Office of Local Government distributes financial assistance to local government in accordance with the recommendations of state and territory local government grants commissions. Do you generally accept their recommendations? What factors are taken into account in determining the level of each council's untied local road funding allocation?

Mr McLucas—The Commonwealth act which provides the funding—the Local Government (Financial Assistance) Act 1995—actually sets down some general criteria which the state local government grants commissions must follow in determining the allocation of those funds. The most obvious one is that of horizontal equalisation, which is a principle similar to that which the Commonwealth Grants Commission applies to the distribution of funds to the states. In addition to that, the act provides for the making of national principles which are, if you like, supplementary advice to the state grants commissions on the distribution of those funds. Indeed, a set of national principles has been made, one of which in that submission which we put in last night relates specifically to the road component. Essentially it says that, for that component, the grants commissions should look at road needs—the maintenance of roads and so on.

It is also relevant to note that, as part of the national report on local government which the Minister for Sport, Territories and Local Government tabled in December last year, we have actually published the methodologies of every local government grants commission around Australia, so that they are transparent and able to be criticised as to how they go about allocating funds. They vary a bit from state to state and territory to territory, but the underlying principles are the same.

Mrs CROSIO—I have a small housekeeping point. Where you have listed all the councils in New South Wales, Fairfield went from being a municipality to a city in 1979 but it has never been a shire.

Mr McLucas—My apologies.

Mr LINDSAY—Does your association believe that the road funding dollar to local authorities should be delivered through a grants commission mechanism? Do you support that process of delivery?

Mr McLucas—I must make the point that you say, 'my association,' but I am part of the federal government. I am part of the Department of the Environment, Sport and Territories.

Mr LINDSAY—Yes, sorry.

Mr McLucas—So it is probably not appropriate for me to comment.

Mr LINDSAY—Okay.

Mr McDOUGALL—State governments have been trying to convince us that they should be the holders of the purse of all road funding money. How do you think local government would react if the Commonwealth was to pass over total responsibility for distribution of funds to state governments through a direct hypothecation of some percentage of the fuel tax? Do local government feel they would miss out?

Mr McLucas—The Local Government Association has certainly indicated to the government that it believes in hypothecation of the fuel tax, but that that should go in increasing the untied grant that comes to them through the current mechanism, rather than any other way. I cannot speak for them, except that they are quite passionate that money should come to them in a fairly direct fashion and that it should be untied in their hands. That is certainly the view they have put to us quite strongly.

Mr McDOUGALL—States have different planning acts and in some cases, under those acts, states benefit from contributions from development and local government gets a little skerrick down the bottom. In other states—for argument's sake, in Queensland—local governments are the bigger beneficiaries from the development contributions because of the construction of the state planning act which gives them more. Is there an objective by the local government department to try and standardise across Australia a process of development contributions from residential, commercial, industrial, rural and regional development so that there is an ability for local government to raise funds from the private sector through development applications and then be able to hypothecate it through to building their own infrastructure?

Mr McLucas—Out of the small business task force last year—the Charlie Bell report—there were a couple of recommendations that had to do with the development system and the way that that impacted on developers and small business, builders and so on. The recommendation was to work towards a more harmonised planning system throughout Australia. The states are very strong that planning is a state responsibility—

Mrs CROSIO—So too is local government, is it not?

Mr McLucas—Indeed. That is why our grants to local government are paid through the states, rather than direct to local government. The states are quite keen to maintain their role there and are suspicious of any Commonwealth movement in the direction of seeming to try and standardise the way in which planning law works. That having been said, out of the Bell report, and the Prime Minister's response to it, some useful work is being done in terms of looking at what we can learn as a nation about good planning regulation, rather than just looking within states. But on the question like development contributions—which, in my perception, is an extraordinary political one in every state—whether it will go into that area in any detail is not clear at the moment. I am sorry, I do not know the answer there.

Mr WAKELIN—Do you have an analysis related to the efficiency of local government, particularly with regard to the road component? How do local government shape up?

Mr McLucas—The short answer is no, we do not. We are trying with local government—and with the states, I might say—to develop some performance indicators for local government. It has not been an easy task because again, while not trying to get into the comparability of data problems, that is one of the real problems in doing so. However, we have been working and funding some groups of local governments to work together to look at some performance indicators amongst themselves and to compare their performance. One interesting one is headed by Pine River Shire in Queensland which actually involves 10 councils throughout Australia, not just in Queensland, and looking at those comparisons. That is only a toe in the water at this stage but that is how we are trying to go.

Mr WAKELIN—The ALGA was talking about benchmarking, that there has been some benchmarking.

Mr McLucas—We have also contributed to the ALGA for a quite large project which has the ambitious goal, but hopefully it will be achieved, of reducing road costs by 10 per cent over time. That is in collaboration between the ALGA, the Institute of Municipal Management and the Institute of Municipal Engineers. That project has been going now for over a year. It has got further to go and they are now seeking some additional funding to look at a benchmarking, if you like, add-on to that. That will be something which the minister considers in the next month or so as part of the next round of funding for projects.

Mr WAKELIN—You have mentioned costs and I would like to touch on that. I have an impression that costs for road making may have escalated faster than inflation, for a variety of reasons. That may or may not be so, but would you have a comment to make about the general costs of road making? I am thinking particularly of your own area of local government, in your own discipline, but generally.

Mr McLucas—I do not feel qualified to make any comment. I do not have the figures and I am not an expert in that area.

Mr WAKELIN—Fine. I have a quick question on fuel excise and the belief that local government would like to see it more related to roads, et cetera. Do we have an understanding of where the fuel excise is collected? Would your department have a feel for where that excise tax related, whether metro or regional?

Sometimes that comes up and there seems to be a feeling that maybe there is higher collection in the regions.

Mr McLucas—My department does not have that information but I am sure it would be available from the collecting agency, or from the Department of Transport.

Mr WAKELIN—In terms of a definition of road quality, from time to time you will see that the pavement cannot be maintained and you might end up with an impression, for a variety of reasons, that maybe road quality in a some areas is not as strong as it was, particularly with local government. Do you have a measurement of the general, for want of a better phrase, road quality, road surface?

Mr McLucas—Once again, no, I do not. I might say—and it is slightly peripheral—is that one thing which the office did do, again with the Australian Road Research Board and in cooperation with Local Government Association, was to produce two manuals, one on sealed and one on unsealed local roads, in terms of best practice in construction and so on and most cost effective.

Mr WAKELIN—Yes, they mentioned that.

Mr McLucas—That was another initiative that contributes to, hopefully, getting a cost-effective product.

Mrs CROSIO—Can I just take you back one step to when you were talking about local government nationally. You were looking at benchmarking and funding about 10 councils. How has that funding been distributed? Has it been distributed from the Commonwealth through the Australian Local Government Association or directly to those councils involved?

Mr McLucas—It varies a bit. The way it is being distributed is through a program called the local government development program to which projects are submitted. They may be submitted by a group of councils, they may be submitted by the local government association, they may be submitted by individual councils, and in some cases they may be submitted from a state local government department which is going to work with a group of councils. There are various ways that can happen.

CHAIR—So that program is being pretty well supported by local government?

Mr McLucas—Yes, it has.

CHAIR—That is interesting.

Mr PETER MORRIS—Can you assure us that, to the best of the department's knowledge, all that money provided to the local government bodies for road expenditure is in fact used on road expenditure?

Mr McLucas—I said at the beginning, Mr Morris, that our estimate is that local government spends about six times as much as we provide on local roads. Last year, we looked through expenditure by each of the 700-odd councils in Australia. Of those, I think only one spent marginally less than the amount of our grant. That may have been due to an aberration. In that sense, we are reasonably comfortable that the performance they are putting in on local roads well exceeds the amount of money the Commonwealth is providing under that heading.

Mr PETER MORRIS—I am not sure that I understand what you are saying. Are you saying that all the councils you looked at spent more on roads than the untied federal grant they get for roads?

Mr McLucas—Yes.

Mr PETER MORRIS—Is there any evidence of substitution, of reduced effort? It is no good just saying that they spend six times more on roads than they get from us. What comes to us anecdotally is substitution and the clamour from council engineers is always for more money because they are losing out of the council budget.

Mr McLucas—The question of substitution in one sense does not arise because our funding is untied to councils. Even the road funding is untied.

Mr PETER MORRIS—That is why it is so eligible for substitution.

Mr McLucas—Sure. But we have looked at figures from individual councils on what they each spend on roads. I am just not sure what year it was, but I think it was 1995-96. That showed that the amount they had actually spent on roads, in every case but one, exceeded the amount that we had actually provided under that heading.

Mr PETER MORRIS—That does not tell us anything unless there is a comparison of road effort by council year upon year.

Mr McLucas—Sure.

Mr PETER MORRIS—With individual councils, is their road expenditure going like this or is it going like that? Even when it is like this, it is still several times the federal funding there is.

Mr McLucas—I accept that you can get a one- or two-year effect. In total, we estimate that they are spending around six times as much.

Mr PETER MORRIS—I think the answer to my question is that the department does not know. You do not know whether the level of road effort by councils is greater or less since the changes came in in 1991. If you want to have a look—

Mr McLucas—We have not done an aggregation since 1991, over all those years, to see what was spent.

Mr PETER MORRIS—The new arrangements came in in 1991. 'Give us the money. We know best how to spend it.' That was the catch-phrase coming from local governments. So we gave them the money. What you hear anecdotally is that some of that money is being sidelined. That has given the councils a bit of extra money and that means that, in the council table, in their budgets, there is substitution going on. So there is more money going to non-roads expenditure. They are still maintaining a level of road effort. On that area, can you help us?

Mr McLucas—I have to clarify it in my mind. What you are saying is that before 1991, for instance, they might have been seven or eight times the amount, and now, they have substituted the untied amount?

Mr PETER MORRIS—Yes.

Mr McLucas—I do not have those figures, I am sorry.

Mr PETER MORRIS—You do not have any access to them?

Mr McLucas—I do not know the answer.

Mr PETER MORRIS—What about the inventory of local roads? Following this were the arrangements that came in and the work that was stimulated by the National Road Transport Commission: the actual inventory of local roads; the value of roads; the roadworks that they would like to carry out in the ensuing year; and the road expenditure actually being allocated in the ensuing year. That is about two or three years behind us. Have you had, through the department, an observation or an assessment of that?

Mr McLucas—No, we have not.

Mr PETER MORRIS—There is an answer here that was given to us by the Department of Transport chairman, recommendation 6 from the submission that we took as an exhibit this morning. That says that your department is pursuing a number of initiatives so that councils can improve their performance over a range of programs, including their management of roads. It says that the management of local roads has been targeted in areas for assistance under the LGDP where there are manuals being provided for better road maintenance. Can you report anything to us? What we are looking at is how well local government is working at getting better value for their roads dollar.

Mr McLucas—The manuals have been mentioned. The other thing that was mentioned also was the project which is still under way with the Local Government Association, the Institute of Municipal Managers and the Institute of Municipal Engineers, which is about improving the efficiency in roads and infrastructure.

Mr PETER MORRIS—Can you tell the committee whether or not, in the observation of your department, local government is getting more roads for the dollar now than they were two or three years ago or can you only tell us about expenditure on roads?

Mr McLucas—No, I cannot answer the first part.

Mr PETER MORRIS—Is the department looking at that?

Mr McLucas—I cannot tell you whether they are getting more for the dollar.

Mr PETER MORRIS—The thrust of our inquiry is how to improve efficiency performance in relation to road expenditure. Is there anything you can help us with in that area?

Mr McLucas—I cannot help you in answering whether they are getting more for the dollar.

CHAIR—We will suspend this morning’s hearings there. Thank you very much, Mr McLucas, for attending on behalf of the National Office of Local Government.

Hearing suspended from 12.10 p.m. to 7.00 p.m.

WEARNE, Councillor John, Vice-President, Australian Local Government Association, 8 Geils Court, Deakin, Australian Capital Territory

RUFFORD, Mr Peter Gregory, Program Manager, Transport and Infrastructure, Australian Local Government Association, 8 Geils Court, Deakin, Australian Capital Territory

CHAIR—We will resume the public hearing that was suspended at 12.15 today. We have received your submission to the inquiry. I now invite you to make a short opening statement.

Councillor Wearne—Thank you for the opportunity to meet with you and present our submissions formally because we have made two. Our main submission, which was put in in January, was the general one and it was followed up in May of this year by a supplementary submission, which was directly tailored to provide and produce some rationale in support of a higher hypothecation of federal fuel excise onto Australian roads, particularly local roads, looked after by local government.

By way of introduction, roads and road funding and the responsibilities associated with them for local government, are enormously important and viewed as that by not only councils and those that represent councils but also by our constituents generally. I will touch on the high level of anxiety and concern that is surfacing in local government about what we regard as quite a steady erosion in federal road funding responsibility, particularly if it is viewed in terms of the proportion of the federal fuel excise that is being applied back onto Australia's roads. It now stands at about seven cents of federal fuel excise which is collected. Since the figure has been hovering around seven cents there has actually been a 20 per cent increase in the amount of federal fuel excise collected.

Our position has for some time been that we feel there should be a doubling of that amount. I take the point that has been made a number of times about the need to provide rationale in support of that and that more than anything else is the reason for the supplementary submission that we put in. The four-year cuts announced in the 1996-97 budget were viewed with a great deal of concern as well. From memory, and I could be corrected, the figure is $622 million over four years. That sent a fairly clear signal to local government that the funding was going in the wrong direction.

