HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Review of federal road funding

SYDNEY

Friday, 4 April 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

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Inquiry into federal road funding

SYDNEY

Friday, 4 April 1996

Present

Mr Vaile (Chair)

Mr Albanese	Mr Peter Morris
Mr Ross Cameron	Mr Wakelin
Mr Lindsay	Mr Willis
Mr McDougall	

The committee met at 8.21 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 inquiry into federal road funding. This is the second public hearing in a series of hearings and inspections the committee will be conducting over the next few months. The committee commenced its hearings yesterday in Bathurst. Later this month, the committee will embark on a sequence of hearings in Townsville, Mount Isa, Darwin, Halls Creek and Perth. At the end of the month, the committee will travel to Adelaide and Launceston. In early May, the committee will receive evidence from witnesses in Melbourne and Wodonga.

The federal road funding inquiry arose out of the National Commission of Audit recommendation that the Commonwealth's involvement in infrastructure be reviewed and that an assessment be made of the extent to which the Commonwealth needs to be involved in road funding.

The Minister for Transport and Regional Development, the Hon. John Sharp MP, subsequently requested that the committee inquire into federal road funding and report by 30 November this year. The committee has received a substantial number of submissions amounting to almost 1,800 pages of evidence. In conducting its hearings, the committee will be seeking evidence on five broad areas: the role of the Commonwealth in providing funding for roads; the adequacy or otherwise of the national highway system in meeting the needs of industry and the community; the level of funding required to adequately fulfil the Commonwealth role; the efficiency and effectiveness of current administrative arrangements; and the scope to involve the public sector in the provision and maintenance of the national road network.

I should emphasise at this point that, in addressing these broad areas, the inquiry should not be seen as a forum for advocating the funding of specific road projects. The committee intends to consider the underlying principles for the funding of Australia's national road system well into the 21st century.

[8.23 a.m.]

CHRISTIE, Mr Ron, Chief Executive, Roads and Traffic Authority of New South Wales, 260 Elizabeth Street, Surry Hills, New South Wales 2010

FORWARD, Mr Paul, Director, Road Network Infrastructure, Roads and Traffic Authority of New South Wales, 260 Elizabeth Street, Surry Hills, New South Wales 2010

MANWARING, Mr Vivian, Senior Capital Works Programmer, Roads and Traffic Authority of New South Wales, 260 Elizabeth Street, Surry Hills, New South Wales 2010

CHAIR—I welcome the representatives of the Roads and Traffic Authority of New South Wales. I should advise you 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. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of the parliament.

The committee has received a comprehensive submission from the Roads and Traffic Authority of New South Wales on behalf of the New South Wales government. Before the committee proceeds to questions, would you like to make a brief opening statement?

Mr Christie—Thank you, Mr Chairman. First of all, I would like to thank you for the invitation to attend the hearing today. I would like to add to the submission. The submission is intended to address each of the terms of reference of the committee as we understand them. However, I would like to take this opportunity to briefly mention a number of points.

In respect of the Commonwealth role, we believe that the economic importance to Australia of the national highway system requires the Commonwealth to continue funding its maintenance and development. However, funding should be managed within a more strategic planning framework than occurs at the present time. We ought to be looking at least at a 10-year planning horizon for national highways.

You may be aware that New South Wales prepares annually a forward five-year strategy for national highways but in return receives little input and almost no feedback from the Commonwealth as to its intentions and as to whether that forward five-year strategy is acceptable and in line with the government’s intentions. In our view and from our perspective, it is very much a year to year proposition in planning. There appears to us to be no national strategic plan for roads of national importance or RONIs. There are not even any guidelines at this stage as to what roads qualify as RONIs. However, in our view, any planning for roads of national importance should not be at the expense of the national highway system. We are somewhat disappointed that national highway funding seems to be diverted into roads of national importance, contrary to what we believe to be the government’s policy on this matter.

In relation to the adequacy and extent of the national highway system, the Commonwealth is currently reducing the current level of national highway maintenance funding of around $120 million per annum by 20 per cent over four years, commencing in 1996-97. This will ultimately be reflected in the overall condition of that asset. It seems strange to us that an asset worth some $6 billion, which has been built up over a period of some years with Commonwealth investment, is being put at risk by a somewhat significant reduction in annual maintenance funding.

In addition, the task of developing the existing national highways in New South Wales is largely incomplete, with some $1,780 million worth of major deficiencies. I would like to indicate some of those existing deficiencies. For example, the Western Sydney Orbital, which is the route that would bring interstate traffic around Sydney—a route one would think would be a vital part of a national highway system—does not exist. Some $800 million is needed to build that.

The Hume Highway is the most advanced of all of our highways, certainly in New South Wales, and is the major route in the Commonwealth between the two major cities. There is still outstanding work to be done between Sydney and Gundagai. About $150 million is still to be spent there, and another $180 million is still to be spent between that junction and Albury. A notable exception at the moment is the Albury by-pass, which requires about $200 million to $270 million. The conversion of the Federal and Barton highways to dual carriageway still requires $210 million. The F3 link, north of Sydney to the New England Highway at Branxton, requires $240 million. They are existing deficiencies which at the present rate of funding it will take something like 15 years to remedy, without adding other development issues that need to be addressed.

We believe that the need to increase national highway funding to New South Wales should be examined in the interests of maximising overall economic benefit to Australia. New South Wales has 34 per cent of the national population and a 35 per cent contribution to GDP. Forty-five per cent of international visitors come through New South Wales, and 34 per cent of all capital expenditure in Australia is in this state.

The national highway system in New South Wales provides key links to most of the capital cities in Australia. However, notably, it comprises largely rural routes and does not achieve a coherent network for freight conductivity to the principal sea and air terminals, particularly in Sydney. This brings me back to the importance of the Western Orbital. The M5 is a very important part of that in relation to export issues and the connections to the Port of Botany.These are strategic links that one would think ought to be part of the national highway system, which, at the moment, does not go anywhere near those ports.

In relation to funding, Commonwealth road funding in New South Wales over the last decade has fallen by some 25 per cent in real terms, and by comparison New South Wales has increased its road funding by 60 per cent in real terms and, in addition, has sought private sector funding to meet the general need for road investment in this state. The Commonwealth collects around $2,500 million per annum from New South Wales road users via the 35c per litre fuel excise and returns only about $530 million or 7c per litre to New South Wales roads by way of tied grants and identified untied grants. By comparison New South Wales road users are charged around 21 per cent higher than road expenditures and that includes around 7.9c per litre fuel franchise fee which is fully returned to roads. In other words, the fuel franchise in New South Wales, the fuel tax, is fully returned to roads, plus the weight tax which is paid by New South Wales road users.

The present year by year assessment and funding of national highway needs is inadequate. We desperately need certainty of Commonwealth funding for at least three years for efficient delivery of services.

The agreement that has been struck between the New South Wales government and the Commonwealth government in relation to the Pacific Highway bears that out. It now enables us to plan over a number of years. The recent contract announced for the Bulahdelah-Coolongolook section, a section of some 20 kilometres, spreads over three years. It is a design, construct and maintain contract, and because of the certainty of funding we are able to negotiate very good prices for that work with the private sector.

The Commonwealth untied road funding to New South Wales for state roads of around $114 million is pathetic in comparison to the revenue collected by the Commonwealth from New South Wales road users. The state roads comprise eight per cent of all roads in New South Wales but carry 63 per cent of all travel carried out. The current level of Commonwealth funding, in our view, does not reflect the benefit to the Australian economy from improved roads in New South Wales. While freight vehicles are a key input to economic development, they are the major contributor to road and bridge deterioration. You might be aware that the National Road Transport Commission is at the moment considering a recommendation to increase axle loads and truck mass limits, which will have road funding implications. Again, the Commonwealth will receive the major benefits from that improved productivity by way of taxation benefits. In our view, the Commonwealth should have a very close look at whether it funds the increased costs that result from those increases in mass limits.

Administrative arrangements are to be addressed in the terms of reference. The greatest impediment to efficient and effective delivery of the national highways program in our state is the uncertainty and unpredictability of funding which I referred to earlier. The present authorisation process for construction projects creates significant delays in obtaining approval to proceed from the Commonwealth, and I do not think it is conducive to efficiency and productivity either in the government or the private sector, certainly in the construction sector.

In relation to private funding of roads, New South Wales has had considerable experience in the construction of toll roads, one of which is still being built at the moment. The Commonwealth itself raises huge amounts of money from road users by way of fuel excise and returns a relatively small fraction of that to roads. Any move by the Commonwealth to involve the private sector in the provision of toll roads in relation to national highways is likely to require some considerable explanation to the community, which would see it, I think, as double dipping in the sense that it already taxes people for roads and does not return the full amount to road users. That is all I wanted to say at the moment. If questions are in order we might move on to that.

CHAIR—I will open the questions. Some of your comments revolved around the hypothecation of the fuel excise. You said that in New South Wales the 7.9c a litre licence fee and the 3 x 3 money is all hypothecated back to roads.

Mr Christie—All of the 3 x 3 money is hypothecated directly to roads, and the weight tax.

CHAIR—What about the 7.9c? Did you mention the 7c a litre that is levied on fuel use?

Mr Christie—All the fuel tax goes to roads in New South Wales.

CHAIR—The suggestion that you are making is that the federal excise that is collected from fuel should also be—

Mr Christie—The suggestion we are making is that the proportions being returned to roads seem very low by comparison.

CHAIR—In your submission you made comments about the structure of the way the funding flows and the way the decision processes are made with the three tiers of government. Do you think there is a need for any major change apart from a longer term strategic planning point of view for a different means of responsibility with roads? You have highlighted that the Commonwealth should remain involved even to a greater extent in the national highway system and provide more funding to the states for the state highways. What about coming down to the next level, to local government? Do you think the arrangements that the Commonwealth has with getting funding to local government for local roads should remain the same or should it be changed?

Mr Forward—We also provide funds to local government. We provide funds for regional roads and also some money for local roads. In New South Wales the Commonwealth provides in excess of about $100 million a year to local councils for them to choose. That is allocated according to the local government grants commission formula. That is a reasonable way to allocate the money. Once again it is a question of the adequacy of that money. It is clear that in many locations local government roads are in a poor state of repair. Roads do benefit the economy, particularly in some of those agricultural areas where you have heavy trucks carrying loads of wheat, grain and other agricultural produce. The method of funding, from our point of view, is an adequate formula basis, although I suspect the local government and shires associations, who I note are here today, may also have some views on that. It comes back once again to the adequacy of that overall funding.

Mr LINDSAY—I was very interested in your comments about the authorisations required from the Commonwealth for road projects. That introduces the concept: what should be the future role of the federal department of road transport? What is the downside of basically removing those authorisations and of having the federal department do the strategic planning for five years ahead, do the certainty of finance and hand it over to you guys and say, 'Okay, this is what we want to see happen, go to it'? Is there a downside in not requiring you people to come back and have the thing checked, the designs checked, the radiuses of curves looked at and so on? How do you feel about that?

Mr Christie—First of all, the strategic importance of the national highway system should continue to be examined by the Commonwealth because there are some anomalies in it. I have referred to those in respect of the ports, for example. We have got a collection of, in some cases, rural roads called national highways that are connected together. Although they purport to go between the capital cities, they do not go near the export ports. We have some glaring examples of that: the Orbital, the M5 in Sydney and the so-called Golden Highway between Dubbo and Newcastle, which is more than just a normal road. As to the accountability for funding, I believe we have to be accountable and the Department of Transport has a role to see that Commonwealth funds are properly spent.

That can be done along the lines of the arrangements we have, for example, with the Pacific Highway where we are looking at three- and 10-year programs and agreeing on those so that there is some certainty for the government and the private sector about what it is the government is going to do over time. Certainty comes from the fact that, for example, if the private sector is involved in a project in that area and there is another project flowing on from that, there may well be economies occurring. The private sector has to decommission and move away from the area because it does not know when the next project is coming. There are costs, and those costs flow through to the taxpayer.

They are the sorts of economies that we are looking for in streamlining administration. We are not suggesting that there should not be accountability back to the Commonwealth. But I think the accountability should be on outcomes. For example, it is not so important, in our view, to set standards for the width of the median strip or where the kerb should be or that sort of thing. On the Pacific Highway we have tried to work on outcomes. We are really looking for as much divided highway as we can get, and it may be that it is done through a reasonable width of median strip. In other cases, it may be a duplication of the existing road or it may be some sort of physical barrier.

Mr LINDSAY—Did you talk about delays and authorisations, for example? Did you mention that?

Mr Christie—I think that is right. I would like my colleague, who is closer to that, to—

Mr LINDSAY—What would you like to see occur there? How might the federal Department of Transport reorganise itself to make it easier to deal with the state people?

Mr Forward—What we have is a two-phased announcement and approval process. The relevant minister may make an announcement, but that does not necessarily mean the funds come through. We then have to provide fairly detailed submissions. Often those submissions sit in Canberra or there is further discussion on the projects required. We talked about an overall strategic approach so we knew what the priorities were and could work on those and that once the money is announced in the budget process it then becomes available. In some cases, for example, this year, we have had approvals coming through in the last couple of months—we had, for example, the minor works program last month. It makes it very difficult to effectively and efficiently spend that money when more than half the year has passed.

Mr McDOUGALL—Mr Christie, I might follow on from your points with regard to the network—and you mentioned freight and the connecting to both sea and air terminals—and the fact that you note in your opening comments that there were no national strategic plans in relation to the RONIs, which, I would assume, were part and parcel of this network that you are talking about. Yesterday in Bathurst we were talking to CENTROC about their feelings about roads of national importance and national highways. What has your department done in regard to strategic planning at a state level with organisations like CENTROC into understanding what are the future needs in economic development that are then going to transfer through to these RONIs or national roads which are going to come in with those requirements in regard to the sea and air terminals? Have you, as a state, submitted to the Commonwealth your collective long-term strategic plans where you see the combination of economic growth and the demands that that would bring in regard to highway or transport route constructions? How have you worked in with the state rail authority to develop a strategic plan of utilisation of both road and rail to overcome these economic objectives?

Mr Forward—Our involvement with those different agencies you just referred to comes at a number of levels. I will take the more strategic to start with. The Roads and Traffic Authority has released for public comment the state road network strategy which looks at the whole state and looks at overall priorities, particularly in terms of our objectives to encourage economic growth but also to moderate traffic growth. It is clear to us that in the large urban areas it is impossible to cater for the existing peak demands. We are looking at really catering for traffic on a total network basis and looking at the issue of commuter traffic and the journey to work, et cetera.

That broader state road network strategy has been distributed very widely for public comment. We have received many submissions from different organisations that provide us with direct input as to what they see the priorities as being. With that, we are now developing a finalised version of that document to go out for public comment, which will lay our strategic plans over a long-term period—a 20-, 30-, 40-year time frame.

There is also, feeding into that, a very detailed study looking at the overall freight needs of the state. We have a group of officers from different agencies, including rail, ports, the Department of Transport, the Department of Urban Affairs and Planning, the Environment Protection Authority, et cetera, looking at that overall freight strategy and looking at the needs of industry. We recently commissioned research through the University of Sydney, which talked to the various freight carriers and tried to understand what their needs are in terms of improved freight and improved accessibility to key multi-modal points.

On a more localised level, we are working very closely with State Rail with regard to the movement of timber. The Oberon area is an area where CSR and a number of other companies are investing quite heavily in timber production. We are looking at the most efficient way to actually move the freight timber either for local use or for export. We have had quite extensive discussions with State Rail on the feasibility of providing rail access for some of that, but we have also looked at broader multi-modal facilities with rail and road in the Bathurst area. There are a number of potentials that we are actually looking at there—not just in Oberon but in other areas up there.

Mr McDOUGALL—How much input has industry had in the development of this strategic plan, or have you been reacting to the existing or perceived problems for the future ?

Mr Forward—Industry, in terms of this development, has had, I would say, quite an extensive involvement by commenting on the draft and providing submissions to us. More recently, the University of Sydney, which prepared that study I referred to, went out and interviewed a large number of the major freight carriers to see what their particular needs were and also talked to them about what they saw as the most critical weaknesses in the whole long-term development of the network. So we are looking at it from a freight point of view and we are looking at the current network and at some major strategic changes in logistic movements and in how firms are now starting to operate.

Clearly, issues like just-in-time management, where firms are not carrying large amounts of inventory but expecting inventory to be available virtually the next day, has become a key consideration in us looking at the overall efficiency of industry and the network that needs to support that. We are aware that a number of firms are now relocating into one major central point of distribution. In that regard, Sydney is becoming quite a key hub for servicing the south-eastern economy of Australia—hence, coming back once again to the importance of the Western Sydney Orbital to actually help service that whole hub of the south-eastern Australian seaboard.

Mr McDOUGALL—What impact do you believe the New South Wales railways access policy will have in relation to this?

Mr Forward—Are you asking in terms of the freeing up of the rail network?

Mr McDOUGALL—No. How it will have an impact on your planning for your future road requirements and how you will interreact with that access policy.

Mr Forward—We are not trying to compete with State Rail. We are trying to work with them so that our strategies are a supportive strategy to what they are developing. It is fairly clear that some commodities, particularly bulk commodities, are very efficiently carried by rail but that other commodities that need to be distributed widely across the metropolitan area are not efficiently carried by rail. So I guess it is a matter of the comparative advantage of each of those types of modes, and working with State Rail to look at how we can complement their infrastructure and not compete with it is probably the most effective way for us to allocate our resources.

On the freight strategy that we are developing, all levels of the railway in New South Wales have participation. Whilst some of their strategies are their own sort of competitive advantage, we are providing a very open process so that all of the consultancies that we have done are available for them to look at. They are also aware of the sorts of strategies that we are developing, which will complement their strategies. In terms of opening the network up, there will clearly be more competition but that competition really is in particular market segments. There are certain market segments that are not effectively satisfied by rail so we need to support those ones.

Mr McDOUGALL—You made the comment that you felt that rail was probably best suited to mass commodities. Why is there this big push at the moment to expand the B-double operations, which lend themselves to mass commodities? Why is there a desire to upgrade the mass weight in relation to vehicles which, it is my understanding, could put some very heavy constraints on the existing infrastructure in relation to bridges and culverts? What impact would transferring more of that bulk onto the road have on your system?

Mr Christie—I think my colleague said that we are interested in continuing to work with rail. Hopefully, with the access arrangements, some of that commodity will not come onto road. When you talk about B-doubles, we are responding to the requirements of industry at the moment to use that mode of transport.

One would hope that, where rail is competitive and has the infrastructure in place, it would, through the rail access arrangements and the competition that will occur, allow some of that to go onto rail. But there are some areas where rail is not present or the transferring of freight from road to rail is so expensive that it cannot compete. That has been the problem all the way through. Hopefully, those margins will change with competition, and that will take some of the pressure off road and off our requirements for increasing such things as mass limits and the routes on which B-doubles are required to operate.

Mr ALBANESE—I have some general questions first. Taking into account that funding for the Pacific Highway is supposed to be independent of the national highways budget, what is the real level of Commonwealth road funding in New South Wales this financial year compared with the last? Are we seeing an increase or a decrease?

Mr Christie—This year, the total federal funding to New South Wales is $565 million. That is made up of $264 million for national highways, $66 million for roads of national importance, $114 million for arterial roads, $109 million for local roads and $12 million for black spots.

The corresponding figure for 1995-96 was $534 million. When you take out the $66 million for roads of national importance, which I think was what you were asking, the figure for this year drops to about $499 million, a drop of $35 million from last year. If we allow for a CPI increase between both years, we are looking at about a 10 per cent decrease in road funding, after taking out roads of national importance.

Mr ALBANESE—What is the impact of the fact that the funding for roads of national importance has been supplemented by the national highway funding?

Mr Christie—I think it means that those unfinished things that I read out—including the unfinished works on the Hume Highway and other works, including the F3, north of Sydney—will take longer to complete. At the present rate, we see about 15 years of work in those projects. I would suggest that, if funding is diverted to other works such as roads of national importance and away from national highways, those unfinished projects on the national highways will take longer to complete.

Mr ALBANESE—In responding to a question from one of my colleague’s about how much revenue you get from roads goes back into roads, you said that it was 100 per cent. How does that compare with what the Commonwealth takes from roads? How much from the Commonwealth gets fed back?

Mr Christie—I want to get the figures right here. Commonwealth road user charges exceed road expenditures by over 400 per cent or $6.4 billion. Expressed in another way, the Commonwealth collects around 35c per litre in fuel excise from road users and returns about 7c per litre to roads by way of tied grants and identified untied grants.

Mr ALBANESE—Let me now go to the specific issue of the Pacific Highway. You mentioned the funding for the highway and indeed some of us have read this week about the money being spent on the Bulahdelah to Coolongolook section of the highway. In terms of funding and where the money is coming from, I have a press release here which suggests that $3.1 billion is being spent converting the Pacific Highway to dual carriageway for the length between Sydney and Brisbane. What is the relative contribution from the Commonwealth to the state?

Mr Christie—The Pacific Highway agreement requires the state to spend the existing level of expenditure that was already being spent on the Pacific Highway of $100 million a year. It requires the state to spend another $60 million a year to match $60 million from the Commonwealth. On a year-by-year basis, and in the total context of the Pacific Highway program over 10 years, I think the contribution from the Commonwealth is about 27 per cent of the total expenditure.

Mr ALBANESE—In terms of the specifics, $150 million is being spent on the Bulahdelah to Coolongolook section. What amount of this week's announcement is being contributed by the state compared with the Commonwealth?

Mr Forward—There are two classes of projects on the Pacific Highway. There are those that are jointly funded where funding is fifty-fifty and there are those that are fully funded by the state. The Bulahdelah to Coolongolook freeway is a jointly funded project and therefore it is allocated fifty-fifty by the Commonwealth and New South Wales government. Overall, in each year, there are $120 million worth of projects that are jointly funded—$60 million from the Commonwealth and $60 million from New South Wales. There is a further $100 million that New South Wales is contributing solely on its own.

Mr ALBANESE—In terms of the black spot eradication campaign, which has been part of the Pacific Highway upgrading, is any additional federal contribution being made to the Bulahdelah to Coolongolook section or is that something separate?

Mr Forward—My understanding is that the black spot program is a separate program and that the money going into the Bulahdelah to Coolongolook freeway is not coming from the black spots program. It is coming solely from the Pacific Highway reconstruction program.

Mr ALBANESE—Going back to the Western Sydney Orbital, there are two questions. Firstly, given that the road was to be integrally linked with the second Sydney airport proposal at Badgerys Creek, what impact does the uncertainty about a site for a second Sydney airport and the need, therefore, to have that road linking in with the second site at Badgerys Creek have, if any? Perhaps you would like to comment on that. Secondly, whether that is relevant or not, what would you like to see as the Commonwealth's role in terms of funding or support for the orbital road link?

Mr Christie—I will answer the latter part of that question first. Funding for the orbital, to the extent of $260 million for the southern section of the orbital from Prestons to Cecil Park, was announced back in August 1995 by the previous government. Then there was a further announcement, I think, of $220 million for the M4 to Eastern Creek section of the orbital. At the moment, we understand that some funds have been allocated for land purchase for the orbital and, at the current rate, $5 million has been allocated this year and $7 million next year to enable the purchase of land.

That does not give us any certainty, though, as to whether this project is going to go ahead and whether we can plan with any degree of certainty and commit forward costs on it. As for the airport situation and the linking to the port, the orbital and the M5 are critical to that, and both, I would think, are critical so far as exports are concerned.

In relation to the M5—which you did not mention but I would like to make a point of this—in our view, the M5 east connected to the existing M5 and on then to the orbital, would serve to connect the two airports, wherever the second airport is built, and would enhance the value of those airports, particularly if they are subsequently sold. We would think, under those circumstances, that the Commonwealth ought to consider its role in the provision of that very, very costly infrastructure through a densely suburban area. I have really added the M5 into your question without your permission, but I believe that the two are integral.

Mr ROSS CAMERON—The RTA has been one of the most successful organisations in Australia in terms of recruiting private investment into public infrastructure. I think it is fair to say that we have learnt a fair bit about that from the first efforts on the tunnel, through the M4, the M5, more recently the M2, and looking at the eastern distributor and the M5 extension and others.

I have got a couple of questions, but I think it is fair to say that, in that learning curve, the private sector has taken a higher proportion of risk as the projects have unfolded and the financiers have come to understand them better. The M2 was the first one to use the infrastructure bonds, which have now been effectively suspended.

What role do you think the Commonwealth ought meaningfully to be playing in encouraging private provision of infrastructure? In terms of projects that will sustain private sector contribution, have we done everything that can be done in New South Wales, or do you see a continuing role for private involvement in new infrastructure?

Mr Christie—There is currently private involvement in one road you mentioned, the M2, which is soon to be opened. Another one which would not occur without private sector involvement is the Eastern Distributor. There is certainly a role for private sector financing of that because there is no way that the RTA would be able to fund that under normal circumstances.

I think there is a need for the Commonwealth to reconsider its position on tax concessions for infrastructure bonds, firstly, from the point of view of encouragement of further opportunities should they arise—and I cannot say that we have exhausted all opportunities in that respect—and, secondly, to give some certainty as to what might happen in the future.

I must say that the period last year in relation to the Eastern Distributor was most disconcerting. It has probably added something like 12 months to the completion of that project, if and when it goes ahead, because we did not know whether the concessions were there or not. I think that is the important thing; that the Commonwealth needs to give some certainty to the private sector and ourselves as to what its intentions are in that area.

Mr ROSS CAMERON—What impact will the government's decision have on the Eastern Distributor?

Mr Christie—The concessions were restored. I am not sure what was the correct way to treat that—whether they were withdrawn or restored or what exactly happened—but they are being implemented as part of any negotiations or discussions in relation to that work.

Mr ROSS CAMERON—You said that the road would not have been built—not for a generation, anyway—but for private investment. Are you also saying that it would not have been built but for the tax concession?

Mr Christie—That would be true.

Mr WILLIS—I would like to take you back to a point that Mr Lindsay raised with you earlier about the strategy for the national highway system and, indeed, for the roads of national importance. You are making the fairly basic point that you need to have a strategy if you are going to properly administer a road system and you said that you have a five-year rolling plan for the national highway system in New South Wales. Could you tell us a bit more about that? What are the principles underlying that rolling strategy? What notice does the Commonwealth take of that rolling strategy? To what degree do the outcomes of funding by the Commonwealth for the New South Wales national highway reflect the work that is being done in that rolling strategy and, if there is not much reflection, why do you keep doing it?

Mr Forward—For our own planning purposes, we need at least a five-year strategy to see where we need to focus our efforts. But it is fair to say that the feedback we get from the Commonwealth is on a purely yearly basis, as reflected in the budget allocation to us. As an example, we have a longer term goal to complete the duplication of the Hume Highway to Albury and we would also see the Albury bypass as a key project to complete the network from Sydney to Melbourne. But we have no idea from the Commonwealth as to how they would rate that as a priority.

We would also see, as my colleague mentioned earlier, the Western Sydney Orbital as a critical project. Currently, we are carrying out an environmental assessment on the Western Sydney Orbital but it is very difficult to complete that if we don't know if we have to stage the project over many years and hence utilise some of the current roads in the network—for example, Wallgrove Road is a key link, temporarily, in the Western Sydney Orbital—or whether we can build the whole project from a go to whoa basis over, say, a five-year time period. That has a major impact on the environmental implications of building that project and therefore it feeds back into the environmental impact statement.

So it is a critical issue and without that feedback it really makes it difficult to know how to address the environmental issues. We keep doing it, I guess, in the hope that we might get some response. We would see long-term planning as a critical part of any road network. We are dealing with long-term assets. We are dealing with projects that go over many years and we are dealing with contractors that also need to gear up and provide a service over many years. Therefore, as we have stated on numerous occasions this morning, the surety of funding over more than a one-year period we would see as a key to an improved efficiency in terms of driving the national highway dollar even further.

Can I also state that now with the category of RONIs coming in there it makes it even more difficult to plan with the national highway money. This year our national highway money has declined from last year. Fundamentally, it is being made up by the RONI money but, because we do not know what roads can be classified as RONIs and we see that range vary from the Kidman Way to the Pacific Highway, I am sure you would not get a broader range of roads that classify for—

Mr WILLIS—What was the first one?

Mr Forward—The first one is the Kidman Way. I am sure your colleagues can let you know where it is. It is a road that goes north-south from out near Bourke through Cobar. That was classified as a road of national importance. The Pacific Highway is also classified as a road of national importance. You really go from one extreme to the other. That would suggest to us that clearly without any guidelines for roads of national importance virtually any road in the state is up for grabs as a potential road of national importance. There is a lot of uncertainty and it does make it difficult to plan.

Mr WILLIS—What are the principles that you suggested for guidelines for roads of national importance and, indeed, for the national highway system itself?

Mr Christie—I think I alluded to—

Mr WILLIS—You mentioned export ports?

Mr Christie—Yes. I would have thought the Commonwealth would have a great interest in anything that adds to the export potential of the state. For example, I think I mentioned the so-called Golden Highway from Dubbo to Newcastle as one that might be in that category. I certainly think the orbital and the M5 east are in that category. The M5 east, if I can mention it once again, is predicted to carry about 20 per cent freight traffic, which is pretty high by Australian standards. Most of that is export through the port so I think there is some sort of rationale for the Commonwealth involvement.

Mr WILLIS—You mentioned in your submission a road of national importance called Summerland Way which the Commonwealth designated, and you seem to be rather critical of that? Where is Summerland Way, and why do you think it is a low priority?

Mr Christie—The Summerland Way is a road that stretches from Grafton to Casino and up through Kyogle to the border. It is an alternative to the Pacific Highway so it is really a duplicate for the Pacific Highway in that area. One wonders why we are dissipating funding into an area like that. It may be very important in a local context but in a national context it is really competing with the Pacific Highway and, given the condition of the Pacific Highway, one would have thought we would be trying to achieve a dual carriageway standard from safety and other points of view as quickly as possible.

Mr WILLIS—I do not want to pursue this much further, but have you sat down and put to the Commonwealth some clear statement of principles that you think ought to apply in both the national highway and the roads of national importance?

Mr Forward—In terms of the national highway strategy, we have put forward what we would regard as the key priority projects, and they are based on where we see the most significant economic gain. I think it is clear to say that the most important freight route in Australia is the Hume Highway and to have that uncertainty regarding when it will be duplicated is an issue of key concern if we are talking about promoting economic development.

There are other critical routes in that that are based on the idea of generating a higher economic return, more jobs, more productivity et cetera, and we would see that as the critical criterion for the

Commonwealth to support national highway roads. We would see that also spilling over into the roads of national importance, particularly, as Mr Christie pointed out, the link to the ports—the seaports or the airports—the link to major centres of job and growth generation in Australia.

Mr WILLIS—In assessing what are the priority roads or road projects, do you use cost benefit analysis, or is it a more general assumption about what seems to be important?

Mr Forward—We certainly do use cost benefit analysis. We rigorously assess all our projects. We also carry out value management studies of those projects to look at how the overall cost of those projects can be brought down. So every project that the RTA undertakes goes through a very rigorous assessment. We have our own cost benefit analysis that provides guidelines to all of our staff on how to undertake a consistent cost benefit analysis.

Mr WILLIS—What regard do you have to what the Commonwealth is doing in other states? For instance, you have been critical of the lack of funding of the Sydney Orbital but in Melbourne the Commonwealth has funded to virtually absolute completion the Western Ring Road—I think the last section opens in the next month or so. That is a road which has certainly cost the Commonwealth something like $½ billion. It is a bit hard to expect it to be doing that and at the same time doing the same thing in Sydney. There must be some kind of sequential arrangement, presumably, so once the Melbourne road is finished presumably that makes it easier to start looking at doing the same thing in Sydney. I think the reason it started in Melbourne first was because the state government was actually spending money on that road so there was a road that was being built; whereas here I do not think that has been the case at all. The Commonwealth took over that as part of a decision to make the ring roads in Melbourne, Sydney and Brisbane part of national highway system.

My question really is: looking at your five-year plan and what the Commonwealth should be doing, do you have regard to what is happening elsewhere, or is it purely a New South Wales focus?

Mr Forward—Each year we analyse where the Commonwealth money is going and on what projects. It would seem to us that when you look at the marginal project that is getting funding from the Commonwealth in other states, we would have a number of projects in New South Wales that, in terms of economic benefit and economic gain to the nation, would rate a lot higher than some of those marginal projects. We would suspect that, from a purely national perspective on looking at economic gain to the nation as a whole, in fact there is a more efficient way of allocating that national highway funding.

Mr LINDSAY—We have got to be mindful of the time, please. In relation to the national highway strategy that you have given evidence about and the uncertainty that you have with the current arrangements, what model would you see could manage that where the Commonwealth produces a longer term strategy? Do you think the Commonwealth itself is capable of doing that? Do you think it should be a body that incorporates representatives from both the state and the Commonwealth in the planning process? How would you see that achieved?

Mr Christie—I think what we would like to see is some feedback. If we put up these sorts of outlines or strategies, I think we would need to get the Commonwealth to say, 'Yes, that is what we are working towards' or 'No' or 'We think we should be doing this or that on a long-term basis—

Mr LINDSAY—How do you tie together the competing demands of the various states? How do you do that?

Mr Christie—I think that the Commonwealth is in a unique position to be able to do that.

Mr LINDSAY—Do you think it can?

Mr Christie—I think it is its role, actually.

Mr LINDSAY—The national highway network: would you suggest that it should not be further expanded?

Mr Christie—I think, as I said earlier, there are some important missing links in it, particularly in relation to the ports and exports.

Mr LINDSAY—Would you agree with the statement that the Commonwealth should largely withdraw from detailed road planning, project approval and project administration to concentrate on strategy; that federal funding should be tied to national outcomes and biased towards economic growth, improving the condition of the network and achieving national transport objectives. Would you agree with that statement?

Mr Christie—In general, I would. There has to be some accountability, but that does not mean the detailed approval of parts of projects which is going on at the moment.

Mr McDOUGALL—Mr Forward, you talked about the strategic planning reports, including the economic reports that you have done. Would the department be in a position to make those reports available to the committee?

Mr Forward—Yes, we would be able to make those reports available. The private firms which we interviewed through the University of Sydney asked that they not be individually named, and there is a very detailed report that goes through those interviews. I would not like to make that available. What I would like to make available is a summary that does not identify any individual firm. That is something that the committee would probably get more out of anyway because it tries to draw together some of the themes and some of the trends. If you like, we can provide a set of those reports to you.

CHAIR—We would appreciate that.

Mr McDOUGALL—You mention in your submission that the funding for national highways and roads of national importance should remain tied. What do you see as the main benefit for that?

Mr Christie—Certainty of funding. Again, it is related to planning and we are talking about projects that are planned over a number of years. The pre-planning phases of those projects may spread themselves over one or two years, particularly the public consultation processes and so on and the environmental issues.

Without that certainty, it is very difficult to plan.

Mr Chairman, could I just go back to Mr Lindsay's question, which I would really prefer to get in writing before I fully answer it. He gave me a proposition which I have tried to answer off the top of my head. I presume it relates to national highway funding only and not to the Commonwealth's involvement in other roads. Could I take it on notice?

CHAIR—Yes, certainly.

Mr Christie—And perhaps give you a detailed written answer on that.

CHAIR—The committee would appreciate that. With regard to infrastructure bonds, the New South Wales government and the RTA have had a great deal of experience with negotiating arrangements for the private construction of tollways and in using the infrastructure bonds. There has been a view expressed within the committee and to the committee that it may be a transfer of the cost of the development of that piece of infrastructure in part to the Commonwealth from the state.

If we take the M2 that we had a look at yesterday, the infrastructure bonds are being used by that organisation, so that is a cost on revenue to the Commonwealth in the short term. Would you view that, being a state road within the city of Sydney, as a transfer of the cost of that partially from the state to the Commonwealth?

Mr Christie—I guess it is how the Commonwealth regards its taxation concessions that is the important thing rather than how I see it. It is a question of what is in the mind of the Commonwealth when it provides those concessions. Is it promoting development in particular areas or is it promoting the development of projects that are seen as desirable but are otherwise marginal? I think, with respect, it is more appropriate to ask the question of the Commonwealth as to what it sees as the purpose of those taxation concessions.

CHAIR—Just going on from that, from your experience, would you be in support of the continuation of that type of arrangement?

Mr Christie—Yes, I would. There needs to be that avenue in order to enable some projects to proceed that would otherwise not be affordable.

Mr Forward—If I could just add to Mr Christie's answer, another way of looking at it is to question whether the project would have proceeded or not without the infrastructure bonds and then to say, if it would not have proceeded, then, clearly, the wealth that that project is generating would not be available to the Commonwealth. You need to balance up the incentives the Commonwealth is providing to create the project in the first place and the benefits that then are derived by the Commonwealth in terms of wealth generation and employment generation.

CHAIR—Certainly. The reason I asked the question, I suppose, is that central to this inquiry, in a lot of the issues that have been raised, is the need to try to get away from the delineation of responsibility with regard to investment in road infrastructure in Australia and move more towards some more cooperative arrangements so that the efficiencies that we know are available can be achieved. It is just another one of those elements in that.

Gentlemen, we have gone a little bit past the time—we have got a tight program—but I would like to thank you very much for making your time available to the committee this morning. If the committee has any further questions that might come to mind that we may need to ask your organisation, we will put those in writing to you. I think there was one question that Mr Christie has taken on notice.

Mr Christie—Yes.

CHAIR—Do you require us to outline that more clearly to you?

Mr Christie—Yes. Could I have it in writing? Would that be all right?

CHAIR—Yes, we can put that to you. If you can respond to that and also provide the summaries of those strategic plans that Mr Forward indicated that he may be able to send to us, that would be much appreciated. Thank you very much.

[9.26 a.m.]

BARRETT, Mr James David, Secretary, Australian Constructors Association, Level 4, 51 Walker Street, North Sydney, New South Wales 2060

SHEPHERD, Mr Anthony Francis, Chief Executive Officer, Project Development, Transfield Pty Ltd, Level 36, Gateway Building, 1 Macquarie Place, Sydney, New South Wales 2000

TOUSSAINT, Ms Elizabeth, Economist, Australian Constructors Association, Level 4, 51 Walker Street, North Sydney, New South Wales 2060

CHAIR—Welcome. We have received a submission from the ACA. I was just wondering whether you would like to make an opening statement before we move into a question and answer session.

Mr Barrett—Thank you, Mr Chairman. By way of background, the Australian Constructors Association is a peak body representing the major Australian construction companies in Australia. The membership comprises 15 companies. Our estimate is that the turnover of those 15 companies is in excess of $10 billion a year. Members of the Australian Constructors Association have been responsible for the construction of numerous road projects and roads of national significance, including a number of recent projects such as the Sydney Harbour Tunnel, the M5 Tollway and the Melbourne City Link project.

Our comments today, as in our submission, focus on the fifth reference to the inquiry, regarding private sector involvement in road funding. Appearing with me today is Elizabeth Toussaint, economist, and Tony Shepherd from Transfield Pty Ltd. Mr Shepherd brings with him a wealth of experience in project development, particularly in major road projects.

The members will be aware that since the late 1960s there has been a marked downturn in the growth rate of the nation's capital stock. While private capital formation has increased in that period, there has been a decline in public investment—something in the order of eight per cent of GDP in the 1960s to around four per cent currently. In the recent National Commission of Audit report, it is easy to demonstrate that there has been a very large fall in expenditure in roads in recent decades, and no doubt that information is being brought forward by other people appearing before the committee.

It has also been largely accepted by governments, which are now keen to advance infrastructure projects, that they are increasingly turning to the private sector to build and, in some cases, to own and operate infrastructure projects. The challenge for the private sector always is that the balance between risk and reward be maintained. I think that is probably at the basis of all private sector involvement in any construction project.

The thrust of our submission is that we believe that one of the responsibilities of government is ensuring that, through the taxation system and other public policies and procurement policies of the Commonwealth and state governments, that balance of risk and reward is maintained that makes private sector involvement in infrastructure attractive.

Quite recently, only in the last week or two, we made a pre-budget submission to the federal government, following the government's decision in February to close off the current infrastructure borrowings program. Obviously, that was of major concern to Australian Constructors Association members who were involved in developing and providing major infrastructure projects. We will make a copy of our submission to the government available to committee members, but I do add that it was only made in the last week or so, so it was not available to make in the earlier submission.

In that submission, we have proposed to government, we believe, a viable alternative option to the infrastructure bond program that was in existence that we believe will meet the same policy objectives that the government would want to achieve from such a scheme, but avoid some of the difficulties or structural problems that the infrastructure borrowing program had, or that came to light in its later stages, particularly in the last few months of the last financial year.

That report was put together by the Allen consulting group on behalf of the Australian Constructors Association, and we have suggested to government a tax voucher scheme that would operate through an independent agency, such as the Development Allowance Authority as currently exists, where rigorous criteria would still be applied to projects, but those projects which would be certificated would receive a voucher which would be redeemable direct with the Australian Taxation Office.

The advantages of this scheme, as set out in our submission to the government, is that it avoids the tax minimisation activities that went on in terms of the financial packaging that went on by the financial intermediaries towards the latter life of the infrastructure borrowings programs, but still provides the advantages that the former infrastructure bond program offered to major infrastructure projects. I brought a copy of that along today, but we will make additional copies as required by the committee.

Just to conclude our opening statement, I have asked Mr Shepherd to make a few comments, with your agreement, Mr Chairman.

CHAIR—Certainly, Mr Shepherd.

Mr Shepherd—My company, Transfield, has been a significant participant in private sector involvement in infrastructure in Australia over the past 10 years. We have participated in the so-called BOOT projects—we have put together about $4 billion worth of projects over the past 10 years, privatisation of government operations, and contracting out of services.

In the BOOT area, we have developed two of Australia's largest BOOT projects to date. The first was the Sydney Harbour Tunnel, which was opened in August 1992 and has done so much to alleviate Sydney's traffic problems. This was also, we believe, the first true BOOT project in Australia. The second is the massive Melbourne City Link project, which is the largest BOOT project ever undertaken in Australia. This $2 billion project will link Melbourne's disconnected freeways and provide a fast and efficient service. It will incorporate electronic tolling, which I might mention later.

In both these projects Transfield has been a sponsor, investor, builder and operator. The advantages to both Victoria and New South Wales of the BOOT approach, we believe, is significant. The risk of design and construction is passed to the private sector; no longer is the taxpayer saddled with the possibility of cost and time overruns. All of the BOOT road projects to date have come in ahead of schedule or on schedule and well within the time frame set by the public sector. Even so, if there are overruns, the private sector pays.

Because the private sector is responsible for the long-term operation and maintenance of the project and must hand the roads back in good order and condition at the extinction of the concession period, the correct balance is achieved between up-front capital cost and long-term durability, so we are not motivated to build the road cheaply because, at the end of the day, we have got to operate and maintain it, so that balance is achieved. Furthermore, the risk and responsibility for operations and maintenance is with the private sector. As there are inevitably competing road and other transport systems, the private sector is motivated to make their road attractive to the customer.

On the Melbourne City Link project, the private sector takes the complete patronage risk. This is a very real risk, particularly in a city like Melbourne which has a strong grid street pattern which offers many alternative routes. If the state itself had established this toll road then the patronage risk would have been with the state, and if it was below forecast then it would have been the taxpayer who suffered.

Private sector funding of these sorts of projects does release government funds for other essential services such as schools and police forces. It also helps to lower the level of state borrowing. Private sector investment is a great form of investment for the small investor and for the institutional investor. It adds to our capital base and to our efficiency. It is far more productive than, say, high-rise buildings and secondary trading in equities.

Finally, this form of delivery means projects are subject to very intense scrutiny in terms of their design, construction and viability. The work is done up-front. The investment decision is not clouded by politics. The project must be viable if the banks and institutions are going to invest significant sums of money.

I mentioned earlier that the Melbourne City Link project will see the advent of full-scale electronic tolling in Australia. There will be no tollbooths and no toll plazas on this project. There will be simple gantries placed at key locations which will electronically identify each vehicle as it passes underneath at highway speeds. The data will then be transmitted by secure optical fibre back to a central computer, where deductions will be made from the customer’s account. We announced recently the award of a contract to Saab of Sweden for the supply of the roadside reading equipment and for the tags which will be mounted on each vehicle, and these tags will have significant Victorian content.

The development will bring Melbourne to the forefront of electronic tolling in the world. Because of its flexibility and its speed, it opens up enormous opportunities for road pricing, congestion pricing, time of day pricing, and differential tolls for different classes of vehicles. The system could be easily expanded for other uses such as car parks.

We see enormous potential for the introduction of such a system in other cities. It would, for example, vastly simplify and secure the Sydney cash-back system for the M4 and M5 toll roads. It could ultimately facilitate the removal or significant down scaling of the many ugly and inefficient toll plazas. We believe the collection of cash at toll plazas is a medieval concept and has no place in a modern Australian city in the 20th and 21st centuries.

CHAIR—Just on the last point you raised, Mr Shepherd, on the electronic tolling, are you going to run it as a debit or credit system?

Mr Shepherd—It will run as a debit system, but for big customers like major companies, it will probably be a credit system.

CHAIR—And that system is again different to that which is going to be implemented on the M2?

Mr Shepherd—Yes; a significantly different system. This will be a multilane, free-flow system. There will be absolutely no toll plazas and no stopping or slowing down whatsoever. This will be at highway speeds. The system will be capable of measuring a vehicle at 250 kilometres per hour.

CHAIR—That is interesting. What is the length of the concession that your company has on the Sydney Harbour Tunnel?

Mr Shepherd—It has about another 25 years to run.

CHAIR—Is it living up to the economic expectations and projections?

Mr Shepherd—It is now. On that project the government, in fact, did take the patronage risk. Earlier on, the patronage was lower than forecast. However, after about four years, the patronage has gone ahead of the forecast and now the government is showing a handsome profit on that project. So, in terms of taking the risk of the patronage on that project, the government of New South Wales took a risk, but it has paid off handsomely for it.

Mr LINDSAY—Are we going to end up with a system in Australia where each project has a different mechanism for electronic tolling, and is that desirable?

Mr Shepherd—Thank you for that question. It is a very important question and raises something we should avoid at all costs. We would see the federal government as taking the lead in this issue. We see this as a very important issue for the federal Department of Transport and for the federal government to pursue, to ensure that whatever system is introduced is compatible, and that between toll roads and between states a similar tagging system is used, with a protocol which is compatible.

Mr LINDSAY—Secondly, in relation to private financing of infrastructure, how would you respond to this? Governments can borrow significantly more cheaply than private industry can borrow, so why get involved in private financing of national infrastructure?

Mr Shepherd—It is quite correct that governments can borrow more cheaply, but the advantage of private sector delivery is that we can deliver it more cheaply and the cost of delivery and the efficiency of the operation far overwhelm any savings in the funding of the projects by government means. Of course, when the government does fund something, it just looks at the cost of its debt and does not look at the cost of the risk. How does the government value a time or cost overrun on a project it is funding? How does it value a patronage shortfall on a project it is funding? If the government added to its cost of finance the cost of risk, then it might find it is quite close to the private sector cost of finance.

Mr ALBANESE—I was going along the same track, so I will not ask a question.

Mr WILLIS—On infrastructure bonds, you were saying that you have a submission which you will give us to explain it in more detail, but I would like to know now how this voucher would be redeemable at the ATO. In what way is it redeemable?

Mr Barrett—The previous infrastructure borrowings program provided a certificate issued by the DAA, which the developer would then use through its financier to achieve a lower interest rate. We are suggesting a certificate issued by the DAA, or a similar authority. I might add that the submission does not address the absolute administration of the scheme in a structural sense. We are saying to make the linkage between the viability of the project and the developer as clean as we can, so that the certificate issued by the Development Allowance Authority would become a directly redeemable voucher with the Taxation Office by the developer.

Mr WILLIS—Would the Taxation Office hand out money?

Mr Shepherd—Yes. The Taxation Office would write a cheque because, in effect, under the current system they are doing that anyway. Somebody is getting a tax exemption which they take off their assessable income, so they do not pay that amount of tax.

Mr WILLIS—It is forgoing tax revenue.

Mr Shepherd—Yes; forgoing tax revenue. It is just a far more direct system and, because you cut out financial intermediaries, there is no possibility of rorting. The advantage of the new system is that it is very clean and very straight.

Mr WILLIS—Okay. I will be interested to have a look at that. Another point relates to the issue Mr Shepherd raised about the private sector project taking patronage risk. I think you particularly said that that was true of the Melbourne City Link project. But it seems to me it is not as simple as that. I am not against the project, but EPAC, in its study in 1995, which I am sure you recall, was rather critical particularly of the use of infrastructure bonds for road projects. One of the reasons was that it saw it being rather difficult to put a tolled private road in the middle of a free public system, and it meant that there were external diseconomies in relation to the rest of the system.

I suppose that, in some ways, one sees that in Victoria because, currently, substantial fully operating roads are going to be narrowed and restricted—like Footscray Road—so that the toll road becomes more viable. These are costs which are borne by the public sector: there is already a good road there and it is being made less good in order that the private sector road can be assured of greater viability and patronage. Do you see that as being a significant downside in any way to the use of the private sector for road construction?

Mr Shepherd—Taking the Melbourne example, or even the Sydney example with the Eastern Distributor, the purpose of the toll road in Melbourne is in fact to discourage the rat-run through urban streets. Most of the restrictions in Melbourne are for areas like North Melbourne, where you have got huge trucks pounding suburban streets past little terrace houses, and ditto in eastern Sydney. The whole purpose of the toll road and the redevelopment of the road is to get the rat-runs out of urban streets and, although that may have a positive effect in terms of the patronage on a toll road, in fact the key driver for that is community concern.

When we really got to the crunch in Melbourne and went to the local community, whether in Toorak Road, North Melbourne or further north, and asked the community, ‘How do you feel about slowing down some of the streets in your neighbourhood?’ we got very enthusiastic local support for that. You cannot have a policy of trying to get people onto the sensible through-roads and, at the same time, encouraging the rat-runs through streets which were obviously never designed for that purpose.

Mr WILLIS—No-one is saying the project should not have been built: it is a more a matter of how it is built—under what financing structure—and whether it should be public sector financed or private sector financed. The point that EPAC was making is that, if these projects are private sector financed, there tend to be substantial diseconomies associated with that, through such things as restrictions on the current properly operating road network. Footscray Road is not running past little terrace houses, and this is just one instance. There are a number of roads that are actually—

Mr Shepherd—Certainly Footscray Road will be down-scaled. That has probably got more to do with the development of Docklands than with the toll road going through, and Footscray Road is in fact a very important feeder road to the toll road, as well. I see the restrictions on Footscray Road as being quite marginal in terms of the effect on business and as being really more directed to the redevelopment of Docklands, because it goes right through the middle of the site and, obviously, they are trying to get some sort of smooth flow to the water.

Mr WILLIS—I was just using that as one example, but it seems to me that the general principle is one which is a fairly serious one that led EPAC to the point of saying that these should not be used for roads.

Mr Shepherd—I disagree totally with the EPAC report. I think EPAC missed the point. The Melbourne project would not have happened unless the private sector had done it. That is the first thing. They criticise that it might be more efficient for the public sector to own it, but it is the fact that we do own the road that motivates us to operate it and develop it efficiently. That is the driver. It is the ownership angle that drives the private sector efficiency—all care, no responsibility does not really work in business. It is the fact that we do own the road that drives us to develop it quickly, to operate it efficiently and to provide the customers with good service. That is the motivation. Public sector ownership does not give you that.

Mr PETER MORRIS—Most of those conditions apply in the contracts let for road construction. It is a little bit wide of the mark to be suggesting that road construction contracts and road delivery contracts and the road warranties attaching to contracts do not exist.

Mr Shepherd—My feeling is that it is the combination of construction, operations and maintenance, patronage and finance—the total package—which brings the best out of the private sector in a competitive environment. You could have competition for the construction and you could have competition for the operations and maintenance, but it is when you pull it all together and you have your money on the line in terms of the success of the project by doing everything properly that you get the best result out of the private sector.

Mr PETER MORRIS—For your shareholders?

Mr Shepherd—For your shareholders, for sure.

Mr PETER MORRIS—That is the priority, is it not?

Mr Shepherd—It certainly is and profitability is intrinsic to this.

Mr PETER MORRIS—But is not the point that Mr Willis makes—and let me be a little blunter than he has been—that here you are fashioning an existing matrix of public road services and roads to channel traffic into a privately operated tollway. Understandably, your concern is for your constituents—your shareholders. You are channelling the traffic into that to ensure its maximisation.

Mr Shepherd—No. As a matter of public policy in Victoria and New South Wales, any restrictions that have been put in terms of local roads have been to recognise that the purpose of the toll road is to get cars off streets that were not designed in the first place to take them.

Mr McDOUGALL—I would like to refer to the question of allocation of risk. You noted in your submission that the private sector should bear the financial construction, operational and commercial risk and that government should bear the political risk, and that there is a need for a fair allocation of reward for bearing the risk.

If the builder or operator fails during the contract, obviously a government generally would be expected to pick it up. Is that a fair assessment? Secondly, what safeguards are needed to protect the taxpayers when a private contractor is granted a significant role in the infrastructure? I have another question, but maybe Mr Shepherd or Mr Barrett might like to respond to that one.

Mr Barrett—In the last decade there has been a marked change in the way that the public sector procures services from the private sector. Certainly in terms of the New South Wales government and, I think, in most of the other state governments as well, we have seen the public sector, as clients of the industry, become much more demanding of finding out who they are treating with. We have, therefore, developed quite sophisticated pre-qualification processes and instruments to test not only the financial capacity of private sector contractors but their technical capacity, their human resource management systems, their quality systems, and their occupational health and safety systems.

In determining the risk, clients now know much more about the financial structures and the technical capacities of the contractors that they are dealing with. For example, the New South Wales government now has an A1 team, or a first-grade team, of contractors who they deal with, who have gone through an even more sophisticated level of pre-qualification.

So while one can never get rid of the risk of failure, in terms of client behaviour, we now have much more sophisticated clients and they now demand to know much more about who they are dealing with and the financial capacities and the financial structures of who they are dealing with before they even entertain those contractors as tenderers, in some cases just pre-qualifying them to be a tenderer. So, yes, there is a risk, but I would also argue that the public sector clients have become much more sophisticated in finding out who they are dealing with, and that is a trend I think right across Australia. I do not know if you want to add anything to that, Tony.

Mr Shepherd—In the BOOT project, of course, if the contractor fails, it is the private sector that suffers. It is not the public sector that suffers; it is the investors who lose their money.

Mr McDOUGALL—But the public sector has to also then pick it up.

Mr Shepherd—No, they do not and they never have. We have had some BOOT projects in Australia that have not gone terribly well, and the private sector has got it in the neck. The TNT monorail around Darling Harbour has not been a great financial success. It is still there, it is still operating and TNT has worn it, but the public sector has not put in one cent towards it.

Transfield developed the ski tube in the Snowy Mountains. Again, it was a less than successful financial project. The infrastructure is there. It is still operating, and the government of New South Wales has not put one cent into it. If we fail, we carry the can.

Mr PETER MORRIS—You exercise your commercial judgment. You are drawing a long bow with that argument.