I will speak for a moment about the new programs introduced by the government, particularly the black spots program and the roads of national importance. We support them thoroughly and in every way. We believe that they are good steps forward. We are concerned that the method for funding those two new programs is coming out of the existing national highway budget. The view in local government nationally is very strong that they should be supported by what I describe as new money.

I guess, to exacerbate that, there has been a shift in emphasis with highway funding, particularly on the Pacific Highway, which has seen a very much needed injection of funds but almost certainly at the expense of some other highways. This had been picked up so the matter of balance of the distribution of funds has surfaced quite clearly. We would very strongly submit to the committee that, while we support black spots and roads of national importance, they should be supported by extra financing from the

Commonwealth coffers.

As far as the local road network throughout Australia is concerned, and I would like to speak about that particularly, we felt that, in view of the fact that we are pushing for a doubling of federal fuel excise to be applied back on roads, we needed to provide some rationale in support of that. We carried that out by way of a survey, which was conducted in March, of road costs and service levels across Australia. We got responses from 250 councils throughout Australia, which we thought was a very good cut. When we examined the nature of the 250 councils, we found that the diversity and variance, both in size and their location, provided a very good balance.

The total expenditure that the figures produced, on local roads in Australia was $2.1 billion. This is six times higher than the local road FAGs component of $346 million. I think that gives an indication of what we are looking at in terms of the underfunded nature of the local road asset. The expenditure required was $3.1 billion, in view of the survey taken, or $1 billion more than was being allocated.

You will not find it on either of our submissions, but another exercise which has been extremely interesting, and has brought to light some of the problems in terms of infrastructure funding, has been the mass limits review. There is a great deal of controversy about that at the moment, which the ATC is considering on an ongoing basis. I think the mass limits review, as much as anything, has identified a real problem that we have with bridge infrastructure, way over and above what we would have suspected before. While we are going to go through the testing and the upgrading exercise, I think it is also bringing to light the nature of the backlog of work that is required on bridges. I think it has never had the sort of emphasis applied to it that it either deserved or needed. I think the mass limits review will highlight, when the figures finally come in, the severe backlog of infrastructure rejuvenation that is required on bridges throughout Australia.

I will speak for a moment on local government's approach to efficiency of service delivery. I think it is very important that the committee is briefed on the very serious manner in which local government is approaching driving the dollar as far as we possibly can. Councils are benchmarking their costs and services wherever possible against other councils. Market testing has become the norm, rather than in isolated cases. In many cases, and we believe that this needs to be done across the board, councils are addressing the correct mix of what I describe as recurrent funding needed to maintain the road and bridge asset against capital expenditure. I think we have been encouraging that. I think councils

need to look very seriously at maintaining the asset before they get too involved in capital expenditure programs.

I also add that research is playing a big part in the way that we arrive at the conclusions that we need to reach. We have got a very close working relationship with Austroads and we are a member of it. Austroads is only one agency but it is the main one supplying the sort of research that we need to get a handle on exactly what we are looking at in terms of technical requirement. But I would stress that there is a limit to what we can achieve with efficiency gains and with application of research. At the end of the day, we are going to reach a point where it becomes purely a funding exercise its own right, when we have cut away all the fat that can be cut away. We are well down the track of doing that.

I will briefly mention the approach on our submission towards the need for strategic planning which is absolutely essential. It is essential that the three levels of government be involved. The core strategic planning needs to come from the states, but I do believe that the Commonwealth needs to oversight the whole process so that any duplication in the manner in which it is carried out is picked up.

To mention a side issue, intermodal transport, we are very interested in the development of rail proposals, particularly the inland rail proposal which has been put on the table by Queensland and which I believe is going to be the subject of a ministerial meeting in the near future.

CHAIR—Which one?

Councillor Wearne—This is the one that Queensland put into the ATC meeting in Cairns—the inland rail.

CHAIR—Not Alice Springs-Darwin?

Councillor Wearne—I would have to stress right at the beginning that we heavily support both. We do not see the rivalry that has very obviously been displayed by the various states on that one—

Mr PETER MORRIS—You want both?

Councillor Wearne—We support the concept generally and we do not see them as being in conflict. I think there is room for both to be considered but there has to be a fairly holistic approach to it. That is a side issue. The belief is that, if that could be developed, there would be something like a two per cent shift away from road freight, and that is a significant amount. It does not sound very much, but it is a significant amount.

There is not too much more I want to say, Mr Chairman, except I believe our submissions are well prepared and to the point. I am sure the committee has had the opportunity to have a look at them and I am sure there will be some questions; so I will leave it at that.

CHAIR—Going back to your earlier comment about an increased hypothecation of fuel excise to roads: separating the total amount the Commonwealth spends on roads from the untied grants that local government receives, I want to explore with you the untied grants that local government receives. Are you saying that, in real terms, they have been diminishing over the years?

Councillor Wearne—No, I am talking about the total size of the cake, Mr Chairman.

CHAIR—But with regard to the untied grants, is there a general acceptance amongst local government bodies that that is a satisfactory arrangement?

Councillor Wearne—Yes, we believe that there is overwhelming—if not total—support for the grants and the manner in which they are distributed. We believe they need to remain untied and that they need to be separately identified.

CHAIR—As a peak body from across Australia, you would be fairly satisfied that all local governments spend that money on roads?

Councillor Wearne—Absolutely—plus almost certainly as much or more of their own revenue as well.

CHAIR—Sure. Your supplementary submission notes that the continual shortfall in local road funding is compounding into a national issue requiring a national strategy. If the Commonwealth were to make a bigger effort in local road funding to effect a national strategy, as you have suggested, would local government accept an increased Commonwealth involvement in the allocation of funding to roadworks; and are you saying that the current delineation of road funding responsibilities between the three tiers of government as established in the early 1990s is no longer appropriate?

Councillor Wearne—I am not totally clear on the question.

CHAIR—I suppose if you look at the structure of road funding today—you have already said that the direct untied grants to local government are satisfactory; and that is fine, you accept that side of things—there is the allocation to states and the state government money that go into state roads and their responsibility, there is the national highway system which is funded by the Commonwealth and then there is the new area in between of the RONIs. Do you think that that system as it stands today is a satisfactory arrangement in the delineation of responsibilities?

Councillor Wearne—I am sorry, I didn't quite understand the question before. Yes, I think the delineation is okay. What we are talking about is a strategic approach nationally. If I can just follow that comment out: I think it needs to extend, on the Commonwealth's part, beyond the actual national highway system. I think we need to incorporate roads of national importance as a matter of urgency in that plan, and we need to superimpose the economic factors when we apply them to roads of national importance. I think it is very important to get a whole of network approach towards it.

CHAIR—You mentioned the survey that had been undertaken by the ALGA on road service delivery costs with data obtained from 250 councils. On the basis of the information collected, what can you tell us about the efficiency of road service by local government?

Councillor Wearne—In terms of quality assurance and how they have actually spent it and the level of efficiency they get from the dollar—is that what you mean?

CHAIR—Yes.

Councillor Wearne—There has been a lot done on that. I am not very well equipped technically to answer the question. Peter may well be. I believe the checks and measures are getting stronger all the time. Councils are used to working with quite a high level of accountability back through their own road associations. There would be fairly clear evidence that that is taking place and that the figures are there to show that it is.

CHAIR—In evidence this morning from Treasury officials, they said that they do not necessarily support hypothecation because they maintain that, if there is a hypothecated amount of money every year that different agencies know is going to go to road funding, it would be possible to generate inefficiencies and they would say, 'We have got this pot of money. We need to spend this on roads instead of doing a fairly rigorous critique of the needs of specific projects.' Do you have any comment on that? I know you referred to hypothecation of an amount of the fuel excise. Over the years that may change, or are you just saying that you would like to see a greater commitment to the national road network by the Commonwealth?

Councillor Wearne—I think it is a bit of both. As I said earlier, I think we can hardly put our hand out and demand a doubling of the federal fuel excise being applied back onto roads without providing some data and some rationale to support it. I believe we are not only down the road to doing that but we actually have some figures that support the case. Hypothecation has been about the only direction that we have had to go in. In terms of what is generally regarded as a fairly severe underfunding for the road asset in Australia, that seemed the logical place to go. It is very important to recognise that local government now acknowledges that the need to back it up with hard facts is very important.

Mr LINDSAY—If the Commonwealth is going to end up in a strategic planning role across Australia, what mechanism do you see local government should have in that process? Do you think local government should be talking to state government and then state government should get together with the Commonwealth government, or do you think all three levels of government should be involved in that process? If we are going to be looking three, five, seven, or 10 years ahead, tell me where you think local government sits in that?

Councillor Wearne—I think local government has a crucial role to play, particularly with the state agencies in the first instance. They need to be able to supply the state road authorities with evidence regionally. Then I think where the Commonwealth comes in is that they have an overarching role in pulling it together so that there is a strategic national approach, keeping in mind the planning that has been done by the states.

Mr LINDSAY—Would you be happy if the local government talked to state government and then state government talked to federal government and had that process?

Councillor Wearne—I do not think that would be a bad way to approach it, but I think the main thing is that there be a three-way feeling of the need for responsibility in coming together to coordinate it.

Mr LINDSAY—Okay. Why do you strongly support the concept of 'roads of national importance'? Do you think that is an appropriate title, or should they be roads of economic importance, or are they different? Why does local government strongly support that concept?

Councillor Wearne—I think we are talking about the same thing. In fact, they were actually called roads of social and economic importance before they became known as roads of national importance in the formative stages. Local government supports them strongly because, for many years, we had representations from our own people throughout the country that there are roads which are extremely important in terms of carriage of freight; extremely important in economic terms for their own areas which do not get the opportunity for the level of funding for roads which are, for instance, funded according to traffic counts. The message we have got back very clearly for a number of years is that the traffic count is one element of deciding the importance of a particular road. Economic importance, in terms of the freight that might move across it, is another. I think that, as much as anything else, is the reason that we picked up on it.

Mr LINDSAY—Okay. Which level of government determines what is a road of national importance? What sort of process do you have to say, 'We have identified, if we built or upgraded that, that it would be a road of national importance'? How do you see that process?

Councillor Wearne—I think the information has to be gathered locally, in the first instance, and moved up the chain. I think the Commonwealth, at the end of the day, would probably be the right instrument for being the arbiter of it.

Mr LINDSAY—Some road funding is delivered to local government through the Grants Commission process. Do you see that as a duplication of resources? Do you think that road funding should all come from the one source to local government?

Councillor Wearne—I think the manner in which it is distributed by the Grants Commission is probably the distribution method that we would support. It is untied and councils can prioritise its use. Our interest in road funding generally extends beyond that distribution for local roads because we have responsibility, for instance, for regional roads in states which are an integral part of the network.

Mr LINDSAY—With fuel excise, part of your submission is sounding like it is arguing that fuel excise is not a consolidated revenue raiser but something that should be hypothecated to roads. Does local government understand that it is really a consolidated revenue thing?

Councillor Wearne—Absolutely. We are well aware of the fact that it raises nearly $11 billion every year and that that obviously goes to fund health, education and many other things and that the money that that raises is indispensable in terms of the Commonwealth budget.

What we are saying is that there has been a diminishing percentage of federal fuel excise going back on roads. I do not think that is fair or equitable. I do not think it is viewed as such, particularly by the trucking industry, particularly by road users and particularly by motoring groups such as the NRMA. They see that erosion in terms of historical figures.

When federal fuel excise was first collected, something like 69½ per cent or 70 per cent went on to roads and they have seen a steady erosion from that. I believe the figures probably speak for themselves, but I am not suggesting for a moment that we just cut a large chunk out of that cake. Purely and simply, the funding requirements in the federal budget dictate the fact that a lot of it has to go into other areas.

Mr LINDSAY—Has your association yet considered whether there is a need for tax reform in Australia?

Councillor Wearne—We have talked about tax reform and I am very glad you have asked me that question. I have actually run it around in my own mind quite a bit in the few weeks that taxation reform has found its way back onto the table. We are looking at a scenario where federal fuel excise might come back from 37 per cent to 10 or 12½ per cent, or whatever a consumption tax figure might be—it is early days yet—but it is good to have the opportunity to discuss it at this level. If there is taxation reform, the whole book is going to be thrown away and there will be a real need to redraw the parameters of road funding, and transport funding generally and everything else. It is certainly an element of what we are talking about.

Mr LINDSAY—Do you think your association is prepared to have an active part in the tax reform debate in this country?

Councillor Wearne—We cannot afford not to have, not only with what we are talking about here tonight, but with the whole manner in which local government is financed through federal assistance grants. That is $1.2 billion of general purpose financial assistance grants. I would be expecting that, with a worthwhile reform of taxation generally, the states will demand a role in how they are actually financed. I think local government will certainly take the opportunity to do the same thing.

Mr PETER MORRIS—Councillor Wearne, where are you from?

Councillor Wearne—I am from Bingara in north-west New South Wales.

Mr PETER MORRIS—You are a New South Welshman.

Councillor Wearne—I am.

Mr PETER MORRIS—Can I compliment ALGA on the growing quality of their submissions. It is really great when you think back not so many years ago to when ALGA first came together and usually a submission from ALGA was simply the statement, ‘Give us more money.’ My observation over the years has been that there is a growing maturity and quality of presentation and material. I am looking at your classification of councils and their division into seven categories. That is the kind of information that really strengthens the case for local government.

Your submission says there is $2.1 billion expenditure on roads by local government. If you add the $1.5 billion from the feds, they are spending more than we are spending. Admittedly, some of it is coming from the feds, but I think that over $6 billion in total per year is spent on road construction and maintenance. That is one of the difficulties you run into at federal level when you look for more money from the federal government, because they look at the total picture and say, ‘What value are we getting for that?’