Mr Shepherd—No.

Mr PETER MORRIS—You exercise your commercial judgment to invest funds, you make stupid decisions sometimes and wise decisions other times, but please do not bring it to us and say—

Mr ROSS CAMERON—No, but if Graeme is saying that the government has still got to pick up the risk, Anthony is entitled to say ‘We wear the risk’ if in fact the historical records shows it is the case.

Mr PETER MORRIS—The government would not have invested public money in projects like that. They are over the moon when they were put up anyway. For heaven’s sake.

Mr Shepherd—We have had some failures in public investment too, Mr Morris. But the point I am trying to make to Mr McDougall is: yes, we do take the risk and if we make a mistake we wear it and we do not try to pass that risk back to the public sector.

Mr McDOUGALL—Right, can I ask a second question—and probably of our economist, if I might.

In regard to the further role of the private sector in strategic planning—and you were here earlier when the RTA was giving evidence in regard to the question and we talked quite a bit about strategic planning and whose role and responsibility—do you see the private sector being able to make a major contribution in that strategic planning role, and particularly in relation to the integration of transport systems rather than just the singular road system and how those systems would work together, such as rail, air, seaports? Or is the private sector purely and simply a constructor and a financier in this business, and do you see it having a role in the future in the strategic planning process?

Ms Toussaint—I guess there are two points I would make to that. The first is that we would like to see a lot of the projects that are undertaken being done on a commercial basis so that costs and benefits are looked at and the project is undertaken only if there are net benefits. And that is why we are looking at other instruments that will help, if you like, separate the decision process from the political process. So, yes, we would like to see projects undertaken on a more commercial basis.

The second point would be that yes, we also have a role in the strategic development, and I think at the moment there is a national infrastructure committee being developed through the Institution of Engineers—and the Australian Constructors Association is involved with that. We will have a role in that and think that it is important for the private sector to have a role in strategic development.

Mr McDOUGALL—I did ask the RTA for some details of the submissions that they have put together. Did you have an input into that?

Ms Toussaint—Not in the first instance. We were involved in the second round of discussions. We have not actually put a formal submission in.

Mr Barrett—Mr McDougall, I guess our position is that the notion of a national infrastructure advisory council is one that we actually support, but I guess there are a few caveats on that support. If it has a strategic role, as you are suggesting, we think that that would fill a role that is not there at the moment. For example, the input of the Australian Constructors Association and the benefits that our members could bring to that sort of strategic role are just as important as social planners, whatever, and the roles that they can bring to it as well.

I guess our concern is that we would not actually like to see that sort of national infrastructure advisory body picking winners or standing in the place of the market and saying that ought to get up or that ought to get up or whatever. But we do feel that there is a bit of a vacuum there and that in terms of having a national strategy for infrastructure development—that goes beyond roads, by the way; you are talking about the wider picture and certainly we are—there is probably not a forum to allow those debates to occur at the moment. We are just a bit concerned that there are some organisations that would like to see a directive body, perhaps would even like to see it to be a bureaucratic body. We would actually like it to be a little more strategic. The best thing is for the different sectors to have an interest in infrastructure development—to all have a voice in it. So it is a support for a strategic directing, but with some caveats about how that might take shape.

Mr PETER MORRIS—Mr Barrett, when I look at the membership of your association, my mind goes back to the building industry royal commission. Are you able to give an assurance to this committee that there are no mechanisms, opportunities or practices that relate to sharing the cost of tendering or any of the kind of behaviour that involved some of those companies that are still members of your association now?

Mr Barrett—The Australian Constructors Association, I should say, was formed after the royal commission, so it predates that. Also, the Australian Constructors Association has a code of ethics, which is accepted and signed off on by each of the member companies and actually even prevents members talking to each other about projects. It goes a lot further than the issues that were raised in the royal commission to which you refer. I can certainly say that from the Australian Constructors Association point of view the practices that may have occurred in this industry at one time are for the members who make up the Australian Constructors Association a thing of the past.

Mr PETER MORRIS—It is the old AFCC?

Mr Barrett—The old AFCC—

Mr PETER MORRIS—The Australian Federation of Construction Contractors.

Mr Barrett—Yes, it still exists, I think, as a legal shell but there are no members to it any more. I might say that it was an industrial organisation. The Australian Constructors Association is an industry association; it is not an industrial organisation.

The other thing about the ACA is that it is made up of the chief executives of each of the 15 member companies; so when each of our member companies signs off on a code of ethics it is signed off by the chief executive officer of each of the member companies.

Mr PETER MORRIS—When tendering, are you required in any circumstances or any cases to sign a statement that there has been no consultation in respect of tendering procedures or words to that effect—in some states and federally?

Mr Barrett—A number of states now have their own code of practice and their own code of tendering or draw on the Australian standard code of tendering, which deals with all those issues. It is quite often that the public sector agency, putting out a job to tender, will require the organisation to sign off on those undertakings. We actually support that, and we would actually prefer that things like the Australian standard for the code of tendering actually was a code adopted by all clients, because it actually sets out principles of behaviour not only for contractors but for all people treating in the industry.

It also covers clients and bid shopping by clients as well as behaviour by other people, including contractors and subcontractors and consultants. So we think that the outcomes of the last few years and the reforms that have come about in the construction industry have made it a better place. Certainly, I do not think the behaviours that were highlighted by some sectors of the construction industry in the royal commission can be found in the industry at large and not at all in the behaviour of our member companies.

Mr PETER MORRIS—Turning to scale and location of the operations and looking at the spread of the 15 companies that comprise your association, some of the tendering was clearly geographical—where they located and where they bid for. Do you have some sort of a map or diagram that delineates who wins contracts where? Henry Walker and Co. are usually in the north of Australia and Baulderstone are usually in the south. There are patterns like that. This goes to the next question. If you have that, we would appreciate it.

Mr Barrett—I do not have it, but if the committee requires it I will undertake to obtain it.

Mr PETER MORRIS—It would be useful. Tendering is a nice general word, but when you look where these firms are located and where they actually win contracts you see who is actually tendering in the north, south, east or west of Australia. That goes to the question I was raising earlier about the level of competition between the 15 members.

If you look at the contrast between small businesses in the road construction and maintenance industry and the majors listed here in your membership, It is put to us from time to time by small business—particularly the smaller contractors—that they are run over by the larger contractors, and as your association members want larger and larger projects put out to bid it screens out the opportunities for the small people. Do you have any liaison with the small business association, the smaller contractors or the earth moving contractors? The earth moving contractors association are bitter about this move towards larger projects.

Mr Barrett—The Australian Construction Association has a good working relationship with all the industry associations, including the Civil Contractors Federation, which I think is the group you were alluding to. The nature of the operations of ACA member companies actually restricts them to certain levels of work because of the overheads and the sizes that they have to deal with. Therefore, at times, it is a difficult argument to sustain that we are actually denying small contractors, particularly in small and medium sized civil work, access to markets because the fact is that it is just not economic business for the majority of our members to operate in those.

Certainly at the margins of medium to large size works there will be cases where our members can do the job cheaper and better than perhaps their competitors. It is an argument that has two sides to it and it is at the margins rather than mainstream. You also have to remember that a lot of our members have large packages of subcontract work which flow through to the small business sector. The major construction contractors in our membership employ something like 23,000 people out of a work force of 500,000 in Australia. The fact is that they actually engage hundreds of thousands of people through subcontract work. It is an issue of whether you are competing for the prime contractor role or a significant role as subcontractor to major contractors. I have seen no evidence to that statistically. I know that it is an argument by small contractors, but I would suggest to you that that occurs on the margins of large contracts and that larger contractors are successful there mainly because of the expertise and scope of their operations.

Mr PETER MORRIS—Does the association have any observations to make about the Queensland system of construction of roads enabling councils to tender rather than putting the tenders straight out to the private sector?

Mr Barrett—I do not know enough about the system to be able to comment on it.

Mr ROSS CAMERON—As you are no doubt aware, Mr Morris, who is on my left, is a former Minister for Transport, and Mr Willis is a former Minister for Finance. So almost invariably I will defer to their opinion on issues, but this—

Mr PETER MORRIS—That is news to us.

Mr ROSS CAMERON—But on this one I find there is a mild difference of view. Mr Willis did not dismiss out of hand the private involvement in road funding, but he certainly seems enamoured with EPAC's analysis, which I think has generated a wide spread of different views. I just want to come back to a couple of the points you made earlier, because the issue of road funding has received particular attention in relation to private involvement. Your point, Mr Shepherd, as I understand it, was that, in terms of benefits to the community, a number of these projects simply would not have happened if it was not for the private driver. Is that correct?

Mr Shepherd—There is just no way Victoria could have afforded the Melbourne City Link project. It is effectively a $2 billion road project which will be built in four years. There is no way, given their budgetary situation, that they could have done that in the foreseeable future.

Mr ROSS CAMERON—Clearly, you have an obligation to shareholders. In a sense, the fact that the road is in existence is a massive public benefit. Infrastructure is one of the most democratic forms. Road infrastructure in particular is incredibly democratic in that anyone who has a motor vehicle can go on it. While there may be externalities or public diseconomies, there is a sense in which there are fantastic benefits to the community.

Mr Shepherd—I think they far outweigh them, Mr Cameron.

Mr ROSS CAMERON—In relation to road narrowing, that has now become pretty much almost like the instrument of first recourse, particularly for local government bodies in traffic flow management. One of the questions that Mr Willis asked was: to what extent is it motivated by a need to prop up the finances of the toll road?

Mr Shepherd—It think it is convergence. You can see over the last 10 years in Australia a very strong move by local government to restrict traffic flow on suburban streets—speed bumps, road narrowing, more parking and that sort of thing. You have had this private sector delivery of infrastructure growing almost at the same time. I think that is coincidence, but there is a convergence there.

On the Melbourne City Link project, we have allowed for very significant divergence off the road. We are assuming that 25 per cent on average will not use the tollway and will use the alternative roads.

Mr ROSS CAMERON—Just very briefly. My last question—

CHAIR—We have covered the subject pretty well.

Mr ROSS CAMERON—This is a straight, simple question. There has been some criticism of the rationality associated with private involvement. The RTA previously was critical of the rationality of Commonwealth decision making about road funding. Do you want to make any comments about the rationality of government involvement?

Mr Shepherd—We are very enthusiastic supporters of strong government planning. The states that we like to do business in have a very strong planning role in their roads authority, their power authorities or what have you. They really know what they are about. They have a plan, it is a sensible plan, it is integrated, they are following it and it is long term. So, from the private sector's point of view, we like dealing with states and federal authorities that know where they are going and actually have a good plan that is sensible, logical, has been explained to the community and has community input into it. We are very supportive of the RTA approach to planning, and we do not see them withdrawing from that role. But, as Jim said, we would like an opportunity to participate in the evolution of those plans, but we still see that as a central role of government.

Mr WILLIS—One last question since my name has been taken in vain a bit here. You were saying, Mr Shepherd, that there is no way that the Melbourne City Link project would have been built without private capital. I think that is a political issue. With all the privatisation, for instance, that has been going on in Victoria, the government could have certainly allocated that money to a road project like this rather than paying off debt. It was its decision to pay off debt and then fund the road in the way that it has been done. That is a political decision. It was not impossible to build the road. It was not a matter of not having the funds.

Mr Shepherd—Whether they are going to spend it on schools, hospitals or roads is a question of government priorities, I suppose. They are still only AA plus. They would like to be AAA plus. I think it is a disgrace for a Victorian not to be at the highest credit rating at which rating agencies could place them.

CHAIR—We might complete the evidence we have been taking from the Australian Constructors Association. There was one question to Mr Barrett that you took on notice from Mr Morris regarding the geographical location of your constituent members. Are you happy to provide that information to the committee?

Mr Barrett—I would actually like to get that in writing, because I would like to understand whether it is just where our members have projects or whether it is states in which they operate or the nature of the work they are doing in those states. Could I have that clarified?

CHAIR—Mr Morris might be able to clarify that here and now.

Mr PETER MORRIS—What I am seeking is the location of the major projects won over the last three years across Australia by each of your constituent members. That is all in *Hansard*, Mr Barrett, and when you get a copy you can read it there.

CHAIR—The other point I wanted to make as we close is that there was the offer of providing a copy of the submission to the DAA, was it?

Mr Barrett—No, it was made to the Treasurer. I will leave one copy here, but I will supply the 20 copies if it is required.

CHAIR—Is it possible for you to get those to us because I think each member of the committee would appreciate having a copy of that submission?

Mr Barrett—Yes.

CHAIR—The other point is that you are happy for that submission to be a public document now?

Mr Barrett—Yes, we have actually made copies available to a range of people.

CHAIR—Because, once the committee receives it, it becomes a public document. So you are satisfied with that. It would be appreciated if you could make those copies available to the secretariat.

We thank the representatives from ACA for appearing this morning and thank you for your consideration in dealing with the questions that have been asked and the comments that have been made. Thank you very much.

[10.16 a.m.]

VOROBIEFF, Mr George, Project Manager, Infrastructure, Cement and Concrete Association of Australia, 25 Berry Street, North Sydney, New South Wales 2060

CHAIR—Welcome. We have received your submission. I invite you to make a short opening statement.

Mr Vorobieff—Mr Chairman and members of the committee, thank you for the opportunity to participate in this hearing. The Cement and Concrete Association of Australia is a national non-profit organisation funded by the Australian cement industry to improve and extend the uses of cement and cement based products. Such materials have many applications in roads and I have additional documents which outline this.

The association was formed in 1928, is staffed by professional engineers and architects and operates through a national office with regional offices in every state. The association is governed by a council of the senior executives of the member companies of the association and the activities of the association are outlined in the document submitted here, as mentioned.

The association has always supported the argument that roads are a long-term asset of this nation and should be financially evaluated as such. One valid method to fairly assess the economic merits of various pavement materials is to carry out a life-cycle cost analysis. The association has been working with Vicroads, the RTA and Queensland Main Roads, as they are known now, on life-cycle cost analysis since the late 1980s.

In recent years the Steel Reinforcement Institute of Australia has funded economic studies to fill the gaps in knowledge, and as you are aware the institute submitted those documents to the committee. The association, in conjunction with the Roads and Traffic Authority and the Australasian Concrete Pavement Association, has invested in training construction staff to achieve concrete pavements with good riding qualities and consistent quality material to meet best practice in Australia and overseas.

The training of staff to meet the desired performance by road owners is an expense and asset to the road industry and, as I point out in my submission, the loss of staff due to low construction activity is frustrating and can only lead to higher construction costs due to contractors having to rehire and train staff and anticipate higher than normal construction risks.

It is hoped that this committee can consider long-term funding arrangements independent of federal or state elections. For instance, the announcement last year of the 10-year upgrade program for the Pacific Highway is an extremely good initiative of government.

During the last five years the association has seen the downsizing of state road authorities from 30,000 in 1990 to 21,000 in 1995. During that time quality systems have been introduced, road specifications have moved from prescription based to performance based and partnering of projects has seen the benefits of working together versus the old adversarial relationship.

At some time, the continued reduction in the number of professional engineers must stop if federal and state road owners are to get the best value for money from performance based design and construction practices and achieve also low market cost for road construction.

In recent times, the concept of design and construct, design construct and maintain and a BOOT system for road owners has been implemented. With all the changes noted, by far the most significant impact for road owners is the design, construct and maintain contracts. This process in particular allows an effective shift from prescription to performance based specification, as the application of performance based needs can be directly tied to the contractors' quality systems; the contractors can generally provide a better design and construction system from experience; and, thirdly, contractors are showing a greater role for the ownership of design skills as it reflects on the required maintenance needs after construction has been completed.

Finally, I would like to add that the association participates with several Austroads activities including the Australian Permanent International Road Congress Committee, and I am the association's liaison officer for the Austroads pavement and research group. This group mainly comprises senior pavement managers from federal, state and local government levels and coordinates and manages Australian and New Zealand interest in pavement research and technology transfer.

Mr Chairman and the committee, these brief opening comments relate to the association's submission, and I would be pleased to answer any questions you have.

CHAIR—The membership of your association: have you found that, because of the way, historically, that the planning process has taken place—the strategic planning process, the construction of major road projects—it causes a loss of expertise from the industry, a drain, and then you have a problem which adds cost in bringing those people back on board when a project starts up?

Mr Vorobieff—Certainly over the last five years we have seen quite a significant construction activity for the Hume Highway, for example, and during that time the Roads and Traffic Authority, which was the road owner obviously for that particular project, had moved contractors and others to this quality based system so that the roads were up to best practices in Australia. So contractors looked at a long-term investment in mechanised equipment and they have spent a vast amount over the last five years on this mechanised equipment from the US and other places.

Basically, not only is equipment required but the skilled staff to get the road right or up to the performance based levels that RTA required. Recently, there was that lull in road activity, and certainly the contractors had to let go of staff in this instance because there was insufficient work for them to carry through. So during that process obviously they have lost some of those skills. There is and there is not an opportunity obviously to pick up the same people, and that is what is a bit frustrating for the industry as a whole.

CHAIR—Do you see the process that you mentioned as far as the contracts are concerned—the design, construct and maintain contracts—as the optimum mechanism to get greatest efficiency for the dollars being spent as well as the best quality assurance?

Mr Vorobieff—I certainly have looked at a whole variety of mechanisms and I have been listening this morning to the pros and cons of the BOOT system as well. I certainly see that as one of the mechanisms, one of the paths, to go down. Obviously, the maintain period—whether it be five, 10 or 20 years, as I have suggested—is something that should be considered and probably needs some work.

May I add that it is a transition zone too for the contractors. Possibly what needs to be looked at is, starting off with this five- or 10-year period, the long-term relationship. If the contractor is involved in the design process, then he is obviously looking at the longevity of the whole project in the best interests, obviously, for both parties in that case. One would hope that is the case, too.

Mr LINDSAY—Your evidence to the committee talks about the problems that your industry faces with non-continuity of work. Do you have any evidence of the quantification of that as to what it might be costing the national economy to have this stop-start operation?

Mr Vorobieff—No, we don't. If the committee is interested, we could look—probably not in a short time frame but certainly by the end of the year—at some of those issues, particularly for the road industry.

Mr LINDSAY—Do you have any opinion on the following position: some state road transport authorities tender to themselves to do their own work and does your association have any view as to whether that is appropriate or not?

Mr Vorobieff—Certainly we have no problems with that. All tenders should be based on the quality and expertise of those who are submitting the work. I understand this process is going quite well in Victoria and Western Australia, for instance.

Mr McDOUGALL—In your submission and in your comments earlier you referred to the problems associated with stop-start and the rehiring of staff and you also mentioned that you are promoting the long-term funding arrangements as the solution. Do you see that as the only solution to this problem—simply long-term funding?

Mr Vorobieff—In terms of roads, it is important because it is a skill to build quality of roads. For the building industry it is fine because building activity can go on in various commercial or public sector projects. But roads in particular tend to be more public related. Therefore, there is no long-term outlook in that.

Mr McDOUGALL—On that basis then, would you see one of the ways of solving the problem to be to utilise local government staff where they may be available to the private sector during tendering processes and project management?

Mr Vorobieff—As I have pointed out already, the staff numbers in the state road authorities are declining. They already—in particular the RTA—use external consultants during the peak periods. So during a lull there is no work and the staff levels would not be compatible for all organisations, I would have thought.

Mr McDOUGALL—But in that question to you I did not refer to the RTA; I referred to local government.

Mr Vorobieff—No, I have not looked into the local government issue. I know pavement expertise in local government has declined in recent years. Predominantly, local government seeks a lot of their technology transfer from state road authorities.

Mr McDOUGALL—Is that a national perspective or is that one simply based on a narrow area, say, of New South Wales?

Mr Vorobieff—I would have thought it is more national than just New South Wales.

Mr McDOUGALL—That local government has lost a lot of its own technical ability?

Mr Vorobieff—Yes. The rural areas are probably the exception. It is probably in the urban areas where that is the case.

Mr McDOUGALL—I was interested to see a reference in your submission to life-cycle costing. Could you tell me what you mean by that and what you see as the benefits?

Mr Vorobieff—Life-cycle costing is to evaluate a project based on a time period. For instance, bridges would possibly be 50 or 100 years and roads tend to be around the 40-year mark, sometimes less. It obviously depends on the significance of the road. Most of the freeway systems in Australia are now looked at over a 40-year period. Basically, life-cycle costing considers the cost in the future and tries to bring that back to a net present worth using basic economic theory.

I have drawn in my submission the F3 project, which shows some of the savings that can be created if you look into the life-cycle costing aspect over a 40-year period. I understand most state road authorities are moving in this direction or have already done this. So we just support that process.

Mr PETER MORRIS—I was just wondering why black top is always regarded as being better than concrete. But you are trying to say there that concrete, over a life of 40 years, is cheaper than black top. That is the substance of your paragraph on life-cycle costing, isn't it?

Mr Vorobieff—That is correct. That is for a freeway condition.

Mr PETER MORRIS—Does that include the section at Wyong where the concrete was split all the way through which resulted in enormous costs and the section further north where the reinforcement rod had not been put in and that cost several millions of dollars? All of those costs are in there, are they?

Mr Vorobieff—In that particular case, when I did the averages, I took the Wyong case out because it was an unusual case and, therefore, not representative of what concrete can achieve. However, the calculations I have carried out on that section of road and the study by the RTA shows that, over the 40-year period, the Wyong section of road still has a lower life-cycle cost than an average asphalt pavement. This is the front page of that report.

Mr PETER MORRIS—I have not seen that. It would be interesting to have a look at it. I was just giving you a chance for a free commercial that concrete is better than black top. You can take it if you wish.

Mr Vorobieff—The state road authorities and the RTA are well aware of its benefits.

Mr PETER MORRIS—What we are told, generally, is that, depending upon location, there are cases where concrete is a better proposition than black top and vice versa, depending upon the geology. Is that the approach we should make generally?

Mr Vorobieff—That is correct. We only promote concrete roads on the merits of the geography—in other words, traffic volume, climate, et cetera. We would not promote concrete roads for the Adelaide to Perth route.

CHAIR—There being no further questions, thank you very much, Mr Vorobieff, for making your time available, giving evidence this morning and for your submission.

Short adjournment

[10.47 a.m.]

GEHA, Mr Adam Akrum Afif, Business Analyst, Macquarie Bank Ltd, Level 22, 20 Bond Street, Sydney, New South Wales 2000

MOORE, Mr Nicholas William, Executive Director, Macquarie Corporate Finance, Macquarie Bank Ltd, Level 22, 20 Bond Street, Sydney, New South Wales 2000

CHAIR—I welcome witnesses from Macquarie Corporate Finance. Do you have any comments to make on the capacity in which you appear?

Mr Moore—We appear giving Macquarie Bank's view of the best way for the private sector to provide road infrastructure.

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

Mr Moore—At the outset, I think we would like to express gratitude to the committee for calling us here today. We are very excited by the provision of roads. We have been involved in quite a number of the leading projects that have taken place around Australia, as you probably know. We have listed them in our submission. We are involved in the M2 financing—the one in Sydney going up to the north-west sector. We currently, through a fund we manage called the Infrastructure Trust of Australia, own 50 per cent of the M5 motorway here in Sydney. We are the advisers on ITA, and ITA is going to own 75 per cent of the Eastern Distributor project. That will hopefully commence shortly and will go from basically here, as you probably know, just in front of us, out to the airport.

We were the financial adviser, debt underwriter, equity underwriter on Transurban in Melbourne. That is the very large project in Melbourne. We are working on another private road called Springfield in Brisbane at the moment. We have been involved in about a dozen other road projects which have been proposed and which have not necessarily come to completion at this stage. So we have a lot of resources dedicated to this area; we have a successful practice in it. So, accordingly, I think you can view our evidence as coming from one direction—that we see this as a very good business for us, and we would like it to continue of course. But, that said, we actually do believe there are very good reasons to support the continuation of the industry that has actually developed in the last couple of years.

We would really see not a lot of difference between the provision of roads by the private sector and the provision of most other services by the private sector. I think it is accepted now that it would be crazy for the public sector to be providing steel, it would be crazy for the public sector to be providing food and it would be crazy for the public sector to be providing so many goods. The question you have to ask is: what is different about roads?

When you go through the arguments of why roads are different, I do not think they really stand out as being different from any other service that the community requires. When you go through step by step—and we are happy to go through those—the case comes up pretty clearly that the private sector is much better, much more efficient, at providing these services as it is more efficient in providing steel, food, motor cars or anything else. In our submission, we have actually covered the arguments for the public provision, and we are happy to talk to those later on if necessary. We think the argument is pretty clear.

The EPAC report recently evaluated all this and people probably know that the conclusion in the interim report, which was not followed in the final report, raised questions about the efficiency of private provision of roads basically for two reasons. The first reason was network risk. It actually said that if the private sector is only part of a network it will actually be charging a greater cost, given that it cannot control the people actually coming off the road system.

If you look practically at the roads that I mentioned before in Sydney and Melbourne, you will agree that network risk really has not been a factor that has played any part in the pricing of those particular roads. Indeed, it would be difficult to see how or why the RTA would want to be moving people off, for example, the Eastern Distributor. Clearly, it is a major artery in Sydney. Sydney’s arteries are clogged. If you build a road, people are going to go on it. Network risk might be a theoretical problem but, when you look at the situation of the roads in Sydney, there has clearly been underspending over a number of years and it really is a practical area of concern.

The second reason was cost. They have talked about the cost of implementing BOOT projects. If you examine what the costs really are, the answer is quite a bit different. The initial costs that have been identified are largely in risk evaluation. If a community does not spend the money up-front evaluating whether the project should go forward or not, the net result is perhaps that projects will go forward that should not. For example, in our power industry there is a clear example where we have $10 billion of overspending that has taken place on the eastern seaboard in recent years. Clearly, money was not spent there at the outset of these projects to determine whether they were financially viable and we have the consequence. I think it is very important to look at up-front costs. You ask: what are they for? They are for risk evaluation, actually determining whether it is a good or bad thing to go forward.

A lot of up-front costs really are costs that should be distributed over the life of a particular project. So, if you have a project that has a life of 45 years and you say, ‘Gosh, there are very heavy up-front costs here, this is bad,’ you should actually say, ‘This cost should be apportioned over the life of the transaction,’ particularly if you are talking about equity and debt where clearly up-front costs are just part of the overall costs to the provision of that debt or equity. We are very confident amongst ourselves—of course we would be—that private roads are the way to go. We hope that if you examine the arguments one by one you will come to the same conclusion.

CHAIR—Are the up-front costs you talked about the transaction costs that were mentioned in the EPAC report?

Mr Moore—That is right.

CHAIR—With the M2, they were probably—what, $26 million?

Mr Moore—Yes, something like that.

CHAIR—So that is five per cent of the—

Mr Moore—I think six per cent is the number quoted.

CHAIR—Is there any way they can be reduced or is that standard form?

Mr Moore—As I said, I think it is important not to look at them as up-front costs. It is a bit like when you borrow money from a bank. You pay an up-front establishment fee. Why do you do it? You actually do it to get the benefit of the loan throughout its term. It is not actually just for the sake of—

CHAIR—You are saying it should be amortised over the life of the road?

Mr Moore—I am saying part of them should definitely be amortised over the life of the loan. It is the same as saying the margin on the debt should be slightly more. That is a very important element of it. The second element is risk evaluation. If you actually look at why you are paying the money up-front, we had six traffic reports for the M2 and had to pay for those up-front. We have to go through all of the bank’s credit committees, all the committees, the equity evaluation committees, of the people investing in the transaction. It costs money.

What are those people doing? They are sitting down and saying, ‘Is this a good economic proposition? Is this road actually going to return to us the income we expect it will?’ Basically, if they come up with the answer, ‘No, it is not a good economic proposition,’ perhaps that road should not be built on that basis. Really, the consequence for the community not to be spending that money up-front is the same as for the power industry on the east coast where we ended up with far too much capacity—perhaps.

CHAIR—What did you say—the power industry?

Mr Moore—The power industry—the power generation industry. I think EPAC identified that we have spent $10 billion too much in power generation down the eastern seaboard.

CHAIR—In terms of those transaction costs, is that a relative ratio applied to the City Link project in Melbourne?

Mr Moore—I cannot tell you off the top of my head. We can come back and give you details on that. Probably the Eastern Distributor is the most appropriate, given it is happening at the moment. I omitted to answer the question you asked about whether those costs will get reduced. The answer is yes, clearly they will. I think EPAC acknowledged in their final report that the M2 was groundbreaking in so many different areas. It was the first time that we had public listed equity involved in a transaction, it was the first time that we had CPI debt issued for any non-government body and the first time that we had project finance risk being taken by public bond holders. So we had three firsts taking place simultaneously. If you are doing a first it is always a lot more expensive. When we were doing the Transurban deals and the Eastern Distributor we were using the models that we set up on the M2 to actually apply that.

CHAIR—Would you view the contractual structure and the financing structure for the M2 arrangement as being complicated?

Mr Moore—Yes, very complicated.

CHAIR—We had the opportunity of being briefed by the Abigroup yesterday. It seemed to me as a layman that, when it was all put up on the board, the structure of the contract and the financing arrangement were very complicated.

Mr Moore—You are dead right, and you should ask why it is complex. I guess I was responsible for a lot of those boxes you saw on the page. The reason is, unfortunately, our tax system. We were saying that we have a project here, that being the road, and we would like to flow the money from the project to the investors—actually flow it through and make it like a property trust.

Sadly, there are about four different reasons in the tax act why you cannot do it simply as a box. Because of that, we have to have a trust, we have to have a company and we have to have these concurrent leases taking place because they both have to have the interest in the land and then on the top of it you have to have an investor who ends up owning a share in a company and a share in a trust. That is horrible, particularly with the M2, which was a first. Public institutions had never invested in roads before.

So we are coming to them with a new class of investment and a horrible structure. I can tell you that, from where we are sitting on our side of the table, the last thing we wanted was to end up with that horrible structure. The reason we did that, unfortunately, was driven by the tax rules we have which, of course, had been set up in an environment before private sector became involved in infrastructure. The problems we have are 51AD, 16D, 6C—that is, the taxation of trusts and whether they carry on businesses versus owning land. All these crazy rules which have been put in place over the years in a different environment all apply, sadly, to the provision of infrastructure, so you have to come up with these crazy structures to make sure it is not a problem.

Mr WILLIS—I am just intrigued by your comment that roads are no different from cars or food or anything else in desirability of provision by the private sector. I would have thought they were markedly very different, because we have a public road system in which the private roads are a small addition. That is a totally different situation to any of the other markets you mentioned. It seems to me that that does mean it is a different category entirely, that you do not have a natural rationale to say that this should be in the private sector because the private sector does this better. It is a government provided system. I am sure you are not suggesting that we privatise all roads to make the whole lot provided by the private sector. I would have thought it was in a very different category. What do you say about that?

Mr Moore—Clearly it is unique, but every asset is unique. Every service that is being provided is unique. You are right: it is unique. What does it mean if you have a network providing a community, which is basically what a road system is? Should the mere fact that it is a network providing a community mean that it should be government owned? Clearly, we have gas systems and electricity systems that are increasingly owned by the private sector. Does it make any difference that AGL owns the gas reticulation system in New South Wales compared with the state government owning the gas reticulation system? It is selling a service which is the transportation of gas from the city gate to the town.

Fortunately, we have been able to develop in recent years with ACCC in the new post-Hilmer world a way of coping with the regulation of network monopoly assets, of actually saying, ‘This is a monopoly asset. Given that it is a monopoly asset, it is a network that is serving our community. The owners of this asset and the returns that they derive from it will be regulated.’

Similarly, if you look at what has happened in the BOOT projects that I have mentioned before, we as the private sector tender to win the BOOT contracts. What we are tendering for is basically a concession which is a regulatory regime. We would like to charge a $10 toll, for example, on the Eastern Distributor. We would love to do that but we cannot. We will be capped by the government at a $2.50 toll or whatever the toll is. We will be regulated on how we actually operate that business the same way as AGL is regulated, the same way as the discos down in Victoria will be regulated, the same way as so many assets that service the community should be regulated and perhaps the way Telstra should have been. We should perhaps have a network for Telstra.

Merely to say it is a network does not necessarily move it into a class of assets that should be owned by the public sector. It certainly means that the public has a very big interest in the provision of that. That asset should be regulated and it should always be put out to competitive tender. I do not know that there are a lot more conclusions that can come from that.

One of the big issues in the past is the inconvenience of collecting tolls. Plainly, it is crazy to have a tollgate at every intersection or a tollgate on every highway—absolute madness. One of the really exciting things that has been happening with technology and happening down in Melbourne with Transurban is this concept of electronic tolling. What does electronic tolling mean? It means that you can have a tollgate on every corner and every piece of highway that you like. It means that when people use roads they pay for it.

What does that mean? I am not quite sure what it means, but perhaps it means that people use roads less or perhaps they use them more efficiently. They drive at times that are best. Obviously, with congestion pricing you can charge them more for driving in the peak hour and less for driving elsewhere.

The implications of this electronic tolling are massive. Certainly it fits very neatly into the private provision of a network compared with the government provision of the network.

Mr WILLIS—So we could have one on every corner.

Mr Moore—That is what is happening in Singapore. It is not going to happen today obviously, but remember that in two years from now it will be in Melbourne. The main route in Melbourne, which is what Transurban will be, will be tolled.

Mr WILLIS—Another point I wanted to take up from what you said was the cost benefit analysis. You were saying that by having private sector provision there is stringent cost benefit analysis, which means you are not going to get the system with roads that we developed, as you rightly say, in relation to power stations. That system was massively overbuilt in the 1960s and 1970s, and we are still wearing that. I would have thought that that is just a failure of the public sector to properly conduct its affairs. Privatisation seems to me to be not a necessary part of conducting proper cost benefit analysis. The states, if they had done that, would not have built in a cargo cult mentality that if they build a power station then industry will come to use up the power. That is already being redressed very considerably at the present time through the development of the national grid. Presumably we will not go down that rather ridiculous path in the future.

Can I ask you something about the infrastructure bonds which you touched on. With the suspension of infrastructure bonds now, your submission before us suggests that there is no really easy alternative to infrastructure bonds in the way that they have been provided. Given that that has created the sorts of problems which has led to their suspension, is it still your view that there is no other way of doing it, of providing this kind of facilitation to offset the problem of not having an income stream in the early years in which to offset the interest payments for tax purposes? You argue here that provision of some kind of payment through the Australian Taxation Office would not be viable. Others have said to us this morning that that is viable and they have made that submission to the Treasurer. Do you have any further views on that issue?

Mr Moore—We do. We should have forwarded a paper we prepared on this topic. We have circulated it amongst a number of people down in Canberra, but we will send a copy through. Our new view is recognising that infrastructure bonds are dead, but the problem remains, as you say. The problem remains that to provide these projects most efficiently they need to be heavily geared because the cost of debt is lower than the cost of equity. Heavy gearing means early year losses that are out of step with any other industry. Infrastructure is different. You are happy basically to lose money for 10 years on the basis you will make it in the next 20 years. No other Australian industry works that way, of course.

We have talked about three basic ways of overcoming the problem. The first and the easiest is consortium relief. Basically, you can flow through losses from the project to the individual investors. That would solve the problem. In other words, if you are a partner in a business and you can pick up the underlying losses of that business, that would solve the problem if you could do that for infrastructure. The difficulty, of course, of the partnership—

Mr WILLIS—It would be a higher cost to the Commonwealth, wouldn't it?

Mr Moore—Probably the same cost as an infrastructure bond. The whole issue has to, I think, be viewed in the context that if BHP is going to undertake a mining project in Australia it might have a long payback period. But BHP is able to take either 50 per cent or 100 per cent of that mining project and group the losses initially. In the infrastructure industry we do not have any BHPs. The big problem we have at the moment in this country is that we do not have any BHPs. So there is no-one who can put their hand up and say, 'Okay, I will develop the Eastern Distributor and take all the losses up-front.' We just cannot do it.

There are a lot of people putting their hands up in the power industry—unfortunately, all overseas players. It is the Mission Energys. In the water area you have the French water companies and all the rest. They have actually developed a critical mass outside Australia. A critical mass includes a tax base, so they are actually paying tax in their home jurisdiction. So when they are incurring interest expense they can actually use that interest expense, even if it is in Australia, against their home income.

Here in Australia if you are a local investor and you put your hand up and say, 'I'll go in there,' you are not large enough by definition, because we do not have any big infrastructure players in our market at this stage, so you cannot actually use those deductions. The consequence is that we will never get any large players unless we address this anomaly where overseas players can use the benefits in their country and we cannot use it in ours.

So consortium relief is one way to do it where you have a number of smaller people coming together and actually being able to group out the losses. At the moment the way the Australian Taxation Office works is that you have to have a 100 per cent ownership of a project before you can do it. What we are saying is: why should we have that rule? Let us have consortium relief as we do in other countries. That is the easiest alternative.

The second alternative is to have something that we called transferable loss certificates or something like that; that if you are in loss you can get a piece of paper which will have to be certified by somebody responsible and say, 'Okay, I am in loss a $100 this year. This is a tax loss. I'm going to sell it. How much will you pay for $100 worth of losses?' Hopefully, people are going to be paying up to 36c in the dollar, so you can transfer that loss to some other member of the community.

That was the recommendation. We said, 'This is the easier system. Provided there is some sort of certification that those losses actually exist to prevent abuses, that seems to us to be the simplest and the best.' As you say, having the Australian Taxation Office or Treasury writing a cheque every year means that all the problems of outlays suddenly arise. You have all the problems, perhaps of the power industry, where politicians—not that there is anything wrong with this—will say, 'Tasmania this year should get X per cent of the cake.' And so X per cent of the cake is going to Tasmania, whether economics demand that or not. The expression is pork barrelling, I think. The projects will go where the votes will go. That is one problem.

The second problem—being cynical—in my view is that, if you are writing an outlay cheque every year for 36c for every dollar loss and that is appearing in the budget, that is a really easy target for any cost cutting regime to come along later and say, 'Hey, look at this. We're paying out these cheques every year. Let's can that.' So it is really easy, if it is an expenditure item, to cut it out. Being cynical, we see that as the path Treasury would like to go down and would actually like to create a new instrument, which means that you have to write a cheque every year so that they can come along to the Treasurer every year and say, 'Look at this, these dirty dogs are getting all this money. Let's cut it out,' whereas in the tax system we hope it is much less prone to political interference and much more likely to be just an ongoing part of the business.

Mr WILLIS—It is much more prone to private sector manipulation through tax avoidance.

Mr Moore—This is probably not for this forum, but a lot of the bad press that infrastructure bonds have taken we believe is not fair. Certainly, rorts went on that were identified and rectified by the DAA. The rorts were that a taxpayer was able to issue an infrastructure bond and then effectively buy that bond back, so claiming the benefit twice. But 90 per cent of the issues that took place which were certified by the DAA were things like Transurban where you had a project that was a tax loss and it was selling its tax losses to investors in the private sector. That was what the regime was set up to do. That is what was happening.

The pricing, at the end of the day, was very efficient. Actually, people were getting 42c in the dollar for their losses. They were being bought by people who were paying tax at 48c in the dollar. So most of the benefit was actually flowing through to the project. The great bulk—almost 90 per cent—was flowing through to the project as a result of the tax benefit. So it ended up being very efficient.

But, like with all these things, a scheme comes in one year, gets changed the next year, gets changed the year after that and then gets canned. You pick up all these things along the way and say, 'Look at this. This is imperfect. That is imperfect.' With infrastructure, we are dealing with 45-year assets. The most important thing is certainty.

To an extent, we could stand back and say, 'We don't care what scheme it is as long as it stays in place.' The fact that the rules change every year is just diabolical for certainty. What does that mean? It means the cost of capital goes up. What does the cost of capital going up mean? It means the community pays more. That is the bottom line. Of course, we see it from the viewpoint of bankers: all we talk about is cost of capital because we know that to win a competitive bid you have to get your cost of capital down. But we see that when you have uncertainty the cost of capital goes up, and it goes up across the board from the community's viewpoint.

Mr WILLIS—Did you say that you have made a submission to government about this?

Mr Moore—Yes, we will send it through to you this afternoon. Basically, we argue those three points.

CHAIR—We would appreciate receiving about 20 copies of that for the committee. Is that possible?

Mr Moore—Yes, of course.

CHAIR—It is not a confidential document? Once we receive it, it becomes public.

Mr Moore—No, that is fine.

CHAIR—We appreciate that.

Mr McDOUGALL—I asked a question earlier today about the setting up of the private financing of infrastructure. What protections need to be included to protect against the risk of the collapse of a company and the loss of taxpayers' funds if the project then has to be picked up by the government?

Mr Moore—I will start from the ground up. As to what happens when a company collapses, it depends when the company collapses. If the project has been built already and the project collapses, the consequence is that the community picks up the project. Remember that we are not actually talking about ownership of the road. The private sector does not own the road; it just has a concession over the road to receive tolls for the road.

What happens if the company collapses after construction? It is good news for the community because the company breaches the terms of the concession and they pick up a road. Alternatively, the banks step in and sell it to a new person at its real value. For example, the M2 construction is due to finish on 26 May, as I understand it. If it fails in the first 12 months—if we do not get the traffic that we expect—the equity will lose its money, the banks will step in and we will sell the project. What is the project worth? We do not know because it will be entirely determined by the traffic. It will be a transaction that takes place away from the public. In other words, the regime that the public are living with, being a fixed toll regime, will not move regardless of who owns the asset.

The answer is that, if the company collapses after construction, there is absolutely no implication for the community. There is no requirement for the community to step in and pick up the pieces. The bigger issue is what happens if, during a construction such as Transurban, the project collapses. Again, at that stage, the private sector on the Transurban case has spent $1.5 billion or whatever by the time the project has collapsed. It has collapsed. The public steps in and picks up, for what its worth, the work that is being done to date and either sells off the work that has been done to date or, alternatively, seeks to complete the work that has been done to date.

In any event, there was not a Transurban before. There was not a City Link project. If it does collapse, one would guess it is because of cost overruns. It is then up to the community to decide whether they want to spend the money to bring the project in with a new construction company, with a new consortium, or to just leave it stand where it is as a whole lot of half-dug holes around Melbourne. We are obviously the people putting the money in, but either way to us it does not sound too bad a deal as far as the public is concerned. It is not their money being spent. They are given a concession. If the people fail to comply with the concession, we in the private sector lose the concession. We lose our money, but the public certainly is no worse off.

Mr McDOUGALL—You mentioned in your earlier address the question of a road in relation to Springfield.

Mr Moore—Yes.

Mr McDOUGALL—My understanding of that is that it is an extension of an existing highway called the Centenary, which runs in a south-west direction, opening up a whole new area.

Mr Moore—That is right.

Mr McDOUGALL—You have been involved in that?

Mr Moore—Yes.

Mr McDOUGALL—Is that a project similar to the M2? Is it a toll road? What is the difference in the structure of that one?

Mr Moore—It is not a tollway. Basically, it is a road further opening up a housing estate. How it is different is that the proceeds to pay for it will come from the housing development. It is almost like a value capture: as the houses get sold the money gets generated through the developer to pay it down. The Queensland government is also paying half the cost as well. It is a joint development between the Queensland government and the developer, where we basically fund the developer into the transaction and, to the extent he is successful, the money gets paid out.

Mr McDOUGALL—You are purely funding the developer in that case.

Mr Moore—We are their financial adviser as well.

Mr McDOUGALL—What do you see as the financial role in the strategic planning process of transport in general? Obviously, you have been involved in roads, but transport really is an integrated process involving rail, air and seaports. Do you see your financial interest expanding into those other modes of transport? If so, where is your involvement as the private financial sector in relation to the strategic planning?

Mr Moore—We are actually involved in all those sectors at the moment. We are developing a train line between Brisbane airport and Brisbane city. We have 70 per cent of the equity in that particular development. We are the financial adviser on the new southern line here in New South Wales. We have put a consortium together to bid for Australian National—the South Australian-Tasmanian railway—so we are heavily involved in rail.

At the moment we are leading a consortium bidding for all three airports, which we have been short-listed for and, hopefully, we will win one or maybe two of them. So we are heavily involved in all elements of the provision of transport infrastructure.

The way we are approaching it is very much on an ad hoc basis—rightly or wrongly. We see opportunities which, largely, are being opened up by governments or, alternatively, somebody comes up with a good idea and says, ‘How about building a train line between Brisbane airport and Brisbane?’ and we then start working on it. We are not doing it on any sort of global plan basis. We are just doing it on a project by project basis.

There are obviously many good reasons why a global plan would be good. However, to an extent, it is actually limiting the benefit of the private sector involvement in these projects. For example, in New South Wales we would have half a dozen projects that we have actually taken along to the RTA which we would be happy to fund and build today which would overcome traffic problems.

We would see that that is a real benefit of private sector involvement that should not be lessened by a global plan that actually says, 'This year we are going to do this project, next year we are going to do that project and the year after we are going to do that.' The truth is, like with all these things, we actually do not know what the best project is until we sit down and do the numbers and think hard about it.

The second issue is that we are at quite an interesting stage now in the development of all this. We have got the Hills Motorway—and you spoke about that yesterday with the Abigroup. They have built 21 kilometres of road. We have got Transurban, and that is in the process of building the big link.

What we are doing, and what the people involved in the project are doing, is scratching our heads and saying, 'We have got this asset here. How do we get more value out of it?' And this is what private sector involvement should mean. In other words, how do we extend it? Obviously, we are thinking about extending the Hills Motorway all the way to the Gore Hill Freeway. Can we pay for that out of the extra cash flow we will get? What extensions are we putting on Transurban? You probably know that that is looking at extensions direct to Exhibition Street. What benefit is that going to give us?

So we are moving from the government saying, 'You put in this link here; this link is part of the global plan,' to actually saying, 'Well, there's an asset. How do we get more money out of it? How do we get more value out of it?' We are doing it from a very selfish viewpoint, but by doing that we are actually providing a service to the community by utilising assets to provide more services to the community. Every extra link we can put in—if we can build another six kilometres on the end of the Hills Motorway—is a benefit to the community.

Our own viewpoint is that the way it is happening is that a global master plan is probably good to an extent, but there are real benefits in this ad hoc approach of looking at individual assets and saying, 'How do I get more out of that individual asset? How do I get more out of the Brisbane to airport train link? What can I add on? Where can it go to?' When you start asking what is good about private sector ownership of assets, you find that is what is good about it; that, as the owner, we care about making more money out of it. It is not just part of a system, 'Okay we've done that, let's forget about it and we'll go and do something else now.' We are always anxious to be getting more and more value out of these assets.

Mr McDOUGALL—We are looking into national road funding for the future in Australia, how all the current players and the new players will play a role and how it will be financed in the future. Have you, as a private sector company financing it, looked at it on an ad hoc basis? You have obviously looked at what potential projects are around. Have you come up with a figure and said, 'What is the percentage available and attractive to the private sector of the total potential road funding that we have through strategic planning? What is being put up by the state and the Commonwealth departments of transport? What percentage do you see that the private sector could play a role in and what percentage is going to be left to the government to have to fund?'

Mr Moore—That is a very good question. We have not done that in truth. We could add up on a state by state basis what we think could be done today. One of the issues, which we flagged before, is electronic tolling. Doing what we are talking about is going to open up a great deal of additional scope, because part of the real practical issue of tolling is toll gates and delays and all the rest. We are going to have electronic tolling in Sydney, I guess, within three years. It just has to happen; it is just far more efficient. We are going to have it in Melbourne. Once you have got the transponders out there, what does that mean? It means the ability to add on tiny little bits of the system all over the place will increase dramatically. So we could sit down today and say, 'Well, perhaps we can see X dollars of expenditure that could take place in New South Wales today using current technology.'

Looking a little bit further ahead on electronic tolling, what can we do then? Say, X per cent today is 30 per cent. I think we will see that 30 per cent rapidly go up towards the 60, 70 per cent level if you have an electronic tolling regime.

Mr ROSS CAMERON—In relation to the bonds and any scheme that might replace it, as you are aware, the sorts of argument you will be up against will be that some will say, 'Well, this is really middle-class welfare.' Perhaps, in the case of directors of the Macquarie Bank, 'middle class' may not be an appropriate description.

Mr Moore—We would like to be otherwise.

Mr ROSS CAMERON—I know your submission has addressed this, but perhaps you can give us a synopsis of why, for example, roads should attract this special benefit. Some will say that many of these projects would have taken place regardless of whether the bonds were available or not. So then the question is couched in terms of targeting: how do you ensure that the benefit goes to making marginal projects viable instead of just adding a windfall gain to a project which would have taken place in any case?

Mr Moore—Addressing the middle-class welfare issue, it is a sad fact that if you are going to sell tax benefits—and that is what infrastructure bonds were designed to do—the people who will buy them are taxpayers. That is sad, but that is life. That may be the mechanism that we need to use. As I mentioned before, consortium relief has that happening as a natural consequence without having someone removed from the project being able to pick up the benefit.

With the I bonds what people see as offensive is that Adam, with all of his large disposal income, is able to go out and buy bonds and reduce his income and he has absolutely nothing to do with the project, whereas if he had consortium relief you would not have that gap between Adam and the project. He would be an investor in the project; therefore, he would be able to pick up the benefits of the project—kind of like, big deal!

This is the key issue as to why bonds are important to these projects. As you can see, I have a very scientific graph here: this line represents dollars and this one time. The line that I have drawn, which is a very stable line going up like that, is the income that we can expect from an infrastructure project such as a road project. The shape of that line is increasing obviously by CPI with a bit of underlying growth of, say, one per cent or something like that. That is the income on infrastructure. There is nothing else in this world where you can say, ‘This is what your income looks like.’ If you say, ‘What is the income going to look like from a gold mine?’ we know that it is going to do something like that, but who knows what it is going to look like. It is going to go up and down with the gold price. Similarly, if you are looking at an iron ore mine or a coal mine or anything, there is massive volatility in income.

Obviously, if your income is going to go up and down every year, you cannot borrow all that much, even if you wanted to. It is unlikely that the banks are going to come in and lend you money if your income is looking like that. They are going to be looking at the lowest point and making sure that you can service your debt at that lowest point. If your income is going like that on the graph, the banks will of course be very happy to lend you money. That is a fantastic thing to lend money for. It is very certain and, therefore, they will lend you a lot more money. What does that mean? It means that you can choose to have a lot of debt in these projects. Why would you want to have a lot of debt? Debt is bad. If you borrow money, you might not be able to pay it back.

The good thing about having a lot of debt is that it reduces your weighted average of capital, which means the overall cost of the project to the community will be less. As we know, typically, equity capital in this sort of market has got a cost of 14 per cent. Debt at the moment has got a cost of about 7½ per cent, forgetting about CPI debt. To the extent that you can get lots of 7½ per cent debt in there, and reduce the amount of equity you have, it means it has a lower cost and therefore the community pays less for it. The way we competitively bid these transactions is that the lowest cost of capital wins. Another way of stating it is that the person who can put in the most debt will win it because the cost to the community will be less. Because of this, we put heaps and heaps of debt into these deals.

Let us look at the effective debt in something like Transurban. Because we had this capitalising period to start with, we are now almost at 90:10 debt equity at the end of construction. If you have 90:10 debt equity, and you are trying to service 90:10 debt equity, it means that you have got massive interest expenses early on which practically means that for the first 10 years of the project you are in tax loss. You are in real loss too. Not only are you in tax loss, you do not have the revenue coming in and you are in real loss. The only reason anyone would be crazy enough to do that is that they are very confident that the income is going to keep on going.

Infrastructure is unique in that you have this massive tax loss period at the outset of the project, and more so with toll roads than with anything else. That is a cost to the project. The question is: how do you eliminate the cost of the project? As I mentioned, if you had, say, BHP building the road it would not be a problem because it could just group the losses out—big deal. BHP, interestingly, can never invest in a tollway. Why? If you asked BHP what its threshold return on funds is, it would not be 14 per cent. BHP would want 20 per cent on a project. Certainly, if you put the weighted average cost of capital it has coming in at, say, nine per cent, BHP would not look at a project where the overall returns are nine per cent. Why? Because BHP’s shareholders are used to BHP earnings doing this and they would want a much higher return before they invest in it.

We have no-one in Australia who is able to step in and take big positions in this thing. So we end up with these massive yearly tax losses. To be sensible, you should be able to transfer these things out. If this is a benefit here—I really do not think it is a benefit; I think it is overcoming an anomaly that exists in the tax system because the tax system is not designed with private infrastructure in mind. That is the bottom line problem. We have got a tax system that was designed before we were doing the roads that we were doing today or the other projects that we are doing today.

If you are saying, ‘We are getting rid of an anomaly,’ it does not matter that the ‘concession’ goes to projects such as the Eastern Distributor that ought to have happened anyway. The consequence of I bonds is that the project is going to be 50 per cent larger today than it would be but for the infrastructure bonds being available. So the project is going to be much bigger. What does that mean? It means that we can go all the way up to the airport rather than just going to the other side of Taylor Square.

That is an efficient use of capital because we are taking out the anomaly that exists in the system. With something like an eastern distributor, you are going to get a much larger scope of projects. Alternatively, we can just write the state government a cheque. We can say to the state government, ‘We will just do a small project and we will write you a cheque for the rest.’ The state government can then go and use the cash it has to subsidise a less economically viable project which may be being built somewhere else.

In the tendering process that is available, there is the flexibility for government to take money from one project and give it to another should it feel so inclined. We are saying that this is not a concession. Treasury is portraying it as a concession to infrastructure and that concessions are bad and evil. We say that this is not a concession at all. This is just removing an anomaly that exists because we have a tax system that was designed prior to the existence of projects of this sort.

Mr WILLIS—I think the good thing about all of that is that the amount of tax lost through the infrastructure bond up-front is recouped down the track.

Mr Moore—Absolutely right.

Mr WILLIS—It is a time receipt loss. It is not an actual loss to the Commonwealth in terms of what is lost up-front on the infrastructure bond in the sense that the Commonwealth bears the cost up-front rather than down the track which, of course, is the attraction to the private sector.

Mr Moore—That is dead right.

Mr WILLIS—I think some people seem to think that infrastructure bonds are a direct burden on the Commonwealth and that is it, that there is no recouping subsequently. Of course that is not true.

CHAIR—That is a point that was quite clearly made yesterday when we were talking to the Abigroup—that it was just moving it forward by maybe five years.

Mr Moore—Normally, if you say you are in tax loss for 10 years, the consequence is that you are moving forward the payment of tax by at least five years. When the DAA worked out the cost to the revenue of infrastructure bonds, they took this effect into account. In other words, they did not just look at the current year costs. They said, 'You are paying more tax this year but you are getting it back in the future. You are actually bringing forward the getting back of that tax.' You have probably seen the DAA's calculations as to how to work out the costs. Basically, it comes in as not being very great. It is certainly not the numbers that are being talked about down in Canberra at the moment.

Mr ALBANESE—I am going to take a great risk by referring to your graph! You quite rightly point out that, with infrastructure provision, the debt to equity ratio is or can be extraordinarily high. Can you not put an argument at least as valid that the public sector should provide that infrastructure because the public sector is more able to service the debt and because, by and large, the public sector is able to pay less interest on the provision of that infrastructure? Does that not turn around the argument a bit on yourself? Could you comment on that, without referring to the graph.