You have mentioned the previous inquiry in your submission and have responded, step by step, to the recommendations. But, when we did that, our ballpark figure was that there was potential for about a 20 per cent improvement in productivity, which means that we ought to be able to get another billion dollars worth of road work without spending one more dollar. A large share of that was in local government. You must remember that the Victorian Earthmovers Association was very critical of the performance of some councils in Victoria. Do you see an improved picture across Australia in local government now? Certainly, the data coming forward is very much better.

Councillor Wearne—I think the point is well made, and your point about having to drive the dollar a lot further is certainly valid. As I think I said in my earlier remarks, I believe that that is happening, and we are putting a very high emphasis on continuing research, benchmarking and market testing. There is a much more professional approach now, because local government, quite frankly, cannot afford not to; as the funds shrink, we have to do more with them.

Mr PETER MORRIS—You are one of the biggest spenders on roads. You are certainly bigger than the feds. The feds are on $1.5 billion and you are on $2.1 billion, when you add up the road effort from all councils. I am not sure of the state figures. The state figure is over $2 billion, but you certainly—

Councillor Wearne—We very much follow the demands of our constituency, and they put extremely high importance on roads.

Mr PETER MORRIS—I am looking through your submission. There are a number of projects under way. I want to ask you where they are up to. You might run through them. On page (i) you say that the extension of the national road network should include strategic road links across the interior of Australia. Why do you want to do that, given the immediate task you have? It is in the executive summary, on the last two lines of the second paragraph. You want the national highway network extended to include strategic road links across the interior of Australia. To me, that comes across as extending the agenda all the time, but with greater and greater difficulty in getting funds. You can have a look at that later. I do not want to hold up proceedings.

Page (iii) of the executive summary says you are proposing to submit a detailed analysis of funding needs to the committee by 30 June 1997. We have got that now, have we? That is in the additional submission. You refer to the decline in national highway system funding of $500 million in real funding. Later on that page, in the fourth last paragraph, you say that RONIs should be retained, but not for the national highway funding, and that shared funding be negotiated. This is important for us as a committee.

You say that, for roads of national importance, the funding should be negotiated between Commonwealth, state and local government. I assume that means when you have got projects involved with three levels of governments; or do you mean all projects? It would only be where you are involved, would not it, if it is a project that has got some local government funding, some state funding and some federal funding?

Mr Rufford—It is possible that there may be some roads of national importance that are also local roads.

Mr PETER MORRIS—That is what I am thinking. We are asked to look at funding and sources of funding, so we want to be clear on what you are saying. Should you be a partner in all of those things, or simply in those ones where your own roads are involved?

Mr Rufford—I would have thought it would be mainly just the roads in our own jurisdiction.

Mr PETER MORRIS—Then in the next paragraph you say:

There should be no need for the Commonwealth to use private financing for the NHS.

That is a policy statement obviously from the association—that it should be funded solely by government.

If you go to the top of page 6 in your first submission, you are saying in line 2 that these returns should be collated into a national statement of expenditure by local government, that there be reporting annually on local roads expenditure. You said earlier to the chairman that all of the funds are being spent on roads, the money that is provided by the federal government. When you have looked back over your expenditure patterns from the association, has the level of road effort remained the same since you have got untied grants, gone up, or decreased?

Councillor Wearne—I strongly suspect it would have gone up. The reason I say that is that I believe councils are applying a lot more of their own general revenue into roads than they ever did before and I think the figures would support that—certainly in New South Wales and probably nationally. I remember being very surprised last time I saw the figures actually what councils are actually putting in out of revenue.

Mr PETER MORRIS—That would be interesting because that is the other argument. There was a study done in about 1986 that looked at the level of road effort by states, as I recall, and local government particularly. It was done by the BTCE, and it was looking at what happened to the level of road effort following the bicentennial road development, the 2c a litre levy that Ralph Hunt brought in. We were given that burst in expenditure that took place, and what that showed was that local government had not increased their expenditure or there had been a surge of money gone in. Again, when we look at it from our position, we are vulnerable at this level. As the chairman understands, we are vulnerable—if somebody can point to you in one of those coordinating departments and say, ‘Yes, but have a look at this’. So something on that would be useful if you want to protect the whole type of debate.

Turning to page 203—it is your page 20, technical submission—you are talking about that was the guts of other private sector finance and you are saying that the competitive tendering of councils works as part of the competition policy et cetera. And you seem to be pretty happy with that. What has been the experience where non-metropolitan councils have gone to increased—I hate the word outsourcing—tendering out or contracting out of road work? What has been the impact firstly on the council road work forces?

Councillor Wearne—I do not believe the impact in terms of employment levels, particularly on the smaller councils, has been great, because it is a very important political point for them.

Mr PETER MORRIS—What about at your level?

Councillor Wearne—This has not stopped the level of contracting out in New South Wales creeping up towards 20 per cent, which I think is a very impressive figure. The reason we are so opposed generally to any compulsory form of competitive tendering is for social, economic and employment issues in smaller councils—and we continue to be.

Mr PETER MORRIS—Is there any evidence, given that there has been that increase in contracting out of what work was formerly done by councils—

Councillor Wearne—I certainly do not think it has been done at the expense of employment levels, no. And I do not think that local government would let that happen if they had any alternative at all.

Mr PETER MORRIS—Quite a lot of your councils actually do contract work for the State Road Authority.

Councillor Wearne—Yes. A big part of revenue of a number of small councils is doing contract work for the local road authorities.

Mr PETER MORRIS—Do you have any evidence of impact upon them?

Councillor Wearne—Only where they do a lot of work for the local state authorities. It is a very advantageous position in terms of it being a private work revenue raiser for them.

Mr PETER MORRIS—But a lot of that work was done for a price rather than for a tender.

Councillor Wearne—Yes, that is right. That is correct.

Mr PETER MORRIS—Has that work gone to tender now, or do you want to tell us later about that?

Councillor Wearne—No, it is still, to the best of my knowledge, carried out on a contract basis.

Mr PETER MORRIS—But on a negotiated price, not by tender?

Councillor Wearne—Yes, on a negotiated price is still the way they are doing it there.

Mr PETER MORRIS—You are aware of what has happened in Queensland where you have got the performance proposals put by Main Roads Queensland to enable councils to stay in that picture and support their work force? Has the association had a look at that, or are they happy with how that is working?

Councillor Wearne—If I could perhaps say that I do not think local government has any fear in entering into a competitive situation where it has to tender out. If I can just return to market testing and speak for a moment about the importance of that. I think local government happily accepts that the need to market test gives it a cost internally of carrying out a particular service so that it knows what it costs in comparison with what an external provider can do it for.

Then when you have got the gap in the middle, whether it is in favour of the council or in favour of the private contractor, a decision can be made in social, economic and work force level terms and can be taken transparently and knowingly. For instance, if you found that an external provider could do a job for you for five per cent less than you can actually do it yourself, then the figure is out in the open. The council makes a decision based on work force levels and economic impact to a town, if it is a small one. The real need is the need to know what it costs.

Mr PETER MORRIS—This is vitally important to where we are going. Do you write that into the tender? I do not disagree with what you are doing but do councils take into account the social and economic impact?

Councillor Wearne—It is entirely up to them, but I think they would. It is purely a matter of the tender process being transparent enough for it to be right out in the open so that everybody knows that they are taking a decision along those lines.

Mr PETER MORRIS—It is a bit hairy.

Councillor Wearne—I think it depends on the way that the council views it. I would also add that I do not think it is a real issue at this stage, but it could be.

Mr PETER MORRIS—I think it is important in relation to where we are going on this whole question when Queensland sees it as being so important that they have those special arrangements. If one of our recommendations was that all works performed by council be put out to tender, we need to understand what the likely implications of that would be—particularly for country councils is what worries me.

CHAIR—One of the implications will be that, in a lot of areas, the council is the sole contractor in the area with the equipment to do the work.

Councillor Wearne—Yes, that is right. That is very much the case at the moment.

Mr Rufford—Is that the case in all parts of Queensland? My understanding was that there were parts that would not be required to go to tender.

Mr PETER MORRIS—In some areas they do not have tenders, yes, where there is a lack of competition.

Mr Rufford—I understand that this was actually worked through with the local government association in Queensland. So local government were actually party to that outcome. From an officer's point of view, I would see that as not being a problem in the other states.

Councillor Wearne—I agree with that.

CHAIR—Gentlemen, thank you very much for both of your submissions and also for coming along this evening. There was one question you took on notice to get some information back to us—

Councillor Wearne—It was on private sector funding from our last meeting.

CHAIR—There were some other statistics that I think you were going to get for us.

Mr PETER MORRIS—I asked you for the expenditure. Your expenditure is covered in there, but I was interested in the likely impact of private sector funding. The other matter is whether you want to be a party to all of those discussions. You think that what your statement means is that you would be a party to discussions on RONIs where there is a local government component only or a council component only.

Mr Rufford—Our preferred process would be a strategic process that involved the three levels of government. While the state might do the actual planning process, we would prefer to be party to that process together with the Commonwealth so that the outcomes would reflect the inputs that local governments had made. In particular, the definition of the roads of national importance need to be an agreed outcome by all parties to that process. I think our position would be mainly to promote a process that perhaps breaks down some of the barriers and delineation of responsibilities that came out of that special premiers' conference a few years ago to become a more inclusive sort of process.

Mr PETER MORRIS—And is the national local road inventory finished? You are going to have it to the committee at this end of this month.

Mr Rufford—Yes, we have an inventory now which has been provided in part by the grants commissions in all the states.

Mr PETER MORRIS—That would be useful. Would it be possible to get that to us?

Mr Rufford—Yes, certainly.

CHAIR—Gentlemen, thank you very much for making your time available. I agree with the deputy chairman: thank you very much for that comprehensive submission, particularly the supplementary submission. It was very helpful in the professional way it has been put together. You might pass those comments on to your organisation.

Councillor Wearne—Thank you very much, Mr Chairman.

[7.46 p.m.]

DOUGLAS, Mr Robert, Director of Taxation and Micro-economics, National Farmers Federation, 14-16 Brisbane Avenue, Barton, Australian Capital Territory

GRIMSON, Mr Mark, Economic Policy Officer, National Farmers Federation, 14-16 Brisbane Avenue, Barton, Australian Capital Territory

CHAIR—I welcome the next witnesses from the National Farmers Federation. Thank you for making your time available this evening. We have received your submission. Gentlemen, would you like to make a brief opening statement?

Mr Douglas—Thank you, Mr Chairman, for the opportunity to appear before the inquiry. In my statement, I am going to firstly explain why road transport is important to rural and regional Australia and in particular to agriculture; secondly, highlight what our recommendations were in our submission; and, thirdly, detail the results of some recent research we have on hand, which has been given to you as an exhibit, which indicated that rural and regional Australia is being over-taxed about $1.5 billion per year with the current system of road charging.

The high level of taxes placed on the transport industry continues to unfairly penalise people in rural and regional Australia who rely heavily on road transport. The use of fuel taxes to raise consolidated revenue continues to have an adverse impact on our population distribution. People living in rural areas have limited access to alternative modes of transport. This means that simple everyday tasks, such as shopping, visiting doctors, et cetera, involves paying taxes by way of fuel excises. Not only are basic services more remote in rural and regional Australia but users must pay greater taxes in order to access them. To that extent, there is a tax on rural living which may adversely affect where people choose to live and to work.

Transport costs account for approximately 10 per cent of the agricultural sector's total operating costs and three-quarters of this is spent on road transport. Since much agricultural production takes place away from major urban centres, and due to the bulky nature of most of the products, the agricultural sector spends much more on road transport as a proportion of the value of total output than do other sectors of the economy.

The high dependence on transport and its cost in the agricultural sector is also a significant factor in the sector's ability to compete in international markets. Accordingly, the efficiency and productivity of the road transport sector has a significant impact across the entire economy, especially where competition is frequently against other exporting nations who face less onerous transport costs.

Given our large freight needs—we are a very large country—the NFF believes that it is counterproductive to continue to burden the economy, in particular the trade sector, with excessive taxes which cascade through to the export sector. While federal fuel excises has increased 500 per cent since the early 1980s, the capital stock of the nation's road infrastructure has increased by less than five per cent over that period and is relatively static.

You will recall that we made the following recommendations in our initial submission: firstly, that the Commonwealth establish an appropriate framework to ensure that road infrastructure is sufficient to achieve the economic, social and regional development goals of the nation; secondly, that the Commonwealth recognise the poor quality of many of our rural roads, especially the quality of the rural bridge network and the quality of our major highways; thirdly, the Commonwealth undertake fundamental tax reform to remove the excess tax burden from the road transport sector which currently acts to reduce the competitiveness of the export sectors; fourthly, that road user charges be set on a marginal cost basis in order to more accurately reflect the full cost that road users impose on others and therefore to internalise the massive costs of congestion, pollution et cetera in order to recognise the current overcharging of rural road users; and, finally, that the Commonwealth put in place the necessary measures to allow the private sector to further invest in road infrastructure projects with high economic return.

To further support our recommendations Nos 2 and 4 on the poor quality of roads and also on marginal cost charging for roads, we have had further research undertaken—which we received today—which highlights a current overcharging of rural road users under the current arrangements of a uniform excise. This work was undertaken by the eminent transport consultant, John Cox, who has formerly worked for the World Bank and the Asian Development Bank. He suggests that rural road users are being overcharged $1.5 billion annually as a result of the current regime of taxes and charges. The report has been provided as an exhibit, and I just make the point at the present time that it is a consultant’s report and not everything in it is necessarily NFF policy, although we support the report.