Mr Moore—The issue of cost of debt is I think dealt with in the EPAC report. Certainly it is a very popular topic up in Queensland. You probably know that the Queensland Treasury has had a view on this for a number of years. I think the argument accepted by EPAC is that it is not economically true to say that the cost of the debt in the public sector is any different from the private sector. If you are looking at a project, the cost of debt for that project on that project cash flow is the cost of debt.

The fact that the community may be effectively subsidising a reduced cost of debt, if the public is borrowing it because the ability of the government to levy taxes effectively on people, is an illusion. There is effectively a cross-subsidy taking place where the government is using its ability to tax to subsidise the low interest cost on the project. It is pretty clear that, economically, the cost of debt to a project is the cost of debt. It does not matter whether the government wants to subsidise it by using its security in other areas to reduce the cost of debt. Economically, as far as the community is concerned—both the government and the private sector—the cost of debt on a project is the cost of debt, and it does not matter who is borrowing that money.

Mr ALBANESE—I am also wondering whether you accept, given your zealous advocacy for more and bigger roads, that there are other considerations as well in social costs and the Eastern Distributor, which is an example which you use. As you would be aware, there is a significant debate about where it goes and the social cost of that. That simply cannot be equated back to a profit suggestion as well.

Mr Moore—I think that is dead right. Clearly, with something like a road there are lots of externalities, one of which is, looking at the Eastern Distributor, the planning implications to South Dowling Street which has obviously got a lot of play lately. Normally the externalities associated with a major new road are very positive overall. Certainly there are disadvantages to the residents of South Dowling Street, but overall it is obviously going to mean cleaner air for the community because there are less delays and there is faster movement of people. You will generally find that the actual externalities far outweigh the costs in these sorts of projects.

Mr ALBANESE—It could also be argued that the provision increases use as well. There is a fair bit of evidence that the more roads the more likely people are to use those roads.

Mr Moore—And this is why these roads are really quite exciting!

Mr PETER MORRIS—As soon as we get more traffic, we get more roads, we get more traffic, we get more roads and we get more investments.

Mr Moore—Exactly. The good thing is that, if the public sector is providing the roads, they are viewed as a free asset. If we are charging people to use them, guess what is going to happen? One would guess that it would be the same way as when you charge people to use water: they use less water. If you charge people to use less roads—

Mr ALBANESE—That is not the argument which you would put with respect to the M4 and the M5.

Mr Moore—Absolutely not. If we could put in place a sophisticated electronic tolling regime in the city, we are going to end up with less people using the roads at the wrong time. What you are saying is that by having crowded roads it is costing the community in terms of poor air, traffic congestion and all the rest. To overcome this problem across the community generally, we are looking at user pays. By going down the route of toll ways, you are actually supporting the true cost of roads going home to the people who use them or perhaps abuse them—actually charging them the cost of using them. I cannot think of a simpler way of actually getting that cost.

Mr ALBANESE—Los Angeles being a good example for roads—

Mr Moore—There are no toll ways in Los Angeles.

Mr ALBANESE—No, but it is a classic argument for a complete failure to provide any alternative transport system other than roads.

Mr Moore—By the way, we are all in favour of alternate transport systems, as you are mentioning. We are developing train lines in Brisbane and what have you. There are a whole range of different issues around public transport which are actually trying to get the value capture actually into the project rather than having it spread around the community. But that is a separate issue.

We agree that public transport should be developed and should be developed in the same way as these road BOOT projects. We are not advocating roads over public transport. In fact, we should be given the opportunity of developing all of them. Clearly, though, with public transport the political process needs to take a step up and actually say, ‘How can we extract the value created by this project from the community in a way that is going to allow the project to take place?’ At the moment we have failed to do so in the country. We have actually been able, particularly here in Sydney, to get the community to buy off on the idea of tolls. So it is step by step with all these processes. We have been able to get them to buy off on the idea of tolls. What we would say is let us extend the tolling.

Mr ROSS CAMERON—So you would have benefit pricing for the secondary benefits to the community by exacting a levy from—

Mr Moore—Ideally. For example, when we were looking at the new southern railway going down to the airport, we talked extensively about a concept where we would have something called a transferable development right. If you owned land in the area and the use of your land was going to continue, you would not have to pay anything. But if because of the railway the population density was going to increase and your small house was now going to be demolished and they were going to build a block of units, for the person to build that block of units they would have to buy from the developer of the project the right to do that. So there would basically be a mechanism whereby the value being created by that project actually flows into the project.

Mr PETER MORRIS—That is a very socialistic approach. It is a betterment tax.

Mr Moore—Basically, it is asking, 'Who paid for this?' and that person should be repaid by the person who is getting the benefit.

Mr PETER MORRIS—It is a straight betterment tax, which is a very socialist approach.

CHAIR—We have just about run over time. Does anybody else have any final questions?

Mr PETER MORRIS—No, I was just a little puzzled here. It says, 'Macquarie acknowledges that the private sector decision making is itself not entirely free from political or other extraneous influences.' What were you trying to say to us when you wrote that?

Mr Moore—That is a very good question. Adam, what were you trying to say?

Mr Geha—I was responsible for that statement. I was simply trying to be fair and even-handed in saying that no organisation is free from politics and that there will be agency costs wherever you go. That is, essentially, what it is, though I think I would still be of the view that they are greater in the government than they would be in a private organisation where your goals are more defined and not as expansive.

Mr PETER MORRIS—Do you want to elaborate just for a moment what you really had in mind? What is behind those eyes? I do not understand at all; I am lost.

Mr Geha—I think it is fairly self-evident what I am referring to. In an organisation you have got shareholders who have certain goals and managers' goals might deviate slightly from them. They are called agency costs.

Mr PETER MORRIS—Okay.

CHAIR—We might just wind it up there and thank the representatives from Macquarie Corporate Finance for attending. It has been quite an interesting discussion. Thank you for your submission. If you could make of copies of that submission available to the committee it would be very much appreciated.

Mr Moore—We also have a one-page summary—which we will just leave with people—of the factors that we think are playing into where roads are going at the moment: electronic tolling, which we have talked about; the environmental concerns that Anthony mentioned before, of actually charging people the full cost of it; the development of the capital markets, which are in a totally different position from five years ago; and the clear success of the BOOT projects to date—which means, I think, we can hopefully look at a new generation of projects like this.

CHAIR—Thank you very much.

[11.43 a.m.]

TALBOT, Mr John David, Head of Infrastructure Project Finance, Commonwealth Bank, Level 4, 48 Martin Place, Sydney, New South Wales

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

Mr Talbot—Thank you. First of all, I was very interested to hear the debate from the previous discussion and two essential points that came out of that. One question asked by Mr Albanese was, ‘Is it necessary for toll roads to be owned by the private sector?’ You will see that has been a main point that I have addressed in our submission—questioning whether private ownership of toll roads is necessary.

The second point that came out of the debate is the possible use of tolls as a pricing mechanism in an integrated transport pricing policy. I have dealt with both of those at some length in our submission.

In the short introduction I would like to make now, I will summarise the essence of CBA’s submission and emphasise some of the salient features. The submission concentrates on the various forms by which the private sector might become involved in federal road development. To date, that involvement has taken three forms: design and construct; build, own, operate and transfer—commonly known as the BOOT model; and contracting out. The submission examines three issues: the continued relevance of the BOOT model for toll road development; a possible government-owned alternative model for toll road development and ownership; and the use of the private sector to fund what is known as performance based maintenance for roads.

Federal roads are generally intercity trunk routes as opposed to state roads, which are generally intracity arterial routes. Australian society has developed a philosophy of always providing the public with an untolled alternative to a toll road. Strict observance of this philosophy may make it difficult to impose tolls on federal routes where a practical so-called free alternative may not exist.

Nonetheless, efficient allocation of transport resources will soon force the emergence of an integrated and rational transport pricing policy. Such a policy will encourage sound comparative economic decisions to be made about the selection of transport modes. Tolls and appropriate levies on petrol will increasingly provide the tools to govern supply of and demand for roads. If tolls do become a part of the federal road network our submission urges consideration of the new toll road model suggested in that.

The relevance of the BOOT model, and indeed any form of privatisation, can be determined by asking two questions: what is the public achieving in return for the alienation of profit and ownership, and can those objectives be satisfied by the use of an alternative process that does not require alienation of public ownership and profit? It is our contention that the alternative model we have suggested does enable the latter question to be answered in the affirmative. Incidentally, just listening to the prior debate, it gets rid of some of those taxation issues that we were talking about. A government owned model for ownership of toll roads dispenses with the imposition of tax so some of the distortions that the Macquarie Bank people were referring to would disappear.

I turn now to the issue of road maintenance. In running a tightly constrained budget there is intense competition for funding. There is always a temptation to apparently save money by allowing assets, such as roads, to run down. The funding constraints faced by government make it difficult to spend the large amount necessary to restore the road to top quality. We have described this dilemma in heading 1C and appendix 3 of our submission. In these situations the private sector can add real value. It is able to fund the large up-front expenditure necessary to restore the road. In return it would receive a revenue stream from government, over, say, 10 years, which equates with or ideally is less than the maintenance costs that would have been incurred by government.That is a brief overview and summary of what is in the submission, Mr Chairman.

CHAIR—Mr Talbot, in your submission you note that BOOT projects may compromise the government's ability to develop other more efficient modes of transport. Can you cite any examples of that happening?

Mr Talbot—Most of the contracts between the government and the private sector on toll roads will require at least the negotiation between the government and the private owner in the event the government wants to install a competing transport mode, a rail system or an alternative free road, for that matter. There will be the requirement at least for negotiation to take place and perhaps compensation to be paid to the private sector owner. At worst, some of the contracts will even prohibit entirely the installation of competing modes and alternative free routes.

Mr WILLIS—Do you have any examples where you think that already applies? With the BOOT model that is being developed are there restrictions which inhibit the development of alternative transport systems?

Mr Talbot—My knowledge of all the contracts for the toll roads to date would have as a minimum the requirement for negotiation between the private owner and government in the event that the government is contemplating some competitive transport mode. I do not think that there is an existing contract that prohibits entirely the installation of a free route, but, as I said, there is that minimum requirement for negotiation. Perhaps, if the government proceeds with the development of that alternative, then there will be the requirement for compensation to be paid to the private owner.

Mr WILLIS—I am not sure what the legal requirements are but one assumes that the unwillingness of the state government to even contemplate a railway link from the CBD to the airport in Melbourne is tied up with the fact that you have got the freeway, the City Link project, providing funnelling of traffic onto that system from the airport to the city—and the railway would compete with that.

Mr Talbot—You would need to call Mr Kennett to provide evidence.

Mr ROSS CAMERON—As I understand it, a typical provision would be that if the state government makes a decision to provide an untolled alternative and the consortium can demonstrate that there is a deleterious impact on its revenue stream then the government would be required to re-enter negotiations with a view effectively to putting the consortia in the same position as they would have been but for that intervention.

Mr Talbot—That is pretty much the economic analysis that is made.

Mr ROSS CAMERON—So there is no prohibition on doing an alternative. It just says that if you are going to offer the private sector a business, in effect, through a concession to run a piece of infrastructure and you hold exclusively within your power the capacity to make decisions which will dramatically undermine that business, you have some kind of good faith obligation, particularly over a contract of say 45 years, not to undermine the asset you originally sold.

Mr Talbot—Yes, that is true, but it obviously does hinder the government sector in having complete freedom about decisions on alternative transports and, of course, it imposes upon them the cost obligation of making whole the loss of profits that may be suffered by the private sector owner. I would say that it would be preferable to allow government to have the complete flexibility for determining transport decisions, for it to be able to simply weigh up the economic cost of alternative modes by the effect it has on total government revenues. By the installation of rail transport the public is going to benefit from that economics and it may lose some economics from a toll road. If both were in the public hands it would be a simple offset.

Mr McDOUGALL—In your submission you talked about the acceptance by road users that part of the petrol excise tax goes to general revenue—and some of them accept that. But some road users say that there is not enough money coming back from that area and there should be more. How would you see a more equitable user-pays system operating in relation to the charges system and how it would be collected?

Mr Talbot—The previous debate held with the Macquarie representative made reference to the fact that the community views the roads as free. I believe that to be the case. Why we regard the roads as free is that there is no direct nexus between what we pay and our use of the roads, other than the excise tax that we pay in terms of petrol. What I think we have to do is create in the minds of the public a more direct nexus between the amount they outlay for use of the road and their consumption of road assets. That will be achieved, I think, through a greater combination of the use of direct tolls and levies on petrol.

When this era of electronic tolling is introduced—and I agree entirely with what was said earlier; we are looking at a very short time frame for major introduction of electronic tolling, particularly in urban areas—that will enable the tolls to be used as a mechanism for governing supply and demand, for applying different pricing to govern congestion and even pollution; you could have differential tolls on heavy pollution days. So I would see tolls as being one of the mechanisms by which you would achieve a better direct pricing for the roads.

Incidentally, though, if you are going to use tolls in that way as a pricing tool, I think it is very difficult to use that where you have got disparate owners of the network. I will cite New South Wales as an example. In New South Wales you have now got five disparate owners of the urban network in Sydney, all with different tolling regimes, different contractual arrangements and different concession periods. It would be very difficult to use tolls as a pricing mechanism with those disparate arrangements held by five owners.

Mr McDOUGALL—As I asked the Macquarie Bank—and I will ask you—where do you see the Commonwealth Bank's role? Is it purely in the ad hoc business of picking up projects as they go along or do you see the Commonwealth Bank involved as a financier in a more strategic planning issue in the long term?

Mr Talbot—I had better declare our position here too. We are a 50 per cent owner of the M5 toll road and we have a major interest in the M4 toll road. Some would say that the position that I am putting forward of doing away with private sector ownership in toll roads is at variance to our interest. I do not see that as a problem at all. I am simply putting forward what I think is a good social view and good economic policy.

But our role going forward in the model that I have suggested, whereby government would own toll roads, would still provide a role for the bank in funding. I have referred in that model to the fact that there would be non-recourse funding used by that government sector agency. That would keep the funding off the state’s balance sheet and it would create a role for the likes of the banks in providing that non-recourse funding.

Mr McDOUGALL—In talking about the government owning the tollways, would we not be running a risk of a political decision that might destroy the whole plan? Let us take, for example, the tollway on the Sunshine Coast in Queensland, which was developed along with private interests and then, for political reasons, the toll was removed by a government and the public had to pay at the end.

Mr Talbot—I agree. In fact, you will notice that one of the benefits I have described of the BOOT model is the fact that it is a political scapegoat. But that has positives and negatives. It is a political scapegoat because it insulates us—the public— from political decisions. It is a political scapegoat for the politicians because they are able to point the finger at the private sector.

Does this new model that I am suggesting provide that same protection? It does, because I referred to lenders providing non-recourse finance. Those lenders are very much dependent on the veracity of the contracts that are in place. Any attempt by politicians to interfere with those contracts would have the lenders up in arms because that is their only means of recovering the loans. They only have recourse to the assets and cashflow of the toll road. Notwithstanding it is owned by government, they would have no recourse to general government revenues. So that protection is still there to insulate us from political interference.

CHAIR—Are both the M4 and M5 BOOT arrangements?

Mr Talbot—All of the toll roads in Sydney are BOOT models. The only slight variation between them is that the revenue stream on the harbour tunnel is essentially guaranteed by the state government. With all of the other toll roads there is no implied or near guarantee. The lenders and the investors in all the other toll roads are entirely exposed to traffic volume risk.

CHAIR—What is the concession period that you have on the M4 and M5?

Mr Talbot—I cannot recall precisely; I can tell you roughly. The M4 would probably have about 15 years to run of a total term of 18 to 19 years initially. The M5 probably has a term of about 25 years to run of an initial term of about 28 years.

CHAIR—It is a bit different to the M2, which has the possibility of going up to 45 years.

Mr Talbot—Correct. There is a similar arrangement in the Melbourne City Link.

Mr WILLIS—I just wish to ask about how this non-recourse funding would actually work. It seems to me that some of the problems that currently exist would apply with that as well. If there is no recourse to anything other than the revenues generated by the project to ensure payment of interest on the monies being lent to the project to the lenders, they presumably want some guarantees that the income stream that is being projected is actually going to be delivered. That is the sort of issue that arises presently and can have some adverse externalities, as we have been discussing. You do not want other alternative, competing systems built which will detract from the income stream, et cetera. Why does that not apply to non-recourse funding?

Mr Talbot—You are quite right. The structure I have mentioned does raise an apparent anomaly. The lender's only recourse is to the assets and cashflow from the project, notwithstanding that it is a government owned asset. So what happens if the cashflow is insufficient to support the lending? The lenders will then walk in, assume ownership of the asset and sell it off. Whom will they sell it to? They will sell it to private sector owners. However, the government, like any owner of an asset confronted with possible failure or liquidation of that asset, has a number of options available to it. It can make the decision to recapitalise the asset to get rid of the default. It can make the decision to sell down part of its own equity interest.

Mr WILLIS—That sounds like there is recourse.

Mr Talbot—No. It sounds like a strange form of financing because it has not been used in Australia. We have to remember that a significant portion of the public assets of the US is funded on this basis.

Mr WILLIS—I realise that.

Mr Talbot—A lot of Treasury officials will say, 'Isn't there an implied government support or an implied government revenue to such a debt?' That depends upon the way you market it. Many financiers in the past when lending to government owned entities have taken some sort of comfort in an implied guarantee. But this debt would be marketed on the specific and very clear understanding that there is no implied or explicit government guarantee. If the debt fails, you are out there on your own. Much has to do with the documentation and the way it is marketed to make it very clear that there is no implied or explicit government support.

Mr WILLIS—It still seems to me in those circumstances, particularly the more you say about this absolute non-recourse finance, that there will be a desire by the lenders to be guaranteed about the income stream. This gets back to the issue about not wanting to see the government take action through other alternative transport systems which would diminish the revenue stream and therefore imperil the finance of the project.

Mr Talbot—You are quite right that, if the government wanted to install a competing transport mode on the toll road that it owns, there may still have to be some sort of compensation paid into that vehicle to ensure that the cash flow is preserved. That is then of no consequence to the government, because at least that set-off of economics that I talked about earlier is preserved. It has paid money essentially to itself on the publicly owned toll road. There is not any leakage of profit from the public sector.

Mr WILLIS—The point I am trying to make—and I will not take it any further—is that it seems that some of the restrictions on other alternative transport modes are a criticism of the BOOT projects. That is, the investors in BOOT projects are very concerned to ensure that they have an income stream and they do not want to see alternative developments which will diminish that. I cannot see how that is not just as applicable in a situation of non-recourse financing.

Mr Talbot—It could be, but there is at least no leakage of profit or revenue from the public purse. If any compensation has to be paid, it is all within house. The other thing to be noted is that a lot of these things can be addressed by the debt-equity ratio by which this public entity is constructed. The more flexibility and freedom the government wants to make those sorts of decisions, the lower the gearing in the entity.

Mr LINDSAY—Mr Talbot, in your evidence today you suggested that BOOT is perhaps no longer the appropriate model and you suggested an alternative. What is the bank's interest in giving that evidence today?

Mr Talbot—I think I referred to that earlier: we do have an equity interest in two toll roads at the moment. Some people may think it is strange that I am putting forward a suggestion that would get rid of equity investment opportunities for the private sector. The bank would still have an interest, as a lender, though, in this sort of entity. Our continued business opportunities would still arise from making available non-recourse funding to this government owned vehicle that I am talking about.

CHAIR—Mr Talbot, thank you very much for making your time available and for your submission. Were there any questions put to you that you took on notice?

Mr Talbot—No, there were not.

CHAIR—Thank you very much for your attendance. It is much appreciated.

[12.05 p.m.]

JORDAN, Mr Colin Lawrence, Chairman, Austroads Incorporated, Level 9, Robell House, 287 Elizabeth Street, Sydney, New South Wales 2000

KROSCH, Mr Allan Douglas, Manager, Austroads Road System Management Program, Austroads Incorporated, Level 9, Robell House, 287 Elizabeth Street, Sydney, New South Wales 2000

WILSON, Dr Robert Andrew Murray, Executive Director, Austroads Incorporated, Level 9, Robell House, 287 Elizabeth Street, Sydney, New South Wales 2000

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

Mr Jordan—Thank you, Mr Chairman. I would like to thank you for the opportunity for me and my colleagues to appear before the committee on behalf of Austroads. Most of you would be aware that Austroads is the association of road transport and traffic authorities in Australia and New Zealand, with the Australian membership including Commonwealth, state, territory and local government.

Our purpose is to identify, develop and implement best practice, to promote the adoption of nationally harmonised regulations and practices, and to avoid unnecessary duplication. Austroads is not normally involved in road funding issues, except through the provision of a research base to aid more objective policy formulation. Within that context, our first written submission to your inquiry was a factual one about Austroads. It drew attention to Austroads' work, which may assist the committee's deliberations by helping to contribute a research base for the consideration of key issues.

We drew particular attention to our work on developing and publishing an annual set of national performance indicators of the road system and of the road authorities themselves. We mentioned our publication *Road Facts*, which provides selected facts and figures relating to the extent of the network and the demands placed upon it as well as numerous international comparisons. We also mentioned our roads in the community theme project in which leading consultants have contributed to a state of the nation report to provide a comprehensive review of the Australian road system and how well it is serving the needs of the community.

This landmark report will be launched by Minister John Sharp on 29 April at Parliament House in Canberra and will be followed by a conference on 30 April at which contributors will present their work. We hope as many of the committee as possible will come to the launch as we see this as a significant event to broaden the road debate and increase the level of community awareness of current and emerging transport issues.

Our second written submission consisted of a survey of the role of 12 national governments in the funding and provision of roads in their countries. The aim of this survey was to provide a factual international comparison which might assist your committee to consider the key issues before it in the inquiry. We were able to obtain responses from all of the 12 countries we approached as a result of the contacts we have established with road agency chiefs in those countries. Their responses have been collated in the report and may be viewed as a form of benchmarking Australian practice against a range of countries around the world. We have provided only a minimal amount of interpretative comment in the report, as we felt that interpretation of the data was more appropriately a matter for the inquiry at this stage.

The survey sought responses on the level of involvement of the national government, the purpose of that national government involvement, data on the road system, the method of funding publicly funded roads, revenue from road user charges and information on private sector involvement in the provision of roads. On a comparative basis, the survey shows that, firstly, the extent of the defined national road network in Australia is quite low—about 2¼ per cent by length and some 12.9 per cent by traffic count compared to four per cent and more than 33 per cent respectively in the UK. Other countries surveyed reported similar figures.

The survey also showed that the national network in Australia is less intensively used than those surveyed and, finally, that the level of national highway expenditure in Australia is very low when measured against population or GNP in those other countries. Thank you, Mr Chairman. We would be happy to take questions.

CHAIR—On that last point, Mr Jordan, did you survey any countries that would have similar circumstances demographically, geographically and economically to Australia?

Mr Jordan—I do not think that it is possible to say that any country is an exact match. The individual countries that we surveyed are listed. There is a whole range of different sets of circumstances, from countries which may have more, say, developing economies to those which would be considered to be even further developed, and countries with more difficult terrains or those that are tightly compacted, and so on. If you look at the figures, you will see that, on a per capita basis, or measured against GNP, Australia ranks right at the bottom of the table in the survey.

CHAIR—Would you briefly express a view on the current arrangements between the three tiers of government—the delineation of responsibilities for the construction and maintenance of roads and the way the funding flows? You obviously have a view on how to improve efficiencies in those areas.

Mr Jordan—Mr Chairman, expressing a view on the arrangements is probably something that each of our member organisations would prefer to do themselves.

CHAIR—And I am sure they will.

Mr Jordan—I think some may. Austroads operates across those three tiers of government, as I explained in my opening comments. We provide support to all three levels. I think we have found over a number of years that for us, at an association level, to get directly involved in those matters makes it very difficult for members to see eye to eye on individual issues.

CHAIR—In some of the evidence that the committee has received, we have continually had the view put to us that there is room for enormous improvement as far as cooperation and strategic planning is concerned. Is that something that has come through from your members to your organisation?

Mr Jordan—I would probably have to ask for some clarification as to where the area of cooperation and strategic planning is.

CHAIR—I am talking about cooperation in strategic planning between, say, your constituent members, local government, state government and the Commonwealth.

Mr Jordan—When one considers, at the national level, issues like transport as a whole and the interaction with, say, land use planning, one will see that they are matters which properly fall within the domain of the Australian Transport Council. Austroads is part of that structure and reports through the ministers in that way. Therefore, it would be outside our jurisdiction to comment on the total integration of strategic planning.

In the past few years, I think it has been widely acknowledged in respect of Austroads and strategic planning in those areas which relate to road matters—the methodology; issues broader than pure technical ones—that, where cooperation can bring real results, it is recognised as being very considerable progress. As an example, I would again mention the national performance indicator survey, which we developed with a lot of help from the Business Council of Australia. We have now published a third set of comparisons.

The member authorities have used the lessons learnt from those performance indicators. They ask, 'Where is someone doing this better?' They cooperatively work together to gain the same benefits across Australia. If you look at the productivity figures, you will see quite dramatic improvements over that period.

Mr ROSS CAMERON—One of the matters coming forward in the previous testimony, from John Talbot of the Commonwealth Bank, was this problem of different technologies in tolling, for example, and the potential that that may have to limit policy options for differential pricing and a range of other things. Has Austroads, as a national peak body, had any involvement in encouraging the players to come together in some sort of consensual federation to hammer out technological protocols for interaction of tolling technologies?

Mr Jordan—Yes. Austroads was one of the founding members and supporters of the establishment of a body now known as ITS Australia, which is an association of both public and private sector organisations interested in the development and use of intelligent vehicle type technology. I should make the point that that stretches wider than just the roads environment and wider than just tolling technology. There are many other opportunities for those types of technologies. We have a specific charter—only very recently assigned to Austroads—to develop for Australian Transport Council consideration a proposed set of standards, for adoption at a national level, for tolling technology in the medium term.

Mr ROSS CAMERON—Presumably one of the standards is interactivity?

Mr Jordan—I think the standards relate to the technical aspects of the actual equipment—the frequency and so on—but they also relate to the nature of information which is available and is transmitted and received. So I think the short answer to your question is yes.

Mr ROSS CAMERON—I guess my question is: is the standard going to ensure that whatever toll road you get onto around Australia, you will only need one system? Or is it going to allow for the development of a plethora of different technologies so that in effect if you are a major interstate traveller you will have to have four or five different tags?

Mr Jordan—We are already in or fast approaching the latter situation that you described. The establishment of a standard will enable people to move to a common platform which would allow that interoperability. It is a little early for me to say how quickly we can move to that situation because we have only been assigned the task in the last week and it will take some months to develop a sensible recommendation.

This is an area where the whole technology is rapidly developing in countries all around the world and there has been no clear international leader in terms of standards. But we are now getting to the stage where it is probably practical that we develop such a recommendation for ministers' consideration.

Mr McDOUGALL—I may or may not have heard you correctly, but your response to the question of 'strategic' worried me a little bit. When I go back and read the background it states that the mission is to provide strategic direction for the integrated development, as well as management and operation, of the road systems. Please correct me if I am wrong but I got the impression that strategic planning in relation to road development and the interaction with other transport forms was not particularly of interest to you?

Mr Jordan—If I gave that impression I would like to correct it. That is certainly not the situation. Austroads is an association of bodies with principally a road responsibility. However, we clearly recognise—in any of our activities and in any of our own strategic plans—the need to look at each of our projects in the widest possible context. So all of the member organisations would not just look at a road project in isolation.

The point I made earlier was that there are other bodies. There is a wider body which has got a global interest in the total transport land use portfolio. We are part of that composite picture and we make our contributions through the Australian Transport Council structure.

Mr McDOUGALL—How do you view the continued growth of the private sector into the road infrastructure development?

Mr Jordan—Most member organisations of Austroads are no longer primarily, or in some cases at all, involved in the direct provision of road facilities. They are mostly involved in the management or the arranging for the provision of those facilities to the community. Therefore, subject to the views of individual members' governments, the entry of the private sector into the provision of those facilities is just seen as another alternative delivery mechanism which may be available in the case of an individual project.

Mr McDOUGALL—Do you, as an organisation, see that private sector involvement growing in the area?

Mr Jordan—That is probably one of the areas that I referred to obliquely earlier. All members have been through a fairly dramatic transformation in the past few years from being basically direct employers to having that as a very minor part of their activities—in some cases, no part of their activities at all. So, yes, the answer is there has been a very dramatic change in the use of the private sector, not only in the sense of total project provision as per earlier witnesses, but as contractors, as providers of outsource services and the like.

Mr McDOUGALL—I think it is fair to say that, while we have only heard officially from one of your members at the moment, contact with the others in previous discussions has given considerable scope for there to be an improvement in relation to the current administrative arrangements between the state members and the Commonwealth in regard to, shall I say, the national highway system projects. Have you put forward an alternative approach to the Commonwealth on behalf of the members or are you leaving that to the members to be able to negotiate with the Commonwealth individually?

Mr Jordan—In the time available it would not have been possible for us to arrange to find a consensus view between all member organisations that we could put forward, so we have left that to member organisations.

Mr McDOUGALL—Wouldn't it be in the interests of the whole operation of the national road funding that you have a consensus? Isn't that really what we are trying to do? I am not just picking on Roads and Department of Transport, but aren't we really trying in Australia to get to a consensus where the states all work down one line?

Mr Jordan—Yes. What I can say in a positive sense is that most members have said for a number of years that a stronger sense of cooperation and, in particular, consultation between the Commonwealth and the other members themselves at earlier stages in the development of programs and project concepts would be very advantageous and I see that lining up very directly with your suggestion. I think your question though was whether in this submission we could have outlined a common view on how those mechanisms would work and my response indicated that I do not think that would have been practical in the time.

Mr McDOUGALL—No, it was not in relation to the submission. I just wanted to know whether you had actually put to the Commonwealth a combined position in relation to the question of administrative arrangements; that you were all working towards the same set of arrangements with the Commonwealth department.

Mr Jordan—Austroads meets twice a year formally as a council. Most of those meetings would include some discussion, including with the Commonwealth, which is a member of the association, on individual improvements to the process but there has not been a single wholesale review of the mechanism.

Mr WILLIS—Mr Jordan, what is it you are asking us to conclude here? You have given us a lot of facts and they are interesting comparisons—so we conclude that Australia's expenditure on the national highway system is lower than in other countries, road density is low, et cetera—but are you asking us to go beyond that to assume that, therefore, there needs to be some improvement in road expenditure to increase our road density and our expenditure on the national highway system, or are you just pointing us to the facts and saying, 'Draw your own conclusions'?

Mr Jordan—We are only presenting the facts. The conclusion which is contained within your question depends on the answers to two important questions: firstly, what is the role of a national system and what is the role of the national government in that system; and, secondly, what is the outstanding need? If there is to be a change, an increase, which somehow would say that a higher level of involvement is justified, then that would have to be measured against need. It seems more properly to be a matter for individual states and territories to make a case as to outstanding need.

I would say, though, that it seems counter-intuitive that a country such as Australia with its large distances, where the transport task is obviously a very important component of the national economy, ranks at the lower end of effort in terms of countries surveyed.

CHAIR—So, on that basis and the basis of the results of that survey, you would say that the situation in Australia is not comparable to most of those countries; that we are behind what has been provided in those countries?

Mr Jordan—Yes. On a per capita basis, for instance, our level of effort in the national system is about a half to two-thirds of most of the countries, in round terms. What I am saying though is that it is up to individual members to satisfy the committee as to the extent of any outstanding unsatisfied need.

CHAIR—Just following on from that, do your members support an increased role for the private sector in the provision of road infrastructure?

Mr Jordan—The members, generally, would see the private sector as being a valid and, in some cases, desirable mechanism for providing infrastructure. Our strategic work program includes, for instance, in the same way that we share knowledge about process, techniques, contracts and the like, a commitment to share knowledge about best use of those private sector providers and mechanisms which have emerged in the past few years.

Mr LINDSAY—Mr Jordan, I have got to say, and I do not want to be unkind—

Mr PETER MORRIS—Well, don't be.

Mr LINDSAY—I do not want to seem to be unkind, but I would have expected perhaps a more significant contribution from your group. Has that not happened because within your own group you cannot agree on what should happen in the national picture?

Mr Jordan—It is a very hard question to answer because I do not have a clear understanding of what you expect. But, essentially, Austroads members are organisations which sit within the framework of their own state and territory governments and are answerable, in the first instance, to those governments. It is not an organisation which indulges in the direct funding policy area but, rather, provides support as much as possible.

We have tackled several large projects. I mentioned the roads and community project, which contains considerable material on many of the subjects which you have asked me about today and is to be released shortly. It is possible for us to develop positions, but that is a fairly long and time-consuming process because member organisations have to sometimes clear some aspects of that within their own framework. In the time available, we did not even set out to achieve other than a factual submission, so there is no disagreement amongst members. It was just expected that we would provide support rather than a leading position.

Mr LINDSAY—Okay.

Mr PETER MORRIS—I am just looking back at your objectives. You provide strategic direction for—as mentioned by Mr McDougall—the promotion of national uniformity and harmony, elimination of unnecessary duplication, and identification and application of world best practice. Does Austroads perform a task of agreeing on specifications for roads—dimensions, densities, compactions? How do you achieve this national uniformity?

Dr Wilson—We do not specify in the sense that it is not mandatory, but we do the necessary work to pull together best practice, identify that best practice, publish it and promote it. It is a matter for each individual jurisdiction whether it will pick it up or not.

Mr PETER MORRIS—How many people are employed by Austroads? How many people are on the staff?

Dr Wilson—Actual employees?

Mr PETER MORRIS—Yes.

Dr Wilson—Six.

Mr PETER MORRIS—So you are a fairly small organisation.

Dr Wilson—But the work is done by the staff of our member organisations—who are many hundreds, of course.

Mr PETER MORRIS—So if we are talking about a local road, is there a definition of a local road or a recommended local road density, or classes of roads?

Dr Wilson—We do have a number of documents; one, for example, called *Austroads Pavement Design Guide*, which is the definitive code of practice for this country. Most jurisdictions will follow that and will add on their own riders for their own particular circumstances.

Mr PETER MORRIS—Each of your member organisations do not go out and invent their own set of specifications. So how do you get the harmony, improvement and efficiency? Is that through this code of recommended designs?

Dr Wilson—Through the codes, practices and standards that we produce.

Mr PETER MORRIS—That is an ongoing task which takes into account new materials, new techniques?

Dr Wilson—Yes.

Mr PETER MORRIS—When you get the best practice you are looking at best value for dollar?

Dr Wilson—Yes.

Mr PETER MORRIS—You know what I am coming to, don't you?

Mr Jordan—Perhaps we should hear that, but if I could just add to what Dr Wilson said, there are probably two things that are important. The first is that in the past few years, as we have moved from being the providers of all services to the managers, by contract in many cases, some of the areas that in the past would have been technically important have now shifted to the private sector.

Mr PETER MORRIS—Let's just draw a line there. All this discussion about the private sector is about but a few thousand kilometres out of over 800,000 kilometres of road network in Australia. So we can put the high-flying projects to one side. That is but a small portion of the expenditure in this nation each year on road construction and maintenance, so we will park them over there?

Mr Jordan—I do not think that is correct—it varies from state to state, obviously.

Mr PETER MORRIS—I might be more specific. What I am referring to is the BOOT projects and the private toll roads. That is a very small fragment, in distance and cost, of the total annual expenditure on road construction and maintenance in this country. That is correct, isn't it?

Mr Jordan—That is correct, but there are a great number of other projects which are contracted out to the private sector, including quite commonly now design and construct contracts which—

Mr PETER MORRIS—I understand, that is okay. Let's leave the toll projects and the privately funded infrastructure projects over there and come back to the rest of the network, and that enormous budget that is spent each year on road construction and maintenance. With all the wisdom that you have in your organisation, where is the area that has the best potential for improved efficiency and improved productivity? How do we get better value for the dollars that are being spent?

Mr Jordan—The second point I was going to make is the one I made earlier about the performance indicators. The best opportunities are in measuring not the inputs to but the outputs from the organisation—the unit costs of maintenance, non-direct road construction matters or whatever the activity is—and in sharing amongst the member organisations the knowledge of how it is best done around Australia. As we have pointed out, we have now being doing that for three years and we have shown quite substantial improvements.

Mr PETER MORRIS—Let me stop there. We will make you the el supremo of the road industry and road expenditure in this country. We are spending $6 billion a year on roads. Which areas have the greatest potential? Where should we as a committee be focusing? Is it in the local government expenditure area or the state government expenditure area or the national highway expenditure area and maintenance? Or is maintenance the major task? If those kinds of answers are not within the resources you have, I am quite happy for you to say, ‘Sorry, we do not have that information.’ But what I am looking for is some guide.

Mr Jordan—I do not think that there is a simple answer to your question because as—

Mr PETER MORRIS—Everybody is doing it perfectly?

Mr Jordan—The rest of the committee is well aware that there are different practices in most states and territories.

Mr PETER MORRIS—You are an expert. You are sitting there on top of all of these organisations. Just give us a lead: which is the area that has No. 1 priority where you think the most waste and the lowest levels of efficiency and productivity are at the moment. Should we go straight into local government and local roads and councils and those arrangements? Is there a potential there to get better value? Or is it in the state area? Or are they all doing it pretty well and there is not much room for improved productivity? If you do not have the answer, do not worry. I am not making things difficult for you.

Mr Jordan—The experience of the past few years is that the biggest gains have been made through shifting to quality assurance type management of contracts and larger lumps of contracting as opposed to very small pieces of work. This is not the BOOT projects—

Mr PETER MORRIS—Let me stop you again. Sorry for interrupting, but that is not where I want to get to. What I want to get to is whether maintenance is the major task. That is what your colleagues keep telling us: there has got to be an increasing share of the budget going to maintenance. What you are talking about is new projects. Let us leave them and go back to the maintenance task. Are local councils the best way of doing it or should they all go out to private contract or should they be put into larger groups? Or should state go straight over to maintenance tendering and contracting all the way through, over a performance based kind of thing? Is there anything like that available?

Mr Jordan—I am certainly not talking just about new projects. I am talking about maintenance. I am talking about management skills and approaches which give pay-offs in all areas of endeavour. There are different arrangements for responsibility in each of the states and territories. It would be very hard to give a general answer. From a Victorian perspective I can say—I cannot speak for the other members—that maintenance gets a very high priority in our strategy setting. The real pay-offs have been in the process of managing it—in using the techniques that I have described before—rather than saying, ‘Maintenance is more important than construction,’ or whatever.

Mr McDOUGALL—Can I preface this question by asking a quick question. When did Austroads come into being?

Dr Wilson—Austroads’ predecessors started in 1934 and went through a number of changes. Austroads itself was formed in July 1989 and took over from the previous National Association of Australian State Road Authorities.

Mr McDOUGALL—I am going to be specific in relation to an urban road design. In the last couple of decades we have seen the development of what are commonly called 'green streets'—they get a lot of names—in urban areas in new subdivision areas. From my memory, this developed as part of the AMCOR process, mostly out of South Australia, where we got this new idea of narrow roads in new subdivisions. Was that a process that was adopted by Austroads and pushed to all its members, or was it something that the members could or could not take up? Who researched that at the end of the day? Where was the final decision made about how that should come together? Was that part of Austroads' remit?

Mr Krosch—Austroads—or NAASRA before it—would never mandate approaches to things, so states would make use of a thing if they wanted to or not. But the push for more livable, I suppose, local streets came out of local government. Certainly, there were researchers at the Australian Road Research Board—and Ray Brindle's name comes to mind—who did early reports looking into those possibilities of local area traffic management. It certainly came in the southern cities before it spread further afield. Probably in the NAASRA years, there would have been developing of thinking and sharing of ideas through the national association, but it would never have been driven as a national agenda as such.

Mr McDOUGALL—It is interesting. You make the comment that, in reality at the end of the day, the more livable is the less livable, because it has created more problems than you can poke a stick at in the urban sense, and when you fill the streets up full of cars—the houses have two or three cars at them—in some places you cannot even get emergency vehicles down the street. So I just wondered how this whole thing got driven.

Mr Jordan—Mr McDougall, I think it has been explained. It was not driven by Austroads. Austroads' involvement would be in a situation like that today where some members may be interested in it—and, as I explained, local government is a member—then we would do the work to develop common standards and accepted techniques to say which techniques work and which ones do not. But the question as to whether to implement it or not would be a matter for an individual jurisdiction. I would suggest to you that there are probably as many opinions as there are jurisdictions about the worth or otherwise of the scheme, including a number that would share your views.

Mr Krosch—A good case in point right now, Mr McDougall, to give an example, is a big piece of work going on in the Austroads research program to do with integrating land use planning and transport planning, with Emeritus Professor Hans Westerman as the consultant for that work. The desire is to create a model code of practice, but it would be made available and jurisdictions would use it as a resource document and take it up as they wish. It would not be mandated as such.

CHAIR—As there are no further questions from members of the committee, I thank you very much for making your time available today and for your submission.

Luncheon adjournment

[1.50 p.m.]

ALLEN, Mr David, Senior Policy Officer, Finance and Transport, Local Government and Shires Associations of New South Wales, GPO Box 7003, Sydney, New South Wales 2001

BOTT, Councillor Bill, Vice-President, Shires Association of New South Wales, and Chairman, Local Government Shires Association Roads and Transport Committee, GPO Box 7003, Sydney, New South Wales 2001

CAROLAN, Councillor Edward, Executive Member, Local Government Association, GPO Box 7003, Sydney, New South Wales 2001

CHAIR—We welcome the representatives from the Local Government and Shires Associations of New South Wales. We have received your submission. Would one of you gentlemen like to make an opening statement?

Councillor Bott—Thank you, Mr Chairman. At the outset, I need to thank the committee for having given us the opportunity to appear before you this afternoon. Certainly the continued involvement of the Commonwealth in the national highway system we see as very important indeed to local government and, if you like, to the nation as a whole.

It is imperative, we believe, that the national highway system is a dynamic network. Certainly currently it runs between the capital cities, but we believe the Commonwealth is probably the only level of government with the capacity to fund an adequate national highways network and indeed it is also the level of government that is able to witness and give responsibility to the national economic perspective. If we delineate it back to the states, there is going to be a situation where perhaps the state perspective does not mirror what the nation requires.

In order to achieve that, there is certainly a necessity at this particular time to create greater linkage than what we have currently got. There is, in our belief, a deficiency in the network as it is currently delineated, particularly in relationship to access to ports, to airports and indeed, if you like, to the situation of a connecting link between the national highways, particularly in the metropolitan areas. There needs to be perhaps a reassessment of the orbital network and the linkages to the principal ports and to the airports.

One of the fundamental problems that we see is that at this stage there is really not any strategic plan being developed between the federal government and the state government in order to achieve the appropriate linkage and indeed the dynamic network that we believe is essential for the nation. That is an issue that is going to have to be addressed. There are probably two concerns that I have confronted in regard to this. One is from the federal government, and I think it has been the case of both persuasions—both conservative and Labor—that there has been a concern that there should not be substitution by the state government of federal moneys for what was previously state expenditure. I think that that is a relevant concern. It is certainly one that has come forward.

On the other hand, there is also the concern that is emanating from the states that there should not be a situation where their determination of expenditure is determined by the federal government allocating large sums of money to particular projects without reference to the state government and having to be on a matching basis.

So there is a need for the two levels of government to come together and to work out the strategic network. There is a necessity that there is forward planning. At the present stage there is not the appropriate forward planning and certainly I think at the state level there is uncertainty about the projects that are going to be brought forward and the time frame in which they are going to have to be matched or indeed if they are going to have to be matched.

One of the other elements in that, of course, is the roads of national importance. They have come forward as a result of the last federal budget. We have concern that the funding for the roads of national importance should not in any way be by way of reduction of funding for the national highway system. It is certain that in last year's budget the four-year forward estimates show a fall in the expenditure on the national highway system of some $612 million. That is of concern to us. In New South Wales, in last year's budget, I think from memory it was $113 million reduction in the national highway expenditure. Certainly that was matched by expenditure on the Pacific Highway roads of national importance and the black spots. If it is going to work effectively it really must be new money, it needs to be additional money.

The states, in my view, do not have the capacity to take up the shortfall or the area of expenditure that has been dropped by the federal government. If we look at the projections of the federal expenditure in terms of their percentage of the fuel tax expenditure sum, admittedly it was at the time of the One Nation program, some four years ago they were expending some 28 per cent of the fuel tax on roads. Today they are spending some 15c per dollar, 15 per cent of the fuel tax, on roads. As I say, there was an aberration there, that that was the One Nation time, but if you go back to 10 years, it was in fact of the order of 24-25 per cent of fuel tax being expended on roads.

We believe that we need to try and achieve the result that is necessary for the nation in terms of the importance of the national highway network and the roads of national importance. The relevance they have to rural New South Wales is enormous in terms of the ability to move produce from the areas to the Central West and the Riverina, the area that I come from, through to the principal ports. There is enormous necessity for an effective network to be in place. The only way for that to occur is for a strategic plan to be developed, for forward planning to be in place, for the state government to have certainty as to what is going to come forward and for the federal government to provide new money in order to fund that. One way might well be to look at the component of the fuel tax and move it back towards the 25 per cent that was previously hypothecated, or at least was being expended, in regard to road funding. That is an area that we think needs to be addressed.

On the toll roads issue, the issue of private sector funding, we are opposed to the toll road funding as such. The problem we have there is that quite obviously there is a political problem for the government of the day and, as I have indicated already, there is a great deal of money being taken by way of fuel tax from the road users, and then to subsequently turn around and place an additional toll would be seen, we believe, as double dipping. For that reason, we think there would be difficulty in achieving the result in that regard and we would certainly have some concern in regard to the application of tolls. In the rural area I am coming from, the potential there is weakened by the fact that there is very often simply not enough vehicles in order to be able to generate the income that is necessary to pay the toll funding. If you look at a bridge construction, say, in a rural area, it is going to be difficult to generate the volumes of traffic in order to return the funds that are required in order to give a return on the investment that has been made.

Mr Chairman, I think those are the principal points that I want to address by way of opening remarks. Certainly I am happy to address any questions that you are able to place before us and will endeavour to do so.

CHAIR—Thank you very much. Is it the view of the Local Government and Shires Association that all or a part of fuel excise should be locked into road funding, should be hypothecated to road funding?

Councillor Bott—I think today, historically based on the expenditure that we have got, to say that 100 per cent of it is to be locked in is unachievable. The ALGA talk in terms of 30c in the dollar, 30 per cent, being a figure that should be hypothecated. We believe that, in terms of the political selling of the issue, to hypothecate a percentage would indeed be advantageous. If you like, those of us who are involved in the expenditure of road moneys would have some degree of surety that we were going to be funded and that level was going to be maintained, and the government would overcome the problem whereby, as the CPI indexation goes onto the fuel tax, there is no hypothecation of that money going to roads so in fact the percentage continues to decline, which is obviously being used as a political argument against the government of the day, irrespective of which party it is.

CHAIR—On that basis, if a government were to move in that direction, would you see it as important that local government should receive a guaranteed share of that allocation for road funding, given the responsible areas for roads and bridges that you have?

Councillor Bott—I believe it is imperative that local government does continue to receive a reasonable share of the taxation revenue that is generated by way of return to local government. One of the difficulties of the federal system we have got—and I am going a bit broader than the fuel tax—is that, because the taxing powers reside with the Commonwealth, there is very often the attitude adopted that the funds that are collected belong to the federal government or the Commonwealth. But, of course, it needs to be remembered that it is really an efficiency of collection that that is the situation. We do not want to have a plethora of states and local government taxes generating. It is really the efficiency of the system that means that it resides with the Commonwealth, rather than ownership of the funds that are generated. So I think local government does have a legitimate claim on revenues that are raised in that regard.

CHAIR—With the current arrangements for the disbursement of the road funding dollar through the system emanating from the Commonwealth to local government, do you see ways and means of improving the flow of that so that there are more efficiencies gained from the dollars that are provided?

Councillor Bott—We should take that on notice. Certainly at this stage you would have difficulty achieving greater efficiencies than what you have currently got.

CHAIR—I am not talking about what you actually gain when you spend the money on the ground. I am talking about the path it takes in getting to you.

Mr Allen—We would probably generally support the current way, through the Grants Commission. We certainly support that over going to the states or any other form. We do not see any major problem with that at the moment.

Councillor Bott—In regard to that, it is imperative upon local government—indeed, all levels of government—to demonstrate accountability in terms of the expenditure of road dollars. That should apply at all levels of government. If the argument is going to be placed back to us that there is additional revenue available to us provided we can guarantee or give assurance and accountability in the determination of the expenditure of that money, then I believe we will put our hand up very quickly and rapidly to do that.

We recognise that in the present day there is certainly a necessity to take whatever steps are available to us in order to demonstrate our efficiency and indeed our accountability. Local government in New South Wales is actually well down the path in doing that. We are undertaking a benchmarking project with the RTA. We are opposed to compulsory competitive tendering but certainly we are taking on market testing by way of tendering in a number of areas. If that is the proposition you are putting to us, the availability of additional moneys on the basis that they are tied to road funding and we show accountability for their expenditure, I believe that that is quite reasonable and fair and we would be only too ready to accept it.

CHAIR—You made comment with regard to the better longer term strategic planning of the national road network. Do you think that there is an opportunity for improvement as far as the interface between the national highway system and local roads is concerned, and in supporting or going on with the national highway plan should there be greater involvement of local government in developing that strategy?

Councillor Bott—What has happened at the local government level is that probably some 10 years ago we were confronted with a similar situation to the relationship that I perceive currently exists between the state and the federal government in terms of expenditure in the road area. We were complaining quite often and vociferously that the RTA was not involving us in the decision making process. We were getting the allocation of moneys too late and we were having difficulty expending it in the time frame that was given to us—the same sorts of arguments I heard the RTA presenting to you this morning.

What has happened in the intervening period is that local government and the state government through the RTA have worked out what I believe is a very effective partnership. We liaise very well. There is a very strong partnership existing currently between the RTA at a technical level and indeed between ourselves. We meet regularly and we have in place forward planning to the point where we have a degree of certainty which we never had previously. What I am saying is that that same sort of arrangement needs to occur at the higher level in order that there is a guarantee and a certainty for the state road expenditure departments to have the same surety that we have currently with ours. I do not really see that there is a necessity for local government to become directly involved in that relationship at that particular point.

Mr WILLIS—I must ask you about the national strategy: do you have any view about what the principles should be for a national strategy for road funding? You heard the RTA this morning discussing their view that there should be such a strategy adopted by the Commonwealth and it does seem rather deficient that there is no long-term strategy in place that everyone can see. Do you have any view about what that strategy should be?

Councillor Bott—I have a personal view. Certainly my personal view would mirror fairly much what Ron Christie said to you this morning. Firstly, there obviously has to be the linkage between the capital cities. There has to be the linkage with the principal ports and the airports. Roads such as those in the area of the Western Ring Road in Victoria—I know that that was commenced by the Victorian government in terms of expenditure but the Commonwealth came in—and the orbital road in Sydney are the types of roads of such a degree of importance to the nation that I believe they should be fundamentally national highways and they should be the responsibility of the Commonwealth.

Let us not destroy the dynamics of the network by saying that historically it has been funded by the state or that one state funded and one did not. We have to be bigger than that and have a fresh look at it—start again and say, 'What roads are really of such significance to the nation that they need to be funded by the Commonwealth government?' Then the Commonwealth government should take them on as part of the national highway system.

Yesterday you looked at the Great Western Highway and today they talked about the Golden Highway coming in from Dubbo to Newcastle. There is capacity there for those roads to be roads of national importance. That is where there is capacity for you to guarantee that there is not substitution of federal expenditure. You can move to the 50 per cent funding basis but it needs to be in an arrangement whereby the states are aware before the announcement as to what they are going to be called upon to meet and the priorities that have been determined.

An example of the weakness of the present system is the Pacific Highway, which is probably not such a weakness because money needed to be expended there anyway. The money was put up there as 50 per cent by the federal government and it had to be matched without the states being, to my knowledge anyway, directly involved in the determination of the priority of the works. That obviously is a concern of the states. They will want to be involved, if it is going to be a partnership arrangement, in the determination of the priorities.

Mr WILLIS—I notice that your submission is critical of the Commonwealth for not building the Sydney Orbital at this stage. It seems to me that everyone is getting on this bandwagon but if it is so important to have the Sydney Orbital why has somebody not been doing something about it at the state level?

Councillor Bott—I forget Ron Christie's figures this morning but if you look at the expenditure of the state government I would think that probably the principal reason is that the state does not have the capacity to do it. Really, when you get down to it, the state have extended their capacity to expand. They have moved, I would suggest, more than any other state in private involvement in road expenditure, probably as a direct offshoot of that particular situation.

Mr WILLIS—It is only about three years ago that the Commonwealth decided to take responsibility for the ring roads. It was in 1994, as I recall. In that time it has poured an enormous amount into Melbourne. Presumably the Sydney Orbital was, in somebody's thinking somewhere in the federal Department of

Transport, the next cab off the rank once that was finished. I find it somewhat incredible that everyone seems to think the Commonwealth is to blame for the non-building of this thing when they have done nothing to get it going themselves. If it is such an important road shouldn't it be taking precedence over other things, or shouldn't it have been before the Commonwealth said that it would take responsibility for them?

Councillor Bott—As I said earlier, if we look backwards over our shoulder we will probably end up with a situation where we are going to get no resolution. We need to look forward. I agree that the Commonwealth cannot be expected to do all the expenditure at the same time. There is obviously a difficulty there too. But the Western Ring Road, which I travel on, as you do, is a first-class example of what the Commonwealth, and probably only the Commonwealth, is able to achieve in terms of ring roads. Now that that is completed, maybe it is time that we looked at the orbital road here in Sydney and got it under way. It will need linkage with the M5 to get it to the airport. That is the other factor. As I was saying earlier, we have to recognise the importance of getting linkage from the national highway network to the principal ports—both the airports and indeed the ports—in order to get the exports out of the country.

Mr WILLIS—I also want to ask you about comments in your submission about competitive tendering. You seem to be somewhat concerned about the possible adverse employment effects of that in rural New South Wales. Do you see that as having some sort of ipso facto adverse employment effects? Does it follow necessarily that there are adverse employment effects? Different people might actually be engaged in doing the work but the work presumably still is going to be done. Why is it necessarily an employment destroyer?

Councillor Bott—In the isolated rural communities, for example, out west, the only road construction authority is the local council, and there is the potential to bring in private operators from regional and larger centres and that will have an impact on the local economies. The difficulty we have is that once you break up the road construction unit of the local council, it is difficult to get it re-established at some time down the path and there is the opportunity for the capture of the market by the private sector or the people who have commenced the operation. That is the general concern, but I think that local government in New South Wales also recognises, as a general principle, that we have got to demonstrate efficiency through market testing. Where it is appropriate, it is being very strongly embraced. There is no doubt about that.