The current road user charge consisting of a uniform fuel excise does not differentiate between rural and urban road users and therefore does not take into account the significant negative externalities that result from urban road use, particularly in, say, Sydney and Melbourne. As a result, the excessive charges placed on rural road users have the effect of distorting resources away from rural and regional Australia. In addition, Mr Cox argues that our major best primary rural roads are well below international best practice and raising these roads to international standard would require expenditures of over $5 billion. It is estimated that the extension of the rural primary road system to world best practice would also reduce the annual death toll on our rural roads by about 83 fatalities per year.

It is for these reasons that we believe there is a need to change the present system of fuel taxation from a uniform excise to one where road users are charged on the basis of marginal costs which they are causing other motorists—in other words, things such as congestion and the road authority maintaining the pavement—as well as the wider community for things such as the costs of the environment and the costs of road accidents.

The research suggests that if fuel prices were continued to be used as a main source of collecting road user charges, fuel prices in rural and regional Australia based on total marginal costs should average about 60c a litre—approximately 15c to 20c a litre less than the existing prices due to the lower externalities associated with rural road use. In turn, these cost savings based on standard general equilibrium models would result in an increase in GDP of about $2.25 billion, most of which would be retained in rural areas. In contrast, road users in the two large cities of Sydney and Melbourne are currently being undercharged by respectively $980 million and $900 million compared with charging on a full marginal cost basis.

The NFF recognises that petroleum based road user charges are but one means that could be used in the future to fund road costs. There are other methods which may be more desirable, including the use of electronic charging systems, which could replace some or all of the petroleum based charges.

The federal government's increased reliance on fuel excise as a source of general or consolidated revenue is further evidence of the chronic need for fundamental tax reform. The shortage of public funds for investment in roads is likely to remain under significant pressure as long as a narrow tax base exists. Therefore, NFF urges the committee to recognise tax reform as a critical part of any solution to improving the competitiveness of road transport in Australia.

I welcome questions at this stage but, as the exhibit has only just been handed to you, when you have had a chance to have a more detailed read of it, if there are further questions, we would be quite happy to entertain those at a later stage.

CHAIR—When we had a public hearing in Victoria, the Victorian Farmers Federation advanced the view that they would prefer to see all the responsibilities that were currently undertaken by the Commonwealth with regard to road funding devolved to the states, including some of the taxing powers, and that the Commonwealth should stay out of involvement in road infrastructure altogether. What would your opinion of that view be?

Mr Douglas—I am not sure that the NFF has a policy on this, but it would seem to me that there may be constitutional problems in devolving more of the Commonwealth tax base to the states. That is perhaps not an area in which I am expert enough to give an accurate answer.

CHAIR—It just seemed to the committee to be an interesting view being put forward by the VFF in terms of where a lot of the funding comes from for rural and regional Australia, and particularly in terms of the evidence you have just given us with regard to the inequities in the road user charges. I agree with you: Australians have to take a different view to road user charges, whether it is just a general revenue base or there is a perception that it is collected to be spent on roads, or whether it should be a traffic management issue. That was a point that was raised by the VFF.

Your submission also notes that a strong case exists for the extension of the national highway system into major urban centres to provide direct routes to ports, airports and distribution centres. Would you like to expand on that a little bit?

Mr Douglas—Yes. Basically, one of the areas where the Australian road system is particularly deficient is in the area of major rural roads and those types of roads. If you have a look at page 4 of the submission we have just handed around, you will find that when you look at an international comparison of primary road systems, Australia is in fact quite low by world standards, say, compared with Canada, which is of course a major competitor; the United States, which again, is another agricultural competitor, and West Germany and France.

The deficiency seems to be in the roads from the major population centres which are off the coast to those areas on the coast where there are either major airports, freight airports or shipping facilities. If we are looking at that area, I think our amount of good quality, international quality road for that type of purpose is about 10 per cent of what we would find in the United States. So we see there is a critical need to get the more major primary routes upgraded, in many cases to the status of dual carriageway. But it is happening very slowly.

CHAIR—Is there not a correlation there between the size of the American economy and the size of the Australian economy? Would the Australian economy be somewhere in the vicinity of 10 per cent of the size of the American economy, or less?

Mr Douglas—Possibly, yes. But if you were to have a look—

CHAIR—I am just interested that you were saying that the quantity of international quality road in Australia is about 10 per cent of that in America. We are talking in kilometres?

Mr Douglas—In kilometres. But in other areas, when we look at the size of population, for example with urban freeways, we are up with the United States by international standards. In the amount of local roads we have we are up with the international standards of, say, the United States. If you look in many states at the type of pavement smoothness we have—how smooth our roads actually are—and particularly with some of our rural roads, again some of them are up at international standards. Where the deficiency seems to be is in the primary roads from the major rural population centres to the ports and to the airports. That appears to be an area where we are in fact falling behind.

CHAIR—Would you agree that maybe one of the reasons for that would be that the decision making process in funding some of these roads is quite often predicated on the benefit-cost analysis, and the BCRs are not going to be good enough on some of those roads to beat what it might be, say, on a highly used urban road?

Mr Douglas—Not having studied one of these particular benefit-cost ratios, I should imagine if you took into account the full costs and the full externalities of providing rural primary roads that they would be up with urban roads.

CHAIR—I think you will find that is the key element and that some of those externalities are not taken into account.

Mr Douglas—Yes. If the externalities are not taken into account, then of course the BCR will be wrong.

Mr PETER MORRIS—I think if you take the externalities into account it makes it worse because, in one of the submissions earlier today, it talked of congestion as one and pollution as another with a much greater impact in the urban areas than they have in the country areas. The value of that externality is much lower as a proportion.

Mr Douglas—There are other externalities, of course, such as the externalities of having a good rural and regional economy and of having good cohesive social structure in rural areas, which equally are not being taken into account.

Mr PETER MORRIS—Do you want to do a study and research establishing the value? I think what the chairman said earlier is that, if you look at the population settlement pattern, there is a major difference with the US because we do not have a mid-west to generate enormous transport tasks. I could not follow your reasoning in the table you referred to because the one you have on page 4, if I am reading it correctly, talks about vehicle kilometres.

Mr Douglas—That is right. That is much the same thing as population. Obviously, if you have a bigger population like the US—

Mr PETER MORRIS—That is right.

Mr Grimson—In addition to that question which was initially asked, in the table on page 4 we are talking about the size of the US economy versus Australia, and thus you would have a lot more length of road. We are just talking about proportions here, and we are saying nine or 10 per cent of total rural travel is on major freeways, whereas in the US it is 38 per cent. Even though our population is smaller, and obviously there are a lot less vehicles travelling on those roads, as a proportion only one-quarter of our rural road travel is undertaken on those types of major primary roads.

Mr ROSS CAMERON—I identify with a couple of the questions raised by the chairman and the deputy chairman in that it does seem to me, as a commonsense lay person, that this argument about the return on investment on rural roads has whiskers on it. Do you not constantly run up against the problem that, however you cut the cake, rural roads are used much, much less than urban roads?

In my electorate of Parramatta, when you talk about congestion and pollution, one motorway of 22 kilometres is going to take out about 30 sets of traffic lights and be used by about 60,000 people a day. That is 60,000 people who do not have to sit at 30 sets of traffic lights in their daily journey when commuting. There is not a road anywhere in rural or regional Australia that can come anywhere near that for return on the dollar, even on an externality such as the bush.

Mr Douglas—To a certain extent, I would beg to disagree. It is, of course, down the rural roads that 25 per cent of our exports comes from, which provides a valuable contribution to our export earnings. It is where a lot of our food comes from. Similarly, to a lesser extent, it is down the rural roads that the mining industry gets its exports out, though some have trains and other arrangements, where they go directly to the ports. So, to a lesser extent—

Mr ROSS CAMERON—Let me put this to you. You want to talk about exports. Even though rural roads carry a higher proportion of export traffic than city roads do, I guarantee you that motorway will outperform any piece of rural road you can point to virtually anywhere in Australia, except directly between a major open-cut mine and a port. On export as a category, that urban road is going to outperform you by a multiple of six, seven, eight or 10 every time. I feel like this discussion about externalities usually hides a multitude of statistical sins. I think the reality is that, when the NRMA and all these other people come back to us, they say that the great deficiency is not investment in rural roads but in urban roads. It seems to me, as a lay person, that it is hard to make any other case stack up.

Mr Grimson—Certainly we have had evidence. Even John Cox, in our supplementary piece of work that we have put to you, suggests that there is a deficiency in some urban metropolitan areas. Certainly a number of them have very high rates of return. One of the major critical issues that we would like to highlight is the fact that, firstly, people in metropolitan areas should be paying more for using those roads and, secondly, people in rural areas are being greatly overcharged because of the lower cost of driving or using the rural roads. Thus, as a result, you are getting the reduction of population in regional centres, and you are continuing to contribute to that because of the overcharging in rural regions.

Mr ROSS CAMERON—I think the return on investment on an urban road is much greater than what it is on 99 rural roads out of 100. That is why we should be spending the money there.

CHAIR—Do you have any further questions, Mr Cameron?

Mr ROSS CAMERON—That is probably sufficient, Mr Chairman.

CHAIR—I was going to suggest that the representatives from the NFF are here to give evidence, not you.

Mr ROSS CAMERON—I still think the evidence ought to be robust.

CHAIR—You have made your point. Mr Lindsay, I believe you have a few questions.

Mr LINDSAY—In your first recommendation, you say:

That the Commonwealth establish the appropriate framework to ensure the road infrastructure is sufficient to achieve the economic, social and regional development goals of the nation.

Mr Douglas—That is right.

Mr LINDSAY—Economic is all-encompassing; social is all-encompassing. Suddenly you are down to regional. Why did you leave out the rest of Australia?

Mr Douglas—I suppose, to a certain extent, we did not mean to leave out the rest of Australia. We apologise if our submission gives you that idea. Nonetheless, we do feel that rural and regional Australia is our particular concern. We feel that, in particular, rural roads have been obtaining less funding than perhaps they deserve, particularly the primary roads.

Mr LINDSAY—Your second recommendation talks about the quality of rural roads. What if I said to you that it is not a function of the Commonwealth and that it should be the function of a state or a local government? How would you respond to that?

Mr Douglas—Assuming an adequate tax base and an adequate form of funding were provided, I am not sure that we would necessarily have any problems. At the present time, the Commonwealth is collecting large taxes on road use. A lot of those taxes go to consolidated revenue. Only a small portion, less than a third, goes to roads. So, if it were constitutionally possible, if the Commonwealth were to perhaps vacate that tax base, leaving it possible for the states and local government to put on adequate road user charges at a marginal cost basis and provide adequate roads—

Mr LINDSAY—That leads into your third recommendation, which talks about tax reform. In your evidence tonight, you talked about tax reform. You have raised the matter in your opening statement. Were you referring to tax reform in the narrow sense of tax reform on things like fuel excise, or were you talking about it in a much wider sense?

Mr Douglas—The NFF policy on tax reform which pre-dates the current interest in tax reform—which is a longstanding policy; that is, it has been there for several years—is basically that it believes that fuel excises and wholesale sales tax should be removed and the revenue made up by use of a goods and services tax. That is our policy on that particular issue.

Mr LINDSAY—If your fuel excise, the price of fuel, just does that, then that would put Australia out of kilter with the rest of the world in terms of fuel price, wouldn't it?

Mr Douglas—There are some places with cheap fuel; there are some places with more expensive fuel.

Mr Grimson—I will just add to that. It does not necessarily mean that fuel prices would come down in all areas, especially metropolitan areas, if you were to charge the full cost of road usage. In the example in our supplementary evidence, if you were to remove the excise as it now stands and replace it with a 22 per cent wholesale sales tax and charge users at the full extent of road user charges in metropolitan Sydney and Melbourne, based on that analysis, those road users should be paying $1 a litre for fuel. That would be even if you only charged at 22 per cent, rather than whatever the percentage of tax is now.

Mr LINDSAY—Did you suggest to members how that might be achieved?

Mr Grimson—One mechanism that John Cox points to, which we do not necessarily have a position on, is that you would need to establish road corporations which would then be responsible for charging the road user under their jurisdiction and the corresponding roads. At this stage we think that obviously there would have to be some sort of arrangement between the federal government and state governments.

Mr LINDSAY—This has been all terribly logical, because that then leads into another comment I was interested about in your evidence. You said:

> In the future, it is envisioned that an electronic charging system could replace some or all of the petroleum based road user charges.

That is a bit in the future.

Mr Douglas—We acknowledge that that is in the future, but it is not that far away. There are also other mechanisms that can be used. One example—which we do not necessarily endorse—is the New Zealand system of using hubdometers for heavy vehicles. So heavy vehicles can be charged on their exact use of the roads. There is a number of other mechanisms. The point we are trying to make is that we are not necessarily wedded to any one mechanism for collecting this tax. As time goes on, as technology develops, other mechanisms may be possible.

Mr LINDSAY—Do you agree that the price of fuel is very sensitive in the eyes of the users and that a cent or two cents change is often very significant in the minds of consumers?

Mr Douglas—It is seen as being significant. People certainly talk about it but I think the economics of it is that fuel basically has a relatively inelastic demand. In other words, demand is not as sensitive to changes in price as with some other goods. With some goods, you get a big change in the demand according to the price but the economic evidence with fuel is that it has an inelastic demand. But nonetheless, when the price of petrol fell by about seven cents a litre last week in Canberra, I certainly noticed it. I talked about it and I filled up.