Mr WILLIS—It seems to me to be fairly obvious that if there is a threat of losing your job, then everyone is going to work a little bit harder than if there is no such threat.

Councillor Bott—That is right.

Mr WILLIS—Perhaps it is a good thing to have, at least as an alternative, if the performance is inadequate.

Councillor Bott—Workplace reform, market testing and benchmarking are certainly essential tools in local government's drive for greater efficiency in New South Wales.

Mr WILLIS—So you are not advocating that there be areas where there is no competitive tendering?

Councillor Bott—I am not advocating that there should not be competitive tendering. What we are advocating is that there should not be compulsory competitive tendering along the Victorian model, whereby every Bourke, Brewarrina—everywhere across the state—is going to have enter into a competitive tendering process. We are saying the autonomy to make that decision should rest with the local authority according to the conditions that exist in that particular area.

Mr McDOUGALL—Can I bring you back to the strategic planning issue. I think you said that you saw the strategic planning issue as a state responsibility. Yesterday, when we were in Bathurst and we were talking to CENTROC, there seemed to be, in my mind, a lack of strategic planning out there. It was more like reaction planning in the sense that 'we have got a situation and we have got to resolve it' rather than looking further down the track.

To my way of thinking, strategic planning starts at the regional level and rather than reacting to a situation—which seems to be what is happening with road funding—would we not be in a better position if there was a feed-through from the regional areas as to what their strategic needs are? These could then be put into the state picture and built up to what the strategic planning issue really is. Integrating transport methods is another way of resolving a transport issue, rather than being hung up on the principle that everything is going to be solved by a road.

Councillor Bott—Obviously, I am not aware of the evidence that was given yesterday but the difference I would have with you is that at the regional level—if we are talking about regional imperatives—there is the strategic plan in place, that is, the regional network which has been established between local government and the state agency in determination of an appropriate dynamic network. I think we have got that in place already.

What I am talking about is a strategic plan for the national highways network which has the imperative from the national perspective. I think that has got to be developed from the top rather than from the bottom. In my own area—I come from west of Wodonga, at Corowa—if it was given to the state government to determine a priority of expenditure on the Hume Highway, it is my belief that the Albury-Wodonga bypass would probably figure fairly low in terms of priority because it is actually carting all the produce out of the state into Victoria. That is the probability anyway.

So from the state perspective it is different from the national perspective. The national perspective should be to get the greater economic benefit for the nation in order to get the greatest quantity of produce to the ports and out to the markets in the world beyond.

Mr McDOUGALL—But isn't that exactly what we are talking about—strategic planning on economic issues before we talk about strategic planning on infrastructure?

Councillor Bott—Yes, certainly, but the determination of the strategic plan has to be made at the federal level. If you start at the regional level, then you are going to get regional imperatives.

Mr McDOUGALL—So you are saying that you expect the federal government to make the decision on economic issues in relation to a regional area rather than seek information from that regional area on economic issues?

Councillor Bott—No. What I am saying is that I believe the federal government should develop the strategic plan for the national highway network which is going to service, at the end of the day, the needs of the regional area.

Mr McDOUGALL—Let me take this a bit further then to an example. An example yesterday was that a certain road, which was the Great Western Highway, had to be upgraded to be able to carry a certain number of articulated vehicles because of this growth factor that was going to be in the articulated vehicles. When we got down to the nut of the problem, the stretch of road that needed to be upgraded to be able to handle the articulated vehicles was 15 kilometres between a mine and a powerhouse, so the growth in the transport factor was actually 15 kilometres, not the whole length of the highway in relation to this massive growth in articulated vehicles. That was driven by economic situations, not driven by a need just to extend a whole road system.

I know that I am taking a very specific example, but that is why I am saying to you that the federal government may not be totally aware of all economic factors within an area at a strategic level to be able to make those decisions unless they are fed information from the regional areas. I think the message I am getting at the moment is that we are not getting enough information on what the strategic economic planning issues are to be able to feed in to make decisions on infrastructure strategic planning.

Councillor Bott—You are not getting that information from the state? Is that what you are saying? Or from the regions?

Mr McDOUGALL—When we spoke to the RTA this morning, they were talking about some studies that they were doing and some possible information that they were going to put forward to us. You are asking for strategic planning, and I agree with you 100 per cent—we need strategic planning. But what I am suggesting is that the information I am getting is that the strategic issues have not been brought forward in economic terms to be able to understand. We heard about Oberon and the timber and the growth, and it is all of a sudden assumed that the whole timber industry should run on a road. At the end of the day, is that the best way to get to the export market, or is it a combination of road and rail, and has that really been worked out or are we just working along a tired old system in which we have said, ‘We have got a road, so let us upgrade it to resolve an issue’ rather than look at the total question?

Councillor Bott—I think we are not actually at cross-purposes. What you are saying to me, as I read it now, is you are asking that the information be given to you so that you are then in an informed position to be able to make the determination.

Mr McDOUGALL—I am getting a feeling that even at a regional level or at a state level they do not even know the information either.

Councillor Bott—I would differ on that. Certainly at the regional level I believe that through the regional consultative process that we have got with the RTA the information should be—and I believe is—going back to the state agency. But I think there are problems in terms of getting that information from the state to the federal government in order to be able to make the determination. I think that is the message that you are giving to us.

Mr McDOUGALL—But your work today at a strategic level has been with the RTA?

Councillor Bott—Certainly.

Mr McDOUGALL—Has it involved everybody else in the picture, or is it only your strategic work with the RTA? Transport issue is a broader issue. And I know this is on road funding, but if we are going to make decisions on road funding we have got to look at the total question, not just at that very narrow line of the road.

Mr Allen—I think the RTA actually understand that this is a bit of a concern; that there needs to be more of a multi-modal approach to their transport solution. They referred today to how the freight task force, for example, made up of representatives from the rail agencies, from the environmental agencies and a whole list of agencies including local government, is looking at that sort of multi-modal approach to freight and to transport and to the best way to actually achieve a solution. So I think they are doing it on more of the macro level.

I take your point. There probably needs to be an approach to more of a micro level, or at least to a regional level, to be able to pick that up. But I think that there has been a cultural change over the last few years to a much more integrated solution to transport, and I suppose local government and the RTA do understand that roads are not always the solution to the transport problem and we are trying to work together to try to improve that situation.

Mr McDOUGALL—How did the ALGA come up with 30 per cent?

Councillor Bott—I do not know. That was the determination of the ALGA.

Mr McDOUGALL—But you are a member of the ALGA.

Councillor Bott—My association is a member of the ALGA.

Mr McDOUGALL—That is right.

Councillor Bott—I personally have no direct involvement with the ALGA.

Mr McDOUGALL—I would just like to know how they came up with this magical figure.

CHAIR—I think David is about to give us the answer.

Mr Allen—My understanding is that it is actually the total expenditure on the road network, and that is where they get the figure from.

Councillor Bott—But that is a question that the ALGA, no doubt, will be giving a formal submission on.

Mr McDOUGALL—I will certainly ask them as well.

Mr LINDSAY—I have five different questions, if I may. In your evidence you suggested that you do not support tolls on the national highway system or roads of national importance. You gave your reason as being that there is a double-dipping component in that. Does that also hold for roads that are constructed by private enterprise as basically turnkey projects where private capital is used to construct the road and therefore they look for a return?

Mr Allen—I think, philosophically, we would oppose all toll roads because our position is that the Commonwealth collects enough funding from road users through fuel taxes and such that it should actually pay for most of the road infrastructure. I suppose, to the side of that, we do not have a problem with some metropolitan urban arterials being toll roads because there is an obvious need to accelerate the arterial network in, say, Sydney and the only way you can do that through present arrangements is by placing private tolls on it.

Mr LINDSAY—So you oppose it, but you do not oppose it. Let us move on. I do not understand this in New South Wales. Does the RTA do its own work on roads?

Councillor Bott—On state highways it carries out the work. A lot of the work is a shared responsibility between local government and the RTA.

Mr LINDSAY—So the question to you as an association: would you like to see the RTA out of road construction and maintenance totally and leave it to councils?

Councillor Bott—No.

Mr LINDSAY—The method of determining federal money coming down to local councils through the Grants Commission process: would you support elements of disability being taken into account more than they are at the moment—remember, I am a Queenslander—in relation to distances, for example, where long lengths of roads need to be constructed and maintained, so that there should be a disproportionate amount of money going to states that have larger lengths of roads?

Councillor Bott—In terms of distribution between the states, the answer is no. In terms of the disability factor at a state distribution level, that is already incorporated in the distribution.

Mr LINDSAY—Evidence given to the inquiry yesterday said very clearly that the New South Wales state government was not allowing the RTA to deliver a national outcome in roads. And then the rider was added that all the money was going to Sydney. Do you see that? Would you agree with that statement?

Councillor Bott—No.

Mr LINDSAY—That is easy. Finally, on safety, evidence was given yesterday that money from the federal government for safety should go straight to local government, bypassing the state. How do you feel about that?

CHAIR—If my memory serves me correctly, that was to do more with black spots and the Office of Road Safety.

Councillor Bott—If we are dealing with the black spots program, I think it is well structured the way it is currently. I think that there is involvement of the RTA in the determination of the projects that are being funded but it is, ultimately, the federal government, the federal Office of Road Safety, that is making the final determination after recommendation from the state consultative committees. I think that is well structured, if we are dealing with black spots. In terms of other road safety issues, frankly, I have not got a view, unless we get into details about what the specifics are.

Mr WILLIS—Given that your submission shows that what the Commonwealth has done in this year's budget is to, basically, allocate the same amount of money as the previous year but to specify some of it as going to black spots, in which the Commonwealth has substantial say, and also to the Pacific Highway so that, if you add the black spots money and the Pacific Highway money to the national highway money, it is almost identical to what it was the previous year for the national highway, what is your view of the new approach? Leaving aside the fact that the money is to be reduced in subsequent years, what is your view of having that kind of break-up of the national highways money, as distinct from the previous process of just allocating the total amount under national highways?

Councillor Bott—I support the new programs. I think it is essential that moneys be directed towards the black spots program and the Pacific Highway. But, if we are going to talk in terms of priorities for the nation and the national highway network, the national highway system has got to be the fundamental first priority and there should not be any reduction in that funding area at all. It should be new money directed towards the black spots and the Pacific Highway.

Mr WILLIS—So in the circumstances where there is no new money and it is just simply dividing up the money in a different way, what do you see as being the best way of doing things?

Councillor Bott—I would have to go back to where I was, that if you are going to talk in terms of the priorities of the nation, then I believe you would have to make an assessment that the national highway system would be the No. 1 priority and therefore should be funded. That is my own personal view. It is something that we probably would need to sit down and take a bit more time with, but certainly you are asking a difficult question in terms of outcome, because both the black spots program and the Pacific Highway are projects that we thoroughly approve of and see as essential expenditure items. I think the answer is to examine the amount of money that is coming out of the fuel tax and perhaps direct a bit more of that to the new programs.

Mr WILLIS—How damaging do you expect the cuts in federal funding for maintenance of the national highway system to be over the next few years?

Councillor Bott—I am not a technical person, so I am not in a position to make an assessment of that. We have not done any study on it, but it certainly is not going to help. As I think I said in Canberra, if you look at the total road network, the only area of real significant improvement in my time of involvement in public life has been in the national highway system and that has been because the Commonwealth has been involved. The Commonwealth has been the funding agency for that and has had the responsibility for that. Any reduction in that area is going to be to the detriment of the nation's capacity.

Mr McDOUGALL—In answer to the question about the federal government and the national highway, the RTA told us this morning that they have increased their funding by 60 per cent in real terms.

Councillor Bott—That is correct. They have increased it and that is why I think they probably have little capacity to increase it further. But what I am talking about is in terms of the capacity of the network, the actual maintenance of the road network. As traffic volumes have increased and we have moved produce off rail and put it onto road, there has been greater pressure on the road network. But, in terms of the actual road service and the capacity to move vehicles, if you look at the local, regional and national highway systems, the only one that has really shown an improvement in terms of its capacity, in my view, has been the national highway system.

CHAIR—Thank you very much for your attendance and your comment. Thank you for your submission. I am sure if there is anything we need to find out from your association we will be in contact and we look forward to having some discussions with the national peak body. Thank you very much.

[2.28 p.m.]

ANDERSON, Mr David Murray, Manager, Transport Policy and Economics, NRMA Ltd, Public Affairs, Level 8, 151 Clarence Street, Sydney, New South Wales 2000

KELSO, Mr Jon, Senior Public Affairs Economist, NRMA Ltd, Public Affairs, Level 8, 151 Clarence Street, Sydney, New South Wales 2000

CHAIR—We have received your submission and invite you to make a brief opening statement.

Mr Anderson—Yes, we will make a brief one if we may, Mr Chairman. Thank you very much for providing the NRMA with the opportunity to address your committee. The NRMA regards this inquiry as fundamentally important and probably the best opportunity that has been made available by the federal parliament for some time to effect lasting and worthwhile change in the delivery of federal roads programs. In this regard, the NRMA is hopeful that the review will be comprehensive and imaginative, and we are encouraged by the obvious depth of interest and understanding which the committee membership brings to the inquiry. For the NRMA, one of the most important singular issues for the inquiry is the extent to which the committee, as a result of its deliberations, will urge the federal government to adopt a considered and long-term vision of its responsibility to provide quality transport infrastructure—we use the term 'transport infrastructure' advisedly—to support Australia's national economic and social development.

Successive federal governments have stressed to the community the importance of micro-economic reform at all levels and have exhorted Australian industries and organisations to do things better and smarter so that we can compete on the international stage. Not for some time, however, have governments generally provided the community with long-term development strategies on infrastructure to support our international competitiveness, amongst other things. In this regard, for example, the safe and efficient movement of freight through cities is becoming increasingly critical and urgent.

In addition to the need to adopt such strategies, the NRMA also believes that there are a number of necessary institutional changes to provide the federal government with effective means of developing a comprehensive highway system, which is important to national economic and social goals. Identifying a road charge within the existing fuel excise as a source of assured and long-term funding for the development of these roads is also of fundamental importance.

The NRMA would like to note that, while the AAA submission, to which we were a party, supports the notion of shadow tolls, this is not an issue on which the NRMA has a definitive position at this stage.

CHAIR—With regard to the hypothecation of fuel excise to roads, does the NRMA have a firm view on that?

Mr Anderson—Yes, we do. We think a certain portion ought to be earmarked as a road charge as that long-term assured source of funding that is essentially independent of your annual budget cycle.

CHAIR—Do you have a view on what level—what percentage?

Mr Anderson—We regard as realistic some sort of consumption based tax on fuel, as much as you would have a consumption based tax on other commodities very obviously. We do not have a precise set figure on it, I do not think, but certainly we would argue on the basis of research that has been carried out in this area, starting with the interstate commission, say, in the 1980s, that said that this is a fair charge for road use for heavy vehicles, light vehicles and so on.

CHAIR—What is the situation with the state based taxes? Are they completely hypothecated to the roads?

Mr Anderson—Yes, they are. This is something we track fairly carefully. All state based fuel charges, the fuel franchise fee, and fixed charges are hypothecated back to the Road Transport Authority.

CHAIR—This question is not directly related, but it is on a related issue: did either of you gentlemen have input into the brochure on petroleum pricing that has been put out jointly by the NRMA and Shell?

Mr Anderson—Yes, you could say that. I was very closely involved with it.

CHAIR—I am interested to know the motivation behind NRMA's involvement with Shell on that.

Mr Anderson—Our motivation was that we had been undertaking negotiations with Shell at a senior level for quite some time. I am a relative newcomer to NRMA and, by and large, it was driven by a personal view that I had that we needed to understand more about the oil industry. It is a very complex industry and we went out and talked to a lot of stakeholders—the oil companies included.

In the main, we felt that we had been marking time a little bit on our policy position on fuel and that we needed to bring a higher level of understanding to our membership and advance the discussion. We are also of the view that the time will come when, while people—particularly in country areas—are concerned about fuel prices and movements and differences in fuel prices, we need to start talking more to our members about longer term fuel issues and what all this might mean in 10 or 15 years time.

The bottom line was that we wanted to bring a greater level of understanding of the issue to our members, and we saw this as a good vehicle for doing that, notwithstanding some of the risks involved.

CHAIR—Do you think it will help facilitate more transparency in the system?

Mr Anderson—Yes, I do, and that has been a central plank of NRMA's advocacy for some time.

CHAIR—I suppose the linkage with this inquiry is that it identifies that 36c or 37c a litre federal excise. It is a fairly glaring statistic in the graph that is in the centre of the brochure. I was just wondering whether it might have been Shell having a bit of a dig at the federal government for some of the moves that the federal government has been making with regard to the whole structure of petroleum pricing?

Mr Anderson—I do not believe so. I think all parties in the industry have to stand up and be counted when it comes to what comprises the petrol dollar. Certainly, the initiative has raised some thorny questions for Shell, which they have had to address. But I do not think NRMA itself would seek to avoid disguising what they are paying in taxation. That has always been a fairly fundamental issue for us as well but we try and take a realistic view of it. Until we see fundamental taxation reform, I do not think that situation is going to change very much.

Mr McDOUGALL—What form of involvement does the NRMA see for the private sector in relation to the financing of parts of the national highway or the roads of national importance?

Mr Anderson—We would see the private sector—and I think this is a realistic assessment of the situation—taking an increasing role in the provision of urban roads as being a realistic scenario. We believe the national highway should be funded by the Commonwealth and from a hypothecated allocation of fuel excise. We would prefer to see tolls staying off. That is a very strong policy position of ours: we do not like the idea of tolls on the national highway. While in theory you might be able to sustain an argument that you could put a toll on the Pacific Highway—that would not be our policy position but you might be able to sustain a theoretical argument—a lot of those other roads of national importance, which, frankly, I think is a bad name for them, would not sustain a toll.

Mr McDOUGALL—What do you mean by urban roads?

Mr Anderson—I am talking about the M5s, the M4s and the M2s. The local government people talked about expensive projects and you are talking about huge expensive projects. If you look at the movement of public expenditures on infrastructure and capital, it is realistic to assume that the private sector is going to fill more of that gap, and not just with road projects, I might add.

Mr McDOUGALL—I was quite interested to hear your comments in relation to transport infrastructure rather than road infrastructure. Has the NRMA done any work in relation to strategic planning or putting a point of view about strategic issues and transport infrastructure?

Mr Anderson—Yes, we have. We have done a fair bit of work on the Sydney region about what we think is a desirable transport solution for certain tasks before us. Our clean air 2000 initiative is designed to modify behaviour in a way that will lessen emissions—perhaps not get people out of their cars or anything unrealistic like that but simply modify corporate and individual behaviour. That might mean more work from home. It might mean more car pooling—all of these sorts of things. It might hopefully mean more use of public transport. We would take the view that more investment needs to be made into good public transport systems in western Sydney.

Mr McDOUGALL—So you have looked at it more as a city issue rather than a state issue?

Mr Anderson—No. I simply point out that they are, in a sense, in transport task terms, a slightly different issue. In rural New South Wales, the question of planning comes down to what is most suitable for a particular task: is it road or is it rail? There have been historical patterns of investment in road and rail that have distorted the picture something terrible and sometimes it is very difficult to come out with an optimum transport solution. You simply cannot do it. The resources are not there to do it.

Mr WILLIS—With your proposal to scrap the national highway designation and to move to a system you call ARNED, Australian Road Network for Economic Development, you seem to be advocating a rather bigger role for the Commonwealth in road funding than has been the case in the past.

Mr Anderson—I am not really wedded to the name.

Mr WILLIS—Whatever the words are; the concept is more important. You say that it should be the currently designed national highway system plus the roads of national importance, plus strategic intrastate routes, plus strategic routes within capital cities to connect to airports, rail terminals, et cetera. It sounds like you are talking about a rather bigger task for the Commonwealth in terms of its concept of what roads it is funding than is the case at the present time. Am I right in my assumption about that?

Mr Anderson—Yes. I do not think NRMA is proposing something bigger than *Ben Hur*. I do not think that is realistic. But we are saying that we believe it would be useful for the federal government to look again at what its national goals for roads are. When the national highway was developed it was a simpler prospect of providing some tarmac between the major cities and capital cities simply because they were not linked in any adequate sense of the word. Since then, we have got into the new realm of international competitiveness, microeconomic reform, competition policy, greenhouse and the whole works. We are in a new ballpark.

I mentioned in our opening statement about freight through cities. This is becoming an increasingly critical problem which there is no national vision of addressing. It is my belief that part of that solution is that the federal government have not only a system of roads that will support national economic development but also a national vision for transport. It got off the ground a bit with the national transport policy task force but that has petered away a bit.

Mr WILLIS—I understand what you are saying but it does seem that that all embraces a rather bigger task. You may not have heard the RTA saying this morning that there were lots of projects on the national highway system in New South Wales which, at the current rate of funding, would not be finished until the second decade of the next century. There is obviously plenty to do just dealing with the national highway system and a few selected roads of national importance. If we embrace these other areas in a wider sphere that means either significantly increased funding or less being done on the existing set of Commonwealth responsibilities. That is as I see it. Am I wrong about that?

Mr Anderson—No, I do not think you are. Indeed, there is an enormous amount of work still to be done on the national highway in New South Wales. I believe it comes down to the federal government, or governments generally, addressing some fairly fundamental problems. There is no point, in my view, in getting your crane rates up to 28 boxes an hour in the ports if you cannot get your freight through the city. It is having an idea of how you want to address those national and important problems.

If we are fair dinkum about matching the Asian tiger economies, which have billions of infrastructure projects in the pipeline, we have to have some national vision about how much it is going to take us to place ourselves on the same basis. If we are going to talk about world's best practice in the workplace, we have to talk about world's best practice in infrastructure as well.

Mr WILLIS—That sounds to me as though you are arguing for more Commonwealth expenditure on roads in general.

Mr Anderson—Yes, on transport.

Mr WILLIS—Going beyond roads.

Mr Anderson—Yes.

Mr WILLIS—I accept that.

Mr WAKELIN—I will run through a few pages of your submission and pick out a couple of points. On page 3 it says:

In recent years political imperatives related to road investment has meant that the nation has not got the best return from its road investment.

Can you describe to us your view of those political imperatives? What sorts of things were prohibited?

Mr Anderson—I was fairly intimately involved with them at one stage. Let us talk about equity first. For example, the notion that—whether it be through the telecommunications system, postage agencies or whatever—there should be a degree of equity provided to all Australians, wherever they live, and that everybody should be guaranteed a certain fundamental level of access to services or whatever is one that I think most Australians accept. Certainly, it has been my experience with road investment that—I would generally maintain that there has been underinvestment in urban areas and an overinvestment in country areas—has been, if you like, a notion of political equity.

Every backbencher likes to have a new road project, and I do not mean that in any offensive sense. It has also been my experience that as the Commonwealth, if you like, has moved directly out of a lot of section 96 programs there has been less for federal politicians to be able to point to in their own electorates and say that the federal government directly funded this and is providing it to the community. Generally speaking, I think there have been distortions in investment caused by what I would call political decisions.

Mr WAKELIN—The next part in your submission is on the commercialisation of road agencies and you have described the World Bank stages, the five stages. Coming from the political imperative, how do you believe that commercialisation might work? Given that our previous witnesses came from the local government area, do you foresee that thing coming together in a realistic way?

Mr Anderson—I believe so. You can probably talk about this at a number of different levels. When we put this submission together we did not necessarily have complete unanimity on everything, but we did not want to bring the submission down to just the lowest common denominator so we threw as many issues in there as we thought were worth discussing. I suppose it is the notion that you need to have some direct relationship with your client or your customer to understand really what the market wants and what your customers want. That is a fairly simplistic concept, I guess. When we were talking about this I thought of maybe the Federal Airports Corporation or other big suppliers of infrastructure, and I thought, 'Couldn't you devise a model in there somewhere that you could bring down to applying to your roads area?' I am not sure if I have completely answered you. Jon, you can add to that.

Mr Kelso—One of the other reasons we put that forward was to try to achieve a closer link between the revenue that is raised from user charges and the amount of funding that is put back into the transport network. That is really one of the main reasons for putting forward the corporatisation model, to get that closer tie or link between revenue raised and expenditure.

Mr WAKELIN—My purpose in asking, which was indirectly related to the previous question, is that you do go on to say 'road provision which is independent of the political process' which picks up the same kinds of concerns you have about the balance between equity and efficiency—

Mr Anderson—Absolutely. I would not like to labour that point too much about political decisions. Perhaps a bigger problem is that every time the existing minister wants to fund his or her road program you have this yearly Holy Grail called the budget cycle and it has always seemed to me that, if you have got a big lumpy capital item, chop, you take 20 per cent off the top; it will cause some backlash, but perhaps not as much if you take it out of the health budget, or whatever. For me, it is more a question of having a charging system and a hypothecation system that—if this is at all possible—takes that process away from the annual budget cycle.

Mr WAKELIN—The Morris inquiry, *Driving the road dollar further*, suggested that there were probably efficiencies in process much more than in the sort of system you are talking about, in the political process. You mentioned the Kneebone 1993 report on road construction, and that it looked fairly efficient throughout the state. So it is not a matter of the practices of road construction being a particular problem; it is more the distribution of the funds within a state. Is that what you are suggesting, that the practice of making roads et cetera is relatively efficient in your view?

Mr Anderson—I think so; I think that would be our view. By and large, road making practices in Australia on the part of the state road authorities have come a long way. I noticed when I was driving past Lake George the other day that they were working on a Saturday, and I drove past there one night and they were actually crushing rock at night. These are practices in the industry that did not exist even five years ago. Working around the clock on big urban projects would give you enormous efficiency gains. I am not so sure about the local government area, quite frankly. I think there are some practices there that could probably be improved, but you do have to balance those up, particularly in Queensland as I recall, against the social equity, local work force types of issues that are very real—and quite rightly so—to them.

Mr WAKELIN—Thank you very much.

Mr LINDSAY—Gentlemen, undoubtedly your association market researches its members from time to time. What are the three top issues of concern of your members? And is there a concern at all about federal funding of roads/national highways?

Mr Anderson—I would need to get back to you on the three issues. We have done a lot of research. The ANOP one was quite recent. Certainly, air quality features very highly now in all our market research. Petrol prices is another issue, as well as road funding, particularly in rural communities, and access to services generally. What we often find when we talk to our rural members is that you will start on a road funding issue and it very quickly gets to: ‘The banks have gone, the CES has gone, the state government has pulled out services, so our dependence on our car has increased.’ So it is more a personal mobility and access problem, rather than an actual road issue, if you like—but a very important one to them.

Mr LINDSAY—I want to quote to you a statement that will be presented to the committee in a couple of weeks from the Queensland main roads department and see if you agree with it. It says, ‘Federal funding should be tied to national outcomes and biased towards economic growth, improving the condition of the network and achieving national transport outcomes.’ Do you have any difficulty with that statement?

Mr Anderson—No, I do not really.

Mr LINDSAY—How do you feel about the element of bias towards economic growth? Do you support that?

Mr Anderson—Yes, I do. In a country like Australia you simply cannot ignore social equity goals. We talk about community service obligations in our submission, and that is an important area for consideration. But, unless your investment is generally directed to getting you the greatest return, it is my view that you are simply going to be behind the eight ball.

CHAIR—Mr Anderson, the AAA has suggested in its submission that a federal roads corporation be established to direct road investment. What do you see as the main advantages of that over the current arrangements?

Mr Anderson—Let’s say for a moment that the federal parliament did say, ‘We will set up a federal roads corporation.’ It would presumably be underwritten by its own piece of legislation which would impose certain disciplines that would possibly be a quantum leap over some of the practices that are adopted at the moment. I also think that sense of semi-independence would give it some arm’s length from government, but they would still have to be accountable to their minister and their minister accountable to the parliament—we are all aware of those principles. That would be the main advantage; plus, because it would be essentially a commercial organisation, being able to tie that link directly between revenue and outcomes and expenditure. I think it would be a better structure to bring along something like that, rather than, say, a branch of the Department of Transport in Canberra.