Mr WAKELIN—On the excise and the cascading effect of the indirect tax system on freight generally, you are saying that fuel prices in the country are about 15 cents a litre too high—

Mr Douglas—On average.

Mr WAKELIN—In terms of what a road user charge should be?

Mr Douglas—That is right, a comprehensive marginal cost road user charge.

Mr WAKELIN—I would like to believe that. Obviously just having this document now, it is somewhat difficult to do it with any degree of fairness but there are so many factors that can influence the price of fuel and here you are really saying that maybe the excise alters it by 15 cents et cetera. But there are a whole range of other factors.

Mr Douglas—Yes. There are a whole lot of factors. Basically the factors that we have taken into account in this analysis are the damage to the pavement, the costs of congestion, the costs of accidents including externalities associated with accidents, and environmental costs such as noise and, more importantly, air pollution. Basically, for example, things like the cost of maintaining the pavement do tend to be higher in rural Australia than in urban Australia but, on the other hand, other factors such as congestion costs tend to be lower. When you put them all together, we end up with the 15 to 20 cents a litre lower price in rural Australia compared to what is being currently charged under uniform—

Mr WAKELIN—The purpose of the question is really to find out how reliable these figures are. Are you totally convinced that this is around the mark?

Mr Douglas—We are convinced that they are around the mark, yes.

Mr Grimson—On page 19 of that report that you have in front of you, that is based on those externality costs and also based on the current retail prices assuming that the ACCC continues to offset the wholesale price. There is a three cents a litre freight differential for rural areas and 6.5 per cent retail margin in rural areas, so we think it is pretty accurate. We have taken into account those elements.

Mr Douglas—If you have a look for example at the table at the bottom of page 18, you will notice there are quite significant differences by state so that, for example, if we were setting petrol prices in Victoria, it would be 54 cents a litre, whereas in Western Australia 51.7, taking all these things into account.

Mr WAKELIN—Can I put it to you another way in simple arithmetic: where I live it is about 80 cents and in Adelaide 70 cents. In that cost, there is an 11 cent state tax on top of the federal tax. There, in one hit, you have got a mark-up of about 15 or 16 cents a litre difference. I just fail to see how we could say—I would love to believe it but I am not convinced by this at the moment. But I will leave it.

Can I just move on to the one on the fatal accidents in comparison with the US on page 13? What you are trying to suggest there is that our roads are not of the same quality or are of variable quality so therefore we end up with different death rates?

Mr Douglas—That is correct.

Mr WAKELIN—There would be other, as we call them, externalities as well, no doubt—speed limits and a whole range of factors? Are you convinced by the evidence here?

Mr Douglas—I am convinced of the order of magnitude—whether it is 83, 81 or 87—but the fact that it would be more than 70 and less than 90 I am reasonably convinced on because beyond this there is other more detailed work that I have read that John Cox has done—

Mr WAKELIN—The last question I have is in terms of investment and export income. I think you have suggested—and I have not checked it and I think it was out of another document—that there is something like a $2.5 billion export income improvement in terms of investment. Did I see that here somewhere?

Mr Douglas—Yes. That is out of the—

Mr WAKELIN—Once again, can you just describe that? You are saying that because of the investment in improved road infrastructure you can get that sort of degree of export income improvement.

Mr Douglas—What we are actually talking about is improvement in agricultural GDP of $2.25 billion, so the economy overall was going to have a $2.25 billion greater GDP, much of which would be retained in rural and regional Australia. I think those were the exact words I used.

Mr WAKELIN—In terms of the transport task and road and rail, do you have a view about what might happen if rail were to become a little more dynamic and a little stronger and therefore there would be less pressure on roads? Do you have a view about the complementarity of our transport systems and the impact on road? It is not in the brief, perhaps, but I just want to ask the broader question.

Mr Douglas—The only thing I could say would be the general observation that, if we did have a more dynamic rail system, obviously we would have less use of particularly semi-trailers et cetera in the road system. That is a fairly obvious point.

Mr WAKELIN—I just wondered if you had done any work.

Mr Douglas—No, I have not done any work on it.

Mr WAKELIN—It is obviously a key part of the industry as well.

Mr Douglas—Yes.

Mr PETER MORRIS—I think generally there is a case like that where there is a lack of integration of rail and road. Certainly, I think, in the Bowen basin where the grain handling facilities were there and the state refused to construct the road links to the rail collection facilities. So you had a policy decision going in opposite directions, and then the community was calling for roads to be built when, in fact, they have excellent rail handling facilities. That is something that the industry needs to have a much stronger say on, I think.

Listening to your presentation on the differential pricing of fuel, which I see as extremely difficult to implement, do we have any information on the geographical sources of the excise that is being collected now? We have it state by state, but the massive volumes are sold in the metropolitan areas, taking up the point that Mr Cameron was referring to. You can talk about the charge. You are only talking about the rate per litre. You are saying that the rate per litre would be lower in country Australia. I think it would be important if we had some idea about that. I am not asking you to do it but I thought you may have come across it. How much is collected in provincial Australia and how much is collected further west?

Mr Douglas—I have not seen that information, but I should imagine—

Mr PETER MORRIS—It would be very relevant to what you are putting.

Mr Douglas—That is right. I presume, because most of it is collected also at the major oil terminals, it is possible that even—

Mr PETER MORRIS—You could go on the sale figures. It is the retail sales volume.

Mr Douglas—Yes, retail sale volume.

Mr Grimson—On page 20 it says that it estimates that 10 billion litres of fuel is used in rural road transport and, based on the 15 cents a litre lower—

Mr PETER MORRIS—Where are you reading from, Mr Grimson?

Mr Grimson—I am sorry. It is on page 20, in the second paragraph from the bottom.

Mr PETER MORRIS—Yes, 10 billion. Okay, you have that figure, so somewhere you have—

Mr Grimson—But I do not have an actual breakdown.

CHAIR—In your submission, you made mention of private sector funding. You indicated that the NFF would support private sector funding on some of these major arterial roads that you are talking about. I will just throw up an instance of one of these key corridors as far as primary production is concerned—the Great Western Highway, coming from the central west of New South Wales through into Sydney. On a corridor like that, would you support private sector funding and the possibility of a toll?

Mr Douglas—To a certain extent that is already there because, once you get over the mountains and further into the city, many people choose to pay the toll. I suspect the main section still to be expanded is through the Blue Mountains. Assuming the toll was set at an efficient level, reflected marginal costing and the resultant increase in road quality was such as to justify it, I cannot see that we would have any objection.

CHAIR—I accept that point. An earlier comment you made was with regard to some of the deficiencies in the national highway system in accessing ports and airports. I presume that you are talking about roads such as the Eastern Ring Road in Melbourne and the Western Sydney Orbital. Are they the sorts of gaps that you are saying exist? Currently and in the past, the policy of the Commonwealth to fund the national highway system has ended when it gets to the boundaries of major conurbations. But you are saying that it should continue right to the key access point as far as freight is concerned?

Mr Grimson—We see that it would obviously benefit rural and regional Australia and its exports to have a strategic link—not just stopping on the outside of cities but servicing those areas, distribution and key strategic points such as rail, sea links or airports, yes.

CHAIR—We would like to thank you very much for making your time available this evening. Certainly, thanks very much for your submission that we received and the further exhibit this evening. When the proof copy of the evidence is available, we will make it available to you. Thank you very much.

Resolved (on motion by Mr P. Morris):

That the committee accepts as evidence the document entitled *Road Reforms Needed to Benefit Rural Regions*, presented by the National Farmers Federation, for inclusion in the committee's records as exhibit No. 64 of the federal road funding inquiry.

[8.28 p.m.]

CRAIG, Mr Leslie, Acting Assistant Secretary, Minerals Development Branch, Coal and Mineral Industries Division, Department of Primary Industries and Energy, GPO Box 858, Canberra, Australian Capital Territory 2601

HEARN, Dr Simon, First Assistant Secretary, Corporate Policy Division, Department of Primary Industries and Energy, GPO Box 868, Canberra, Australian Capital Territory 2601

O'MEAGHER, Mr Bruce, Assistant Secretary, Microeconomic Reform Branch, Corporate Policy Division, Department of Primary Industries and Energy, GPO Box 858, Canberra, Australian Capital Territory 2601

ROSE, Mr Roger, Chief Research Economist, Australian Bureau of Agricultural and Resource Economics, PO Box 1563, Canberra, Australian Capital Territory 2601

CHAIR—Welcome, gentlemen. We have received your submission. Would you like to make an opening statement?

Dr Hearn—In making a quick opening statement, I recognise, looking at the groups that you have had before you and the submissions that you have had, that there is a danger that we could be very repetitive in coming out with a wide range of statements about the policy of road funding so I will try to limit myself to two things.

Firstly, I will try to bring out purely Primary Industries and Energy perspective rather than trying to go too wide because you have had other departments here and industry bodies—and I fear that would be repetitive. Secondly, in looking at the breadth of this agenda that you have, we will also limit ourselves largely, but not exclusively, to what we think are the main impediments, the role of government and the possible role of industry. If I limit myself to that, perhaps I can help without repeating.

As you would have seen, and as you would have no doubt reflected on, as a department we are looking at how the government, in its policy making forums, can give full consideration to Primary Industries and Energy's interests while at the same time recognising that we are part of a much wider economy. Nothing probably reflects that more than the subject we are dealing with, which is road funding and road policy.

Primary Industries and Energy is looking at industries which, as you would have heard, make up 20 per cent of GNP and 75 per cent of merchandise exports. The infrastructure development reflected by roads is obviously critical not only to agriculture but also to the mining and energy industries, for obvious reasons which I do not need to point out. More widely, they are critical to rural and regional communities. Therefore, in a policy context, both our department and the departments with prime carriage in this area must get into not only the economic and social arguments but also the environmental arguments. I arrived part way through your previous meeting. Quite clearly, you have been touching on all three of them.

In talking with our industries and in working on these policy areas, we find that it is an area that becomes very complicated by our three-tier system of government. Consequently, we are really dealing with a very imprecise subject in which people are trying to inject precision; I think it is admirable that people try to do that. We have not tried to enumerate precise numbers on these, but they help. At the end of the day, we remain convinced, as you will see in our submission, that governments and industry will not be able to get away from certain judgments about what is the right way to go. It is in making those judgments that we really have to be very careful that we identify the right principles on which we make those judgments and how we set about implementing them.

We have here a classic example of market failure. You could say that we could all go to the private sector and that the private sector could pick up the major part of the funding in various ways. There is a host of mechanisms, which I am sure you have been through. Each mechanism has strengths and weaknesses. We do not think you can go entirely to the private sector because you are going to get market failure. You cannot get all the commercial returns. We can argue about it all evening. Clearly, there is a role for the private sector in there. Similarly, there is a role for government. It is in getting the right division between government and the private sector where your committee and us, as advisers, have to try and hit the nail on the head.

In terms of getting that right division—we could touch on just about all the matters of government—we think there are three roles for government. This involves not only the Commonwealth but very much the Commonwealth. In addressing the right process, there is the overall strategic outlay. I heard a question earlier about it. We will not touch on it now, but we would certainly advocate a better integration between road, rail and air. We have had improvements in Australia. We think we can go a lot further in the interests of the industries with which we work.

Secondly, in strategic planning, there is consultation. We feel that there could be more effective consultation with industry parties to get the real feeling from the users, in an industry sense, and the regional communities of what is needed on the ground. We can do better in that area. Lastly, in the strategic area, we need suitable information exchange. We have a lot of information on roads and other things, but somehow we need to get more directed information so that the users, planners and everybody else can communicate better.

The second level is project appraisal. Why do you put a road in a particular area? What is the particular appeal in having road and not rail? I guess that it varies a lot across Australia. In a sense, it is because we probably need better cost benefit analysis being done more consistently. We are going to argue that we need more consistency across the country. This consistency is broken up because of the relative roles of the state governments; that is a fact of life. You then have the local governments. There appears to be a lot of inconsistency. In examining the road infrastructure in Australia, we do not find real consistency, from a cost benefit analysis approach, being taken in many instances. Some of them are just hit and miss type approaches while others are more disciplined. We would see scope for improving and getting better uniformity there.

We certainly see a role for private provision of roads, but that is going to vary enormously. We are going to have to take on the major roads case by case. In the case of the industries that we deal with, quite clearly, very often the highly corporatised mining industry finds itself in a situation where it is having to pay large amounts for roads. In many instances we find those industries prepared to do that, but what is the right amount and how do we define that, particularly when those roads are sometimes used by other users and not exclusively by the mine?

The other side of the agenda is the farming community. Again, they are not necessarily chipping directly into the building of roads but they clearly get involved through the rates and so on to a different extent in the funding of roads. There is a clear lack of uniformity. I believe that the industries that we are dealing with could benefit enormously from having a better comprehension and a greater simplification of how these decisions are going to be made by governments at the different levels. I think that is probably one of the problems that governments need to address.

I have talked about consistency in taxation. There are inconsistencies in taxation. You are well aware of them; I do not need to enumerate them here. There are inconsistencies in the taxation between roads and rail as well. I do not think we can get the perfect world, but the greater consistency we can get, the better, and the greater transparency, the better.

Lastly, I wish to mention the regulatory framework. In so far as there will have to be some regulation of roads—we are not looking for excessive regulation—and in so far as there is that transparency of that regulation, if we are going to move into pricing to supplement the taxpayer contribution to road funding, we believe there will always have to be some taxpayer contribution to this because there is a social element and where it is clearly defined as social elements, I guess you have a logical argument for taxpayer contribution out of general revenue. But we foresee that there are other areas where you are going to have more private sector involvement in the future. To get the pricing mechanisms right so that you can take due account of the sorts of things that were raised in your previous meeting, which I will not go through again, we are trying to get as far as we can into proper pricing principles in terms of user pay and in terms of externalities.

Chairman, I do not think I will go on from there. That is a brief outline of where we are at in our paper. We have limited it to those sorts of issues.

CHAIR—Thank you, Dr Hearn. You indicated in your opening statement and in your submission that the benefit cost analysis is an appropriate method to evaluate economic and social reforms and environmental impacts, but you said that there was a bit of a differential in application between states and there is not necessarily a consistency in results. So we can have a state coming along with a particular road project that might have a BCR of, say, five, but it might only have a two in another state. Is that the sort of thing you are saying?

Dr Hearn—I suppose, again, we cannot be in a perfect world, but when you are doing cost benefit analysis, it is increasingly important that we try to get some consistency in what is considered to be the main sorts of issues that should be taken into account in terms of calculating your returns and also your costs. I think there is some confusion existing there now and I think that is manifesting itself in terms of a great lack of uniformity across the country. Part of that is because different areas have more access to funding, but part of it is that we are not having consistency in the way in which we do our cost benefit analysis.

You are never going to get it totally consistent. But possibly the Commonwealth, as having the strategic and overall responsibility for micro-economic reform issues, could help through the various ministerial councils and elsewhere to try to bring at least some general principles into this that will help at the state level.

CHAIR—As far as externalities are concerned, how do you go about valuing that process?

Mr Rose—That is probably one of the critical questions in differences in benefit cost analysis. One of the critical judgments is how far you go. There are a lot of attempts by economists in a broad sense to try to get numbers on a whole range of non-market values. Even within the economics profession, most of those things are matters of dispute in both a conceptual and a practical sense.

There is probably a fairly convincing argument that if it is something which does not have a like market good, if you are moving far away from the spectrum of things that people are used to buying or used to buying substitutes for, it is one of those things where you are talking about the values that people might place on the existence of a particular species.

It is going to be extremely difficult to come up with a convincing valuation of that, so there has to be some cut-off point at which you say, 'Forget that. Let's go through and try to value those things which have market equivalents and which we think we can put some reasonable confidence bounds on.' We then have to make sure that, in the cost benefit analysis and the surrounding decision making, the other environmental values are accounted for. We need to think through a way of doing that which does not involve trying to load very shaky values into the cost benefit analysis.

In a lot of cases, you have environmental impact statements and associated state, local and sometimes Commonwealth requirements for particular protection and processes for managing the impacts. In essence, that is probably sufficient and probably the most appropriate way to handle some of those values.

CHAIR—Your submission also notes that there are some anomalies in current tax laws applying to mining related road investments which may preclude mining companies from gaining tax deductions. In so far as some of the inspections we undertook in the minerals province in north-west Queensland, some mining companies had directly contributed to the construction of roads that directly benefited them. Other mining companies were suggesting that the Commonwealth should be footing the entire bill of upgrading the particular piece of road that was going to benefit their operation. Do you see it as a reasonable expectation that, where there is a major piece of road infrastructure that is going to directly benefit a specific operation, the private mining companies should contribute significantly to the construction of that road?

Dr Hearn—Mr Craig will talk about the practicalities of the companies in a moment. I think there are two principles here. If you can clearly identify—there are probably cases where you can identify it with absolute certainty—that the road is specifically for the mine, there probably is a case to say that a user-pays system can apply. However, in the taxation treatment of that, regardless of what type of tax we want to talk about, our department would certainly be pushing the view that, as much as possible you should not be taxing inputs into industry. If you are going to have a taxation regime, it should be more on the output side of the agenda than on the input side. The input side goes directly into the costs, and it directly affects our international competitiveness. We are talking about export industries, obviously. If we are about improving national competitiveness, which we all are, taxing inputs is highly suspect. Having said that, I might ask Mr Craig to talk about specifics.

Mr Craig—I think what you raise is probably an example of an inconsistency in approach that we have in different regions and areas of Australia. For example, in the Carpentaria-Mount Isa region to which you refer, where there is a road specifically to provide access to a mine, the company will have no problems in funding that.

The problems occur once you start moving into public roads or national highways. Once again, in Queensland, one of the companies is actually looking to have a particular road upgraded because it is substandard to the size of vehicle that is moving on that road. I think the amount of movement of material that they would account for on the road would only be about five per cent. You may be looking at what contribution they might make to that. Once you start talking to the companies themselves, they would probably argue that they are contributing through taxes to government revenues and that, if it is a federal road, it should be funded that way. Similar examples exist in the initiative we have taken in the northern goldfields in Western Australia, where companies are being asked to contribute to some roads. Clearly, if it is of economic benefit for them to do so, some of them are prepared to contribute to those roads.

When they start looking at some of the more marginal operations, they then look at it a lot harder and really question whether they should be contributing, particularly with those operations that tend to be fly-in, fly-out. They are not using the road to cart material out. I am thinking of goldmining where they might produce an ingot and fly that out under security provisions. They are really using the road only to bring in some of their inputs. It is those sorts of areas where you are getting that inconsistency.

Mr LINDSAY—Can I continue that line, Mr Chairman? There are three scenarios that I am well aware of and they go like this. The first scenario is a goldmine that is in the middle of nowhere where there is no road and the mine puts in a road. It basically exclusively uses the road to transport infrastructure and small amounts of output out. The second scenario is, say, the Cannington mine where there was an existing dirt road, a stock route or whatever. Cannington upgraded 87 kilometres of that road to full bitumen, dual lane standard, and made it flood free. All of the inputs to the mine come down that road and all the output goes along that road in large quantities, big tonnages, to the nearest rail. The third scenario is the Cloncurry-Mt Isa-Ernest Henry situation where there is an existing national highway and the company wants to upgrade the highway for its own purposes.

I would just like the situation to be clear. In those three scenarios, would you be advocating that the tax treatment of the capital expenditure be full deductibility?

Mr Craig—The anomaly that we have raised in the tax act is based on a test which is 'primarily or principally used' for transporting materials. What we are advocating is that if a company spends money on a particular road, that it ought to be allowed to deduct the cost of that road rather than half-way through a period, or on an annualised basis, find that the tax treatment changes because they have to pass that test and other users have come onto that road.

Mr LINDSAY—So if there is another user on the road and there is some kind of social benefit, you are saying that should be disregarded. You are saying that if the mining company spends the money then it should be tax deductible. Is that correct?

Mr Craig—I would advocate that if they had paid for the road and it is related to their particular operation, and the initial purpose was to provide inputs and outputs from the mine, then yes, they should be allowed a deduction.

Mr LINDSAY—I have to say that I like you. Can we now discuss AQIS and their pricing policies!

Dr Hearn—Just on that point, we did talk about tax consistency and I think what you have put down there, Mr Lindsay, is that there should be some consistency in the deductibility of tax when you are doing expenditure. We talked about principles earlier on. I guess this is an example of where we are trying to argue for some consistency and transparency.

CHAIR—I think it is all a bit suspect but I will come to it a bit later on.

Mr WAKELIN—Mr Lindsay has just raised my point, that if for some reason the road usage changes then the tax regime changes. That does seem quite anomalous so I support—

Mr Craig—The interpretation by the tax office on this particular provision is that to pass the 'primarily or principally used' test, over 50 per cent of the material by weight or 25 per cent by number of vehicles must pass over that road. I guess if the road is put in place and there is some community benefit that develops from that, then I do not think the company should be penalised for it.

Mr WAKELIN—You cannot predict when that percentage might be reached, et cetera. The company may have invested and be encouraged by that very investment. I had hoped it might have changed but obviously it has not at this point.

Mr Craig—No, it is an issue that has been around for some time.

Mr WAKELIN—I come back to the inconsistency that you talked about and touch on the road and rail issue. Are there two or three points there that stand out to you in terms of the international competitiveness and the performance of our national economy?

Dr Hearn—The point I was making there is that it is in the whole debate of taxation. Obviously, as a country, we are entering an era where the entire tax system is under debate. In approaching that I guess it does present a greater opportunity outside of the main areas of the debate that we may be having as a country to look at some of the industry tax policies and how we are going to handle those. For example, it is my understanding that sales tax on materials used in railway construction and maintenance is reduced, if not to zero, to a lower level. I think we are dealing with a subject that has a lot of historical grandmother clauses in it. Similarly, there are other anomalies that have been discussed about the taxation of road use and whether we are getting the right tax in the right area and so on.

I guess if there is going to be an in-depth debate it is going to go right through the taxation system so there will be an opportunity to iron out where some of those anomalies are. We are not saying that there should not be a sales tax rebate or reduction on rail construction but, if you have it there, you have to ask yourself what is the quid pro quo on other areas of transportation? Are we setting up a distortion through that or are we not?

I cannot answer my own question other than to point out that these types of anomalies have emerged through time and maybe there is an opportunity now and in the immediate future, and in the deliberation of your committee, to advocate that people have a good look at this integrated approach that we feel is necessary for road, rail and air freight.

Mr WAKELIN—I suppose I was seeking whether there was any particular reference point or guidance that you were aware of that enabled us to be comforted in the knowledge that we were creating a more competitive economy. That is what I was throwing it open to. You raise the anomalies which we are aware of so I will not press it any further, unless you want to add something. Do you have a view about where excise falls in terms of the export industries generally? How does that fall in terms of our competitive economy again?

Dr Hearn—In terms of our competitors overseas?

Mr WAKELIN—Yes.

Dr Hearn—I am not in a position to give you a straight answer to that.

Mr WAKELIN—That is fine. I just wanted to raise it again but you made the point that, within mining and within farming, mining was paying its own way to a degree, in terms of infrastructure, whereas farming did not in the same way with rates but, of course, it pays significantly through excise, particularly on the road.

Dr Hearn—Yes.

Mr WAKELIN—I think looking at the tonne per kilometre component of their overall costs in production compared to mining would be quite interesting. I leave that there as part of the overall question.

Dr Hearn—I will take that.

Mr PETER MORRIS—Mr Rose, when you took the benefit to cost ratios, I got the impression—maybe it was a mistaken impression—that there is a form for calculating a benefit to cost ratio but that there ought to be some sort of a weighting in it, given the nature of activity for which your department is responsible. Is that what you really meant?

Mr Rose—No. There is only one way in principle of doing it.

Mr PETER MORRIS—It either meets it or it does not meet it. There is no special factor.

Mr Rose—No, I certainly did not intend to say anything like that. What I meant is that, if you are dealing with non-market things, you have to make a judgment about which ones you can get reliable estimates to add in and whether they come under the benefits or cost.

Mr PETER MORRIS—That is what I thought; it was a bit suspect. I thought, ‘He has some sort of unwritten formula here that puts a bit more weight in there because it is coming out of DOPIE’s area!’

Mr Rose—No, none of that.

Mr PETER MORRIS—So you did not mean that. It does happen sometimes in these organisations: Treasury does not always trust them; do they?

Mr Rose—No.

Mr PETER MORRIS—Yes, we know that Treasury does not trust them. At the end of 3.2 you have that little box that says on a project approach cost benefit analysis should be the basis on which road projects are determined. So that is what you are really standing by, are you?

Mr Rose—Yes. We realise that there are going to be times when that is much more practical in instances where it is fairly straight forward and in others where is not really straight forward. The most straight forward ones are obviously major link roads.

Mr PETER MORRIS—I was trying to set my thinking in the areas in which you have administrative responsibility such as mining. I am looking at your opening up—there is a bit of a cell here in which 20 per cent of your export product—

Mr Rose—Twenty per cent of GDP.

Mr PETER MORRIS—Twenty per cent of GDP comes out of your area—

Mr Rose—Or the industry’s.

Mr PETER MORRIS—You are hitting us for road transport. Then you have 20 per cent of GDP but a great mass of your stuff goes out by rail. Almost all of coal and iron ore are transported by rail.

Mr Rose—There is a fair chunk of that.

Mr PETER MORRIS—If you go back to what percentage of GDP goes out by road, it is a vastly different figure. I have not seen it but I am sure it would be quite substantially less. I just say that in passing—

Dr Hearn—Just on that if I may. What we have looked at in that paper, which you may have seen on page two, is that the prices paid for road services for the primary industries and energy areas is roughly about six per cent. In other words, road services as an input cost are between six and seven per cent. It is very evenly distributed between agriculture and mining there in terms of the total costs.

Mr PETER MORRIS—Yes, but when you say 20 per cent of GDP comes out of primary and extractive industries—

Dr Hearn—That is a total figure.

Mr PETER MORRIS—The road component would obviously be the minor component of that, not the rail component—that is just a quick guess. I was interested in what you were saying when you started off about putting taxes on the outputs rather than inputs. Can you help this ordinary lay person please understand that?

Dr Hearn—I think what we are saying is that you might not be able to do that entirely. What we are saying as a matter of principle is that, if you are pushing for competitiveness as an objective with income taxes and related types of areas—we are not advocating a high taxation regime necessarily—where you have to apply taxes in terms of industry policy as opposed to other aspects of taxation policy and you are talking about export industries, the lower the tax for the same burden on inputs as opposed to the other end, the output or the income tax, then we think that you are actually going to get much closer to improving the competitiveness in so far as that can be impacted by your taxation regime.

Mr PETER MORRIS—Okay. Now translate that into precisely what we are looking at here: are you referring to road user charges, fuel excise or what? That is what I do not understand. If we were to say, 'Yes, we accept your principle,' how would we apply it in the course of what we are looking at?