Mr Kelso—May I add that I think it is also important from a multimodal perspective too, because increasingly other modes of transport are being corporatised. We have seen that in New South Wales with the Rail Access Corporation being established and the separation of the track infrastructure from the service providers. Corporatisation of road funding is also quite important to more or less level the playing field between roads and other competing modes of transport.

CHAIR—Thank you very much. I think that brings our time to a close. Gentlemen, thank you very much for making your time available and coming in. There was one question that I think Mr Anderson took on notice—

Mr Anderson—I would just like to give Mr Lindsay a more specific answer to his question on—

Mr LINDSAY—Is it possible for the committee to see some of your market research about what your members feel?

Mr Anderson—Yes, I think so.

Mr LINDSAY—Is that confidential?

Mr Anderson—No, I do not believe it is, but I will get back to you.

CHAIR—When you are responding to the question you might also indicate some of those statistics.

Mr Anderson—Yes, we will get you what we can.

CHAIR—Thank you very much

Short adjournment

[3.03 p.m.]

LLOYD, Mr James Eric, Federal Member for Robertson, Parliament House, Canberra, Australian Capital Territory

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

Mr Lloyd—I would like to make a short comment on the submission. I understand that the inquiry is not looking at specific roads, but No. 2 of the terms of reference of the inquiry was to assess the adequacy and extent of the national highway. The F3 freeway between Hornsby and Newcastle is part of that national highway. Federal governments over the years have spent more than $1 billion on that freeway. That is a huge investment of capital funds on that freeway.

The situation at the moment is that that freeway now, because of the amount of traffic using it, is under pressure in certain sections, and there is one particular section of the freeway which I call the weak link. The federal government is not getting value for that billion dollars because of the congestion and the hold-ups that are being caused by that section of freeway. That is my main argument with what is happening.

The section in particular is the section between the Hawkesbury River and Calga, which is a 15-kilometre section. That section of freeway is now 30 years old. It is basically outdated. In parts, it is two lanes in each direction. I think the key thing that has to be remembered is that this is the only road north from Sydney, whether you are going to Gosford or whether you are going to Cairns.

It is a national problem. It is not a problem for Gosford or Newcastle. It is a national problem that affects Townsville or anywhere north in the Queensland electorates, because the only other alternative is the old Pacific Highway, which runs next to the freeway, which is a winding two-lane road. It is not suitable for transport vehicles and high volumes of traffic. If you have a delay on that two-lane section around Mount White, everything stops; all land vehicles stop between Sydney and any port north. You cannot go via the New England Highway because that does not start until Newcastle. So it is very important to keep that in mind.

I would just like to run through some of the traffic statistics on that section of the freeway, because that is the key to it. It was constructed 30 years ago. There has been incredible development on the central coast. Gosford is now the fastest growing local government area in New South Wales, and the seventh fastest growing area in Australia. So there is rapid population growth, and a huge amount of that population commutes to Sydney daily. That is why the freeway in that particular section is coming under such pressure.

The LOS—which is what the Department of Transport and Regional Development calls the level of service—in laymen’s terms is as follows: D means that traffic is still relatively freely moving; up to F means that it is basically a parking lot. Some of the figures for the volume of traffic are that, for free flowing traffic, it is 1,800 vehicles per hour. The highest levels on that particular section of the freeway at this stage on a Sunday evening are 3,900 vehicles per hour.

On a Friday afternoon, according to some of the submissions we have got there—you may have it in front of you—the figures from 3 p.m. through to 7 p.m. are between 2,190 and 3,490 vehicles per hour. We are talking about almost in excess of double what would be a free flowing traffic situation. I can take you up there any Friday afternoon at 6 o'clock and show you 10 kilometres of traffic that has virtually stopped, without any accident or any other additional problem.

If you get any small accident whatsoever in the peak hour in the morning heading towards Sydney or in the afternoon going back, you have got major congestion, you have got major hold-ups, and that is costing the economy millions of dollars in lost fuel.

In closing on that, as well, that section, because it is 30 years old and because some of the corners do not meet today's standards, has an accident rate almost double what is acceptable. The overall crash rate for the F3 is moderate, at 21.4 per million vehicles. But the accident rate for the Hawkesbury River to Calga section is more than double that, at 58.3 per 100 million. So it is not only a congestion problem; it is a safety problem for the section. That is what I wanted to highlight.

CHAIR—That is the section north of the Hawkesbury River, before you get to the Mooney Mooney Bridge, isn't it?

Mr Lloyd—That is right, yes.

CHAIR—Are you aware whether the RTA as the operating authority has any strategic planning for expansion or development of that particular section of the F3?

Mr Lloyd—I believe that there were some preliminary inquiries made several years ago, but one of my major concerns was that there is nothing in place at this stage to look at what is happening. I sat in on a value management study five years ago, when we were looking at reopening the old Pacific Highway which was closed at the time, and we were told that within five years the freeway would reach saturation. That was known then. It is now five years hence. It has reached saturation. Still, there are no plans in place to remedy the situation.

Mr McDOUGALL—I notice you mention an afternoon in peak hour. Is it related to the movement predominantly of passenger vehicles, or is there some commercial or freight question mixed in with it that could be resolved by utilising another form of transport—or is it really predominantly a passenger vehicle issue?

Mr Lloyd—I would say predominantly it is a passenger vehicle issue, but it is exacerbated by the fact that, of course, there are many large commercial vehicles using the F3 as well—it is the only arterial—and you have, particularly heading north, an uphill gradient all the way from the Hawkesbury River to Mount White, and you have got the slower vehicles taking up one of those lanes and that is causing a lot of the congestion as well. But predominantly it is passenger vehicles.

Mr McDOUGALL—But you mentioned it also happens of a morning, and that would be predominantly downhill.

Mr Lloyd—True.

Mr McDOUGALL—And running on to what is a wider section after you go over the Hawkesbury, so it does not appear that the uphill really is the problem.

Mr Lloyd—It is for the northbound section. From experience it is a problem, and it causes a lot of accidents because of slow-moving vehicles and people changing lanes. On the southbound section the volumes actually in the morning peak are heavier than heading north because the peak is more confined. So you are actually getting heavier volumes through 5 a.m. to 7 a.m. There are lots of people who stagger their closing times, but most people tend to start more consistently at the 9 o'clock area, so the Sydney-bound traffic is more congested in that way.

Mr McDOUGALL—Is there a capacity within the current road reserves to be able to make more lanes?

Mr Lloyd—No, that is the problem. There is a shoulder on each side. It does not have the strength, and in many areas you would actually have to remove a fair bit of rock escarpment in that area.

Mr LINDSAY—In your recommendations you mention intelligent transport systems. Where did that advice come to you from, and what are the benefits as you see them?

Mr Lloyd—That advice has come to me through people in the minister's office, through the Department of Transport, through the AAA organisation and through my own investigations of systems that I know are running in Australia on a trial basis. I believe there is one in Melbourne on the freeway there. There is a small system running on the freeway between Brisbane and the Gold Coast which I experienced myself recently, and I believe that that is one of the key ways of managing the problem in the short term. I think eventually we need to widen the road, but certainly better traffic management of the F3 is essential. It is my understanding that the RTA are looking at the possibility of funding an intelligent transport system over the next two years, and I certainly would give them every encouragement in that.

Mr LINDSAY—That is the next question. Do you see that, once the highway is in place or the infrastructure is there, the responsibility for funding of these add-ons should be federal or state?

Mr Lloyd—I believe that the responsibility for the management should basically be state. I think that federal does most certainly have a responsibility on the capital works, and if we are looking at widening that section of freeway, yes, but the day-to-day traffic management should be a state responsibility.

Mr LINDSAY—Okay, thank you.

Mr WILLIS—Can I get this clear? Have you found out from the RTA how they see the priority of this particular project against all the others? They have identified about $2 billion worth of deficiencies in the national highway system in New South Wales this morning. The F3 is mentioned in that but not just this section—virtually the whole of the F3 up to this bit between the New England Highway and the Pacific. Do you know where this particular project stands in their five-year rolling program of priorities?

Mr Lloyd—I believe it is fairly high on their priorities, but this is only unofficial from talking to departmental people that, 'Yes, we are looking at it'. I have nothing in evidence of that, but I am hopeful that they may be able to fund this project on a two-year basis looking at about $5 million each year. My understanding is that they are acutely aware of this problem of the F3 and that it is developing into what could be a major crisis nationally if something is not done, again within five years.

CHAIR—That is a very relevant point because the RTA, when giving evidence this morning, laboured the point fairly strongly, that they had a five-year strategy across New South Wales and the different categories of roads in New South Wales. So it is important.

Mr WILLIS—It is reasonable to note that we have also been told that the allocation in New South Wales in the last budget on the national highway system was cut by some $80 million, which is then made up by the money going into the Pacific Highway and some money in black spots, so they are back where they started. But they have not got the same freedom to allocate it to projects like the F3 as if they had had the whole $300 million they had the previous year, and of course there are further cuts in years to come.

Mr Lloyd—I understand their problems, and that is one of the reasons why I am here today highlighting the concerns that I have got. I think that the federal government should be aware of these concerns as well. In some cases they may need to step in—if it becomes a national crisis, basically. If that freeway begins to break down seriously to any extent, the cost implications to the country as a whole as far as moving commercial freight will be very serious indeed. I think the federal government should basically keep that in mind.

Mr WAKELIN—Basic evidence would suggest that it is only going to get bigger, the traffic flow, the 3,900 peak. There is a great potential for it to get a lot bigger. Have you got a projection on what it might go to in terms of—

Mr Lloyd—I do not have a specific projection. If we are starting to talk about 3,900 per hour, what is going to happen is that that sort of flow will extend. Instead of being one hour, it will of course spread. What I can say is that we are actively looking at other forms of transport to help alleviate the flow. It is not just the answer to say, 'Pour more money into the roads'. On the central coast we are actively promoting a high speed ferry link between the central coast and Sydney. We have the airbus service, and we are again promoting that because every commuter bus you can put down the freeway takes away 20 cars. We are organising car pooling on a commercial basis now with companies on the central coast. So I believe the community is doing what they can as well to look at other forms, including through the state government again, with better utilisation of our rail link from the central coast to Sydney.

Mr WAKELIN—There is a view, as you would well know, that the more money you seem to put into a freeway or a road, the more usage there is. It seems to just follow the money in a way. One last question, Mr Chairman. What is the record of the advanced electronic intelligent transport system? How is its performance? How does it look?

Mr Lloyd—My understanding is the intelligent transport system that has been in place in Melbourne is now working very effectively. Some of the ones that they put in place as a trial were not effective in that they did not have the confidence of the motorist. They must be accurate and they must be quick because, if motorists do not have confidence in them and if the information is not correct, of course people tend to ignore them. So they have to be monitored, they have to be manned and, in the event of accidents, they have to be able to respond to that very quickly, because that is one of the key factors.

On the F3, of course, you get a minor accident and people are ploughing into that accident at 120 kilometres an hour, even though it is a 110 speed limit. They need to be able to give them advance warning. My understanding is the technology now has improved to the extent where they are effective and they are using them, not only for the signposting, but commercial transport operators are now putting them in their vehicles, and that is the future of commercial transport.

CHAIR—Thank you very much. We might just finish the questions there. We are running a bit tight for time and we have another witness to go. I would like to thank you very much for your submission and for coming along to give evidence and answer questions this afternoon.

Mr Lloyd—Thank you, Mr Chairman. It is a pleasure.

[3.19 p.m.]

MILLS, Professor Gordon, Director, Centre for Microeconomic Policy Analysis, and Professor of Economics, Centre for Microeconomic Policy Analysis, University of Sydney, New South Wales 2006

CHAIR—Welcome. Thank you very much for making your time available to come along this afternoon. Would you like to add to the capacity in which you are appearing?

Prof. Mills—I am appearing in a private capacity, but I am a professor of economics in the University of Sydney but, as always with academic staff, the university leaves us free to state our personal opinions and is not committed.

CHAIR—We have received and reviewed your submission. Would you like to make a brief opening statement?

Prof. Mills—I would like to enlarge a little on one part of the submission and also take account of some recent developments in the taxation area. First, let me stress the overall theme of my submission, which is that I think the public sector is paying a high price for some useful but limited services in what we now know as privatisation.

I argue that those services can be purchased less expensively by contracting out to private companies some tasks—namely, construction, operation and maintenance of a new road. Indeed, the same argument applies to a good deal of other infrastructure. This would leave the ownership of the road and all the other decisions in the public sector, which is where the other decisions tend to be taken in any case, even under our present practices of privatisation.

As in the case of privatisation, the contracting-out approach relies on ultimate funding by road users. I argue that such tolling is desirable, both on the grounds of economic efficiency and social equity. I refer there, of course, only to those roads where tolling is practicable.

In reading my submission again, I noticed that I had left a little gap in the argument at one point. I would like to speak to that, if I may. I argue there that one reason why it is a rather expensive business from the point of view of the public purse—the public purse including the pockets of the road users—to go to the present procedures for privatisation is that, even when you have a very competitive marketplace with a lot of tenderers competing in a situation which is even-handed and gives them all a good opportunity to compete, there are grounds, which I refer to briefly in the submission relating to revenue risk and regulatory risk and one or two other matters, which will inevitably mean that the price to the public purse, as I have extended it, is rather high.

I also noticed I had not added the point, which I would like to add now, that that ideal tendering situation does not seem to arise in practice. In case anybody thinks I am gunning for certain local interests in particular, I would like to set this argument in a world framework, because there are similar problems in other countries.

The international experience varies quite a bit. If we take one of the most extreme ones—as I think all the commentators now agree—in the case of Russia, where there is a great deal of privatisation going on, it is very difficult to see where legitimate privatisation stops and the Mafia begins. The interface between those parties is a very murky one.

If we take another case—we might as well be rude to the Poms as well—in Britain, I am sure there is not so much in the way of institutional corruption as in the other case, but some public assets there—and I am thinking of existing assets rather than newly created roads—have been sold at remarkably low prices and they have sometimes been sold to people who are interested in some quick asset-stripping rather than in the provision of ongoing services.

In both Russia and Britain there have been quite a number of instances of management buyout, though in institutionally very different ways. In the Russian case, all the commentators say that a lot of the managers who were there under the old political regime have now become the owners of the assets in rather murky circumstances. In the British case, it is more similar to what we would understand by a management buyout, but I do think that a management buyout situation does create some problems.

Here in Australia, especially in New South Wales, the emphasis has been on privatisation for construction of new assets, especially toll roads. The troubling features of the situation are a bit different in appearance, but underneath I think it is pretty much the same problem. The way it has happened commonly here is that a government has named a preferred tenderer and then gone into extended negotiations with that company or consortium. Those negotiations commonly run for several months.

In the course of the negotiations, my feeling about it is—and I have to say that this ‘seems’ to be the case because the great unwashed public is not privileged to have the inside information—that typically the company outsmarts the government people and ends up with rather generous terms, which may include fairly substantial subsidies for the project, either in cash or in kind in terms of the use of the land and so on.

Again, the final contract at the end of those negotiations contains concessions that were, as far as I can gather, not offered in the original invitation to tender, in at least some cases. In particular, that final package, the one that comes out of all of those negotiations, is not tested in the marketplace to see if it would be accepted by another tenderer at a lower price and, hence, giving a better deal to the public sector.

In those remarks, I am emphasising that, in addition to the point made in my submission that the ideal situation is going to be expensive, this less than ideal situation can be more expensive again to the public sector because of the effective lack of competition and because of the way the preferred tenderer negotiations tend to go.

The only other point I would like to raise here is just to catch up on some recent changes in the taxation situation. I have argued in the submission that there should be a level playing field. I have noticed over the years that governments usually do accept my advice, but it often takes them a long time to act. In my written submission I urged a level playing field and, on this occasion, the government has acted with remarkable speed. In reality, I recognise that Treasury concern is not with the economic efficiency that I was talking about, but with leakage of budget revenues. Even so, the right decision for the wrong reason is still welcome.

Although I have not had the chance to read the relevant other written submissions or hear the evidence this morning, I suspect that industry lobbyists may now seek restoration of the tax break and, hence, seek again a playing field that is tilted in their favour. I hope the committee will reject the idea out of hand.

CHAIR—Professor Mills, you were a bit critical of preferred tendering. What about preferred tendering where the road is going to be publicly owned, it is public funding that is being provided to construct a new piece of road, and it is a selective tendering system being used there as well so that, say, the RTA, as a construction authority, might select three or four contractors to put a tender in on a piece of roadworks?

Prof. Mills—The competition there being for the work of constructing the road and not owning it?

CHAIR—Yes.

Prof. Mills—I feel less troubled by that. Any process can be corrupted, but there is rather less at stake in the situation you have just sketched. Also, there is likely to be a larger pool of companies expressing interest to the roads agency and, provided the roads agency does its job well, it might have a better chance of constructing a good short list. The reason why I see more competition likely in that circumstance is that you do not have to marshal the immense financial resources and so on. A major construction contract is still a quite a big job, but it is not quite in the same league as actually financing a major toll road.

CHAIR—Professor, this morning in evidence the RTA indicated that some of the more expensive road projects that have been put together under, say, the build, own, operate and transfer system or the other systems—that is the predominant system of private ownership on a concession basis for a set term, whether it be 18, 25 or 45 years—may well have not been undertaken other than by the involvement of the private sector. Again in evidence, some of the finance providers and private contractors that have been involved in some of those BOOT schemes indicated that they might not be involved other than for the provision of infrastructure bonds. Would you like to comment on that? You are obviously saying it should be a level playing field and they should not exist; there should not be that incentive there for the private sector to pick that tax benefit up in the short term.

Prof. Mills—In the absence of a tax break—remember, of course, that I have not seen or heard the evidence—if the financiers are saying they would not be in the business, they are in effect agreeing with me that the only thing that keeps them there is an artificial tax break rather than the inherent superiority of their own processes for ownership. I would like to keep separate ownership and construction here because, as I have argued in the submission, you can contract out and privatise the construction whilst retaining public ownership.

As to the argument you attribute to the RTA that, in the absence of these privatisation contracts, the roads would not have been built, given the institutional arrangements of the period that might be true in a narrow sense, I am arguing that, with better government, we can make better institutional arrangements.

Mr WILLIS—To follow up that point, I think the point has been made, as Mr Vaile said, that roads would not be built if they relied on the normal government financing arrangements, even with all the contracting out to the private sector for design and construction, et cetera, because they would be a cost on the budget or involve further government borrowings, et cetera. So I think that is a relevant factor to bear in mind. What, in a sense, has driven the involvement of the private sector has been the belief of governments that they simply cannot wear more expenditure, for whatever reason, and therefore they are looking around for alternative sources of funding. That was the reason for the introduction of infrastructure bonds which brought forward a tax deduction which would be applicable anyway, eventually, over time. So it is a timing matter rather than some sort of new tax concession.

You seem to be saying in your submission that we should go back to that system which governments have been basically saying is not appropriate for their straitened budgetary circumstances. That is as I see it—correct me if I am wrong. I just make the point that this morning we had the Commonwealth Bank here agreeing with you, in a sense, that the BOOT projects have not really been other than an interim development; that we have seen enough of them now to realise that they have substantial deficiencies, and proposing an alternative approach in which design construction was by the private sector but ownership remained with the government but with the financing being by non-recourse borrowings—that is, that the servicing of the debt has to be paid for by the income produced by the asset and not by any of the government's own normal taxation revenues.

I wonder whether you have given any consideration to that kind of possibility? The argument given for that was that this would mean it remained off balance sheet, in a sense, for the state government and, therefore, met the budgetary concerns that have driven the introduction of the private sector ownership element in the past.

Prof. Mills—Firstly, let me stress that I was not arguing in my submission, and I am not now, for government funding rather than tolling—rather than the user of the road paying. I of course emphasise again that tolling is not feasible in all circumstances, so we are only talking about the cases where it is feasible. But those are the only cases where privatisation—for example, through a BOOT contract—actually occurs, because the whole of that arrangement depends on being able to charge the user for the use of the road.

My position is that I am arguing that ownership of the road should remain with the public sector but, rather than have the funding come from the traditional budget, it should be off balance sheet and could in effect be raised by public borrowing rather than private borrowing. Intrinsically, the effect on the economy is going to be the same. The institutional arrangements may look a bit different but the underlying effect on the economy is the same, provided that the funds which are borrowed are used for the construction of the asset which is itself income earning.

That leaves, however, the question of whether the debt should be secured against government revenues in general or whether it should be non-recourse borrowing—I think was the term you used—which is secured, as I understand it, only on the income stream from the road.

I think I would prefer to see it done in the former way, that is, secured on the government as a whole. But that is something that I might be persuaded about to change my mind. I think the traditional difficulty with road agencies who are not made financially responsible is that they will spend as many dollars as they can get their hands on, irrespective of whether or not the road is going to be sufficiently used to justify its funding.

I have briefly sketched, either in my submission or in a previously but recently written paper which I sent with it, the thought that this irresponsibility of government road agencies might be controlled by putting the agency at some financial risk so that its own budget and its ability to pay salaries to its top executives was at stake and that an incentive mechanism like that might work reasonably well.

At the same time, I stress that I have seen many incentive schemes come unstuck, both in the private sector and in the public sector. There are dangers of creating perverse incentives, incentives that cause people to do things you do not want them to do.

I still think there would be some scope for working out reasonably good schemes to keep the roads agency in check and, provided those are in place, I would not worry if the bonds that were used to raise the funds were secured against government revenues as a whole. But here and now I am not going to rule out the alternative. I think I would need to think about that a bit more.

Mr WILLIS—Perhaps you could have a look at the Commonwealth Bank submission as well.

Prof. Mills— Yes, I would like to do that. I have made a note.

Mr McDOUGALL—I have listened with interest to you, Professor. You have obviously studied the financial arrangements in relation to the M2. What do you see as the major weakness in those quite complex financial arrangements? What do you see as the major weakness there that takes your thought away from such an arrangement?

Prof. Mills—Certainly, in that case, there are several provisions in the contracts with government which limit the ability of the New South Wales government to engage in intelligent urban planning over the next 20 or 30 years—and that concerns me. I am sorry it is a while since I looked at that particular case but I think there is a preferred tenderer situation there with a lot of negotiations going on before the final package was shaped and, if that is so, the concerns I mentioned earlier apply.

The fact that the shares that have now been floated publicly are now commanding quite a handsome price suggests to me that there was a large what economists call ‘economic rent’ in the original situation—in other words, it was a profit that was larger than normal—and that the New South Wales government and its agencies did not bargain hard enough with the company.

Mr McDOUGALL—Do you have a fundamental problem with the public investing in public infrastructure?

Prof. Mills—I would have no problem with that, provided that the tendering situation was ideal, in the sense that I was talking about earlier, and provided that the public actually wanted to invest in it—in other words, provided there was reasonable interest in investing in those bonds. The problem is that you use the word 'public' but, in the end, it is not the public who take the important decisions; it is a handful of business executives who take the decisions.

Mr McDOUGALL—When the private investors buy the shares they are buying at their own risk, aren't they?

Prof. Mills—Yes. I am not convinced the average investor in the Stock Exchange is all that well informed, so that, of course, is a general worry, particularly for small investors.

Mr McDOUGALL—I notice from your submission that you have concentrated on the road—and I can understand that in the terms of reference—and you are looking predominantly at the BOOT system but, in your profession as a microeconomic reform policy analyst, have you looked further at the full transport question rather than just the road question and, by looking more strategically at the total transport system, what sort of impact that would have specifically on the roads issue?

Prof. Mills—The short answer is yes, I certainly have, but I am not sure how far you would want me to go in discussing that, given your terms of reference. I think it would be fair to say, however, that one thing which is relevant is that the great virtue of the private sector, in fact, is delegation of decision making down to a sort of operational level and lots of initiative. If those opportunities are confined to one or a few transport modes and not to others, this can upset the balance.

What I am thinking of, in particular, is that the private sector tends to be interested in very large capital projects and they are not so interested in running a good bus service, for example. I know there are lots of private bus companies but most of them started in very small ways. The very large companies which command large resources and the confidence of the financiers are not much interested in simply operating transport services. So there is a danger that a very aggressive privatisation campaign can further distort the sensible economic balance between the different modes of transport—private car versus public transport and all the rest of it.

Mr McDOUGALL—If we take the question of freight, the RTA has done some studies—and they are sending some of that information to us—in regard to the freight needs and transport. I believe they did say they had done some work in conjunction with Sydney University. Were you involved in that work?

Prof. Mills—No, but I think I know who would be involved.

Mr WAKELIN—A couple of quick ones. Perhaps this one is outside the terms of reference but I would still like to try and ask it, following up from Mr McDougall. In terms of the full transport task and the relationship between, say, road and rail, the incentives that might be offered for the system you are suggesting and the incentives that might be offered for rail, do you see a model emerging which can help us in our strategic planning?

Prof. Mills—The only general comment that occurs to me immediately which may be helpful is to say that I think there is scope for trying to introduce more financial incentives in all transport tasks. I am almost repeating what I said a moment ago: if you allow rein for those incentives in some parts but not in the rest, then you get the thing out of balance. I would like to see, for example, public transport operation—and I am not so much talking about the provision of infrastructure but the operation of services—changed because certainly in Sydney it is extremely badly done by the public sector. I would like to see that changed, not necessarily through private ownership but some device for introducing more by way of incentives, possibly some contracting out.

Mr WAKELIN—Okay. There was a proposal for an alternative approach in your paper. I just want to quote:

I believe the quality of public sector decision making can be improved greatly and the need for such improvement is clear.

How and why do we end up with this? You probably answered it in the paper, but I would just like to hear it from your own view, I guess. Why do we have this challenge to the public sector decision making: is it the nature of the bureaucracy, the nature of the lack of incentive? What is a key factor there in terms of the public sector decision making?

Prof. Mills—For the individual analyst or manager, it is often a very trying task working in a public sector agency. Too often they can be sandwiched between, if I may be quite blunt about it, the politicians at one end and the trade unions at the other end, and in terms of a career this is a very frustrating business. As a result, I think a lot of able people do not go into such positions. I think that is part of the story.

I also think—and perhaps I should be more constructive on that—that that implies that it would be helpful if government could devise a better environment for the work of such people. Part of that improvement in their working environment is, of course, not financial; it is a matter of the politicians, the ministers and so on, dealing with the managers in an intelligent and considerate manner and trying to evaluate very carefully what they have to say, and occasionally being courageous, which is obviously sometimes difficult to be. I am not saying that everything is to be done by financial incentives. There are those non-financial considerations as well. But I do think financial incentives have a role to play as long as you do it carefully.

CHAIR—Professor Mills, we might have to conclude the hearing there; we are going to lose a quorum shortly. I would like to thank you very much for providing the inquiry with your submission and also attending and giving evidence today. On the issue of the Commonwealth Bank submission, if you are happy to, the secretariat might provide that to you. If you feel like making comment in terms of some of the questions that Mr Willis was asking, please feel free to do so. I am sure the committee will be pleased to hear from you on those issues. Thank you very much for making your time available.

Prof. Mills—Thank you for hearing me and for the further invitation.

CHAIR—Before members of the committee dart off for planes, there are a couple of housekeeping things we have got to do.

Resolved (on motion by **Mr Lindsay**):

That the committee authorises the broadcasting of this public hearing and the publication of the evidence given before it today.

CHAIR—Finally, I would like to thank all the witnesses who have given evidence at the public hearing today. I declare this public hearing closed.

Committee adjourned at 3.49 p.m.