Dr Hearn—I might pass to Roger Rose in a moment but I would just answer the first part of that question by saying wholesale taxes and those types of taxes which fall heavily on the inputs that come into those industries are obviously going to be pushed up into their cost structure, because it is going to be passed one way or the other through the market process. Taxation is going to be passed up and down. Therefore in terms of competitiveness, we would like to see that you try to minimise those. If you have to have a revenue base, then you move it more into the income area rather than that side of it. Roger, would you like to add to that at all?

Mr Rose—I guess it is a little tough to make the balance between them when you have things that are aimed as user charges to some extent, as fuel excise is—

Mr PETER MORRIS—I am not saying it has to be. If we were to accept the principle, how would we apply—

Mr Rose—How you do it—if effectively you are charging a user charge for something or you are using a tax like a fuel excise to do that, that you constrain yourself to as near as you can to making it a user charge. In a sense, you go back to the rationale for having relief from the excise for off-road uses. That is part of it.

Mr PETER MORRIS—But only on the product going out from the mine, not on the input coming in?

Mr Rose—No, this is the fuel as an input. It extends obviously to not using other inputs as a tax base or a preference for trying to use the income or expenditure at the end of it. That way you do not distort people's choices about how they go about business. Instead, you are just collecting at the end a share of the result.

Mr PETER MORRIS—So you would have no indirect tax charges on inputs; you would only have income tax charges or company tax charges on the results of the operation?

Mr Rose—Income or expenditure, or income and expenditure. The practicality of it is that, in the fuel business, there is a resource rent element tied up as an attempt to put a user charge element in there. They are both potentially legitimate economic things to do.

Mr O'Meagher—In an ideal world, what you are looking for is a situation where you have the most efficient allocation of resources.

Mr PETER MORRIS—It is your suggestion, not ours. I am just wanting to understand it.

Mr O'Meagher—We do not live in an ideal world. Roads provide a service and those services provide input costs for industry. There are various ways that you can charge for the service. The taxation system is a convenient way, but not always necessarily the best way. But it is a convenient way of raising revenue or charging for the service that you provide.

Mr PETER MORRIS—How are you going to do this?

Mr O'Meagher—In terms of meeting Dr Hearn's argument, some people have argued that, under a restructured tax system, it would be possible to get an effective reduction of the tax on input or an elimination by rebating it. But then you raised the much broader issue—which I do not think anyone on this side of the table would want to get into—about what kinds of tax reforms you would have.

Mr PETER MORRIS—You just threw the grenade in, and you expect us to pick it up, do you? I do not see how you can implement what you are suggesting. But looking at page 6 of your submission—minimal access and minimal transport roads—you make the claim that, under section 10AAA, the expense incurred on roads to carry the output is tax deductible. Are you with me?

Dr Hearn—Yes.

Mr PETER MORRIS—But the inputs are not tax deductible.

Mr Craig—I think you will find that what we are talking about there is eligibility under that provision. That provision allows for a deduction over 10 years or the life of the mine, whichever is the lesser. If the inputs are not allowable under that provision, they are probably allowable under another provision, which is probably at about 2.5 per cent per annum rather than over 10 years. I think that is probably the difference there.

Mr PETER MORRIS—It is just the rate of deductibility.

Mr Craig—The rate of deductibility, yes.

Mr PETER MORRIS—Lastly, we looked at the Tanami road and that—

Mr LINDSAY—The Tanami road?

Mr PETER MORRIS—Yes. You were there. The proposal they put is precisely—

Mr LINDSAY—Do they know where it is?

Mr PETER MORRIS—Of course they do. Coming back to the Tanami road, you had a proposal put to the committee in the course of our inspections that there is a mine development going on there. They want a road that could not be justified for normal social users of the road. There are 20 vehicles per day using the road and tens of millions of dollars involved in the construction of the road. Are you saying that, in those circumstances, the company ought to bear the cost of the road? Is that what you are doing?

Mr Craig—That is what we would expect if it is a road specifically for mining purposes. If it is a public road or a community road, I guess you then get into the question of what is the social cost of it.

Mr PETER MORRIS—So where it is clearly identifiable as for earning of income only, then that is okay. It is clearly deductible.

Mr Craig—I think most of the things we are talking about in respect of division 10AAA do not apply inside the mine site. I do not think that there is a problem there, because it is very much a mine road. It is only when you get outside that and you get into the public roads that you have all of these sorts of anomalies and differing signals.

Mr PETER MORRIS—What we had put to us at Halls Creek was that we ought to make a recommendation for the funding of that section of road to that site because 20-vehicles-a-day traffic cannot possibly be justified on a user basis. But the mine is dependent upon it. They have five road trains a week.

Mr Craig—Another consideration with a road like that might be that, if it is in a prospective minerals region, and if there were other deposits about that would be marginal without that road, once the infrastructure is there they may then become economic. So you have got those sorts of considerations to take into account too.

Mr ROSS CAMERON—I refer to page 8 of your submission. I just want to make sure I fully understand this. Paragraph 3 says:

Due to access and equity considerations, there are situations where road users will not be charged the full cost of road usage.

This is in a full cost recovery model, as I understand it. It continues:

For example, there are community expectations that road users in rural and remote areas will be charged the same road prices as those in other areas. In these, or in similar circumstances where uniform charging is required, it is not appropriate that one category of road users should be charged higher prices or 'taxed' to cross-subsidise another category of users.

Just explain to me what that means. Does it mean that the marginal cost of road use in rural areas is higher than it is in urban areas and that you would not want to see the urban road users getting slugged for the cost of rural roads, therefore, you should do it by direct transfer rather than differential pricing mechanisms? Is that what you are saying?

Mr Rose—I think that is pretty consistent with what we intended. If government makes a decision to provide some basic infrastructure in rural areas on a community service obligation basis, then that is a general revenue source, rather than something that should be cross-subsidised, particularly across road users in other areas.

Dr Hearn—In regard to policy, we are also saying that this draws in—as I said in my introduction—so many aspects of government policy, and, if you want to be purely economic about it and be absolutely in a purist modelling world, you might go down a particular path. But the fact is that, in Australia, rural and regional communities are matters which governments have a particular concern about for economic, social and wider reasons—for example, the regional development of Australia, the diversity of Australia. There are all of these types of arguments, which are very broad things; I cannot quantify them for you.

If they come in, there has to be some judgments made. Again, as I said in my introduction, at the end of the day we can try to be precise and work at it, but at a certain point you have got to get judgmental. Where we are judgmental, there has to be some discipline in that judgmental approach—that is what we are asking for—and a recognition that, if you are trying to just go down the purely user charge approach without any other consideration, you may well make the wrong decisions. It does not mean to say that you do not have some user charges.

Mr ROSS CAMERON—I just want to get it absolutely clear in my mind that what you are really saying here is that marginal cost of rural road usage is almost invariably higher than the marginal cost of urban usage—isn't that the logic of the argument that you put down in paragraph 3?—and, therefore, if you go for a cost recovery model but you accept that we ought not to cross-subsidise one sector from the other, you would need some sort of direct transfer from government?

Mr Rose—Yes, to the extent that those marginal costs relationships that you suggest are true. We are not trying to make the judgment; we do not have the information to be able to make that judgment that that is invariably true.

Mr ROSS CAMERON—Let me just understand this. Your submission says:

In these, or in similar circumstances where uniform charging is required, it is not appropriate that one category of road users should be charged higher prices or 'taxed' to cross-subsidise another category of users.

What was the purpose of that statement?

Mr Rose—That was a statement of principle rather than an attempt to say that we know which groups of users are high cost or low cost.

Mr ROSS CAMERON—So you do not have a view about it?

Mr Rose—We do not really have enough evidence on that. We have not pursued that.

Mr O'Meagher—Can I just go back to the factual part of your remarks relating to this necessarily being a comparison between urban and rural roads? I do not think that is necessarily factually correct. In some instances it will be; in others, of course, it will not be. There are many rural roads which are actually quite cheap, in relative terms at least, to build and to maintain because of the kind of traffic and depending on the area where they are made, whereas some urban roads are extremely expensive because of their usage, the kind of usage and the underlying material, for example. It is a bit of a horses for courses situation. What we have posited is that there is a general community expectation. The fallout from that community expectation is the proposition that we have put, if you want to get a reasonably efficient allocation of resources for road service provisions.

Mr ROSS CAMERON—Certainly I note your point in the second last paragraph of that page where you say:

For some roads in sparsely populated rural and remote regions, marginal costs may be related more to road degradation caused naturally, rather than due to road usage.

That is because the roads are used so infrequently and the traffic level is so low. Certainly roads just gradually fall apart from environmental factors, rather than because they are actually being used.

Dr Hearn—The degree of maintenance on rural roads sometimes varies a lot. We can fall into the trap of generalising and getting caught out on the specifics, but on an urban road that is used the amount of maintenance would be quite enormous, while many rural roads will vary from the Birdsville Track, which probably has twice a year maintenance, through to much more refined rural roads where the maintenance costs and the regularity of upkeep are more demanding.

Mr ROSS CAMERON—The submission of our previous witnesses from the NFF makes a recommendation that road user charges be set on a marginal cost basis in order to more accurately reflect the full cost that road users impose on others. My gut instinct would be that if we went down that track, and did it accurately, rural and remote road users would suffer a massive penalty. How do you respond to that?

Dr Hearn—They could. We are talking about such a vast country and I will have a stab at a generality on it. I am not sure that that is actually right, for the reasons I have just outlined. Marginal cost would include both the initial capital outlay and the variable maintenance costs. Those would be the two main components. You have to add them both up when you are marginal costing; you cannot just say it is on the capital, you have to look at the maintenance.

I would put it to you that in many rural roads the cost of maintenance is lower because there is lower usage and, secondly, sometimes the users are not so demanding of maintenance. It is ideal that they should be maintained professionally, but sometimes people will put up with less maintenance and postpone it for a while because they may be driving four-wheel drives and trucks that can take those sorts of roads, whereas you would not get a city dweller driving down those roads in a blue fit in some cases because the cars and other vehicles and the culture would not lend themselves to that. So it is very hard to say that is absolutely the case—

Mr ROSS CAMERON—If the fundamental difference between a rural road and an urban road is that one gets used a lot and one gets used less, there are these other differences. At the bottom line, in terms of marginal cost, if you take the total cost of the provision of the infrastructure and maintenance of it over the life of the asset and then divide it by the number of vehicle movements, the marginal cost for the rural road for the extra person to go on that road every time is going to be much higher, almost invariably, even taking into account your colleague's comments about some alpine roads, ice, whatever. The bottom line is that the marginal cost for the rural road is going to be much higher and that the rural road user is getting heavily subsidised by the urban road users all the time.

Mr O'Meagher—Mr Chairman, can I make a further observation? That could certainly be an outcome, there is no doubt about that. The difficulty we have at the moment is that we do not have sufficient data to know whether that would be the outcome or not. But there is another possible outcome as well. That is, if you went to a simple marginal cost rule, you could have an outcome which saw differential charges right throughout the community and you could find some very large disparities, even in urban areas. I do not think it is as simple as urban versus rural.

Our submission is saying that the community and governments—and I think it is fair to say governments of both political persuasions—generally want a situation where rural people are not severely disadvantaged, and that they are prepared to pay the community service costs, if you like. We are also saying that it would be a preferable situation to have if we better knew what some of those costs were. If we were to do that across the community we would find that there would be not only some interesting differences between rural and urban categories generally, but we would find some pretty interesting differences within different rural areas, and we would find some interesting differences within different urban areas as well, particularly if you compared peri-urban and central urban areas.

CHAIR—We will have to finish there because we are out of time, but Mr Lindsay has one last question.

Mr LINDSAY—Earlier, we talked about the mining industry and the tax deductibility of capital expenditure. Would you agree, as a matter of principle, that to extend it to any primary industry which wanted to put capital expenditure on upgrading or building a new road there should be no anomaly in the tax deductibility of that capital expenditure?

Dr Hearn—I think there is an ideal in that. If you get anomalies in taxes you will create distortions in terms of where capital gets invested and, in so far as you can decipher that that road is being built specifically for a purpose of production and wealth creation, then if you are doing it for one industry it is certainly an ideal which you should do for other industries, too.

Mr Craig—As a matter of principle, that is probably true. But I think it is fair to say that the minerals industry is a fairly high risk industry and some of those provisions allow the industry that early cash flow so they can explore for more reserves and improve their cash base.

Mr LINDSAY—Yes.

CHAIR—Thank you for making your time available this evening. There were no questions taken on notice. We will provide you with a proof copy of the evidence as soon as it is available.

[9.18 p.m.]

GOFFMAN, Ms Jane, Acting National Policy Director, Royal Australian Planning Institute, GPO Box 1479, Canberra City, Australian Capital Territory 2601

PURDON, Mrs Christine, Member, Royal Australian Planning Institute, 615 Burwood Road, Hawthorn, Victoria 3122

CHAIR—Welcome. Would you like to make an opening statement?

Mrs Purdon—As we outlined in our submission, RAPI—the Royal Australian Planning Institute—is a national body. It has 3,000 members across Australia involved in a range of areas relevant to the inquiry in terms of strategic planning, land use and transport. As we have also said in our submission, we basically want to focus on the first term of reference, which is the role of the Commonwealth. We want to make three particular points: firstly, to argue for continued Commonwealth involvement and enhanced Commonwealth involvement; secondly, to argue for the development of a national land transport strategy and thirdly, as part of that strategy, to argue for the establishment of two programs focusing on urban and regional areas.

In terms of why we would take that particular approach, we have argued in the submission that road transport has particularly important implications in relation to economic development, environmental sustainability and equity. In terms of the economic development, it clearly impacts on the efficiency of cities and the efficiency of all sorts of economic and industrial activities. As previous witnesses have said, it obviously also affects international competitiveness. It also provides major links between areas.

From an environmental perspective, clearly roads have a major impact on the quality of both urban and rural areas. There are international obligations that have impacts in terms of road transport as well. From an equity point of view, road transport clearly has impact in terms of everybody's access to services, not just in an equity sense with the disadvantaged groups, but the whole of the population and clearly, more importantly, people who do not have access to other forms of transport.

They are the functional aspects of the impact of transport. Clearly, there are spatial impacts in terms of impacts in metropolitan areas and rural and regional areas, which tend to be different. In metropolitan areas over probably the last 30 or 40 years there has been declining access to public transport as a result, largely, of low density urban development on the fringe, and hence an increasing reliance on roads. In rural areas the rationalisation of services and the reduction in public transport, including both air services and rail services, has clearly led to increased dependence on road transport. That is a dependence that probably will not change in the future, whereas we would probably argue that from the metropolitan perspective there is a need for increased emphasis on public transport.

In terms of the overview of those implications, clearly road transport has impacts on national economic development, and from that it affects the capacity of the Commonwealth to achieve its objectives, both economic and environmental.

The current transport arrangements, we would argue, mean that there is a high level of expenditure on roads and on road transport. There is very limited coordination between various stakeholders and between different types of transport. This results from a lack of a strategic approach and means overlap between the spheres of government and other providers of transport and road transport.

There is clearly considerable potential to improve outcomes as a result of current investment decisions. We would argue that one way to achieve that is to adopt a more strategic approach, particularly a strategic approach at a national level. We believe that that will result in more effective resource allocation, a partnership approach which can involve all stakeholders, better outcomes from investment decisions, improved capacity to support economic and environmental objectives and also to improve access for all groups in the community.

We would therefore argue that a national land transport strategy would enable an integrated approach between different types of transport and also enable a better approach to addressing social issues. In terms of what that could comprise, there are clearly different objectives in relation to urban and rural and regional transport, and we would therefore argue for an approach that differentiates one from the other in terms of the establishment of an urban public transport program and a rural and regional transport program.

Finally, we would argue for a continued Commonwealth involvement providing a greater national focus as opposed to the more fragmented focus that has tended to be, increased identification of national priorities based on national needs and improved capacity to link road transport funding and policies to other federal policies.

CHAIR—With regard to your proposition of a national strategic planning approach, how would you suggest that that be managed?

Mrs Purdon—In terms of establishing it?

CHAIR—Yes. What sort of structure would it have? Would it be a cooperative type of approach with the states, Commonwealth and local government?

Mrs Purdon—Yes. We would see that it should involve three spheres of government because the three spheres are involved in different ways. Clearly there are other stakeholders involved as well. The private sector is involved in the community and has an increasing role in the provision of community transport through programs such as HACC—the home and community care program. We would see that various parties should be involved. Ideally, at the top level of that would be a joint transport and planning ministers committee of some sort that could oversee the establishment and development of an effective new policy or strategy that would come out of that policy.

CHAIR—Do you think there has not been enough interaction or relationship between transport professionals and planning professionals in Australia?

Ms Goffman—There is no doubt it is recognised by the planning profession that transport and land use planning really need to be very much more closely connected. It is obvious that transport planning is related to land use but, because the professions have tended to be quite separate and the agencies for which they work in the states are very separate, there is not enough communication and it is something that really needs to be addressed.

CHAIR—That certainly becomes fairly obvious in some medium-sized urban areas with a lack of public transport and the like and also the attitudes to the use of private transport in larger urban areas where it is impacting dramatically. Are the institutes fairly happy with the current structure between the Commonwealth, the state and local government and those areas responsible in how that is delineated?

Mrs Purdon—In broad terms, yes. I think what we would be arguing for is a much stronger focus on establishing what the national priorities are and funding around those. You are starting at the top, if you like, and achieving that. We are not suggesting that the Commonwealth take over the roles that are currently the states' or the Commonwealth's.

CHAIR—But there should be a strategic forward plan right across the nation and not just on an individual basis.

Mrs Purdon—Yes. That would also lead to things like the collection of more consistent data which would address some of the problems of the previous witnesses.

Mr ROSS CAMERON—I note your table in relation to Commonwealth grants to urban transport and your comment that there are high levels of expenditure on roads. Lots of people have put the view to us that in fact the level of expenditure is too low on roads in Australia and that, by comparison with our major competitors, expenditure on roads as a proportion of GDP is not only low but it has been declining. The fact that you come up with a high dollar figure does not necessarily mean you are not slipping further and further backwards in relation to your regional competitors. How do you respond to that?

Mrs Purdon—I think I would make a couple of responses. I would also want to look at what the expenditure is on public transport with our competitors as well. I think there would be lots of those competitors—and I would want to take that more on notice—that would have much higher expenditure on public transport as well as road transport, and you would want to be looking at the relative balance between the two in the process. I do not think you can look at road transport in isolation from the whole of the transport package.

Mr ROSS CAMERON—Do you argue that we are spending too much money on roads?

Mrs Purdon—Relative to public transport, we would argue that, yes. I think you can probably never spend enough on any of these things, but I would not want to say that absolutely we are.

Mr ROSS CAMERON—From a planning standpoint, you make the recommendation that there should be separate treatment of urban and rural and regional roads. What if somebody says to you that we are all Australians and we all have essentially the same aspirations? Doesn't the creation of separate schemas or administrative bureaucracies to run this, in terms of efficient planning and rigorous decision making, open the door to abuses and fudging of the figures rather than a more rigorous and defensible planning approach?

Mrs Purdon—I am not sure if you are suggesting that you should integrate the two programs into one if you had them.

Mr ROSS CAMERON—Why do you have to have two programs? I am not yet convinced.

Mrs Purdon—I would argue that it is desirable to have two because, firstly, they would both sit under the umbrella of a national strategy, so they would both have to demonstrate consistency with the strategy on the one hand. I think that the needs that you are trying to address in the two are different. The needs in regional areas tend to be more around road transport and efficient road transport as opposed to the needs in urban areas, where there is a much greater focus on the need for public transport and getting a balance. So you are looking at different needs and different solutions in the different areas.

I think that, if you have one national transport program, there is more potential to shift money around internally than there is if the decision is made at a higher level about the distribution of funds between those two areas. That is a much more transparent process than it happening within one program.

Mr ROSS CAMERON—You just lost me for a second there. What is more transparent?

Mrs Purdon—To have separate programs because the decisions would be made outside of the programs about the funding. If there is one program, the allocation of funds between regional and urban areas is made internally within that program and is much more difficult to track.

Mr ROSS CAMERON—What would you say to the argument that there are some gaping holes in the road network, particularly in some of the areas of really heavy population concentration and that there is a desperate need for massive capital expenditure on filling those holes?

Mrs Purdon—There is within large urban areas and also between them. The Pacific Highway is a prime example of a corridor that is a huge gap in the standard of the road network, as well as gaps within urban areas.

Mr ROSS CAMERON—So doesn’t that argue against your thesis that we are spending too much money on roads?

Mrs Purdon—No, I do not think so. I do not think I have said that we are spending too much in an absolute sense on roads. I have said that perhaps in a relative sense, but not in an absolute sense.

Mr ROSS CAMERON—Do you have a view about what we should be spending on transport generally?

Mrs Purdon—No, I do not.

Mr ROSS CAMERON—Just more?

Mrs Purdon—No, I did not say more either.

Mr ROSS CAMERON—But didn't you say that you thought we were spending too much on roads in relation to our expenditure on transport generally?

Mrs Purdon—Yes, I did. But I would not want to be quoted as saying, 'I, therefore, think we are not spending enough.' I think there are bigger priority policy decisions. We do not spend enough on education and a whole range of other issues either.

Ms Goffman—What we are really talking about is the decision-making process by which infrastructure investment takes place and that that decision-making process needs to be very much more clever than it is at the moment. The question of how many dollars you actually spend is then informed by a strategy. Without a strategy, people are basically operating in a vacuum. Therefore, the infrastructure investment decisions are not well informed. They are not meeting national objectives. That explains very much why there are gaps in the infrastructure.

Mr LINDSAY—In your written evidence, you have said that we need to review our road funding decisions to strike a balance between economic development on the one hand and ecologically sustainable development on the other hand. Can you explain that?

Ms Goffman—To be honest, we did not prepare the submission. I would disagree with that distinction. I would argue that ecological sustainable development incorporates economic development. I do not believe that distinction exists.

Mr LINDSAY—Thank you for that refreshing honesty.

Mr WAKELIN—There has been rural rationalisation of services, particularly rail services. I wonder if that is what you are referring to. The problem was that no-one wanted to hop on the trains. When no-one wants to hop on the trains, how do we fix it?

Ms Goffman—Have you used the trains in Australia widely? Certainly, I have and, in my own experience, there is very good reason why people do not want to use the trains. The trains have been operated in such a way that they are not attractive for customers. They do not run at the times that people want to use them. They do not go to the places they want to go to. Trains in Australia tend to have been set up many years ago and the standard of services has been very poor.

Mr PETER MORRIS—These are passenger trains?

Ms Goffman—I am talking about passenger trains. I think it is very sad.

Mr PETER MORRIS—In what city?

Ms Goffman—I am talking about between capital cities in Australia.

Mr WAKELIN—Would you advocate more public road transport?

Ms Goffman—Are you talking about buses?

Mr WAKELIN—Yes.

Ms Goffman—Public transport by road is one way to achieve public transport. It is a more cost effective way in some instances. As for public transport by rail, there are other arguments that can be made. Clearly, there has to be horses for courses.

Mr WAKELIN—In terms of the urban bus systems that I am familiar with, they are not well patronised and they are heavily subsidised. Would you advocate further subsidisation or do you believe there is a different management regime needed, as you suggest with the trains?

Mrs Purdon—That would be an example of more clever solutions to the delivery of transport than a large bus that seats 50 or 60 people running away with two or three people in it because it is essentially being funded to provide educational transport and it runs around the rest of time on the basis of the subsidies that it receives.

Mr WAKELIN—Do you know of any other public transport facilities internationally that offer Australia an example?

Mrs Purdon—There are some local ones that offer some examples. There is some quite interesting work being done, for example, in Penrith. I will take it on notice in terms of more details, but they are looking at more innovative ways of addressing local transport matters. Also, there is the linkages to be looked at between bus transport and rail transport and how that happens in more innovative ways than just a large bus.

Mr PETER MORRIS—I like the overall view you have taken, but I think you have to be a lot more precise in what you are saying. The way you were presenting yourself, Ms Goffman, I thought you were talking about urban public transport in Sydney or Melbourne. As for long distance rail passenger transport, if you look at planning a strategy, you really need to put some work into that in terms of capital investment and who is going to use it. It is not fast and it is not cheap. So where is your customer base? I just say that in passing.

That is the difficulty that rail has because if you want to be there fast, you go by plane. It is three and a half days by rail to Perth and it is three and a half hours to come back by air.

Mrs Purdon—You don't think we will ever get a very fast train to Perth?

Mr PETER MORRIS—If it is commercially sound, somebody will do it, but I cannot see it happening. On page 6, the second last page of your submission, an integrated national land transport strategy, did you have a look at the work that was done by the National Transport Planning Task Force in 1994? To my mind, that report addresses most of the matters that you are expressing in your submission. Have you had a look at that?

Mrs Purdon—As Jane said, and being candid again, we did not prepare it but I would have thought that would have been looked at in the process.

Mr PETER MORRIS—To my knowledge, that is the best report and that was chaired by Lance Hockridge of BHP. When you look at the volumes behind that, the one on rail, the one on road, it covers all of those areas. There is one on port infrastructure. That is probably the best work that has been. What you are putting forward is absolutely correct, that we need to look at not just roads alone but at a total transport strategy and where does road expenditure fit within that strategy.

Mrs Purdon—Yes, I would agree totally that there should be an integrated strategic approach to transport, and we feel we need to support that particular view as the national planning model.

Mr PETER MORRIS—I suggest you might have a look at that because that is a very good report.

CHAIR—With regard to the national land transport strategy that you talk about, do you see any involvement for the private sector in there in developing that but also in some of the funding elements of development of transport infrastructure?

Mrs Purdon—I would say almost inevitably. You only have to look at the way a lot of urban roads have been funded recently. They seem to be working quite successfully.

CHAIR—In terms of planners—town planners, city planners—is that something that is at the front of their minds when they are looking at an overall strategy, say in a city, where there are very strategic pieces of infrastructure that have got to be provided if you are developing a particular area and the cost of providing that is possibly a tall order for the public purse?

Mrs Purdon—I do not think RAPI has a particular view on that as opposed to having the infrastructure, except that I would make the comment that provided, in funding it privately, access was not denied to certain groups with the community as a result of the cost of it, then I cannot see that there would be any other particular concern. I think that should be accessible to everybody. The costs of accessing those roads just needs to bear that in mind.

CHAIR—Sure. Thank you very much. I know it has been an effort for you to come here this evening and appear and give evidence before the committee. We certainly do appreciate it and we will make available to you a copy of the evidence as soon as that is available from Hansard. Thanks very much for coming here and helping us out this evening.

Mrs Purdon—Thank you.

CHAIR—On behalf of the committee, I thank all the witnesses who have given evidence at the public hearing today.

Resolved (on motion by Mr Peter Morris):

That this committee authorises the broadcasting of this public hearing and the publication of the evidence given before it today.

Committee adjourned at 9.41 p.m.